

Wine Australia

2018
Cellar Door
& Direct to
Consumer
Research



Wine Australia **providing insights on** Australian Wine

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Survey background

Background to the survey project

Direct-to-consumer (DTC) wine sales have grown exponentially in Australia over the last decade, emulating the growth seen in countries such as the United States where DTC sales represent a significant portion of the overall market. That growth has been documented in annual reports undertaken by various industry organisations which, in turn, has provided American wineries with essential data to assist in growing this important distribution channel.

The inaugural Cellar door and direct-to-consumer (DTC) survey was conducted in August 2018 as part of the Australian Government's \$50 million Export and Regional Wine Support Package. This project has developed a series of key benchmarks and statistics to assist wineries develop their wine tourism and DTC activities by providing accurate data. The results can assist wineries make key decisions around the four pillars relating to cellar door and DTC success: visits, conversion, retention and engagement.

Aims of the research project included:

- gathering and analysing data to assist wineries implement best-practice DTC strategies
- allowing the Australian wine sector's adoption of DTC activities to be compared with those of the United States (as reported in the annual WBM/SVB Tasting Room Survey), and
- providing foundation data that can be used as the basis for future monitoring of the adoption of DTC strategies within the Australian wine sector.

Definition

In this report, 'direct-to-consumer' includes any means of selling directly to a consumer – e.g. cellar door, wine and loyalty clubs, events, winery website, phone and mail order sales.

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Summary of key findings

Summary of key findings

Direct-to-consumer sales in Australia account for an average of 7 per cent of a winery's income – with total revenue from DTC sales across all winery size categories being just under \$600,000 on average in 2017-18. The smallest wineries have the greatest reliance on DTC sales, with wineries producing fewer than 1000 cases making 68 per cent of their revenue from DTC sales.

Nearly 90 per cent of wineries in Australia have a cellar door, with this channel accounting for up to half of all DTC sales across the different winery size categories. Significant investments are being made in cellar doors, with two-thirds of them open seven days a week, 86 per cent offering food in conjunction with wine, and over half providing vineyard and/or winery tours. However, only 28 per cent offer food and wine matching, which is a potential opportunity to increase, as food and wine tourism is a growing market.

Annual visit rates are correlated strongly with winery production, with an average of around 1,000 visitors per year per 1,000 cases of production.



Summary of key findings #2

Conversion of winery visits to purchase at the cellar door is high, with the highest rate (86 per cent) in the smallest winery size group, and the lowest rate in the largest winery size group. On the other hand, conversion from visitors to wine club members is relatively low, with an average of 166 new members signed up each year, out of nearly 16,000 visitors to the cellar door.

Nearly half of Australian cellar doors are providing structured/formal seated tastings, while almost all provide casual seated and/or bar tastings. It is not common for wineries to charge for casual tastings, with only 29 per cent charging. Smaller wineries are more likely to charge (29 per cent) than large wineries (16 per cent). By far the most common amounts to charge are \$5 or \$10 per person. For those that charge a fee, 85 per cent provide for a reimbursement. The overwhelming majority base their reimbursement on a purchase, whereas only 4 per cent base it on joining their wine or loyalty club – which would potentially have a greater long-term value.



Summary of key findings #3

The majority of wineries use at least one system to maintain customer records, with nearly half of them reporting use of a Customer Relationship Management system, although less than 20 per cent of survey respondents were considered to be using a best-practice industry-specific CRM system. Level of contact with customers is high, with two-thirds of wineries contacting their customers at least four times a year.

The majority (60 per cent) of wineries have a wine club and/or loyalty club, with wine clubs much more common than loyalty clubs. Wine/loyalty clubs are strongly associated with cellar doors, with very few wineries without cellar doors having wine/loyalty clubs. The majority of members are staying in wine clubs for more than three years, providing an average lifetime value of nearly four times the average annual spend. Net growth in wine club membership is 14 per cent per annum, with the largest growth rates in the smallest winery size groups.



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Profile of wine businesses

Limited production wine businesses rely most on direct-to-consumer sales

Profile of limited production wine businesses (< 1000 cases)

- 68% of sales are direct-to-consumer
- Average income from DTC is \$81,991
- Top two DTC channels are cellar door (40% of DTC revenue) and mail order/phone (15%)
- 29% of cellar doors are open 7 days a week
- 29% charge for standard tastings
- Average number of visitors is 1207 per year
- 86% of visitors purchase wine
- 50% contact customers at least quarterly
- Average 86 active wine club members



Very small wine businesses have nearly 7000 visitors per year to their cellar door

Profile of very small wine businesses (1000 – 4,999 cases)

- 40% of sales are direct-to-consumer
- Average income from DTC is \$241,633
- Top two DTC channels are cellar door (48% of DTC revenue) and wine/loyalty clubs (15%)
- 49% of cellar doors are open 7 days a week
- 27% charge for standard tastings
- Average number of visitors is 6960 per year
- 80% of visitors purchase wine
- 56% contact customers at least quarterly
- 14% conducted external telephone campaigns in 2017-18
- Average 252 active wine club members



Small wine businesses are most likely to charge for standard wine tastings

Profile of small wine businesses (5000 - 19,999 cases)

- 8% of sales are direct-to-consumer
- Average income from DTC is \$672,159
- Top two DTC channels are cellar door (41% of DTC revenue) and wine/loyalty clubs (17%)
- 70% of cellar doors are open 7 days a week
- 39% charge for standard tastings
- Average number of visitors is 11,320 per year
- 72% of visitors purchase wine
- 75% contact customers at least quarterly
- 30% conducted external telephone campaigns in 2017-18
- Average 709 active wine club members



Medium wine businesses have average DTC income of nearly \$1 million per year

Profile of medium wine businesses (20,000 - 49,999 cases)

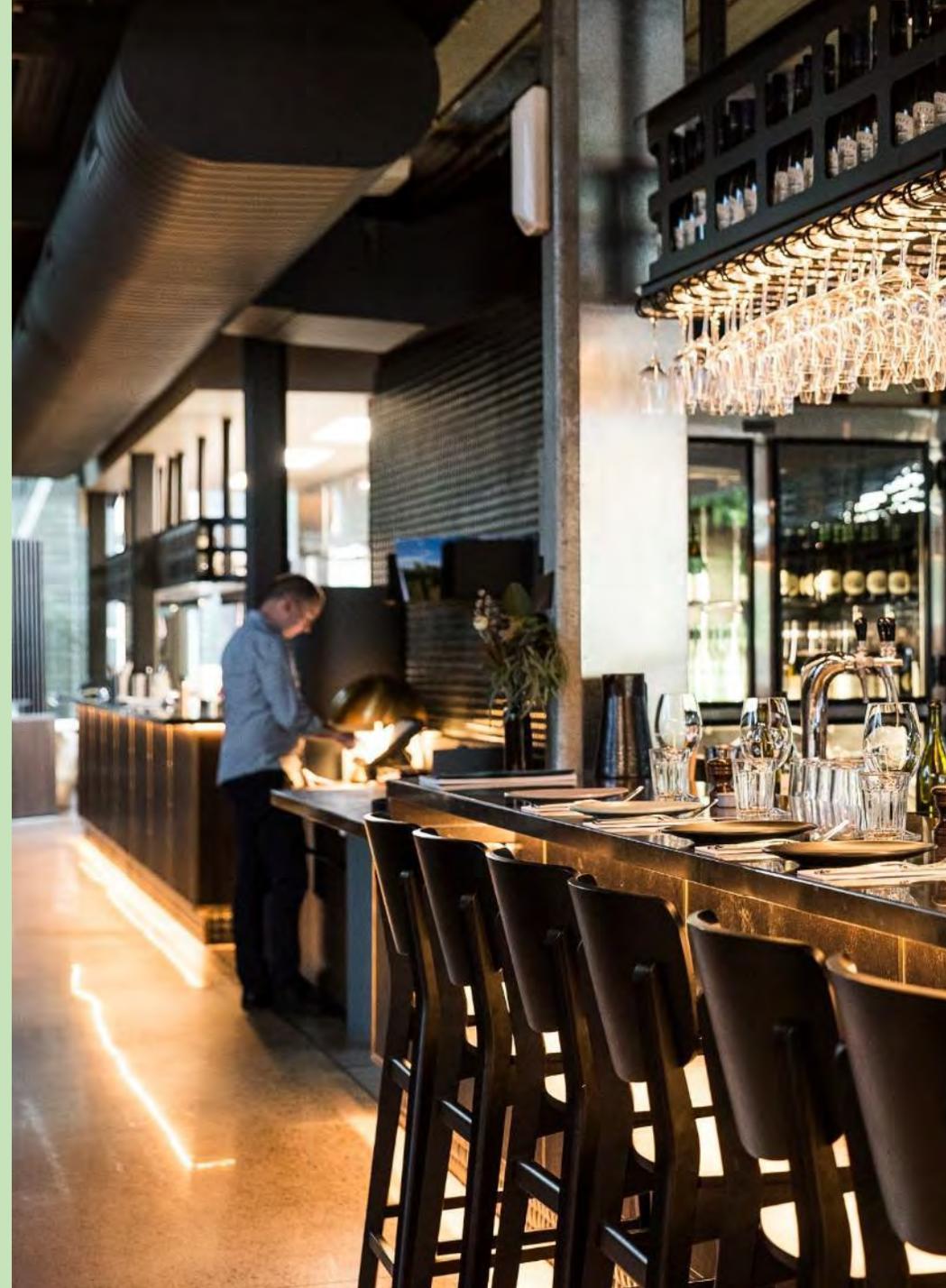
- 17% of sales are direct-to-consumer
- Average income from DTC is \$983,969
- Top two DTC channels are cellar door (50% of DTC revenue) and wine/loyalty clubs (16%)
- 89% of cellar doors are open 7 days a week
- 26% charge for standard tastings
- Average number of visitors is 26,796 per year
- 65% of visitors purchase wine
- 80% contact customers at least quarterly
- 40% conducted external telephone campaigns in 2017-18
- Average 829 active wine club members



Large wine businesses have an average of 2441 active wine club members

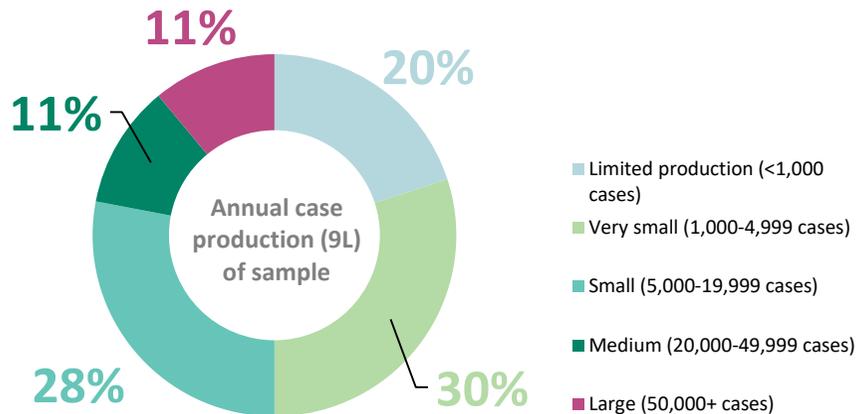
Profile of large wine businesses (50,000+ cases)

- 4% of sales are direct-to-consumer
- Average income from DTC is \$1,984,945
- Top two DTC channels are cellar door (51% of DTC revenue) and wine/loyalty clubs (16%)
- 95% of cellar doors are open 7 days a week
- 16% charge for standard tastings
- Average number of visitors is 48,655 per year
- 58% of visitors purchase wine
- 88% contact customers at least quarterly
- 59% conducted external telephone campaigns in 2017-18
- Average 2441 active wine club members.

