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By Jeff Quackenbush, Business Journal Staff Reporter

Private-label producer grows as value-label market expands

Winery Exchange projects '10 revenue over \$90 million; leases 12,000sf at Pell Plaza

NOVATO – Winery Exchange, which produces millions of cases of private-label and national alcoholic beverage brands globally each year, plans to expand its headquarters early next year.

“The company is doing well and upgrading,” said Peter Byck, 46, president, CEO and co-founder.

Winery Exchange signed a five-year lease for 12,000 square feet of offices at Pell Plaza, located at 500 Redwood Blvd. Currently, the company occupies 8,500 square feet at 35 Leveroni Ct. in the same city.



The company has 70 employees, 60 of which work at headquarters and are set to shift to the new offices in mid-February. The work force has grown from 50 three years ago, but overhead costs can be kept low because production is outsourced to wineries, breweries and distilleries worldwide and marketing largely is handled by the clients. The exception is national brand representation, such as domestic marketing for the Holland-based Bavaria Beer portfolio.

Revenue has increased from \$32.7 million in 2005 to \$67.4 million last year to more than \$90 million anticipated for next year.

Fifty-five percent of that comes from work on 37 wine brands. In the past few years its World Brews beer subsidiary has increased to a quarter of total receipts and now handles more than a dozen brands. The spirits side of the business contributes 15 percent from four brands, and the TradePulse inventory management and strategic data subsidiary, 5 percent.

“Overall, the economic downturn has been positive for private labels,” Mr. Byck said.

For the 13-week period through mid-November, sales volume for store or corporate brands in all categories increased about 6 percent from the same period last year, while national brand sales decreased around 2 percent in that timeframe, according to data from The Nielsen Co. Unit sales of controlled wine brands, which amount to about 2 percent of wine sales in stores, increased about 22 percent in the past 12 months.

“Consumers are targeting value products,” Mr. Byck said.

Nielsen alcoholic beverage market expert Danny Brager said that consumers and retailers focus on value in a downturned economy, often turning to store brands.

Unit sales of wines retailing for the equivalent of \$9 to \$12 per 750-milliliter bottle increased 5.7

percent in the same 13-week stretch this year compared with the performance last year, according to scan data from Nielsen. Other growth categories in that timeframe were 3.4 percent growth in the \$3 to \$6 category and 1.5 percent for \$12 to \$15 wines.

Price categories that had year-over-year volume sales declines in those 13 weeks were wines over \$20, with a 6.6 percent drop; extreme value wines up to \$3, off 3.5 percent; and 2.8 percent declines for both the \$6 to \$9 and the \$15 to \$20 categories, according to the data.

Vintner challenges with sales velocity in certain channels and markets has spurred subscriptions to Winery Exchange's TradePulse suite of services, according to Mr. Byck.

"The people who are surviving are those who figure out which markets to target and which markets to drop," he said.

Data offered includes The Gomberg Fredrickson Report, Winedata Wine Pricing Report, Distilled Spirits Pricing Monitor and Premium WineScan, a joint venture with Nielsen. Early next year, TradePulse will be rolling out a Premium BeerScan service.

Excess inventory at high-end wineries also is providing a greater pool of blending options for brands, according to Mr. Byck.

But Winery Exchange is looking at company growth potential beyond troubling economic times.

"Since 1998 private labels sales in the U.S. have outgrown brands every year," Mr. Byck said. "It could last another 10 years, because the share of



Zinopolis is one of six wine brands Winery Exchange launched for The Kroger Co. and 19 wines created for the group of stores all together. | The World Brews subsidiary launched the R.J. King Wingwalker craft beer brand for the SuperValu grocery and drug stores company in 2006. | Winery Exchange produces the GlenTaite single-malt 19-year-old Scotch whiskey for Sam's Club.

private labels in the U.S. is much lower than in Europe."

Store brands in all U.S. store categories had 22.2 percent of sales through September of this year, compared with 21 percent last year and 20.1 percent in 2007, according to Nielsen. Private-label share is about 43 percent for all categories in the United Kingdom and more than half for wine, with an even higher share for store-brand wine.

Winery Exchange creates, produces and distributes more than 330 products sourced from 22 countries for markets in nine

countries in North America, Europe, Asia and Australia.

Key customers include The Kroger Co., Costco Wholesale, SuperValu, Beverages & More, Aldi and its U.S. subsidiary Trader Joe's, Tesco and its new U.S. venture Fresh & Easy Neighborhood Markets, Morrisons, Wal-Mart's warehouse chain Sam's Club, Cost Plus World Market, Delhazie Group and Winn-Dixie.

Case production this year topped 4 million worldwide.

Winery Exchange has received more than \$31 million in venture funding, starting with an initial \$25 million. Investors include Venture Capital Fund of America, D.E. Shaw & Co., Camden Partners and Startup Capital Ventures.

Greg Moss, Whitney Strotz, Steven Leonard and Brian Foster of NAI BT Commercial brokered the lease deal for Winery Exchange's new offices.

For more information, call 415-382-6900 or visit www.wineryexchange.com.

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