

BENEFITS OF SUBSCRIPTION MODEL

Hosted services model for winery websites

BY Ron Kreutzer, President, WineWeb Enterprises, Inc.

When any small to medium-size business wants to create their first website, or revise their existing website to provide additional functionality, there have, until now, been two choices: buy a ready-made website or build your own website from scratch. In the wine industry, there exists a third choice: the

“subscribe” model. Let’s examine website models available and identify when the subscribe model can make business sense.

The Models: Buy, Build, or Subscribe

When considering website software for your winery, the common practice is to research software packages in the market and decide if your requirements can be satisfied by an existing

package (buy) or if your requirements are unique enough that you must create your own technology solution (build), either by hiring a professional website developer or by using in-house staff.

There is a third option for wineries considering an initial website or a more robust website. Several service providers offer website solutions on a subscription model, specific to the wine industry.

This “rent” or “subscribe” model may also be called a “hosted solution” or an “application service provider” model, but the concept is the same, and it can provide advantages over the buy or build models. Typically, there is nothing to install on your computer, ongoing enhancements are included in the subscription, and someone else ensures that the application is running and maintained. A major disadvantage to this model is that there are recurring fees, although a cost-benefit analysis



Vineyard 7 & 8 (St. Helena, CA) has a hosted website that is customized with the winery’s own graphics and content, and includes a sales and wine club portal.

may show that adding the extra costs of the buy or build model tilts the advantage to the subscribe model.

Subscription Model

In evaluating the options for your winery's website, and for your winery's entire online presence, consideration should be given to both costs and features. In addition, a winery should consider factors such as the dynamics of the wine industry and extra value that can be provided by subscribing to a service. The following sections outline the major factors that should be considered in your decision process.

Robustness

"Robustness" refers to more than just the feature set provided by a website package or service. Sure, the service must allow you to create content so online visitors can understand your winery and its products. This content, at a minimum, should include information on your winery, vineyards, winemaking, wines, vintages, accolades (awards and ratings), wine clubs, news and events, contacts, and directions to visit the winery.

The robustness of a website also refers to ease of navigation, user-friendliness, page load speed, useful traffic statistics, e-commerce options, and communication options (both to and from your website visitors).

Service providers who offer a website subscription model typically have spent much time and effort in creating a robust offering, specific to the industry. Their ability to leverage this investment across many winery subscribers results in economies of scale compared to a custom-built website.

In addition, a developer hired to create a custom website for your winery may not have the requisite experience in all elements needed, including graphic design, website design, information technology best practices, data modeling, web development, and wine industry expertise.

Ability to customize

A successful website not only needs to be robust, but should also reflect the winery's style and philosophy. This includes using your winery's graphic

elements and color themes. Be sure to review the level of customization allowed in a hosted solution.

You don't want a website that looks identical to your neighbor's website. A well-designed hosted website can provide a custom look and feel for your winery, by separating the presentation layer (fonts, colors, graphics) from the content.

While a custom-built website can be created to precisely match the design elements set by you or your staff, you must remember the business goals of your online presence. Typically, those business goals are focused on marketing and selling wine.

While an initial two-minute movie on the history of the winery may have a "wow" factor from a technology and entertainment perspective, many potential customers may abandon your website before reaching the order form. The hosted website will make sure you don't forget any essential element.

Ongoing maintenance

As soon as your website is installed for all to see, it immediately becomes dated. Fresh content is key to the return of potential customers. Your staff must be able to easily change content on your website.

You should not need to call a website developer every time you add a new vintage or add a new state to which you can ship. Most service providers offer a "content management system" that allows a non-technical person to make changes to the website.

In addition, some service providers allow your staff to modify parameters that control processing, such as changing the mixed-case discount percentage, or the credit cards that you accept. A good content management system will be industry-specific and will automate most, if not all, of the web page creation and linking tasks.

Another factor to consider is the physical and technical maintenance of the website. Items such as interface changes to credit card processing or shipping carrier systems, and shopping cart changes to support new state regulations can be expensive, and are

frequently overlooked. Forgetting about items such as data backups, web server software upgrades, and web server monitoring can be costly to your business, also.

Industry dynamics

A major factor to consider in looking at the subscription model is the stability of your winery and the overall stability of the industry. In the wine industry, we live in challenging and rapidly changing times. More direct shipping states are opening to your wines, each with its own regulations. Not only are states looking at direct-to-consumer sales, but some states are now revisiting their direct-to-trade sales laws.

Not since Prohibition have the wine laws been in such flux. Likely your winery wants to participate in selling wine to an expanding online population.

This factor is huge in considering a subscription-based model. Service providers revise and enhance their product for industry changes, and many of these revisions are included in their service at no additional cost. As you evaluate service providers, be sure to understand the enhancements that are included in the subscription price.

You should review the service provider's enhancement history by looking at their recent press releases, blog entries and "what's new" web pages. Be sure to review the service agreement to uncover any hidden costs for enhancements.

Cost

The recurring cost of a subscription model is usually cited as a disadvantage, especially by professional website developers, whose livelihood depends on creating custom websites. A closer look, however, can negate any disadvantage, and in many instances can prove that the subscription model actually has a lower total cost of ownership (TCO).

