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## 2008 Consumer Direct Sales Survey Report

### Best Practices & Biggest Mistakes

Recent reports of declining consumer direct sales are not true, at least not for wineries running some of the most respected direct-to-consumer (DTC) programs in the wine industry. 2007 saw significant increases over 2006 in all three major DTC channels (tasting room, wine club and e-commerce).

Wineries of all sizes are planning to increase the percentage of wine they sell through DTC channels, building on the success wineries are already having in the direct sales market. On average, wineries that are selling more than a third of their cases through DTC channels last year expect to increase this to almost half of all case sales within five years.

So DTC is important today, and becoming even more important in the future. In fact, 97 percent of all respondents feel they have a long way to go in terms of maximizing DTC sales. While 47 percent say they have "barely touched it" and 50 percent of wineries say they are making a "solid effort," only 3 percent of wineries feel they have "maxed out" their DTC potential.

The findings are part of a new survey conducted by *Wine Business* in partnership with the **WISE Academy**. WISE stands for Wine Industry Sales Education and will provide education, training and certification for winery consumer-direct professionals and executives when it launches later this year. →

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## BULK WINE & GRAPE SALES

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### Wine Business Insider

Published Weekly by Wine Communications Group, Inc.  
(ISSN 1057-8544) 110 W. Napa Street, Sonoma, CA 95476  
Subscription Rates: (email) \$295/Year; (USPS and fax) \$395/Year

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## Heroes vs. Strugglers

Winery size does not determine DTC success, as medium-sized wineries represent two-thirds of the most successful consumer-direct segment: over 25,000 cases sold via the DTC channels. For example, two wineries (one large and one small) both selling 8,000 cases directly to consumers will have more in common (in terms of DTC successes and challenges) than two wineries of the same size, selling very different volumes via DTC.

No matter big or small, wineries that are really successful at direct sales have some key things in common. WISE categorized respondents into two categories: direct-to-consumer "Heroes" and "Strugglers." Heroes, which make up 15 percent of respondents, are selling a substantial number of cases consumer-direct as well as showing growth in two or more DTC channels. These wineries are generally working more successfully and efficiently in terms of how they plan, execute and track their consumer-direct sales programs. Wineries that failed to reach the Hero benchmarks are identified as the Strugglers. Struggling wineries are not necessarily unsuccessful at consumer-direct sales, but they clearly have room for improvement in a number of key areas.

## Sales Importance by Channel

In total for 2007, 57 percent of all wine sold was to trade, 38 percent direct-to-consumer and 5 percent are exports. Of the three main DTC channels, tasting rooms are responsible for the largest percentage of sales. In total, 41 percent of DTC sales occur in the tasting room.

For wineries of all sizes, wine clubs have similar channel importance. Medium-sized wineries sell 25 percent of direct cases through the channel. Large wineries sell 24 percent and small wineries sell 23 percent of their direct wine via the wine club.

Small wineries have had to become more web savvy, as they can't depend on high volumes of tasting room traffic to drive DTC sales. Small wineries sell 19 percent of their DTC wine on the web, while mid-sized wineries sell 12 percent and large wineries sell 8 percent.

DTC Heroes have built a strong DTC foundation based on tasting room sales. Tasting room sales account for 55 percent of their DTC case sales, while wine clubs account for 29 percent, e-commerce for 10 percent and 3 percent each for events and all other DTC programs. By contrast, DTC Strugglers are less focused; tasting rooms account for 27 percent of DTC case sales, 24 percent from e-commerce, 22 percent from wine clubs, 9 percent from events and 11 percent from all other DTC programs.

## Growth Trends by Channel

Wineries of all sizes have been growing their DTC sales. Between 2006 and 2007, 74 percent of wineries reported growth in tasting room sales, 79 percent had growth in wine club sales and 67 percent saw growth in online sales.

Far fewer wineries reported flat or no growth in the channels. Flat growth was reported 18 percent of the time for tasting room sales, 11 percent in wine club sales and 24 percent for Internet sales. No growth was reported just 5 percent of the time in tasting rooms, 3 percent in wine clubs and 2 percent in Internet sales.

DTC Heroes reported far greater growth than their Struggler counterparts across all three main DTC channels, but in tasting room sales they were most similar. Most wineries in both camps were up in tasting room sales, with 79 percent of Heroes and 72 percent of Strugglers reporting growth between 2006 and 2007. However, 21 percent of Heroes reported flat sales and no Heroes reported decreased sales or not knowing general growth rates. Similarly 17 percent of Strugglers reported flat sales between 2006 and 2007. Unlike Heroes, though, 6 percent of Struggler wineries have declines in tasting room sales, and 4 percent don't know where they stand.

