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ONLINE SALES OF SPIRITS

WRITTEN BY SUSAN MOONEY

Recent, yearly reports for the retail sales of distilled spirits have topped US\$75 billion, with a sales volume of over 210 million 9-Liter cases. However, it is estimated that less than 2% of those sales were conducted online. Compared to other industries, the sales of spirits report the lowest percentage of Internet customers since online shopping became mainstream over twenty years ago. Consumers have become accustomed to buying everything online — from toothpaste, to furniture, to marijuana. Nevertheless, the purchase of spirits online is still in its infancy and fraught by outdated legal obstacles that make marketing and delivery a challenge for businesses in the spirits industry.

The lack of substantial online merchandising further broadens the challenge for new brands looking to enter the market and for existing brands looking to expand. One of the most difficult and crucial tasks for a new brand is to secure meaningful and

widespread distribution. The long-standing sales challenge for innovative brands stems from prohibition era legislation, which requires a three-tier system that distances the brand from its customers. This legislation demands the use of a distributor to intermediate the channel to retailers who then sell to consumers. It is the three-tier system that continues to create one of the largest barriers to entry, and one of the most frustrating aspects of introducing a new spirit product.

Distributors have been consolidating over the past ten years and are now responsible for thousands of SKUs. Even as distributors consolidate, they are met with an ever-increasing flood of new brands due to the growth of craft spirits and new flavor introductions. For each of the past five years, there have been nearly 300 new spirit brands introduced every year, making it nearly impossible to attract brand attention at the distributor, retail, and consumer levels.

THE LONG-STANDING SALES CHALLENGE FOR INNOVATIVE BRANDS STEMS FROM PROHIBITION ERA LEGISLATION, WHICH REQUIRES A THREE-TIER SYSTEM THAT DISTANCES THE BRAND FROM ITS CUSTOMERS.

Conversely, in almost all other consumer industries, new brands start online companies almost overnight, and often quickly level the playing field established by larger brands. These newer, smaller brands achieve success

by marketing with smart social media and online campaigns that conveniently lead the consumer directly to an online purchase.

Furthermore, online retailers have the luxury of instant data analysis to assess what is, and is not, working in their marketing and sales approach. The highly regulated alcohol industry misses out on this crucial and low cost asset. To date, all online sales must adhere to the three-tier system, leaving brand owners unable to collect important information related to consumer habits, trends, and preferences. This also prohibits them from marketing directly to the exact demographic in relation to price-point and shipping costs, a top-tier factor for other consumer goods.

OFTEN UNAWARE OF ALL OF THE RULES AND REGULATIONS, CONSUMERS ULTIMATELY END UP FRUSTRATED WITH AN ONLINE PURCHASE EXPERIENCE THAT DOESN'T MEASURE UP...

This labyrinth of state laws makes shipping out of state confusing and inconsistent. Some states allow shipping across state lines — some states do not; and some can ship wine, but not liquor. Licensed retailers who do not comply with one of these rules risk heavy fines or the loss of their license altogether. Often unaware of all of the rules and regulations, consumers ultimately end up frustrated with an online purchase experience that doesn't measure up to what they are accustomed to with other types of online purchases.

Thankfully, some visionary entrepreneurs have stepped into the wine and spirits online sales segment and have created new online sales solutions. Methods range from online membership formats, to an integrated tool that allows suppliers to sell nationally from their own branded website.

Founded in 2012 by Moiz Ali and Steven Abt, **CASKERS** was one first online spirits sellers created purely for the love of rare-found, craft and limited-run spirits. Fortunately, their members

share this adoration. Caskers has over 200,000 members, mostly stemming from New York, San Francisco, Chicago, Los Angeles and Miami. Fifty percent of Caskers' customers are repeat customers, and over 40% purchase regularly. Caskers uses targeted marketing strategies directed to this customer base and relies on partner retailers to fulfill the orders. They double their growth year after year, and in late 2014, they established "Caskers Concierge" and "Caskers Private Cask." These programs have attracted the craft and limited-edition spirit enthusiasts because of their 'exclusivity.' In essence, Caskers has utilized every asset available to optimize online spirits selling. The benefit of this

method is matching a product that fits a profile and is appreciated by web visitors, resulting in brand recognition among an enthusiastic member group. This said, and similar to the limitations of distributors, Caskers does not accept all products and they do not have plans

of appealing to the mass market.