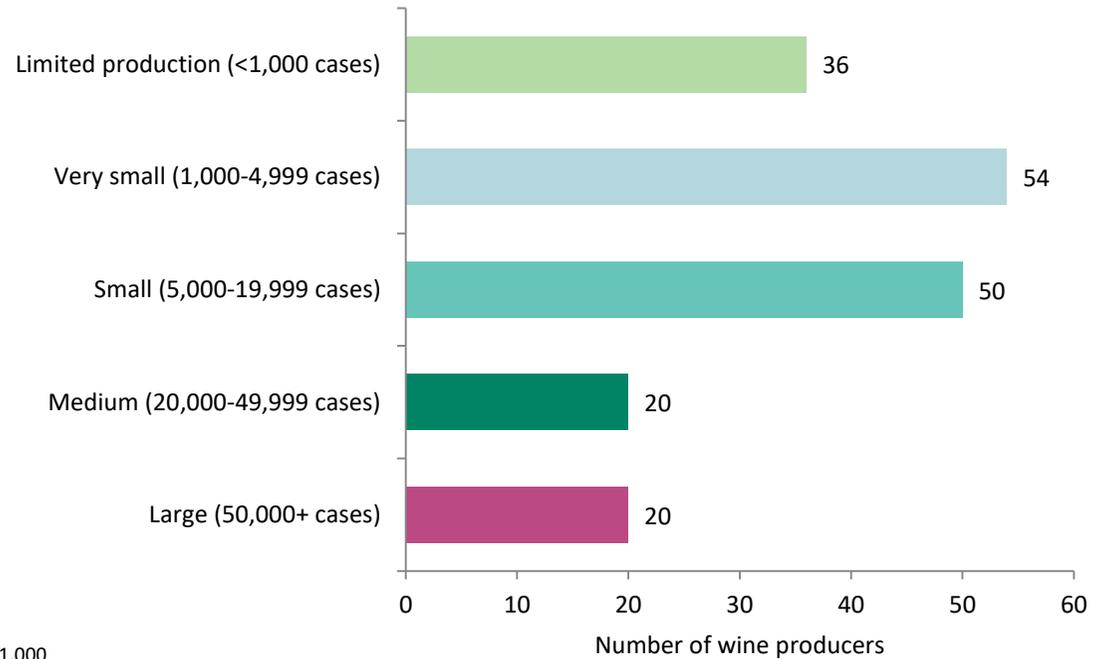


Half the survey respondents produce fewer than 5,000 cases per annum

Respondents were grouped into size categories for analysis based on their sales of own-branded wine. Some 50% of respondents produced fewer than 5,000 cases per annum, while 22% produced more than 20,000 cases.



Number of participating wine producers by production size (9L cases)
(Base: total sample, n=180)

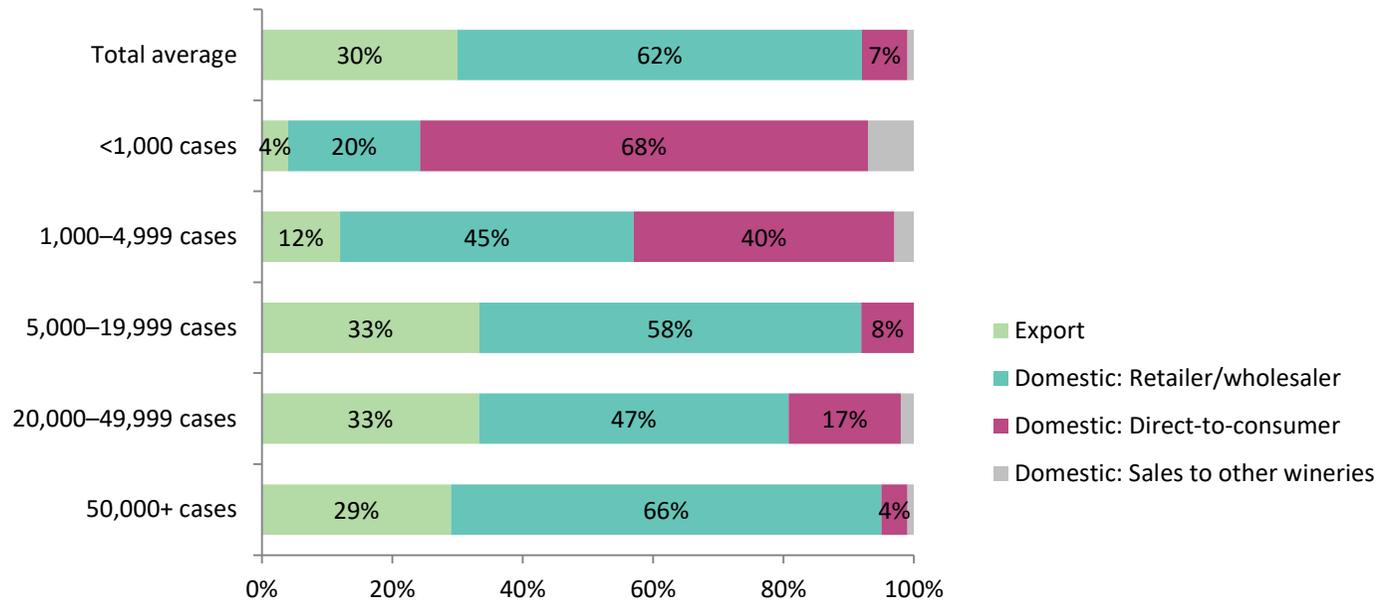


DTC sales accounted for 10 per cent of all domestic sales and 7 per cent of total wine sales in 2017-18 financial year

The smallest winery sizes had the greatest reliance on DTC sales by volume. Exports are under-represented in this sample because only branded wine sales associated with a cellar door and/or wine club were included.

How much wine did you sell each of the following markets in the 2017-2018 financial year?

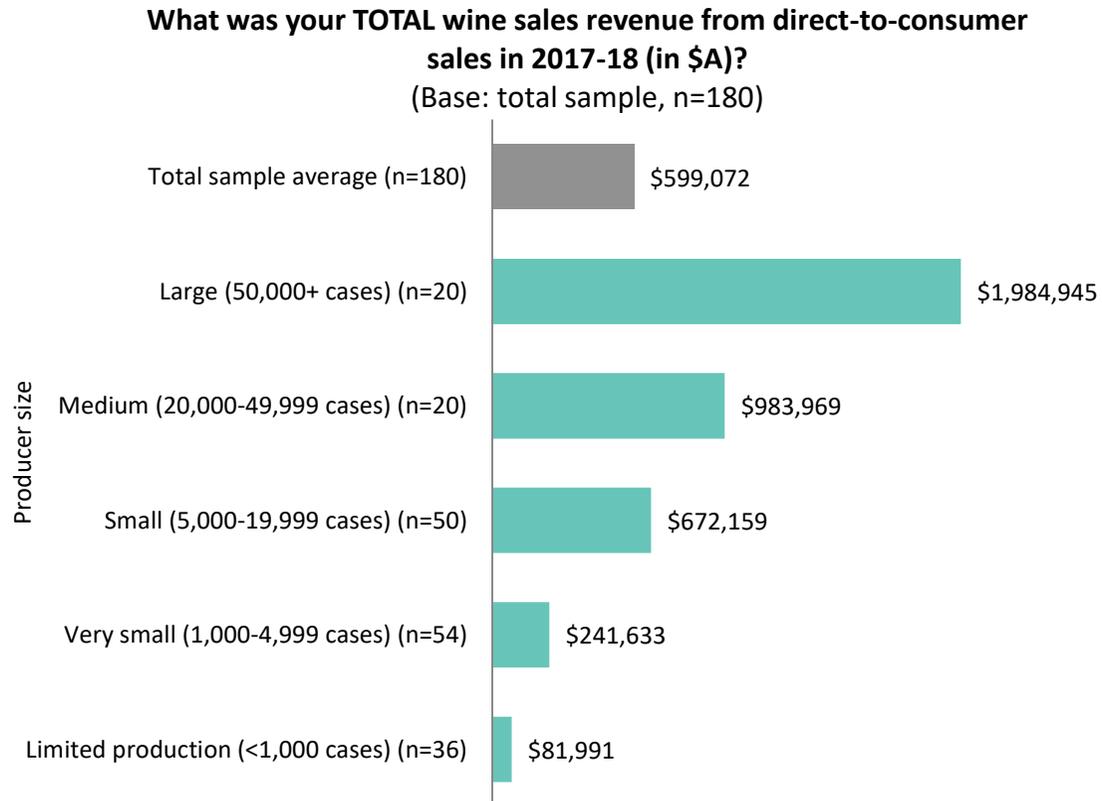
(Base: total sample, n=180)



	50,000+ cases	20,000–49,999 cases	5,000–19,999 cases	1,000–4,999 cases	<1,000 cases	Total average
Export	29%	33%	33%	12%	4%	30%
Domestic: Retailer/wholesaler	66%	47%	58%	45%	20%	62%
Domestic: Direct-to-consumer	4%	17%	8%	40%	68%	7%
Domestic: Sales to other wineries	1%	2%	0%	3%	7%	1%

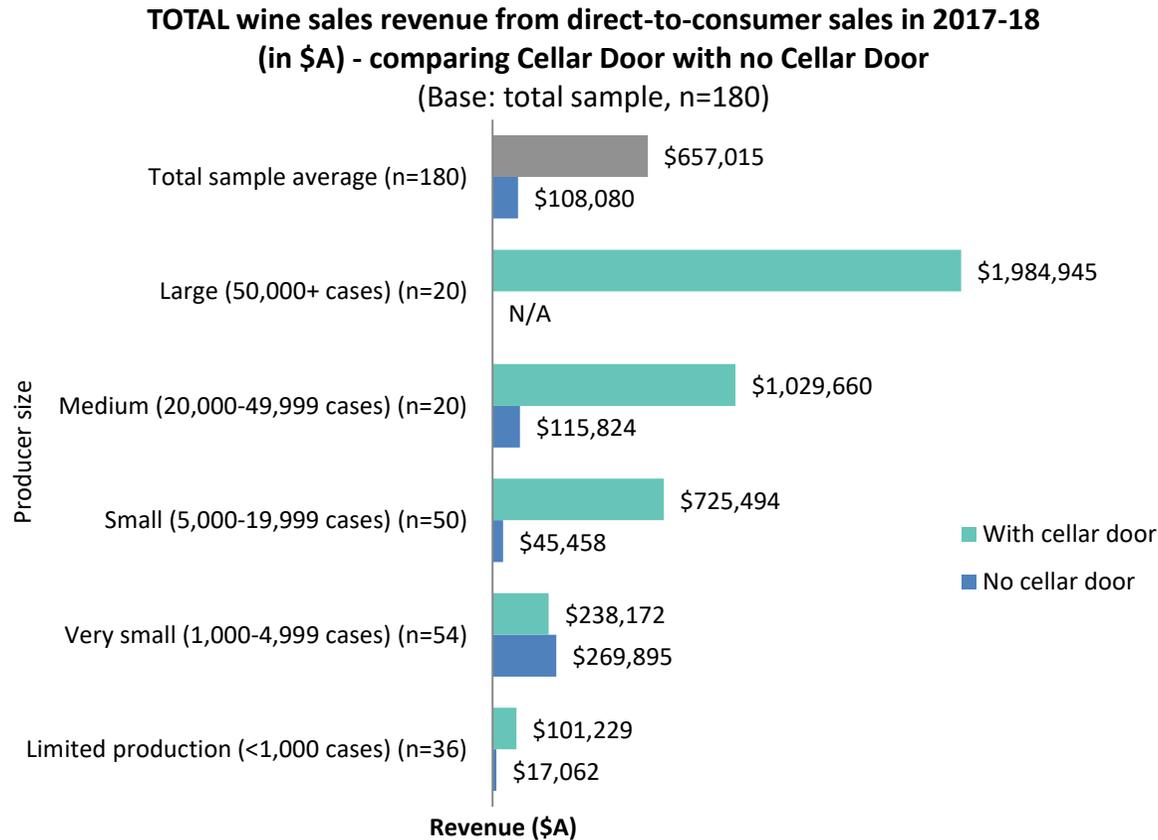
Wine sales revenue from DTC sales increases with winery size

Average revenue across all winery sizes was just under \$600,000.



