

## **Nederburg Auction – Keynote Speaker Presentation 2011 – David White**

### ***The End of the Gatekeeper* *How The Online Revolution is Revolutionizing Wine* Prepared for the 37th Nederburg Auction**

Thank you, [NAME], for that generous introduction. And thanks to everyone at Nederburg and Distell for the invitation -- I'm honored to be here. The invite was very humbling.

I want to begin by talking about the most prolific wine critic in the world. She reviews 1700 wines per day, diligently recording tasting notes for every single one -- and scoring all of them on the 100-point scale.

She's not as well known as Robert Parker, but she reviews more wines in *six days* than Robert Parker does in an entire year.

And her website is much more popular than Parker's newsletter, The Wine Advocate. At Parker's peak, he had about 50,000 subscribers. An estimated 500,000 people visit our prolific critic's website each month. And they visit her site over and over again.

In fact, her site records about one million page views *every single day*.

Stumped? That critic is you, it's me, it's all of us. The website that houses all of these reviews is CellarTracker.com.

CellarTracker was created in 2003 by Eric LeVine, a former executive at Microsoft. He was sick of using spreadsheets – or rather, Microsoft Excel – to keep track of all his wine, so he built a data-management program for his cellar.

When he showed the program to some of his friends -- fellow wine geeks, of course -- they begged him to share the program. So he put it online, where they could track their personal inventories, check out each other's collections, and share tasting notes.

LeVine then decided to make his program available to everyone, online, for free. With a million page views a day, it's safe to say that CellarTracker is rather popular.

The most remarkable thing about CellarTracker isn't the number of wines in its database – 1.1 million wines from 77,000 producers, if you're curious. And it isn't the number of reviews that have been written -- but that would be 2.1 million, at last count.

What's amazing is that 90 percent of the site's visitors -- over 400,000 people each month -- aren't registered users.

As wine writer Jeff Siegel explained earlier this year, "this means people aren't going to CellarTracker to mark off a wine after they drink it; they're going to CellarTracker to read wine reviews written by amateurs."

This notion runs counter to so much of what's sacred in the wine world. Everything about wine -- the bizarre tasting rituals; knowledge of little-known regions and varietals; identifying the best value at the local liquor store -- all of this information is supposed to be handed down from on high.

From the Masters of Wine. Jancis Robinson. Robert Parker. The staff at Decanter. Wine Spectator. The gatekeepers.

CellarTracker demonstrates that the wine world is changing -- fast. Consumers don't need -- or want -- centralized gatekeepers telling them what they should or shouldn't drink.

Consumers still need advisors, of course, but when today's consumers want information, they turn to their friends and their trusted networks -- in real life and online.

This change represents a remarkable opportunity for everyone in the wine industry.

How so? Consumer choice. For all intents and purposes, wine consumers have unlimited selection. With its hundreds of thousands of labels, wine has one of the longest tails in the marketplace.

Understanding this Long Tail -- and its implications -- is critical.

Seven years ago, Chris Anderson -- the editor of Wired, a popular tech magazine -- wrote an article that looked at sales in a whole new way. His piece -- entitled "The Long Tail" -- spawned a book and generated an untold number of business school lectures and marketing classes. And for good reason -- the piece has huge implications for sales in the Internet age.

In his magazine article, Anderson looked at books sales, DVD rentals and music downloads. His visual image of the marketplace was a graph with two axes -- the horizontal axis represented all of the world's books and songs, and the vertical represented sales.

For movies, music, books, and virtually every other consumer good, there's a steep mountain on the left. These products are purchased by the masses -- think Lady Gaga and the Black Eyed Peas. On the right, the line becomes flat very quickly. These are the obscure subgenres like Celtic Death Metal and Brazilian Folk. Now, think about the artists who dedicate their careers to making this music.

The products on the right side of this hypothetical graph represent the long tail.

Books help illustrate the tail -- and why it matters.

In 2004, Nielsen Bookscan -- which tracks book purchases in the United States -- monitored the sales of 1.2 million books. Only 25,000 of those books -- about 2 percent of them -- sold more than 5,000 copies. This is where you'll find the bestsellers -- like the Twilight series or Harry Potter.

