

## **The Wine Industry's Secret Sauce**

Does the wine market have a "Secret Sauce" when it comes to branding in a new international wine market? Can these steps be followed by any winery to achieve success?

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Case Studies focusing on the branding and exporting efforts in the newer international wine markets of California and South African wineries

March 1, 2010 - June 20, 2010

### **I. Executive Summary**

Creating a brand for a product that is unique and memorable in order to advance its sales and ultimate success has been a sales and marketing strategy that has been around for years. Finding that right combination of strategies as well as addressing the many intricacies of the global markets is a challenge for business everywhere, and in particular the wine industries. A major question many wineries are asking today revolves around whether there is a brand strategy that wineries can follow to successfully brand and sell in the emerging international markets?

Wineries are clearly unique and therefore, it appears a set strategy might be hard to define when it comes to branding. This case looks at nine different wineries in depth, and others in their regions, both in California and South Africa. It focuses on their success and failures in branding both domestically and internationally. It looks at the current consumer trends in the U.S. market, Europe, and Asia, in order to determine some possible steps needed to create a sustainable sales and branding strategy.

Analysis of the individual wineries examines their marketing practices, beliefs, and future plans in efforts to uncover a "secret sauce", or formula that could advance a winery's sales and success. Proven methods, such as the UK Wine Intelligence Group's *Vinibrand* will be used for comparison. Economic challenges present today in all countries add an additional layer for all wineries to consider. The insightful information and plans shared by this group of winery owners and managers highlights many successful branding strategies, and gives a thorough view of their challenges and plans for the future. It will provide recommendations that wineries can consider to create a more successful branding strategy for the globally emerging markets, as well as become more competitive in the U.S. markets. .

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### **II. Intro**

**West Coast to Western Cape**

North America's west coast wines, particularly those in California, are experiencing a slump in sales in the U.S. domestic markets because of the current economic downturn. Californian and other wines that have a high price point are looking for a new export market in Asia. Some wineries, such as, Cakebread Cellars in Rutherford, Ca, for the first time, report an excess of wine after filling domestic orders. Therefore, they now appear to be in a better position to supply their Asian importers and handle the increasing costs of global branding.

**'A wine brand is a product cue or set of cues given in wine packaging or information such as origin, grape variety, region, for which consumers search during their decision making process to differentiate wines from each other' (Halstead, 2002)**

According to the U.S. Department of Agriculture, the Foreign Agricultural Service of China is the best market for California wines to export into and create a brand presence, as wine sales continue to grow approximately 30% annually in China (FAS Reports CH3802 and CH3803). The Asian middle class appears to be growing in size, and by 2013 is predicted to rival the purchasing power of the U.S. In addition, it is reported that China is also fostering a domestic wine infrastructure (Rosenberg, July 2008). Chinese consumers are spending \$10-\$15 or more per bottle (Ding 2009), so this could be the best market for American mid-range wines compared to other international destinations, and also be an emerging target market for premium wines. High-end wine auctioneers such as Christy's and Sotheby's report that Hong Kong has replaced London and New York for being the chosen destination for prestigious U.S. wine collections to be sold, in that 35% of the auctions participants are now Chinese buying bottles priced at \$100 and above. (Hayes, 2010)

The opportunity for imports into China has improved in recent years thanks to the World Trade Organization agreement mandating China to reduce tariffs on wine from 65 to 14 percent until 2013. But, it is predicted that by 2013, China will be able to produce domestic wines to rival imports (France-Presse, Agence. 2010 ). With the growing Chinese middle class increasing their wine intelligence and desire for luxury goods, their market is the best place for higher price point wines, but will this be a long term solution? With imports being a popular choice now in China, will their market remain a sustainable choice for US wines?

In the western Cape of South Africa (SA), the same question about sustainability of SA wines in the U.S. market has yet to be determined. South Africa is capitalizing on the spotlight that the 2010 FIFA World Cup has put on the whole country. At least 50,000 Americans are expected to visit SA during the 64 matches (Goff, 2010), with FIFA confirming that more than 130,000 tickets were already sold to the U.S., the Americans are the largest group exercising their purchasing power with SA ticket sales (FIFA Website, 2010). With matches scheduled to include three day breaks between them, day trips to tourist destinations, especially the western Cape wine regions, is highly expected (SAWines. Com 2010). Exposure to these wines should echo back in America through purchases, social media, and wine buyers' excitement when it is learned that a bottle of good wine is remarkably affordable, between 14-35 RAN or \$2-\$5 US. (Platters, 2010). With the rising demand for cheaper imported wines in the U.S., SA is starting to consider the U.S. as a major export target market. The UK wine market may also see a 5% or more increase of SA wines this year as well. (WOSA, 2010)