To start a cost analysis, the initial cost of a custom-built or purchased solution should be amortized over no more than three years, given the dynamics of the technology and the

industry. Then look at the additional costs involved in maintaining the website, including:

1. Website hosting;
2. Software maintenance fees;
3. E-mail communication fees;
4. Technical services required to revise your content and operating parameters;
5. Technical services required to maintain the physical web server and the software applications;
6. Your staff's time in keeping current on the regulatory changes so as to advise the service provider of required changes to the website;
7. Your staff's time in dealing with the service provider to report problems, request enhancements, and negotiate services and pricing;
8. Maintaining backups of your data;
9. Your staff's time in processing online orders, extracting transaction data for compliance reporting, and back-office processes.

Not only could the costs be less expensive with a subscription model, but due to the proactive nature of the service provider, your staff is likely to spend less time with website issues and enhancements.

Extras

Some service providers offer additional services as part of the subscription package. These could include marketing services, design services, and services aimed at driving more online traffic, and potential customers, to your website. A service provider may also offer a "portal website" for its customers.

Combining many winery websites into such a common service allows visitors to "discover" your wines by using general search terms, instead of relying on them to know of your winery and search for it directly. These extra services provide added business benefit and lead to more online sales.

ROI factor

Your investment in an online presence should be treated similarly to any other business investment. As part of your cost-benefit analysis, there should be a way to calculate a return

on investment (ROI). The buy and build models have a large initial cost and variable ongoing costs, making an ROI calculation difficult. The subscription model can make the ROI calculation easier. A service provider's pricing structure can further ease the matching of costs to benefits.

Some service providers have component-based pricing, which allows you to subscribe to only the components needed. In addition, some pricing may be based on a cost-per-transaction or a percentage-of-sales model, which can simplify calculating ROI.

Winery case study

Vineyard 7&8 (St. Helena, CA) is an example of a winery that has adopted the hosted model for its website and e-commerce processes. Purchased in 1999 by John & Louise Steffens, Vineyard 7 & 8 produced its first commercial release in 2001. Located at the top of Spring Mountain in Napa Valley, the winery's goal is to make the best possible California Cabernet Sauvignon (called "Vineyard 7") from the Spring Mountain terroir, and it also produces a high-quality Chardonnay ("Vineyard 8").

After hiring consulting winemaker Christian LeSommer, formerly of Chateau Latour, the Vineyard 7 & 8 management team began focusing on the construction of their own winery facility, as well as building a market for their wines, with a component comprised of online sales. The winery produces 1,600 cases per year, with a capacity and permit to produce up to 8,000 cases annually.

"Starting a new winery with no legacy systems gave us the flexibility to choose a solution that could grow as our needs expanded," states Gary Cowan, winery consultant, who has represented the managing partners from the beginning of the project.

The winery needed an innovative and customizable technology to create an online venue that allows customers to order their wines.

"We saw the hosted model as a way to create a technology solution with minimal upfront cost and effort," adds Cowan. "We started small with the goal of providing information about

our wines and allowing customers to acquire them."

The winery began by posting content about their winery, wines, and news items into the service provider's content management system. This allowed winery staff to become familiar with the content maintenance process. An online look and feel was created to match the winery's vision and theme.

Next came the setup of the ordering and shipping parameters that control the e-commerce service and allow online sales. Hosting the website under the winery's domain name (vineyard7and8.com) was a logical next step.

Over the past two years, online sales have been driven by word-of-mouth and referrals to the website from reviews and press coverage. In 2007, the winery will expand into direct-to-trade sales where there is limited distribution of the wines.

"As new needs arise for our online site, we don't need to spend time and effort in developing a solution and negotiating pricing — it's just another feature within the service," states Cowan.

Since adopting the hosted model for the website, the winery's online traffic has increased four-fold, now averaging 2,300 page views per month. While many factors can contribute to an increase in overall traffic, a three-fold increase in the average visit length to over 90 seconds can be attributed to the quality of information presented on the website, and the ease of navigation. Another indicator of the website quality is that over 35% of visitors view the order page.

While the order completion rate is within industry averages of 20–30%, getting visitors to the order page is a key to converting a visitor into a customer. Wesley Steffens, the winery's manager, estimates that 150–250 completed orders come through the website each month.

As online sales grow, Vineyard 7&8 plans to integrate their online systems with other systems in place at the winery. From retrieving transactional data for compliance reporting, to maintaining a main repository of customer

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information and inventory levels, the technology will be leveraged to reduce winery staff efforts.

Steffens hired Cultivate Systems (Napa, CA) to build the online sales portal and infrastructure onto the hosted site. Customers can access immediate wine club sign-ups, mailing lists, and order fulfillment. The winery gets sales dollars delivered directly to its account, and valuable customer information in real-time.

Steffens plans to use the resulting client lists, histories and buying patterns to target customers' exact wishes when sending direct mail and e-mail promotions, wine release notices, and ordering information.

"The marketing, look and feel, and branding of a winery's website can be done by the winery itself, with its

hosted services provider or website design team — we don't need to concern ourselves with that part of a site," says Eric Binau, CEO of Cultivate Systems.

"When the winery is ready to expand direct sales, we go in and install the infrastructure onto their marketing. The systems bring the customer seamlessly to the winery, make those sales bridges invisible to the customer, bring the income effortlessly into the winery accounts, and give the winery real-time and on-demand access to the data it needs to grow its online retail operation."

Currently about 75% sold through distributors, Vineyard 7&8 hopes the hosted website and its new business-to-customer direct links, can greatly increase direct sales. Steffens thinks

the business can comfortably grow to between 2,000–4,000 cases with the current staffing and systems.

Conclusion

The subscription-based model for websites is appropriate for the wine industry. The subscription or hosted website model should be included in any analysis of options for creating or enhancing a winery's website, as this model offers several advantages, including cost, over the buy or build models. ■

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