THE ECONOMIC IMPACT OF WINE AND WINE GRAPES ON THE STATE OF VIRGINIA – 2015

A Frank, Rimerman + Co. LLP Report

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This study was commissioned by the

Virginia Wine Board

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FULL ECONOMIC IMPACT OF WINE AND WINE GRAPES ON THE VIRGINIA ECONOMY -- 2015

$1.37 Billion

VIRGINIA WINE, WINE GRAPES AND VINEYARDS	2015 ECONOMIC IMPACT	2010 ECONOMIC IMPACT
Full-time Equivalent Jobs	8,218	4,753
Wages Paid	$291 million	$156 million
Wine Produced (Cases)	705,200	439,500
Retail Value of Virginia Wine Sold	$129 million	$73 million
Vineyard Revenue	$18 million	$11 million
Number of Wineries	261	193
Number of Grape Growers	338	386
Grape-Bearing Acres	3,300	2,700
Wine-Related Tourism Expenditures	$188 million	$131 million
Number of Wine-Related Tourists	2,249,000	1,618,000
Taxes Paid: Federal / State and Local	$89 million / $94 million	$42 million / $43 million

Table 1[1]
Total Economic Impact of Wine and Grapes in Virginia

Revenue:	2015	2010
Winery Sales	$108,452,000	$56,030,000
Retail and Restaurant Sales of Virginia wine	$15,130,000	$12,807,000
Distributors Sales	$5,758,000	$3,791,000
Non-Wine Revenue (Weddings, Events, etc.)	$23,636,000	$6,152,000
Tourism	$187,747,000	$130,597,000
Wine Grape Sales	$17,940,000	$10,965,000
Federal Tax Revenue	$88,977,000	$42,026,000
State Tax Revenue	$94,147,000	$42,690,000
Vineyard Development (excluding vines)	$2,650,000	$2,167,000
Charitable Contributions	$1,293,000	$726,000
Allied Industries -- Glass, Closures, Chemicals	$3,203,000	$4,650,000
Wine Research/Education/Consulting	$3,632,000	$1,325,000
Indirect (IMPLAN)	$314,122,000	$173,161,000
Induced (IMPLAN)	$208,303,000	$103,517,000
Total Revenue	**$1,072,990,000**	**$590,604,000**
Wages:		
Winery Employees	$36,391,000	$16,522,000
Vineyard Employees	$19,904,000	$11,331,000
Tourism	$43,704,000	$22,254,000
Vineyard Development and Materials - Labor	$398,000	$325,000
Distributors Employees	$2,066,000	$1,681,000
Retail/Liquor Stores - Wine Specific	$602,000	$566,000
Restaurant Sales of Virginia Wine	$3,505,000	$4,996,000
Allied Industries -- Glass, Closures, Chemicals	$825,000	$853,000
Wine Research/Education/Consulting	$2,280,000	$1,166,000
Indirect (IMPLAN)	$115,031,000	$62,247,000
Induced (IMPLAN)	$66,603,000	$34,548,000
Total Wages	**$291,309,000**	**$156,489,000**
Total	**$1,366,299,000**	**$747,093,000**

[1] Based on 2015 data.

EXECUTIVE SUMMARY

IMPACT OF VIRGINIA WINE ON THE VIRGINIA ECONOMY

The Virginia wine industry experienced significant growth in the number of wineries and increased demand of Virginia wine since our last economic impact study in 2010. The number of bonded wineries in the state of Virginia grew from 193 in 2010 to 261 in 2015. The industry continues to expand at an assertive pace with the addition of new wineries and an increase in total production of top producers at a rate of 10-30% since the study in 2010. Wine production in Virginia grew by approximately 60% over 2010 to 1.7 million gallons bottled in 2015, ranking Virginia as ninth in the nation in wine production.

The wine and grape industry in Virginia contributed greatly to the economic strength of the state. Virginia's wine, grape and related industries increased the total economic value to the state of Virginia from approximately $747 million in 2010 to $1.37 billion in 2015, or an overall increase of 83%. As the number of Virginia wineries increases, so does the number of tourists visiting them (from 1.6 million tourists in 2010 to 2.25 million tourists in 2015). Wine, grapes and related industries account for 8,218 jobs in Virginia with an associated payroll in excess of $291 million.

Table 2
Total Virginia Employment: Wine, Grape and Related Industries

Employment:	2015	2010
Winery	1,813	807
Vineyard	972	553
Distributors	35	33
Tourism	1,826	1,019
Vineyard Materials	15	12
Restaurants	205	308
Retail/Liquor Stores - Wine Specific	23	22
Allied Industries -- Glass, Closures, Chemicals	25	25
Research/Education/Consulting	32	23
Indirect (IMPLAN)	1,801	1,091
Induced (IMPLAN)	1,471	861
Total Employment	**8,218**	**4,753**

Sources: Frank, Rimerman + Co. Research, IMPLAN, Virginia Tech University, Virginia Wine Board, Virginia Wineries Association, Virginia Vineyards Association, Bureau of Labor Statistics and various Virginia wineries, consultants and suppliers surveyed.

These 8,218 jobs compare with a total of 4,753 jobs in 2010, as reported in the previous report. This difference represents growth in the industry as well as continuing progress in collecting data, and more precise data, on suppliers to the industry. Considering the same industry categories included in the last report, wine industry related employment increased by 73% since 2010.

Growing grapes and making wine is a long-term commitment to a community, both financially and physically. New vineyard plantings require three to five years before yielding a full crop, with another one to three years of aging for wine to be ready for sale. Unlike many industries, once vineyards and wineries are established they are effectively rooted and tied in place – a Virginia vineyard cannot simply be relocated to another region or outsourced to another country. Wine and grapes are inextricably tied to the soil from which they are grown. Moreover, wine and their products and allied industries diversify local economies and create employment and new market opportunities.

TOTAL TAXES COLLECTED

The wine and wine grape industry generates significant tax dollars, benefiting federal, state and local governments. Tax dollars are raised through sales taxes, excise taxes, income taxes, estate and gift taxes, payroll taxes, property taxes and other business taxes and fees. Virginia's wine, grape and allied industries paid $89 million in federal taxes and $94 million in state and local taxes and in 2015, including roughly $11.5 million in total excise taxes.

Table 3
Estimated Tax Revenues

Type of Tax	Total
Federal Tax Revenues	
Excise	$8,956,000
Payroll	$34,775,000
Income	$27,356,000
Other (corporate profits, etc.)	$17,890,000
Total Federal Tax Revenues	$88,977,000
State Tax Revenues	
Excise	$2,531,000
Sales	$34,219,000
Payroll	$8,092,000
Property	$38,050,000
Other (dividends, licenses, fines, fees, etc.)	$11,255,000
Total State Tax Revenues	$94,147,000
Total Tax Revenues	**$183,124,000**

TOURISM

Tourism continues to be a major element in Virginia wine's overall economic impact. Our survey of Virginia wineries estimates that nearly 2.25 million tourists visited Virginia wineries in 2015. Supporting these winery visitors is a diverse labor force of approximately 1,826 employees with total wages of over $43 million. The continued increase of tourist visits over the past several years can be attributed to the increase in the number of Virginia wineries and continued improvement in wine quality, providing more destinations and opportunities for visitors to experience Virginia wine country.

The state's overall wine sales and production are not concentrated within a few large wineries; rather the majority of the state consists of small wineries with production under 10,000 cases. The larger wineries sell a larger proportion of wine through the three-tier system while smaller producers tend to focus on selling their wine direct-to-consumer and direct-to-trade. Across all winery sizes, there has been a significant increase in the expansion of related-product offerings and events, private parties, weddings, and festivals held on winery properties and, thus, the winery's function has continued to evolve past simple production. Some existing wineries have expanded their facilities to incorporate these additional revenue streams resulting in increased winery employment and support services, and increased rural economic development.

Many wineries in Virginia incorporate these new functions with traditional facilities to take full advantage of these profitable ancillary activities. By our estimation, based on direct feedback from the wineries we surveyed, there was over $23 million in revenue generated from these wine-related events.

WINE PRODUCTION AND SALES

In 2015, there were 261 wineries in Virginia, up 30% from 193 wineries in 2010. Total wine produced in Virginia was approximately 1.7 million gallons, roughly 705,000 cases, and an increase of 60% over 2010.