February 2014 saw the launch of **MINIBAR**. Founded by Lindsey Andrews and Lara Crystal, Minibar is both an online site and an app that allows consumers to register and receive wine and spirits delivered, for free, within the hour. Like Caskers, Minibar works with select retailers in each market to deliver the final product. The consumer is routed to the liquor store nearest to them to complete their purchase. This meets the demand for delivery but not necessarily at the best price. Lara Crystal credits their rapid growth to the fact that liquor stores can forgo online marketing and branding and reduce their need to keep up with the latest technology. Minibar has created a quick-fix solution for delivering customers on-demand. Crystal cites statistics from liquor stores showing an increase in sales by 40% through the use of Minibar. She attributes success for new brands to Minibar's targeting of limited stores throughout the U.S., effectively achieving distribution in key markets. Minibar

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has now expanded to Chicago and San Francisco, and thanks to a recent investment of \$1.8 million, they have aggressive expansion plans in progress.

Also appealing to brand owners and new distilled spirits producers was the launch by **PASSION SPIRITS** of its online tool in June of 2014. Its tool allows brands to legally sell nationally, directly from their own web site, to consumers, creating a more integrated consumer experience. The Passion Spirits option does not solve the issue of competitive pricing compared to other channels, but it does allow brands to drive sales, track campaign effectiveness and collect customer insights allowing the brand to speak directly to its target audience.

Without the use of a tool such as this, customers are driven to online marketing platforms linking them to a retail store's web site, where the consumer often ends up purchasing a brand other than the brand which essentially paid to direct the customer there — or a landing page forcing them to “search” for the brand they intended to buy. This method results in a convoluted and cluttered purchase experience, or worse, a lost sale.

The Passion Spirits tool captures orders using proprietary software on the supplier's branded website which is then passed to a backend network of retail stores that can legally deliver alcohol products in every state.

“I really appreciate the ability to have a seamless consumer transaction on my site and that the consumer I've paid through social media to bring there is not diverted to a site with fifty other vodkas that compete with mine,” said Stuart Hirsch, co-founder of Three Hunters Vodka, launched in September 2014 and focused heavily on online sales.

The Passion Spirits tool also allows the brand to “own” — that is, understand and appreciate — the customer. They know

who is purchasing, where, when. This allows them to build a relationship with that customer and directly market to them, a standard practice for the plethora of other retail sites but not available to spirits brand owners until now.

The consumer advantages to online shopping trump those of traditional shopping. Consumers have more access to information, they can compare prices with ease, they shop at ease and avoid lugging heavy products home from a brick-and-mortar location. It's proven — consumers want the convenience of online shopping and younger consumers don't necessarily want human interaction to purchase a product they already know they want.

“I believe the spirits industry is in the early phase of stage-two for online spirits sales. We believe that we will see aggressive growth in the next couple of years for online sales,” said Alain Schieman, CEO of Passion Spirits. “The online sales tool makes everyone happy. The distributor sells more to the retailer and doesn't have to burden the street sales force on new, untried or obscure brands. The retailer makes more sales and the brand connects directly with its customer. I expect to see more brands doing much more of their online marketing and retailers working more on fulfillment.”

“I THINK WE’LL SEE SOME OF THE INTERSTATE REGULATIONS FADING AWAY BECAUSE THEY JUST DON’T MAKE ANY SENSE ANYMORE. I DON’T KNOW WHEN, AND IT WON’T BE SOON, BUT THEY’LL GO AWAY.” — STEVE ABT OF CASKERS

What does Steve Abt of Caskers anticipate for the future of online sales? “I think we'll see some of the interstate regulations fading away because they just don't make any sense anymore. I don't know when, and it won't be soon, but they'll go away.” 🍷

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