

# BUILDING THE STARBUCKS OF WINE

Starbucks' president Howard Schultz built a retail coffee chain that remains a point of reference for anyone trying to brand a gourmet commodity experience. Dr. Laurent Guinand looks at six companies that hope to follow in his footsteps and build the Starbucks of wine.

Few retail chains are as admired as Starbucks, but different people revere the company for different reasons. Some will argue that Starbucks' main achievement has been their ability to bring gourmet coffee to mainstream America. Others might underline the visionary positions of its long time president, Howard Schultz, and his commitment to employee care

- It was one the first brands established for coffee shops,
- It created a lingo to describe the coffee drinking experience,
- It carefully planned its real estate approach so that it was able to position its stores to optimize its service in America's most important Metropolitan Statistical Areas (MSA),
- It implemented processes that could

songs, long before other coffee outlets.

Through these measures customer value was expanded from the 79 cents a cup at the local gas station to \$5 a cup on premise while checking emails before a business meeting.

The American world of wine is now at the beginning of a similar transformation. Over the past few years, Americans have been drinking more and more wine, which is slowly becoming the alcoholic beverage of choice. Analysts predict that the United States will become the world's largest wine market within two years. This growth comes both from new drinkers discovering wine, as well as from the increased frequency of consumption of established consumers.

Yet, the world of wine is at least as confusing today as the world of coffee was 20 years ago, probably more so. There are 10,000 domestic companies producing 70% of the wine America consumes, with wineries in all 50 states. The remaining 30% is made by thousands of estates scattered all over the world and shipped here by some 2,000 importers with different geographic coverage. You'll find the mix has hundreds of varieties from Chardonnay, Cabernet and Mstvane to Sagrantino. It is true that a few wines such as Yellow Tail or Santa Margherita sell several million cases in the US market each year, but as new wine enthusiasts tune their palates and preferences, they quickly migrate to more interesting, more complex and more expensive wines. This developing enthusiasm, accompanied by the development of gourmet cuisine, is apparent in the ever growing number of wine events organized by schools, restaurants or liquor stores every day in all major cities. Yet, when you discuss wine with enthusiasts,

1	Wine Bars Market Positioning		
	The Wine Loft	The Grape	Vino Volo
Web site	www.thewineloft.net	www.yourgrape.com	www.vinovolo.com
Preferred locations	In city centers	In malls and city centers	In airports
Simplified wine classification	No specific classification	Yes. Specific classification including 10 categories based on weight of wine, color, and occasion (numbered 1 to 10). Trademarked	Yes. Classification in four categories: Bright, Rich, Light, Brooding. Patented Vino Chart
Wine selection	70 wines by the glass 250 wines by the bottle	120 wines by the glass or bottle at the bar	About 160 wines (40 per category above)
Prices range	\$8/\$14 per glass \$20/\$400 per bottle	\$5/\$14 per glass \$10/\$500 per bottle	\$15/\$200 per bottles
Exclusive wines	No	Yes, 80% of references	No
Culinary selection	Hors d'oeuvres Desserts	Hors d'oeuvres, appetizers, cheese plates, salads Few entrees, desserts	Small plates Cheese plates Cured meats
Wine Bar	Yes	Yes	Yes
Retail Store	No	Yes	Yes
Online Store	No	No	Yes
Events	Wine courses, high margin wines, promotions, afternoon Happy Hours, sponsored wine events	Happy hours Live music	Wine Club (two bottles/month) Take away food and wine

Choice of location has a major impact on the business structure. A wine bar operating out of airports has customers who are in transit and are therefore interested in stopping somewhere comfortable, not in wine courses or events.

and sustainable trade. Still others will emphasize Starbucks' ability to increase the value of local real estate when opening new stores in less desirable neighborhoods.

However, the success of Starbucks rests on something that's even more important. Starbucks delivers a consistent experience to its client base through a series of key developments:

- be replicated in all its stores, from organizing the steps to produce specialty coffees in record time to streamlined food procurement,
- It allowed for different modes of consumption, from on premise, through on the go, to coffee at home, with packets of coffee for sale
- It embraced new technologies such as wireless hot spots, gift cards or MP3

especially beginners, you discover a tremendous amount of confusion about buying wines for daily consumption or gifts. That's especially true when the average liquor store carries at least 1,000 different references. A few companies have turned this situation into an opportunity and developed business models similar to Starbucks to attract those potential customers in need of help. Some are wine bars, others wine stores. While their overall concepts are similar, each company has different plans. The following six companies are good examples of where the market is heading. The wine bars are, in no particular order: Wine Loft, The Grape, Vino Volo. The wine retail chains are Best Cellars, Vino 100 and Wine Styles.

What all these wine bar chains have in common is that they are trying to bring a consistent and comfortable experience to the wine enthusiast in a fashion similar to that of Starbucks, through similar strategies:

**Branding:** They are trying to create the first powerful wine-related brand in the retail hospitality industry

**Specific lingo:** They use simplified proprietary classifications to present their wine selection as opposed to traditional systems based on varietal or place of origin

**Replicable processes:**

- Although the number of wines presented remains modest, with a maximum of 250, widely different price points are represented and all wines are categorized
- Most wines are sold by the glass so that customers can taste the wine before buying a bottle
- Food accompaniments remain simple and do not need a full kitchen operation so they can be prepared in advance from one point, though served in several locations

**Modes of consumption:** bottles can be bought at the wine bar or in the retail section of the bar when allowed by state law. Further, bottles can be re-corked to take home when not finished

**Education:** all these establishments drive traffic through Happy Hours and

other wine events, which may be educational or not

**Real estate planning:** A centralized team of professional real estate planners is responsible for devising the best locations in the MSA for the new wine bars.