The difference between DTC Hero and Struggler wineries is larger when looking at the wine club and e-commerce sales. In both of these channels, 94 percent of Hero wineries reported growth, with 6 percent reporting no change. For Struggler wineries, 76 percent reported growth in wine club sales, 12 percent reported no change, 4 percent reported decreased growth and 8 percent don't know. Internet sales increased at 62 percent of Struggler wineries, 27 percent were flat, 4 percent were in decline and, again, 7 percent don't know where they stand.

The "don't know" answers may seem innocuous, but they are the tip of the iceberg when it comes to a core Struggler issue. Wineries who struggle with DTC are notoriously bad about proactively tracking their DTC programs. Successful DTC programs are driven by metrics. And if wineries can't track it, no wonder they are struggling to manage it. □

—Lesley Berglund, Mary-Colleen Tinney

## Picnic Area and by the Glass Bill Clears Senate

In a development that could be a boon for some winery tasting rooms, a bill that would allow California wineries to serve wine by the glass, and also bottles for consumption within a licensed area on winery grounds, has been approved by the California legislature and awaits the governor's signature. Local jurisdictions would still have a right to restrict such sales.

AB 2004 by Santa Rosa Assemblywoman **Noreen Evans** draws a distinction regarding what constitutes the picnic area of the winery.

In California, wineries operate under a Type 02 "Winegrower" liquor license. This license authorizes the winegrower to produce and sell wine within the portion of the winery's property that is identified in the license. Usually, a winegrower's "licensed premises" only include the area of the winery's property that is "bonded." This can include bonded production areas, tax-paid areas and the winery tasting room.

Winegrowers can also apply for a "duplicate license" that permits them to operate one "branch office." The **Department of Alcoholic Beverage Control (ABC)** treats duplicate licenses separately from a winegrower's primary license.

A winegrower can conduct wine tastings at the winery and at one branch office. The ABC apparently interprets "wine taste" to mean a one-ounce pour. A winegrower can serve multiple wine tastes but may not allow their customers to drink full glasses or bottles of wine.

Some wineries have allowed customers to drink full glasses or bottles in unsupervised "picnic areas" on winery property that fall outside of the wineries' licensed premises. These picnic areas have been a legal gray area as some customers drink bottles of wine in the picnic area after buying them in a tasting room. AB 2004 would change the law to permit a winery to sell customers full glasses or bottles of wine that the customers may drink anywhere on the winery's licensed premises.

The new law would also get wineries past the issue of defining what is a one-ounce taste and past determining how many one-ounce tastings they can give patrons. □

## California Budget Includes Funding for Border Stations

As California's budget negotiations continue, full funding for **California Department of Food and Agriculture** border stations appears to be in, as the industry appears to have convinced legislators of the importance of having the border stations open 24 hours a day so as to prevent unwanted pests. Rather than spending millions to try to eradicate or control

them and use pesticides, keeping the border stations open provides an agricultural and environmental benefit. A conference committee last Friday agreed to fully fund the border stations using increased motor vehicle license fees according to **Wine Institute** legislative representative **Mike Falasco**.

Falasco also said that at this juncture there has also been no new talk about an excise tax increase to bridge the state's \$15 billion budget deficit, though there is talk about raising taxes and of closing some tax loopholes. The legislature has already missed a June 30 Constitutional deadline for balancing the budget. □

## Light Brown Apple Month Legislation an Ongoing Issue

Legislation relating to the light brown apple month continues to be an issue in Sacramento. AB 977 by **Fiona Ma**, a bill amended this week, would remove the state's preemption to solely regulate pesticides, giving that authority to cities and counties. Theoretically, under this law, any city San Francisco or Santa Cruz could ban pesticides such as Roundup.

A related issue has been tied to the budget. Budget bill "control language," wording added to the bill by **Marc Leno** of San Francisco, would preclude the use of any pesticide that would be applied in an eradication program until long-term health effects have been successfully studied. Leno's provisions could take years, if not decades, which would effectively kill aerial spraying for the Apple Moth. If that policy directive were approved, it would be made law during the year the budget bill is in effect.

Other pending legislation, AB 2673 by **John Laird** is in the **Senate Appropriations Committee** and would authorize California's Department of Food and Agriculture to prepare action plans for unwanted pests that are not in California.