Based on our research and winery surveys, wineries in Virginia provided employment for 1,813 full-time equivalent jobs in 2015, with a payroll totaling approximately $36.4 million. Wineries employ full and part-time workers for bottling, storage, maintenance and winemaking needs in addition to the traditional hospitality (tasting room), finance, sales and marketing functions. Many wineries also employ seasonal workers, particularly during harvest season.

Table 4
Trend of Growth in Virginia Wineries

Year	Wineries	% Growth	Case Sales	% Growth
2015	261	35%	705,166	60%
2010	193	50%	439,520	37%
2005	129	102%	320,171	34%
2000	64	36%	238,203	36%
1995	47	18%	175,138	96%
1990	40	38%	89,164	152%
1985	29	NA	35,325	NA

Source: TTB

Over 95% of Virginia wineries are small producers, producing less than 10,000 cases. Over 70% of the wine produced in Virginia in 2015 was made from grapes grown in Virginia. The growth of wineries in the state has so far kept pace with the growth of overall grape production as well as the increased demand for wine in state.

In 2015, Virginia was the twelfth largest wine producer in the United States despite the increase in production from 2010. A marked increase in wine tourism has been a strong driver of this production increase. The number of new wineries producing wine in Virginia has increased dramatically in the last ten years (a 358% increase). Virginia’s increased number of wineries and industry revenue can be partially attributed to improved overall wine quality throughout the state, in addition to positive media press in the United States and the United Kingdom.

Table 5.1
Top States' Annual Gallons Produced in 2015

Rank	State	Total Produced (Gallons)	% of Total
1	California	638,173,762	83.09%
2	New York	38,730,324	5.04%
3	Washington	30,707,698	4.00%
4	Oregon	15,513,532	2.02%
5	Kentucky	13,379,563	1.74%
6	Florida	5,716,702	0.74%
7	New Jersey	3,255,902	0.42%
8	North Carolina	2,064,168	0.27%
9	Missouri	1,962,099	0.26%
10	Ohio	1,838,211	0.24%
11	New Mexico	1,646,831	0.21%
12	**Virginia**	**1,643,376**	**0.21%**
---	Others	13,456,608	1.75%
	Total U.S.	**768,088,776**	100.00%

Source: www.ttb.gov

Approximately 26% of the wine volume produced in Virginia is distributed through the three-tier distribution system. This is primarily driven by Virginia's largest wineries, which sell a significant share of their wines through this channel. The vast majority of Virginia wineries by number, however, sell their wine direct to consumers through winery tasting rooms, allowing them to potentially obtain higher margins on their product. These wineries generally have relatively small production, typically less than 10,000 cases annually.

The retail value of Virginia wine sold in 2015 is estimated at $129 million with winery sales totaling $108 million. Winery direct sales totaled roughly $91 million, which include sales to consumers in the winery tasting rooms, wine clubs, winery mailing lists and e-commerce/Internet sales. Retail, restaurant and distributor sales increased from 2010, primarily due to the fact that the state's largest wineries produced more wine which resulted in an increase in wine sold through the three-tier system. In addition, excluded from all of these figures is the additional $23.6 million in non-wine revenue associated with wineries hosting special events/weddings and selling various merchandise on-site. This represents a significant increase over $6.1 million in 2010.

GRAPE PRODUCTION

In 2015, there were approximately 338 commercial growers operating in Virginia with a combined acreage of 3,300 bearing acres, an increase of 600 acres over 2010, or an 18% increase. While vineyard acreage in Virginia has steadily increased over the past five years, yields and crop value have varied dramatically. If Virginia is to gain traction and continue to produce enough wine in state to meet increasing consumer demand, the industry will need to continue increasing the available grape-bearing acreage as well as improving overall quality. Virginia was ranked eighth in the nation for total grape-bearing acreage in 2015, as shown in the table below.

Table 5.2
United States Grape Production, 2015

Rank	State	2015 Total Production (Tons)	2015 Bearing Acreage (all types of grapes)
1	California	6,847,000	856,000
2	Washington	419,000	70,000
3	New York	145,000	37,000
4	Oregon	65,000	19,000
5	Michigan	80,600	13,000
6	Pennsylvania	77,000	13,000
7	Texas	11,400	3,800
8	**Virginia**	**9,200**	**3,300**
9	North Carolina	7,300	2,300
10	Missouri	5,650	1,700
	Others	10,000	3,600
	Total U.S.	7,677,150	1,022,700

Source: USDA Noncitrus Fruits and Nuts 2015 Summary

Wineries in the State of Virginia rely heavily on wine grapes grown in state, which generally contributes to lower costs. By continuing to increase the grape quality and amount of Virginia acreage available for grape production, the Virginia wine industry can rely less on grapes produced outside the state while in turn building more credibility and a stronger reputation for wine quality as well as potentially reducing costs.

VINEYARD DEVELOPMENT

Vineyard development is the process of converting land into a developed vineyard. The land must be prepared to plant vines. Once the vine is planted it must be trellised and trained, and, from the time a vine is planted in the ground, it can take between three to four years before the vine bears fruit. During this time, pre-productive (non-fruit bearing) vines must be tended and cared for in accordance with sound viticultural practices to ensure healthy productive (fruit bearing) vines.

The vineyard development process is very capital and labor intensive, with development costs for Vinifera grapes in Virginia continue to average $10,000 to $15,000 per acre, depending on the specific location of the vineyard and planting layout, excluding land acquisition costs. This approximate cost includes all land preparation; vine layout, planting and trellising; vines; irrigation; materials and equipment; farming costs; direct and allocated overhead, utilities, property taxes, and financing costs during the pre-productive period.

Based on surveys with wineries and vineyard owners, approximately fifteen full-time equivalent workers were employed in vineyard development for a total payroll of approximately $398,000 in 2015. Additional contracted labor used for vineyard development is included in vineyard labor discussed below.

VINEYARD EMPLOYMENT

Larger Virginia wineries reported utilizing both full-time and seasonal vineyard employees. Often grape production uses seasonal labor for harvests and vineyard development and full-time positions for maintenance of currently-bearing acres and development of new vineyards yet to bear fruit, as well as both full and part-time staff for finance, sales and other business management functions.

However, many grape growers in Virginia manage smaller vineyards and can do so without outside labor. Based on our research, the average vineyard size was less than ten acres for all vineyards, including those owned and operated by both wineries and independent grape growers. Vineyards in Virginia employed a total of 972 full-time equivalent workers in 2015 with wages totaling approximately $19.9 million.

COMMUNITY SUPPORT

Based on our estimates, wineries and growers throughout the state of Virginia have donated approximately $1.3 million to charities in 2015, including gifts of wine and gift certificates. This is an increase of $567,000 (78%) over 2010. The amount of charitable contributions is likely underestimated as many wineries do not track in-kind contributions, which can be substantial.

WINEMAKING EQUIPMENT, SUPPLIES AND SERVICES

The number of in-state suppliers or distributors of winemaking equipment, supplies and services is relatively small. Many different types of small businesses exist in Virginia that supply the wine and wine grape industry as a portion of their overall business. They include bottle suppliers, farming chemical providers, trucking services, label producers, tank manufactures, warehousing, and wine labs.

Table 6
Virginia Winemaking Suppliers for Virginia Wine

Direct Employment	25 employees
Total Wages	$825,000
Total Revenue	$3,203,000

Source: Frank, Rimerman + Co. LLP

EDUCATION, CONSULTING AND WINE INDUSTRY RESEARCH

Approximately 32 people were employed on a full time basis in Virginia in wine-related education, consulting and research, with a payroll of roughly $3.6 million.

Table 7
Impact of Wine-Related Education, Consulting and Research

Direct Employment	32 employees
Total Wages	$3,632,000
Total Funding	$2,280,000

Source: Frank, Rimerman + Co. LLP, Virginia Tech, Virginia Vineyards Association, Virginia Wineries Association.

STRONG SUPPORT BY STATE AND REGIONAL ORGANIZATIONS

State and regional organization support is critical to the success of the renewed industry. Virginia's state, regional and private organizations have been particularly effective and well-organized at supporting and promoting the local wine industry. These organizations include the Virginia Wine Board, Virginia Wineries Association and the Virginia Vineyard Association.

