

COPPER PEAK
LOGISTICS

WHERE IS WINE SHIPPING & FULFILLMENT GOING?

*The Trends You Need to Catch to
Grow Your DTC Wine Sales Channel*



One thing we love about the wine industry is its timelessness and sense of tradition. Many of the ways grapes are grown, cared for, and eventually turned into wine have been around for generations, if not centuries.

Which is exactly why the sea-changes underway in the areas of DTC wine sales, wine eCommerce, and the fulfillment of both can be a little unsettling. It is so easy to get lost in the little details, paddling against the waves but unaware of which way the tide is going.

That's why we felt compelled to put together this eBook. In it are the various predictions we've made over the past year, along with insights from the industry's experts as to where we are, and where we are heading.

Our hope is that, by gathering this content, distilling it down, and putting it in one place, we can give winery owners, club managers, tasting room managers, COOs, and others a chance to step back, look towards the horizon, and navigate by fixed a point. Change can mean exciting opportunity...if you are prepared.

EXECUTIVE SUMMARY

The industry is still recovering from much over the past year, and DTC sales have grown. But this has brought increased competition and a bigger need for wineries and subscription services to find competitive advantages.

Legal compliance with state shipping laws, a national labor shortage, and intelligent use of digital tools (especially for engaging today's millennial consumers) continue to be challenges for the industry.

Going forward wineries, and especially their wine clubs, will need to form strategic partnerships with specialists not only to reach customers and contain costs, but to help create positive customer experiences and deliver on the brand promise.

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WHAT DID 2018 BRING?

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If you do not know where you come from, then you don't know where you are, and if you don't know where you are, then you don't know where you're going. And if you don't know where you're going, you're probably going wrong.

TERRY PRATCHETT

Author, from I Shall Wear

At the close of every year, the team here at Copper Peak Logistics gets together to discuss what we've seen, what we've blogged about, and what we think the future holds.

To understand where the wine industry (and DTC wine sales in general) is going, it helps to understand where we have been.

PREDICTION #1

The industry will come back better than ever after the wildfires in California. We were largely right about this, as tourism has rebounded and overall sales are up. This story is still being told, however, as recovery is still in progress.

PREDICTION #2

DTC sales will continue to rise, especially when it comes to eCommerce, but the competition will become more intense. We were right, as club subscriptions have plateaued at non-appointment tasting rooms and club sign ups have increased, along with order value of purchases based on wineries that use "By Appointment Only" as a strategy. eCommerce continues to be a driving force in this area.

PREDICTION #3

How wineries engage will change as the market shifts more and more to millennials. Yes, we were right here too.

PREDICTION #4

Legal compliance, with state direct shipping laws will continue to be a focus. Indeed, both FedEx and UPS have assigned a much stricter stance, as we have predicted.

PREDICTION #5

There will be greater options for wine customers to redirect their wine shipments. This is happening: FedEx now offers Walgreens, Alberstons, Safeway, Krogers, and Walmart as “Hold at Location centers”...for free.

PREDICTION #6

We will see more happening with Amazon out of the DTC wine space—but don’t expect a rush to flash sales sites as a result. Amazon’s partnership with Whole Foods has enabled the retail giant to do some same day/ same city delivery for their locations; however, at this time they have not re-entered the eTail space as they had with Wine Woot.

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WHAT NEW TRENDS HAVE CROPPED UP?

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Trends, like horses, are easier to ride in the direction they are going.

JOHN NAISBITT
Futurist, Author of Megatrends

Even with the changes we predicted, many other things have happened that impact the wine industry. As these outside influences have developed, they have changed the ways wineries and wine merchants have to do business, sometimes in subtle ways.

TREND #1

A NATIONAL LABOR SHORTAGE

Unemployment is at an all-time low, and market pressures have created a labor shortage in a number of industries, including hospitality, construction, and logistics. It has led to a shortage of field workers, pickers, and tasting room personnel in Napa and other wine producing regions as well. We take a closer look at this labor shortage in the next chapter.

