

MARKET WATCH

Sam's Club In Perspective

CITY SCOPE: DENVER • SHERRY-LEHMANN'S NEW ERA
MIXOLOGY: THE HOLIDAYS • LEADERS BANQUET ROUNDUP



Cold Beverages

Alcohol Sales Policies

Tale Of Two Retailers

In this issue, we profile two drinks merchants. One is the illustrious Sherry-Lehmann, a Manhattan institution that's been serving the New York carriage trade since 1934. The other is Sam's Club, a modern warehouse chain that opened in 1983 and now has more than 500 units selling beverage alcohol in 48 states. Sherry-Lehmann's store is a 9,000-square-foot jewel on Park Avenue, with the look and feel of a traditional upscale retailer. The ambience of the Sam's Club stores is stark and modern, and they can be up to nearly 200,000 square

feet in size. Sherry-Lehmann thrives on high-margin products and exceptional service. The success of Sam's Club is based on scale, selection and pricing.

On the surface, these two retailers couldn't be more different. But both are in a constant state of evolution. Sherry-Lehmann, building on a strong tradition of top-flight delivery service, today has an Internet business that accounts for around 30 percent of its annual revenue. And despite its long-standing reputation for upscale retailing, Sherry-Lehmann offers plenty of reasonably priced items, annually selling around 45,000 cases of wines that retail for less than \$15 a bottle.

Sam's Club also has progressed from its earliest days and from its original mission. The retailer long ago shed its bargain-basement image and developed a range of upscale products. While the vast majority of Sam's Club's merchandise consists of affordable brands, it also offers Dom Pérignon and Louis Roederer Cristal Champagnes, Rémy Martin Louis XIII Cognac, Johnnie Walker Blue Label Scotch and Patrón Grand Platinum Tequila.

So despite their differences, there seems to be a point at which these two retailers' paths merge. What unites them is one key element: strict consumer focus. Both are relentless in their drive to provide the best and most suitable products for their customers. Neither player is content to maintain the status quo, and they're both making the commitment to excellence that's needed to stay on top. No matter how distinct they may appear to be, the most successful retailers are often united by a common thread.

Enjoy the issue,



Marvin R. Shanken

New York ICON

Manhattan retailer Sherry-Lehmann continues its storied tradition of dominating fine wine sales in the city and beyond

BY AMBER DREA

PHOTOGRAPHS BY SARINA FINKELSTEIN



Sherry-Lehmann Inc., the 76-year-old New York City fine wine and spirits retailer, has seen its share of famous faces over the decades. Nixon, Eisenhower, Kennedy and Garbo are just a few names dropped by CEO Chris Adams. On the subject of current illustrious clients, Adams is more reserved. "In my first week here, I was working at the counter, and a major Hollywood movie star was staring right at me," he says. "There are a lot of fun stories that we keep off the record."

One anecdote he's willing to share involves the late Andy Warhol, who designed the label for the 1975 Château Mouton-Rothschild. Shortly after the wine hit the shelves in 1978, the artist came into the store and offered to autograph a few bottles. They sold right away, so Sherry-Lehmann partner Michael Aaron asked him to sign the remaining 23 bottles. Warhol returned to the store and autographed 11 double magnums, seven triple magnums and five imperials, priced at \$350, \$500 and \$900, respectively. "They just flew out," Adams says. "We kept a couple and auctioned them off in the early '90s." According to Sherry-Lehmann's fall 2010 catalogue, a Warhol-signed double magnum is now valued at \$8,500.

This fall the story came full circle with the release of the 2002 Dom Pérignon "Andy Warhol Collection" (\$159.96 a 750-ml. bottle), which pays homage to the artist with limited-edition bottles featuring Warhol-inspired labels and packaging. The store's window at the corner of 59th Street and Park Avenue displayed the special Champagne bottling, and a "Warhol Day at Sherry-Lehmann" event was planned for early December at press time. "We recognize this place is an institution and it needs to be taken care of properly," Adams says of the store's historical role. "We're pretty serious guys. We like to work hard. But this is a fun place. There's a lot of character and a lot of joy."

