

## Online wine auctions hit the spot

BLAIR SPEEDY THE AUSTRALIAN JUNE 23, 2012 12:00AM



Cheers . . . Cracka Wines chief Dean Taylor celebrates the rapid growth of online drink sales Source: The Australian

### **HOW do you get shoppers to spend in the toughest retail market in decades? The same way you get toddlers to eat their vegetables -- turn it into a game.**

It's called gameification -- adding an element of a competition or novelty to a mundane task to make it more attractive -- and it's making a mint in the wine market.

At a time when retail wine sales are struggling to produce annual growth of more than 3 per cent, the online wine sector has grown by 50 per cent in each of the past two years.

Market estimates put the size of the online wine sector at \$220 million -- equivalent to about 5 per cent of the domestic retail wine market -- and it is expected to top \$350m this year.

Leading the charge are the auction sites, in which the element of competition has created an intoxicating mixture for wine buyers.

"Auctions are the original form of online gameification," says Dean Taylor, chief executive at Crackawines.com.au, which sells brand-name wine in the \$10-\$25 per bottle range.

"The most successful models are the ones that create a level of interaction over and above a pure commercial transaction, and that keeps them coming back and spending more time engaging with the site."

It's certainly working for Cracka, which after two years of operation is the second-biggest player in online wine sales, behind only market pioneer Grays Online.

"We're seeing roughly 20 per cent growth per month across the business . . . every month is 20 per cent higher than the last one, allowing for some bumps in seasonality," Taylor says.

Andre Eikmeier, co-founder of daily deal wine website Vinomofu, says his sales were growing by about 25 per cent month on month until April, when retail juggernaut Catch of the Day bought an unspecified stake less than a year after the business was launched.

Since then, monthly sales on a revamped website have more than tripled, due to access to COTD's two million customer database, which has in turn allowed Vinomofu to buy larger quantities and offer cheaper prices.

"It's a bit crazy around here at the moment, but that's why we did the deal," Eikmeier says.

While not an auction site, Eikmeier says, Vinomofu's limited-time deals press the same buttons that prompt shoppers to buy.

"It's a combination of fun and urgency -- models like auctions and countdown deals seem to trigger the human instinct to respond to urgency so you don't miss out," he says.

The limited choice that is inherent in the model -- most sites offer fewer than a dozen wines each day -- is also a plus, Eikmeier says, as it simplifies decision-making for shoppers, rather than swamping them with options.

"Wine is something people want recommendations on, and with our wines we've tasted them, we can tell you about them and we stand by them -- you're buying the recommendation as much as the wine," he says.

"It's no good having a site that says come in and browse, we've got thousands of wines . . . without that call to action, which can be something as simple as an email saying here's a wine that's a great deal, do you want it, jump on now, I don't think anyone will sell a lot of wine."

At the same time as urging buyers not to miss out, the websites are soothing those who might fear their wine knowledge isn't up to scratch, with a plethora of information and recommendations that mean they don't have to ask questions that might make them seem foolish.

Grays Online chief executive Cameron Poolman says people like to talk about wine and shoppers seem to enjoy the online community created by participating in auctions and posting reviews of their purchases -- which for Grays average \$5 a bottle.

"It's something that really resonates with wine," he says.

"We allow people to post their own reviews on every auction -- the number of red wine reviews we have that say this wine goes well with a steak is amazing."

User-generated reviews are also more approachable for novice wine drinkers who could be intimidated by the talk of oak treatments and hand-picking that is often found on more upmarket wine sites.

Poolman says wine products with user-generated reviews achieve 63 per cent conversion (people buying the wine after reading about it), almost double the 34 per cent conversion rate among unreviewed wines.

This tactic has helped Grays Online to become the biggest player in the wine auction market, and more than 10 years after launching, the business that accounts for 10 per cent of the company's sales is still growing at 25 per cent annually.

With numbers like that it is unsurprising that Grays is understood to have commissioned UBS to do a strategic review, which is expected to canvass options including a stockmarket listing -- a move that would be unthinkable for almost any other retailer in the current dour market.

Woolworths liquor director Brad Banducci says auctions are a useful tool to win customers who can then be sold larger volumes of fixed-price wines.

In 2009, Woolworths bought fine wine auctioneer Langton's, the biggest player in the secondary market for ultra-premium wines such as Penfolds Grange. "Langton's auction business is terrific, but it's very hard to find sufficient product," he says. "Fine wine is pretty strong but we're always dependent on finding cellars that we can access to sell.

"But the same collector who buys an aged wine in the secondary market will also buy the current release."

So this year, Langton's began using its customer database to sell wines directly to collectors, with discounted offers on premium wines priced at an average of \$35 a bottle.

The result, Banducci says, has been sales growth of more than 30 per cent.

The strategy was an alternative to the more obvious means of expansion by selling lower priced wines to

compete with Grays Online -- which incidentally also has a thriving business in high-end wine auctions undertaken on behalf of collectors.

"We looked at doing it, we even discussed it with Dean Taylor before he went to Cracka, but Langton's is a fine wine business and that's what we want it to continue to be," Banducci says.

Taylor says Cracka has also moved to fixed-price sales, driven by a mix of convenience, price certainty and a narrowing of the price differential between auctions and fixed-price wine sold online.

"Auctions definitely get people through the door, but what we find after they have an experience with us and we build a relationship, they tend to migrate towards the fixed-price purchases as well," he says.

"When we launched, auctions would have represented 90 per cent of volume and value or sales, but now it's pretty much evenly split with fixed price."

All of which suggests that even when the novelty of gameification has worn off, shoppers still need a drink. As Eikmeier explains: "It's fun to buy wine -- it's not banking."