

Where IT's at

It's transformed the retail landscape, but could the internet do away with conventional wine merchants altogether? **David Williams** reports on the second revolution in online wine sales, and looks ahead to the third

History has taught those of us over 30 to be wary of hyperbole when it comes to wine and the internet. But for those members of the YouTube/Myspace/iPod (delete according to taste) generation whose memory doesn't stretch back BF (Before Facebook) to the era of the dial-up connection, here's a little recap about why.

There was a time, at the end of the 1990s, when groovy young things in heavy-framed glasses in Shoreditch, Sydney and San Francisco were talking up wine as the ideal product for the wired generation. Their buzzwords, such as "pure play", "new economy" and "interactivity" (not to mention "wired"), sound almost quaint today, but these scooter-riding young hipsters really believed the hype. More importantly, so did investors and internet-only start-ups such as wineplanet.com, uvine.com and madaboutwine.com were given huge market valuations, despite barely having sold a bottle.

For those involved, it was an exciting, era-defining time. As leading Australian wine writer Max Allen, who at the time edited the content on wineplanet.com, remembers: "It was a great idea at the beginning. And I'm really glad I got to see some of the dot.com madness from the inside.

"When I first got involved, it was still a classic start-up in a tiny office above a suburban Sydney bottle shop, feeding off raw enthusiasm and possibilities."

The dream didn't last long, though. It turned out that the new economy, for all its fast-forward-to-the-future rhetoric, was not in fact able to break the rules of the old economy – the kind of boring laws that dictate a business has to actually sell something (anything) to survive, and that you can't keep burning cash with no returns forever.

By the end of 2001, wineplanet had collapsed, as Fosters, who had paid some A\$40 million for a 25 per cent stake in the business, pulled the plug after poor sales and a barrage of complaints from Fosters' traditional bricks 'n' mortar customers over wineplanet's more competitive prices. A slew of other closures followed. As Chris Dee, marketing manager at Booths supermarkets and the man behind the launch of Booths' spin-off site, everywine.co.uk (still going strong today), says: "No one was making any money. It was just a case of waiting to see who had the backers with the deepest pockets to keep them alive." One by one, the groovy young

things returned to their loft conversions to lick their wounds, and wine's dot.com bubble had well and truly burst.

Or so we thought.

Skip forward half a decade or so to 2006, and once again the internet (which has by now been rebranded internet 2.0) is being talked up in wine circles as a magical thing that is going to change the rules of the business game. The focus of the hype this time around is the social networking revolution, the buzzwords are "blogging", "user-generated content" and "wikis", and the people hoping to make their fortunes from it are brand owners and marketers aiming to build their brands by interacting with the denizens of the so-called blogosphere.

Again, for those involved this was an exciting time, as anyone familiar with the team behind the most high-profile internet 2.0 brand, Orbital Wines' Stormhoek, will know. Though a little prone to exaggeration of the "we are the future of wine" variety, Orbital's marketing director Nick Dymoke-Marr was genuinely enthused by what he what he was trying to do, and by the buzz and sales he managed to build around Stormhoek with relatively little investment. Under his stewardship, Stormhoek had become a marketing phenomenon, discussed on message boards and in marketing seminars the world over for building its franchise via word-of-mouth, or keyboard, and by speaking directly to bloggers on the web.

As with the dot.com boom, however, the fun stopped abruptly. Earlier this year, the Stormhoek bubble burst after it emerged that brand owner Orbital had slid into administration with severe cashflow difficulties. The team at Orbital disbanded and the brand was flogged off to more conventional South African firm Origin Wines.

For internet-sceptics, this seemed to endorse the feelings they had nursed since the dot.com bubble burst: that, for all the smart talk about it, the web can never play more than a subsidiary role in any wine business, whether that's in marketing or direct selling.

But the sceptics are looking increasingly isolated. Almost all the other available evidence – from sales figures to the number of new start-ups – points in a different direction. Indeed, the high-profile rise-and-fall of Stormhoek has tended to obscure the quiet revolution that has been happening elsewhere on the vinous internet, a revolution that is slowly but surely transforming the way wine is bought and sold. ►

WINE & SPIRIT

WINE ON THE WEB

The quiet revolution

Certainly, an increasing proportion of the UK wine-buying public is now buying its wine online, although estimates about exactly how much vary wildly. According to one leading online wine company contacted by Wine & Spirit, £300 million worth of wine – a little more than 5 per cent of the total off-trade – was sold via the web last year. This compares unfavourably with online sales of other goods: a recent survey by technology consultants Capgemini estimates online spending on all goods totalled £46.6 billion last year, or 15 per cent of total retail sales. With broadband connections increasing rapidly (and expected to reach 64 per cent of households by the end of this year), the online spend on retail goods could reach 40 per cent of the total by 2020 on current growth patterns, a report by the Centre for Economics & Business Research and the market research firm YouGov said earlier this year.

