COMPANY PROFILE

E. & J. Gallo Winery

REFERENCE CODE: 52FF729D-9AB6-4ED4-8FA1-EF703D8C070A
PUBLICATION DATE: 20 Jul 2018
www.marketline.com

TABLE OF CONTENTS

COMPANY OVERVIEW

E. & J. Gallo Winery (Gallo) is a family-owned company that produces and markets wines and spirits. The company offers a range of table and sparkling wines, malt beverage products, dessert wines and distilled spirits such as brandy, gin, rum, vodka and tequila. The company offers its products under various brands such as Barefoot Cellars, Dark Horse and Gallo Family Vineyards. It also imports wines from Argentina, Italy, Spain and New Zealand. Gallo exports and sells its products in several countries. The company manages production operations through a network of wineries in California and Washington. Gallo is headquartered in Modesto, California, the US.

KEY FACTS

Head Office	E. & J. Gallo Winery 1541 Cummins Drive Modesto California Modesto California USA
Phone	1 877 6879463
Fax	
Web Address	www.gallo.com
Revenue / turnover ()	
Financial Year End	
Employees	6,500
Ticker	

SWOT ANALYSIS

E. & J. Gallo Winery (Gallo) is involved in the production and marketing of wines and spirits. Strong market presence and extensive supplier network provide competitive advantage to the company, whereas lack of presence in key growing marketing channels is an area of concern. In the future, intense competition and stringent advertising regulations could lead to reduced profits and affect Gallo's growth prospects. However, increasing consumption of wine in the US and well-planned acquisitions are likely to provide growth opportunities to the company.

Strength	**Weakness**
Extensive Supplier Network Strong Market Presence	Lack of Presence in Key Growing Marketing Channels
Opportunity	**Threat**
Well-Planned Acquisitions Growing Trend of Wine Tourism to Boost Brand Loyalty and Improve Profit Margins Increasing Consumption of Wine in the US	Stringent Advertising Regulations Increasing Labor Wages in the US Intense Competition

Strength

Extensive Supplier Network

Gallo has an extensive supplier network. Through its global sourcing team, the company works with more than 3,000 suppliers who supply it with a wide range of products and services, including packaging materials, labels, closures, flavors, concentrates, ingredients, information technology services and janitorial services, among others. In addition to grape growers, Gallo’s supplier network includes companies that provide a wide range of services and support, such as branded wine imports, bulk wine, contract manufacturing, packaging, raw materials, corporate services, technology support, energy and travel. Working in close collaboration with these suppliers, the company has developed various next generation procurement strategies that provide solutions for e-procurement, e-sourcing and full procure-to-pay processes. Close collaboration with suppliers enables Gallo to leverage the expertise of partners to support its business. Furthermore, an extensive supplier network insulates the company from the risk of dependence on a single supplier to procure its material. This ensures unobstructed operations of Gallo.

Strong Market Presence

Gallo is one of the largest winemakers in the world with strong export operations. The company has been operating in the market since 1933. Gallo owns 15 wineries and more than 23,000 acres of vineyards across the state of California. In addition, the company maintains contracts with growers around the state that assist with yearly supply. The company offers its products in over 90 countries worldwide. Gallo markets more than 90 brands. Gallo also imports wine from Argentina, Italy, New Zealand and Spain. The company's wide product offerings and its years of market presence provide for significant levels of brand awareness.

Weakness

Lack of Presence in Key Growing Marketing Channels

Gallo faces stiff competition from small wineries as winery direct sales to consumers have been increasing. Winery direct sales include sales to consumers in the winery tasting rooms, wine clubs, winery mailing lists and e-commerce or internet sales. The principle channel for these sales is the winery tasting room, with e-commerce or internet sales being the smallest segment of total direct sales. Gallo generally sells its products through traditional channels using large retailers and stores. Thus, limited presence in this new channel makes the company vulnerable to the growing competition.

Opportunity

Well-Planned Acquisitions

Over the years, Gallo has adapted the planned-acquisitions strategy to strengthen its operations and product offerings. In August 2017, the company acquired Germain-Robin, a manufacturer of brandy. This acquisition would strengthen the company product portfolio. In March 2017, Gallo acquired Stagecoach Vineyard, a coveted Napa Valley vineyard famous for its dramatic terrain, rolling hillsides and wine grapes. This property consists of numerous soil depths, soil types and microclimates suitable for premier grape growing. The acquisition of this property is expected to support the company’s strategy to produce and market luxury wine offerings such as Louis M. Martini, William Hill Estate and Orin Swift.