South African wine farms once viewed the U.S. markets as just too far away and unattainable. Most wine farms seemed uneducated about U.S. markets, but are now gaining more information and skills needed for successful branding in the U.S. Most are hoping to capitalize on the U.S.'s growing interest in cheaper imported wines and thereby create a sustainable market presence.

The wineries selected for this case study represent the following Appellation Vineyard Associations (AVA):

**California**

Napa Valley	Cakebread Cellars, Continuum Estate, Oakville East
Alexander Valley	Alexander Valley Wines
Cupertino/Saratoga	Ridge Wines
Modesto/ Ripon	The Wine Group, Underdog Series

## **South Africa**

Stellenbosch  
Paarl

Warwick Estate, Laibach  
Villafonte Vineyards

### **III. Winery Selection Criteria**

The criteria used to select the wineries is as follows:

- Small to medium in size, not producing more than 150,000 cases annually  
Located outside the Napa Valley
- Desire to export wine to the Chinese market and the global wine market.
- Start-up funding not from previous larger fortune or celebrity status.

The following wineries deviated from this criteria\*

- Underdog Wines, The Wine Group (Produce over 150,000 cases)
- Continuum Estate (Mondavi Family),
- Napa Valley Location – Cakebread Cellars, Continuum Estate, Oakville East

\*These wineries were chosen to be included as they gave pertinent information to the case presented in their interviews, as well as, examples of strategy successes and failures that would be beneficial to the analysis of this case.

### **IV. Methodology & Procedure**

U.S. Wineries and/or Wine Farms, as they are called in South Africa, are all just as unique in their branding strategies as the “terrior” (region) in which their grapes are grown. Identifying or implementing a standard strategy that works well for all wineries in a certain region or demographic area is difficult. There are companies that can help with individual global brand strategies such as the Wine Intelligence Company that started in 2001. Their trademarked strategy along with methodology called Vinibrand (See Appendix Figure 3) can create a global brand or reposition an existing brand in a new market. This case will include an interview with Jean-Phillipe Pounry , Director of Global Research for the Wine Intelligence Company, and his expert opinion on the case findings. Other opinions from representatives of global branding think tanks, such as, the Wine Institute, UC Davis; and, The Rudd Center for Wine Studies at the Culinary Institute of America, St.Helena. This case study is based on interviews with winery owners and wine professionals located in California and in the Western Cape regions of South Africa. The interviews examine their individual successes and failures in exporting and their evolving branding strategies.

California winery interviews were conducted in person and/or over the phone during the course of four months beginning in March 2010. South Africa wine farm tours and interviews happened the weeks of June 2-16, 2010. In order to assure validity, a standard set of 12 questions on branding and export strategy was given to each winery owner or person interviewed (Appendix 1). These questions focused on the wineries success and failures in globally branding their wines. Each interview was about an hour in length. Case findings from individual wineries were then discussed with companies and organizations such as, The Wine Institute, Wine Intelligence, The Wine Group, Napa Valley Vintners Assoc., Culinary Institute of America , UC Davis School of Wine Studies , and Cape Ardor Wines. The questions about strategy strive to discover information that will assist in developing a successful plan which similar wineries can use for entering or branding in a new international market.

This report's results should remain pertinent for the next 5-10 years. If the economic climate and currency rates follow as predicted, so should the global wine market, says reputable trade sources such as the Wine Spectator, Beijing Axis, Wine Intelligence Reports, and the Stanford University 2009 report on the Chinese Wine Market to the California Grape Growers Association.