According to Rowan Gormley, chief executive of Virgin Wines, one of the few pure play start-ups to survive the dot.com crash, the growth of online wine sales has been driven by the emergence of older consumers, who neither trusted nor understood the internet in its early days. “I think the tipping point has been the change in the profile of consumers,” says Gormley. “When we started, they tended to be younger people in their late 20s and early 30s. But they weren’t really all that interested in buying cases of wine. These days we’re getting a lot more people in their 50s and older, including quite a few pensioners. These are people with plenty of money and quite fixed wine tastes. They’re more determined shoppers than 30-year-olds. They actually want to buy a case.”

In some respects, those consumers’ online habits tend to ape their behaviour in the wider retail landscape. The market leader, for example, is the same. Indeed, if anything, Tesco has an even tighter grip on the internet wine market than it does on bricks ’n’ mortar, with 27 per cent of the market and climbing (according to our source) – some 16 per cent more than its nearest rival (Direct Wines). Gormley believes this is because “you are always going to get some people who want to add a couple of bottles to their weekly shop”, and that’s the same whether they’re buying online or in their local supermarket.

The rest of the grocers don’t have anything like the stranglehold online that they do offline, though. Only two others – Waitrose’s online partner, Ocado (with 6.7 per cent), and Sainsbury’s (with 6 per cent) – make the list of the top five online wine retailers. And it’s this sense of a wider world beyond the grocers that makes the online wine retailing landscape so much more exciting than the traditional one; a sense that there are opportunities out there in cyberspace that just don’t exist in the far tougher environment of the high street. Certainly, this is the view of Mark Hughes,

a former head wine buyer at Safeway and head of sales and marketing at pre-Constellation Hardys. Hughes started up his first online business, the Real Wine Company, two years ago after falling in love with the wines of Château d’Or et de Gueules in Costières de Nîmes which, at the time, didn’t have a UK importer. More out of love for the wine than from any grand business plan, he then teamed up with some friends to bring in a pallet, which sold out very quickly with the locals in his home village, Gerrards Cross in Buckinghamshire. Realising he was on to something, Hughes added a handful of other “authentic, high quality” producers who, like de Gueules, were yet to find a home in the UK, then built the website – et voilà! The Real Wine Company was born. The site has thrived and, earlier this year, Hughes launched a second, connected site, the Chilean Wine Club, which aims to bring in the kind of premium Chilean wines that don’t get a place in mainstream UK retail.

Hughes is emphatic that both sides of his business would have been impossible without the internet. “We couldn’t have done it at all,” he says. “If we’d had just a shop, it would have been just a local concern. And in any case we didn’t want the overheads of running a shop. We run it from home; we have a warehouse and a virtual shop.”

While price is not Hughes’ main concern, the low overheads also mean he is able to keep competitive. “We were determined not to go down the discounting route, but because we’re quite structure-light, we are able to offer reasonable prices. The most important things for us are the quality of the wines, the ease of use of the website and the speed of delivery. People aren’t prepared to wait a week to get something these days. They want it immediately.”

Hughes is just one of dozens of wine lovers behind start-ups that have taken advantage of the democratic, DIY ethos of the web in the past couple of years to turn their private passions into their profession (see panel). And they’re joined by the hundreds of traditional merchants for whom a web presence has become a sine qua non.

According to Charlie Bennett, e-commerce manager at the first independent merchant to take the web seriously, Berry Bros & Rudd, the web is about far more than direct selling, though. “About 10 per cent of our sales go directly through orders taken through the website,” Bennett says. “It’s rising all the time, but it’s actually fallen as a percentage of our total business because of the growth of the rest of the business. But it isn’t just about sales – it’s about service, and 80 per cent of transactions at the company will have used it at some point of the buying process, whether that’s research, actually buying, or tracing an order.”

As Wine & Spirit went to press, Bennett was just putting the finishing touches to the new Berry’s site, which was due to go live on March 17. Bennett says the new site will be both easier to use and much more content-rich, with extended sections on Burgundy and Bordeaux, and a raft of other new features, including guides to investment and Amazon-style wish lists. It’s all part of Berry’s desire to be, in Bennett’s words, “more than just a slick, transactional website. We’ve taken the decision to add more value. We’ve got five people working on it full-time, and we have several other contributors.”

Bennett will be hoping the changes will cement Berry’s well-deserved reputation for being ahead of the curve when it comes to the internet, a reputation that has earned its website several industry awards. But

Top five internet wine merchants

1. Tesco
2. Direct Wines
3. Virgin Wines
4. Ocado
5. Sainsbury’s

Source: industry estimates

The rise of the amateur

Perhaps the most heartening effect of the post-dot.com bubble maturation of the internet wine scene has been the rise of the little guys: the passionate people more interested in importing their favourite producers than becoming overnight paper millionaires.