TREND #2

A STRICTER REGULATORY ENVIRONMENT

States are getting more serious when it comes to license enforcement and reporting ([read here about licenses](#)), particularly for retailers. This means that everyone in the supply chain is under a significant amount of scrutiny now, which is creating its own set of delays. For example, state DTC shipping license numbers must be passed to the carriers, and when they are not, carriers are refusing shipments more often. Wineries can't use rogue shippers for certain states anymore, [and even things like media samples](#) are undergoing a closer watch. Understanding compliance in this stricter environment will be very important. We suggest starting with our drill-down chapter on compliance, below.

TREND #3

THE WAYFAIR TAX RULING AND DTC SALES ACROSS STATES

Just this past summer, the U.S. Supreme Court handed down its decision in the case of [South Dakota v. Wayfair](#). The case challenges South Dakota's application of its sales tax to internet retail-

ers who sell into the state but who have no property or employees there.

Basically, the court ruled that South Dakota could levy the tax, and that it was not a burden to interstate commerce (although more far-reaching tax laws could well be). We are not experts on tax law ourselves, but we have noticed just how much confusion the ruling and its various interpretations have caused—especially for online sellers and consumers.

Thus, wineries that sell DTC should expect the confusion to continue—and expect states to pass their own new taxes on eCommerce and DTC goods. Before they do, sellers will need to find ways to keep on top of state sales taxes and charge the appropriate amount at checkout.

TREND #4

CARRIERS (STILL) RAISING RATES

Carriers like UPS and FedEx have been raising rates in lock-step over the past few years. In fact, these carriers have had a rate increase every year since 2008, with an average increase of 4.9% per year for both ground and air shipping.

Some additional increases have been in the form of accessorial fees, which are often the hidden or forgotten portion of the bigger picture. 2019 will bring yet another round of price increases, as carriers themselves deal with driver and regulatory issues, and we suspect that the wineries shipping DTC will feel the brunt of this one once again.

TREND #5

AN ECONOMY STILL SURGING ALONG...

The trends are not all bad news. The good news is that, overall, the economy is still doing well. We are currently in one of the longest periods of growth and expansion in recent history, and there are many signs of a solid economic foundation in place.

In fact, the things we are seeing—price increases, low unemployment, etc.—tend to be symptoms of a good economy that has gone on for some time.

Will the good news continue, or are we due for a downturn? No one knows for sure. We certainly aren't economists ourselves. What we can say is that, if the economy continues to do well, there will be upward pressure on wages and on prices (inflation). There is good and bad to both; the point is to be prepared.

TREND #6

TARIFFS AND TRADE WARS

The fallout from the most recent round of tariffs is still occurring, and no one yet has a good grip on what they will mean. While wine to countries like China has not historically been a huge source of revenue, winemakers are worried about losing future potential market share.

The California Wine Institute, for example, has been pushing to market California wines in China over the past few years, spending on social media campaigns and trade missions. They expect a 15% Chinese tariff on California wines now, which will undermine most of their efforts.

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DRILL DOWN: LABOR

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*Talent wins games, but teamwork
and intelligence wins championships.*

MICHAEL JORDAN
Basketball Legend

Several articles published this year have been sounding the alarm bell about the labor shortage in the wine industry. This labor shortage is affecting the Napa Valley and extends as far north as Washington and as far south and east as Arizona, and it can be seen in a number of roles, from field workers and tasting room personnel to construction crews to warehouse workers, packers, and anyone in a fulfillment role.

Those of us in the valley have felt this shortage firsthand, as businesses that were virtually landmarks have shuttered, citing labor shortages.

There are several factors creating this labor shortage, which means there is no one easy solution for it—and it is unlikely to go away quickly. Some of those factors include:

High demand for labor after the valley fires last year

Increased demand for labor in construction and hospitality

Increasing rate of retirement of warehouse workers, drivers, etc.

Uncertainty around the available pool of migrant labor/guest labor

Low unemployment generally (as of June 2018, unemployment was at roughly 3.8%—the lowest since 2000!)

High cost of living in the Napa/Sonoma area

This shortage will likely get worse before it gets better, as there simply are not enough workers to meet demand.

