

Title: Strategy for Placement of Local Wines in Local Restaurants:

A New Mexico Case Study

Focus: Customer Orientation and Marketing

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Abstract

This paper proscribes a marketing plan for New Mexico's small (boutique) wineries to gain a significant share of the market for all wines sold in New Mexico restaurants. Survey results showed that the boutique wineries held only 1.2 percent market share in 2007. The restaurant wine market was dominated by wines from around the world and to a lesser extent, two large wineries located in New Mexico. The ability to distribute wines to restaurant across a large geographic area was the major obstacle limiting the boutique wineries market share. It is not cost effective for small individual wineries to distribute their wines to the restaurants and the two national liquor distributors, which controlled 90 percent of the wine sold in restaurants, showed little interest in promoting local wines wine from small wineries. The number of boutiques wineries has been growing rapidly in recent years and their collective output is expected to double within the next four years signaling a need for new market outlets. The marketing plan proscribes the establishment of a distribution company owned by the boutique wineries implementing an aggressive marketing plan that is expect to result in a 9 percent market share by the year 2012. Many of the elements in the marketing plan were derived from focus group research conducted with restaurant managers and chefs.

About the Authors

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INTRODUCTION

The New Mexico wine industry is rapidly growing with nearly all wineries planning to increase production substantially within the next few years, and at least 10 new wineries are expected to begin sales in the near future. This rapid growth will require the smaller boutique size wineries to explore additional market outlets. This paper examines the opportunities and challenges of these businesses increasing sales to restaurants operating in New Mexico.

STATUS OF THE NEW MEXICO WINE INDUSTRY

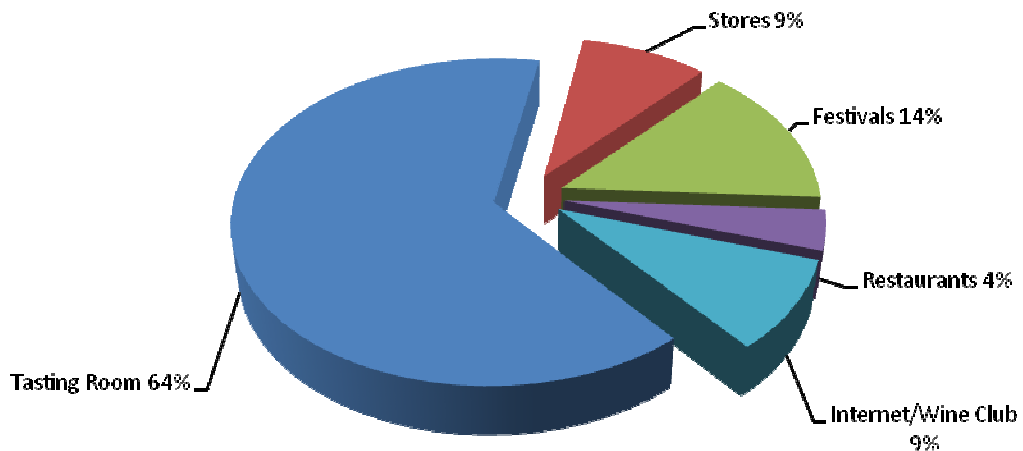
Background

A survey of all licensed wineries and wineries in the planning stages of obtaining licenses was completed in December of 2008. The survey requested information on total dollar sales and total cases sold by type of outlet for the 2007 calendar year. There were 28 licensed wineries in New Mexico in 2007, selling 198,000 cases. Of these, 26 were small wineries that sold 44,866 cases or 22.6% of the total volume sold. The two larger wineries sold slightly more than 77% of total volume.

Sales by type of outlet for the smaller, boutique wineries selling less than 6,000 cases annually are shown in the chart below. Sales made through the tasting rooms, wine clubs and Internet, and festivals are direct-to-consumer sales at retail prices. The price of wine received from sales to retail stores and restaurants were 25% to 50% lower than prices of wine sold directly to consumers. Survey results showed that the 26 boutique wineries and ten additional boutique wineries expected to open by 2010 projected combined sales of 90,000 cases by 2012. The opening of several new tasting rooms and new wine clubs will increase sales; however, these outlets are becoming saturated and are not expected to maintain the current 87% share of direct-to-consumer sales, thus the need for additional outlets. The growth opportunities are in sales to retail stores and restaurants which account for only 9 and 4% of current sales respectively.

The decision was to explore the restaurant industry because exposure on wine menus is the best kind of advertising and will help drive sales in all other market

2007 BOUTIQUE WINERY SALES



outlets.