Forty-seven-year-old Leon Stolarski is a typical example of this new, less flashy breed of internet wine entrepreneur. A career civil servant from Nottingham – he has spent 30 years working in the land registry – Stolarski decided to make a career change four years ago by starting up Leon Stolarski Fine Wines, an internet wine merchant specialising in “new classics from Languedoc, Roussillon, southern Rhône and Beaujolais”.

The business has grown impressively since then, with turnover going from £8,000 in its first year to £52,000 in 2007. And what’s more, says Stolarski, it’s all been “done on a shoestring of just £22,000”. He adds: “There’s no way I’d have been able to do that without the internet. I wouldn’t have been able to afford a shop. The costs have been stock for the most part, and I have a storage facility in central Nottingham.”

Stolarski has yet to give up the day job, although he has scaled back the hours, which means for the moment the business is very much a labour of love. “I’ll be ready to go full-time when I get to a turnover of £120,000”.

But how does such a small operation get to that magic point?

according to Gormley, there is much more to come from the web. “I think we’ve got an awfully long way to go,” he says. “What’s happened online so far has basically been improvements on the existing models of direct selling. But the real step change is still to come.”

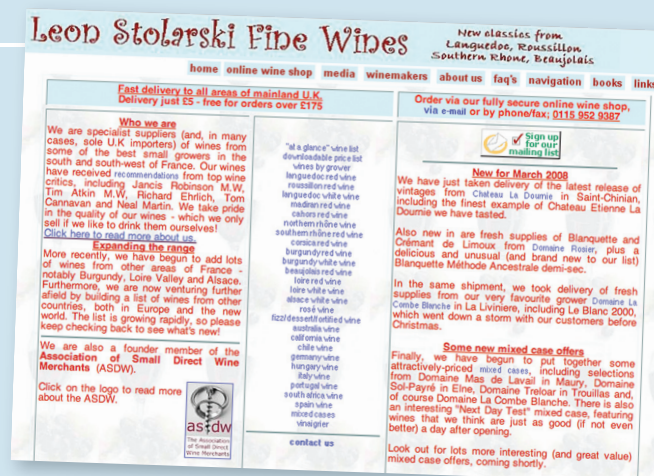
Gormley reckons the seeds of revolution lie in the ability of consumers to make direct contact with their favoured producers, and to buy their wines directly from them – a kind of virtual farm gate, leaving retailers to act as “sourcing partners who basically just do the logistics”.

It’s a model that appeals to forward-looking producers such as Josh Hermsmeyer in California’s Russian River Valley. Hermsmeyer is well-known in cyberspace as the man behind the thoughtful pinotblogger site, which tells the story of his attempts to build his Capozzi family winery from scratch. And he is convinced that, for boutique fine wine producers if not bigger brands, the possibilities afforded by the internet could make fine wine retailers a thing of the past.

“It seems to me that the change really will be at the high-end,” Hermsmeyer says. “Using social media, wine lovers who want low volume, artisanal wines will be able to go straight to the source and easily interact with the principals behind their favourite winery.”

“Since the time and effort it takes to cultivate real, meaningful relationships with people doesn’t scale, I think this is where the small guys have a pretty sizable advantage over the big ones. Our customer bases are much smaller, so more personal attention can be paid to the folks who are truly passionate about our brands.”

Not everybody believes this is the future of wine retailing. As you might



Stolarski says it’s all about hard work, and building customers through sponsorships on sites such as Tom Cannavan’s wine-pages.com, and through events such as the tasting he holds with the 15 like-minded businesses that make up the Association of Small Direct Wine Merchants.

“We can never compete with Tesco, of course, and we wouldn’t even think to try,” Stolarski says. “What I have is special relationships with my growers, and enthusiasm – the enthusiasm of what the French call the amateur.”

Sending wine up the Amazon

The internet has been buzzing with rumours that Amazon.com is about to enter the notoriously complex US wine market. A report on FT.com set the ball rolling. “Amazon is looking to recruit a senior wine buyer, whom it says will be responsible for ‘the acquisition of a massive new product selection’ for its site,” the report said. The world’s leading online retailer has experience in wine, having invested some \$30 million in the now-defunct wineshopper.com back in 1999. But Damian Peachey, a spokesman for the company’s UK division, denied the reports. “We don’t comment on rumour. Our stated ambition is to have the earth’s biggest selection of everything, but we have made no announcements on wine.”

expect, Bennett thinks otherwise, and says: “There will always be a role for people like us who can give their authority on what we consider to be the best wines around. It’s very hard to buy direct in Burgundy, for example, unless you know your stuff.”

He may be right. But even for this jaded thirtysomething, the future for wine online – whatever form it eventually takes – looks nothing short of revolutionary.

WHAT'S NEXT? Claire Hu considers the evolution and commercialisation of wine blogging