Although Sherry-Lehmann has only been in its current location since 2007, the 9,000-square-foot store retains the intimate feel of its old Madison Avenue building, which it occupied for nearly six decades. The three-story space features a street-level sales floor with custom-built wooden shelving and antique objects lining the walls, the wine education room and offices on the second floor, and a temperature-controlled storage cellar with additional office space in the basement.

Team Players

Together, Adams and his partners, president Michael Yurch and COO Shyda Gilmer, maintain the level of customer service and quality of product selection that Sherry-Lehmann patrons have come to know. Aaron, whose father, Jack, founded the

(FROM LEFT) Sherry-Lehmann CEO Chris Adams, COO Shyda Gilmer and president Michael Yurch operate the 76-year-old company founded by Jack Aaron, the father of chairman emeritus Michael Aaron, who serves as a consulting partner. The executives focus on providing top-flight customer service and offering a wide range of high-quality wine, as well as spirits and accessories. The store's online business has also grown significantly in the last decade.

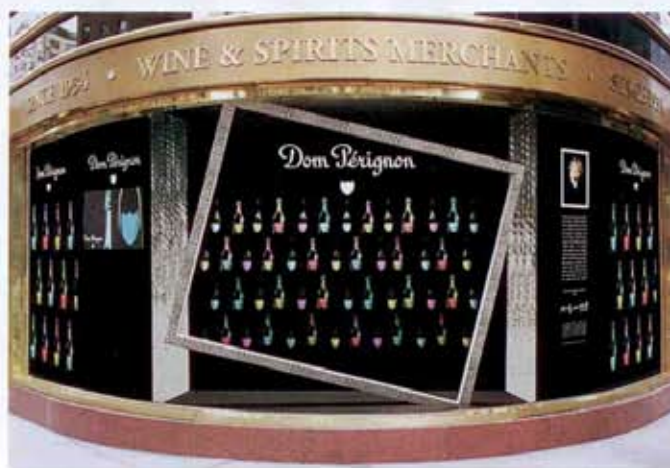


Sherry-Lehmann's current location (above) at the corner of Park Avenue and 59th Street in Midtown Manhattan has increased visibility and traffic for the store. The move particularly helped grow spirits sales, which now account for 5 percent of revenues, with vodka leading purchases. This fall's window display (right) featured Dom Pérignon's "Andy Warhol Collection," paying homage to the late artist who frequented the store in the 1970s.

original Sherry Wine and Spirits Co. Inc. in 1934, now serves as chairman emeritus and consulting partner, meeting regularly with the other partners to discuss operations. Jack's brother, Sam Aaron, joined the company in 1935 and was integral in developing the wine business. "Michael ran the store for 20 years and grew up with the company; his perspective is invaluable," Adams says.

Each partner focuses on specific areas of the business. Yurch works on the inventory side, while Adams takes care of advertising and marketing. Gilmer oversees the website, warehousing and technical infrastructure. In addition, Sherry-Lehmann has more than 60 employees—a number that doubles during the holiday season—and the store invests in educating each staff member. "Sherry-Lehmann is a wine university for our employees," Yurch says. "We spend an enormous amount of time on wine education, as well as schooling people on how to service the customer and how to make sure deliveries arrive on time."

Adams credits Robin Kelley O'Connor, who joined the company as director of sales and education several years ago, for the high quality of training. "We bring in staff who are passionate about wine, have an interest in selling and want to learn how to do it the right way—the Sherry-Lehmann way,"



Adams says. The store holds weekly wine classes that focus on a region, varietal or brand portfolio, giving employees the chance to taste the wines and interact with winemakers and proprietors. A recent session featured wines from Bradley Alan Imports, including the 2006 Domaine de Cezin Coteaux du Loir (\$15.95 a 750-ml. bottle) and the Domaine de la Coume du Roy Muscat Vieux (\$57.95 a 500-ml. bottle).

Yurch emphasizes the importance of vigorous staff training. "One thing I learned immediately at Sherry-Lehmann is that you don't put people on the sales floor if they're not ready, because it's going to be a bad experience for the salesperson and the customer," he explains.