Another 25,000 books sold between 1,000 copies and 5,000 copies. The rest -- 1.15 million books -- sold fewer than 1,000 copies. And most of those recorded fewer than 100 sales.

These numbers probably don't surprise anyone. We're all familiar with "hit-driven economics" -- the concept that for television shows, books, songs, movies, you name it, only the runaway hits are profitable.

What surprised Anderson wasn't that so many books sold so poorly, but that so many sold at all. Of course millions of teenagers are buying the latest Twilight novel. But who are all those people quietly ordering anthologies of Jewish-Japanese poetry? Who actually listens to Celtic Death Metal?

It's these obscure products -- items from within the Long Tail -- that are driving sales at retailers like Amazon. And sales from within the Long Tail are steadily increasing.

Already, between 25 percent and 35 percent of Amazon's book sales come from titles that fall outside the top 100,000. Think about what that means -- the market for books that are not even stocked at your average brick-and-mortar bookstore is larger than the market for those that are.

What's the Long Tail have to do with wine? Just like with movies, music, and books, the selection is virtually unlimited -- and today's consumers are eager to be unique, free from the influence of gatekeepers and able to make up their own minds.

Witness the rise -- and waning influence -- of the wine world's most important gatekeeper, Robert Parker.

His rise was epic. As Elin McCoy, the wine columnist for Bloomberg, recently wrote, "Whether by accident or design, Parker came out with a clear and concise message (rating wines on a 100-point scale) and adopted the attractive stance of a taste-it-and-tell-it-like-it-is advocate for confused wine consumers. His rise from country boy to uncompromising wine judge was a story he hammered home to all who would listen. It worked. The relentless promotion of his seemingly definitive wine scores by retailers and wineries helped transform him into the world's most important wine critic and arguably the most influential critic of any kind, able to sway production and dominate critical opinion in his field."

Of course, we all recognize that his influence is waning.

In February, Parker announced that he was handing over primary responsibility for California to Antonio Galloni, the Wine Advocate's critic for Italian wines and Champagne.

This was huge news, and the clearest sign yet that Parker plans on retiring, perhaps someday soon.

His scores are also losing the influence they once had.

Among retailers that rely on scores to move wine, there's little difference between The Wine Advocate, Wine Spectator, Wine Enthusiast, you name it. I've been to three wine shops since arriving in South Africa on Monday, and all three were advertising reviews from Decanter, Wine Spectator, or The Wine Advocate.

Retailers and wineries generally broadcast the highest score, regardless of where it comes from.

Even with First Growth Bordeaux -- in China, where sales of such wine has exploded -- Parker's scores don't matter as much as they once did.

In 2009, Parker lowered his rating of 1982 Château Lafite Rothschild by three points -- from a perfect 100 to 97. Nevertheless, the price of that wine at Asian auctions has nearly doubled in the past two years.

Last month, Wine Spectator reported that the 2010 Bordeaux futures campaign failed to meet expectations. Even though Parker described the vintage as one of the "three greatest" of his career --

and awarded 31 different wines possible scores of 95 points or more -- the campaign "was not the blockbuster many had hoped it would be."

As consumers grow more comfortable dismissing gatekeepers like Parker, the influence of local voices -- the staffer at the neighborhood wine shop, the young, hip restaurant sommelier, the wine geek in everyone's life -- is becoming more important.

Across the United States, specialty wine shops are taking off -- and many of the better-known ones don't post scores at all. They see scores as an impediment to interacting with consumers.

Look at the worldwide increase in the number young sommeliers -- and the attention they're paying to the interaction of wine with food and the role wine should play at the dinner table.

In Washington DC, my office is just a few blocks away from a great restaurant called Bourbon Steak. It takes its wine very seriously -- it has three full-time sommeliers on staff, *and* a wine intern.

While the head sommelier, Julian Mayor, stocks his list with everything he's supposed to -- a host of wines from DRC, plenty of First Growth Bordeaux, and just about every "cult" Napa Cab -- he also offers dozens of offbeat wines from obscure regions.

