Is a new press, a wine label design change, or a purchase of fifty new French barrels in your future? If so, how do you and other winery executives determine which supplier to use to achieve the highest quality product or service at a cost-effective price?

Positive supplier relationships have always been important in the wine industry, but even more so during tough economic times. With increased global competition and pressure to reduce costs, wineries often scrutinize suppliers more closely to obtain better pricing. At the same time, long-standing relationships are also a primary consideration. So what factors really drive a winery’s decision in supplier selection?

Some of the answers can be found in the results of a new study completed by the Wine Business Institute at Sonoma State University. An online survey was sent to wineries across the US, and the 117 respondents shed some light on factors impacting winery supplier choice.

About the Responding Wineries
Respondents to the survey were primarily winery owners, winemakers, and purchasing managers. The average number of years in business for all wineries was around 15, with a larger percentage (60%) of wineries located in California. Size of winery based on case production included 74% at less than 10,000 cases, 15% between 10,000 and 50,000 cases and 11% producing more than 50,000 cases.

Methods Wineries Use to Find A Good Supplier?
Survey results show that wineries use a variety of methods to identify and research potential suppliers. Figure 1 illustrates that word of mouth is seen as very important or extremely important by (67%), followed by the Internet (44%), trade shows (26%), industry organizations (15%), print publications (9%), and finally social media (5%). The greatest change over previous years appear to be a greater emphasis on the Internet and social media as research tools, and slightly less emphasis on print media and trade shows.

What Are the Most Important Factors in Selecting a Supplier?
While pricing is a driver for evaluating new suppliers, it isn’t seen as the only critical factor in the purchase decision. Indeed, as illustrated in Figure 2, high quality products/services were seen as an important criterion in selecting a supplier by all wineries (100%). This is followed by excellent customer service (98.1%) and on-time delivery (96.1%). Low price was rated as an important factor by 80% of the wineries.

Interestingly, while only 14.6% of the respondents felt that
a price increase would cause them to change suppliers, 41.7% felt a decrease in quality and 33.0% felt that poor customer service would cause them to look elsewhere. Over 70% of the respondents felt that they should increase the number of suppliers as a way to become more competitive in the marketplace. On the other hand, almost 30% felt decreasing the number of suppliers would help them compete more effectively. For those who said they wanted to increase the number of suppliers they used, the areas in which they hoped to add suppliers were: packaging and bottling supplies (58%), winemaking supplies (50%), grape sourcing (38%), and legal/compliance advice (13%).

How Often Do Wineries Evaluate Their Suppliers?

More than half the wineries (52.1%) reported that they evaluate their suppliers on a yearly basis, with 35.9% evaluating every 2-3 years. However, 66.4% said they will re-evaluate suppliers more frequently when market conditions are tough, such as the economic recession of 2008-2011. The vast majority of the wineries (92%) identified the primary reason for re-evaluating suppliers is driven by the desire for better pricing.

The Importance of Suppliers in Providing a Competitive Edge

Survey participants were asked to respond to the question: “Do you think the right suppliers help your winery maintain a competitive edge?” As illustrated in Figure 3, a large percentage (67%) of the winery executives responded “absolutely” or “quite a bit” to this statement. 21% said “somewhat” and 10% reported “a little bit.” Only 2% of respondents stated that suppliers did not help them maintain a competitive edge.

In terms of examples of suppliers supporting winery business success, following are quotations from some of the winery executives:

A new label company won the award for our Fall bottling. Their unit price was lower, and quality and delivery time frame was wonderful. Our products now remain competitive in a very tight market.

We switched capsule suppliers to a domestic producer. They provided improved delivery times and pricing.

Pricing is the obvious answer, but the fact that I have run into absolutely horrible customer service from one supplier led me to seek another supplier for most of our wine making equipment.

A supplier offered me unique items that few others had at the time. They were tailored to my winery theme.

Implications for Winery Suppliers and Wineries

This study suggests several implications for both suppliers and wineries. In terms of suppliers, they need to recognize the new role the Internet and social media are playing in terms of wineries’ supplier selection process. Though not the primary source of information for wineries, it is definitely growing in importance. Therefore, suppliers should make sure the information on their websites is accurate, timely and provides useful data. In addition, suppliers may want to expand their use of social media to engage decision makers and encourage word-of-mouth.

Suppliers should also recognize that while being competitive on price has become more important, wineries still look for quality products, on-time delivery and customer service in making the final purchase decision. Reducing service in any of these areas as a way to lower prices will not likely lead to long-term success.

The main implication resulting from this study, is a clearer understanding of how wineries are managing supplier relationships to support their business strategy. Wineries should recognize that evaluating suppliers on a more regular basis, using new Internet and social media tools for research as well as relying on traditional sources of information, and deciding whether to increase or decrease the number of suppliers, do appear to help with competitiveness.

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