Wine sales revenue from DTC sales is underpinned by cellar doors

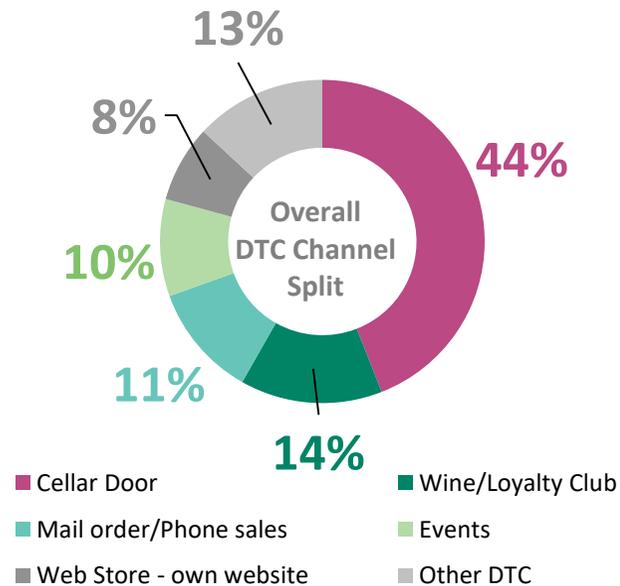
Wineries with a cellar door had significantly higher average DTC sales income than those without in all but one winery size category. (However, numbers are small in the 'no cellar door' groups.)



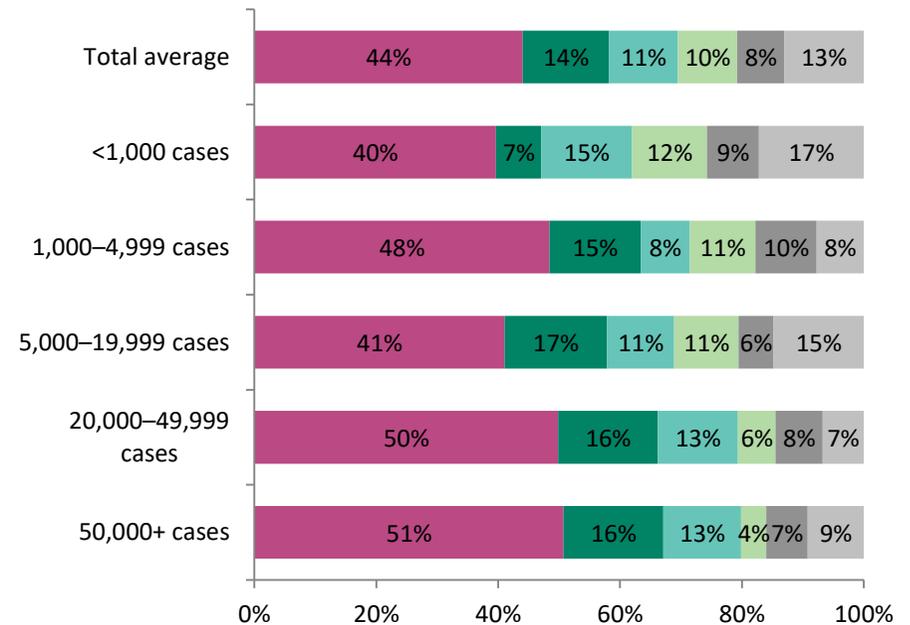
Cellar doors account for 44% of DTC revenue on average

The share of revenue by DTC category was generally consistent across winery sizes, except that the reliance on 'events' to generate wine sales increased as winery size decreased.

'Other' DTC reported included: corporate sales, duty free, markets, fundraisers, party plan and word of mouth.



What percentage of sales was made through each of the following direct-to-consumer channels in the 2017-2018 financial year? (Base: total sample, n=180)



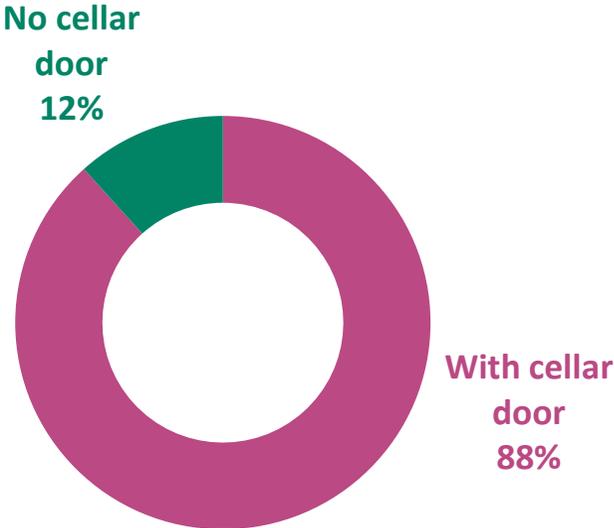
- Cellar Door
- Wine/Loyalty Club
- Mail order/Phone sales
- Events
- Web Store - own website
- Other DTC

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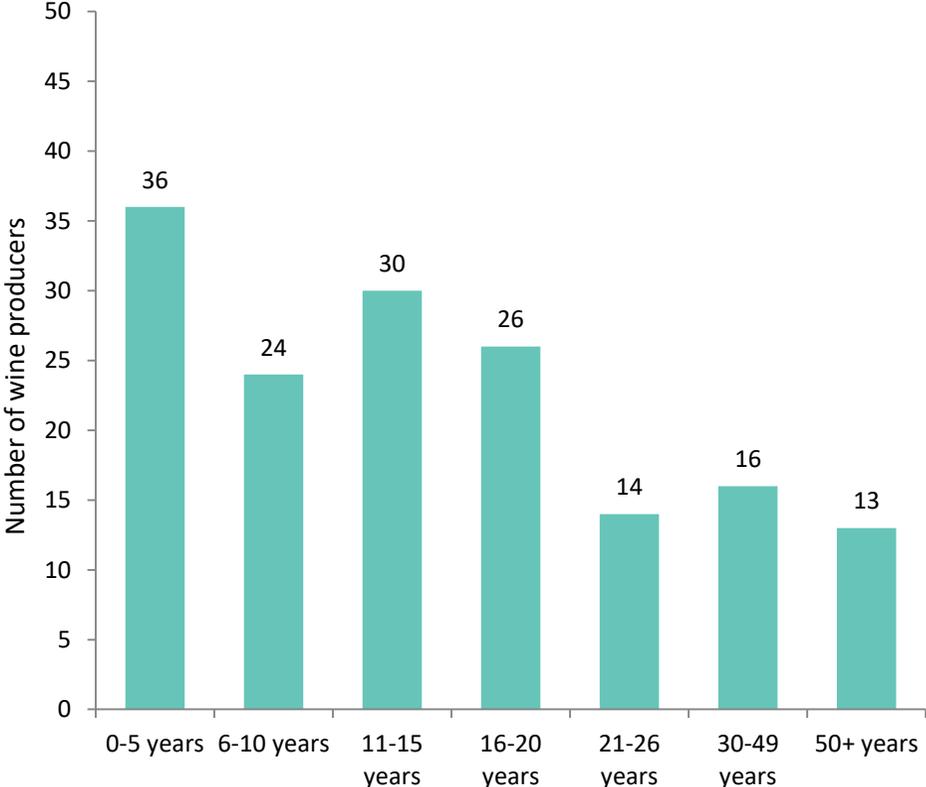
Cellar door operations

Growth in cellar door numbers is in line with sector growth periods

Of the 180 respondents, 88% (159) had a cellar door. Across the Australian wine sector there are estimated to be 1600 cellar doors, giving an overall percentage of 76%. Cellar door operations are over-represented in the survey as it was targeted particularly at cellar door operations and wine clubs rather than businesses focused more on export and commercial retail sales.

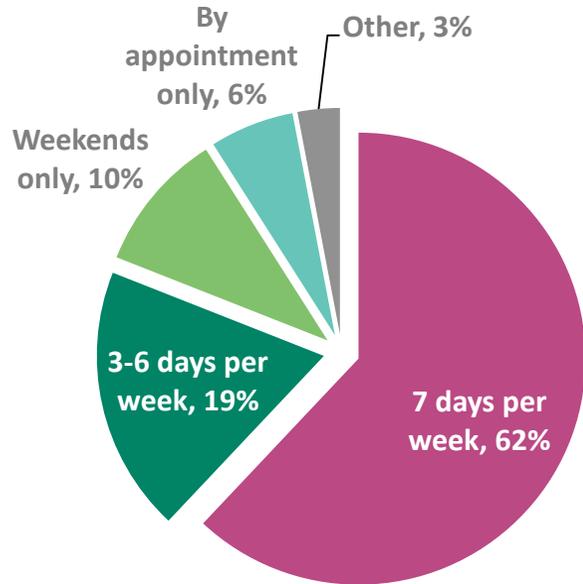


Cellar doors in operation by number of years
(Base: have cellar door n=159)



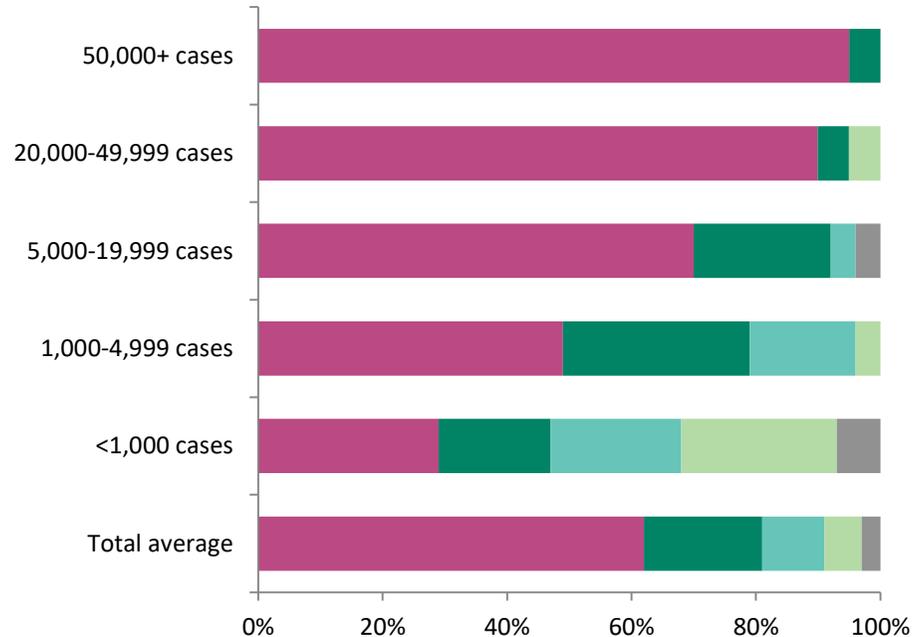
The majority of cellar doors are open seven days a week

The majority of cellar doors are open seven days a week, demonstrating a significant commitment to regional tourism. However, the by-appointment model is significant for the smallest wineries. In the US, the by-appointment model is increasingly being adopted, with 60% of wineries in the Napa County only open by appointment. The model is associated with fewer visitors but a higher average spend.



How often is your cellar door open to the public?