Restaurant Market Size

There were slightly more than 1,000 New Mexico restaurants selling wine in 2007. Total wine sales were approximately 146,000 cases. Sales have been increasing at about 3% per year. The New Mexico boutique wineries, as a whole, had only a 1.2% market share, and most of these sales were to restaurants located close to the producing winery.

Why don't smaller New Mexico wineries have a larger share of restaurant sales? There are four major reasons: 1) they have been marketing their wine at higher prices by focusing on tasting rooms and other direct-to-consumer sales that provide a greater profit than indirect sales through stores and restaurants; 2) the cost of delivering wine to restaurants spread across a large state is too great for a small winery; 3) two large liquor distributors that control 90% of wine sales to in-state restaurants have shown little interest in promoting wines from the smaller wineries because their profits come from volume sales of well established brands; and 4) the brand names of the smaller in-state wineries are not well known even within the state of New Mexico.

Industry Trends

- Brand awareness and price determine a wine's success in restaurants.
- Many restaurants have similar generic wine menus.
- 20% of all wine sold in the U.S. is sold in restaurants.
- In restaurants, 50% of wine is sold by the bottle and 50% by the glass.
- Non-traditional wine regions have shown growth nationwide.
- Restaurants are increasing their attention to environmental impacts.

Consumer Trends

- The under-35 age group, the millennial generation, has had the most significant increase in consumption.
- U.S. per capita consumption rose from 7.9 liters in 2001 to 8.7 liters in 2005.
- 58% of core drinkers in 2007 ordered wine in restaurants versus 44% in 2003.
- 69% of core drinkers prefer domestic wine, and most prefer red wine.
- Consumers are "going green" and noticing carbon footprints on labels.

Research Finding

New Mexico State University's Agri-Marketing Team (NAMA) conducted focus groups with restaurant operators and beverage managers to determine their needs and the restaurants patrons views. Important findings include:

- Some patrons complain about the 250% to 300% restaurant mark-up over discount-liquor-store prices for the same wine.
- Pairing wine with New Mexican and Mexican food entrees can be difficult.
- Wait staff can influence significantly the wines that customers purchase.
- Gold and Silver medals are important in customer selection.
- Restaurant buyers often are unaware that the state produces high quality wine.
- New Mexico wines frequently become "lost" within extensive wine menus.
- About one third of wine served by the glass is wasted due to oxidation.
- Customers enjoy wine flights (three small glasses of different wines).
- Half-sized bottles are becoming popular among single diners in business hotels.

Consumer Profile/Market Segments

Research findings suggest that New Mexico boutique wineries should focus on developing strategies suited to three demographic groups: The Young Adult group, ages 21-35, is trying new drinks and developing its palate. Mature Drinkers, 36 years old and older, who are open to trying new brands. The 11.5 Tourists visiting New Mexico annually who are likely to try a local wine while visiting a New Mexico restaurant.

Legal Issues

By virtue of State law; wineries located in New Mexico can sell directly to retail stores and restaurants. State law also provides tax advantages of about \$.35 per liter to in-state wineries selling less than 80,000 liters per year.

SWOT ANALYSIS

Wines of New Mexico	Competitors
Strengths	
<ul style="list-style-type: none"> • Longest history of all U.S. wine growing regions • A high quality, locally grown product • Lower N.M. state taxes • Tourist interest in local products 	<ul style="list-style-type: none"> • Strong customer base • Sell recognized national and international brands • Represent wines in all price ranges
Weaknesses	
<ul style="list-style-type: none"> • New Mexico not well known as having premium quality wines • Prices often higher than imported wines • New business - does not have a large client base and sales staff 	<ul style="list-style-type: none"> • Limited marketing innovation • Higher N.M. state taxes • Can't devote full time to marketing New Mexico boutique wines
Opportunities	
<ul style="list-style-type: none"> • Consumers want to "buy local" • State has a large number of tourists willing to try local wines • There is an open door for creative marketing strategies 	
Threats	
<ul style="list-style-type: none"> • Losing tax advantages • Weakening economy 	<ul style="list-style-type: none"> • Change in tax laws • Weakening economy

Competitor Analysis

The main competitors to a New Mexico wine distribution company owned by the small wineries are two national distributors—Southern Wine & Spirits and National Distributing Company. These companies offer wines from major producing regions in the U.S. and the world. They are also the distributor for a large winery in located in New Mexico that specializes in sparkling wines. A winery owned company could have a competitive advantage by appealing to "buy local," with in-state residents, tourists' interested in trying local products, and by being innovative and creative in its marketing strategies. However, probably the most important source of competitive advantage would be the ability to focus all marketing efforts on only selling wines from the small wineries.