He has a whole section -- called "Secrets of the Sommelier" -- stocked with affordable, food-friendly, esoteric options.

What Mayor has done at Bourbon Steak is incredible -- but it isn't unique. Across the world, more and more sommeliers have geek-friendly wine lists.

Or look at wine bars. I know that in Washington DC, dozens have opened in the last few years, providing opportunities for people to try wines that aren't available at the local supermarket.

Again, this is evidence that the wine world is changing. The Sommelier is no longer a glorified sales agent who intimidates his guests -- and only offers wines that have been approved by gatekeepers. Instead, they're wine educators -- eager to share their palates and preferences with their customers.

My favorite example of this trend? The "Summer of Riesling." In 2008, Terroir Wine Bar in New York City's East Village announced a plan to focus on Riesling all summer long "as a single-minded attempt to get guests to at least try this noble grape." The concept took off -- and this past summer, more than 200 restaurants and wine bars across the United States joined Terroir in its efforts.

Robert Parker is also losing out to newer critics.

The leading guide for Burg-heads -- who will rely on critics for quite a while, thanks to the extremely high prices of Burgundy's wines -- is Allen Meadows, who writes *Burghound*.

The leading critic for those who like a little -- or rather, a lot -- of personality is Gary Vaynerchuk. In 2006, with little more than a video camera, a website, and a small family wine shop in New Jersey, Vaynerchuk exploded onto the wine scene.

Every single day, he released a video -- part criticism, part education, and always fun. He filled his reviews with wacky-but-accurate descriptors, complaining about the "oak monster" in Australian

Shirazes and American Chardonnays, and discovering notes of Skittles and Sour Patch Kids in Cru Beaujolais.

His show eventually attracted as many as 90,000 viewers every day. Vaynerchuk has had as large an impact on the wine world as Wine Spectator and Robert Parker -- even though they both had a 30-year head start, an enormous infrastructure, and plenty of money.

It's notable that Gary Vaynerchuk recently called it quits and ended his daily video podcast. I'm sure there were many reasons for his departure, but I have to think that Vaynerchuk saw the writing on the wall -- he had accidentally become a gatekeeper, moving wine by bestowing high scores, and crushing a winery's chances for success with one low number. And that had started to undermine his original goal -- which was to educate consumers and demystify wine, so that people could make up their own minds, confident in themselves and their judgments.

Which brings us, again, to CellarTracker.

CellarTracker's founder doesn't believe that his site will displace professional critics, but I think he's wrong. There's a lot to be said for the wisdom of crowds. Just look at Wikipedia. Studies have found that the web-based, collaborative encyclopedia is *more* accurate than Encyclopedia Britannica.

Consider your typical educated consumer -- the one who understands that wine criticism is a subjective endeavor, and that different professionals have different palates.

Let's say this hypothetical consumer finds a wine on sale -- and isn't familiar with the professional critic who bestowed 95 points on it. Wouldn't he be more inclined to trust the palates -- and tasting notes -- of 50 amateurs who posted on CellarTracker? After all, CellarTracker notes are written by real people, typically drinking wine in a real way -- at the dinner table, with food.

CellarTracker notes are also more up-to-date. We all know that wine is a living, breathing beverage -- what might be delicious today could be over-the-hill in a year.

Put another way, for educated consumers, CellarTracker has become part of their trusted network.

Yes, this "trusted network" consists of people that only "exist" in the digital world. But it's a *community* of amateur critics. Take WineBerserkers, a popular online message board. I've met several of my "real world" friends on it, and now follow their wine reviews on CellarTracker.

WineBerserkers has more than 5,000 registered users -- some of whom spend hours, each day, conversing about wine. The message board at WineLibrary -- the retail store owned by Gary Vaynerchuk's family -- has more than 6,000 registered users.

And then there's Facebook. At the end of 2010, the site had 500 million registered users. These aren't kids -- 60 percent of Facebook's users are over the age of 26. People are talking about *everything* on Facebook -- and one of those things is wine. Twitter has just over 100 million registered users, and people are talking about wine in their Tweets, as well.