A SHORTAGE OF DRIVERS

One of the places where the shortage of labor is most keen is in over-the-road drivers. The shortage of drivers is expected to reach 239,000 by 2022, according to national statistics. These people are the lifeblood for moving eCommerce freight. Once, competitive wages and benefits drew people to this vocation, but further competition and regulations mean it's not quite as lucrative as it once was.

Add in the fact that the up-and-coming millennial generation simply doesn't find the lifestyle appealing, and it's no wonder there are fewer and fewer drivers every year. If this trend continues, it could mean significantly higher wages to retain drivers, but longer wait times for shipments and more "last mile" issues for deliveries.

LABOR VS. TALENT

Labor is only part of the equation. Shipping and logistics require more than just a pair of hands to work. Employees have to be eager, engaged, and able to learn from their mistakes. They must be capable of careful work when needed, and show some initiative when things get complicated. In short, there is demand for labor with talent.

And yet, an earlier study by Deloitte found just this mix of aptitude lacking in the current talent supply for logistics: though there was an eager workforce, that supply of talent often lacked either the technical skills needed, the business and leadership skills needed, or both. This is important, because, when the talent supply runs short, you have to start worrying about who, exactly, is handling your precious merchandise-- and what shortcuts they might be taking.

LABOR IS NOW A COMPETITIVE ADVANTAGE

Companies that have managed to attract and retain the right talent have a competitive advantage. These companies tend to embrace new technology more rapidly, find efficiencies more quickly, and generally have a lower rate of turn-over in their workforce. They can also scale with increased demand more easily. All of this translates into faster service for customers, reduced loss, and better visibility overall.

Which brings us to wineries that perform DTC wine shipping in house. There are many good reasons wineries have chosen to take this approach; in fact, we have written about them in the past. Things like control, we can do it cheaper, and we have special needs, or we have space available are all good reasons, but ask yourself today if they still apply? Are you ready to challenge your status quo by evaluating your operations and ask yourself is this our core function or not?

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DRILL DOWN: COMPLIANCE

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*Obey the principles without being
bound by them.*

BRUCE LEE

Martial Artist, Actor, & Director

As we mentioned before, states are getting more serious when it comes to license enforcement and reporting. This means that everyone in the supply chain is under a significant amount of scrutiny. Understanding compliance in this stricter environment will be very important.

To get a better grasp of what is happening when it comes to compliance and wine shipping, [we spoke with Jeff Carroll](#), VP Product and Marketing at Compli and Board Member with Free the Grapes!, and an expert in the DTC compliance space for over a decade.

HERE ARE SOME OF THE PREDICTIONS

CARROLL MADE:

You can expect wineries will have access to every state eventually. The positive side of that is that you have more access to consumers around the country. The challenge is that, with new states coming on board, you'll have that much more complexity to deal with from a compliance perspective. State regulations are always in flux, and it pays to stay on top of them. [We recommend using [The Wine Compliance Rules Portal](#) to help!]

That complexity will come with new issues surrounding sales tax. Jeff wrote a blog post [about the South Dakota v. Wayfair, Inc. case hear by the Supreme Court](#) and that affects sales tax for eCommerce sellers. The Court ruled that states have the ability to require out of state sellers to pay sales tax, even if they don't have a physical presence in the state. Over the next 9 months, you'll now see virtually every state go back to their legislature to take advantage of this ruling. Fortunately, wineries are already used to paying sales tax in the majority of states that they ship to, so this will only complicate things incrementally. However, sales tax is really a huge pain for wineries and retailers and these changes will cause some additional confusion.

There has been a real increase in regulatory enforcement across the country. States have figured out how to use information from the common carriers to do a better job of enforcing tax payments and compliance rules. On the whole, the industry is really good at compliance, so the net effect will be that some of the bad actors in the industry might get some exposure.

How has this affected wine shipping, particularly along the “last mile?” Carroll spotted a trend here too: “About two years ago, FedEx and UPS really started cracking down on non-compliant shipments. That forced a lot of businesses to stop shipping to states where they didn’t hold a proper permit. So, I think retailers are struggling a bit right now and are looking for the right strategy to move forward.”

LOOSENING LAWS CAN’T BE THE ANSWER TO GROWTH

Growth in the DTC space has, for some time, been fueled partly by new states adopting more favorable laws. This is a great development, of course, and it is a good thing that people have been hard at work removing some of those barriers and obstacles.