BUSINESS PROPOSITION

Based on research findings, the business plan incorporates these strategies:

- Form a business entity that will focus 100% of its efforts on promoting wines produced by New Mexico boutique wineries
- Offer competitive wine price points for all restaurant categories
- Establish wine labels for exclusive sales to restaurants
- Focus resources on server (wait staff) training—the point of sale
- Build brand awareness for New Mexico wines as a category
- Educate chefs in pairing New Mexican wines with New Mexican cuisine
- Sponsor innovative promotional programs for moving wine through restaurants
- Offer cost-saving opportunities for restaurant customers and the wineries

The business entity will be owned by the New Mexico boutique wineries wishing to participate. The company will distribute and market wines on the wineries' behalf. It will purchase the wines from the wineries and sell them to restaurants. It also will facilitate shipping wines from the wineries to a central distribution center.

Logistics

New Mexico restaurants and wineries are spread across a large geographic area. The wine company, at least during the start up phase will outsource wine collection and distribution to a centrally located snack food company which distributes products though out the state. The snack food company has both established routes for distributing snack food items and the legal ability to distribute New Mexico wine. The snack food company drivers will pick up wines from participating wineries during backhauls. Outsourcing to an experienced company with an established network will provide a cost-effective distribution system and allow the wine company employees to focus on marketing.

Quality Control

The wine company will decide, assisted by wine experts, which wines to offer to restaurant buyers. Wineries will be required to have a minimum production volume annually of the selected wines. The wineries must participate in regional, national or international competitions. Wines that are selected also will have to undergo lab testing to ensure that they are technically sound.

Sales and Market-Share Goals

The wine company's plan is to increase the total cases of New Mexico wine sold to in-state restaurants from the 1,860 cases expected to be sold in 2009, the base year, to 4,800 cases in 2010, doubling in 2011 and reaching 16,000 cases by 2012. This number is derived by multiplying cases sold per restaurant per year times the number of restaurants served. If successful, market share will increase by 3% every year for three years. A second goal is to establish the brand "Boutique Wines of New Mexico" in New Mexico and, to a limited extent, nationally.

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total cases sold to N.M. restaurants	4,800	9,600	16,000
Number of restaurants served	100	150	200
Cases per restaurant per year	48	64	80
Percent market share	3%	6%	9%
Percent of total restaurants served	10%	15%	20%

ACTION PLAN

Name and Tagline

The wine company should choose an attractive name indicative of its mission. The name *Boutique Wines of New Mexico* implies high quality hand-crafted New Mexico wines. The appearance of this name and logo on wine menus will clearly say to customers that these wines are distinctly New Mexican. In addition, the tagline “Taste the Enchantment” should entice consumers to taste a unique, locally grown product. The name, logo and tagline should be featured on all wine menus and promotional items.



Product Positioning

A three-tiered positioning system should correlate directly to pricing strategy. Wine should be positioned as premium priced, regular priced, and value priced, according to the type of restaurant and clientele. The goal of *Boutique Wines of New Mexico* should be to strategically position different wines in different market segments based on economic factors such as demographics and local wines being available in local restaurants.

Pricing

Family-style restaurants with menu prices ranging from \$7-\$12 should be offered wines at competitive price points. Restaurants with entree prices of \$13-\$20 should be offered wines at medium price points. Upper-end restaurants with entree prices of \$20 and greater should receive lists with higher priced premium wines. All restaurants will be offered competitively priced wine for served by-the-glass as house specials. Restaurants typically mark up their products 2.5 to three times their cost.

Restaurant Type	Price	
	By-the-Bottle	By-the-Glass
Family Style	\$18 - \$30	\$4.00 - \$6.00
Mid-Upper Scale	\$28 - \$60	\$6.00 - \$9.00
Upper Scale	\$40 - \$100	\$8.50 - \$20.00

Selling Strategy

Boutique Wines of New Mexico will need to hire regionally based account executives. Compensation will be salary plus commissions.

Key Promotional Strategies

Wine Menus and Menu Inserts

- Attractively designed to invoke the spirit of New Mexican culture
- Features award-winning New Mexico wines
- Tell stories of local wineries, wine makers and history of NM wines
- Small carbon footprint. “Go green” symbol
- Designed to be used as a separate menu, a food-menu insert, or a feature page of the existing restaurant wine list to avoid the problem of “getting lost” in large wine menus.
- The company must offer to print wine menus or menu inserts for their restaurant customers. The menus should be customized to fit the needs of each restaurant customer. This can be efficiently accomplished by in-house desk-top publishing software. It is also important that fast turnaround service is provided as wines and promotional strategies are changed. Many restaurant managers complained that usually it was a 90 day lag period to receive new wine menus from their distributors.