According to Cruvee, a social media monitoring platform designed for wineries, there are more than 200 million conversations about wine each month across blogs, Twitter, message boards, Facebook, and other social networking sites.

If that number is hard to conceptualize, think about this one: Cruvee has profiled over 6.5 million wine consumers. If you write about wine online, chances are Cruvee has a record of what you wrote -- and knows you are, where you are, and what you consume.

The gatekeepers are also becoming less important because the wine media is changing.

Look at the blogosphere, which is now indistinguishable from the "conventional" wine media. Thanks to my blog, I've been invited to write for The World of Fine Wine, the New York Times, the Los Angeles Times, Reuters, and countless other publications.

As Tom Wark, a public relations professional who runs the wine blog Fermentation, recently put it, "the wine blog is now fully integrated into the world of wine writing.... If anything of significance distinguishes wine bloggers from traditional wine publishing, it is two things... That wine bloggers publish in a now recognizable and predictable diarist format, and that they are largely unpaid. Beyond these two factors, little separates the blogged wine writing from the traditional or commercial wine writing."

Wine consumers can still subscribe to the Wine Advocate, of course, but they can also check out CellarTracker.

Wine consumers can still subscribe to Decanter, but they can also turn to a local resource. In the U.S. State of Colorado, wine drinkers have ColoradoWinePress.com. The writer behind that site is just a tweet away.

In Washington DC, drinkers have me, of course, but they also have Dave McIntyre -- a wine writer who writes twice each week for the Washington Post, plenty more on his own website, and is also easily contacted on twitter.

Just as consumers are becoming more empowered thanks to the weakening influence of gatekeepers, so are *citizens*. In the United States, at least, this political activism is having an impact on the wine industry.

From 1920 through 1933, alcohol was prohibited in the United States. Its legacy is still felt.

When prohibition was repealed, U.S. states were given the power to regulate alcohol within their borders. Some states created a "distributor tier" to sit between producers and retailers. Other states assumed complete control over the distribution and sale of alcohol.

These distributors couldn't -- and still can't -- produce alcohol their own alcohol, or sell it to consumers. They literally sit right in between the two, creating an artificial layer of separation between liquor producers and retailers that sell liquor.

A company like Distell -- our kind hosts -- couldn't exist in the United States. It's South Africa's largest producer and distributor of wines and spirits. Production and distribution is kept separate, by law, in the United States. Producers can't have relationships with retailers.

Back in the 1930s, the push for this system was understandable. Temperance activists didn't like the fact that before Prohibition, liquor companies owned bars. After Prohibition was repealed, liquor stores and other retailers grew worried about dealing directly with producers, because organized crime had controlled the flow of alcohol in the tee-totaling years prior.

American lawmakers hoped that creating a middle tier would address these concerns. Instead, they created a brand new, artificial middleman that would profit from every single liquor transaction in the United States.

As one might guess, wholesalers became -- and remain -- incredibly powerful. Today, America's two largest wholesalers -- Southern Wine & Spirits and Republic National Distributing Company -- have annual revenues of about 94 billion Rand.

These companies, together with their trade associations, donate millions to political campaigns. Since 2006, wine wholesalers have spent more than 590 million Rand on political contributions and lobbying.

Those donations make sense. America's distributors need politicians to keep the regulatory structure in place -- their survival depends on it.

But the regulatory structure stifles consumer choice and keeps prices artificially high.

Over the past few years, consumers have fought against it.

The resistance makes sense. Today's consumers don't want a critic serving as a gatekeeper -- nor do they want a wholesaler serving as a gatekeeper. In the marketplace, consumers expect unlimited choices. In America, distributors often stand directly in that path.

In the United States alone, there are about 7,000 wineries. Most wine shops and supermarkets, though, offer just a couple of brands -- I'm sure everyone here has heard of Kendall Jackson, Sutter Home, and Beringer, the three best-selling wine brands in the United States.

The reason? It's a lot easier for wholesalers to work with big producers rather than seek out small labels. This system, though, is incredibly damaging for smaller wineries and consumers.

