



Business Plan • Confidential

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I. Winebuys.com: Mission & Overview

Winebuys.com's mission is to be the leading online retailer of discounted fine wines — offering wine lovers handpicked bargains from around the world, a risk-free buying experience, and exceptional customer service.

The company was founded in July 2002 by two wine industry veterans, to capitalize on a significant business opportunity that no other online retailer has focused on — namely, the confluence of:

- an ever-present worldwide availability of quality overstock wine;
- and an ever-increasing number of consumers who recognize they needn't pay list prices for quality goods.

After careful technical and marketing R&D, Winebuys.com launched on September 25, 2003. It was the first (and remains the only) major online wine retailer to discount its entire inventory of fine wines — typically by 30 to 50 percent off retail — and to back them all by a Love-It-Or-Your-Money-Back Guarantee. The company's operations are based in Brisbane, California — just a few minutes south of San Francisco — and from there it serves consumers in California, Illinois, Colorado, and eight other states.

Winebuys.com is also an industry leader in terms of shipping costs. Wine is an exceptionally heavy product, and prior to Winebuys.com, wine lovers had no choice but to shop at local retailers, or pay \$20 to \$40 or more to ship a case of wine. The site launched with an industry-disruptive shipping rate of \$9.95 per box. Starting in September 2004, Winebuys.com upped the ante with a successful customer acquisition campaign — free FedEx shipping with every \$25+ order. In April 2005, after a thorough internal and competitive analysis, the company transitioned to another industry-first: a flat FedEx rate of \$9.95 per order, no matter the size of the order.

Immense Customer Loyalty — BizRate's Top-Rated Online Wine Retailer

Once a customer tries Winebuys.com, they are likely to be pleased and loyal. The current repeat-buyer rate is 54%, and actual customers consistently rank Winebuys.com as the Number One online wine retailer at BizRate.com, the leading independent authority for consumer ratings of online retailers. Specifically:



- Winebuys.com ended the 2005 Christmas-New Year's season ranked by BizRate as the Number 1 store out of 160 stores that sell wine or wine accessories, beating by a large margin stores such as Wine.com, Brookstone, 1-800-Flowers, California Wine Club, Amazon, and Hallmark. (On any given day, certain wine accessories stores will outrank us, such as Replacements Ltd.; however, throughout the 2005 holiday season and to present date Winebuys.com is consistently the top-rated licensed wine retailer. (To see the listing, please refer to http://www.bizrate.com/ratings_guide/listing__cat_id--16011100.html .)
- Throughout the 2005 Christmas-New Year's season (and still to this date), Winebuys.com has been the only licensed wine or alcohol retailer on BizRate to be rated “Outstanding” (top possible rating) overall, along with Outstanding ratings in “Would Shop Here Again,” “Customer Support,” and multiple other categories.
- Winebuys.com ended 2005 ranked by BizRate as Number 15 out of 3,753 stores in the category of Gifts, Flowers & Food -- again beating, by a large margin, Wine.com, Brookstone, 1-800-Flowers, California WineClub, Amazon, Hallmark, every other wine and accessories retailer. (This varies daily, but currently we are consistently in the top 20 to 40 in this category -- as of 20 February 2006, for instance, we were Number 25 out of 4,009 stores listed on that day.)

Why Winebuys.com is Seeking a Strategic Investor/Partner

It's important to acknowledge up front — due to the publicized history of Wine.com, Winebuys.com's biggest competitor — that some investors may not consider the business of selling wine online with much regard. Wine.com operates a complex, regionally licensed distribution network, so that it may sell in more states than most other online retailers (currently 24 states, down from a high of 42 states). But maintaining multiple warehouses, distribution centers, and walk-in retail stores — just to meet state licensing requirements — is expensive. Wine.com also earned a street reputation for exuberant spending, having received roughly \$250-\$300M in investment capital throughout its multiple-owner history. And since Winebuys.com's September 2003 launch, Wine.com's recent leadership publicly acknowledged at least \$28M in additional financing, and in May 2005 announced a new quest for more money (or to be acquired).

For these reasons, an outside investor would be wise to wonder why “If Wine.com can't make it, how could anyone?” They would be even wiser to consider any investment, in any online wine retailer, very carefully.

Winebuys.com, however, has a completely different business model from Wine.com. The latter's goal is to be “The World's Biggest Wine Store.” Winebuys.com is niche-focused, bringing wine enthusiasts a small, ever-changing handpicked collection of great wines at



amazing prices. Winebuys.com has streamlined, single-point distribution, serving 11 states directly from the country's top wine-consuming state. And from the start, it has had rational, sustainable, and modest running costs — and can operate for a full year on what Wine.com spends every nine days. Furthermore, since its launch, Winebuys.com has enjoyed triple-digit annualized growth, ever-improved sales conversions, and an enthusiastic customer base (as demonstrated by a remarkable repeat-buyer rate consistently in the 47% to 54% range, month after month).

In more than one aspect, Winebuys.com has already achieved its mission: To date, no other online wine retailer with the same focus has emerged, and the company's growth and customer return rate testify that its concept and execution resonate with consumers. Winebuys.com's website was also developed for a fraction of what other retailers have spent — yet no competing site offers its depth of features and product information, and ease of use. (The site also offers sophisticated backend features for visitor analysis, conversion tracking, and more, as detailed later in this report.)

Now, Winebuys.com is at a crossroads of promise and challenge. In the relatively short time since its launch, the company has delivered these promising results:

- a model that remains completely unique;
- fully developed technology, including the best-featured website of any wine retailer;
- operating expenses that are stable and modest;
- lean, seasonably flexible staffing;
- a streamlined infrastructure that, as the company grows, can take advantage of economies of scale — with minimal additional costs;
- excellent vendor relations — with zero outstanding debts;
- low cost, efficient single-point distribution;
- a known history of metrics (cost-of-acquisition, conversion, etc.);
- a concept and execution that brings about half its customers back — again and again.

The company's fundamental challenge is that it needs to get more people to the Winebuys.com home page — because from there, the sales and retention follow. And so the company is seeking a suitable investor or strategic partner to help it grow, most importantly by expanding its marketing message to a larger audience.

In short, Winebuys.com's pieces for success are all in place. The doors are open and the shop looks great. No one else is doing what it does, or even trying. There are no technical or other “black holes” that require unknown amounts of capital with unknown degrees of return. Its overhead is a fraction of the competition. Most importantly, customers who discover the company respond enthusiastically, with large and repeat orders. And so — with the right investor or partner to help “spread the word” — the lead investors are confident that the company is poised to succeed in the marketplace and to generate sustainable profitability.



Known Risks

As with any business, there are known risks to Winebuys.com. The one prominent internal risk to the company is that it not strike an investment or partnership deal, which would strongly inhibit the company's ability to acquire more first-time customers, and therefore grow into profitability.

Otherwise, known risks include the following:

- A well-financed competitor could choose to focus exclusively or heavily on Winebuys.com's niche of high-quality wines at discount prices, with discounted shipping. This would be a competitive distraction at least, and, if a sustained price war were to ensue, potentially debilitating.
- Following the Supreme Court's decision in May 2005 regarding interstate shipment of wine between wineries, it is possible that one or more of the current 11 states to which Winebuys.com ships might decide to ban all inter- and intrastate shipments of wine from wineries and retailers. While the Supreme Court's decision applied strictly to wineries, such a ban would be consistent with the Court's ruling that States could regulate the shipment of wine as long as in- and out-of-state were treated on equal footing. However, this is not considered a likely possibility at present in any state other than Michigan, to which Winebuys.com doesn't ship anyway. More on this and other regulatory issues are discussed later in the document.
- Other risks would include the usual sort of disclaimers that might affect any business, including war, recession, natural disaster, etc.

Who is Involved?

The principal lead investors in Winebuys.com are Hal Gershman and Charles Sonnenberg. Both are long-established, successful wine retailers, and both are active members of the Wine & Spirits Guild of America. Mr. Gershman served as the Guild's President from 2003 to 2005, and Mr. Sonnenberg was its President from 2001 to 2003.

(The Wine & Spirits Guild is an association of premium retailers, representing about 40 members. Together, they own a total of more than 500 retail stores, with a combined annual sales volume of over \$2 billion — roughly 5 percent of all wine and spirits sales in the United States.)

The lead investors are supported in the operation of Winebuys.com by a small, highly experienced "virtual team" of wine industry, marketing, and technical consultants, plus a small warehouse and operations staff (consisting of one full-time Operations Manager, plus three variable time Operations Associates). Key team members include the former



COO of Wine.com; former VPs from Robert Mondavi and Paul Allen's Vulcan Ventures; and executives and consultants who have worked with many highly respected companies from Napa Valley to Silicon Valley.

Product Acquisition & Inventory: Key Elements of the Concept

Everyone loves a bargain. But people who love wine have few places to turn for real bargains — because the retail wine industry is, as a whole, saddled with high overhead, a legacy of limited discounts, and, in many cases, proprietors who enjoy the “trophy hunt” of acquiring and marketing rare and expensive wines.

