ECONOMICS OF MARKETING COLLABORATION BY WINERIES

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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