"We think the governor's decision to agree not to do aerial applying of any pesticide in an urban area makes sense," said **Wine Institute** legislative representative **Mike Falasco**. "It's ironic that something as environmentally positive as a sex pheromone that doesn't kill anything could instill such negative reaction as it has," he said referring to the protests that followed plans to spray the pheromone-laced pesticide called Checkmate.

Another bill by Huffman, AB 2065, would mandate public hearings before an eradication program using aerially applied chemicals could commence. □

## Judge & Dolph, LLC Finalizes Partnership With Glazers

Judge & Dolph, LLC president **Rocky Wirtz** announced the closing of the deal that creates the biggest beverage distributor in Illinois. The partnership, announced in March, creates an Illinois-based company with 1,100 employees and approximately \$850 million in annual revenues.

The formation of Judge & Dolph, LLC will create an entirely new distributor drawing upon the experience and expertise of Dallas-based **Glazer's Distributors** and the **Wirtz Beverage Group**.

Suppliers joining the newly formed company include **Brown-Forman, Kendall-Jackson Wine Estates, E&J Gallo Winery, Banfi Wines, Constellation Wines, Luxco, Sazerac, McCormick Distilling, Maisons Marques and Domaines, Winebow, Schmitt Sohne, King Estate, Precept Brands** and many other producers of luxury wines and spirits.

These companies join Judge & Dolph's existing roster of top suppliers such as **Diageo, Rodney Strong, Barton Brands, Kobrand, Remy Cointreau, Sidney Frank Importing Company** and **Proximo Spirits**.

To accommodate the added lines, the company bought more than 300,000 square feet of Bensenville warehouse space. The company also leased another 27,000 square feet of office space in Schaumburg. The new locations are in addition to existing operations in Wood Dale, Elk Grove Village, Rockford, Peoria and Belleville. □

## Trinity Oaks Wines Launches 'One Bottle, One Tree' Campaign

**Trinity Oaks Vineyard**, part of the **Trincher Family Estates** portfolio, has pledged to plant a tree for every bottle of wine sold over the next year as part of their **One Bottle, One Tree(TM)** campaign, set to kick off nationally. Trinity Oaks has collaborated with **Trees for the Future**, a non-profit organization specializing in sustainable agroforestry. Trincher senior vice president of operations **Bob Torres** said the company plans on helping to plant well over a million trees in the coming year.

Since 1988, Trees for the Future has helped thousands of communities in Central America, Africa and Asia plant nearly 50 million trees. For more information, visit <http://www.treesfff.org>. □

## Joseph Phelps Sells Le Mistral Brand to Ventana Vineyards

**Ventana Vineyards** has purchased the Le Mistral brand from **Joseph Phelps Vineyards** and will produce and bottle the wine as of the 2007 vintage. Le Mistral wines will be produced and bottled in Monterey by the **Le Mistral Vineyard**, whose owners have grown the grapes for the wine for the past 11 years in Monterey County.

Phelps winemakers **Ashley Hepworth** and **Damian Parker** continue to consult on Le Mistral and the wine will still be available to Phelps Preferred Club members.

Ventana is also taking possession of the 2006 inventory.

"This is a great day for lovers of Le Mistral," said **Randy Pura**, whose team has grown the grapes for Le Mistral for over a decade, and who owns and operates Ventana Vineyards. "We love this wine and we love what Joseph Phelps has done with it, and now it is time for the wine to come home to its roots here in Monterey. With the Phelps team as winemaking consultants, the only change we expect to make is that the grapes will travel minutes instead of hours from the vineyard to the winery."

No changes are planned in the distribution of the wine. □

## People

The **E&J Gallo Winery** announced that **John DeLuca**, former president and CEO of the **Wine Institute**, is joining the winery as senior advisor to the board of directors.

DeLuca is credited by industry analysts with reshaping the course of California's wine history after assuming leadership of the Institute in 1975, serving as its president and chief executive officer for 28 years. For the past five years, DeLuca has served as the executive vice chairman of the Wine Institute. He is also senior advisor to the president of the **University of California for Agriculture and Business**; a distinguished visiting scholar at the **Goldman School of Public Policy** at the **University of California, Berkeley**; as well as the **Council of the Friends of the Bancroft Library** at **UC Berkeley**. He is an active trustee for the 340,000-



John DeLuca

member **California Teachers Association's Institute for Teaching**. Most recently he was appointed to the prestigious Advisory Board for the **Shorenstein Center** at the **Kennedy School of Government** at **Harvard University**.