### **V. California Wineries**

#### **1. Cakebread Cellars**

FOR DETAILS, CONTACT PROF. SUBODH BHAT (email: sbhat@sfsu.edu)

## **2. Continuum Wine Estate**

FOR DETAILS, CONTACT PROF. SUBODH BHAT (email: sbhat@sfsu.edu)

## **3. Ridge Wines**

FOR DETAILS, CONTACT PROF. SUBODH BHAT (email: sbhat@sfsu.edu)

## **4. Alexander Valley Vineyards**

FOR DETAILS, CONTACT PROF. SUBODH BHAT (email: sbhat@sfsu.edu)

## **5. Oakville East Vineyards**

FOR DETAILS, CONTACT PROF. SUBODH BHAT (email: sbhat@sfsu.edu)

## **6. The Wine Group**

FOR DETAILS, CONTACT PROF. SUBODH BHAT (email: sbhat@sfsu.edu)

## **VI. South African Wine Farms**

FOR DETAILS, CONTACT PROF. SUBODH BHAT (email: sbhat@sfsu.edu)

## **3. Laibach “LadyBird” Wines**

FOR DETAILS, CONTACT PROF. SUBODH BHAT (email: sbhat@sfsu.edu)

### **I. Conclusions and Recommendations : The Ingredients to the “Special Sauce”**

A select group of winery owners and their chief marketing specialists have clearly developed a unique combination of sales and marketing strategies to advance their wines sales in the international markets, as well as domestically. Such strategies could be part of a “special sauce” that has launched successes in food circles for years. Such branding strategies encompass not only good advertising practices, but a variety of activities that help the public, and in particular, the international emerging populations learn about and appreciate the wines. From extensive public relation events to catchy names and stories, the branding “special sauces” of the wine industry is carving a road to success for the wineries with a vision for the branding of the future.

Some of the most successful strategies that can be recommended for consideration are the following:

#### **1. Concentrating the Wine Brand Line for Export**

Michael Malherbe, Director at Laibach Vineyards and Lady Bird wines decided to stop producing so many wines and to focus on the ones that sold most in the mid-range market. They then reworked their image keeping the reserves and specialty wines for their direct-to-consumer sales and wine club. Wineries like Laibach, Cakebread Cellars, Alexander Valley Vineyards, and even in the past, The Wine Group, believe it is okay to diversify your wines domestically, but when establishing a brand overseas, best to remain synonymous with one name and a few brands. The Wine Group has over 180 brands but still only exports 1/4 of those brands overseas. Continuum and Oakville East only sell one premium wine per vintage, focusing on one wine so that all their marketing efforts are easy to track, and they can pick the most desirable market for their brand.

## **2. Make the Message Simple**

A difference between the image branding of the SA wines and the California wines is that SA wines are pushing the vineyard's name and the name of the wine. Examples of this are Laibach's "LadyBird" wines, which have bright colorful labels with black spots and spotted plastic corks. Warwick's "3 Cape Ladies" and down the road from them is the Jordan winery doing a Chameleon Red that has a picture of the common Cape Chameleon. These SA wines create curiosity about the culture of the Western Cape. Whereas the California wineries studied appear to be just pushing their brand names; Cakebread Cellars, Continuum, and Ridge with exception of Alexander Valley's Sin Zin wines. These California wines are basing their sales and placement strategy on the fact that people will recognize and buy the wine based on the quality of the overall brand, and not asking for one wine in particular. Oakville East realized after seeing how well wineries like Ravenwood's did with motto's like "No Wimpy Wines" that they needed a simple message that the consumer would remember about their vineyard and came up with "Our Red Rocks", simple and memorable. Consumers are going more for wines that have a story, and a memorable motto. This is very important to have included in brand strategy, so if the story starts with "Family-owned vineyard, making handcrafted fine wines in the Napa Valley" a winery might need to re-think its brand story for a more creative focus.

## **3. Create Portfolio Partnerships to Support Marketing Efforts**

Portfolio partnerships appear to enhance marketing reach, but also are forming as an aftermath to marketing efforts. Villafonte and Warwick wines have proved that by joining a partnership, they could increase their production and meet their export demands that rose after they increased marketing efforts. They also admit that their cash-flow problems are currently being solved by the Faraway Wines partnership. Just like larger companies such as The Wine Group that import cheaper foreign wines acquired in Australia, Argentina, and South Africa, other U.S. wineries appear eager to gain similar global partnerships in Asia. Dennis Cakebread reported that Cakebread Cellars is working on putting together an education partnership through the Napa Valley Vintners Association to bring 50 wineries to Asia to educate the consumers and gain more exposure in the Asian market. Partnerships may be the way of the future for many, much like Faraway Wines and the Underdog Series for The Wine Group.

