

Constellation Brands Buys Gary Vaynerchuk's Direct-To-Consumer Empathy Wines Brand



Chris Furnari Contributor

Food & Drink

I cover the beer business.



Gary Vaynerchuk in November 2018. (Photo by Amy Harris/Invision/AP) AMY HARRIS/INVISION/AP

Constellation [STZ](#) Brands today announced it would acquire [Empathy Wines](#), a direct-to-consumer wine brand cofounded by entrepreneur and media personality Gary Vaynerchuk.

Financial terms of the transaction were not disclosed.

The New York-based company is already one of the largest alcohol producers in the U.S. It owns several popular beer, wine and spirits labels — including Corona, Svedka and Kim Crawford, among many others — that are sold at nearly every alcohol retail store across the country.

Now, Constellation — which [five years ago today](#) said it would spend \$315 million to acquire California-based Meiomi, then a brand on its way to 700,000 cases — is hoping Vaynerchuk's direct-to-consumer brainchild will help it win on the digital shelves.

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“We believe the competitive environment will heat up quite dramatically and we are taking a really critical, bold and innovative step forward that I think will give us a competitive advantage moving forward,” said [Robert Hanson](#), the president of Constellation’s wine and spirits division.

The purchase of a comparatively tiny and [relatively unknown](#) Empathy Wines brand, which launched in early 2019 and has sold just 15,000 cases to date (approximately \$3.6 million in revenue), underscores the alcohol giant’s growing interest in selling wine outside of the traditional three-tier system.

I spoke to [Vaynerchuk](#) and Hanson about the emerging direct-to-consumer wine business, and the factors that ultimately drove Constellation and Empathy to the negotiating table.

“Our current direct-to-consumer business is a smaller portion of the portfolio than we would like it to be,” Hanson said, noting that sales through wholesalers and brick and mortar retailers make up more than 90% of the company’s current wine business.

According to alcohol beverage compliance firm [Sovos ShipCompliant](#), \$3.2 billion worth of wine (6.6 million cases) was sold directly to consumers in 2019.

Although direct-to-consumer shipments — which are [allowed in 46 states](#) — currently represent [less than 11%](#) of the overall \$29.8 billion wine market, the channel has more than doubled in size since 2011.

That expanding opportunity is why Vaynerchuk — whose [earliest entrepreneurial success](#) included taking over his father’s New Jersey wine store and growing annual revenue from \$3 million to \$60 million in the early 2000s — launched a “digitally-native” brand in the first place.

“Direct-to-consumer brands were starting to hit a real critical mass across other categories and there hadn’t been a direct-to-consumer only wine brand that I thought really owned it,” he told me, calling out brands like Warby Parker and Casper as examples of successful e-commerce plays from other industries.

“Someone was going to build the best direct-to-consumer wine business, and if that wasn’t me, it would have been a real miss,” he added.

As a self-described “wine nerd,” Vaynerchuk said his love of wine and an understanding of the complexities of the business eventually [led him to establish](#) a \$20 price point — a sweet spot that would enable Empathy Wines to trade up its earliest customers from inferior quality offerings.

The thesis? Most people are buying \$12 to \$14 wines, but getting an \$8 value. Vaynerchuk, along with business partners Jon Troutman and Nate Scherotter, wanted to work directly with farmers, cut out wholesalers and retailers, and sell consumers a \$40 bottle of wine for \$20.

“If I can get a big chunk of \$12 to \$15 wine drinkers to just try me, and realize they are getting a 3x better wine, then I can probably get them to go from \$14 - \$20 consistently,” Vaynerchuk said.

Kevin O'Brien, a principal at Zepponi & Company, a merger and acquisition advisory firm that specializes in wine transactions, said the [growth](#) of the direct-to-consumer business is something many strategic buyers are paying close attention to.

“The wine industry has been slow to adapt to online sales, and larger brands need to be able to meet customers and fans where they are,” he said. “There is a lot of interest from large strategic players to incorporate a direct-to-consumer partner.”

O'Brien said that large wine companies like Constellation will always need to focus most of their attention on working with distributor partners, but the COVID-19 pandemic could accelerate the timeline for additional direct-to-consumer deals.

“Trends that were going to happen five years from now, happened in three months,” he said.

For his part, Vaynerchuk believes that more brands should be focusing on the direct-to-consumer channel if they want to remain relevant both online and in retail stores.

“I believe that building a consumer base with a real direct-to-consumer play, and then using that as the leverage point to be able to get distribution at retail or other places is a very logical step, he said.

According to a [press release](#), “Empathy Wines employees, including co-founders Jon and Nate, will join the Constellation Brands family and work together with its wine and spirits organization.”

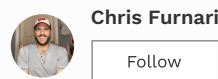
Hanson said Vaynerchuk would continue to remain involved with the brand as a consultant, and noted that he's been incentivized to contribute to the brand's long-term success.

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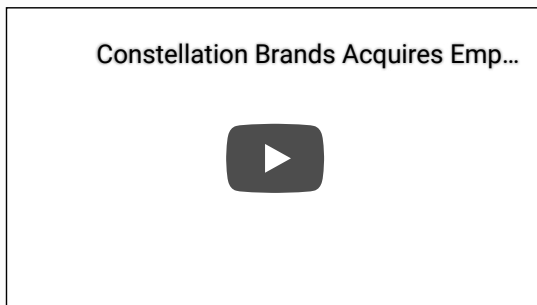


I am a business writer covering the complex and highly-regulated beer & spirits industries for Forbes. I previously spent nearly a decade as the driving force behind... [Read More](#)

Indeed, according to ShipCompliant, the average price of a bottle sold directly to consumers in 2019 was \$40.70. Meanwhile, small wineries — those producing between 5,000 and 50,000 cases annually — controlled nearly 45% of total direct-to-consumer dollar sales in 2019.

So Vaynerchuk's instinct was correct, but 2019 was in some ways just a beta test. In order to truly scale the Empathy Wines business from a proof of concept to a category-leading proposition, Vaynerchuk needed Constellation's vast grape growing, winemaking and logistics expertise.

"It was truly the driving force that made me want to do it," he said of Constellation's infrastructure. "It would have taken me my entire career to have the leverage to be able to achieve what we are now going to be able to achieve. It was worth selling potentially too early."



Hanson said Empathy Wines' \$20 price point fit perfectly with Constellation's strategy of focusing on the high-end piece of the business — the company is [currently in the process](#) of divesting its low-end wine business to Gallo for \$1 billion.

Meanwhile, Empathy's e-commerce prowess will benefit the entire Constellation wine portfolio and enable the company to provide on-demand insights to its three-tier partners.

"Great direct-to-consumer brands become great omni-channel competitors," Hanson said. "The smarter we get about building our brands for consumers, and the faster we are, the more agile we are, the more quickly we can bring consumer-relevant information to the market, the more quickly we can test new ideas in our direct-to-consumer channel — the more valuable of a partner we will be to wholesalers."

For large players like Constellation, a robust direct-to-consumer strategy will be critical in the COVID-19 era and beyond, as more drinkers open their phones or computers to go shopping instead of driving to the liquor store.

According to market research firm Nielsen, alcohol e-commerce sales were six times higher in April 2020 versus the same period last year.