# Deloitte.
## Digital

# Fostering direct sales,
# growing customer connections

Leaping capability gaps in wine industry
lead-to-loyalty opportunities

January 2022

# Finding new opportunities for connection

The glass is half-full for wineries looking to grow in the direct-to-consumer space.

The beverage alcohol industry is experiencing major shifts. The boom of the delivery economy as a result of the COVID-19 pandemic has driven more people to order their alcohol online. In the wine space, some of those customers turned to traditional third-party online retailers, but the rapid increase in direct-to-consumer (DTC) wine sales indicates vast opportunities for wineries looking to expand revenue opportunities.

Off-premises consumption of alcohol skyrocketed when bars, restaurants, and tasting rooms shut their doors to comply with lock down restrictions.

> *In the first half of 2020, consumers bought one million more cases of wine* *than they did in the first half of 2019, and $222 million more was spent on direct wine deliveries comparably.[1]*

With a clear customer desire for DTC offerings, wineries sit in a unique position for potential growth. One way that they can take advantage of this trend is to double down on wine clubs. Increasing adoption of wine clubs via online channels will nourish a passionate customer base and ensure consistent projected revenue.

**DTC success for wineries lies in addressing the following three market challenges:**

## 1
Acquiring new customers

## 2
Converting customers who already buy from their brand, but currently only at third-party retailers

## 3
Transitioning their current DTC customers to a wine club model

Economic conditions are important to note in relation to the current position of wineries, as deeply-discounted third-party retailers might create a challenge for customers to justify spending more per bottle on a direct purchase from a winery. However, the value proposition that wineries can offer customers with DTC opportunities can meet and exceed customer expectations. Loyalty programs present today's wineries with the tools to personalize offerings and create connections with their customers. While brand loyalty can be exhibited in numerous ways, DTC is one that is on the rise; 37 percent of all consumers are now more interested in shopping with DTC brands primarily due to brand loyalty.[2] Loyalty can be increased by paying close attention to the emotional and cultural connections that wine brings throughout a customer's life, and increasing this value with a long-term brand connection offers potential growth that wineries would be remiss to ignore.

1. https://www.winemag.com/2020/08/20/wine-sales-direct-consumer
2. https://www.payability.com/blog/top-online-shopping-trends-accelerated-by-covid-19/

# Paving the way for new customers

The important channel of direct sales is wide open for the wine industry. Today's customers are seeking convenience and ease with their purchases, and some who became comfortable with receiving home delivery of all kinds of goods during COVID-19 lock downs aren't planning to return to brick-and-mortar retailers any time soon. The challenge of acquiring new customers in a time where people are seeking comfort and familiarity is not negligible, as 56 percent of consumers report being anxious about returning to stores.[3]

To make the jump to purchase from a brand that is new to them, DTC beverage alcohol customers must buy into the brand equity.[4] Whether it is being perceived as making a difference in community efforts, a sense of transparency about supply chain ethics, or the cleanliness reputation of ingredients, today's alcohol brands need their consumers to feel assured about where their money is going and, in turn, what product they are putting into their bodies. Wineries sit at a unique nexus of established tradition and new potential, as wine's reputation for participating in food pairings and special occasions provides numerous opportunities for capturing leads through thoughtful marketing. One example is offering a first-time buyer discount on somebody's birthday, thus creating an emotional memory of the wine intertwined with their big day. Wineries aiming for new DTC customers can capitalize on the emotional connection that wine creates. Tapping into these cultural and emotional factors will prove pivotal to DTC success, as wineries face the challenge of justifying a higher per-bottle cost than some deeply discounted online third party retailers offer.