A CONSERVATIVE MEASURE OF VALUE

Statistics alone do not adequately measure the intangible value the wine industry brings in terms of overall enhanced quality of life, limitation of urban sprawl and greater visibility for the state of Virginia worldwide. Accordingly, the figures provided in this report should be viewed as a conservative baseline measure of the economic impact, as the true impact of the Virginia wine industry, including intangible benefits is much greater. That measure of economic impact is approximately $1.37 billion within the state of Virginia, for an industry that is a unique partnership of nature, entrepreneurship, artistry and technology.

Virginia wine and wine grape producers face sizable challenges to their continued growth and success. Working to support the Virginia wine industry and to ensure its long-term success will protect the significant benefits the industry provides to the Virginia economy.

METHODOLOGY

DATA COLLECTION

Data for this study was collected from a variety of public sources supplemented by primary research with wineries, suppliers, growers and other economic entities and supported by a variety of studies undertaken by industry and professional organizations. For several data items the numbers provided are only partial, given the limited availability of information, and therefore are considered conservative.

DIRECT, INDIRECT AND INDUCED EFFECTS (IMPLAN)[2]

All economic activities have "ripple" effects: employment of one person creates economic activity for others, whether the salesman who sells the employee a car or the restaurant where she eats lunch. Economic impact studies endeavor to measure those "ripples" as well as the direct activity, to help assess the impact of the potential gain or loss of an industry.

Economic impact studies estimate the impact of an industry in a defined geographic region by identifying and measuring specific concrete and economic events, such as the number of jobs, the wages, taxes and output generated by each job.

IMPLAN[2] is the acronym for "**IM**pact analysis for **PLAN**ing." IMPLAN is a well established and widely used economic model that uses input-output analyses and tables for over 500 industries to estimate these regional and industry-specific economic impacts of a specific industry.

The IMPLAN model and methodology classifies these effects into three categories, Direct Effects, Indirect Effects and Induced Effects.

Direct Effects are economic changes in industries *directly* associated with the product's final demand. Thus, direct effects consider the direct employment and spending of wineries, vineyards, distributors and immediately allied industries.

Indirect effects are economic changes – income created through job creation in industries that supply goods and services to the directly affected industries noted above. For example, the purchases of electricity and gasoline by wineries and of cash registers purchased for a tasting room.

[2] IMPLAN is the standard economic model for economic impact studies, developed by the University of Minnesota and the US Forestry Service in the 1980s and currently used by over 1,500 organizations, including most federal, state and local organizations. For more information on IMPLAN, go to www.implan.com.

Induced effects are the effects of these new workers spending their new incomes, creating a still further flow of income in their communities and a flow of new jobs and services. Examples are spending in grocery and retail stores, medical offices, insurance companies, and other non-wine and grape related industries.

Beginning in late 2009, the Minnesota IMPLAN Group released version 3.0 of its flagship IMPLAN software product, which makes it possible to include Trade Flows in an impact analysis. We used this latest version with its increased functionality to produce this report.

ABOUT FRANK, RIMERMAN + CO. LLP

Frank, Rimerman + Co. LLP is the leading research source on the U.S. wine industry. We continue to strive to raise the bar on the quality of information and analysis available to the wine industry.

Frank, Rimerman + Co. LLP produces original research on the business of wine and wine market trends, publishes a number of industry studies and provides business advisory services and conducts custom business research for individual companies and investors.

FRANK, RIMERMAN + CO. LLP PUBLICATIONS

Grape Trends

By combining the annual crush and acreage reports into one easy-to-use quick reference guide, Grape Trends provides, in one source, all the information needed to make informed decisions about California's grape supply for production planning. Provided in electronic form, Grape Trends includes a complete summary of current, past (since 1997) and projected tons, prices, and bearing acres for all of California's major grape growing regions and counties for all varietals recorded, including: Chardonnay, Sauvignon Blanc, Cabernet Sauvignon, Merlot, Syrah, Zinfandel, and Pinot Noir.

Grape Price Analysis Tool

The Grape Price Analysis Tool enables users to take a deep dive into the California Grape Crush Report and analyze estimated bottle prices in relation to tonnage prices. The tool makes the data from the Crush Report easy to access and provides actionable results to help determine tonnage prices based on an estimated finished bottle price.

Economic Impact Reports

Frank, Rimerman + Co. LLP completed the first study of the Impact of Wine, Grapes and Grape Products on the American Economy for Wine America, the Wine Institute, Winegrape Growers of America and the National Grape and Wine Initiative, as well as economic impact studies for California, Illinois, Iowa, Michigan, Missouri, Ohio, New York, North Carolina, Pennsylvania, Tennessee, Texas, Virginia and Washington.

Recent Economic Impact Studies and Updates published by Frank, Rimerman + Co. LLP include the following:

- Economic Impact of Kentucky Wine and Wine Grapes 2014
- Economic Impact of North Carolina Wine and Wine Grapes 2013
- Economic Impact of Missouri Wine and Wine Grapes 2013
- Economic Impact of Texas Wine and Vineyards 2013
- Economic Impact of Wine and Wine Grapes in Iowa 2012
- Economic Impact of Wine and Wine Grapes in Ohio 2012
- Economic Impact of the Wine and Grape Industry in Canada 2011
- Economic Impact of Wine and Grapes in New Jersey 2011
- Economic Impact of Wine and Wine Grapes in Illinois 2011
- Economic Impact of Wine and Grapes in Canada 2011
- Economic Impact of Texas Wine and Vineyards 2011
- Economic Impact of Pennsylvania Wine, Grapes and Juice 2011
- Economic Impact of Arkansas Wine and Vineyards 2010
- Economic Impact of Oklahoma Wine and Vineyards 2010
- Economic Impact of Virginia Wine and Vineyards 2010
- Economic Impact of Texas Wine and Vineyards 2009
- Economic Impact of Wine and Wine Grapes in North Carolina 2009
- Economic Impact of Wine and Wine Grapes in Iowa 2008
- Economic Impact of Wine and Wine Grapes in Ohio 2008
- Economic Impact of Pennsylvania Wine and Grapes 2007
- Economic Impact of Wine and Grapes in Missouri 2007
- Economic Impact of Wine and Wine grapes in Tennessee 2007
- Impact of Wine, Grapes and Grape Products on the American Economy 2007
- Economic Impact of California Wine 2006
- Economic Impact of Washington Grapes and Wine 2006
- Economic Impact of Michigan Grapes, Grape Juice and Wine 2005
- Economic Impact of New York Grapes, Grape Juice and Wine 2005

Frank, Rimerman + Co. LLP

Frank, Rimerman + Co. LLP, founded in 1949, is the largest, locally-owned provider of accounting and consulting services in California. With offices in San Jose, Palo Alto, San Francisco and St. Helena, California, and over 300 professionals, Frank, Rimerman + Co. LLP offers strategic business and information consulting services, tax consulting and planning, audit and financial reporting, accounting services, litigation and valuation services.

Frank, Rimerman + Co. LLP continues to build its wine industry practice, based in St. Helena, CA, committing the full resources of this major professional services firm to the industry.