## **4. More Face Time in the International Market**

All wineries studied agreed that more exposure in the international market is desirable but have different budgets to support it. Cakebread Cellars spends the most time in the Asian market visiting distributors and importers for six months out of the year. Warwick wines spends two weeks annually getting the most he can out of that time period, focusing on importers and hotel accounts. Warwick has had success with the Hilton hotel group and the Intercontinental being picked up as a wine they serve per glass. Warwick credits this account to picking experienced importers that have good local knowledge and connections. Vilafonte is relying on being American owned by the famous Zelma Long to get its brand into prestigious circles, but is relying on Warwick for their marketing and branding efforts. The time spent with distributors could make all the difference when it comes to selection of wines in the same price point range, and even sometimes have the distributor select at a higher price point. Even though technology has enabled so much of a winery's marketing and sales to be done at home, there still appears to be no replacement for that person to person contact.

## **5. Direct-to-Consumer Database Management**

While it is suggested to concentrate more direct contact between the winery and the importer, it is also as Elliot Stern points out advantageous to have less reliance on an importer or distributor for smaller wineries. It is important when you can, to cut out the middle man costs, and also to gain knowledge of the countries wine infrastructure. Knowledge of shipping costs, taxes, and shipping laws are important to know so that you can cut further reduce costs. Setting up a direct-to-consumer email database is a necessity and any winery that doesn't manage it well isn't reaching its full potential. Matt Woods was contacted by a winery to design an online media campaign by a winery that did not have a customer email database. It is these steps that a winery needs to take in order to maintain and expand their brand. In addition, having an active Facebook campaign, marketing in online wine groups, tweet-ups, and iPhone applications will all increase Direct-to-Consumer sales. Having a trained sales force as brand ambassadors that collect emails, push the product online, and encourage buying incentives are also important parts of developing the brand.

## **6. Capitalize on Import Market Trends**

"31% of all wine purchased in 2007 in the United States was imported, an all-time high of 97 million cases, up 9% from 2006" (McCallum, Press Democrat) Like Elliot Stern said, U.S. wine drinkers are more adventurous and web savvy. They want to take a trip when they drink wine, or remember a vacation they took to Australia, Argentina, Chile or South Africa. This is driving U.S. domestic wineries like The Wine Group to import wines from acquired wineries in emerging countries, such as the Sabecka wine from South Africa selling at \$6, or Malbecs from Argentina selling for \$4-\$9. Another example is Woodbridge by Mondavi, now a Constellation label which sells an inexpensive pinot noir from France in a 1.5 liter bottle (Fredrickson, Unified Wine & Grape. U.S. wineries are continuing to increase their exports, sending 18 million cases overseas. And, Asia should be a major focus in the future for wine exports. Any winery that doesn't include Asian in their sites for exporting, and their sales strategy "Is seriously missing the boat," says Stu Howard, Marketing Director for Continuum. Not only should they be exporting surplus wines that aren't selling in the US domestic market, but making allocations for the future to create a sustainable brand presence much like Cakebread Cellars & Ridge Wines have done.

## **7. Regional Wine Education, International Exposure, Cultural Awareness**

With the FIFA World Cup games being held in SA, the world was exposed to South Africa more positively than it has been before. Its wine regions should surely benefit from the media exposure, and at Warwick they reported that the market seems to be highly active for everyone. This exposure should help SA wines remain on the map and continue to grow and thrive.

Cakebread and Napa Valley Vintners Assoc have seen the necessity of pushing wine education, especially knowledge about the Napa Valley wine region. With the Stanford 2010 report to the California Growers Assoc stating that "as little as 2% was given to California wines on supermarket shelves" also wine representatives were calling the Napa Valley "The Nata Valley", much more training and wine education is necessary in order to prove the quality of Napa Wines and why people should pay the high prices for them.

In order for the regional training and global marketing to be supported, it is necessary to invest in labels and websites that reflect the language that the wine is being exported into. Ridge Wines, Laibach, and Cakebread have all made this a part of their branding strategies. Where Alexander Valley Vineyards, Oakville East, Continuum, and Vilafonte all believe that it isn't a pressing matter or is too expensive and can't be justified, it really appears that putting the winery story, brand, message, etc. into other languages is a strong marketing strategy and one that will bring success for most venturing that directions.