Growing Trend of Wine Tourism to Boost Brand Loyalty and Improve Profit Margins

The wine tourism trend is growing in many parts of the US. Wine tourism encompasses visits to vineyards, wineries, wine festivals, and wine shows for which grape wine tasting or experiencing the attributes of a grape wine region are the prime motivating factors for visitors. Wine tourism can significantly increase the company's sales as more number of visitors will visit its wineries. The act of letting customers taste wine usually encourages most visitors to make a wine purchase. A related benefit of wine tourism is higher margins because it eliminates intermediaries like distributors and retailers thereby reducing distribution cost. Wine tourism also allows the company to attract new customers and foster brand loyalty. Thus, by engaging in wine tourism, Gallo can benefit from marketing its products at a lower cost and at the same time strengthen its brand loyalty. It will also help the company improve its profit margins.

Increasing Consumption of Wine in the US

The company could benefit from the growing wine market in the US. Changing global trends and increasing popularity of wine among youth, especially among women, are resulting in growth in the market for wine. The global markets for wine underwent a paradigm shift in the recent past, inclining more towards product differentiation and serving a diverse, more conscious and demanding customer base. Varieties such as red blends, rose wine, and sparkling are gaining popularity in the recent times. Changes in lifestyle due to increasing income are expected to be the major factors for growth in the industry. According to an in-house research report, the wine market in the US was valued at US$39,741.9 million in 2016, with sales reaching 3,407.1 million liters in 2016. The sales of sparkling wine reached US$3,400.4 million in 2016, equating to 8.6% of the market total, and still wine sales remain the leader in terms of total sales, which reached to US$34,436.2 million, equivalent to 86.6% of the market's overall value. The market is expected to grow at a CAGR of 3.8% during 2016-2021 to reach US$47,878.5 million by the end of 2021. In terms of volume, the market is projected to grow at a CAGR of 3.2% during 2016-21 to reach 3,989.8 million liters by 2021. Gallo markets its wines throughout the US and also distributes to more than 90 countries worldwide. With the growing global and the US wine markets, the company could increase sales in new markets and increase international sales.

Threat

Stringent Advertising Regulations

Alcohol companies have been criticized for irresponsible portrayal of alcoholic drinks in advertisements. Especially in Europe, regulatory authorities have been coming down heavily on alcohol advertising, claiming that such advertisements fuel binge drinking. There are numerous restrictions, controls and statutory regulations that govern the advertising strategies of beverage companies. Most European countries have imposed legal bans on advertising of spirits on television (TV) and radio; on broadcast advertisements linking alcohol with children, driving, sport or promoting alcohol abuse; and on sponsorship of TV and radio programs by companies primarily concerned in alcohol production. In the US, spirits advertising is subject to high regulation with regulatory authorities establishing complex standards. Increasingly stringent advertising regulations will restrict the company's promotional activities. Gallo could face a challenge due to such stringent advertisement regulations imposed on manufacturers of alcoholic beverages. This could lessen the high brand impact of its products.

Increasing Labor Wages in the US

Increasing manpower costs could have an adverse effect on the company’s margins. It implemented several initiatives to expand its presence, which requires increasing its employee base. However, increasing manpower costs could impact its stability and operational efficiency. The tight labor markets, government mandated increases in minimum wages and a higher proportion of full-time employees could result in an increase in labor costs. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA). As of January 2018, the minimum wage rate in the US was US$7.5 per hour. The minimum wage rate in 29 states and the District of Columbia is more than the federal rate. These wages range from US$11 in Massachusetts, US$8.25 in Florida, US$8.25 per hour in Illinois, US$9.25 per hour in Michigan, US$9.25 per hour in Maryland, US$10.1 per hour in Hawaii and Connecticut and US$10.5 in California. The minimum wage in the District of Columbia reached US$12.5 per hour.

Intense Competition

The beverage alcohol industry is highly competitive. Gallo competes with numerous multinational producers and distributors of beverage alcohol products on the basis of quality, price, brand recognition and distribution strength. The company's products compete with other alcoholic and non-alcoholic beverages for shelf space in retail stores, restaurant presence and wholesaler attention. Some of these competitors have greater resources than the company. Gallo's competitors include Treasury Wine Estates, Deutsch Family Wine & Spirits, Ste. Michelle Wine Estates, Kendall-Jackson Wine Estate & Gardens, Diageo, Andrew Peller, Pernod Ricard and Lion. Such a competitive landscape may lead to reduced profits and could affect the company's growth prospects.