Calendar Year Comparisons (Virginia Only - Sales)

Wine Sales	Total VA Wine Sold 2003	Total VA Wine Sold 2004	Total VA Wine Sold 2005	Total VA Wine Sold 2006	Total VA Wine Sold 2007	Total VA Wine Sold 2008	Total VA Wine Sold 2009	Total VA Wine Sold 2010	Total VA Wine Sold 2011	Total VA Wine Sold 2012	Total VA Wine Sold 2013	Total VA Wine Sold 2014	Total VA Wine Sold 2015	Total VA Wine Sold 2016	Total VA Wine Sold 2017	Total VA Wine Sold 2018
January	12,621	14,285	12,727	12,289	15,582	16,272.0	17,754	18,317	22,010	23,642	25,365	26,921	26,282	24,597.70	32,805.00	30,553.81
February	13,097	17,204	17,302	16,313	15,898	19,862.0	23,027	20,110	30,150	27,828	27,609	28,519	28,301	33,811.10	33,438.30	30,723.70
March	15,235	18,474	20,629	22,533	21,790	22,058.0	23,004	27,511	32,244	33,096	32,365	33,681	34,904.60	35,772.60	43,608.10	38,823.50
April	22,520	24,573	26,215	30,381	27,262	29,908.0	34,375	38,544	41,429	39,044	44,581	44,364	43,705.60	48,804.66	47,114.10	46,281.65
May	22,807	23,890	28,859	30,963	33,081	37,969.0	39,488	41,233	44,993	43,924	50,058	57,240	52,796.60	51,236.06	54,196.37	47,860.75
June	23,851	26,964	30,847	35,715	31,694	31,606.0	32,534	39,508	38,730	44,801	42,551	43,321	44,401.20	51,322.32	52,159.60	47,282.59
July	24,604	25,047	27,185	27,072	30,987	35,124.0	37,125	39,561	38,627	39,728	42,836	45,385	45,612.50	49,701.94	49,641.88	47,966.59
August	25,382	27,123	32,106	25,368	31,739	34,033.0	33,571	35,318	35,308	39,550	47,706	48,131	43,879.20	44,331.02	50,468.39	49,190.25
September	23,814	25,238	29,845	29,096	36,913	38,028.0	41,048	44,501	36,022	46,088	45,019	46,107	49,033.80	45,945.77	48,822.09	46,818.17
October	40,539	38,555	38,976	39,567	42,656	44,225.0	48,714	55,682	50,935	52,335	53,130	55,407	54,708.40	51,720.54	54,640.53	53,942.44
November	24,376	26,499	31,649	30,991	31,165	30,742.0	33,029	38,457	38,989	42,601	39,980	39,783	48,353.80	50,399.65	50,895.12	53,497.93
December	27,918	29,667	32,062	30,519	33,074	30,514.0	36,075	40,791	42,987	38,395	35,458	38,711	43,754.20	45,087.78	41,775.75	51,037.63
Total	**276,764**	**297,519**	**328,402**	**330,807**	**351,841**	**370,341.0**	**399,744**	**439,533**	**452,424**	**471,032**	**486,658**	**507,570**	**515,733**	**532,731.14**	**559,565**	**543,979.01**

Wine Sales	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
At Wineries	130,480	147,198	168,841	181,839	183,535	198,023	225,972	252,715	286,572	302,104	322,353	346,358.10	360,301.90	385,393.60	390,986.50	394,711.80
% Change		12.81%	14.70%	7.70%	0.93%	7.89%	14.11%	11.83%	13.40%	5.42%	6.70%	7%	4%	7%	1%	1%
% of VA Wine Sales	53%	49%	51%	55%	52%	53%	57%	57%	63%	64%	66%	68%	70%	72%	70%	73%

Wine Sales	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Through Distributors	125,557	130,678	148,876	146,651	157,875	157,652	161,774	173,482	163,519	157,477	152693.2	149,805.90	142,738.80	133,478.80	154,451.60	134,915.60
% Change		4.08%	13.93%	-1.49%	7.65%	-0.14%	2.61%	7.24%	-5.74%	-3.69%	-3.04%	-1.89%	-4.72%	-6.49%	15.71%	-12.65%
% of VA Wine Sales	45%	44%	45%	44%	45%	43%	40%	39%	36%	33%	31%	30%	28%	25%	28%	25%

Wine Sales	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Through ABC	20,727	19,643	10,685	2,317	10,430	11,952	11,999	11,582.10	11,141.00	11,450	11,610.70	11,405.80	12,691.70	13,858.80	14,127.00	14,351.60
% Change		6%	-46%	-78%	78%	14.59%	0.39%	-3.47%	-3.81%	2.77%	1.40%	-2%	11%	9%	2%	2%
% of VA Wine Sales	7.5%	6.6%	3.3%	0.7%	3.0%	3.2%	3.0%	2.6%	2.5%	2.4%	2.4%	2%	2%	3%	3%	3%

Total VA Wine Sales	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total VA Wine Sales	276,764	297,519	328,402	330,807	351,840	367,628	399,745	439,533	452,424	471,032	486,657	507,570	515,732.50	532,731	559,565	543,979.01
% Change		7.50%	10.38%	0.73%	6.36%	4.49%	8.74%	9.95%	2.93%	4.11%	3.32%	4.30%	1.61%	3.30%	5.04%	-2.79%

VIRGINIA WINE

Fiscal Year Comparisons (Virginia Only - Sales)

Wine Sales

	Total VA Wine Sold FY 2003-2004	Total VA Wine Sold FY 2004-2005	Total VA Wine Sold FY 2005-2006	Total VA Wine Sold FY 2006-2007	Total VA Wine Sold FY '2007-2008	Total VA Wine Sold FY '2008-2009	Total VA Wine Sold 'FY '2009-2010	Total VA Wine Sold FY '2010-2011	Total VA Wine Sold FY '2011-2012
July	24,604	25,047	27,185	27,072	30,987	35,124	37,125	39,561	38,627
August	25,382	27,123	32,106	25,368	31,739	34,033	33,571	35,318	35,308
September	23,814	25,238	29,845	29,096	36,913	38,028	41,048	44,501	43,343
October	40,539	38,555	38,976	39,567	42,656	44,225	48,714	55,682	50,855
November	24,376	26,499	31,649	30,991	31,165	30,742	33,029	38,457	38,989
December	27,918	29,667	32,062	30,519	33,074	30,514	36,075	40,791	44,556
January	14,285	12,727	12,289	15,582	16,272	17,754	18,317	22,010	23,642
February	17,204	17,302	16,313	15,898	19,862	23,027	20,110	30,150	27,828
March	18,474	20,629	22,533	21,790	22,058	23,004	27,511	32,244	33,096
April	24,573	26,215	30,381	27,262	29,908	34,375	38,544	41,429	39,044
May	23,890	28,859	30,963	33,081	37,969	39,488	41,233	44,993	43,924
June	26,964	30,847	35,715	31,694	31,606	32,534	39,508	38,730	44,801
Total	**292,023**	**308,708**	340,017	327,920	364,209	382,848	414,785	463,866	464,013

Total VA Wine Sales	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total VA Wine Sales	292,023	308,708	340,017	327,920	364,209	382,848	414,785	463,866	464,013
% Change		5.71%	10.14%	-3.69%	11.07%	5.12%	8.34%	11.83%	0.03%

Wine Sales

ABC	VA Wines Sold by ABC FY 2003-2004	VA Wines Sold by ABC FY 2004-2005	VA Wines Sold by ABC FY 2005-2006	VA Wines Sold by ABC FY 2006-2007	VA Wines Sold by ABC FY '2007-2008	VA Wines Sold by ABC FY '2008-2009	VA Wines Sold by ABC FY '2009-2010	VA Wines Sold by ABC FY 2010-2011	VA Wines Sold by ABC FY 2011-2012
July	1,346	1,549	930	125	785	971	955	967	850
August	1,400	1,350	710	77	839	979	885	867	879
September	1,296	1,381	517	61	780	841	879	836	848
October	4,495	3,903	461	31	1,274	1,428	1,377	1,285	1,167
November	1,637	1,645	362	279	1,022	1,101	1,022	952	928
December	2,930	1,968	501	943	1,740	1,799	1,771	1,630	1,578
January	1,196	1,055	140	432	679	820	752	688	649
February	1,217	1,152	133	549	749	801	818	742	726

Fiscal Year Comparisons (Virginia Only - Sales)

March	1,270	1,323	123	726	797	818	844	842	812
April	1,458	1,319	104	775	849	917	917	936	758
May	1,312	1,254	93	786	941	926	910	874	904
June	1,394	1,101	208	722	818	827	804	810	881
Total	**20,951**	**19,000**	4,282	5,506	11,273	12,229	11,934	11,429	10,980

VA Wine Sales/ABC	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
VA Wine Sales/ABC	20,951	19,000	4,282	5,506	11,273	12,229	11,934	11,429	10,980
% Change		-10.27%	-343.72%	22.23%	104.75%	8.48%	-2.41%	-4.23%	-3.93%

Fiscal Year Comparisons (Virginia Only - Sales)

