



Wineries need to
understand NFTs to avoid
being left behind as the
technology evolves

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In the late 1990s, a major U.S. winery implemented a software system to better manage its resources, from personnel to finances. The World Wide Web and e-commerce were still in their infancy, and the implementation team didn't see a need to integrate a website with the new software.

What possible role could the Internet play in the business of growing grapes, making wine, and selling it to people, they wondered. Today, of course, almost every winery on Earth has a website, which they use for everything from storytelling to customer engagement to global sales. Fast adopters were able to capture market share, and internet commerce created a number of new business models for winemakers.

Non-fungible tokens (NFTs) are a component of the rapidly evolving next generation of internet technology. Far from being a fleeting fad or trend, NFTs have the potential to revolutionize digital rights management and the digital representation of assets. Wineries ignore them at their peril.

Cyberspace is on the next leap forward—often referred to as Web 3.0—and while we can't yet know how this new technology will evolve, we do know that companies that aren't evaluating uses and opportunities to augment their business models with NFTs may find themselves at a significant competitive disadvantage a decade from now.

NFTs are unique digital files whose identity is tracked and verified by the distributed blockchain networks that support them. Potential business applications range from authenticating contracts to verifying the identity or provenance of assets to establishing digital ownership.

In the wine business, the possible breakthroughs that NFTs could drive fall into three broad categories, relevant to both hard-to-get cult classics as well as more mass market categories. While no one knows how NFT technology will evolve and what uses might take hold in the marketplace, I'll outline some ideas for potential uses in each category.

Verification and traceability

Authenticity. Verifying the authenticity of fine wine is the most widely seen potential use for NFTs in winemaking. Quite simply, if you buy a bottle of wine straight from the producer, the NFT helps to ensure the bottle is authentic.

Provenance. If a bottle is resold in the fine wine market, buyers will have a certificate of authenticity that verifies not just the origin of the wine, but blockchain also tracks who has owned the bottle. NFTs can ensure that buyers know what they're buying, reducing the chances that a buyer is duped into buying fake wine.

Collectability. Many wine drinkers save corks or bottles from wines they drank as a way of immortalizing special wine that may have been consumed years earlier. NFTs take the notion of collectability to the digital level. Now collectors can display NFTs from their digital wallets to show exclusive wines they've consumed. What's more, wineries or wine sellers could offer "tasting tokens" that would allow anyone who shared in the bottle to post their tokens on social media or other platforms, essentially providing verification for the wine-tasting experience. NFTs could allow wine aficionados to establish bragging rights by showing the

most interesting wines they drank during the past year, for example.

Collection authenticity. While NFTs can verify the authenticity of individual bottles, they can also verify a wine collection, either private holdings or verticals of wines that are produced in limited numbers over a period of years.

Environmental, social, and governance. As more wineries focus on environmental, social, and governance initiatives, NFTs can help ensure compliance by tracking not just the wine itself, but the grapes, products, and operations of suppliers and vendors.



Community, exclusivity, and commerce

Limited editions. NFTs could be attached to special editions of more widely distributed wines. For example, one California winery recently marked an anniversary by offering its wine in a special bottle with an NFT. Similarly, a winery might sell bottles from a single barrel of a particular vintage and provide verification of its origins with an NFT.

Community. Wineries or wine sellers could offer NFTs that guarantee buyers membership in an exclusive club, with benefits such as access to exclusive events or allocations.

Trading and investment. The secondary market for fine wine is about \$5 billion annually, and as many as 16,000 rare bottles a month change hands on the Liv-ex exchange.^{1,2} Having transactions accompanied by a tangible digital asset that can be easily traded on the internet removes some barriers to trading on the secondary market and offers an opportunity for new business models to evolve. In addition, NFTs could trade independently backed by the bottles they represent, similar to a commodities futures market.

Commission. In today's secondary market, a bottle of wine might change hands multiple times, with the value increasing with every trade. The producer does not get to participate in any of that value creation. But producers can attach commissions to NFTs, allowing them to benefit from any downstream sales by receiving a percentage of every transaction when that NFT changes hands. Conversely, producers who hate the idea of speculators can set commissions so high that it would restrict speculation on those bottles.



Marketing and the metaverse



Gamification. Gamification adds an element of fun and collectability to less expensive wines. A buyer might receive an NFT after trying certain types, vintages or labels of wine and then be able to exchange them for merchandise, similar to a rewards or loyalty program. For example, after a customer tries a certain number of vintages, the winery could invite them to tour the vineyard and have a free dinner on site.

Engage younger consumers. NFTs provide a way of engaging a different demographic, such as

Gen Z, that's interested in them just for their social appeal and newness. For example, a new winery trying to make a name for itself might offer NFTs with every bottle just for the "coolness factor." At least one startup winery already offers their wines only as NFTs.

Metaverse. As virtual tasting rooms or even virtual wineries are developed in cyberspace—Deloitte, for example, is building a virtual winery in the Metaverse—NFTs can be used for various transactions. For example, in Deloitte's virtual winery, NFTs will

be awarded to patrons who watch a video about the project's origins or review technical specifications for three different types of wine.

Customer data. NFTs can be used to not only track who bought the wine, but potentially everyone who drank that bottle. Because most wineries sell their products through distributors, NFTs can be an important tool for establishing direct contact with customers and learning valuable insights about their preferences and buying habits. This will allow for much more targeted digital marketing strategy, reducing the costs.

NFT Challenges

NFTs are not without a set of challenges. Consumers, particularly older ones, tend to be less familiar with the technology. And while NFTs are moving toward fiat currencies, most still trade using cryptocurrency, which creates fluctuation risk and may make it harder to market to people who are crypto-averse.

As with the websites of yesteryear, it is still unclear how NFTs might best be used to support winery business models, or which applications—if any—consumers will embrace. Much will depend on individual buying habits. For example, someone purchasing a \$15 bottle of Merlot at a grocery store cares less about provenance than someone purchasing Grand Cru Burgundy. That said, the \$15 bottle lends itself much more to gamification.

Deploying an NFT strategy also requires some technical expertise as well as experience with the NFT marketplace. And it's also possible that promoting an NFT could alienate some longtime buyers who may see it as a crass marketing tactic that damages a brand's reputation.



It's important for winery owners to consider their options and evaluate a few that fit best with their overall strategy. The potential uses of NFTs are still being developed, and while wineries should familiarize themselves with the technology, it isn't necessary to cover all the options I've outlined here. Winery owners must decide if they want to be an early adopter, a fast follower, or take a wait-and-see approach.

NFTs may not be right for every winery's business model. But determining that should be an informed decision rather than indecision that results in being left behind. It's important that wineries of all sizes begin studying NFTs' potential applications and experiment with different possible uses. Those that don't run the risk of being left at a competitive disadvantage as NFT applications evolve.

Endnotes

¹ Larissa Zimmeroff, "Investing in Fine Wine Is More Lucrative Than Ever," Bloomberg, July 19, 2018, <https://www.bloomberg.com/news/articles/2018-07-19/why-the-best-investment-vehicle-is-one-you-can-drink?leadSource=uverify%20wall&sref=6ouNDd7w>

² "More wines trade on the secondary market than ever before," Liv-ex, October 27, 2021, <https://www.liv-ex.com/2021/10/wines-trade-secondary-market-ever/>



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