"Few understand the globalization of the wine industry better than John," said **Joseph E. Gallo**, president and CEO, of the E&J Gallo Winery. "John has long been a leader, a vigilant advocate and a very insightful strategist for the California wine industry. I am excited to have him work with our board and be a part of our company."

While at the Wine Institute, DeLuca concentrated on reducing restrictive state regulations and foreign trade barriers, the federal funding of cardiovascular and health research, responsible advertising and development of federal dietary and nutritional guidelines. He encouraged members and staff to enhance media and trade appreciation for California wines throughout the nation and encouraged their export around the world.

As president and CEO, among his many initiatives were the development of the **Code of Advertising Standards** and the **Code of Sustainable Winegrape Growing**. Both codes are cited as models of corporate and social responsibility. The very successful **California Wine Export Program**, first established in the mid-1980s, is soon predicted to reach one billion dollars in annual sales. Throughout his career, he has been dedicated to making wine more accessible, responsible and a daily part of the American diet and lifestyle.

"I believe this attractive opportunity with the Gallo family and organization is the culmination and capstone of my career," said DeLuca. "My wife, Jo, and I are honored to become members of such an exciting company and their emphasis on professionalism, competitive excellence and the highest standards and ethical values."

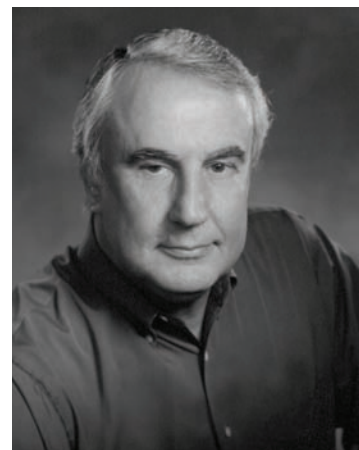
In recent years, DeLuca has received numerous awards, including "Agriculturist of the Year" for the State of California in 2001, the prestigious "Presidential Citation" conferred by president **Richard Atkinson** of the **University of California** in 2003, and Senate and Assembly bipartisan Resolutions of Commendation in 2003. He is the past recipient of the "Distinguished Service Award" by the **Wine Spectator**; "Lifetime Achievement Award" by the **Wine Enthusiast**; and "Torch of Liberty Award" by the Anti Defamation League. At the Federal level, he served two terms on the **Agriculture Policy Advisory Committee** (APAC) and on the **Export-Import Bank Advisory Committee**. In 2007, the ten campus Alumni Associations of the University of California honored him with the AAUC Advocate of the Year Award.

From 1968-1975, DeLuca served as Deputy Mayor of San Francisco under Mayor **Joseph Alioto**. In 1965-1966, he served as White House Fellow in the Administration of President

**Lyndon B. Johnson**. On the White House staff, he worked on national security matters and served on various State Department coordinating committees. In 1966-1967, he was special assistant to Senator **Frank Church** of Idaho, responsible for international issues.

In the summer of 1959 as a Guide for the U.S.I.A.'s national exhibit in Moscow, DeLuca was present at the famous "Kitchen Debate" between **Nikita Krushchev** and **Richard Nixon**. With the assistance of **Ford Foundation Grants** and a **Fulbright Fellowship** to the **University of Rome**, he received his Masters Degree in Soviet Studies at Harvard University and his PhD in International Relations at **UCLA**.

**Correia-Xavier, Inc.** ("CX"), a firm specializing in agricultural consulting and appraisal services, announced the retirement of **Tony Correia**, ARA, as president of the company. Correia will continue to be associated with CX as an independent contractor in the Sonoma office as he eases into retirement over the next several years, continuing to provide appraisal services and targeting his efforts towards the wine industry, challenging valuation assignments and litigation support and consulting services. As a long-time leader in the appraisal education arena, Correia has developed and taught countless appraisal and valuation courses throughout the United States and in Mexico. He plans to continue to pass his knowledge and perspectives along through public presentations and writings. Correia's long-time friend and business partner, **Stan Xavier**, has been named president and chief executive officer of the company. "I was very fortunate to become associated with Tony Correia 25 years ago," said Stan Xavier. "Tony is considered to be one of the leaders of the rural and agricultural appraisal specialty. He is passionate about the profession, and the business, and tireless in passing his knowledge along to younger appraisers. We have planned for this transition for many years now, and it is satisfying to see Tony and his wife, Stephanie, enjoy the fruits of building our highly successful business."