Wine Sales Wineries	VA Wines Sold By Wineries FY 2003-2004	VA Wines Sold By Wineries FY 2004-2005	VA Wines Sold By Wineries FY 2005-2006	VA Wines Sold By Wineries FY 2006-2007	VA Wines Sold By Wineries FY '2007-2008	VA Wines Sold By Wineries FY '2008-2009	VA Wines Sold By Wineries FY '2009-2010	VA Wines Sold By Wineries FY 2010-2011	VA Wines Sold By Wineries FY 2011-2012
July	12,718	13,904	16,508	16,089	17,143	18,958	22,350	24,497	25,887
August	14,857	15,653	18,021	16,356	17,155	18,859	19,954	20,377	21,589
September	11,713	14,066	16,595	17,933	21,947	19,883	25,974	28,399	28,441
October	20,307	20,420	22,975	24,455	26,166	26,749	29,738	34,081	35,061
November	11,537	11,762	15,485	14,452	13,971	16,254	18,276	21,559	23,241
December	9,228	11,332	12,177	11,920	12,744	13,616	13,830	19,798	26,160
January	4,520	5,331	6,934	6,280	6,156	8,109	8,145	12,251	12,948
February	7,128	7,148	7,891	6,263	9,781	12,046	9,366	18,612	16,036
March	7,759	8,288	11,153	9,293	10,161	11,290	14,152	17,424	20,257
April	12,799	13,468	15,202	15,034	16,685	20,349	22,395	24,627	25,896
May	13,059	15,222	17,630	18,694	22,047	25,733	26,466	28,447	29,539
June	14,796	17,623	21,824	18,845	18,874	18,398	23,674	24,830	31,286
Total	**140,421**	**154,217**	**182,395**	**175,614**	**192,831**	**210,244**	**234,321**	**274,903**	**296,341**

VA Wine Sales/Wineries	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
VA Wine Sales/Wineries	140,421	154,217	182,395	175,614	192,831	210,244	234,321	274,903	296,341
% Change		8.95%	15.45%	-3.86%	9.80%	9.03%	11.45%	17.32%	7.80%

VIRGINIA

Fiscal Year Comparisons (Virginia Only - Sales)

Wine Sales Distributors	VA Wines Sold By Distributors	VA Wines Sold By Distributors	VA Wines Sold By Distributors	VA Wines Sold By Distributors	VA Wines Sold By Distributors	VA Wines Sold By Distributors	VA Wines Sold By Distributors	VA Wines Sold By Distributors	VA Wines Sold By Distributors
	FY 2003-2004	FY 2004-2005	FY 2005-2006	FY 2006-2007	FY '2007-2008	FY '2008-2009	FY '2009-2010	FY 2010-2011	FY 2011-2012
July	10,540	9,594	9,747	10,858	13,058	13,885	13,821	14,098	11,889
August	9,125	10,120	13,375	8,935	13,745	12,879	12,769	14,036	12,839
September	10,805	9,791	12,733	11,102	14,186	16,034	14,195	15,293	14,054
October	15,737	14,232	15,540	15,081	15,216	14,570	17,598	20,314	14,627
November	11,202	13,092	15,802	16,260	16,171	12,000	13,732	15,945	14,820
December	15,760	16,367	19,384	17,656	18,590	19,147	20,517	19,363	16,827
January	8,569	6,341	5,215	8,870	9,437	8,825	9,420	9,071	10,044
February	8,859	9,002	8,289	9,086	9,332	10,180	9,926	10,786	11,066
March	9,445	11,018	11,257	11,771	11,100	10,896	12,720	13,978	12,027
April	10,316	11,428	15,075	11,453	12,374	13,109	15,232	15,867	12,391
May	9,519	12,383	13,240	13,601	14,981	12,828	13,857	15,671	13,480
June	10,774	12,123	13,683	12,128	11,914	13,309	15,030	13,089	12,635
Total	**130,651**	**135,491**	**153,340**	**146,801**	**160,104**	**157,662**	**168,818**	**177,511**	**156,699**

VA Wine Sales/Distributors	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
VA Wine Sales/Distributors	130,651	135,491	153,340	146,801	160,104	157,662	168,818	177,511	156,700
% Change		3.57%	11.64%	-4.45%	9.06%	-1.52%	7.08%	5.15%	-11.72%

Fiscal Year Comparisons (Virginia Only - Sales)

VIRGINIA

VA Wine Growth As a % of All Wine Growth in VA

Wine Sales	**Total Wine Sold**	**Total Wine Sold**	**Total Wine Sold**	**Total Wine Sold**	**Total Wine Sold**	**Total Wine Sold**	**Total Wine Sold**	**Total Wine Sold**	**Total Wine Sold**
All Wines	**FY 2003-2004**	**FY 2004-2005**	**FY 2005-2006**	**FY 2006-2007**	**FY '2007-2008**	**FY '2008-2009**	**'FY '2009-2010**	**FY '2010-2011**	**FY '2011-2012**
July	558,478	583,242	570,247	583,656	645,607	723,787	743,789	757,544	768,185
August	533,118	574,164	641,682	653,566	711,457	683,264	677,051	734,962	809,757
September	574,941	598,194	613,855	638,621	626,873	692,464	730,111	776,162	831,706
October	689,137	649,218	659,838	743,636	779,045	821,836	818,464	839,228	855,686
November	652,353	736,348	776,861	822,567	842,921	771,272	832,104	918,622	967,956
December	787,397	806,994	864,917	859,427	852,947	960,890	987,105	1,028,317	1,040,243
January	491,003	487,765	538,596	591,582	631,969	614,213	608,782	651,962	720,343
February	553,727	572,350	553,043	605,756	644,700	638,835	671,430	771,511	762,116
March	591,841	635,491	678,175	684,200	667,030	716,186	794,850	825,479	809,731
April	598,717	591,920	589,286	658,901	701,289	734,998	793,280	803,906	783,403
May	572,909	623,797	684,532	735,960	750,224	726,859	748,844	825,510	898,819
June	618,125	642,858	681,921	688,741	675,081	742,712	793,042	819,897	841,163
Total	**7,221,746**	**7,502,341**	**7,852,953**	**8,266,613**	**8,529,142**	**8,827,317**	**9,198,853**	**9,753,100**	**10,089,109**

Total Wine Sales	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total Wine Sales	7,221,746	7,502,341	7,852,953	8,266,613	8,529,142	8,827,317	9,198,853	9,753,100	10,089,109
% Change		3.74%	4.46%	5.00%	3.18%	3.50%	4.21%	6.03%	3.45%

Marketshare of VA Wines in VA

Total VA Wine Sold FY '2012-2013	Total VA Wine Sold FY '2013-2014	Total VA Wine Sold FY '2014-2015	Total VA Wine Sold FY '2015-2016	Total VA Wine Sold FY '2016-2017	Total VA Wine Sold FY '2017-2018	Total VA Wine Sold FY '2018-2019	Comparision to prev. yr
39,728	42,551	45,385	45,613	49,701.94	49,642	47,966.59	(1,675.29)
39,526	47,706	48,131	43,879	44,331.02	50,468	49,190.25	(1,278.14)
41,689	39,932	46,107	49,034	45,945.77	48,822	46,818.17	(2,003.92)
52,335	53,174	55,407	54,708	51,720.54	54,641	53,942.44	(698.09)
42,601	39,811	40,077	48,354	50,399.65	50,895	53,497.93	2,602.81
38,395	35,414	39,140	43,754	45,087.78	41,776	51,037.63	9,261.88
25,365	26,921	26,282	24,598	32,805	30,554	30,441.82	(111.99)
27,607	28,519	28,301	33,811	33,438.30	30,724	37,037.41	6,313.71
32,365	33,681	34,904	35,773	43,608.10	38,824	38,986.82	163.32
44,581	44,364	43,705	48,805	47,114.10	46,282	47,290.40	1,008.75
50,058	57,240	52,797	51,236	54,196.37	47,861	66,529.95	18,669.20
42,551	43,321	44,401	51,322	52,159.60	47,283	48,990.88	1,708.29
476,801	492,634	504,637	530,886	550,508.17	537,770	571,730.29	33,960.53

2013	2014	2015	2016	2017	2018	2019
476,801	492,634	504,637	530,886	550,508.17	537,770	571,730.29
2.76%	3.32%	2.44%	5.20%	3.70%	-2.31%	6.32%

