As consumers tighten their wallets, the wine business searches for palatable ways to sustain sales.

By James Erik Abels

Is the Wine Trade Recession-Proof?

NO ONE GOT A CHANCE to put away the crate of Tignanello when it first arrived at Young's Fine Wines. Its six $109 bottles of wine barely had a chance to rest on the Manhasset, New York storeroom floor. Two hours later, every bottle had been bought. That was two years ago, long before the pain of recession set into people's minds.

These days, Young's wealthy Long Island clientele of Wall Street bankers and Madison Avenue advertising executives aren't so quick to spend so big. That's why the store is pushing wines ranging in price from $15 to $25 from a huge stock that regularly runs over 3,000 bottles. "At some point, people are going to buy less," said Young's President Edward Wassmer (TEP '95).

Without a doubt, the recession has sharpened the senses and tightened the wallets of almost everyone. Like Wassmer, people throughout the wine trade are struggling to find ways to maintain sales without just slashing prices. While some markets, such as luxury clothing, have already moved to massive discounts in the face of an economizing public, the wine industry hopes it can buck the trend—or at least embrace it slowly.

"People are going to continue to drink. I think it's one of our national pastimes, isn't it?" asked Gene Meoni, general manager of hospitality for the Darden School Foundation, which includes a pub and a 300-seat dining room. Recent sales at wine retailers suggest he's right. They increased by 4.9 percent year-over-year to $8.2 billion for the 52 weeks ending January 10 (which includes the lucrative holiday season), according to Nielsen Scantrak. Indeed, for the four weeks ending January 10—just after the recession became official—retail sales grew 7.6 percent to $810 million.

Still, pressure remains high to retain a big cut of those numbers. "Everybody can dance around it, but retailers want sharply reduced prices," said Jack Kennard (MBA '73), a senior vice president at Brown-Forman, one of the largest producers of wine and spirits in the world. Kennard argues that giving into widespread and deep price reductions is a mistake that will permanently undermine a business's product and a brand's health. "Deep discounting is highly destructive to brand equity over the long term," he said.

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As of early February, Brown-Forman was resisting deep price cuts. Instead, the company was enticing sales by developing limited-time marketing programs geared toward adding value at the point of purchase. For example, some wines now include stemware boxed in gift sets, and the company is creating more attractive gift cards and packaging to encourage sales. Whether people will buy the strategy for long is hard to say, as no one knows just how bad the economy will get—or when it will get better.

One thing is already clear, though—cheaper is better as far as consumers are concerned. Nielsen reports that the $3.00–$5.99 category of wine bottles saw the strongest year-over-year growth at 12.9 percent to $189 million for the four weeks ending January 10. Yet wines costing $15 or more grew only 3.7 percent to $120 million during the same period. Indeed, that was the only price range to shrink last fall as the economic strength of the U.S. plummeted, dropping 0.5 percent to $311 million over the 13 weeks ending January 10.

Without a doubt, premium wines are in a tough spot. Judith Fowler (MBA '81), owner of the Clevedon, New Zealand–based winery Puriri Hills, knows that only too well. With just 12,000 bottles of wine coming out of her winery a year, Fowler agrees that cutting the price of her three labels, which range from $25 to $150 in the U.S., is a bad idea. "The price point has to say something about quality," she said. A strategy of massive price discounting is incompatible with the small volumes produced.

ANNA CHIARA MUSTILLI

Challenged by a weakened New Zealand dollar, Judith Fowler (MBA '81), owner of Puriri Hills Vineyard in New Zealand, is looking to expand distribution of her premium wines in the United States.


KIM CALDWELL

To encourage his Long Island clientele to try new wines, Ed Wassmer (TEP ’95), president of Young’s Fine Wines, launched a web-based video series called “Wine in a Minute.”

Though the pressure is on, the 13-year-old winery is standing behind its conviction that “handmade, estate-bottled wines such as ours are becoming more desirable as people shift from industrially produced foods to artisanal foods, even in the current tough market environment.” Puriri Hills views the recession as an opportunity to grow within its market segment, and the winery has found some palatable ways to inspire sales. Late last year, Fowler began giving some distributors price breaks or credits for local taxes to help keep them in business to sell her cases.