While the store sees its share of employee turnover, many staff members have worked there for 10 to 15 years, and one has even been on the payroll since the '60s. "The educational

SHERRY-LEHMANN AT A GLANCE

Founded	1934, as Sherry Wine and Spirits Co. Inc. by Jack Aaron. Jack's brother, Sam Aaron, joined in 1935.
Owners	Chairman emeritus Michael Aaron, president Michael Yurch, CEO Chris Adams and COO Shyda Gilmer
Number of Units	1
Location	New York City
Annual Sales	\$50 million
Sales Breakdown	94-percent wine, 5-percent spirits and 1-percent accessories
Website	Sherry-lehmann.com

program that we have and continue to develop has gone a long way for us being able to retain people," Adams says. "With the downturn at the end of '08 and parts of '09, having people who've been with you a long time makes going through something like that much easier."

Merchandising Mavericks

Sherry-Lehmann's current inventory is valued at \$13 million, down from the pre-recession level of \$17 million—the largest in company history. The store carries slightly more than 6,000 wine SKUs, ranging from the private label Cler Blanc and Maison Rouge (each \$6.99 a 750-ml. bottle) to the 1990 Domaine de la Romanée-Conti Romanée-Conti (\$18,995). The shop's 800 spirits SKUs range from Gordon's vodka (\$12.95) to Sherry-Lehmann's 1888 vintage Founder's Reserve Armagnac (\$3,695). For every one bottle on display, there are six bottles downstairs, and vans replenish stock from a 65,000-square-foot temperature-controlled warehouse in Brooklyn, New York, as necessary.

While the economic downturn affected the store's revenue, which declined about 14-percent in 2009, Adams says that 2010's annual sales will be back on par with 2008, totaling roughly \$50 million. Wine makes up the vast majority of sales, with spirits comprising 5 percent and accessories accounting for roughly 1 percent. (New York liquor stores aren't allowed to sell beer.)

Fine wine is certainly Sherry-Lehmann's strong suit, especially its Bordeaux futures business, even in a time of economic weakness. "The 2009 vintage was a tremendous success," Adams says, adding that it was the best campaign since 2005. "Michael Aaron has always said that great Bordeaux is expensive, and the consumer for the most part participated." The company overcame a supply disruption after Diageo Chateau & Estate sold its Bordeaux business, causing Sherry-Lehmann to scramble to maintain continuity by scheduling a couple trips to France and some meetings in New York. Now the company's supply chain is back to normal, with a small number of hand-picked, reputable Bordeaux négociants.

Adams' only concern is how chateau owners will react the next time there's a challenging vintage, but he's confident that as worldwide demand continues to increase, prices will rise. No matter the economic climate, the fine wine business remains an important niche for Sherry-Lehmann. "You foster a Bordeaux clientele," Adams says. "We're all about selling wine at a fair price, whether it's a future or on the shelf or delivered. It's one of the things that has distinguished us and will continue to do so."

But Sherry-Lehmann isn't only focused on high-end wines. Good values in the \$8-to-\$12 range comprise the backbone of the store, and have done so for the last 40 years, Adams says. "We've always been consumer-focused and we probably sell more than 45,000 cases of wine a year that's under \$15 a bottle," he notes. Sherry-Lehmann's best-selling wine is the 2006 Lafite Réserve Spéciale Médoc (\$18.95 a 750-ml. bottle), followed by the company's private label French sparkling wine Boyer Brut Blanc de Blancs (\$9.99) and the 2009 Cloudy Bay Sauvignon Blanc (\$23.95).

When the recession hit, Sherry-Lehmann was prepared for the trade-down. As expected, customers turned away from Champagne, Bordeaux cru classé wines and Super Tuscans, instead opting for Proseccos and Crémants, petits chateaux and other less-expensive selections. "We had brands that we had tasted and worked with for decades," Adams says. "We saw customers gravitating toward those brands, and we had the inventory to supply them." Gilmer credits the economic downturn with customers rediscovering the values that Sherry-Lehmann offers. "People have found us again because of that, but those values have been here for 76 years," he says.