*The cost to ship DTC wine for orders under $30 per bottle increased 41.6 percent,* **while shipments of bottles costing $100 or higher dropped by 2 percent.**[5]

3.  https://www2.deloitte.com/us/en/pages/consumer-business/articles/retail-distribution-industry-outlook.html
4.  https://digiday.com/retail/direct-consumer-coming-alcohol-industry/
5.  https://www.sovos.com/shipcompliant/cntent-library/wine-dtc-report/

As leaders know, there is the foundational need, first, to establish a DTC commerce, marketing, and service platform to help their brand pivot from a primarily distributor model. In addition to standing up the technology and infrastructure of a new DTC strategy, brands can ease the transition by incorporating managed services solutions to run the scope of digital user experience and marketing operations. And wineries in particular must have the internal support available to consistently elevate the first-time user experience, as today's customers demand emphasis on the extra value they might receive by purchasing directly from the winery. Combined with the added challenge of free shipping perks being largely illegal for US wineries[6]—in a delivery economy where free shipping is a widespread practice and has come to be expected by today's customers—an enhanced buyer journey is essential to maintaining new growth. Whether this value is demonstrated by offering exclusive access to a wine club program, selling a meaningful brand story with emotional stakes, or an exceptionally friction-free buying journey, wineries have options to effectively approach and meet these increased customer expectations.

## Promotion methods

| 1 \| Special moments reach-out | 2 \| Emotional stakes in brand equity | 3 \| Seamless purchase journey |
|---|---|---|
| **OPPORTUNITIES** | | |
| This creates a positive memory tied to emotion. The customer associates the brand with a happy time when they received special treatment. | A brand positioning itself as aligned with a cultural or social issue creates meaningful connections for the customer who is passionate about said cause. | Making the process simple and smooth for the customer creates a positive association with the brand. |
| **CHALLENGES** | | |
| Knowing a potential customer's birthday before they voluntarily gave data to a brand could result in feelings of unease in terms of privacy. | Public alignment with a cultural or social issue can create divisive rifts with current or potential customers who are opposed to said cause. | Relying on a smooth UI journey as a core selling point can create customer dissatisfaction when/if unpredicted technical issues arise. |

Lastly, a crucial yet frequently overlooked acquisition opportunity for wine brands is SEO and SEM solutions. Growing organic traffic from search terms such as, "What red wine goes best with medium-well steak?," for example, brings in curated customers who will gain value from your product. Social advertising of all forms is an excellent method of reaching potential customers based on their psychographics, including how they feel about certain brands, why they are loyal customers, and why they purchase. 90 percent of experience leaders assert that customers increasingly expect relevant, personalized information.[7] Platforms such as Deloitte Digital's Hux allow you to use machine learning to build look-a-like models off of your existing customer set to find new customers that have a high propensity to choose your brand. They also allow for data-driven decisioning, guiding you to target potential customers based on specific likes and behaviors, so that you can make sure you are acquiring customers that are the perfect fit for your brand.

6.  https://www.forbes.com/sites/lizazimmerman/2020/08/10/direct-to-consumer-wine-shipments-on-the-rise-during-covid/?sh=2d46a72726b7
7.  Winning on Customer Experience Survey Update, a commissioned study conducted by Forrester Consulting on behalf of Deloitte, October 2020

# Building a bridge to your existing customers

Brick-and-mortar grocery shops and online third-party retailers provide both an opportunity and a challenge for wineries. A customer may very well enjoy and feel a sense of connection to a label from a specific winery. However, because that customer is only purchasing their bottles while on a grocery run at their local brick-and-mortar shop, the winery does not have any of the customer's data or contact information—that grocery store has it instead.

Because of this, the winery in question may already have many customers who love their product. But, the winery has no avenue to contact those customers or grow a meaningful brand relationship with them. Converting an already-loyal customer from the third-party purchasing journey is an increasingly important goal for wineries enhancing their DTC efforts. Significant marketing spend is saved due to the customer's existing preference for the product, and the unique challenge of elevating the experience of a consumer who is already using your product can be approached with creative methods outside of the company's usual acquisition pipeline.