VA Wines Sold by ABC FY 2012-2013	VA Wines Sold by ABC FY 2013-2014	VA Wines Sold by ABC FY 2014-2015	VA Wines Sold by ABC FY 2015-2016	VA Wines Sold by ABC FY 2016-2017	VA Wines Sold by ABC FY 2017-2018	VA Wines Sold by ABC FY 2018-2019
852.0	883.0	955.1	1,071.10	1,108.0	1,098.4	1,101.80
945.7	935.2	827.7	1,027.30	1,005.8	1,151.20	1,201.2
853.0	787.1	865.8	941.9	1,085.0	1,128.20	1,080.0
1,160.7	1,174.6	1,157.1	1,387.70	1,562.8	1,145.6	1,166.0
1,200.0	1,074.0	1,079.8	1,116.80	1,338.4	1,338.8	1,481.2
1,708.9	1,529.2	1,580.0	1,752.60	2,021.6	2,064.7	2,097.3
782.08	711.80	798.2	851.70	931.4	895.33	957.1
833.40	687.40	827.8	895.00	965.0	918.00	1031.6

940.26	827.51	889.9	970.10	1,043.0	1,124.78	1112.4
838.0	862.9	902.9	1,014.80	1,048.0	1,022.67	1077.3
956.3	993.3	995.4	1,028.30	1,129.0	1,126.67	1832.2
877.6	857.4	980.2	977.3	1084.33	1,136.7	1134
11,947.8	11,323.4	11,859.8	13,034.60	14,322.3	14,150.9	15,272.10

2013	2014	2015	2016	2017	2018	2019
11,947.8	11,323.4	11,859.8	13,034.60	14,322.3	14,150.9	15,272.10
8.81%	-5.23%	4.74%	9.91%	9.88%	-1.20%	7.92%

VA Wines Sold By Wineries FY 2012-2013	VA Wines Sold By Wineries FY 2013-2014	VA Wines Sold By Wineries FY 2014-2015	VA Wines Sold By Wineries FY 2015-2016	VA Wines Sold By Wineries FY 2016-2017	VA Wines Sold By Wineries FY 2017-2018	VA Wines Sold By Wineries FY 2018-2019
26,222.1	29,217.2	31,865.3	33,007.1	34,346.16	37,125.28	34,944.7
25,509.1	33,340.7	35,093.5	31,540.7	31,292.75	35,772.93	34,913.20
32,934.1	31,640.7	33,085.6	34,233.5	36,408.49	36,345.81	31,961.90
35,952.5	36,865.5	39,612.2	39,758.9	41,963.36	40,580.39	38,678.36
26,097.2	26,227.9	26,672.4	35,214.8	39,491.41	32,836.38	36,896.56
19,428.0	18,128.2	22,120.2	25,173.3	25,482.7	25,614.4	36,625.30
13,843.8	15,614.4	15,843.6	15,534.50	21,153.8	21,709.1	22,022.52
16,727.2	18,017.1	20,598.0	24,190.20	24,934.8	21,096.6	24,384.40
19,980.2	21,580.2	22,773.1	23,958.60	30,070.4	27,628.6	27,728.18
31,627.4	30,758.3	31,187.2	36,088.30	32,464.4	34,324.4	32,644.62
35,855.9	42,596.6	39,911.6	38,361.70	38,635.6	38,542.9	39,615.55
28,898.0	30,065.0	31,060.3	38,275.40	35,425.3	37,390.3	35,992.41
313,075.4	**334,051.8**	**349,822.9**	**375,336.9**	**391,669.26**	**388,967.04**	**396,407.7**

2013	2014	2015	2016	2017	2018	2019
313,075.4	334,051.8	349,822.9	375,336.9	391,669.26	388,967.04	396,407.7
5.65%	6.70%	4.72%	7.29%	4.35%	-0.69%	1.91%

VA Wines Sold By Distributors FY 2012-2013	VA Wines Sold By Distributors FY 2013-2014	VA Wines Sold By Distributors FY 2014-2015	VA Wines Sold By Distributors FY 2015-2016	VA Wines Sold By Distributors FY 2016-2017	VA Wines Sold By Distributors FY 2017-2018	VA Wines Sold By Distributors FY 2018-2019
12,653.7	12,735.4	12,564.3	11,534.4	14,247.78	11,418.20	11,920.09
13,095.7	13,429.7	12,210.0	11,311.1	12,032.50	13,544.26	13,075.80
12,301.0	12,590.8	12,155.4	13,858.3	8,452.28	11,348.08	13,776.32
15,222.2	15,090.3	14,637.5	13,561.8	8,194.41	12,915.16	14,098.08
15,303.9	12,678.1	12,324.5	12,022.3	9,569.80	16,692.96	15,120.17
17,258.1	15,800.5	15,439.7	16,828.4	17,583.5	14,096.7	12,315.10
10,738.7	10,594.7	9,640.0	8,211.6	10,719.7	7,949.38	7,462.19
10,048.5	9,814.7	6,875.1	8,725.9	7,538.5	8,709.07	11,621.45
11,444.4	11,273.6	11,241.6	10,843.9	12,494.7	10,070.11	10,146.20
12,115.6	12,742.6	11,615.5	11,707.6	13,601.6	10,934.59	13,568.45
13,245.9	13,650.4	11,889.5	11,846.0	14,431.8	8,191.22	25,731.20
12,775.3	12,398.5	12,360.7	12,069.6	15,649.9	8,755.7	11,865
156,202.9	**152,799.3**	**142,954.0**	**142,520.9**	**144,516.51**	**134,625.37**	**160,699.55**

2013	2014	2015	2016	2017	2018	2019
156,202.9	152,799.3	142,954.0	142,520.9	144,516.51	134,625.37	160,699.55
-0.32%	-2.18%	-6.44%	-0.30%	1.40%	-6.84%	19.37%

Total Wine Sold FY '2012-2013	Total Wine Sold FY '2013-2014	Total Wine Sold FY '2014-2015	Total Wine Sold FY '2015-2016	Total Wine Sold FY '2016-2017	Total Wine Sold FY '2017-2018	Total Wine Sold FY '2018-2019
791,219.08	846,805.43	850,361.63	879,716.44	840,516.98	846,435.57	905,672.80
866,113.53	860,557.10	825,398.17	830,210.41	932,416.87	974,793.77	1,000,845.70
760,957.83	785,737.80	839,460.37	871,852.11	899,704.69	870,858.27	817,522.06
915,916.43	948,127.01	986,590.54	968,944.22	949,973.16	1,006,419.47	983,518.48
1,037,788.0	944,014.8	927,990.4	963,512.0	1,065,776.40	1,087,179.22	1,115,347.93
991,258.6	1,069,901.7	1,141,793.4	1,178,357.3	1,113,253.98	1,092,425.08	1,109,866.90
789,881.47	768,776.13	766,948.97	733,207.9	789,689.18	831,596.65	880,945.87
741,079.85	767,688.39	768,803.53	839,607.9	799,680.95	822,016.46	839,143.66
820,686.65	824,473.70	877,544.97	924,205.0	926,483.25	906,459.24	850,558.36
847,324.27	885,989.45	880,538.46	886,480.0	861,040.20	890,619.93	955,061.70
929,924.77	907,430.44	892,929.91	915,739.2	958,329.04	1,009,321.96	1,026,102.20
804,076.81	856,193.62	903,482.60	939,700.7	967,550.03	928,509.77	870,380.90
10,296,227.20	**10,465,695.57**	**10,661,842.98**	**10,931,533.19**	**11,104,414.73**	**11,266,635.39**	**11,354,966.56**

2013	2014	2015	2016	2017	2018	2019
10,296,227.20	10,465,695.57	10,661,842.98	10,931,533.19	11,104,414.73	11,266,635.39	11,354,966.56
2.05%	1.65%	1.87%	2.53%	1.58%	1.46%	0.78%