Selling cheap wine is easy. Selling high-quality wine at a big discount is more complicated, especially if you're a typical online wine retailer. Most such retailers try to be a “virtual wine store,” with a broad and deep selection of wines (typically thousands of SKUs). This means carrying a large inventory of current “big name” products, which usually have little room for really big discounts. And more often than not, those products they do discount heavily tend to be either loss-leaders (such as a Dom Perignon Champagne), or slow-moving wines of inferior quality; either way, heavily discounted wines don't get much of their attention.

Winebuys.com, conversely, carries only about 200 SKUs of wine (plus under 30 SKUs of accessories, such as corkscrews). Its product acquisition efforts are entirely focused on great wines that can sell at a big discount — and typically, once a wine sells out, it's gone. Relatively few of the company's wines are “big names,” and of those, most are designed as low-margin leaders to attract new customers.

Buying Smart

This acquisition model means a lot of careful buying, especially with a Love-It-Or-Your-Money-Back guarantee (the company's wine buyer tastes over 3,500 wines per year; only a few hundred meet his standards). It means buying with a focus on each and every one of the 200 or so SKUs, which the buyer can afford to do because that's his entire mission, rather than having to populate a site with thousands of SKUs.

Within the company, we think of this as “buying smart,” and we believe this approach is key to success, for several reasons:

- It allows Winebuys.com to acquire only those wines that offer the best quality for the best price. This would be impossible if the site were compelled to carry thousands of SKUs, simply for the purpose of offering a large selection.
- It's another reason the company is able to operate with relatively minimal capitalization.



- Especially for the most limited acquisitions, having only a handful of cases on hand creates a sense of a “ticking clock” — that is, once a deal is gone, it may be gone for good. In this sense, certain key deals can generate the sort of customer excitement normally associated with auction sites.

While the breadth of the product line is limited, Winebuys.com maintains an appealing diversity of domestic and imported products, representing the most popular wines (e.g., Cabernet Sauvignon, Chardonnay, Merlot, and Champagne) along with more unique and special finds. Winebuys customers repeatedly demonstrate their commitment to the wine industry’s stalwart brands, as well as the confidence necessary to explore lesser-known discoveries.

A Service to Consumers — and Vendors

Much has been written about the so-called “wine glut,” caused by years of chronic overproduction. While some wineries have made strides to reduce production, millions of cases of wine, including many fine bottles and vintages, continue to gather dust. This is further exacerbated each time a winery releases a new vintage: That’s one more product for a winery to sell, which means one less product from their past inventory that they’ll be focused on moving through their main channels. Also, as longtime wine retailers will testify, there have always been large supplies of great and often-overlooked wine.

In this regard, Winebuys.com’s concept is a service to wine wholesalers and wineries, by providing a highly respectable conduit for quality, overstock wine. Through strong relationships in the wine industry, Winebuys.com is able to secure high-quality wines that are backed up in the regular channels — such as overstock inventories, product closeouts, label changes, and just plain good deals — and offer them at high everyday discounts, typically 30% to 50% or more off retail value.

With few exceptions (mostly designed to attract new customers), almost every product that Winebuys.com offers is at a healthy profit margin. (December 2004 is a good month to consider as an example, because the broadest range of products is sold in December; that month, Winebuys.com’s average GPM was 27% — healthy by industry standards.)

Winebuys.com is a unique conduit between motivated suppliers and eager consumers. Winebuys.com is where they’ll find each other, with amazingly high-quality wines at bargain prices.



II. Business Philosophy

Mssrs. Gershman and Sonnenberg are known within the wine industry for their high standards for business conduct, product quality, marketing savvy, tightly controlled expenses, vendor relations, and customer satisfaction. These same standards are cornerstones for Winebuys.com, and are considered key to the venture's long-term success. They include:

- **Unparalleled Customer Service**

By treating "Every customer as our best customer," Winebuys.com stands second to no one in service, and its customer feedback and repeat business statistics demonstrate success. To date, there is not a single known negative customer experience that was not ultimately resolved to the customer's complete satisfaction.

- **An Enjoyable & Engaging User Experience**

Drinking wine should be pleasant; buying wine should be no different. The Winebuys.com website is easy to use, with products and useful information presented in an accessible manner. Friendly and entertaining tasting notes are provided by "Winebuys Guy" — the unsung hero of wine lovers everywhere. The user interface is first-rate — with quick-loading graphics and a streamlined architecture that makes it simple to find everything quickly. Innovative and exclusive search features enable customers to find wines to suit their taste, budget or food pairing wishes with ease.

- **Huge Everyday Discounts on Top-Quality Products**

Through the lead investors' contacts at every level of the wine industry, and through careful buying, Winebuys.com focuses on great products at tremendous everyday discounts. Whereas most wine retailers (physical and online) typically discount some wines by 10 to 25%, and sell many at list price, Winebuys.com discounts every wine in its inventory, typically by 30 to 50% or more. The company's wine buyer is also very particular about which wines meet his criteria for quality and value, rejecting roughly nine out of every ten wines he tastes.

- **Inexpensive & Clearly Described Shipping Rates**

The company is confident that for any online wine retailer to succeed long-term, shipping must be addressed in a way that is consumer-friendly. The company's pre-launch research found that two of the main consumer impediments to buying wine online are high shipping costs, along with "hidden" shipping costs that aren't revealed until checkout (as is currently the method at Wine.com and many other retailers). At Winebuys.com, FedEx shipping is just \$9.95 per order, any size order, and its displayed prominently



throughout the site. Winebuys.com also uses the best-available packaging, and recently moved to 100% recycled and recyclable pulp packaging (which customers prefer, especially since it doesn't clog up their garbage cans the way non-recyclable Styrofoam packaging does).

- **Love-It-Or-Your-Money-Back Guarantee**

Every purchase is backed by a no-hassles 100% product guarantee. Unlike most retailers, Winebuys.com does not require a product to be defective: either the customer loves it, or we replace or refund their purchase. This guarantee even covers return shipping — an almost unheard-of practice in the wine industry. Remarkably (perhaps given the level of repeat business enjoyed by the company, and its highly personalized customer service), this policy has never been a target of abuse, and has proven extremely affordable.

- **Every Product is Marketed with Respect**

The wine industry is fueled by ego and passion. Wineries are protective of their products, and many are extremely reticent to see their wines discounted. Understandably, many suppliers were skeptical of Winebuys.com's plan to sell their wines at discount, and initially, this caused some acquisition difficulties. However, once vendors were able to see the quality and care of product presentation — including custom photos, custom tasting notes, searchable taste characteristics, and other unique features — the skepticism evaporated. As the Sales Manager for Ellner Champagne recently wrote:

"What [Winebuys Guy] said about the Ellner Magnum is so well done... We respect the writing, the pricing, the whole ball of wax. This is outstanding Internet marketing and we want to compliment and thank those who are responsible... Grazie mille, very very much. I've read many postings before but these were terrific. A+++"

- **Happy Not to Be the Biggest — Just the Best**

As others have demonstrated, attempting to be biggest in this business can be fraught with difficulties and expense. But for Winebuys.com, in the course of building a niche-focused model, other benefits have materialized. The company can move fast on deals when they present themselves. (It's often the first to act on major deals offered en masse by some of California's largest wine wholesalers.) It can score huge discounts on case lots that are too small for larger retailers to consider. It can grow without accruing outstanding debt. And it can be light on its feet when responding to the competition.

- **Lean Staffing**

One of the hallmarks of many recent online ventures, both in and out of the wine industry, has been heavy staffing. Winebuys.com operates with a warehouse team of four (only one of whom is year-round full-time). Everything else is handled by a scalable, efficient, and affordable virtual team of marketing, technical, and wine industry consultants. The scalability aspect is very important, since it was built with economy of scale in mind: Even if



Winebuys.com's revenue were to increase by a factor of 10 overnight, the only additional staff it would require would be more warehouse personnel, plus additional hours from its existing marketing, customer service, and accounting consultants.

- **Strong Vendor Relations & No Outstanding Debt**

Since its inception, the company has always paid all of its bills within terms — or where appropriate, cash payment. This helps secure the best prices possible, and also bolsters the company's already strong vendor relations. Simply put, as the company's history proves, Winebuys.com only buys what it can afford to pay for.

- **Minimal Technology Outlay**

Many online retail sites have locked themselves into expensive, proprietary software and hardware solutions. Winebuys.com, on the other hand, relies heavily on affordable, off-the-shelf or easily modified solutions, for everything from its server hosting to its ecommerce engine to its 800-number call center. In every case, the company chosen pragmatic and fiscally responsible technical solutions over expensive and potentially unreliable options. More of this is discussed later in this report.