Things seem to be getting back on track. Champagne and cru classé wines have started to rebound, but sparklers remain strong and Portuguese wines are showing growth over last year, which speaks to consumers' continued interest in value, as well as Portugal's transition to dry wine. Sales of rosé and New Zealand Sauvignon Blanc have also gotten a boost, not only in the summer months, but throughout the year. Yurch notes that with the increasing number of quality wines being made in Chile, South Africa and other areas, consumers won't be returning quickly to the high end. "During the downturn, people either were forced to trade down or it just wasn't fashionable to be seen drinking expensive wine even if you could still afford it," he says. "But when you can get a Napa Valley Cabernet Sauvignon for \$25 to \$30, people are saying, 'Why was I spending so much? This is good.'"

Though they only account for a fraction of sales, spirits have grown significantly since the store moved to its new location. This trend is due in part to the abundance of window space on the 59th Street side that allows for more spirits to be displayed to passersby. "(At our previous store) we had a smaller display window, and of course, we liked to play our lead card, which was our fine wine," Yurch explains. "People (have told me), 'We were always afraid to go in there because we thought it was a fancy wine store.' Now when they walk by (the new location) and see Stolichnaya and Absolut and Bacardi, they feel less intimidated. It's been very good for our spirits business, and for business in general."

Adams notes that the amount of natural light coming into the space makes the store more inviting, and its proximity to the subway and other retail outlets like Bloomingdales has increased consumer traffic. Wine tasting events on Wednesdays and some Saturdays also help draw customers.

Vodka is definitely the top-selling spirit at Sherry-Lehmann, but Adams says rums and Tequilas are expanding as well. The No.-1 spirits brand is Grey Goose (\$34.95 a 750-ml. bottle), followed by Absolut (\$20.95) and Johnnie Walker Black label (\$39.95). The company has added a number of new products, including boutique Scotches and gins, as demand has grown. "We monitor what we sell and pull out the ones that aren't working, and we try new things and expand the ones that are working," Yurch adds.

Wide Reach

Having left the wine auction business in 1999, Sherry-Lehmann has spent the last decade focused on retailing. The company entered the online realm in 2000 with the launch of Sherry-lehmann.com and received the MARKET WATCH LEADERS Alumni "Best Website Award" in 2005. Since then, Internet

sales have increased from 22-percent to 30-percent of the company's annual revenue. "Shyda works hard on the website," Adams says. "It's a growth area for us—honing our e-mails, honing our lists and making sure it has a good user interface for our customers."

The website has helped increase efficiency for the store, as well as for its customers. "It's allowed us to take our customer service-oriented business and bring it forward to more people," Gilmer explains. "When we built our infrastructure in Brooklyn, we realized we needed the same ability (to ship orders), whether we're going to Beverly Hills or 34th Street." He notes that the website also makes shopping easier for customers, who can browse through the store's entire inventory and do their own research at home. "People come in with pages printed out and say, 'I've heard about this and read about this. Help me make a decision,'" Gilmer adds.

Just about every product Sherry-Lehmann carries is listed on the website, save for items that only have a few cases at the store or warehouse. "Retailing in New York is competitive," Adams says. "The transparency of pricing on the Web, while decried by a lot of people, is something we're very comfortable

The three-story, 9,000-square-foot Sherry-Lehmann carries 6,000 wine SKUs and 800 spirits SKUs. For every bottle on display, there are six bottles in the cellar, with additional storage at a 65,000-square-foot, temperature-controlled warehouse in Brooklyn, New York. Products are arranged by region, such as Bordeaux and Burgundy, or by type, such as fortified wines and sake.



with. I feel like although we have a reputation as being expensive, the truth is that we've always been aware of the market and aggressive with our pricing." The majority of Web business comes from the New York Tri-State area, but Sherry-Lehmann sees orders from all over the country. The retailer only delivers spirits within New York, but it ships wine to 42 states, and accessories can go to all 50.