“You have to encourage your middle men in this kind of a time,” she said. For instance, Fowler did not raise prices on a distributor in one Asian market whose native currency strengthened as much as 50 percent in the last year against the New Zealand dollar. Though the distributor is effectively paying half as much for the same goods, keeping him on has helped Puriri Hills maintain and create sales in a tough environment.

Those same currency fluctuations may also help Puriri Hills increase its distribution. The New Zealand dollar has weakened by as much as 40 percent against the U.S. dollar in the last year, so Fowler is now looking into selling her wines in the U.S., in states beyond her native Virginia. As of February, she was talking with her son—who distributes Puriri Hills in the U.S.—about selling them in New York City and Chicago. “You look for the specific place where the customers want something unusual,” she said.

She may be on to something at a time when bars and restaurants are already struggling to keep business up, said Darden’s Meoni. Wine sales are often an important component of their revenues because of what can be an extremely high markup on each bottle. But with people spending carefully, Meoni said both groups are thirsty for unusual labels from places such as New Zealand that can sustain a similar markup at a lower price than super-high premium wines. “There’s a lot of stuff that isn’t mainstream that is a very, very good value,” he said.

Still, there is a strong demand for cheaper wines. That’s a big reason Pleasant Valley Wine Company President Mike Doyle (MBA ’66) said business is booming right now. While the winery sells some of its own labels, much of its business comes from producing wines for third parties whose bottles generally run less than $20. “This is usually a slow time of year, and we’re pretty busy,” said Doyle. In fact, there are more opportunities than he can keep up with at the moment. And why not—he said most people can’t tell the difference between a $25 and a $125 bottle of Merlot.

Brown-Forman’s Kennard doesn’t entirely agree. The “trade-down” effect, as the industry likes to call it, is only temporary, he said. By shying away from expensive wines and spirits, people aren’t casting a vote against the premium brands they’ve been loyal to for many years. “They just simply feel it’s not right for them right now as they attempt to economize,” he said. “Luxury brands are ‘worn’ by consumers like badges, and premium sector wine and spirits consumers look forward rather hopefully to better times when they will confidently express themselves through luxury brands again.”

Wassmer of Young’s Fine Wines echoes the sentiment, but said these days he needs to go with the flow. Despite strong sales in 2007, he decided it was time to plan for a recession two years ago. Wall Street’s violent reactions to small slips in sales were one reason why. “You could see people with just a little bit of softness were in a scramble,” he said. So he cut back buying some popular—and pricey—vintages.

And he did something curious: he started hiring. With some wine discounters nearby, competing on price alone was unlikely without a lot of attention to service and selection. “There’s really no way to effectively sell that many items [over 3,000 bottles], but put out ‘shelf talkers’ to get the job done,” said Wassmer. Last year, he boosted the sales staff from one full time person and two part-timers to three full time people and one part-timer, and developed a nine-week training course for them known as “Young’s U.”

There are early signs it’s working. An increase in customer count in January—a traditionally weak month—of 11 percent to 7,684 people helped cushion a drop in sales of roughly one percent. In fairness, the recession may be supercharging the strategy, driving people into retailers like Young’s as they limit visits to bars and restaurants. Still, Wassmer said the increase in count is a big reason he’s cautiously optimistic about 2009. But just in case, Wassmer may have hit upon a new way to ultimately lower some of the costs involved in educating his clientele—Internet video.

The store just launched a web-based video series named “Wine in a Minute.” Each short spot—which takes a day and a half to prepare—encourages customers to try new wines by educating them about new options. Right now, Wassmer is not measuring the return on investment, but he’s already optimistic about the low-cost video programming based on anecdotal feedback from customers. “It’s constantly a game of keeping your consumer excited and educated,” he said. And coming back for more. ■

—James Erik Abels, a freelance writer in New York, has been a staff writer at Forbes *and the* Financial Times’ Mergermarket.