In the late-1990s, many Americans started ordering wine directly from producers as they developed an interest in small-production wines. These sales cut wholesalers out of the deal, so they spearheaded a campaign to prohibit such sales -- pushing to prevent wineries from selling directly to restaurants, retailers, and consumers.

Fortunately, consumers fought back -- writing legislators, engaging the media, and filing lawsuits. Twelve years ago, just 19 U.S. states allowed consumers to order wine directly from producers. Today, 38 states allow some form of direct-to-consumer sales.

This fight continues today -- wholesalers are pushing hard to roll back the progress that's been made. And all sorts of silly regulations remain. Just 13 of the 50 U.S. states allow consumers to order wine from online retailers. This makes it very difficult for specialty wine shops to succeed.

Let's pretend I want to open a wine shop in Washington DC that only sells wines from South Africa. It'd be very difficult for me to succeed in the current environment, as I'd have a pretty limited customer base. If I could sell to the entire country, though, it might work out.

The rising backlash against wholesalers is a direct result of dissatisfaction with gatekeepers. And eventually, consumers will win. There's no room for institutionalized inefficiencies in today's marketplace.

Consumers who want to purchase anthologies of Jewish-Japanese poetry or the newest album from a Celtic Death Metal band don't want anyone standing in their way. They want to go online and place their orders. Wine consumers are the same.

The dwindling need for gatekeepers also has enormous implications for wineries.

Historically, a winery could only meet its customers in its tasting room -- or maybe at a large event in a nearby city. Social media opens the floodgates.

In Napa Valley, there's an exciting company called VinTank -- it's a combination research group and new media consulting firm. It also owns Cruvee, the social media monitoring platform I mentioned earlier.

VinTank's founder, Paul Mabray, recently wrote the following about the impact of social media on the wine world:

"Whereas in the past producers pretty much entrusted retailers with the task of managing consumer relationships on an ongoing basis, they can now connect directly with friends, fans, and followers. Using Cruvee, they can gain insight into who their fans are, what interests them, what they're talking about, whether or not they have plans to travel to wine country, and a whole lot more -- regardless of what channel they purchased the wine in. That's pretty powerful stuff."

Paul is right. Wineries no longer need gatekeepers to interact with their customers. So smart wineries can make huge inroads -- and it's cheap.

For example, a wine company can hire a full-time employee, for an entire year, to engage with customers on twitter, facebook, message boards, blogs, you name it -- for the same price it would cost to purchase a single full-page advertisement in Wine Spectator.

Consider my recent experience with Robert Oatley Vineyards, an Australian wine company.

Robert Oatley's winemaker -- who happens to be one of the world's only honorary Masters of Wine -- was visiting the United States, so his team invited me and a few area sommeliers to dinner.

As one might guess, wine was poured -- eight different bottles. The knockout wine of the night was totally unexpected -- a rosé of Sangiovese. It was stunning. Over the next few weeks, I published a story about the dinner on my blog, and then casually mentioned the rosé in a follow-up post.

Several friends told me that they bought it by the caseload after reading the post. They, in turn, told their friends about the wine, who told their friends about the wine... the impact of that one dinner -- where I was wowed by one wine -- continues to this day.

And I'm just a blogger.

The dwindling need for gatekeepers also creates huge opportunities for those on the far right of the Long Tail -- this includes virtually every single South African producer.

Raise your hand if you're familiar with search.twitter.com.... [Okay, we've got about XX hands.]

When you get back to your offices, head to search.twitter.com and search for your brand. Has a consumer had your wine recently? Thank them. People like feeling appreciated.

Next, search for your wine region – type in Stellenbosch, or Paarl, or wherever you are. You'll likely find that people – both in South Africa and across the world – are getting excited about upcoming trips to wine country. Use that information to contact them. Don't shill your products – offer to answer any questions, help with an itinerary, offer hotel and restaurant advice. *Engage*.

Look for opportunities to talk to people about Pinotage or Chenin Blanc or Ostrich meat.