(Base: have cellar door, n=159)

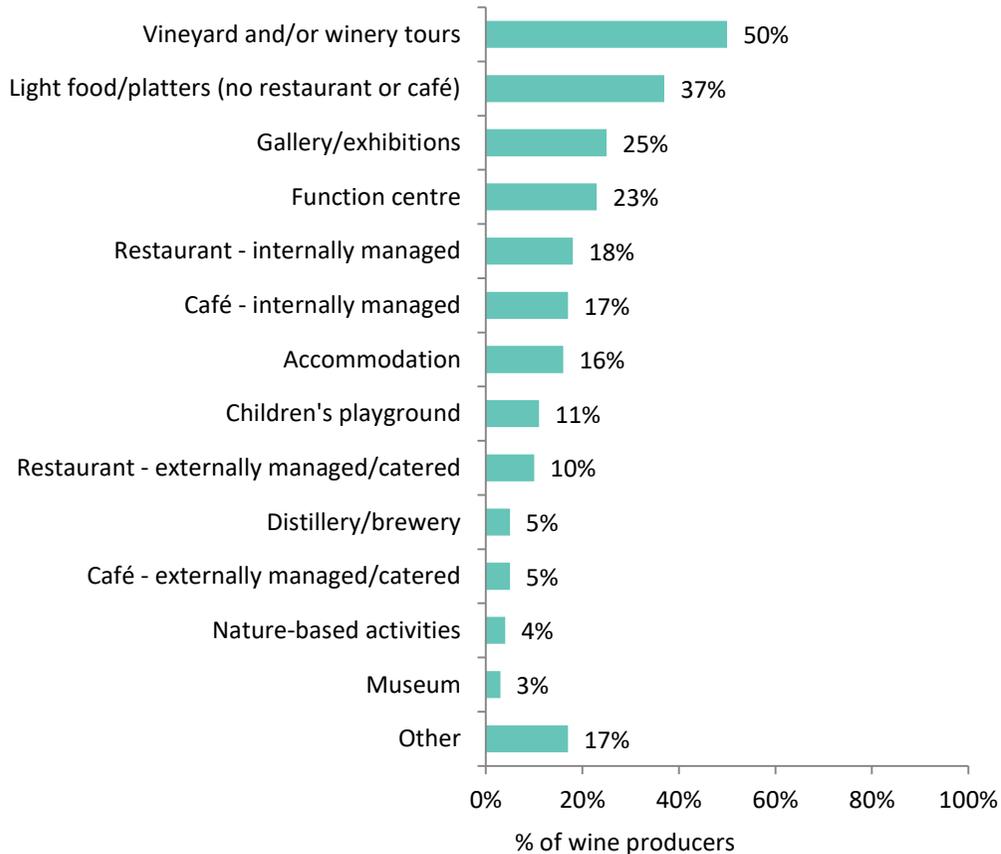


	Total average	<1,000 cases	1,000-4,999 cases	5,000-19,999 cases	20,000-49,999 cases	50,000+ cases
7 days per week	62%	29%	49%	70%	89%	95%
3-6 days per week	19%	18%	30%	22%	5%	5%
Weekends only	10%	21%	17%	4%	0%	0%
By appointment only	6%	25%	4%	0%	5%	0%
Other	3%	7%	0%	4%	0%	0%

Cellar doors are about more than just wine

Which additional facilities do you offer?

(Base: have cellar door and answered question, includes multiple response, n=144)



Australian wineries are increasingly offering value-added services, facilities and activities aimed at attracting more visitors and diversifying revenue streams.

Of the 144 responding to this question, 72 (50%) said they offered vineyard tours.

Food offerings were also an important 'add on' with 124 of the 144 respondents having a restaurant or café or serving light food/platters.

While the numbers are small, an analysis by state indicated that Victorian cellar doors were significantly more likely to have a restaurant or other food facility than respondents across the other states.

'Other' facilities offered included: weddings, wine and chocolate matching, winemaking experience, jam and condiment manufacturing, retail shops, wine bar and free camping.

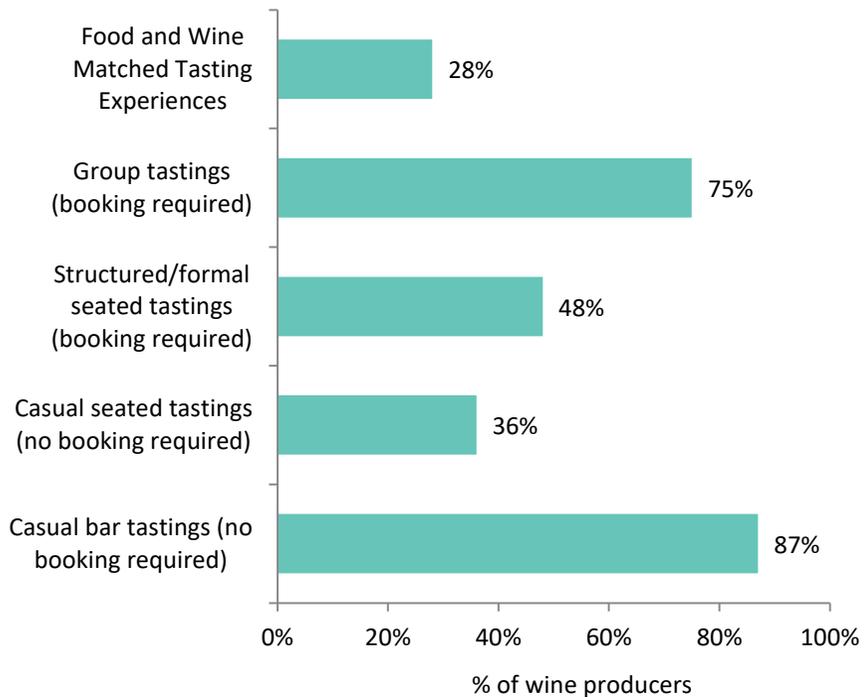
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Tastings and visits

Casual unbooked tastings are by far the most common tasting service

Which types of tasting service styles do you offer at the cellar door?

(Base: have cellar door and answered question includes multiple response, n=157)



Casual, unbooked tastings were by far the most popular form of tasting style; however a significant proportion of respondents also offered food and wine matched experiences and structured/ formal seated tastings.

In the US, it has been found that seated private or formal tasting experiences, which provide a more personalised experience, generate a significantly higher amount of revenue per person.

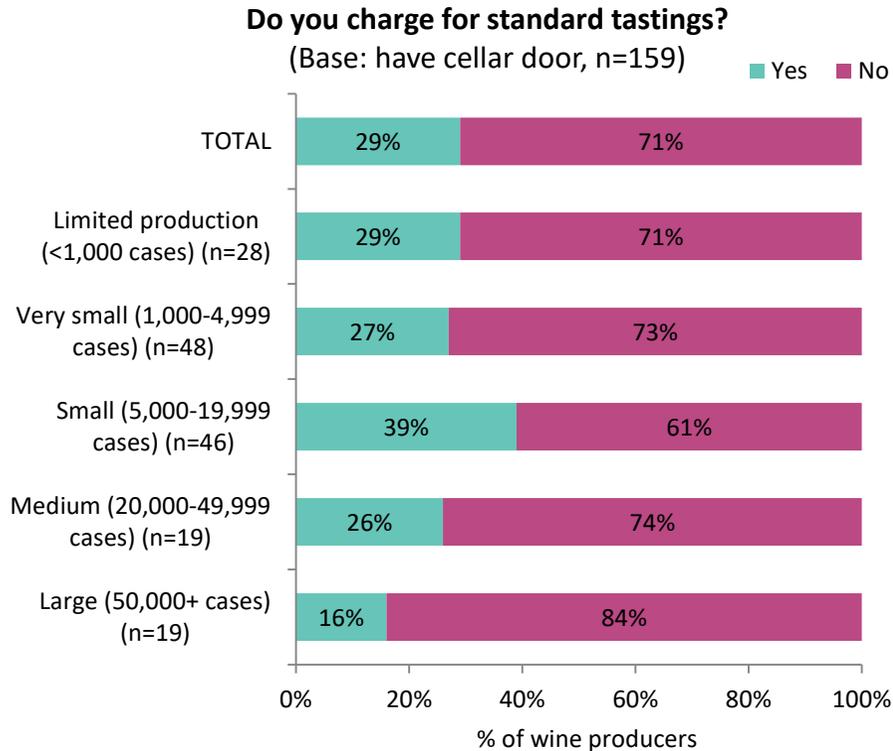
Activities listed under 'other tasting service or styles' included:

- dedicated member tasting area (3 mentions)
- barrel room tours
- barrel tastings
- educational tastings in the winery
- wine flights with cheese
- wine tasting by the fire pit or in the vineyard.

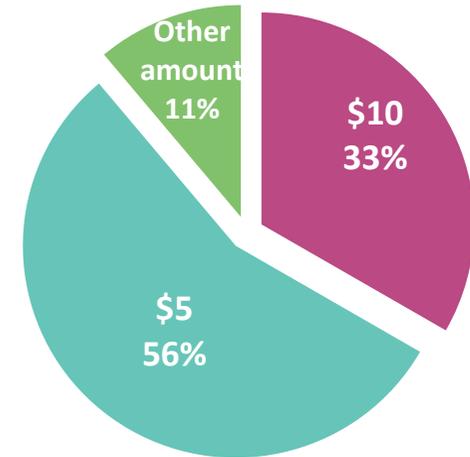
Less than one-third of wineries charge for a standard tasting

Small wineries were most likely to charge for tastings (29%) and large wineries least likely (16%).

By comparison, the majority of wineries in the US charge for tastings, and it is considered best practice to do so, as this generates more perceived value for the wine.



Range of charges for tasting fee (in \$A)
(Base: have cellar door and charge fee (n=45))

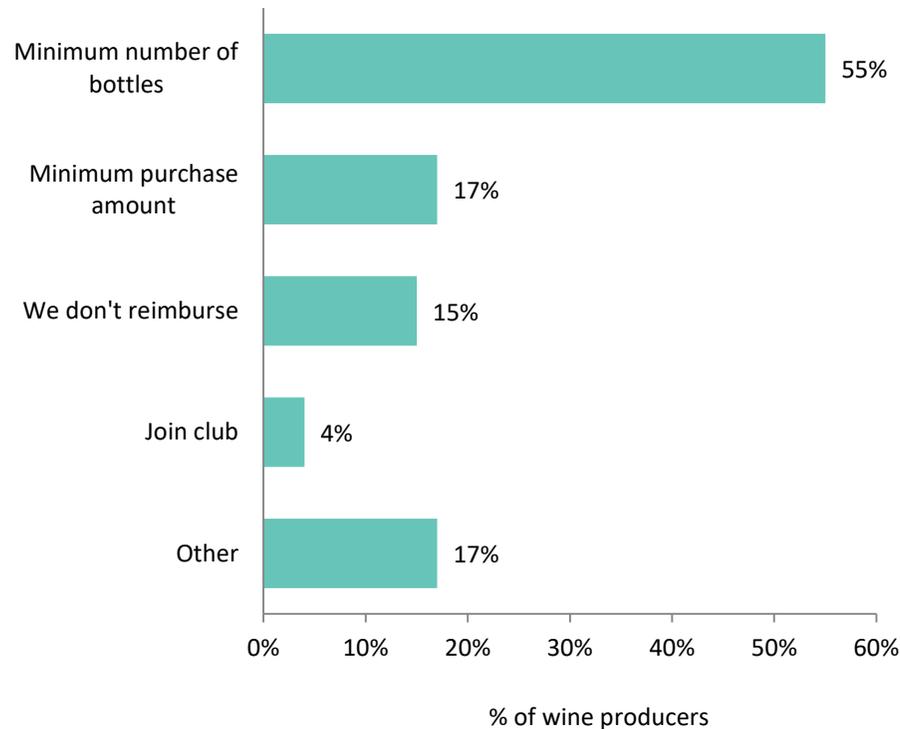


The most common tasting fee charged was \$5 per person, followed by \$10. Between them, these amounts accounted for 89% of all amounts charged.

