

■ ANDY STARR

How some wineries are exploring another tier in the wholesale market

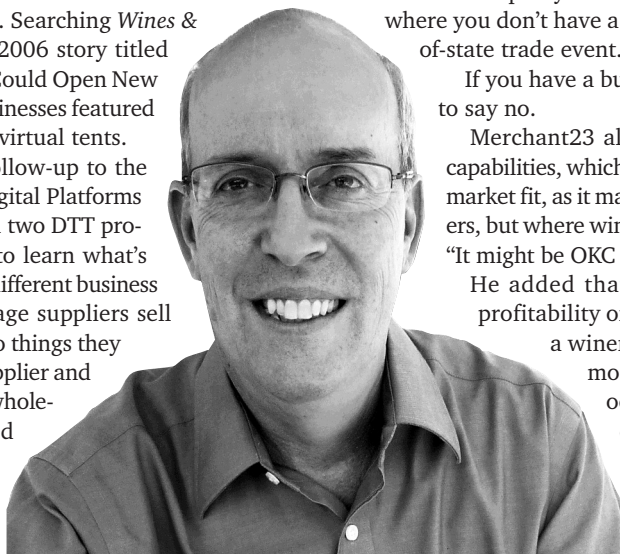
Scenario 1. You spend a long week in New York, Washington, D.C., and Boston to sell wine with your in-state distributors. You call on a number of retail accounts, of which two out of three say they will carry your wine. Later you learn that your distributors ended up selling your wines to just one location, the one owned by a friend of your college roommate. The process is expensive, inefficient, exhausting and ultimately demoralizing.

Scenario 2. You get some nice press from a reviewer in Chicago. A day later, a wine shop in Evanston, Ill., calls, asking, "How can I get your wine?" But you don't have a distributor in Illinois, so you thank the owner and politely decline the order.

The problem is well-known to any vintner with experience navigating the three-tier system. The system can work reasonably well if you have a distributor, but if you don't, then it doesn't work at all. Consolidation has reduced the number of distributors, who are focused on their largest wine suppliers. The few good small distributors that remain are booked up, and the not-so-good ones may be slow to pay their bills. On top of that, you have to do all the selling yourself anyway. You can sell direct to consumers in most states, but that still keeps you off of restaurant wine lists and retail shelves.

Just recently, online portals for direct-to-trade (DTT) became a real option for wineries to market their products in states where they do not have representation. Virtual DTT solutions have been tried in the past. Searching *Wines & Vines'* archives, I found a June 2006 story titled "Direct-To-Trade Sales Options Could Open New Doors." I understand that the businesses featured in that article have folded their virtual tents.

This column is a one-year follow-up to the September 2017 report "New Digital Platforms Connect the Tiers." I interviewed two DTT providers and four of their clients to learn what's working. The DTT providers use different business models to help alcoholic beverage suppliers sell across state lines to retailers. Two things they have in common: for both the supplier and retailer, they look like an online wholesale store, with 24/7 automated sales and restocking; and they provide additional sales and marketing services beyond what is found on their websites.



Merchant23 was launched two years ago by founder and CEO Jacob Moynihan. The company facilitates wholesale sales in every state that allows a three-tier system. Even some state agencies in control states have become clients of the company. Merchant23 carries 360 SKUs on its website and claims to sell many more privately listed wines through its system.

Merchant23 uses its network of distribution partners in every state for clearing and compliance. When a purchase order is created from a retailer on the site, Merchant23 handles all logistics, clearing and compliance. Suppliers do not sign agreements with distributors, who clear the supplier's products on an invoice-by-invoice basis. Moynihan explained that it takes just a few minutes to get set up on the Merchant23 site, where you upload your products, including images, wholesale case prices, inventories and suggested retail prices. Sellers own and warehouse their own inventory, removing the issue of wholesalers holding stock of old vintages.

I asked Moynihan about pushback from in-state wholesalers to a potentially competing system. He said he hasn't experienced opposition and added, "Distributors like to work with Merchant23. They have no inventory to carry, no marketing, sales or other expenses, while getting paid on transactions going through their state. They are happy to be part of it."

Moynihan pointed to the doors that open when a winery knows it can ship anywhere. "You can do marketing in states where you don't have a distributor. You can attend an out-of-state trade event."

If you have a buyer calling up, you no longer have to say no.

Merchant23 also has significant data-crunching capabilities, which are used to assist a supplier for best market fit, as it may be a market with your ideal retailers, but where wines like yours are underrepresented. "It might be OKC and not NYC," Moynihan said.

He added that the company can evaluate the profitability of some wines versus others to help a winery pitch a retailer that it will make more money carrying your wines. On occasion, the company has advised clients on how to upgrade their own websites.

Moynihan said the highest added value comes from Merchant23's personal sales efforts.

The company actively sells wine along with its suppliers and has hired key account managers in California, Colorado, Connecticut, Massachusetts, New Jersey and Texas, with plans to cover the entire United States. The company also has merchandisers who can assist with floor displays. "This is not a 100% digital play," he said. "Wineries won't be successful with just a software platform. There is still a human component."

Cheryl Durzy is the founder and CEO of Liberation Distribution (LibDib), which she describes as a "technology-based company that provides three-tier to any winery that wants it."

In contrast to Merchant23, LibDib is the wholesaler, with wholesale licenses in all states where it does business, currently California and New York, with four additional state licenses pending. Durzy plans to be licensed in every state in the next two years.

Since starting in June 2016, LibDib has grown to have 305 active suppliers with 1,822 alcoholic beverage SKUs in California, and 184 active suppliers plus 1,150 SKUs in New York, with more being added daily.