Survey to VA Wineries on Out of State Sales

Cider International	500
Cider out-of-state	72,162

		Instate Sales	Non-VA US Sales	International	Total VA Wine Sales	Sales Variance FY
	FY 2018	**537,770**	**18,111**	**297**	**556,178**	**-6%**
	FY2017	**550,508**	**35,697**	**1527**	**587,732**	**5.6%**
	FY2016	**530,886**	**25,051**	**773**	**556,710**	**6.1%**
w/o Cideries	**FY2015**	**504,637**	**18,683**	**1529**	**524,849**	**1.8%**
w Cideries	**FY2015**	**504,637**	**90,845**	**2,029**	**597,511**	**15.9%**
	FY2014	**492,634**	**19,224**	**3,688**	**515,546**	**0.7%**
	FY 2013	**476,801**	**29,224**	**5,808**	**511,833**	**5.5%**
	FY 2012	**464,013**	**17,632**	**3,337**	**484,982**	**1.3%**
	FY2011	**463,866**	**14,355**	**701**	**478,922**	**15.5%**
	FY2010	414,785	unknown	unknown	414,785	8.3%
	FY2009	382,848	unknown	unknown	382,848	5.1%
	FY2008	364,209	unknown	unknown	364,209	3.5%
	FY2007	351,840	unknown	unknown	351,840	6.4%
	FY2006	330,807	unknown	unknown	330,807	0.7%
	FY2005	328,402	unknown	unknown	328,402	10.4%
	FY2004	297,519	unknown	unknown	297,519	7.5%
	FY2003	276,764	unknown	unknown	276,764	

VA ABC Wine Sales Revenues		**% Increase**
FY 2014	38,619,774.20	1.02%
FY 2013	38,227,987.52	3.35%
FY 2012	36,988,073.89	4.26%
FY 2011	35,475,254.79	5.64%
FY 2010	33,581,263.74	

State of the Wine Industry Report 2019

Written by Rob McMillan, EVP and Founder
Silicon Valley Bank Wine Division

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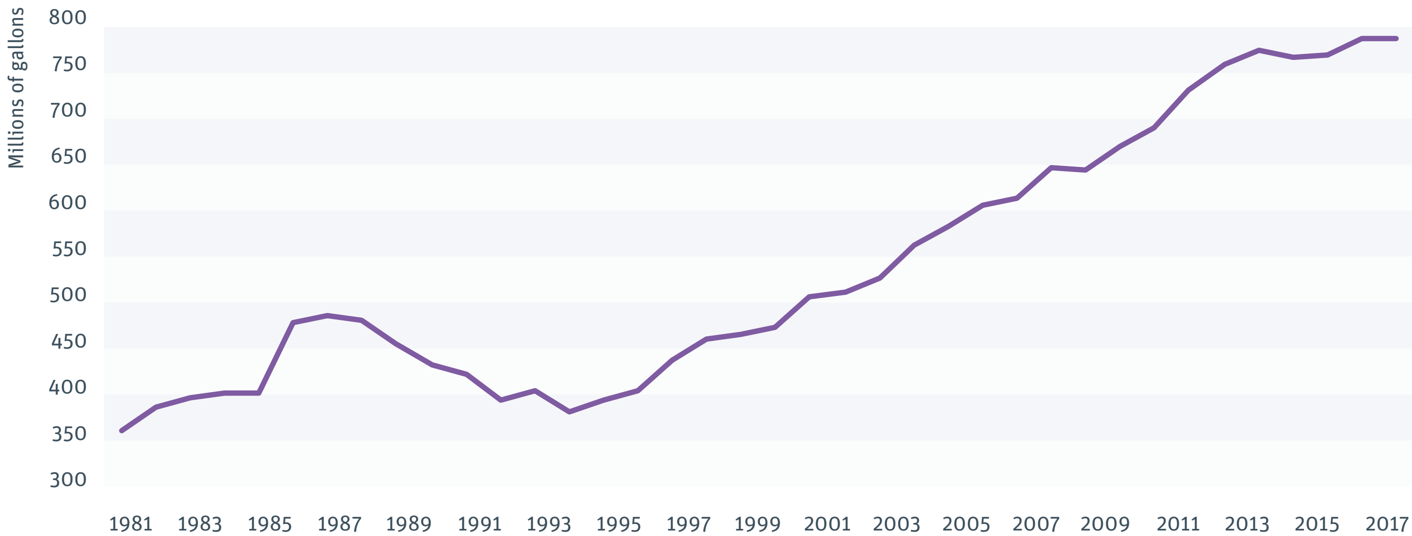
Cover image courtesy of Bob McClenahan Photography

1 Introduction

2018 was a good year for wine. Total wine sales for the year set a record, restaurant sales of wine were higher and premium wine sales were up as well. Strong consumer confidence and a healthy US economy contributed to the improved performance, but changes to long-term trends are telling us that we are at a transition point as an industry.

Figure 1: **US wine consumption**
Volume



Sources: California Wine Institute, Gomberg-Frederickson, BW 166

Beginning in 1994, the US wine business experienced a long trend of increasing consumption and consistently higher price points. The growth and premiumization of wine were driven by the longest economic expansion on record, coincident with the baby-boom generation entering their peak retail spending years. That expansion was then magnified by a series of key findings linking improved health to wine consumption.[1]

Twenty-five years later, the US is the largest wine-consuming country in the world,[2] giving US producers an amazing home-court advantage. That said, while the total dollar sales of wine in the US is still growing, the rate of growth is flattening (see figure 1). This is at a time when the US is in its second longest economic expansion in history, and business analysts see the US economy operating at such an optimal state that it has reached the rare "Goldilocks" moment.[3]

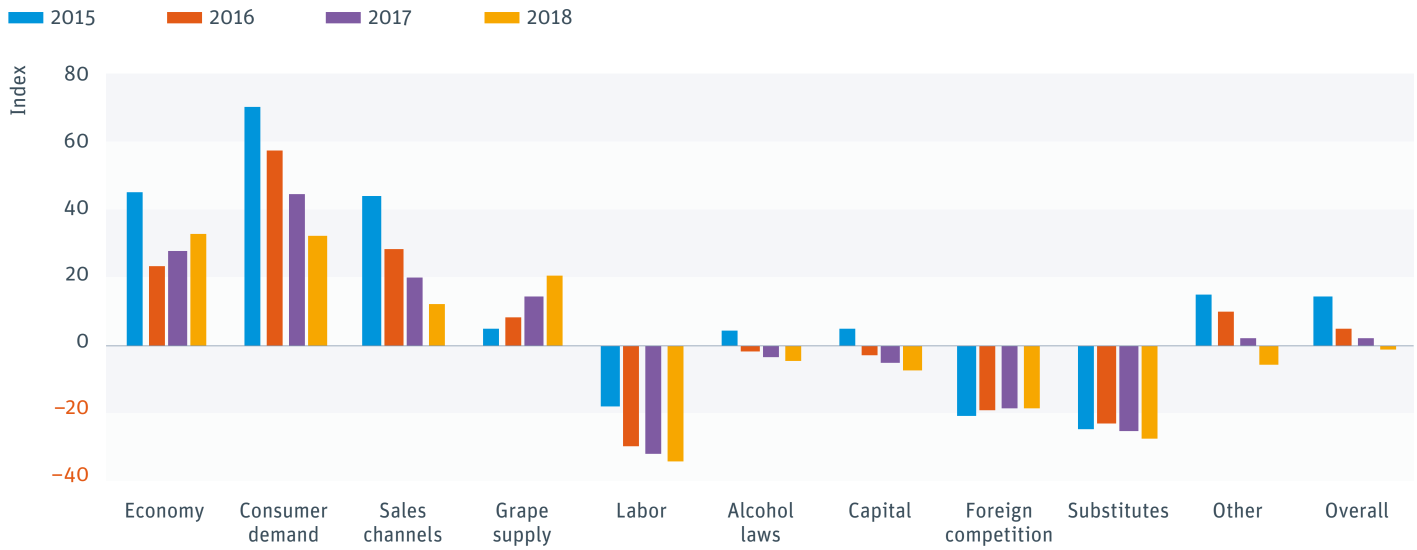
Just like the early 1990s when the boomers made their retail presence obvious, driving record wine sales, the huge millennial generation, all over 21 years of age now, is moving into their careers and higher-spending years. They will surpass the baby boomers as the nation's largest demographic by pure numbers in 2019.[4]

The US is the largest wine-consuming country in the world, giving US producers an amazing home-court advantage

2 Executive summary

Winery owners can feel the industry changes that are quietly running beneath the surface. The economy and consumer demand are the largest positive contributors to winery owners' confidence, with labor, foreign competition and substitutes their biggest fears (see figure 2).