Reimbursements of tasting fees are predominantly based on a purchase

What is the requirement to receive a reimbursement of a tasting fee?

(base: have cellar door and charge fee n=47)



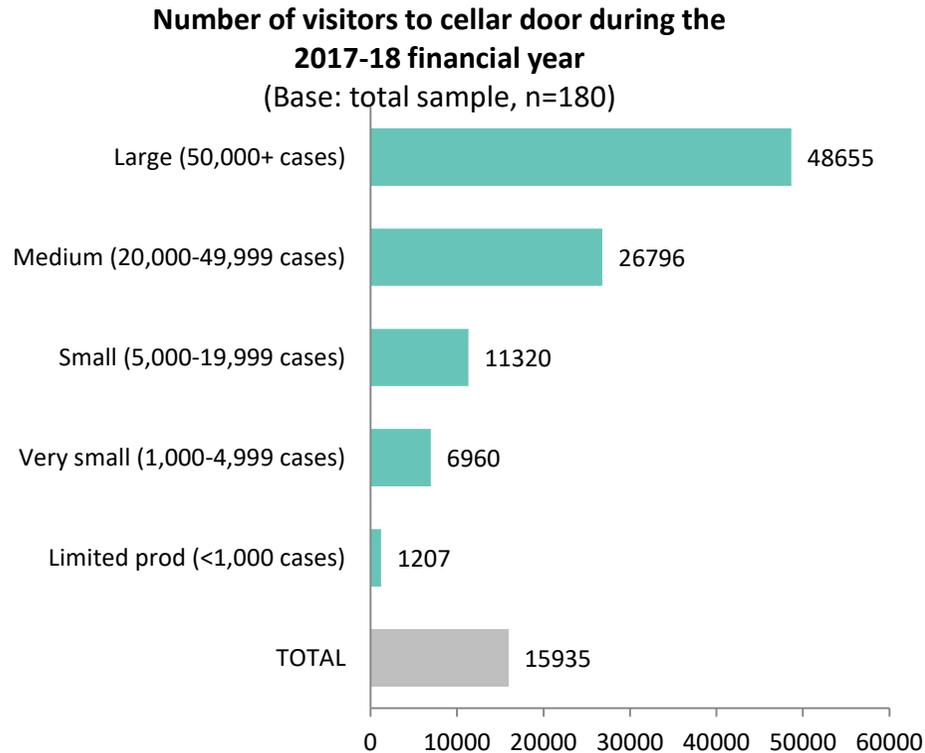
The most popular means for obtaining a reimbursement on tasting fees was a minimum number of bottle purchase. This is arguably the least effective from a business perspective as it is not tied to the value of the purchase and does not create an ongoing connection with the visitor.

Only 4 per cent of respondents based their reimbursement on joining their wine or loyalty club – which would potentially have a greater long-term value.

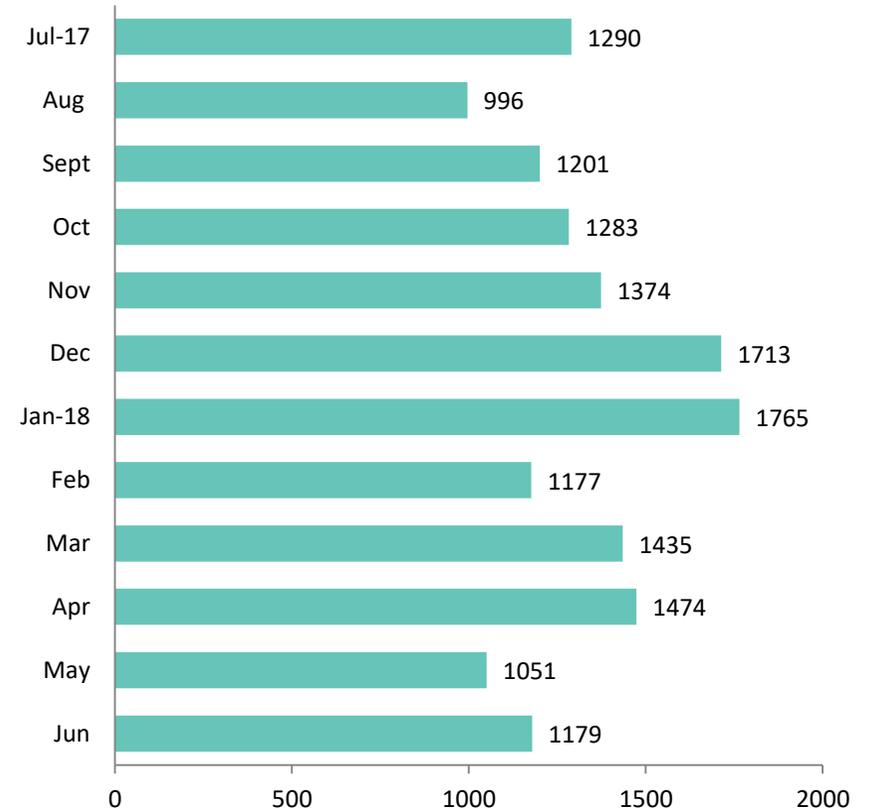
These results cannot be meaningfully analysed by winery size as the numbers are too small.

Visitor numbers are correlated with winery size and peak tourism periods

Average visitor numbers per year increased significantly with winery size. As a rough 'rule of thumb', every 1000 cases of production correlated with around 1000 annual visitors.



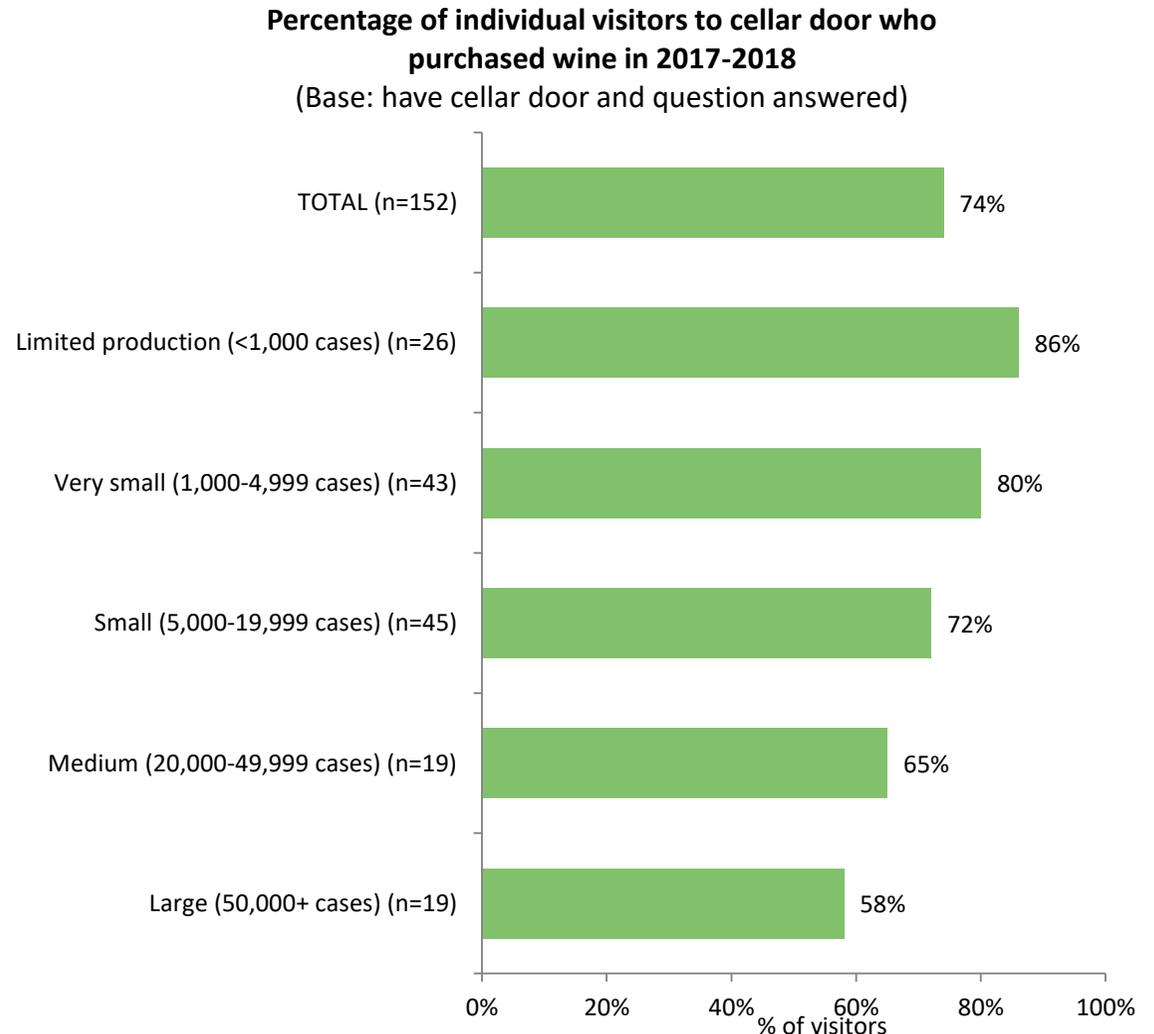
Average number of visitors to cellar door during each month of the 2017-18 financial year across all respondents
(Base: has cellar door, answered question)



Three-quarters of visitors purchased wine at the cellar door

The sales conversion rate for cellar door visitors was 75%, with the highest rate for the smallest wineries (86%), and the lowest (58%) for the large wineries. This may be attributable to the ability for small enterprises to interact personally with a smaller number of visitors, and/or the wide availability of large wineries' products through other outlets.

This conversion rate is much higher than is found in the US (around 60%).



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Customer relationship management

Wineries use a range of systems to maintain customer records



The 155 respondents who reported keeping customer records listed 289 methods of managing records between them, an average of 1.8 methods per winery.

One-third of the respondents reported using a Customer Relationship Management (CRM) system; however, analysis of the responses indicated that only 13% were in fact using a system with the full functionality of a CRM suitable for the wine industry. Those listed included: vinCreative, Wine Direct/Vin65, Blackboxx, CRU, Trolly, Salesforce and Ezywine.

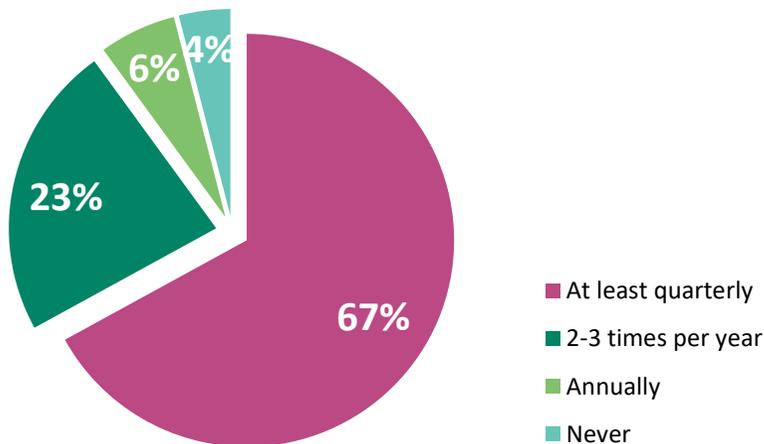
Others reported using email contact systems such as Mailchimp and Campaign Monitor; accounting systems such as Xero, Exo and MYOB; or POS systems such as Revel, Bepoz, F2 and PBSA.

A CRM system can help wine businesses by improving cellar door data capture, facilitating wine club memberships and managing events.