- **Building a Solid, Rational Business**

The lead investors in Winebuys.com are in business to *build* a business — on a solid foundation, much as they have done with their own endeavors. They believe that a rational, sustainable, streamlined model is the only way that an online wine retailer can hope to achieve a healthy return for its investors.

III. A Regulated Industry in Change

Sales of wine and other alcoholic beverages are highly regulated at federal and state levels by “tied house restrictions,” a collection of archaic rules that mostly stem from before and just after the Prohibition era. While some of these rules were intended to limit monopolies, in practice they tend to protect long-established networks of distributors and wholesalers. Since these rules also define the scope of sales for Internet-based wine retailers, it’s important to note their impact on the nature of online wine retailing — and the upside potential should they be abolished or relaxed in the near future.

In short, it is very difficult for a retailer in any given state to ship wine directly to a consumer in most other states. At worst, such as shipping from California to Tennessee, it is a felony; in other circumstances, it might be a misdemeanor that could still threaten a retailer’s alcohol license. Some online wine retailers, most notably Wine.com, have attempted to circumvent tied house regulations by acquiring retail licenses in most states. But this typically also requires a network of expensive distribution schemes, wholesaler participation, and regionally scattered warehouses. It also requires prohibitively expensive “compliance” software to track sales, tax collections, shipments, etc. on a state-by-state (and even municipality-by-municipality) basis. Consequently, this business model is tremendously expensive to implement and manage, likely limiting the ability for a company such as Wine.com to discount its wares dramatically.

Fortunately, 11 states have adopted some form of active or passive retail reciprocity — enabling wine retailers and consumers in each of those states to do business with relatively few restrictions. These “reciprocity states” include California, Illinois, Colorado, Hawaii, Idaho, Iowa, Missouri, New Mexico, Oregon, Wisconsin, and West Virginia. Their combined population base is about 26.3% of the entire legal-age US population, or 51.2 million of legal age for alcohol consumption.

Winebuys.com’s “Ship To” States

	Total Population	% of U.S.	Total Legal Age
California	33,871,648	12.0%	23,146,248
Colorado	4,301,261	1.5%	3,014,312
Hawaii	1,211,537	0.4%	867,329
Idaho	1,293,593	0.5%	860,220
Illinois	12,419,293	4.4%	8,634,455
Iowa	2,926,324	1.0%	2,051,156
Missouri	5,595,211	2.0%	3,919,855
New Mexico	1,819,046	0.6%	1,247,546
North Dakota	634,366	0.2%	456,743
Oregon	3,421,399	1.2%	2,429,348
West Virginia	1,808,344	0.6%	1,326,880
Wisconsin	5,363,675	1.9%	3,751,033
TOTALS	74,665,697	26.5%	51,705,125

Source: US Census, 2000



The Effect Upon Winebuys.com of the U.S. Supreme Court's Recent Ruling on Interstate Wine Shipping

In May 2005, in a closely watched decision, the U.S. Supreme Court struck down laws in Michigan and New York — which prevented out-of-state wineries from shipping into those states. In essence, the Court ruled that if a state allowed an in-state winery to ship wine directly to its residents, then that state must also allow out-of-state wineries to do the same.

The ruling has widely been misinterpreted to mean that the country has opened its doors to wine shipping, and that retailers such as Winebuys.com are now free to ship to all 50 states without restriction. This is not yet the case, though it is mostly a move in the right direction. First of all, it applies only to wineries. Secondly, the Court stated very clearly that the ruling was about creating a level playing field: States would have a right, if they wished, to ban out-of-state shipments from wineries simply by also banning in-state shipments from wineries. (Indeed, Michigan has indicated it may just do that; New York, however, has a thriving in-state winery industry, and its consumer would likely not tolerate a complete ban on all winery shipments.) The Court also reaffirmed the right of states to establish three-tier winery/wholesaler/retailer arrangements; some states might use this to insist that out-of-state retailers only purchase through their own in-state wholesalers, though as some see it, this argument is on shaky legal ground.

On the upside, the ruling was clear: If you allow in-state shipments, you can't stop out-of-state shipments. With a long-term view, this was a blow to protectionism, and that's good for Winebuys.com. We are optimistic that some states will consider this ruling and decide that it simply isn't worth the fight to prevent out-of-state retailers from shipping into their state — especially if they allow in-state retailers to do so. Consequently, some observers believe other states may open themselves up for out-of-state retailer shipments before too long.

Obviously, new markets will mean increased potential revenue for Winebuys.com — and the potential is significant when you consider that the company can serve only 1/3 of the US population (age 21 and over). Such moves would be of relatively greater benefit to Winebuys.com than most other retailers. Consider Wine.com's investment in compliance-related technology and multistate distribution infrastructure. While they currently enjoy the right to sell online in more states than their competitors, more liberal shipping laws will neutralize that market share advantage. Furthermore, as markets open to more bricks-and-mortar wine retailers, Winebuys.com has already cleared the hurdles of building an online retailing business.



IV. Competitive Overview

The lead investors of Winebuys.com believe that the vast majority of consumers, of all demographics, appreciate quality products at great prices. Indeed, consumers are flocking to those businesses, online and “offline,” that provide both — from Target to eBay, from Overstock.com to Costco.

When it comes to wine, however, these consumers have few such choices. There are bricks-and-mortar wine retailers that offer the combination of quality and consistently large discounts — such as Trader Joe’s and The Wine Club. But no prominent online retailers are doing so with the same focus and across-the-board discounts as Winebuys.com.

Many online wine retailers have chosen to cater to serious wine enthusiasts, including “trophy hunters” — generally well-heeled males, middle-age and older, who are seeking rare and expensive wines to bolster their wine cellars. Other online retailers, including Wine.com, are reaching out to the mass market with a more democratic selection of wines, many under \$20. However, even at this end, discounts rarely exceed 15 to 20 percent — far less than the typical 25 to 50 percent discount that Winebuys.com offers. The remainder (actually, the vast majority) are little more than advertising and promotional websites for traditional bricks-and-mortar retailers — few of whom offer much below list price, and few of whom sell beyond the borders of their state (as described in the previous section).

There are relatively few competing online wine retailers who serve the same states as Winebuys.com. Among the more prominent are the aforementioned Wine.com, Geerlings & Wade, Beverages & More, and K&L Wines, and to a lesser degree, Ambrosia Wine and The Wine Club. (Details on the first four can be found in the Supporting Materials section of this document.) Most of these companies work hard to serve their customers with a broad selection of products and generally good customer service. Yet as best as we can determine, few have achieved much success in online wine sales.

Barriers to Entry

It may seem curious that Winebuys.com is the only retailer in its niche. However, the structure of competing online wine retailers may explain why. Compared to Winebuys.com, almost all carry a huge inventory. Most have a massive payroll. (Even after recent rounds of layoffs, for instance, Wine.com reported 60 full-time employees in 2003; Winebuys.com runs lean and mean — with a virtual staff of five core consultants, plus a full-time Operations Manager, plus three variable-time warehouse staff.



Furthermore, there are additional barriers to entry for most any retailer considering the Winebuys.com niche:

- Supplier relations are key, as traditional retailers are “expected” to buy at regular wholesale, and with many brands, are only “expected” to discount a little, if any, off the list price. For this reason, it would be impossible to maintain a very large inventory of wines with such deep everyday discounts as Winebuys.com.
- The Winebuys.com model requires that every buy be a “smart buy.” There are plenty of bad, cheap wines one could inventory; great, inexpensive wines require a lot of research, tasting, and understanding of the customers’ collective palate in order to be confident that the products can stand up to customer expectations. The difficulty of this process — and the Winebuys.com’s confidence in its selection — is underscored by its 100% Love-It-Or-Your-Money-Back guarantee. Bottom line: Winebuys.com buys right, or it doesn't buy at all.
- Many traditional brick & mortar stores are further “stuck” in their current pricing structure because of the high overhead required to maintain a walk-in retail store.

This isn't to say that competitors have not responded to Winebuys.com. Since our launch, we have noticed many companies emphasizing lower-cost (typically under \$15) wines. We've also seen situations of copycat marketing — where, for instance, with a well-publicized promotion such as free shipping, a competitor (in this case, Wine.com) would launch the same promotion the minute ours ended. Still, even during promotional sales, discounts at other wine sites tend to be modest — and proportionately little of their inventory offers the quality-for-the-dollar ratio that Winebuys.com does with virtually all of its products.

More detailed analysis of four major competitors can be found in Appendix A of this document.



V. Shipping & Fulfillment

Shipping wine is a necessary service for any online wine retailer. The process, however, is nothing like shipping, say, a book, or a camcorder. Wine is heavy — typically around 40 pounds for a 12-bottle case. Wine bottles are fairly fragile. Wine can spoil in extreme temperatures, especially heat. Many carriers, including the US Postal Service, will not ship wine or other alcohol products.