The main differences between the three chains are their target markets and their individual atmosphere. Vino Volo serves business travelers in airports, a small, but captive and profitable segment. The Wine Loft looks more like a regular bar or lounge, where professionals go after work or dinner. The Grape is focused more on food so that people stay longer and consume more. Further, the Wine Loft and The Grape have both been developing in the South Eastern United States, where the wine knowledge of consumers is low.

All, though, are hampered by the fact that it's not as easy for people to consume wine in the same way they do coffee at Starbucks and then drive home. Further, it will be difficult, if not impossible, to create wine brands large enough to supply a chain the size of Starbucks. Moreover, it is unclear whether an 'own label', as Starbucks has created for its coffees, will have any credibility with consumers who trust brands, nor how large producers such as Constellation Brands, Foster's

or Pernod-Ricard will deal with companies of that size.

In terms of operations, table two offers an overview of the nature and organization of each chain. Most critical functions and processes are centralized in order to control the uniform development of the different locations:

- Wine selection, purchasing and inventory management allow for reduced cost based on volumes not possible for a single location.
- Centralized information technology and web site management as well as marketing and communication functions allows for cost savings, but also help build a single brand and communicate it in a consistent manner across the geographic regions.
- Centralized real estate planning is probably the most important aspect of this model as a team of specialized brokers and developers are able to identify the best locations to develop a new wine bar in a given area.
- Franchising has been the preferred mode of development as a way to quickly gain ground and sustain fast growth, without also needing to raise any capital.

The three retail chains presented in table three - Vino 100, Best Cellars and Wine Styles - follow a similar growth strategy, including a simplified

2 Wine Bars Operations			
	The Wine Loft	The Grape	Vino Volo
Year Started	2003	2000	2004
Number of Locations	10 locations	26 locations	5 locations
Franchise model	Yes	Yes	No
Centralized purchasing	Yes	Yes	Yes
Centralised wine selection and purchase	Yes	Yes	Yes and No Some focus on local wines
Centralised inventory management	Yes	Yes	Yes
Centralised IT and website	Yes	Yes	Yes
Centralized national marketing and brand management	Yes	Yes	Yes
Centralized real estate planning and development	Yes	Yes	Yes
Centralized training	Yes	Yes	NA

By centralizing operations from marketing to inventory management, the wine bars represented here can eliminate waste.

wine classification, limited selection of wines, wine events to foster traffic and narrow price ranges. The two franchises have been growing much faster than the non-franchise.

*The race is on*

Franchise models have grown faster than organic ones because they require less capital from head office. However, as organizations evolve over time, franchises usually have more difficulties in remaining consistent. New systems might not be implemented everywhere, local marketing campaigns become more important than national ones to fight local competition and potential mergers represent true challenges to integrate. All these aspects usually affect profitability.

*Who is going to win?*

Is this business model more appropriate for stores where wine margins are lower, but inventory turn-over is

higher? Or is it more appropriate for the wine bar, where wine margins are higher, but there is less consistent traffic and higher operational costs?

Starbucks ended up having locations in airports, mall and city centres - and always bundled the on-premise experience with the retail sales. None of their stores are franchises. Processes and operations are the same in its more than 10,000 locations across the globe. It will be interesting to follow these new breeds of wine bars and wine stores as they continue to grow, merge or see other business models emerge to compete with them. The first company to go public will probably have enough cash on hand to continue growing its network of locations with a level of control and profitability. Like in the early days of Starbucks, the most successful wine bar and retail chains will probably buy each other out and grow, not organically, but through acquisition. ■

**3 Wine Stores Comparison**

	Vino 100	Best Cellars	Wine Styles
Web site	www.vino100.com	www.bestcellars.com	www.winestyles.net
Year started	2003	1996	2002
Number of locations	69	7	180
Franchise	Yes	No	Yes
Preferred locations	Suburban Malls	City Centers	Suburban Malls
Atmosphere	Simple and user-friendly retail space	Sleek design – urban chic \$5/\$14 per glass	Warm and reminiscent of Mediterranean village
Simplified wine classification	Yes 'Vino 100 Taste Barometer' that measures flavor (fruity vs dry) and body (heavy vs light)	Yes Tailored classification 3 types of white: fresh/soft/luscious 3 types of red: juicy/big/smooth 2 other: fizzy/sweet	Yes Tailored Classification "What's your style"™ 3 types of white: crisp/silk /rich 3 types of red: fruity/bold/mellow 2 other: bubbly/nectar
Wine selection	100 wines	100 wines	About 150 wines
Prices range	No	Happy hours	Yes
Wine Focus	Small Wineries Some comfort wines	Wine in exclusivity No or little overlap	Mostly Small Wineries Some well known brands Cuvees for Wine Style stores
Online Store	No	Yes	No
Events	Wine tasting events	Wine tasting events	Wine Club
Note	Sometime in same location as Tinder Box (Cigar retail shop)		Store can choose 150 wines out of 1,700 registered by HQ

SOURCE: THE AUTHOR

The wine retail chains, just as much as the wine bars, are working hard to give customers a branded experience.