Pairing with Food

- Offer advice on appropriate pairing of food and wine
- Work with restaurants on ideal pairing of New Mexico wine with spicy New Mexico cuisine
- Assist in providing food and wine tastings in participating restaurants with featured wineries offering discounts

Wait-Staff Training Seminars

- To encourage sales, wait staff and restaurant managers must be well educated about New Mexico wines. Servers have the greatest influence on customers’ choices in a restaurant.
- Restaurant managers and servers will be encouraged to attend seminars conducted by *Boutique Wines of New Mexico*, preferably held at a local winery. If servers are able to tell a story about a local winery or wine maker, sales increase.
- Wait staff will be provided with *Boutique Wines of New Mexico* reference cards that they can keep handy while waiting tables.

Assisting Restaurants with In-house Promotions

- Account executives will work with restaurant managers to offer wine and entrée pricing combinations as a way of getting new customers to try New Mexico wine. Example: New Mexico Enchiladas and New Mexico Wine for \$12.99!
- Promote wine flights. Wine flights are three small glasses of three different wines for the price of one regular glass. They allow customers to sample a variety of New Mexico wines inexpensively.
- Doors and tabletop displays, including intriguing signs or captions on menus. Example: “Our chile is fine and our wine is divine!” for restaurants serving New Mexican entrees.
- Work with restaurants to arrange tasting parties including coordinating with local artists to present wine-and-art shows. This demographic group is a large consumer of wine.

Incentives

- Offer wine to restaurant managers for tastings with the restaurant staff when new vintages become available.

Advertising/PR

- New Mexico tourist magazines. Example: *New Mexico Magazine*, which is widely read by many of the targeted consumers.
- Work with the famous the Albuquerque restaurant, El Pinto, which has close ties with the Food Network, to produce a television program to be shown nation-wide demonstrating pairing New Mexico wine with New Mexico foods.
- Work with food editors to place articles in publications read by wine consumers.
- Cooperate with the New Mexico Tourism and Agriculture Departments on joint advertising and promotional programs
- Work with the New Mexico State University's School of Hotel, Restaurant and Tourism Management to ensure graduating students are champions of New Mexico wines.
- Distribute brochures in hotels and tourist locations.
- Sponsor New Mexico wine tastings with the many wine tasting clubs in the State annually as new vintages are released. Members of these clubs are important opinion leaders.
- Feature award-winning New Mexico wines in a short television documentary annually on the 400 year history and rich heritage of the New Mexico wine industry.

Wine Receptions for Restaurant Managers:

- Hold first-class regional reception/dinners to introduce restaurant owners to *Wines of New Mexico* and provide a pleasant atmosphere to taste and enjoy New Mexico wine properly paired with foods. Wine is best appreciated when served with proper pairing in a pleasant setting and is far superior to simple tasting commonly done by sales staff.

Innovations

- Innovations are effective merchandising strategies to create interest and gain a competitive advantage. As a key innovation, *Boutique Wines of New Mexico* should capitalize on the green movement and cost savings by putting a twist on the traditional serving style of wine by the glass. The company should encourage wineries to modify packaging of wines sold by the glass from bottles to boxes and aggressively promote the sale of boxed wine. Boxed wine is cheaper to transport, has a lower carbon footprint, lowers winery production costs by at least \$4 per case and eliminates the 30% waste in the restaurant. If successful, all parties win. The wineries can offer good quality "well wines" at competitive prices. The restaurants will have what amounts to a 30% price reduction for wines served by the glass by avoiding the spoilage loss. This will allow them to upgrade the quality of house wines sold by the glass. Historically most wines sold in boxes in the US have been lower quality bulk wines, which has led to an image problem. To appease possible concerns with consumer perception of box wine, *Boutique Wines of New Mexico* will encourage restaurants to use 3 to 5 liter wooden barrels with a tap for a more attractive presentation. The barrels used for white wines will be equipped with a cooling device to insure the wine is served at the proper temperature. Who wouldn't want to try wine straight from the barrel? This concept is ideal for sports bar restaurants.
- Offer exclusive wine labels to restaurants, when requested, to avoid price comparisons with brands sold in discount retail outlets.
- Develop unique labels that appeal to the under-35 age group.
- Place "green" stickers on bottles showing transportation mileage.
- Offer ½ size bottles of premium wine for individual diners.