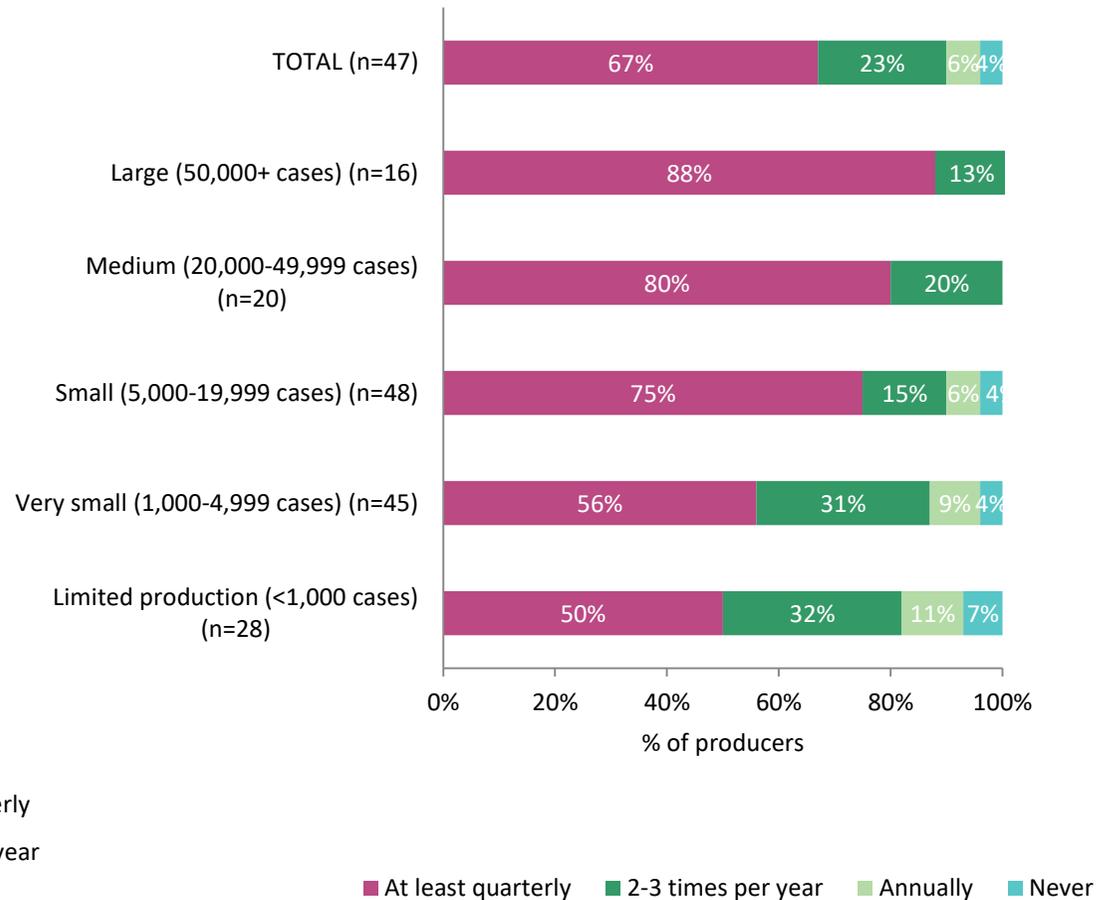
Wineries are in regular contact with their customers

Two-thirds of respondents contacted their customers at least quarterly, while only 10% contacted them less than twice per year. Even within the smallest winery size group, 82% contacted their customers at least 2–3 times per year.

How often do you personally contact your wine club and mail order customers?
(Base: total sample and question answered, n=157)



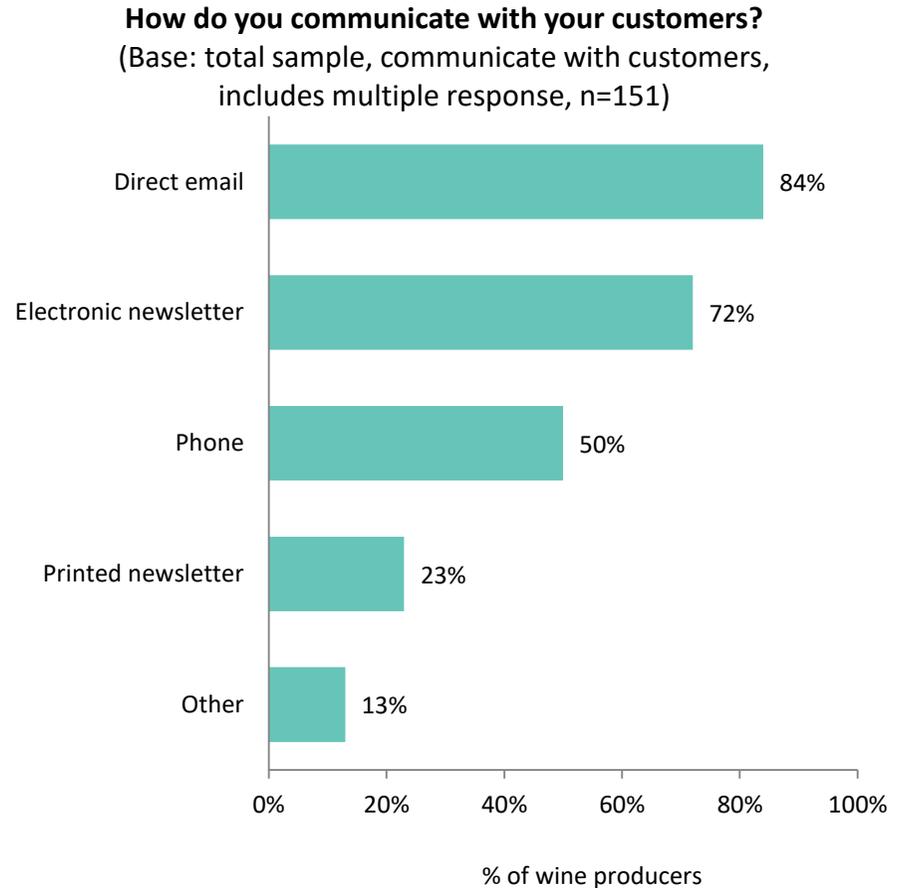
How often do you personally contact your wine club and mail order customers?
(Base: total sample and question answered, n=157)



Direct email is the most popular method of communicating with customers

Generally multiple methods of communication were reported by the respondents. On average, each winery mentioned just over 2.4 modes of contact.

Virtually all of the 19 respondents providing an 'Other' response referred to 'Social Media' with just under half being more specific: mentioning Facebook and/or Instagram. Four mentioned use of SMS or texts.



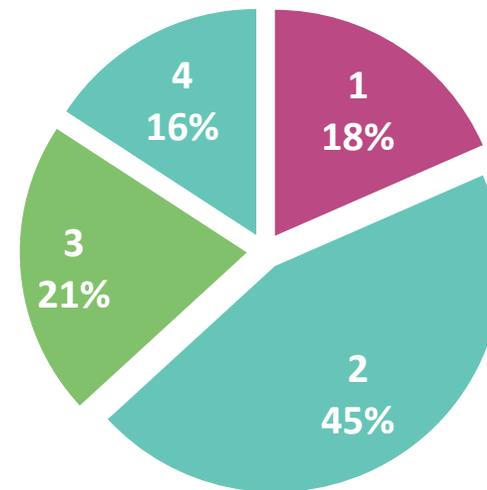
Use of external telesales companies increases with winery size

Use of an external telesales company increases in line with the size of the winery.

For those wineries that ran external campaigns, two-thirds ran two or more.

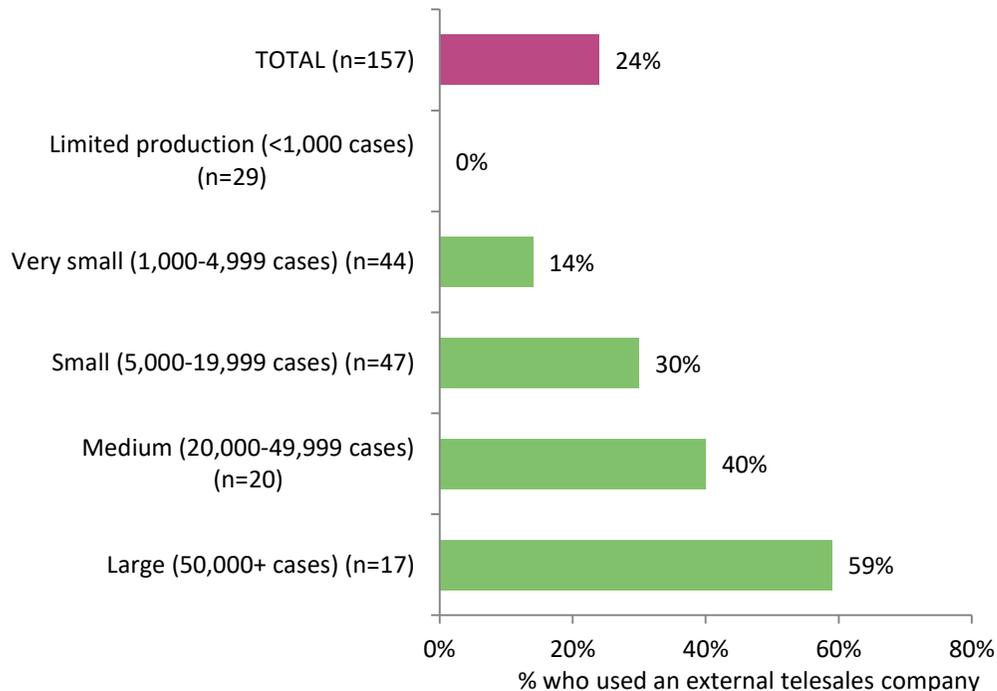
Distribution of number of telesales campaigns run in the 2017-18 financial year?

(Base: ran external campaign(s), n=38)



Did you use an external telesales company to conduct campaigns during the 2017-18 financial year?

(Base: total sample and answered question n = 157)



7

Wine and loyalty clubs

Membership-based wine or loyalty clubs are a key part of the DTC strategy

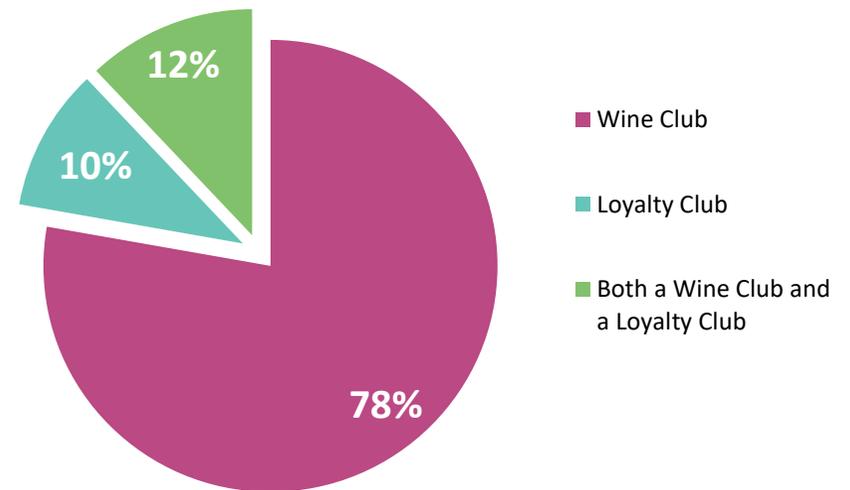
Out of the total of 180 respondents, 108 (60%) indicated that they had a wine club, loyalty club or both. This may be slightly lower than the true figure, as a further 7% did not answer the questions related to wine/loyalty clubs, but indicated earlier that some of their DTC income came from this source.

Loyalty clubs were much less common than wine clubs. Overall, 54% of respondents had a wine club, while 13% had a loyalty club (many with a wine club as well.) Note: a wine club requires members to buy a certain amount of wine, while a loyalty club awards points for purchases but does not generally set minimum purchase amounts.