## Conversion methods

| **1** \| QR code on the bottles | **2** \| Sweepstakes entry | **3** \| Loyalty |
|---|---|---|
| **OPPORTUNITIES** | | |
| This skips the customer effort of manually searching for a sign-up page and provides an immediate connection point during or after the purchase. | Potential customers provide contact data in hopes of winning the sweepstakes, and winners can utilize social media to show off prizes for further positive brand association. | Offering customers the ability to earn and redeem points based on wine consumption will entice them to provide their contact information, and thus, an ability to market to them. |
| **CHALLENGES** | | |
| Customers who are enthusiastic about wine but less technically savvy may not be familiar with QR codes and how to operate scan functions. | Savvy, modern customers know that sweepstakes offer minimal changes of actually winning, and that the gathering of their contact data is the overall business goal. | Traditional earn-and-burn loyalty programs may have a negative impact on business profitability, so the redemption process needs to be very carefully architected. |

The ownership of customer data makes a night-and-day difference for value proposition. By knowing details such as the spending habits and varietal preferences of their buyers, wineries can leverage the power of machine learning to segment their audience based on their buying behaviors to personalize offers and target communications with confident precision when the right systems are put in place.
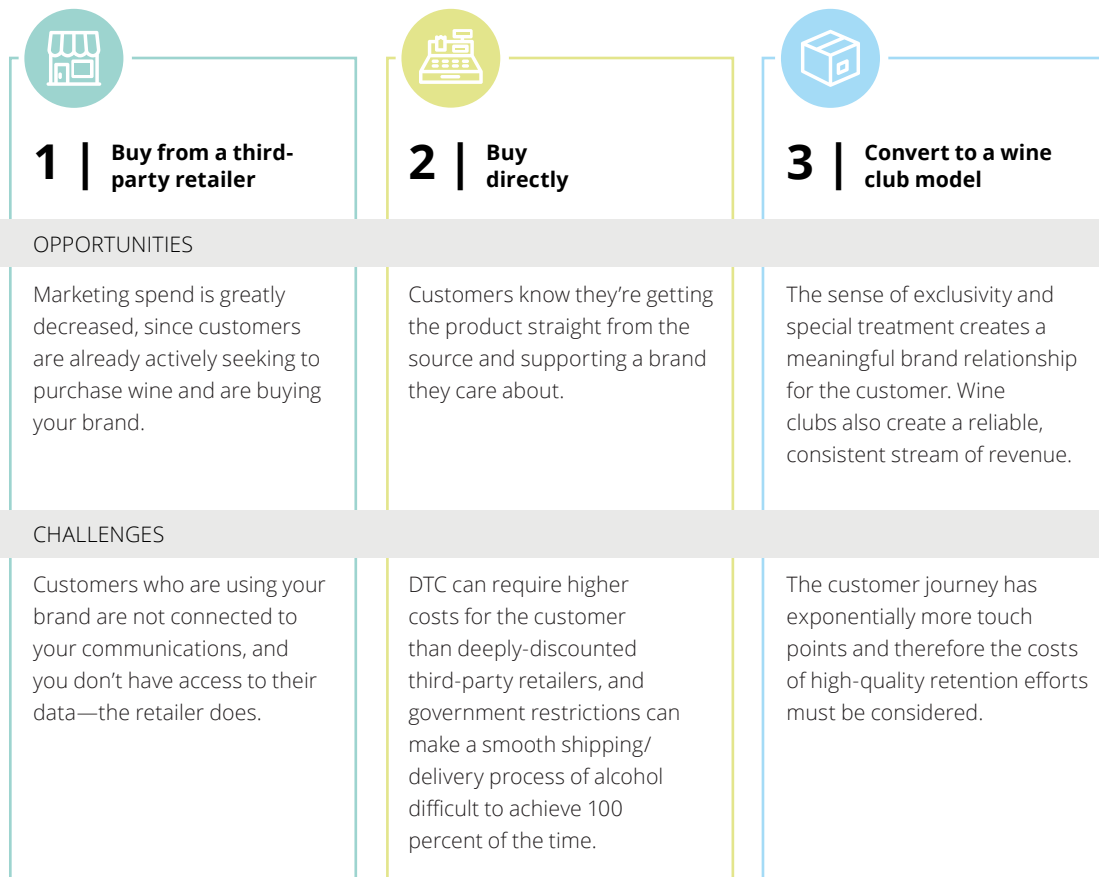
*The customer benefits as well,* with 73 percent of consumers saying that they prefer to do business with brands that use personal information to make their shopping experiences more relevant.[8]