All told, shipping wine is challenging from five different perspectives:

- marketing
- product quality
- legal compliance
- logistics
- fulfillment to the consumer

From the start, Winebuys.com has looked at shipping and fulfillment as a competitive advantage, relative to other retailers, rather than a liability.

Shipping & Marketing

Online shoppers are generally accustomed to paying something for shipping. (This remains true even in light of Amazon.com's and Buy.com's free ground shipping offers.) In most circumstances, unless the product is especially large (e.g., furniture), consumers are acclimated to shipping costs of under \$10 for regular ground service.

But — as introduced at the start of this document — this is certainly not what consumers discover when they make an online wine purchase. Most retailers charge the UPS “rack rate” — the zone-based cost from its standard rate chart — and for a single case of wine, this can easily exceed \$20 or \$30 depending upon the source and the destination. UPS also charges a \$2 surcharge for obtaining an over-21 signature. For those ordering several cases for a party, shipping costs alone can easily exceed \$100.

Furthermore, most wine retail sites make it extremely difficult to tell what the cost of shipping will be until late in the checkout process. Costs vary wildly depending upon what is being shipped where — and most don't provide an upfront shipping amount until one goes through the frustrating process of adding the product to a shopping cart; providing a sender and recipient name, address, and phone number; and in some cases, even providing the credit card information. Only at that point are customers presented with the shipping amount — and which will oftentimes be dauntingly expensive.

Winebuys.com's internal marketing research and analysis suggests that these two stumbling blocks — not being told the cost of shipping until checkout, and then finding out it can be exorbitantly expensive — may be one of the biggest reasons why more people don't buy wine online. Consequently, Winebuys.com takes these liabilities and turns them into advantages. Because of its purchasing philosophy and its extremely low



overhead, Winebuys.com offers the lowest everyday FedEx Ground shipping rate of any major online retailer: Just \$9.95, every order, any size — and a customer's first order ships free (assuming they sign up for our ePostcard).

Here's how this rate compares to several key competitors — in this example, when sending wine to Chicago:

Everyday Shipping Rates

	BevMo.com	K&L	Primewine	Wine.com	Winetasting	Winebuys.com
6 bottles	\$11.68	\$18.80	\$19.80	12.95	\$21.78+	\$9.95
12 bottles	\$15.22	\$30.96	\$31.74	\$18.95	\$34.05+	\$9.95

Quoted shipping rates as of April 21, 2005

Obviously, the savings are even more dramatic with larger orders — nowhere else can a consumer ship ten cases of wine for ten bucks, any day.

Months of competitive and internal analysis went into this rate structure. In fact, \$9.95 per order fairly closely represents the company's actual shipping cost for an average order. This is because most orders are within California, and the average order size is typically six to 8 bottles. Since relatively few orders exceed a couple of cases, the company believes that the promotional value of this price more than pays for itself.

Shipping & Product Quality

As mentioned, extreme temperatures can damage wine. Heat is the greatest problem, since extended exposure to temperatures in excess of 100° F. can literally “cook” wine — spoiling its taste, causing corks to lift and wine to spill, and more.

Because of this risk, Winebuys.com uses the industry's best available packaging, which is designed to offer a reasonable degree of protection from thermal extremes. The company also utilizes FedEx Ground service, which uniformly provides excellent package care. (During extreme heat waves, Winebuys.com will encourage customers to allow us to hold the packages for shipment until more moderate temperatures resume.)

FedEx Ground service offers delivery between 1-6 days from the date of shipment. Many Winebuys customers — usually within California — report receiving their wine within one business day, much to their pleasant surprise.

Shipping & Compliance

Winebuys.com fully complies with all of the industry's established legal conventions. It does not ship to any states that are actively prohibiting retail-direct-to-consumer wine shipments. The company has software at its website to prevent any such prohibited shipments, and can accommodate changes swiftly and seamlessly as they arise.



The company also takes the prospect of purchases by minors extremely seriously, not only for legal reasons, but also for moral ones; it is simply wrong to sell to minors, period. Consequently, and as also required by law, Winebuys.com to ensure that only adults are purchasing and receiving its products by verifying so on each and every order that is placed on its website, and requiring the signature of someone 21 years of age or older for every package.

Shipping & Logistics

Winebuys.com operates out of a small, affordable office and warehouse space in Brisbane, California (near San Francisco). It is temperature controlled, and has been suitable to date for our sales volume. All receiving, storage, picking, packing, shipping and other aspects of fulfillment are performed in this 1,800 square foot space.

However, given the company's rapid growth, this space will not be able to accommodate sales volume by the time the holiday season starts in October 2005. Consequently, Winebuys is actively seeking a new warehouse space, likely in the range of 3,500 to 4,500 square feet. It anticipates securing and moving to its new location no later than September 2005.

Fulfillment to the Consumer

Winebuys.com has instituted technology that provides every customer an immediate order confirmation via email, and notification of when their product has shipped. Each customer also receives, by email, information necessary to track their shipment en route.

In keeping with its unconditional 100% satisfaction guarantee, Winebuys.com offers prepaid package pickups for product returns (or, more commonly, foregoes the product return while still offering a refund), saving the customer a trip to a shipping office and the associated costs and time. The good will generated by offering the service far outweighs its costs — especially considering this is done only a few times per month, at most.



VI. Current Competitive Online Wine Sales & Projections

Accurate figures for current online wine sales are virtually non-existent: From 2003 to present day, we have been unable to identify anyone who is tracking these figures separately from conventional retail sales. This has been affirmed in discussions by representatives of Winebuys.com with leading industry analysts such as John Gillespie, President of the Wine Market Council, Eileen Fredrikson of Gomberg, Fredrikson & Associates, and Christian Miller of Full Glass Research.

By best estimates, however, current annual sales for online-only wine retailers are in the \$100 to \$130M range. This figure is projected from studies by the University of California at Berkeley (2001) and Salomon Smith Barney (2000), and with figures quoted by the Wall Street Journal (2000). This low a figure shows tremendous potential for growth — as it only represents about *one-half of one percent* of all wine sales in the U.S. Indeed, according to the UC Berkeley study, wine sales by online-only retailers are projected to rise to over \$750M by 2008 — and even that is just a modest 3.7 percent of all wine sales for the year 2001. (Salomon Smith Barney's study had hugely miscalculated that Internet-based retail wine sales would reach \$3 billion by 2005.)

In the meantime, wine sales in general continue to grow. As the following chart affirms, wine consumption in the U.S. has nearly doubled in the past decade; even during the difficult economic times of 2001, wine consumption in the U.S. continued to grow by a respectable four percent, as detailed in the following chart:

WINE SALES IN THE U.S. — 1991 to 2004 in millions of gallons

(Wine shipments from California, other states and foreign producers entering U.S. distribution)

Year	Table Wine	Dessert Wine	Champagne/ Sparkling Wine	Total Wine	Total Retail Value
2004 <i>(est.)</i>	591	47	30	668	\$23.2 billion
2003	574	40	29	643	\$22.2 billion
2002	546	38	28	612	\$21.6 billion
2001	512	35	25	572	\$20.2 billion
2000	510	33	27	570	\$19.3 billion
1999	475	31	37	543	\$18.1 billion
1998	466	31	29	526	\$17.0 billion
1997	461	29	29	519	\$16.1 billion
1996	439	31	29	500	\$14.3 billion
1995	404	30	30	464	\$12.2 billion
1994	394	33	31	458	\$11.5 billion
1993	381	35	33	449	\$11.0 billion
1992	405	37	33	476	\$11.4 billion
1991	394	39	33	466	\$10.9 billion

Source: Volume — Wine Institute; U.S. Department of Commerce; Gomberg, Fredrikson & Associates. Preliminary.
Totals may not add due to rounding. Excludes exports. Value — Wine Institute estimates.

VII. Website Implementation

Prior to launch, Winebuys.com spent many months researching the online wine retail marketplace, analyzing competitive websites from a design, architecture, and editorial content perspective. This was not just a matter of reviewing how other sites looked, but also how they worked from a user's standpoint — how the information was communicated.

How easy is the site to navigate? How quickly can one find something? Is it cluttered or clean? Is it “masculine” or “feminine?” How smoothly does the shopping cart integrate into the site? Is the site's color palette appropriate for products associated with food and gourmet lifestyle? Is there enough, too much, or too little information about the wine?

These and many other issues were analyzed before Winebuys.com's designers and marketing consultants formulated the site's design and architecture. Drawing upon years of experience working with a wide range of clients, the team created a site that enjoys broad appeal among its target customer base. In addition to the *de rigueur* complement of modern ecommerce features (breadcrumb navigation, sortable categories, keyword search, online order tracking, etc.), Winebuys.com offers a variety of features tailored to the wine customer that we believe make it easier and more enjoyable to use than any other competing site.



