Benziger’s meaningful, authentic, distinctive mindset wins over The Wine Group

BY JEFF QUACKENBUSHBUSINESS JOURNAL STAFF REPORTER on April 18, 2016, 10:43AM04/18/2016

Tim Wallace was president of Benziger Family Winery from 1993 until Livermore-based The Wine Group purchased it last June.

Early this year, he was named wine business executive-in-residence at Sonoma State University’s Wine Business Institute. The parttime commitment has him working with curriculum such as classes on entrepreneurship and succession planning. He is working on a course about private family businesses and is working to get more wine industry professionals involved in the education, potentially through video in-class presentations.

Wallace is set to be on the mergers-and-acquisitions panel at the Business Journal’s Wine Industry Conference on April 28. He talked with the Journal about Benziger’s unique value proposition in sustainable wine and what led to the sale.

How has the wine business changed over your career?

TIM WALLACE: The wines the industry is making are better. The consumers are more discriminating and more educated about quality wines. There is more interest in the category, with more consumers coming into it — it’s growing. The result is that it’s more competitive.

Winemakers are leading the way for the consumer. I don’t believe it’s the other way around, like it is in other consumer packaged goods models. In technology, consumers are demanding more capacity, greater bandwidth, more speed, better visuals, better sound, so the consumer is in many ways driving the sector.

In the wine business, we’re still at a point where the wine continues to get better, and the consumer is the beneficiary. I don’t think we’ve hit the tipping point yet, because there is still a lot of 750-milliliter wine priced below $10 being consumed in America. But you’re seeing a lot of growth in the $10–$15 category and a lot of acquisitions in the above-$20 range. …

It’s good that we have more channels for distribution, but it is a more competitive space for the smaller producer. The larger producers know they are trading market share with each other, and it’s getting expensive.

Is there a danger in moving too much direct to consumer and limiting the scalability of the operation?

WALLACE: I agree with that. Large acquirers are looking for scalable brands. The Prisoner, Meiomi, Benziger, J — these are brands that have awareness in all 50 states and international markets, the retail trade is used to merchandizing them and the wholesalers are used to handling them. A bigger producer can come in and say I can produce these wines at a lower cost of goods because I control comparable vineyards and more of them, I control more dollars for marketing spend and I have distributor share of mind because of the size of my portfolio. So I can scale these brands to a greater performance than the current owners.

If you don’t have a footprint in the three-tier [beverage alcohol distribution system] it’s a different play
for a large acquirer, because they will have to bring your brand to market through the traditional tiers. That may not be something they are willing to invest in.

What were the keys to growing Benziger?

WALLACE: We had a mantra inside we called MAD. We were meaningful, authentic and distinctive in the way we made our wines, the way we talked about our wines and how we shared our wines in an on-site visit or the marketplace. We had a half-dozen Benziger-named principals who would go to the market. There was an authenticity there. This was truly the winemaker and the brother of the winemaker who is the sales guy and grew up on the property for years.

We created a market for Biodynamic wines and have organic wines and, as far as I know, we were the first third-party certified sustainable brand, by the Stellar division of the Demeter Association. The [Tax & Trade Bureau] allowed us to put “certified sustainable” on our front label.

We had wines and people who were authentic and wines that were distinctive in winemaking protocols. It was a real story. The acquirer knew that by checking with the marketplace before the deal to gauge scalability.

How different is starting and growing a North Coast wine business today?

WALLACE: Thirty years ago you could buy some land, get a permit, build a winery and make a run at it. Today there is less land available, much more expensive, permits much harder to get, competition is much more significant. Your go-to-market better be right, right out of the blocks, or you have to be very well resourced financially to have a slow ramp up.

When we got into the business, we were able to make mistakes along the way and create a marketplace, from the days we were Glen Ellen in the fighting-varietals category. Today it’s much different with much more sophistication, much more complexity, much more expectation for performance both internal and external with the consumer.

Direct to consumer is a saving grace. I know of brands that don’t have vineyards but are getting access to grapes and wine and are making a name for themselves for not near the level of investment a full-on winery would have.

How did the sale of Benziger happen?

WALLACE: We were not positioning to sell. In fact, we were positioning to go on to the third generation. The ownership group was G2, generation 2. My parents-in-law Bruno and Helen was generation 1, there at the very beginning. G3 was starting to come into the business. We made a lot of preparations to transfer equity to the next generation and had every intent of doing that.

The reason we were attractive to a buyer is we were cash-flow-positive, growing in the marketplace, scalable, had a differentiated brand and running a good business.

Mike Benziger, the oldest of the family at 65 now, was starting to have challenges with his health. He’s still in great shape, but he decided he had enough. Some of his brothers also had decided to pull way back. It was a family decision to look for a strategic partner or buy out several of the family members, but we decided to do an elegant exit.

Demeter Group, our investment banker, brought us lots of interested parties. The Wine Group was selected because of their determination to invest in our current trajectory, and all signs show they are
doing it.

To my knowledge, they have only one person on the property, because the management team and staff is fully functional and competent professionals. They only needed to get in and understand the business.

In some ways, I think they are using us as an incubator for possible other North Coast fine-wine acquisitions.

The only two people who left the company on the day of the acquisition were Mike Benziger and myself. All the G2s and G3s were there, and they hired three more G3s.

How did the Biodynamic and organic affect buyer interest?

WALLACE: Anything in the grocery store is moving in that direction. Boomers and younger people are more interested in what they are putting in their bodies and healthy lifestyle and want, all things being equal, a product that has less adulteration, less insecticides and herbicides.

Nestle just made a major commitment to medicinal nutritional products. [Nestle Health Science late last year said it would spend $70 million on a product-science center in New Jersey.] We were attractive because we made the investment to convert our vineyards to Biodynamic, and we got the benefit of it with the wines we made.

It’s still a push into the trade, as it is with anything that is not in the mainstream. It’s a very competitive place, and they don’t have the resources to educate the consumer about the differentiation of a product. That falls to the brand owner. Distributors can mediate, but they really don’t have the time for the complex story of how it affects the quality of the product.

We did this because we believe it is right, and we know The Wine Group plans to take this to the next level. They’ve done everything right in keeping key people in place and brought more Benzigers into the winery than we had. They are going to accelerate the growth of this brand, because it has a unique selling proposition.

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