Durzy compares LibDib's platform to Etsy, where suppliers go in and enter all their data, sell sheets, videos and other materials in one place. Setting up distribution in a new state is as easy as entering some information online and uploading a license. And for the on-premise or off-premise retailer, Durzy said, "It's a nice, easy self-serve shopping experience."

Durzy offered the example of a small California winery that had a relationship with a New York restaurant but couldn't sell it wines. Using LibDib, the winery now ships four cases every few months. The restaurant pays LibDib as the second tier, which then pays the supplier within 45 days. Durzy claimed LibDib's margins are only 15%, as the company doesn't own and maintain delivery trucks or warehouses. Unlike with many wholesaler agreements, wine suppliers are free to leave at will, as LibDib will not enforce franchise laws.

Delivery costs are the responsibility of the supplier/maker, who then builds them into the price. LibDib also has relationships with warehouses in both markets that can assist with storage and delivery.

To be successful, Durzy also stresses the need for human interaction. She said the winery owner is always going to be the most passionate salesperson. "They are still out there selling, just like three-tier today."

To that end, LibDib will help the winery find a local rep. She sees wineries using her platform and substituting efficient virtual tastings with retailers via Skype or Facetime, instead of spending time and money to travel across the country.

Both Durzy and Moynihan demonstrated tremendous entrepreneurial energy, optimism and dedication in helping their clients suc-

ceed. I also never heard either say that they require slotting, return, marketing, spoils or other "allowances" that primarily exist to enhance a middleman's bottom line. This may be just a little different than your own distributor experiences.

Getting past the gatekeeper

Founded on election night 2016 by Meg Murray, Oregon-based Nasty Woman Wines is a brand with "lefty feminist leanings." Murray expected the brand positioning with natural-food stores would be a no-brainer to get distributors to support, but soon learned that "I couldn't even get past that gate."

She now uses LibDib to bypass conventional distributors and go direct to market.

Murray does her own sales, traveling to California as well as doing virtual retailer tastings. In fact, she was doing two virtual tastings the day of our interview, one in Santa Monica, Calif., and another in upstate New York, essentially disproving the idea that you can't be in two places at once. Murray noted that "it's a different way of selling."

Air shipping wine samples does cost money, but much less than flying. She works from home but meets people "where they are in today's world. Buyers are so busy."

She said she heard from one New York account who discovered her on LibDib and reached out asking, "I love your brand. How do we do a tasting?"

Using LibDib, Murray's sales went from zero to "several handfuls" of placements, including all 29 California and Washington locations of Total Wine & More, an account she had been working to break into for over a year. She now has a base on which to grow, making it easier to take on contract sales reps to grow the brand, and eventually storing wine in California to cut costs. By having someone else take care of compliance, paperwork and payments, Murray can focus on the relationships. "This is a sales and marketing business. You just happen to be selling wine," she said.

Making sales after giving up

Along with his father, Matt Railla is co-owner of Wine Guerrilla, a single-vineyard Zinfandel specialist producing 1,000 cases a year in Santa Rosa, Calif. Before starting with Merchant23, Railla tried everything to get the attention of distributors, with minimal success. He gave up trying (does this sound familiar?), instead focusing his time on the tasting room, which opened in 2013. His three-tier sales dropped to zero.

About a year ago, he started to work with Merchant23, and sales started with some small deals. Now he gets reorders or deals every month and sells in four states, including a San Diego retailer that orders about one-half pallet each month. His direct-to-trade sales are close to 200 to 300 cases annually. Railla is now feeling con-

fident that he can grow to 1,600 cases and sell what he makes, and he credits Merchant23. "What they did for us was take all of that effort out of my hands," he said. "Now all I have to do is say yes or no, and get my wine ready to ship."

The little guy gets into Cost Plus

Reid Kinnett is winemaker for Karah Estate Vineyards, a 2,000-case winery in Sonoma County, Calif. Like so many wineries at this size, Karah Estate doesn't have a dedicated sales manager on staff. He likens the use of Merchant23 to "letting me throw more lines in the water," as Merchant23 casts a broad net that goes well beyond what his broker network can reach. Kinnett added that "once you make a few sales in an area, then it snowballs."

Merchant23 was able to get a large order from Cost Plus World Market, something that would be highly unlikely in the conventional three-tier model. Cost Plus was direct-to-store shipped a high-quality wine that none of its competitors had, and Karah Estate moved some excess inventory without heavy discounting. And the best part: Kinnett was paid promptly.

A small importer's story

Ami Nahari is the founder and CEO of The River Wine, based in New York state. The company distributes and produces premium kosher wines and spirits from Israel, California, Italy and Finland, with annual sales of 10,000 cases.

Nahari was doing well in his home territory of New York and New Jersey but struggled in California, which should have been his second-largest market. He had some retail demand, but his distributor didn't allocate resources to the niche kosher market, even though to Nahari it was a big market. He went to California and built sales himself, eventually getting it to \$30,000 annually.

Then he started using LibDib's platform, and California sales took off, going from "500 to 1,200 cases just in the first year. Now I am getting calls from Mollie Stone's and others."

Nahari still can't cover California as well as he'd like, so LibDib helped him find a contract sales rep who should get him to 2,000 cases annually. He heaps praise on LibDib, stating, "I wouldn't dare to call LibDib a clearing house. They treat the wines as their own, and there are no hidden fees, no minimums."

These examples show that online or virtual three-tier may finally be a viable solution for the small winery and will likely only get better. And it should be a lot more efficient than those weeklong East Coast sales trips. 🍷

Andy Starr, founder of StarrGreen (starrgreen.com), is an entrepreneur, marketing manager and winemaker who provides strategy, management and business development consulting services. A resident of Napa Valley, Calif., he holds a bachelor's degree in fermentation science from the University of California, Davis, and an MBA from UCLA.