Point is, the Internet presents a remarkable opportunity to interact directly with the end user. Again, for less money than a single full-page advertisement in *Wine Spectator* or *Decanter*, you can hire an employee to engage with consumers, daily, online.

And you can actually demonstrate a return on investment. If you take out an ad, there's no way to prove how many people actually looked at it. If you engage online, you can point to a specific number of existing and potential consumers you identified and interacted with.

This also matters because today's wine drinkers are more adventurous than the oenophiles of yesteryear. First Growth Bordeaux and Grand Cru Burgundy are no longer affordable, of course, but even if they were, consumers would be more interested than ever before in exciting their palates.

As *Wine Spectator* columnist Matt Kramer recently wrote:

"Today's wine world is radically different from the one I entered 35 years ago... Few surprises were then available, as most wines of quality came from long-established and highly regarded districts.

Today it's the reverse. The majority of the world's most interesting wines now come from 'unknown,' or at least unheralded, locales. Collectively, their numbers far outstrip the relatively small pool of famous zones commanding high prices. To call this a revolution understates it considerably."

Consider, again, my story about Robert Oatley. Until then, my impression of Australian wines was oak-heavy, Shiraz fruit bombs and Yellow Tail. And I know a lot about wine. Oatley opened my eyes to elegant, food-friendly Shiraz and how delicious rosé of Sangiovese can be.

Another obvious answer? Smart marketers can use *recommendations* to drive demand down the Long Tail.

In Chris Anderson's *Wired* article, he mentions Britney Spears. At the time, Spears showed up on the homepage for Rhapsody, the online music download site. Clicking her picture would get consumers to page listing her songs next to "similar artists." Among those artists was Pink. On Pink's page, the "similar artists" included No Doubt. And on No Doubt's page, the list included a band called *Selecter*, a 1980s British ska band.

As Anderson explained, "In three clicks, Rhapsody may have enticed a Britney Spears fan to try an album that can hardly be found in a record store."

The key here is that Rhapsody -- just like Amazon and countless other retailers -- has figured out how to give what they don't know they want, but are likely to appreciate.

If you know a consumer likes Burgundy, introduce her to Pinot Noir from Elgin. If she likes that, introduce her to Etna Rosso from Sicily or Blaufränkisch from Austria.

If a consumer is complaining about the price of Bordeaux or Napa Cab, tell him to give South African wines a try.

CellarTracker demonstrates that the self-esteem of your typical, educated wine drinker is growing. Consumers are confident in their own palates, and willing to trust the advice of people in their social networks. This trend is only going to accelerate.

Refreshingly, wine's biggest gatekeepers recognize that changes are on the way.

In July, Jancis Robinson spoke at America's annual Wine Bloggers' Conference. Her speech focused almost entirely on how the online revolution has changed wine journalism.

She concluded her speech with a "final hope" that the "multiplicity of voices we now have about wine means that we will no longer have just one or two voices telling people what to buy, and that retailers will regain their rightful role of making their own selections rather than regurgitating those of a handful of voices."

"Who knows?" she continued, "Maybe my original dream of sharing information with consumers so that they can make up their own minds, as increasingly well-informed wine drinkers, confident of their own judgments and preferences, will actually come true -- I hope so."

Jancis's dream will definitely come true -- sooner than any of us may now think.

After all, the Internet as we know it is only about 15 years old.

And it was only 30 years ago that people like Robert Parker started taking on some pretty strong gatekeepers himself.

What else was Bordeaux's Classification of 1855 but the creation of a gatekeeper? This wine is really good... everything else isn't.

Regardless of whether one hates Parker's 100-point scale or his palate, he made wine accessible -- people understand what a 95 means on a 100-point scale, and what an 80 means. Before Parker came along, countless consumers saw wine as pretentious.

Wine isn't pretentious, of course -- it's what moves all of us, what fascinates all of us, and why we're all here today. It's a beverage to sip, to savor, to share. It can lead great conversations, make meals more flavorful, and make all sorts of experiences more memorable.

There are many changes ahead, but the whole industry will be better off for it -- and plenty more people will feel just as strongly as we all do about wine.

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