But one cannot build a growth strategy entirely on new favorable laws. Heavier enforcement and new taxes reveal some of those limits. This means that wineries and wine clubs will have to work hard to find new customers in existing markets, and new ways to reach those customers, before their sales force hits a wall.

So what tools are forward-looking wineries and wine club managers using going into next year?

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DRILL DOWN: DIGITAL TOOLS

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*Building a successful brand isn't just about ROI;
it's also about building
authentic relationships with people.*

RYAN HOLMES

*CEO of Hootsuite, best-in-class tool for
social media management*

So where should wineries go from here? Even as DTC sales are growing, there's evidence that the wine industry is lagging behind other industries when it comes to using digital tools. This means that wineries selling DTC can gain an advantage by learning about, and adopting, these tools.

WHAT DIGITAL TOOLS ARE NEEDED GOING INTO THE FUTURE?

Looking at what is currently lacking in the wine space, we can extrapolate the digital tools needed to grow and expand DTC wine sales:

Sophisticated, responsive websites. Your website should look appealing and be easy to navigate—even when (especially when) viewed on mobile devices.

Modern eCommerce tools that are frictionless. There are several to choose from, and many integrate easily with your inventory software, customer databases, and marketing tools. (Are you sending an automated message to folks who leave a shopping cart abandoned? Why not?)

Online marketing (and segmentation). Are you displaying ads to those searching for your products? Building a fan base on social media? Not only do these draw consumers to your eCommerce store, they provide a robust amount of information on who is buying your wine. This then allows you to segment your market and tap into those segments with highly relevant messages.

User analytics. Beyond segments, you can get data at the user level. What do your purchasers like? What do they like to do? Which ones drink which kinds of wine? Who is most likely to recommend your wine to friends? Believe it or not, modern tools can answer all of these questions, and more.

Retargeting and FOMO (“fear of missing out”) tools. If someone visits your website, are you showing them additional ads on social media? You can, and you can even display specific ads or offers based on the specific web pages visited. So, if someone looked at red varietals, your ad can speak to that. Add in tools that display how popular your brand is becoming, and users will want to be part of the experience.

Retention of wine customers. Customers will buy from you again if they like your product and feel engaged with your brand. Tell them your story, personalize your offers, and give them a little “thank you” every once in a while—especially if they have been loyal wine club subscribers.

Using “Big Data.” Yes, it’s been the buzzword these past few years. But with good reason: Every action online is creating huge amounts of data, and there’s insight hidden in that data. Most of the tools above work with big data in some way. So don’t let the label scare you—embrace it.

WHY IS THE INDUSTRY SLOW TO ADOPT SOME OF THESE TOOLS?

We don’t want to speculate on what goes through people’s minds when they hear about digital tools. Psychology is just as thorny as logistics. But we feel it is safe to point out two contributions, and why they might be changing:

Getting burned by past technologies. Remember QR codes? Flash-heavy websites? Stuffing keywords into your web page for SEO? Folks who invested heavily in these probably never saw a return on their investment. Get burned once, and it’s understandable why you might be gun-shy. That said, it’s clear that there are some sea-changes to our shopping habits that are here to stay: Online shopping, social media, etc.

A winery's expertise is in wine, not digital technology. Of course, that's how it should be. But unless you have a good partnership with an outside vendor, it's hard to stay up on the latest tools and how to use them. More and more tools are hitting the market, and many of them are designed specifically for the wine industry. It may well be time to turn to a trusted partner and ask: "What's next?"

In short, we shouldn't let fear and ignorance drive important business decisions. As a whole, the wine industry could be doing better, but that just means there is still a lot of opportunity to try new things and really grow a new channel.

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WINE FULFILLMENT: THINGS TO PONDER, PEOPLE TO CALL

Will these trends mean further difficulties for the industry, or new opportunities? Probably both, depending on how you look at them. (Most difficulties are opportunities in disguise!)

Either way, we feel strongly that future partnerships are in order for wineries, wine clubs, and wine merchants who want to remain competitive in today's market:

Labor shortages and stricter regulations mean that using a 3PL for packing and shipping will be more cost effective in the long run, than doing these things in-house.