Tony Correia

**Natalie West** is the new winemaker for **Foppiano Vineyards**. She has worked for **Ferrari-Carano Vineyards and Winery**, **J Vineyards and Winery**, **Clos La Chance Winery**, **Peterson Winery** and **Montana Wines** in New Zealand.



SELECTED RECENT SALES OF GRAPES & WINES IN BULK

Courtesy of **Turrentine Brokerage**, the leading broker of premium grapes and wines in bulk, 415-209-WINE (9463), [www.turrentinebrokerage.com](http://www.turrentinebrokerage.com). Individual sale prices vary widely due to quality, barrel age and other special circumstances.

| W I N E S          | Year | Appellation      | Gallons | Sale Price Per Gallon |
|--------------------|------|------------------|---------|-----------------------|
| Pinot Noir         | 2007 | Arroyo Grande    | 2,000   | \$25.00               |
| Cabernet Sauvignon | 2006 | Napa Valley      | 9,500   | \$18.00               |
| Cabernet Sauvignon | 2007 | Alexander Valley | 9,300   | \$18.00               |
| Chardonnay         | 2007 | Monterey County  | 38,000  | \$11.00               |
| Petite Sirah       | 2006 | California       | 32,000  | \$6.00                |
| G R A P E S        | Year | Appellation      | Tons    | Sale Price Per Ton    |
| Chardonnay         | 2008 | Potter Valley    | 48      | \$1,300               |
| Cabernet Sauvignon | 2008 | Paso Robles      | 75      | \$1,050               |
| Merlot             | 2008 | Paso Robles      | 25      | \$850                 |
| Chardonnay         | 2008 | Lodi             | 200     | \$550                 |

After more than 40 years of high-profile work in the food and wine industry, **Peter Huwiler** has created a brand of wines of his own. Napa Station, a subsidiary of the newly formed **Huwiler Vineyards, LLC**, is owned and operated by Huwiler and his son **Peter Huwiler II**. Best known for his success at the helm of **Merryvale Vineyards**, Huwiler is a native of Switzerland who came to the U.S. on a **University of Washington** scholarship in 1970. Huwiler oversees all aspects of the operation. Releases include Sauvignon Blanc (suggested retail \$15), Chardonnay (\$18) and Cabernet Sauvignon (\$26), with a total production of 9,580 9L cases.

**Pernod Ricard** named two new deputy managing directors: **Thierry Billot** has been appointed deputy managing director in charge of brands. He will be responsible for the "Brand Owner" companies that determine the 15 strategic brands' policies. **Michel Bord** has been promoted to deputy managing director in charge of the distribution network. His duties include the organization and control of the group's distribution networks, as well as the implementation of brands' strategies in the markets, working together with the deputy managing director of brands. Billot joined Pernod Ricard in December 1982. Bord joined the group in May 1991.

**Covenant**, owned by **Leslie Rudd** and **Jeff Morgan**, has hired an associate winemaker, **Jonathan Hajdu**, who has worked at such wineries as **Yering Station** (Australia), **Copain** (Sonoma County), **Carmel** (Israel) and **Herzog Wine Cellars** (California). At Herzog Wine Cellars, he helped make three previous vintages of Covenant.

**Shane Soldinger** has been named general manager of **Cosentino Winery**. Soldinger earned his CPA from the **University of Wisconsin-Madison** in 2000 and relocated to the Napa Valley the same year. He began working at Cosentino Winery in June of 2000 and eventually became director of winery growth and development. Soldinger left the industry in 2005 to pursue his interests in music full-time but was asked to return to Cosentino Winery in May 2008.

**Mayacama**, Napa's golf, lodging and wine club, announced that **Hans Holzmann** was hired as director of wine. Holzmann brings with him more than 25 years of experience in the food and beverage industry, including time spent as the sommelier and corporate wine director for Florida's **Bonita Bay Group**, a community development company, where he was responsible for developing and managing wine menus for nine clubhouse facilities.

**Elypsis eWinery Solutions Inc.** appointed **Scott Mangelson** vice president of sales and marketing. Mangelson joins eWinery from **New Vine Logistics**, where he was vice president of sales and marketing. In addition to his responsibilities at eWinery, Mangelson will also serve as director of sales and marketing at Elypsis, which provides integrated management software to the wine industry. Mangelson has had a 20-year career in technology sales and marketing, consumer direct fulfillment and wine-making, including management positions with **IBM**, **Peoplesoft** and **Redmon Family Vineyards**, where he is both a co-founder and current winemaker. □