Website Feature Comparison

	PRODUCT PRESENTATION				
Company	All Custom-Written Tasting Notes	All Custom Photos	Large Photo View	Display Body Type	Display Tastes
Winebuys.com	YES also printed w/ order	YES	YES	YES	YES multiple tastes
Wine.com	—	SOME	SOME	—	—
K&L Wine Merchants	SOME	some stock pics	—	—	—
Geerlings & Wade	SOME	some stock pics	—	—	YES single taste only
BevMo.com	SOME	SOME	—	—	—

	SEARCH BY...			EXTRAS	
Company	Body Type	Tastes	Wine/Food Pairing	Wish List	Tell a Friend
Winebuys.com	YES	YES multiple tastes	YES	YES	YES
Wine.com	—	—	—	—	—
K&L Wine Merchants	—	—	—	save basket only	YES
Geerlings & Wade	—	YES single taste only	—	—	YES
BevMo.com	—	—	—	YES	—

Features as compared Oct. 31, 2005.





\$9.95 FedEx
ANY SIZE ORDER
DETAILS

[VIEW CART](#)  [CHECKOUT](#) 
[MY ACCOUNT](#) • [TRACK ORDER](#) • [SERVICE](#)

[Home](#)
[NEW ARRIVALS](#)
[ALL WINES](#)
[90+ RATED](#)
[UNDER \\$15](#)
[SAMPLERS](#)
[GIFT IDEAS](#)
[WINE Q&A](#)

Now shipping wine to: CA, CO, HI, IA, ID, IL, MO, NM, OR, WI, WV (Accessories to all states!) [Learn more](#)

Search by Price 
Search by Taste 
Wine by Food Type 
Wine by Region 
[Advanced Search](#)

MINICART :: view cart
Items: 0
Subtotal: \$0.00
Shipping: \$0.00

\$9.95 FedEx Ground —
ANY size order! [details](#)

BROWSE BY TYPE
[All Red Wines](#)
[Cabernet, Bordeaux](#)
[Merlot](#)
[Pinot Noir, Burgundy](#)
[Syrah, Shiraz](#)
[Zinfandel](#)
[Other Red Wines](#)

[All White Wines](#)
[Chardonnay, Burgundy](#)
[Sauvignon, Bordeaux](#)
[Other White Wines](#)

[All Specialty Wines](#)



Spend \$49. Save \$10.
Happy May Days! Enter coupon MAYSAVE
Enter coupon code at checkout. Good through 5/31/05. [Details](#)

FEATURED WINES



YOU SAVE 43%
Your price: \$19.99
Retail value: \$35.00

[ADD TO CART](#)

Beringer 2003 Private Reserve Chardonnay [Robert Parker: 90] An aromatic and flavorful wine with lemon meringue, ripe pineapple, brown spice and buttered-toast components. ([more](#))



YOU SAVE 38%
Your price: \$49.99
Retail value: \$80.00

[ADD TO CART](#)

Mount Veeder 2001 Reserve Blend [Connoisseurs' Guide: 95] A ripe, oak-filled wine with concentrated coffee, chocolate, rich

Winebuys Guy Email
Sign up for the latest deals and **ship your next order FREE!**
 [GO](#)


WINEBUYS GUY'S 5 REASONS TO BUY @WINEBUYS.COM

- » A HANDPICKED SELECTION OF **TOP-QUALITY WINES**
- » EVERY WINE DISCOUNTED UP TO **50% OFF**, EVERY DAY
- » LOVE-IT-OR-YOUR-MONEY-BACK **100% GUARANTEE**
- » **\$9.95 FEDEX SHIPPING** ON ANY SIZE ORDER
- » THOUSANDS OF INSANELY **HAPPY CUSTOMERS**

WHAT PEOPLE ARE SAYING
"Remarkable! I have never in my life received such fast service, especially for wine."
—Bill, Merced

Using pleasant, gender-neutral colors, the Winebuys home page offers featured promotions and products, one-click access to popular wine categories, and email list signup — all while branding the Winebuys Guy and selling customer benefits (on the right).



Search by Price

Search by Taste

Wine by Food Type

Wine by Region

Advanced Search

MINICART :: view cart

Items: 1

Subtotal: \$22.99

Shipping: \$9.95

\$9.95 FedEx Ground — ANY size order! [details](#)

BROWSE BY TYPE

[All Red Wines](#)
[Cabernet, Bordeaux](#)
[Merlot](#)
[Pinot Noir, Burgundy](#)
[Syrah, Shiraz](#)
[Zinfandel](#)
[Other Red Wines](#)


Home > [Red Wines](#) > Syrah & Shiraz

Syrah & Shiraz

PAGE: 1 2 [\[Taste Guide\]](#)

Jump to red varietals

Sort by: Name (ascending)




Barton Vale 2001 The Changeling Shiraz

Save: 40% **Price: \$26.99** Value: \$45.00

RED FULL-BODIED • RIPE FRUIT • OAK • SPICY ... Eden Valley, Australia

[Robert Parker: 91, Wine Spectator: 90] The Changeling features floral, blackberry and spice aromas. Powerful yet elegant, the blackberry, cherry and [\(more\)](#)




Chameleon Cellars 2001 North Coast Syrah

Save: 38% **Price: \$9.99** Value: \$16.00

RED MEDIUM-BODIED • RIPE FRUIT • SPICY ... California

With its lively aromas of cherry and blackberry leading to silky smooth layers of ripe berry, currant and smoky spice, this is an outstanding New World Syrah. Enjoy it with grilled [\(more\)](#)

Category pages offer key information for each wine — including body type and core tastes — that make browsing Winebuys more of a guided tour than a treasure hunt. No wine site makes it easier for customers to spot their perfect match in the crowd. Each category can be sorted by name, price, or newest arrivals.



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Search by Price

Search by Taste

Wine by Food Type

Wine by Region

Advanced Search

MINICART :: view cart

Items: 1

Subtotal: \$22.99

Shipping: \$9.95

\$9.95 FedEx Ground — ANY size order! details

BROWSE BY TYPE

All Red Wines

Cabernet, Bordeaux

Merlot

Pinot Noir, Burgundy

Syrah, Shiraz

Zinfandel

Other Red Wines

All White Wines

Chardonnay, Burgundy

Sauvignon, Bordeaux

Other White Wines


All Specialty Wines

Champagne, Sparkling

Other Specialty Wines

Home > White Wines > Chardonnay & White Burgundy

Lis Neris 2001 Lis White Blend



Friuli, Italy

WHITE WINE

LIGHT MEDIUM FULL

BUTTERY RIPE FRUIT

IN STOCK

ADD TO WISH LIST

TELL A FRIEND

TASTING NOTES

MORE DEALS

Quantity: 1

ADD TO CART

Retail value: \$38.00

Winebuys price: \$24.99

You save: \$13.01

BUY A CASE (12 bottles) for \$299.88 ... save \$156.12!

[Robert Parker: 91] This blend of Chardonnay, Pinot Gris and Sauvignon Blanc is powerful and complex. Aromas of apples and peaches lead to plenty of ripe white fruit and a long, focused finish. A multifaceted wine with lots of food options, from seafood to salad.

Owner Alvaro Pecorari's architectural education came in handy as he pieced together this fabulous blend of the best lots in his cellar. If you thought wine blending was easy, think again. First of all, you better have some inkling of the finished product. It doesn't hurt to have some science and math background, as well. Oh, and find some nice, clean graduated cylinders. Since this is a blend of three different varietals, Alvaro starts by tasting them separately, choosing the best lots of each one. While this is going on, he's thinking about the finished product and how each grape fits. Then he's ready to do the little bit of this and a little bit of that dance. For the 2001, Pinot Gris took center stage by half with Chardonnay and Sauvignon Blanc filling in the blanks. Piece of cake, huh? —Winebuys Guy

Atlas Peak 2001 Chardonnay

\$11.99 (save 33%)

Backsberg 2002 Chardonnay (Kosher)

\$9.49 (save 32%)

REINER

Winebuys product pages strive for the perfect balance of basic info, detail, and context. Every wine is categorized with our exclusive body type and taste system, and is beautifully merchandised with custom photography (including large full-bottle views), custom tasting notes from our mascot-cum-superhero, Winebuys Guy, and category-specific related products. Viral features such as a wish list, “tell a friend” (up to three at once), and print-friendly tasting notes complete the experience.



Search by Price

Search by Taste

Wine by Food Type

Wine by Region

Advanced Search

MINICART :: view cart

Items: 18

Subtotal: \$362.82

Shipping: \$9.95

\$9.95 FedEx Ground — ANY size order! details

BROWSE BY TYPE

All Red Wines

Cabernet, Bordeaux

Merlot

Pinot Noir, Burgundy

Syrah, Shiraz

Zinfandel

Other Red Wines

All White Wines

Chardonnay, Burgundy

Sauvignon, Bordeaux

Other White Wines

All Specialty Wines

Find the Perfect Wine

Find your perfect match! Just select the wine type and/or tastes you're looking for and click Search. Want to make sure our palates are in sync? [See our taste definitions](#)

Search wine type:

Select Price

Red Wines

Search Type

Search region:

Select Price

...California

Search Region

Search food pairing:

Select Price

Appetizers

Search Food

Search tastes, body type & price:

Please select at least one taste, then if desired narrow your search by selecting other options.

