Virtual Vineyards
Case Update

Founded in 1994, Virtual Vineyards was the first wine merchant on the Web and one of the earliest e-commerce sites. Since its inception, the popularity of Virtual Vineyards has grown, thanks to its founder Peter Granoff (acting as a Web host and guide), a team of wine experts and other industry professionals. In September 1999, Virtual Vineyards acquired online wine retailer wine.com Inc., assuming the name of that company, and became the leading online wine destination.

Wine.com won numerous editorial and industry awards, and consistently received high ratings from BizRate.com, an independent e-commerce evaluator. Since its first shipment in January 1995, the company approximately doubled its sales each year. Over the last five years, wine.com expanded its selection to appeal to a broader customer base; in addition to California wines, there were wine and food selections from around the world. Likewise, the price range was much broader, with product costs ranging from $5 to several hundred dollars. Adding to its selection, wine.com began offering its own branded wine in October 1998. Over 30 percent of its business was derived from gifts, a market it believed would continue to grow. Wine.com also anticipated expansion of its international product selection, growth of its international customer base and further development of its foreign distribution network. Wine.com was able to ship wine to more than 90 percent of the United States, as well as to Asia and Europe.

The company’s website offerings included a proprietary wine-testing chart and detailed wine information written by a professional team lead by two master sommeliers, Peter Granoff and Tim Gaiser. Wine.com had an inventory of 2,000 wines, and each wine was 100-percent guaranteed. Wine.com's "Featured Wineries" gave consumers access to exclusive wines from such leading wine brands as Niebaum-Coppola, Kendall-Jackson, Sterling Vineyards, Domaine Chandon and Gallo of Sonoma, which in turn served to enhance wine.com's online presence.

As an e-commerce pioneer, the wine.com brand is widely known. The company enjoyed a reputation for quality selections and exceptional customer service. Many of wine.com's suppliers were small wineries without the resources to mount a global marketing campaign or build a global distribution network. These suppliers could take advantage of wine.com's global reach at no cost. Because of wine.com's established reputation for quality and value, suppliers could enjoy a "halo effect" by being on the wine.com online shelf.

High-profile partnerships, co-marketing efforts and affiliate relationships were an important part of the wine.com business model. The company enjoyed marketing relationships with many top-tier Internet sites, including America Online Inc. (including Netscape), Amazon.com Inc., Excite, Infoseek, Microsoft Corp., and Lycos Inc.

In August 2000, the two leading online wine e-tailers — wine.com and WineShopper.com — agreed to merge. The new company began operations under the name wine.com. Following the merger, the company stated that it would focus its efforts to grow traffic and sales.
through the existing wine.com website. The WineShopper.com platform was used to develop a redesigned website that was due to launch in the first quarter of 2001.

At the time, Amazon.com currently had a 40 percent equity stake in WineShopper.com, and became a major shareholder in the merged company. The merger was seen by many experts as an indication of the next step in e-commerce, where in order to grow and succeed competitors have to join forces rather than ask investors for more cash to stay afloat.

In January 2001, the newly combined wine.com and WineShopper.com laid off 75 of its 310 employees; on April 2, it then reduced its payroll by another 160. But these and other cost-cutting moves were not enough. On April 27, privately held eVineyard announced its acquisition of wine.com for less than $10 million (investors had spent over $200 million on wine.com and WineShopper.com at the time eVineyard announced the acquisition). In July 2001, eVineyard became “wine.com by eVineyard”, significantly enhancing its website and adopting “wine.com” as its primary brand.

Industry analysts attributed eVineyard's victory over wine.com to a superior business model. With eVineyard, a consumer can get a bottle of wine shipped immediately. Wine.com orders frequently had to be routed through a winery, wholesaler or broker and then a retailer.1

Wine.com advertised heavily, but was never able to overcome its distribution hurdles, said Rich Cartiere, publisher of Rich Cartiere’s Wine Market Report. For example, if a customer in New York placed online orders with wine.com, he said, the company had to locate a winery with that vintage and arrange to ship it to a wholesaler, who then had to persuade a retailer to ship it to a buyer. All that effort and overhead produced profits that averaged only 5 percent to 7 percent per order.2

eVineyard, by contrast, obtained licenses to directly sell more than 5,000 domestic and imported premium wines in 27 states. The same New York buyer, benefiting from eVineyard's New York wholesale connections, could buy wine directly from a local retailer and eVineyard would ship the item.3

Wine.com by eVineyard serves 50 states — legally serving wine buyers in 27 states and Japan and selling gifts and accessories in the 23 remaining states. eVineyard offers over 5,000 domestic and imported wines and has features such as online education, promotions and loyalty programs, sweepstakes events and a wine club. With 10 current logistic centers, eVineyard sells wines to each of the country's top 10 wine markets, reaching approximately 75 percent of the United States market for off-premises premium wine sales.

The company achieved profitability during the fourth quarter of 2001 and saw its sales grow 10 to 20 percent in the past month [March, 2002], said eVineyard’s spokeswoman Jean

2 Ibid.
3 Ibid.
Jacote. Despite its solid financial performance, eVineyard has dismissed 26 of its 58 employees in two rounds of layoffs. Many job cuts occurred in the company’s business development departments, as well as in its administrative and marketing departments. eVineyard is also considering moving its headquarters from Portland to the Bay Area to be closer to Napa Valley wine vendors. The changes are part of new chief executive Peter Ekman’s expansion strategy. Ekman was appointed CEO and president in March 2002, replacing a former chief executive Larry Gerhard.

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