Tougher enforcement of state DTC shipping regulations means that, if you are using a 3PL, they will have to stay on top of these so that you can continue shipping without disruption. If your 3PL has not mentioned these changes, that could be a red flag.

Rising carrier rates and labor costs will mean shipping will be more expensive. A true 3PL partner should work with you to find creative ways to offer better shipping deals and/or use additional warehouse locations for shipping .

Fewer drivers and labor pressure on carriers could mean delays in delivery, or a poorer delivery experience, right at the time when customers have come to expect a fast and seamless delivery experience. Now is the time to brainstorm ways to manage those customer expectations and make them feel more in control, even when there are high costs and delays.

Today's wine consumer is more familiar with social media and eCommerce sites than they are with wine clubs. This has lead many vendors to offer a suite of comprehensive services that includes digital marketing, eCommerce, and logistics. But is that approach better than gathering your own team of specialist? There are advantages and disadvantages to each approach; your potential partners should be able to speak to that.

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ARE YOU READY TO RIDE THE WAVES?

Or do you feel like you are drowning in a sea of details? Either way, we want to have a conversation with you. We've been watching the trends carefully, and we can help you navigate them as you figure out your wine fulfillment strategy for the coming year.

Conversations are free, so why not reach out?

PHONE

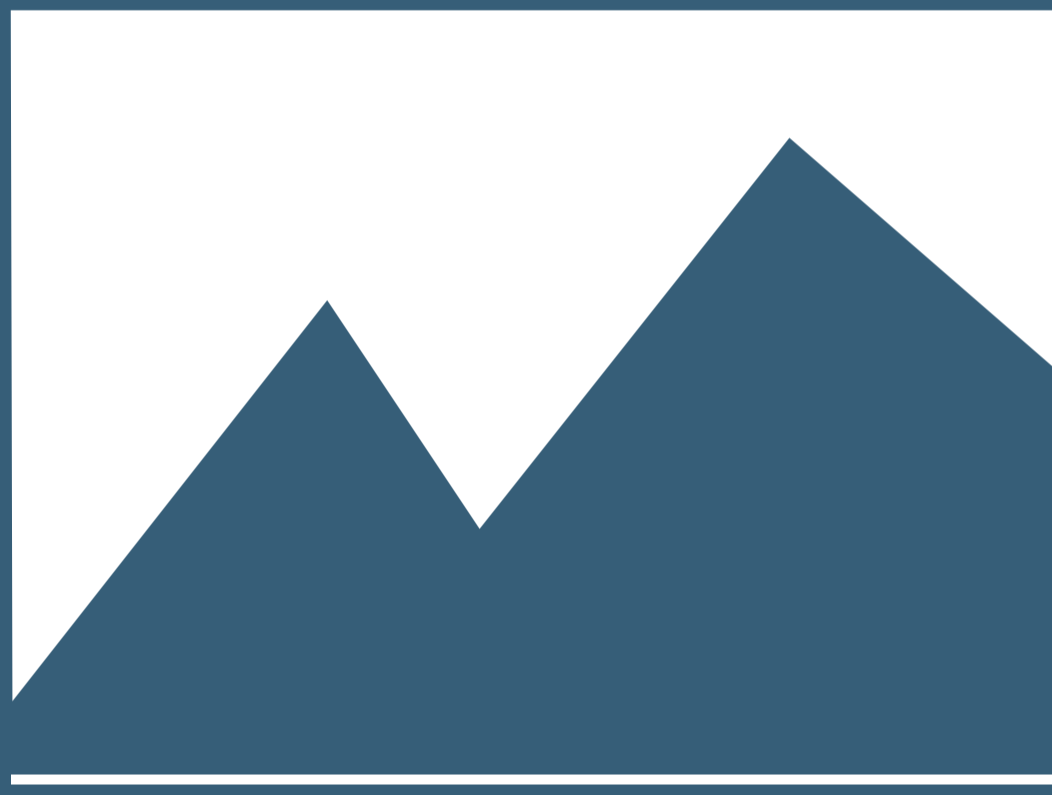
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