Red Wines

+

Select 1st Taste

+

Select 2nd Taste

Select Body Type

+

Select Price

About tastes & body types


Search Wines

Looking for something specific?

Search all product names, descriptions, and codes by keywords of your choice.

☐ Find all words*

Search Wines



Simple to use yet deceptively powerful, our Advanced Search page can find wine tailored to almost any criteria with just a couple clicks. Winebuys.com is the only site in the world that allows customers to search by body type and multiple tastes simultaneously.

Search by Price

Specialty Wines

Wine by Food Type

America

Advanced Search

MINICART :: view cart

Items: 18

Subtotal: \$362.82

Shipping: \$9.95

\$9.95 FedEx Ground — ANY size order! details

BROWSE BY TYPE

[All Red Wines](#)

[Cabernet, Bordeaux](#)

[Merlot](#)

[Pinot Noir, Burgundy](#)

[Syrah, Shiraz](#)

[Zinfandel](#)

[Other Red Wines](#)

[All White Wines](#)

[Chardonnay, Burgundy](#)

[Sauvignon, Bordeaux](#)

[Other White Wines](#)


[All Specialty Wines](#)

Celebrate With Wine Gifts

Give the gift that's never returned — luscious red wines, awesome whites, delectable specialty wines, useful wine gizmos. Not sure what to buy? Delight them with a [Winebuys Gift Certificate!](#)

Gift Ideas by Price

Featured under \$25 ([more](#)):




SAVE 30%

\$13.99

Bohemia Crystal Champagne Flute (Set of 4)

Featured \$25-\$50 ([more](#)):




SAVE 33%

\$49.99

Churchill 1997 Vintage Port

Featured \$50-\$100 ([more](#)):





SAVE 37%

\$65.99


Covet Thy Pinot Trio

Premium gift packaging

Jazz up any occasion with our red gift box, a personalized gift card, gold charms, Winebuys Guy's tasting notes, and more. Just \$7.95!





SEE THE PACKAGE >



Wine samplers

The perfect gift for wine lovers — at prices you can enjoy.



Winebuys goes to great lengths to make gift giving a pleasure for both the sender and recipient. Custom-printed gift cards are available free with every order, and premium gift packaging for a nominal charge.

The Back End

After surviving complicated, multimillion-dollar Web engagements at previous companies — fraught with delays and huge investments in infrastructure before the first page went live — the Winebuys.com team was committed to finding a better solution. We needed something that was affordable enough for a privately funded startup, flexible enough for our groundbreaking approach to wine sales, smart enough to support current best practices in usability and security, and scalable enough to grow with our business. We found that solution in two complementary software platforms: Miva Merchant and the Stone Edge Order Manager.

Miva Merchant: With an installed base of over 60,000 licenses, Miva Merchant is a popular and reliable off-the-shelf solution, both easy to maintain and inexpensive to modify as needed. Merchant embraces a “buy as you go” philosophy, offering a core set of storefront and cart options that can be enhanced with optional modules.

This approach provides not only a stable and controlled code base (unlike in-house development or open source packages), but also tremendous extensibility through hundreds of third-party and custom-written modules — the best of both worlds. It's worth

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noting that because of this vibrant third-party community, each module is a full-featured product in and of itself. As a result, Miva Merchant options typically provide features head and shoulders above what would be possible with in-house development.

As one example of many, Winebuys.com's coupon module provides fixed or percentage discounts; settings to make promotions redeemable in conjunction with other coupons, one per customer, maximum uses, minimum required subtotal, and maximum discount amount; free shipping with or without additional discount; configurable qualifying products including wildcard support for product codes beginning with specific characters; and the list goes on (for quite a while).

More than a dry spec list, this flexibility opens a world of marketing and merchandising opportunities. All with speedy deployment and at a development cost requiring Winebuys.com to maintain a full-time technical staff of exactly zero.

Beyond the core license (which costs next to nothing), neither Miva nor any third-party developers collect ongoing fees such as license renewals or revenue shares.

Stone Edge Order Manager: Order Manager is a comprehensive POS, fulfillment, customer, and inventory management package designed specifically to work with Miva and other ecommerce software. Several times each day orders are downloaded from Miva Merchant to Order Manager, which serves as a clearing house for order processing and returns, picking/packing, and shipping (including tracking numbers and customer ship notifications). Like Miva Merchant, Order Manager is extensible through affordable custom coding, enabling the addition of features that provide "big brand" ecommerce functionality such as synchronized offline/online order tracking.

Website hosting: Rather than support the IT overhead and risk of doing our own hosting, Winebuys.com hosts on a dedicated server with one of several premier providers expert in Miva and ecommerce considerations. This offers several advantages over in-house hosting: Dramatic savings, state-of-the-art security and nightly backup, almost unlimited and instant bandwidth scalability with 99.95% guaranteed up time, and exceptional 24/7 IT support. In other words, we do what we do best (sell wine) and let our hosting company do what they do best.

Additional software: Winebuys.com follows the same low cost/high ROI approach with all software it employs to conduct business. Core website metrics are tracked using Urchin (recently acquired by Google), a cutting-edge analytics suite included by our hosting provider for dedicated server clients. Marketing email is sent and tracked with an inexpensive but powerful server-side package named oemPro that has most of the functionality offered by online email service providers (who can cost thousands of dollars a month for high-volume lists). Detailed keyword and ROI tracking for our PPC (pay per click) campaigns is done for a low monthly fee through the Atlas OnePoint service.



VIII. Sales & Marketing Strategies

The core team of consultants who have built and run Winebuys.com's sales and marketing efforts have extensive and complementary skills. Collectively and individually they have worked with a number of leading wine retailers and wineries — including Robert Mondavi, Piper Sonoma Cellars, Wine.com, Ambrosiawine.com, Winetasting.com, Kermit Lynch Wine Merchant, Niebaum-Coppola Winery, and Caymus Vineyard.

Their other clients and employers include non-wine-related companies as diverse as Paul Allen/Vulcan Ventures, eBay, Oracle, Apple, E-Loan, Wired Magazine, Clorox, Dolby Laboratories, Gibson Guitars, and Verizon.

Together, the team's collective marketing experience has been exploited to deliver Winebuys.com top-tier marketing on a very small budget.

Trackable & Accountable Spending

Winebuys.com's marketing budget is typically \$10,000 to \$15,000 per month in deliverables. Since every startup is bound to misspend some marketing dollars, the marketing team's approach has been to spend small — and to evaluate quickly which dollars are being spent wisely. Campaigns are tracked, often daily and sometimes hourly, so that successful ones receive more resources the next time, and failures are culled.

For instance, every week the company sends out an “ePostcard” — an electronic newsletter to its subscriber base (about 2,400 opt-in subscribers as of May 2005). Each link on every ePostcard, and there can be more than a dozen of them, is tracked. Not only can it be determined how many actually open the mailing, but we know how many click on, say, a “Gift Ideas” link compared to a featured Chardonnay. And we can track that click all the way through to a completed conversion (sale). In this way, as one example, we know that including just the phrase “new arrivals” in the title of an ePost can increase the read-rate by several percentage points.

For a more concrete example, prior to July 2004, the Winebuys.com home page experienced a 40% “bounce” rate. That is, of all visitors to the site, 40% would come to the home page and then leave, looking no deeper into the site. The company carefully tracked and analyzed the browsing behavior of potential customers who came to the site, and based upon the results, slightly redesigned its home page — with more popular links higher up in the page, and some underperforming links moved or removed altogether. The result of the redesign was an almost overnight improvement from a 40% bounce rate to a 25% bounce rate.

Through these kind of metrics and analysis, the company is continually refining its marketing message, and subsequent sales conversions. And while Winebuys.com has not turned a profit overnight, nor has it lost a fortune. The lead investors hold that this



methodical approach is the best approach, and has placed the company in a stronger position for investment — since every new dollar the company receives toward the expansion of its marketing efforts will undergo the same scrutiny and analysis.

Marketing Goals

The company's marketing goals are focused and doable. They include:

- Driving traffic to the website through affordable, targeted and consistent marketing.
- Quickly evaluating the success of each campaign and tactic.
- Quickly dropping what isn't working and moving forward.
- Targeting online buyers who are also wine enthusiasts (more so than targeting wine enthusiasts whom we have to convince to buy online).
- Promoting the Winebuys.com philosophy as broadly as possible, trumpeting the quality and prices together with free shipping and unbeatable customer services.
- Gathering names wherever and whenever possible.
- Constantly striving to make the path to purchase as easy and convenient as possible.
- Constantly testing service to look for improvements that will help garner loyalty and higher conversion rates.