8.   https://www.digitaltrends.com/social-media/why-consumers-are-increasingly-willing-to-trade-data-for-personalization/#ixzz2g8dgrqko

# Guiding loyal customers to the DTC path

A lead-to-loyalty model holds significant potential for wineries. To transition DTC customers from not just purchasing directly from a label, but to becoming loyal members of a wine club, wineries have a wealth of choices in conversion methods and approaches. And the benefits of recurring revenue, ever-increasing in-house customer data, and less acquisition marketing spend are ample motivation to hone in on DTC loyalty capture.

## Steps to loyalty

| **1 \|** Buy from a third-party retailer | **2 \|** Buy directly | **3 \|** Convert to a wine club model |
|---|---|---|
| **OPPORTUNITIES** | | |
| Marketing spend is greatly decreased, since customers are already actively seeking to purchase wine and are buying your brand. | Customers know they're getting the product straight from the source and supporting a brand they care about. | The sense of exclusivity and special treatment creates a meaningful brand relationship for the customer. Wine clubs also create a reliable, consistent stream of revenue. |
| **CHALLENGES** | | |
| Customers who are using your brand are not connected to your communications, and you don't have access to their data—the retailer does. | DTC can require higher costs for the customer than deeply-discounted third-party retailers, and government restrictions can make a smooth shipping/ delivery process of alcohol difficult to achieve 100 percent of the time. | The customer journey has exponentially more touch points and therefore the costs of high-quality retention efforts must be considered. |

Offering special access for members vs non-members is important to loyalty program customers. The existing popularity of wine clubs and the perks they offer bolsters this, and the post-pandemic delivery economy boom will only increase the opportunity for wine clubs. By leveraging the data available on existing customers, wineries can use machine learning to understand customers with a high propensity to subscribe to a wine club and cater to them in a variety of ways such as personalized pairings, limited edition wines made available only to subscribers, and exclusive events. Of today's loyalty landscape, 50 percent of customers say that receiving special treatment not available to other customers is important to them.[9]

Experience management by Deloitte Digital harnesses the power of first-party customer data and machine learning, **making for more personalized targeting and customer engagement.**

Our end to end approach to experience management orchestration **makes converting casual customers to loyal subscribers a frictionless process.**

**Want to learn more?** Contact the authors of this report to discuss how Deloitte Digital can deliver efficient and effective business results for your unique needs today.

# Building loyalty through DTC

## For the direct-to-consumer future of wineries, the potential is ripe for picking.

Over the past year and a half, wineries have been without the usual omnichannel consumer traffic from tasting rooms, bars, restaurants, and more. The DTC beverage alcohol industry sees competition with grocery stores and other third-party retailers, and innovation has never been more important. Using imaginative methods to capture existing customer data, exhibiting unique and culturally relevant brand equity, and converting loyal customers to a wine club are key actions that will determine the leaders in the DTC winery space. Today's customers want and expect exclusivity, frictionless experiences, and a meaningful brand relationship. Loyalty programs expand a company's revenue growth opportunities while simultaneously meeting these customer needs centered on personalization. Personalization can deliver five to eight times the ROI on marketing spend and lift sales 10 percent or more.[10] The market gap for loyalty programs in the wine industry is significant, and leaping that gap is possible if wineries embrace the innovation of the post-pandemic DTC delivery economy.

# Get in touch

**Steven Berkovich**
Managing Director
Deloitte Consulting LLP
lberkovich@deloitte.com

**Steven Bailey**
Managing Director
Deloitte Consulting LLP
stbailey@deloitte.com

**Michelle McGuire**
National Market Offering Leader —
Experience Management
Principal, Deloitte Consulting LLP
mmcguire@deloitte.com

10. *https://www.thetilt.com/content/articles/roi-from-personalization*