Brand Awareness Tools:

- Send out press releases to magazines and newspapers reporting the results of wine competitions.
- Invite food media for winery tours.

FINANCIAL ANALYSIS

Goals

Boutique Wines of New Mexico could be judged a successful business venture if the company achieves its goal of selling at least 16,000 cases in the third year of operation (2012) and being able to keep operating expenses under the 32% gross margin typically charged by the national distributors. It should be pointed out that is very unlikely that the boutique wineries as a group would be able to achieve sales of 16,000 cases by 2012 if they arranged a distribution agreement with either of the national distributors. Based on past experience, it is highly unlikely that the national distributors would implement the needed aggressive advertising and promotional program as proposed above for *Boutique Wines of New Mexico*.

Specifications

It was estimated that the average price per bottle sold to restaurants by *Boutique Wines of New Mexico* would be \$12.00. Assuming a 32% gross margin wholesale marketing charge, the winery would receive \$8.16 per bottle on average and the distribution company (*Boutique Wines of New Mexico*) would receive \$3.84 per bottle or \$46.08 per case to cover operating expenses and make a profit.

Sales

Assuming the sales goals were realized, totals sales for 2010 are estimated at \$691,200, increasing to \$2,304,000 in 2012. These sales are based on an average price per case of \$144 (\$12 per bottle).

Cost of Goods sold and Gross Margins

After *Boutique Wines of New Mexico* accounts for payments to the wineries (Cost of Goods Sold), gross margin is projected to be \$221,184 in the first year, increasing to \$442,368 in 2011, and \$737,280 by 2012. These estimates are based on the target 32% gross-margin marketing charge.

Expenses

Total expenses for the first year are estimated at \$357,160, increasing to \$461,696 in the second year, and \$551,830 by 2012. Salaries and Storage Distribution and Handling are the largest expense items, averaging nearly two thirds of total expenses.

Profits

The net returns are projected to be a loss of nearly \$136,000 in 2010, decreasing to about \$19,000 in 2011 and turning profitable at \$185,450 in the third year. This amounts to net losses of \$28.33 and \$2.01 per case in the initial two years and a profit of \$11.11 in the third year.

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Sales	691,200	1,382,400	2,304,000
Cost of Goods Sold	<u>470,016</u>	<u>940,032</u>	<u>1,566,720</u>
Gross Revenue	221,184	442,368	737,280
Operating Expenses			
Salaries	134,720	200,320	219,520
Storage, Handling & Distribution	80,256	107,008	133,760
Advertising & Promotion	57,500	46,500	59,500
Server Training	15,000	20,000	25,000
Menu Printing	21,600	28,800	36,000
Sample Cost and Incentives	12,000	15,000	22,500
Office Rent & Utilities	8,100	8,100	8,100
Travel, Contingency & Misc	24,000	28,000	35,000
Discounts and Returns	<u>3,984</u>	<u>7,968</u>	<u>12,450</u>
Total Expenses	\$357,160	\$461,696	\$551,830
Net Return to Wineries	-\$135,976	-\$19,328	\$185,450
Net Return per Case	-\$28.33	-\$2.01	\$11.59

SUMMARY

Projected future growth of the small wineries clearly indicates there will be a need for new market outlets. Boutique wineries' current small market share of all wines sold to New Mexico Restaurants at 1.2 percent indicates that there should be increased opportunities in this market if a plan can be devised to gain market share.

An important factor restricting sales to restaurants at the current time by individual wineries is the high cost of distributing to restaurants spread across a large geographic area. Signing contracts with the liquor distributors operating in the region has not proven to be a viable alternative because their small volumes of sales is not sufficient to allow these companies to focus sales and marketing resources needed to promote their wines. A potentially viable alternative is for the small wineries to form a business organization to aggressively market their wines to New Mexico restaurants.

Based on extensive discussions with New Mexico restaurant managers it is clear they would be willing to carry local wines as long as quality wines are offered at competitive prices and there is an aggressive marketing effort provided by the distributor to help drive sales. A large amount of information on effective sales, advertising and promotional ideas to drive the sales of local wines through restaurants was collected during the course of this study. Very few of these ideas are being used by the distributors currently operating in the state. A wine marketing and distribution company focused solely on selling wine from the small wineries should have a competitive advantage in the market.

An analysis of the costs of operating a distribution company owned by the wineries indicates that the company can be cost effective, achieving a cost of about 25 percent lower than what is currently being charged by the liquor distributors.

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