

WineDirect's Tech-Driven Path to Wineries' Champion

by **Mike O'Brien**, Multichannel Merchant

Seven years ago, WineDirect president and CEO Joseph Waechter took a look at the newly booming ecommerce sector, and had a vision that online penetration of the wine industry, then in the mid-single digits, had the potential to reach 25% within a few years.

"At the time, we were the only wine industry tech stack," said David Dennigman, Director of Operations, American Canyon, for WineDirect. "We had an ecommerce business unit, and we were gleaning a lot of information from it. The idea of personalization, customization of orders, was just starting. User choice was the buzzword of the day."

Dennigmann said this move to personalization was "transforming the wine club business into modern-day ecommerce."

"Traditionally wineries have been laggards in the tech world, to our chagrin," he said. "One thing is certain, ecommerce was the horizon, and wineries needed to adapt to more modern applications of what that meant."

Today, WineDirect, the leading DTC services provider for the wine industry, has more than 300 winery fulfillment/shipping clients and 2,000 wineries on its ecommerce platform, where it handles everything from ecommerce to club sales and retail/POS.

Back in 2015, when Waechter had that vision, WineDirect engaged with VARGO to implement its COFE waveless Warehouse Execution System (WES). After two years of design/build, a new 268,000-square-foot facility went live in American Canyon, CA, with COFE managing fulfillment and distribution across all of



WineDirect's channels. The company was looking to step up from a 1990s-era conveyor system and an outmoded pick-and-pass fulfillment setup that limited its options.

"We came in, looked at trying to streamline their operations and take some labor out," said Jeff Lammert, a client executive with VARGO. "We helped them with sizing and layout of the building, material handling and storage systems and the WES. The big thing was to minimize or even eliminate replenishment of the forward picking area, typical of a pick-and-pass environment."

Lammert said under the old configuration, it was easy to get localized congestion and create bottle-necks, especially with a popular SKU. "Now you can have those SKUs go to every putwall vs. just one zone, so they're spread out and you can utilize the full capacity of the system," he said.

Under the old pick-and-pass system, a tote would travel a static path from one inventory location to an-

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other, making “bus stops” along the way for associates to load in another SKU. COFE freed up WineDirect’s operational plan from having to continually position all its inventory at the right place, at the right time.

“Waveless technology is really the lynchpin that makes it all work for us,” Dennigmann said. “We don’t have to plan out inventory moves and release it in order waves – it’s done by programming COFE. It gives us a dynamic slotting environment, moving to goods-to-person, a very fluid kind of environment.”

Technology Provides Flexibility for Subscription Fulfillment

As wine club orders represent the most profitable channel for wineries and nearly half of all DTC sales, VARGO created some customizations in COFE to enable it to better handle that significant piece of WineDirect’s business.

Dennigmann said WineDirect determined that the optimal cutoff for determining if “like-like” club orders are routed through COFE or through a physical assembly line was 200 orders; anything less than that COFE handles, while anything larger is set up as an assembly line job.

VARGO developed a software module that allowed WineDirect to create separate physical assembly lines for club orders. The company selects the club orders it wants to process offline, and COFE aggregates the demand and generate picks from reserve to a staging area. WineDirect’s fulfillment operations team then sets up the line and products and packs out the orders.

“This old-fashioned club line lets WineDirect augment its facility capacity during peak times without

having to work outside the software system,” Lammert said.

COFE’s intelligence also allows wine club members to choose the club option or get a customized order of six bottles. “A lot of memberships are auto billed and delivered,” Dennigmann said. “What’s changed is, now those same customers have a choice of what they want to order. It’s the same membership, just another option, still billed on a predetermined cadence.”

Doubling of Pack Stations Improves Inventory Flow

When WineDirect looked at its packout process, there was a realization it was impacting throughput and causing issues with meeting the strict pickup schedule of its carrier. The company decided to double the number of pack stations from 6 to 12, to meet additional demand. The new packout system, which went live in April 2022, is expected to increase productivity by 40%.

When a new brand is onboarded, QA workers trained for the task review myriad details of orders as they come across, including the condition of the bottles and their vintage. Without a barcode on wine bottles, they have to interpret what’s in front of them based on the item description, and what the order system is telling them should be there.

The pack stations were also redesigned to handle the increased level of personalization WineDirect is seeing. This includes specific customer instructions generated through the winery’s POS such as adding tissue wrap, stickers and ribbons or other value-added packaging details to the order.

Dennigmann said there was a natural bottleneck when WineDirect was working with six pack stations, which has been alleviated, improving quality assurance and picking accuracy.

“Our pickers and inventory were moving faster than we could do quality checks,” he said. “Every package now passes a full 100% QA, and we’re auditing every line item and the pick preceding the final stop. That’s why we can have such high accuracy with our deliveries, at 99.97%, and it’s what the customer sees. It’s moved us into position A in the marketplace when it comes to order accuracy and inventory integrity.”



