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Online wine retailer finds heady growth

Wine.com overcomes rocky start to grow revenue since 2006 from web site, stores

BY CHRIS RAUBER
San Francisco Business Times

After a bumpy 10-year history highlighted by burning through \$72 million in venture capital in various incarnations, Wine.com may have finally found its feet.

The San Francisco-based online wine store expects to break even this year for the first time, or possibly eke out a small profit. That's on \$45 million in estimated 2008 revenue, most of it from upscale consumers and corporate customers with lots of disposable income.

Under new leadership since mid-2006, Wine.com shed one-quarter of its workers two years ago and slashed its marketing budget, cost-cutting moves that appear to have paid off. Under CEO Rich Bergsund and founder Mike Osborn, now the company's vice president of merchandising, Wine.com says it's finally turned the corner.

"It's pure retail — getting the right product on the shelf at the right price," said Mark Vardon, a Wine.com board member and investor. "And this management team really knows what it's doing. They've put themselves in a pretty positive position right now."

Vardon, who founded online jewelry giant Blue Nile Inc., recalls that "people thought we were crazy (in the early days at Blue Nile) trying to sell luxury products on the Internet." But his company, founded in 1999, now sells more engagement rings than Tiffany's, according to Vardon, and had sales of \$319.3 million last year.

Vardon's not expecting an instant flood of profits at Wine.com. Instead, the goal is to build it "into a very successful business within a decade."

Wine.com operates two retail stores — one in Berkeley, inside its 81,000-square-foot warehouse at 2220 Fourth St.; the other in East Hampton, Conn. — but sells most of its wine online, shipping to 25 states and Washington, D.C. It has eight warehouses nationwide in addition to the Berkeley site.

Its goal is to become "the ultimate resource for wine enthusiasts," said Bergsund, a partner at Bain & Co. consulting firm and later the founder and CEO of online hobby and crafts site Joann.com, before joining Wine.com in June 2006. He said that means offering a great selection, convenience, high value, quick delivery and lots of online information about wines available for purchase. Also critical are popular features like "90 under \$20," an updated online roster of relatively inexpensive wines with ratings of 90+ (on a scale that goes to 100) from top wine critics like Robert Parker's Wine Advocate, Steven Tanzer's International Wine Cellar and Wine Spectator Magazine.

The site also includes winemaker notes, wine "pedigrees" that show the history of how various wineries' wares have been ranked in recent years by leading critics, a searchable data base and a shipping club that gives discounts to loyal customers.

In mid-June, Wine.com reported that it had been ranked as the top online wine store by Internet Retailer Magazine, in terms of revenue, for the fourth year in a row, and ranked 13th overall in the food and drug category, and 207th in the top 500 e-retailers.

"Two years ago, we had a break-even point of \$120 million in sales, so the company was losing a lot of money," Bergsund said. This year, with estimated sales at or above its break-even point of \$45 million, he and Osborn say Wine.com has momentum. Investors "are behind us 100 percent," Bergsund added, "and we're in it for the long haul!"

SNAPSHOT:

Wine.com

Business: Sells wine online and in two retail locations.

Location: Based in San Francisco; warehouse and retail outlet in Berkeley.

Founder: Michael Osborn.

Estimated 2008 revenue: \$45 million.

2007 revenue: \$41 million.

2006 revenue: \$37 million.

Percentage growth over last three years: 21.6 percent (est.)

Year founded: 1998 (as eVineyard; later acquired assets from Virtual Vineyards.com and Wineshopper.com); changed name to Wine.com in 2002.

Number of employees: 80 (down from 105 in 2006).

Web site: wine.com.

Smartest move: Cutting back on staffing and marketing expenses two years ago.

Key challenges: Completing turnaround by becoming consistently profitable.

