

# ECONOMICS OF MARKETING COLLABORATION BY WINERIES

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International Conference on World Wine Markets  
University of California, Davis  
August 10, 2007



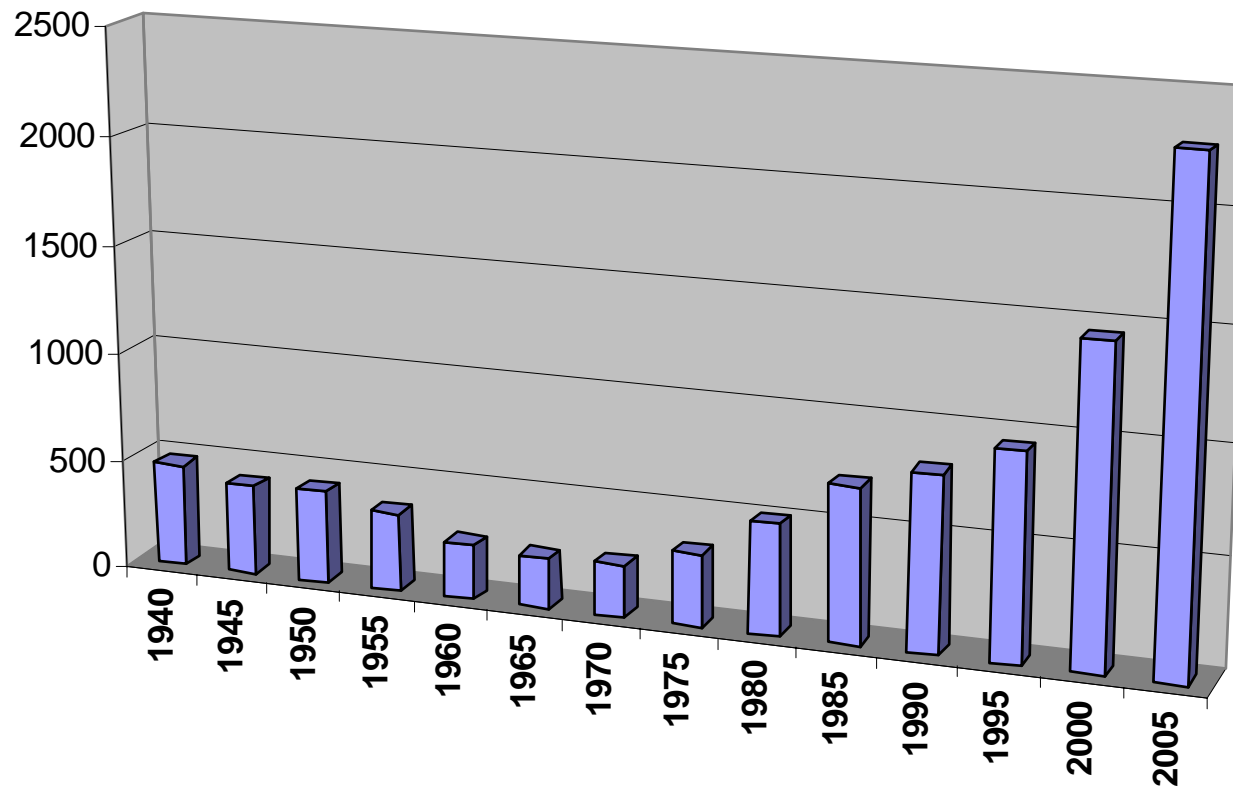
# Overview

- Trends
- Collaborative marketing efforts
- Economic rationale
- Future Research

# Industry Trends

- Mergers & acquisitions of wineries
- Increased concentration among wine distributors
- Rising number of custom crush facilities
- Increasing numbers of wineries
- Growth of small brands

## Bonded Wineries In California (source: Wine Institute)

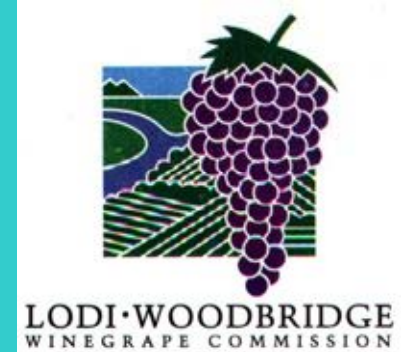


# Forms of Marketing Collaboration

- Regional Promotion Programs
- Shared Tasting Rooms
- Wine Clubs

# Regional Promotion Programs

- Winery Associates
- Napa Valley Vintners Association
- Amador County Winegrape Growers Association
- Mendocino Winegrape & Wine Commission
- Paso Robles Wine Alliance



# Shared Tasting Rooms

- Wineries of Napa Valley & Vintners' Collective, Napa
- Family Wineries of Dry Creek Valley, Healdsburg
  - 6 wineries
  - Wine Club
- Taste, San Luis Obispo
  - 18 member wineries
  - 1 ounce samples with Enomatic Wine System
  - 2-9 spout allotments per winery
  - Wine Club
- Carlton Wine Studio, Oregon
  - Shared production, storage & tasting
  - 9 wineries
  - Owned by one of the wineries



# Wine Clubs



- 2006 wine club sales at U.S. wineries: \$598 Million – Up 66% from 2005
- Still constrained by state regs on direct wine shipping
- Sales discounts, free tours & tastings, invitations to special wine club events, newsletter, access to wines w/limited availability
- Convert wine from experience good to credence good—value is difficult for consumer to measure
  - Relationship marketing/collaboration between winery & consumer
  - Trust, loyalty



# Economic Rationale for Collaboration

- Achieve economies of scale in marketing
  - Regional marketing programs & shared tasting rooms spread costs over more entities
- Increase market power
  - Winery Associates had enough volume to warrant attention of distributors
  - Shared tasting rooms can draw more visitors by offering more variety to visitors
  - Shared tasting rooms & regional marketing programs can cross-promote members' wines

# Economic Rationale for Collaboration

- Reduce transaction costs
  - Regional marketing programs can spread high costs in identifying & negotiating marketing agreements with distributors across state lines
  - Shared tasting rooms often have separate management that reduce winery's coordination efforts
  - Wine clubs generate repeat sales (reducing wineries' search costs) and decrease their negotiation costs (by eliminating distributor discounts & broker commissions)
  - Wine clubs reduce members' search costs for wines of a particular style
  - Wine clubs reduce members' negotiation costs by shipping wine direct to members

# Future Research

- Wine Clubs
  - Optimal membership size
  - Program structure
  - Program benefits
- Regional Promotion Programs
  - Effectiveness
  - Equitable treatment
- Shared Tasting Rooms
  - Optimal membership size
  - Equitable treatment
- Feasibility of Jointly Owned Distributor