The fact that the average value of a bottle of wine in its inventory is around \$75, and WineDirect has 300+ clients and 45,000 inventory locations, means several million dollars' worth of product is being handled by the facility every day.

"We typically see bottles costing hundreds of dollars, so moving that stuff around becomes very tedious and cautious," Dennigmann said. "From the wineries' perspective, that's a big asset for them. On a minute-by-minute basis, we've got to have knowledge where every bottle is. It's made us better operators, and took away the manual process of planning inventory into a high proliferation of SKUs and clients. And it all comes together through the COFE environment."

Ensuring Every Order Meets Regulatory Muster

As the sale of alcohol is highly regulated, and varies from state to state, it introduces another high degree of complexity given the breadth of WineDirect's customer base and SKU count. And different categories of companies (producers, aka wineries, wholesalers and retailers) are treated differently in terms of how they're licensed and permitted to sell across the states.

The 2005 U.S. Supreme Court Case, *Granholm vs. Heald*, opened the door for DTC sale of alcohol. It did away with longstanding "tied house" laws that predated prohibition and limited alcohol sale and distribution to in-state sellers.

Through the use of COFE, WineDirect is able to keep track of the different permutations of license rights and ensure the compliance of every order, across client types.

Between COFE and their compliance module, WineDirect also manages a marketplace business, working



WineDirect At A Glance

WineDirect's mission is to provide wineries with everything they need to build and manage a successful direct-to-consumer (DTC) program, from ecommerce to wine clubs, Point of Sale, marketplaces and fulfillment services.

Clients: 300+, representing over 2,000 wine brands

Ecommerce services: provides software wineries use to run their websites and subscription clubs, and take online and tasting room orders. In 2022, WineDirect is launching an updated platform with enhanced store experiences, more marketing automation, better visibility, powerful analytics and customizations through flexible APIs and third-party apps and integrated partners.

Fulfillment services: handles storage, packing and shipping of wines. Provides personalized order-level customization, branded boxes and gift packaging. Robust temperature and humidity controls and processes track and manage inventory. An intuitive online portal integrates seamlessly with WineDirect's ecommerce platform.

Facilities: California (2); Oregon (2); Ohio (1)

with major clients that include Vivino, the largest wine app in the world, with 2 billion scans in 2021, and Firstleaf, a startup wine subscription business that's gone multichannel.

The Next Phase: Greater Personalization

Report after report in ecommerce highlights the growing demand from consumers for greater personalization, requiring powerful data analytics to present them with the most relevant results. Another major trend related to this is creating a "wow" unboxing experience, by adding presentation elements that make each customer feel appreciated and special.

Wine clubs in particular are seeing both of these trends, and need to respond by offering more opportunities to personalize selections, while also creating a great visual, sensory experience with each shipment.

"There is a rising need for personalization that's really resonating with our industry," Dennigmann said. "Wineries want to differentiate themselves inside the box. Studies suggest that branding on the outside of a box can be a challenge because the outside of the boxes can take a beating in the carrier network. Now things

that go inside the box help wineries add value to their shipments.”

He said the revamped pack stations are designed to cater to this desire on the part of wineries and their customers by enabling kitting-type assembly of various value-added pieces like ribbons, stamps and notes, with all the information relayed to the pack stations through COFE.

“Before, the pack stations were mainly to do QA and print the packing slip,” Dennigmann said. “In Phase 2 of our upgrade, we have the ability to take all these items and bring them together at one time. Instead of just putting bottles into a shipping box, we’re picking all these items into a tote and assembling the order at the end. We started out just picking wine, now we’re picking boxes and everything else to support completed packages for customers.”

Scaling Up, Positioned for Growth

During the pandemic, WineDirect found itself pushed to capacity on a regular basis, which tested the mettle of its new facility and staff, and assumptions that were used during the design/build phase.

“We had assumptions at the time of the buildout that we’d average six bottles per order, and 40,000 units in 24 hours,” Dennigmann said. “Then we saw that capacity order profile showing up every day. We were working 24-hour cycles at a time.”

That’s when his team identified the pack station bottlenecks which eventually led to the upgrade that went live this past spring. During the rush of the pandemic, though, WineDirect was forced to shift its labor strategy to a 60/40 split of temp to permanent workers just

to meet demand. It’s since gone back in favor of a more seasoned workforce, with the skills necessary to function in a technology-rich, highly automated environment.

“It was not as efficient as it could’ve been, mostly because we were not ready for it,” Dennigmann said. “But COFE allowed to drive through that chaos, with a systematic process that kept inventory integrity at a high level. It set us apart when competitors’ systems were failing, the ability to manage that order volume with the certainty and accuracy demanded. Their best customers are now coming to us.”

Today, as wineries, grocery stores and restaurants have reopened, data shows that consumers are still ordering wines online and that their expectations for a positive experience have only increased. With COFE and the other changes WineDirect has made within its fulfillment centers, the company is poised to continue to provide best-in-class service as its winery clients continue to grow.



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