Sherry-Lehmann's catalogue goes hand in hand with its website. Published four or five times a year since the 1930s, the catalogue serves as the company's main marketing tool and is mailed to 125,000 subscribers. "Even with the advent of the Web, the catalogue is the backbone of our advertising and marketing efforts," Adams says. "A lot of New Yorkers grew up with it and learned about wine by getting our catalogue. It's a great opportunity to show a broader range of our products, the breadth and depth of what we offer." People often look through the catalogue and then place their orders online.

In the last 12 months, the company has continued its close relationship with the New York Times, in which it has run advertisements for decades, and has expanded with a few buys in the Wall Street Journal's New York metro section and in the New York Post as well. Sherry-Lehmann also sponsors Fashion Week events and the website Bottlenotes.com, an online wine community that hosts tastings nationwide. The retailer makes sure featured wines are available for purchase online or in the store.

Charity work is a large part of Sherry-Lehmann's mission as well. The company contributes to such organizations as the Genetic Disease Foundation and the Thomas Blake Senior Memorial Research Fund, founded by tennis player James Blake. "We do sponsorships, we donate product and time, we sit on the boards," Gilmer says. "We support each charity and help generate as much money for the cause as possible."

Another way Sherry-Lehmann is reaching consumers is through its wine club, which launched within the last year. In partnership with Windows on the World Wine School founder Kevin Zraly, the Sherry-Lehmann team hand-picks wines that are sent every one, two or three months, depending on the membership level or the frequency of shipments that the consumer wishes to receive. Memberships include Wines of the Season (\$197.88 per case), International Discoveries (\$179.88) and Connoisseur's Club (\$239.88). Members also gain priority access to Sherry-Lehmann events, tastings and sales, as well as food and wine pairing suggestions and comprehensive tasting notes. In addition to the wine club, the store's custom and pre-packaged gift baskets, which range in price from \$50 to \$350, remain popular year-round.

Competition And Expansion

The possibility of allowing grocery stores in New York to sell wine is one of the state's most talked about legislative issues for the beverage alcohol industry. Surprisingly, Sherry-Lehmann doesn't strictly oppose it. "We're advocates of consumer access," Adams says. "But when you have so many businesses that have been run for decades under a certain set of rules and guidelines, you can't just give the rights to sell their product to a larger store. If it's

going to be considered, we want to be part of that conversation." Adams sees the legislation as an opportunity for reform. "It will only be a great source of revenue if everyone's treated fairly. We need to reform these somewhat draconian, antiquated post-Prohibition laws that we're still living by," he says.

Adams points to state laws that limit wine and spirits retailers' ability to sell certain items, like food and beer, as well as the fact that it's illegal to own more than one liquor store in New York. Regarding the latter, Sherry-Lehmann is considering opening additional units in the state, which Adams says is possible under a bill that is currently working its way through the legislature. In the meantime, the partners are looking outside of New York. "We don't have a concrete plan, but as markets develop and trends change, we're interested in having a more animated level of conversation in the next few years about growing and expanding," Adams notes. "We're also control freaks, so turning the Sherry-Lehmann name over or franchising the brand is not



Fine wine sales are important to Sherry-Lehmann's business, and the company works with a carefully selected group of négociants to deliver Bordeaux futures to its customers.

something we're interested in, because we cherish it. Anything that would involve this brand in another location would be a pretty rigorous process."

Indeed, Sherry-Lehmann's reputation is highly valued. Customer service is paramount to its business, and through the years the retailer has developed a sophisticated shopping experience, enhanced by a high-tech computer system and a tailored ordering process. The warehouse and website have made shipping and deliveries effortless, and the company's state-of-the-art storage facilities ensure the utmost quality. "We take care of the product meticulously, whether it costs \$5 or \$500," Adams says. "Same with our customers. It's about taking care of everybody and showing them that we're thankful that they chose us. And once they choose us, earning their repeat business by distinguishing ourselves irrespective of what they're spending, how they're packaging it and where it's going. We want them to come into our store and enjoy the experience. There's wine shopping, and then there's shopping at Sherry-Lehmann." mw