Winebuys.com is currently increasing its marketing efforts based on learning during the past year. The marketing mix includes the following channels:

Online Advertising

- **Keyword Search Buys (\$3,000-\$10,000 per month)**
 - Bidding on key ad words with Google and Overture is Winebuys.com's largest customer acquisition tool. By managing keyword bids by eliminating non-productive words, and consistently testing new ones, ROI averages reached 188% for the program.
 - We are constantly testing communication to improve conversions and attract new customers more efficiently. The average of acquiring customer through keyword buys is \$43, a very healthy figure for an industry known to sometimes spend hundreds of dollars per customer.



- This program is managed by John Hingley of Crush Direct, the former COO of Wine.com.
- **Online Price Comparison Sites (currently less than \$500 per month, but actively increasing spending in this area)**
 - Wine shopping comparison sites such as WineZap.com and Wine-Searcher.com, have been tremendously successful. These very targeted shopping sites have brought returns on investments at a rate of 1398%. The success of these sites may be that the Winebuys.com model lends itself to this form of advertising, as a low-cost price structure often wins the consumer's choice. We are actively pursuing ways to build on our successes in these areas through additional partnerships and advertising.
 - Due to the success of the such comparative shopping sites, in May 2005 Winebuys began appearing in general online shopping comparison sites such as Shopping.com, NextTag, Shopzilla, and Pricegrabber. These programs offer CPC (cost-per-click) fee structures, to pay only for targeted customers who are looking for products we have in stock (and at very competitive prices). These programs are also attractive because they require modest investments, are highly trackable, and attract high volumes of online shopping traffic.
- **Targeted classified and display advertising (expenditures TBD)**
 - Targeted classified and display advertising, in a variety of targeted magazines and other media buys, focused on lifestyle, wine, and other interests
 - Winebuys is pursuing opportunities to test banner ads on preeminent wine information sites in order to reach a highly captive, interested and educated online audience.
- **Direct marketing via targeted email (inc. opt-in and associative lists)**
 - Winebuys' online communications to customers (ePostcards) has met with success, as the ePostcards regularly trigger a period of significant sales, while resulting in very few unsubscribes. (Currently we send ePostcards to 2,400 unique subscribers, and only receive two to five "unsubscribe me" requests per mailing.)
 - To increase the number of customers receiving regular communications from Winebuys, in May 2005 we entered a partnership with HighOnTaste.com, an opt-in program to gain food & wine savvy prospects. Other businesses on the site include Chefs Catalog, CookingClub.com and The Wine Letter.
 - Winebuys began offering promotions such as Free Shipping on the site Home Page to incent browsers to the site to sign up for ePostcards.



Direct Mail

- Winebuys.com has been conservative in its attempts to reach customers via direct mail due to the high costs of printing and postage relative to online communications. Winebuys did publish a series of postcards during the Holiday 2004 Season, which undoubtedly added to the company's success during that time. Limited use of direct mail is considered prudent to engage those customers who choose not to receive email communications, but is not a major part of the marketing plan.

In-box Coupons & Merchandising (varies; typically 5-20¢ per box)

- Winebuys.com regularly employs "thank you" and other in-box cards, frequently tied to a promotional campaign (e.g., free shipping, \$10 off your next order, etc.) These campaigns are printed in-house on a high-quality 4c laser printer on cardstock.

Print Advertising (previously \$4,000 per month)

- As a "guerrilla marketer," Winebuys.com has not committed itself to a full-blown print advertising campaign. For nearly two years, Winebuys.com advertised regularly in the San Francisco Chronicle's weekly Wine section (the only of its kind in the country among major urban newspapers). Since it is less precise to track exactly what return these ads generate, Winebuys has been cautious to commit to other, more expensive ad campaigns in other major newspapers, although opportunities for promotions and deals are always being investigated.

(Note that while unique coupon codes are often associated with our ads in the San Francisco Chronicle, our ability to wage multiple and trackable marketing campaigns simultaneously has often been limited by our modest marketing budgets. Therefore, more than any other media buy, the Chronicle ads were a buy of faith, consistent with the old adage that the true success of an printed advertising campaign is tied directly to the campaign's length and consistency.

- Starting in September 2005, Winebuys.com decided to abandon print advertising altogether, for at least the balance of 2005 holiday season. This was spurred by the fact that we expect to be running at complete capacity in our present warehouse space for this season, and print advertising was the least "accountable" of all our media buys. Interestingly, to present (Oct. 31, 2005), we have not noticed any effect from this suspension.



Affiliate Relationships (\$500 to \$3,000 per month)

- Winebuys.com recently entered an agreement into an affiliate marketing program through Commission Junction. One of the leaders in its arena, CJ pairs online retailers such as Winebuys with affiliates who promote the site in order to generate sales in exchange for a commission. This relationship with CJ and its affiliates is expected to build over the course of a year or so, but holds great promise for a business such as Winebuys because of Winebuys attractive price, product and service mix.
- We are currently pursuing relationships with vendors of complementary products (e.g. cigars, wine racks) to implement cross-marketing programs by using box-stuffers, etc.

Customer Loyalty Programs (program costs vary)

- Winebuys has had a very successful “Best Customer” program offering intermittent “thank you” gifts sent to the top revenue-generating clientele. A controlled test of such gifts during summer 2004 demonstrated that customers who received rewards spent more (22% more) than customers other customers at comparable spending levels who were not rewarded with a gift. Therefore, this program will continue to reward and entice top customers to continue purchasing from Winebuys.com.
- A “We Want You Back” program is in the development stages to incent customers who have been inactive to place follow-up orders.
- We are also strongly considering a Frequent Buyer rewards program to encourage volume buying and customer fidelity.

Viral marketing programs (costs under development)

- Major campaign planned to offer a significant coupon savings as a way to encourage a “Tell a Friend” message to spread by capitalizing on loyalty from existing customer base.

Press Releases & Targeted PR Campaigns (\$1,500 to \$4,000 per campaign)

- Winebuys.com is represented by Kate Jones, one of the best-known and respected wine industry PR specialists
- Press campaigns have generated write-ups from the Associated Press, The New York Times, Bon Appetit, GQ Magazine, and other outlets.
- Current budgets allow for just two to three PR campaigns per year.



Planned Marketing Efforts (pending new investment)

As mentioned early in this report, Winebuys.com's impressive repeat-customer rate (typically 47-54% per month) is testimony that it is doing things "right" — and that, consequently, the company's main challenge is to bring more new customers to its home page for the very first time. To this end, the company has identified several key areas into which it plans to expand its marketing efforts once funding is secured:

- Increased pay-per-click advertising (Google & Overture primarily)
- Shopping portals – Yahoo store, etc.
- List rentals (e.g., the Omaha Steaks customer list)
- Increased PR activity
- Affinity deals (initial low-risk trials)
- More geo-advertising, with particular emphasis on targeted newspaper buys in key metropolitan areas such as Los Angeles and Chicago.
- State expansion possibilities (WorldShipNet, Lionheart, etc.)
- Possible Winebuys seasonal catalog

IX. Financial History & Forecasts

Please see accompanying materials.

X. Conclusion

The lead investors in Winebuys.com are excited by its success to date, and by its possibilities for the future. Their collective wine retail experience leads them to believe that they are mining a niche that has strong potential with consumers, with benefits for its vendors too. With Winebuys.com's commitment to high-quality wines at excellent prices — and to superb customer service — the lead investors are optimistic for the prospects of the company's continued success and growth.

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XI. Appendix A: Competitive Profiles

Wine.com [<http://www.wine.com/>]

- Founded as Wine.com in 1995
- Wine.com merged with Wineshopper.com in 2000
- Company failed in 2001, after exhausting over \$200M in funding
- Acquired for \$13M in 2001 by eVineyard (founded in 1997)
- Merged company rechristened as Wine.com in 2002.
- Revaluation & acquisition by Baker Capital in 2005 forced out the former Chairman and CEO.
- Current Chairman: n/a
- Current CEO: n/a

Strategies & Objectives

- Tagline is “The World’s Largest Wine Store”
- Strategy is to move traditional wine buyers online – reports 1% of \$22 billion in wine purchases occur online (cites comScore statistics)

Retail Presence

- Website
- Ships wine to 24 states (May 2005); down from a one-time high of 42 states
- November 2004 announced web launch in Japan through partner Sansonoma, Ltd.
- May 2005 announced 1-year partnership with Amazon.com through which Amazon will direct customers to Wine.com website
- Utilizes complex multistate retail licensing and distribution, including some “Wine.com” walk-in retail stores

Wine Selection/Pricing

- Well-designed site offering broad selection of wines. Lacks a well-screened selection.
- Claims over 14,000 wines available, though survey of site shows only 2k to 3k available at any one time
- In addition to wine they offer an extensive gift selection of accessories, books, gift certificates and stocked wine cellars (up to \$12,000).
- Seven wine club offerings – Marketed as “lifestyle” wine clubs, including ones partnered with chef Rocco DiSpirito and golfer Ernie Els
- Other strategic partners include Amazon (featured wine store), American Airlines and United Airlines (promos and air miles)
- Bought AKA Gourmet gift basket company in December 2003 as part of strategic move to diversify from wine into “wine country lifestyle”