Among those who had either or both, 78% had a wine club only, while 10% had a loyalty club only, and 12% had both.

Wine/loyalty clubs were strongly associated with cellar doors. Of the 21 respondents that did not have a cellar door, only 2 (10%) had a wine or loyalty club.

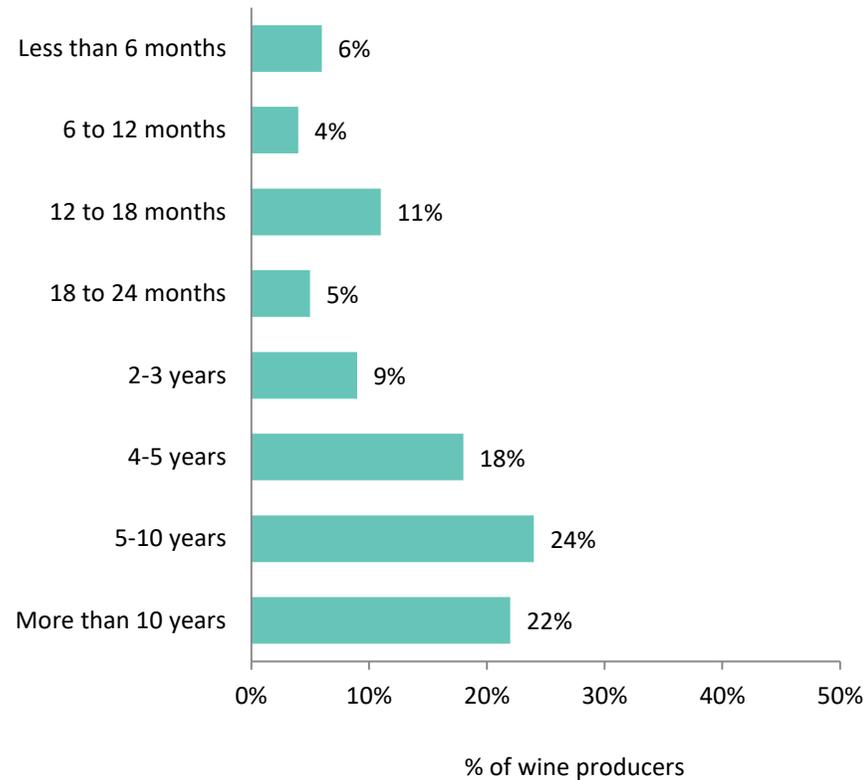
Do you have any membership based wine clubs or a loyalty club?
(Base: have wine/loyalty club and question answered, n=108)



Wine clubs are well-established in the Australian wine sector

Nearly half the respondents reporting having had a membership-based wine club for at least five years.

How long have you had a membership based wine club?
(Base: have wine club and answered question, n=94)

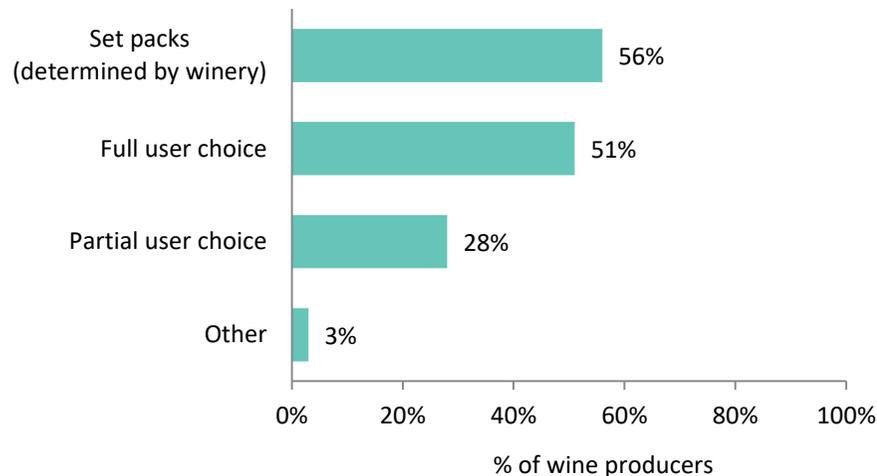


Set packs are the most popular option offered to wine club members

Around half of the respondents offered their members set packs, and around half offered their members full user choice. There was little overlap between these two options, with most of the multiple responses being 'set packs and partial user choice'.

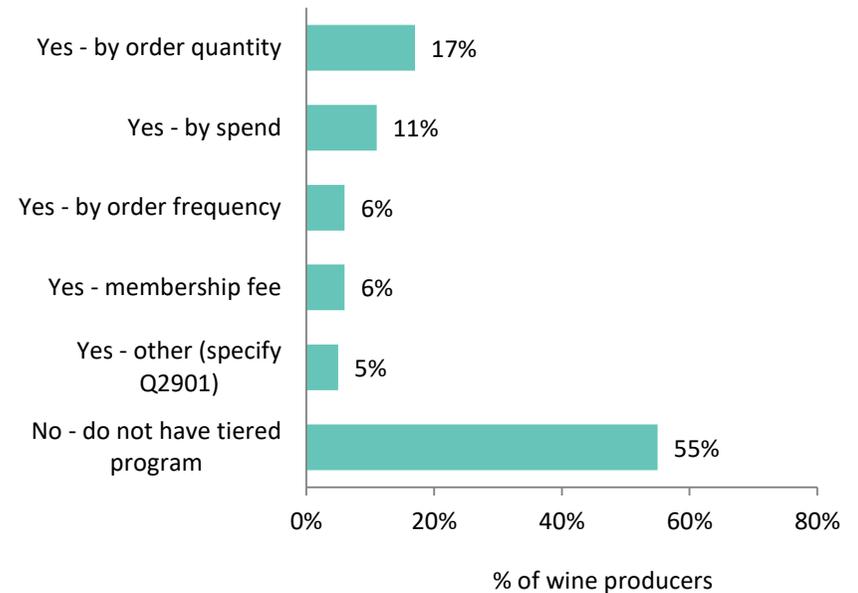
Full user-choice wine clubs are recommended – particularly for millennials – as they are customer-focused and individualised.

What options do you offer wine club members with each release?
(Base: have wine club, includes multiple response, n=94)



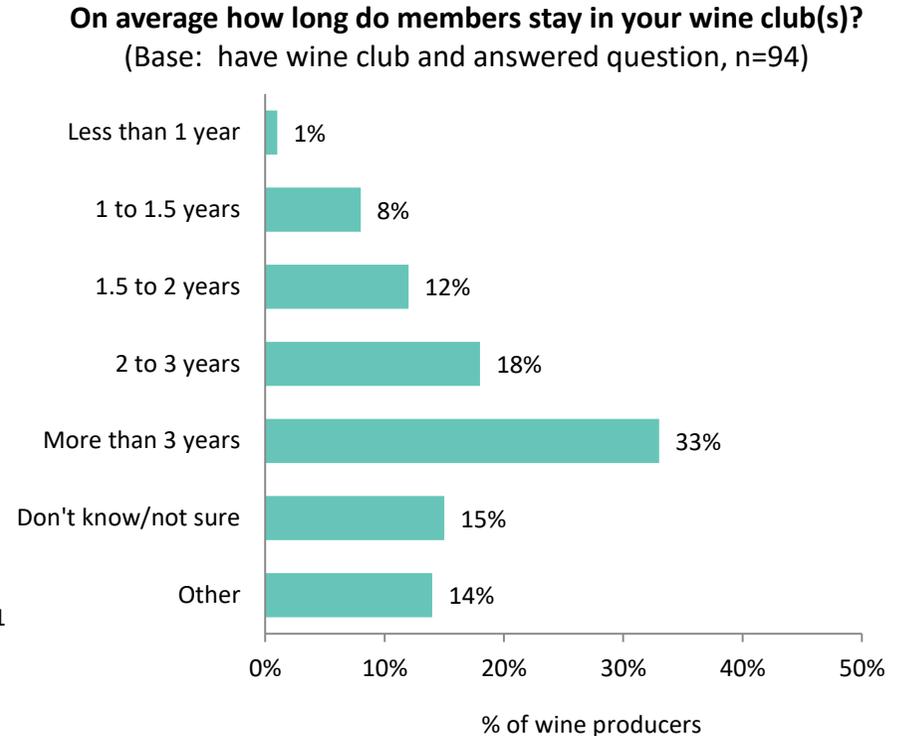
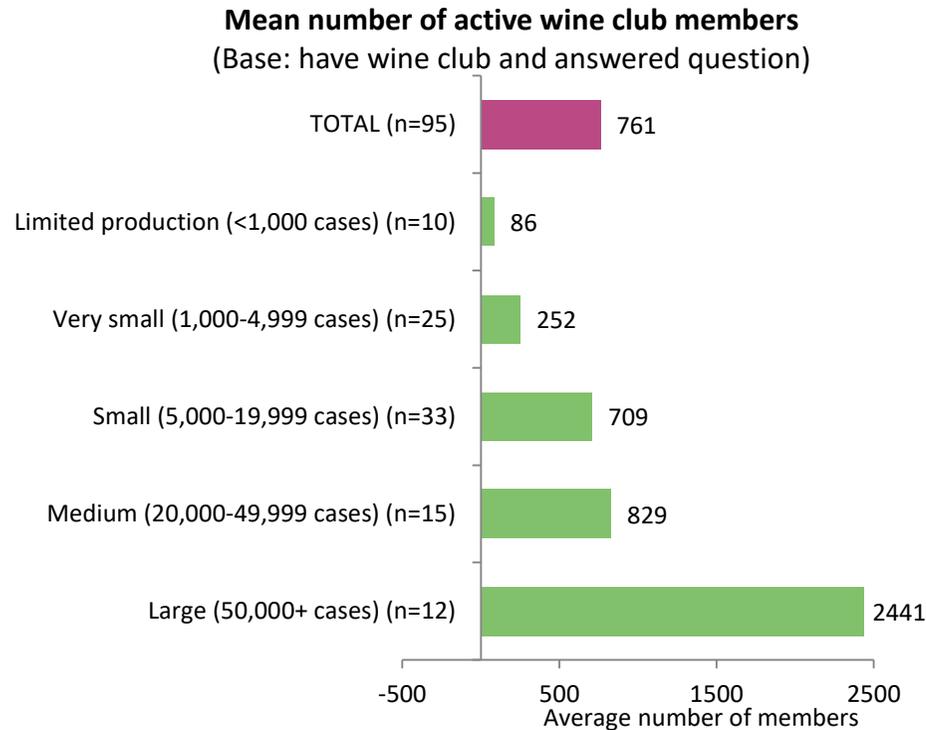
Do you offer a tiered membership program in your wine club?

(Base: have wine club and answered question, n=94)



The majority of wine clubs do not include a tiered program. This represents an opportunity for wineries, as they add value for members and reward high spenders, leading to higher member retention.

Number of wine club members is correlated with winery size



One-third of respondents reported that members stayed in their clubs for more than three years. In the US, the average length of membership reported in 2017 was 30 months.

Most of those responding in the 'Other' category indicated that their wine clubs were relatively new and they had insufficient data at this stage to determine an average length of membership. The high proportion of 'don't know' responses suggests that some wineries have scope to improve their record-keeping.