## **8. Quality, Awards, Winery Experience, Marketing**

Quality is the number one thing that most all of these wineries want to express in their wines. However the The Wine Group was far more focused on quantity and expanding to the lower cost markets. At Ridge Winery, it was stressed that each wine is tasted over and over again with blind tastings until they get it right. At Cakebread, it is the overall experience you get at the winery, their trade dinners, or the personal touch Bruce Cakebread puts on his accounts. In South Africa, wineries strive for the double gold vertias statua and Michaelangelo awards. For others it is a personal statement that they stand behind. However, with the constant emphasis on quality, it appears that most wine has come up to an acceptable standard, so most wine drinkers look for more than just quality. They are attracted to many of the branding strategies developed by the creative and clever marketing today. That being so, wineries need to find other areas to market besides their quality. So, unique factors, such as stories and scandals seem to help sell wine.. Sometimes innovation comes before the bottle is picked or the wine is even in it.

## **9. Tasting Room, Online Social Media Sales, Direct-to-Consumer**

Although the tasting room provides the consumer with a unique experience to the winery and if managed right can be profitable, is becoming less and less a profitable expense in today's economy. Besides serving as a testing ground for new product such as Cakebread claims, it is not driving the sales it once was based on expert Matt

Woods findings. Online sales and Direct-to-Consumer sales are where most wineries should focus. Managing your customer database, online media, and blogs is necessary to reach today's wine consumer. It is important that when choosing to expand your brand, that you manage your database well, so you can position the wine, allocate it profitably, and create brand loyalty through online means. This will also lead to bridging the logistical gaps that imports have always had.

## **Vinibrand Model**

When discussing these recommendations with Wine Intelligence based in the UK, they added the beginning step to accessing your brand and then if need be, how to reposition it in an export market. They believe when reviewing your wine brand, the starting point is the packaging audit. It has three key elements involved: Brand Identity, Whole Package, Packaging Attributes. ( See Appendix) If we were to do a packaging audit on Laibach's Ladybird Red Wines the example would go like this

### **Brand Identity:**

**What are the 3 or 4 unique brand values is this what your target consumer sees?**

- Named after the Ladybugs that help the vineyards stay organic
- Called Ladybirds especially in South Africa
- High quality Award Winning Wine at a Low Price Point
- Winemaking tradition, Vineyard over 1,000 years old started in the 1800's
- Bright colorful "Ladybird" label appeals to women

### **Whole Packages**

**What is the style/type of glass, box, or pack?**

**What quality indicators are you using?**

Tall dark bottle, with a neck label in red with black spots, that has Laibach and Organic written on the top. The bottle has a gold sticker that states it is a Gold Medal winner of the 2009 Michelangelo International Wine Awards, that is approved by the CCL. On the back of the neck label it had a silver sticker that gives its SA Certified number.

### **Packaging Attributes**

- i. Name – Wine, Region, varietal, how are they used or presented to your target consumers?  
The name The "Ladybird" is a red wine blend from Laibach of 42% Merlot, 25% Cabernet Franc, 16% Cabernet Sauvignon, 11% Petite Verdot, and 6% Malbec made in Simonsberg in the wine region of Stellenbosch, South Africa.
- ii. Front Label – Organic Viticulture with The Ladybird in large print over the white outline of a ladybug. The vintage 2008 Laibach, Simonsberg, Stellenbosch, with the neck label being the most eye catching and the large print of "The Ladybird"
- iii. Back Label – Has the story of why the ladybug aka ladybird is so important to their vineyards by being a natural enemy to the mealy bugs that kills the vineyards. How the wine is made and the blend percentages of the wine. It also has the German importer listed, also the label states in German that it is a South African wine.

Once you have this then you are ready to take your product through the 9C Brand Analysis

### **All Profitable and Sustainable Brands Have the 9 C's**

1. Corporate Objectives & Capabilities: including and opportunity analysis
2. Confirming: Existing or proposed liquid, name, design, positioning, and price or a Brand Audit
3. Competitive Environment: Analysis and benchmarking
4. Consumer Insights: identifying target audience- their needs and wants
5. Create liquid proposition: sourcing quality style and blending

6. Create brand proposition and name: unique brand character and mission statement
7. Creative: brand and liquid developed from creative brief
8. Consumer testing: of brand and/or liquid
9. Communication: Media PR and sales presenters tailors to trade and consumers

If you do not have a tasting room with years of data collected, or have just begun to think about exporting to an international market the recommendations above and also consulting a brand expert like Wine Intelligence is recommended to create a brand strategy in any international market.

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