Financial/Misc. Highlights

- Investment Capital
- 1995-2001: Original incarnation of Wine.com (together with Amazon-backed Wineshopper.com) reputed to have run through over \$200M in venture capital.
- Up to 7/02: The newest incarnation had taken over \$40M in investment money, promising to use it wisely and slowly.
- 12/03: Raised another \$8M to assist with the closing of the AKA Gourmet deal
 - 9/04: Received another \$20M Series F financing
 - 9/04: After launching quest for additional financing (rumored to be \$60M), the company's Chairman and CEO are both forced out in wake of revaluation initiated by primary shareholder Bakaer Capital
- Claimed revenues and growth trends have been historically contradictory:
 - 2001: Claimed over \$28M in revenue
 - 2002: Claims over \$32M in revenue and 30% growth over 2001 (sic).
 - 2003: Claimed \$22M revenue and 57% growth over 2002 (sic)
 - 2004: Claimed \$32M revenue (up 40% over 2003)
 - Initially claimed profitability in 2004 and 2005
 - In May 2005, Wine.com — after having received at least \$28M in additional funding in the previous 20 months — launches a publicized quest for more money or to be acquired.
 - In June 2005, CEO George Garrick claims current sales of \$32M, and that profitability will be achieved when company reaches \$120M in sales.
- 2003: 60 employees
- Claims 100,000 customers
- 2M visitors to site

Strengths & Weaknesses

- Strengths
 - Clean design of URL
 - Depth of selection
 - Gift baskets a core component of product merchandising
 - Many strategic partnerships
 - Diversified
- Weaknesses
 - Tremendous capital burn from founding through present
 - Reported unsatisfactory customer service
 - Need for volume drives wine selection, lacks a well-screened selection
 - Complicated shipping methods of reach different states
 - Not all wines available in all states

Summary

Wine.com is the online wine industry's 800-pound gorilla. Its URL, sheer size, brand awareness, and historical willingness to spend tremendous amounts of money have given it a strong competitive edge. The company reportedly also has a very large customer list



— over 200,000 customers, plus an additional 200,000 “potential buyers.” Their last publicized average order size is \$95/5 bottles – but word has it their actual average order size may be considerably smaller. The company’s \$8M purchase of AKA Gourmet gave it a wide range of gift baskets, allowing it to expand Wine.com’s gift-giving potential. A recent partnership with Amazon.com is an attempt to convert wine buyers previously not online to Wine.com customers, much the same as Amazon did ten years ago.

However, the company, throughout its history, has been hampered by huge running costs. The company’s evidently massive burn rate can only be partially attributable to its formidable marketing efforts. It seems evident, therefore, that its model and structure — with huge numbers of SKUs, and multiple distribution centers across the company — must be very costly to maintain. Its technology is also reportedly costly. Many industry observers, and even respected journals, have wondered how the company might ever succeed, if it hasn’t been able to do so with over \$250M of investment since its inception, and is still in need of more money.

Beverages & More! [<http://www.bevmo.com/>]

- Founded: 1994
- Owners: Privately held (President/CEO Bannus Hudson)

Strategies & Objectives

- Comprehensive bricks-and-clicks vendor of wine, beer, spirits & glassware
- Website to expand customer reach beyond retail stores while increasing services available to existing customer base

Retail Presence

- 46 stores in California.
- Website launched January 2001 – offers wine pick-up or shipping options.
- Ships wine to 10 states – AK, CA, ID, IL, MO, NV, NM, OR, TX, WV.
- TV, radio, newspaper advertising.

Wine Selection/Pricing

- Excellent selection of wines from throughout the world.
- Approximately 6,700 wines available on Wine-Searcher
- Four wine club offerings (Discovery and 90-Point levels)
- Wilfred Wong is wine buyer and very well known in the wine business.
- SKUs across all price points; certain products are sometimes competitive with Winebuys.com's pricing, but they are exceptions.

Financial/Misc. Highlights

- \$113M annual revenue (Dunn & Bradstreet estimate).
- Received \$20M credit line from Well Fargo in January of 2002.
- No information on website revenue, best guess would be \$2M – 4M annually.

Strengths & Weaknesses

- Strengths
 - Well-known brand within California
 - Building on efficiencies of popular bricks-and-mortar business
- Weaknesses
 - Lack of brand recognition outside of California
 - Lacks the feeling and service of a small vendor

Summary

Among the largest alcohol beverage retailers in United States, with a California-only presence. Recent store expansion (doubled in past 4-5 years) and website may bring more sales, but costs of doing such must dig deeply into profits. With the current economic situation, it is our opinion that expansion must be done very carefully.



- Founded: 1976
- Owners: Todd Zucker & Clyde Beffa, Jr.

Strategies & Objectives

- Bricks & mortar retailer extended into e-commerce
- Positioned as offering excellent service, selection and price

Retail Presence

- Retail stores (x 2) in the San Francisco area; soon launching one in L.A.
- Website

Wine Selection/Pricing

- Well-picked and extensive selection of wine both foreign and domestic.
- Three wine club offerings with an emphasis on reorders on the site (clearly using them to promote larger sales)
- Selection crosses many markets, but addresses the high-end market “bargain hunters.” by offering deep discounts on highly sought after but mass-produced wines.
- Prices are often, though not always, competitive with Winebuys.com
- Wines appear to be purchased at FOB, Wholesale and some below FOB prices.

Financial/Misc. Highlights

- Estimated \$17M annual revenue, Internet revenue estimated from \$2 to \$4M.
- Not much buzz about the financials of K&L; most employees are in the family and they seem to have low employee turnover.
- With as long as they have been in business, they appear to be profitable overall. There aren’t any specifics about how profitable their website is alone as it is integrated into their offline business entity.
- About 40 employees.

Strengths & Weaknesses

- Strengths
 - Impeccable reputation
 - Diverse selection
 - Competitive pricing
- Weaknesses
 - Focused on operating a retail store first, and internet site second
 - Relies on bricks & mortar store & overhead that comes with it



Summary

A preferred local wine retailer who dips into the pockets of other retailers in the SF not willing to play the numbers game. They are among the low-priced leaders on well-known brands, and are still willing to put their neck out for some lesser-known brands that have obviously been screened for quality. While we couldn't compare prices across imported wines as easily as we did the domestic wines, their website boasts direct purchases from European markets, cutting out both the importer and middleman to keep costs low. They only ship to 13 states, but urge you to call if you want to ship to any state that isn't legal. After nearly 30 years, K & L plans to expand into Los Angeles during the second half of 2005.

- Founded: 1986 (by Huib Geerling and Phillip Wade)
- Publicly-held company (traded OTC as GEER.PK)
- 10/31/05 price is \$1.00
 - 52-Week High (07/29/05): \$1.39
 - 52-Week Low (11/24/04): \$0.40

Strategies & Objectives

- Aims to be “Your Personal Wine Service” by “demystifying” the wine buying experience
- Buys direct so it can promise good pricing
- Aims to save money by converting current direct mail customers to online

Retail Presence

- The leading direct marketer of wine in the world.
- Direct mail campaigns.
- Website (launched in 2000) sells in 32 states.
- Physical locations 15 states
- Site features Wedding Planner, Corporate Gift, Wine Club Memberships

Wine Selection/Pricing

- Limited selection of California and French name brands.
- Most of the wines are, as they put it, “hard-to-find.”
- “Signature Selections” series appears to be their own private labels marketed as “partners”
- Offers Passport Wine Club at two different levels
- Pricing, at least on familiar brands, is often above Suggested Retail Price. They market their pricing as “up to 50% below typical retail pricing.”
- It looks like they purchase wine at both FOB and Wholesale, adjusting their SRP to fit their gross margins (guestimate of 30% to 35%).

Strengths & Weaknesses

- Strengths
 - Has valuable direct mail marketing experience
 - Integrates direct mail with online marketing campaigns
- Weaknesses
 - Wine selection includes many past vintage selections posed as “limited quantity”

Financial/Misc. Highlights

2001: \$32.7M revenue, with a reported \$1.09M loss.
2002: \$27.9M revenue with a reported \$1.67M loss.
2003: \$25.4M revenue with a reported \$939k loss.



- 390,000 people have ordered since their inception.
- 140,000 regular customers
- Last reported 98 employees
- Limited quantity wines and Special Bordeaux offerings are heavily emphasized.
- As of 2002, Website revenue was approximately .5% to 1% of overall revenue (approximately \$1.6M to \$3.2M annually).

Summary

Losses continue to mount as they scramble to find ways to achieve profitability. Growth is stagnant, but potential is high due to their ability to ship to 30 states, and their plan for foreign expansion via the Internet.