Strong annual net growth in wine club membership

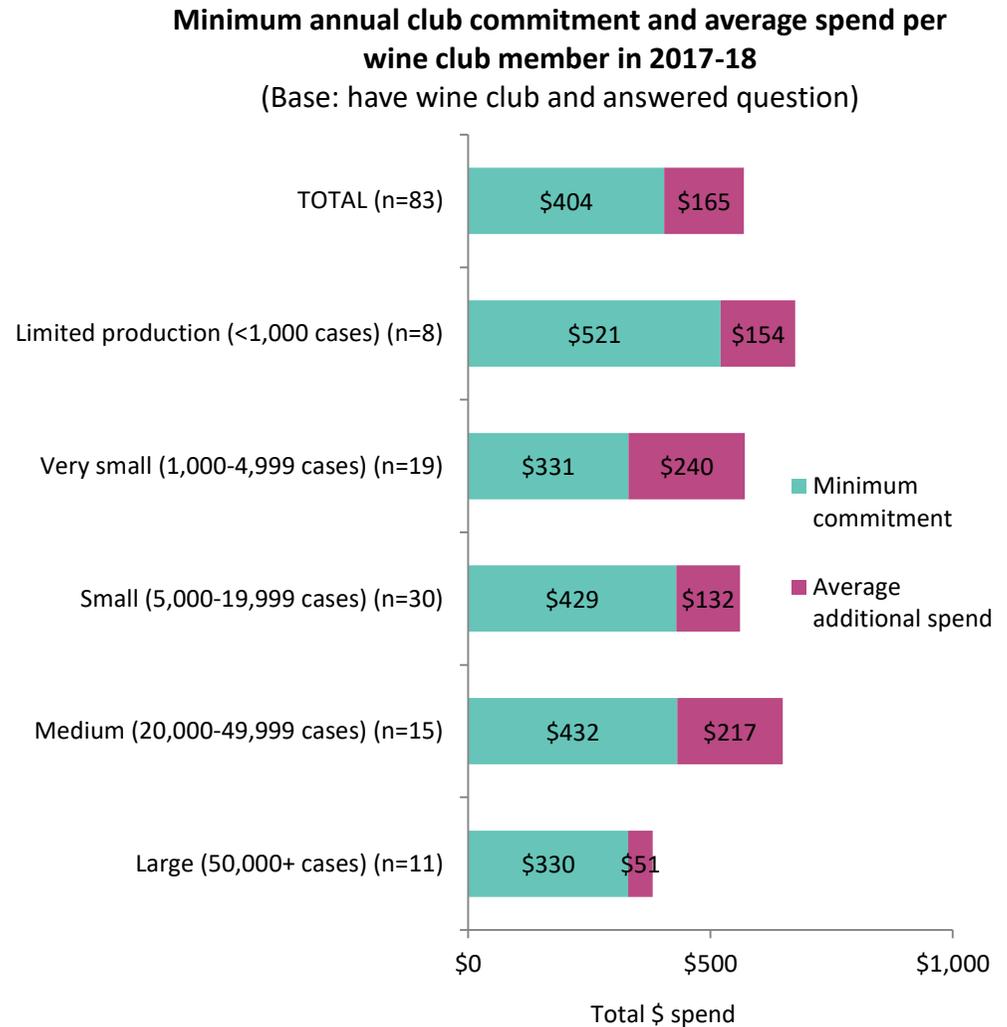
	Total sample	Limited production (<1,000 cases)	Very small (1,000-4,999 cases)	Small (5,000-19,999 cases)	Medium (20,000-49,999 cases)	Large (50,000+ cases)
Membership at start of year	666	65	197	625	757	2109
Members lost	71	11	23	95	81	160
Attrition rate	11%	17%	12%	15%	11%	8%
New members processed	166	32	78	179	153	492
Net gain	95	21	55	84	72	332
Membership at end of period	761	86	252	709	829	2441
Net growth rate	14%	32%	28%	13%	10%	16%

The overall net growth rate was 14% across all respondents. This is exactly the same as the rate found in the 2017 WBM/SVB Tasting Room Survey report, although in the case of the US, both the gross new sign-up rate and the attrition rates were higher. This suggests that Australian wineries are not signing up members as aggressively, which in turn is leading to a lower attrition rate.

It should be noted that the numbers in each winery size category are small so the error margin in these figures is high.

Average annual spend exceeds minimum commitment

While the numbers in each category are small, the results suggest that both the minimum commitment and the average annual spend are highest for members of wine clubs in the smallest sized wineries, with the second highest being the medium-sized wineries. These effects could be attributable to the smallest wineries having a high average price and limited alternative channels for consumers to buy their wine, and medium wineries having a combination of more resources to support their wine clubs and a relatively premium-priced offering.



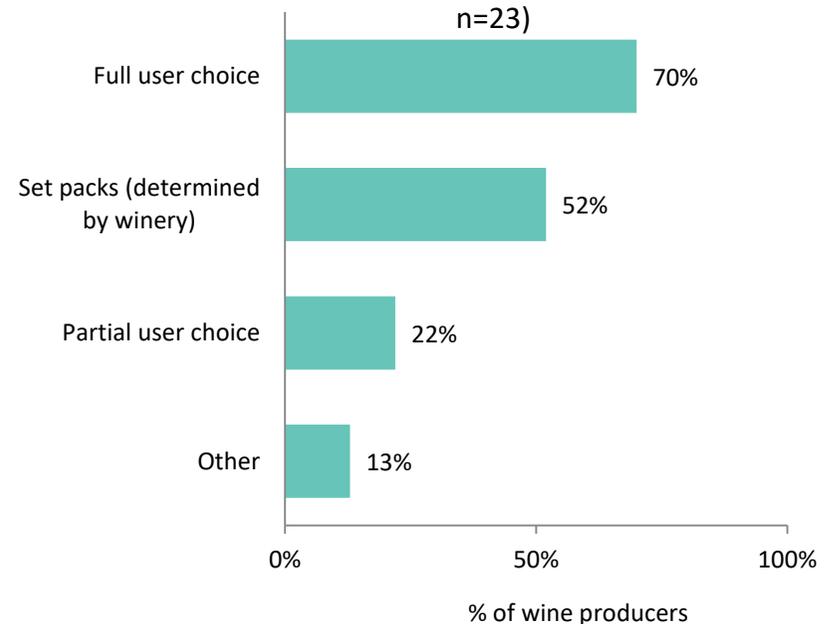
Loyalty clubs offer more choice and provide more options than wine clubs

Loyalty club summary statistics

Average number of active members	3512
Average annual net growth rate	6%
Percentage offering a tiered program	45%

The small number of respondents with loyalty clubs (n=24) means that it is difficult to derive meaningful conclusions from the results. For example, the reported number of members ranged from fewer than 10 to 45,000, which is likely to have skewed the mean number. The median (middle response) was 450 members, while 15 of the 24 responses (62%) were between 100 and 10,000 members.

What options do you offer loyalty club members ? (Base: have loyalty club, includes multiple response, n=23)



The percentage of respondents offering full user choice was higher for loyalty clubs than for wine clubs, while the proportions offering set packs and partial user choice were similar.

The 'Other' benefits mentioned were Special pricing and 'Points for meals and other benefits'.

The majority of wineries do not charge for shipping to club members

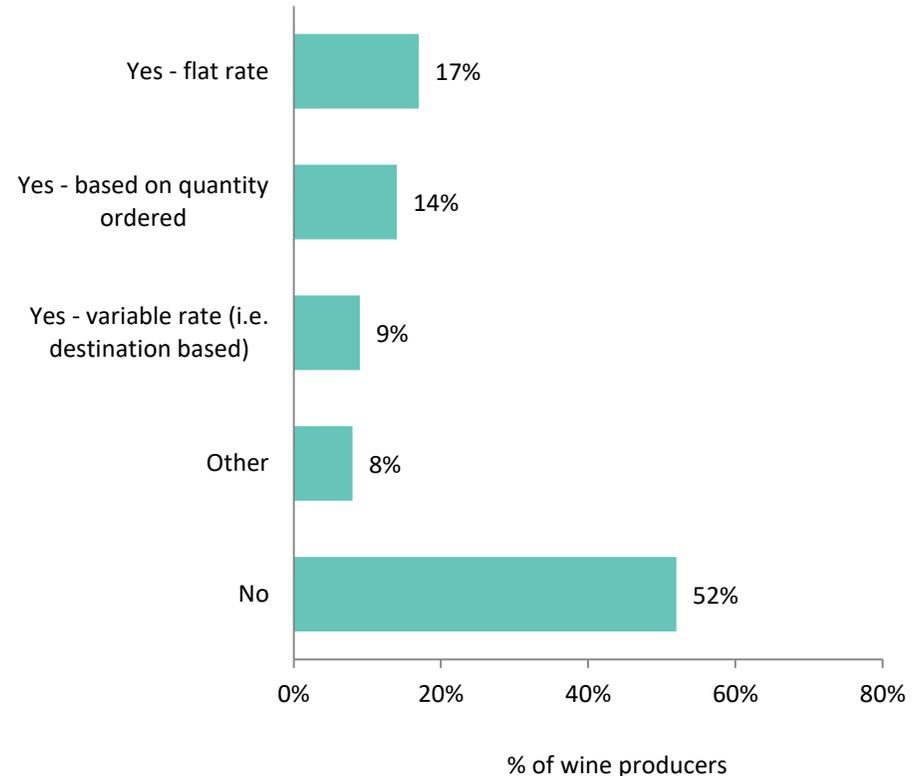
Just over half of the respondents indicated that they do not charge for shipments.

It is considered best practice not to charge for shipments, as this creates a disincentive to complete an order online, as well as imposing an additional cost compared with purchasing through retail channels.

Within the 'other' category, several indicated that the decision was based on the size of the order, one indicated that it depended on the 'tier level' of the club member, one absorbed the first \$10 of freight and charged the balance, and one charged for rural deliveries.

Do you charge for shipping to club members ?

(Base: have wine/loyalty club members, answered question, n=106)



8

Survey method

Survey method

The survey was conducted on behalf of Wine Australia by Harrison Research.

An online survey invitation was sent to 2091 wine producers in July 2018, with responses being collected in accordance with the Market and Social Research Privacy Principles (M&SRPPs) and Harrison Research's ISO 20252 accredited processes.

A weblink was also made available and promoted to the wineries, and a number of reminders were sent to encourage participation.

Larger producers with multiple cellar doors were encouraged to complete the survey for each cellar door – that is, at the 'Brand' level rather than for the company as a whole.

A total of 180 completed surveys were received although some wineries were unable to answer some of the questions. A sample of this size offers a margin of error of $\pm 7.27\%$ to 95% confidence at the total sample level.

For the purpose of analysis, respondents were divided into 5 categories, namely:

- Limited production (Less than 1,000 cases);
- Very small (1,000 to 4,999 cases);
- Small (5,000 to 19,999 cases);
- Medium (20,000 to 49,999 cases); and
- Large (50,000 cases or more).

Note that due to the relatively small overall sample (n=180 maximum) when comparisons are made between winery size, differences are not generally statistically significant but can be regarded as indicative.

Background to survey participants

Of the 180 respondents:-

- 36 (20%) were classified as Limited production (Less than 1,000 cases);
- 54 (30%) were classified as Very small (1,000 to 4,999 cases);
- 50 (28%) were classified as Small (5,000 to 19,999 cases);
- 20 (11%) were classified as Medium (20,000 to 49,999 cases); and
- 20 (11%) were classified as Large (50,000 cases or more).

Not all provided details of their Region/GI. Of the 156 that did:

- 49 (31%) were from South Australia;
- 36 (23%) were from Victoria;
- 34 (22%) were from NSW;
- 24 (15%) were from Western Australia;
- 6 (4%) were from Tasmania;
- 5 (3%) were from Queensland; and
- 2 (1%) were from the ACT.

Acknowledgements and disclaimer

Acknowledgements

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The survey builds and expands on Wine Australia's Small Winemaker Production and Sales survey 2017.

The project was strongly supported by Wine Industry Suppliers Australia – in particular board member Robin Shaw, who provided input to the questionnaire design and insights on the results. Sandra Hess, DTC Wine Workshops (US), also offered insights and comparisons with the US results.

References to US research refer to the WBM/SVB Tasting Room Survey, which is conducted annually.

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