Figure 2: **Annual change in winery owner confidence**



Source: 2018 SVB Annual Winery Conditions Survey

The grape supply and the economy are viewed as a greater part of their success, but consumer demand and labor elicit increasingly negative responses. In 2018, the Winery Owners' Confidence Index[5] dropped into negative territory for the first time since the index was created four years ago. With a good economy and sufficient consumer growth, you would think owners would have a cheerier outlook.

Most of the same circumstances that drove double-digit sales growth in the 1990s are in evidence today, so we could reasonably expect them to drive another round of industry growth. But instead of an uptrend in the business metrics, consolidated annual volume growth of wine consumption is close to becoming negative for the first time since the early 1990s, and that syncs with the owners' feelings. What is different this time?

Seven headwinds

1. Baby boomers, who control 70 percent of US discretionary income and half of the net worth in the US, are moving into retirement and declining in both their numbers and per capita consumption.
2. Millennials aren't yet embracing wine consumption as many had predicted. Damaged financial capacity is a major contributor, but cannabis legalization is another factor explaining their slow adoption of wine.
3. The cumulative impact of negative health messaging — absent offsetting promotion of the health benefits of moderate wine consumption — is negatively influencing consumption, particularly for the millennial consumer.
4. Wine imports and substitutes (such as craft beer and spirits) are an increasing threat for mindshare among emerging wine consumers.
5. Distributor consolidation and a lag in innovating alternative direct-to-consumer (DTC) strategies beyond the tasting room and club models are limiting DTC growth for family wineries.
6. Large retail brand owners are expanding private/white label offerings to control the supply chain, drive down costs and offer lower consumer prices. This strategy plays to the emerging frugal consumer and captures wine sales that would otherwise be filled by traditional wine companies.

7. Vineyard labor availability is limited, and the price for labor is increasing.

Other issues facing the industry include the slight oversupply of grapes in California and the inability of wineries to take price increases against higher input costs. With price increases difficult against the backdrop of slowing sales growth, the trend and mantra of premiumization we've become used to is coming to an end.

The trend and mantra of premiumization we've become used to is coming to an end

With continuing distributor consolidation, the dominant competitive issue for the family winery remains — finding a sustainable path to sell to the consumer. That too is becoming more challenging with declining tasting room visitation in some regions.

Seven tailwinds

1. With a good 2018 US economy, Gen X and boomers are demonstrating spending resilience and still increasing their purchases of wine above the $9 bottle price. That created another year of record US wine sales in 2018.
2. Though the median millennial is 30 years old today, the population peaks in size at age 24, meaning there are growing numbers of young consumers advancing into their 30s, the age their alcohol beverage mix normally starts to include more wine.
3. The fine-wine-producing regions of Oregon and Washington remain on a strong double-digit growth path.
4. Producers with long-established brands and those with good distributor relationships continue to perform above their peers.
5. The number and diversity of retail concepts and locations selling wine continue to grow to record numbers.
6. The harvest of 2018 was of high quality in virtually all growing regions in the US, with the exception of Virginia,[6] where hurricanes made for a disastrous season, and, to a lesser extent, New York,[7] which also had heavy rain to contend with.
7. The business is developing both strategies and tactics around the DTC channel and continues to show sales growth through this path to the consumer.

With a good 2018 in the books, it would be easy for winery owners to just keep doing what they do now, hoping the multitude of challenges creating the current retail sluggishness will be solved. This would include consumers finding more discretionary income, labor and migration issues becoming disentangled, and the emergence of digital platforms and strategies to unravel the many problems and opportunities in the DTC sales channel.

Hope is always good, but hope is never a good strategy.

Despite the positive year in 2018 and 25 years of great growth for the US wine business, I believe sales growth forecasts for the next five years should be tempered. The fundamental underpinnings that created the industry growth are changing, which means the tactics that were relied upon to ride this wave of success to this point will slowly prove flawed without business adaptation. To continue its growth in the years ahead, the US wine industry needs new direction and a changed focus.

We believe this report will inform your team's thinking about the particular place you occupy in the wine business. We hope it will also inspire you to get creative about possibilities with your strategic planning, and that engaging in that process will help you improve your chances of success in the years ahead.

To continue its growth in the years ahead, the US wine industry needs new direction and a changed focus

3 2018 predictions in review

We have been researching the wine business since 1991 and making predictions for far more than a decade. Some years, we properly characterize a market change. In other years, our findings might be off in terms of timing or even wrong,[8] but we always review the forecasts made the prior year just to keep score.

Our lead statement last year was the following:

The US wine industry is at the tail end of its largest growth period in history. Today, consumers are leaving the lower price segments in favor of better-quality offerings, but after more than 20 years of straight-line growth trends, total volume growth is leveling out.

That was an accurate statement and one I'll reiterate and expand on this year.

What we got right

- We predicted sales growth of 4 to 8 percent for the premium wine segment, which was an improvement from the 2016 full-year actual growth rate of 2.7 percent.
  - Silicon Valley Bank's Peer Group Analysis (PGA) Benchmark Database[9] shows a nine-month year-to-date sales growth rate of 5.2 percent, and according to our Annual Winery Conditions Survey, the premium wine segment expects a good last quarter. We should finish up near the high end of the range.
- For the industry as a whole, we said sales would rise by 2 to 4 percent, while volumes would increase up to 1 percent.
  - Nielsen Beverage reported retail store sales for the 52 weeks through November 3, 2018, were up 1.4 percent and volumes down 0.5 percent. We'll give ourselves a pass by noting that BW 166 and Wines Vines Analytics show 4 percent growth for the year when including DTC and on-premise sales.[10]
- We expected acquisitions to cool somewhat from the torrid pace of the past three years, as many of the major buyers digested their purchases. We expected to see foreign purchases of US wineries and significant transactions for vineyard properties over the year.
  - Each of these proved out.
- We said increasing imports would continue in the lower premium price points.
  - Nielsen reported sales growth in imports of 1.5 percent.
- We predicted overall supply would be balanced, with chardonnay in particularly strong demand. Cabernet would be balanced with flat to down pressure at the high end of the market.
  - The market played cat and mouse with purchasing, indicating balance through the year. The record harvest in California in 2018 changed the bulk wine dynamics at year-end, and we finished up 2018 with an oversupply problem.
- We expected Oregon and Washington vineyards to continue to see high interest from larger wine companies that would pay higher prices for acquisitions.
  - Several Pacific Northwest wineries and vineyards changed hands.
- We said the California Central Valley would be closer to being in balance in 2018 after 2017 acreage removals, but some additional removals would be needed in the southern San Joaquin Valley to produce sustainable pricing opportunities.
  - This seems to be true, but a large 2018 harvest may put that to the test.
- We thought retiring baby boomers and frugal millennials would drive a rotation of consumer preferences. Premiumization would continue, but softening was likely on the luxury end for wineries without strong brands. For established brands, we thought growth opportunities remained positive.
  - This was a good guess, but we will change parts of that forecast for this report.
- We predicted price increases would be difficult to pass through in 2018. We said overall pricing should be flat.
  - Spot on. Price increase on average was zero — some brands found opportunities to raise prices, and others were forced to drop prices.
- We said that routinely increasing both volume and price, as had occurred over the previous 20 years, would prove to be difficult for wineries given the low-growth, low-inflation environment.
  - Both volume and sales dollars are flattening or trending lower.

What we got wrong

- We thought millennials were migrating away from red blends and introductory wines and were starting to have a positive impact on lower-priced still wine categories — both domestic and foreign. We expected the trend to continue.
  - This was the largest surprise of this year's report. Due to many factors, including their limited financial capacity, a preference for premium spirits and craft beers, delayed careers, negative health messaging regarding alcohol, and the legalization of cannabis, the millennial consumer has temporarily stalled in growing their wine consumption. That set up a new look at the cohort in this report and a discussion of needed strategies and tactics.

The millennial consumer has temporarily stalled in growing their wine consumption

- We predicted that when 2017 totals were calculated, California would have crushed about 3.8 million tons of grapes, slightly more than in 2016. Pacific Northwest harvests would set another record in terms of yield in Oregon and would moderate slightly in Washington.
  - Harvest came in 200,000 tons heavier in California at the end of 2017. Hey, it's only a 5 percent miss.
- We said California vineyard prices in premium regions would flatten compared with the strong growth we'd seen for the previous five years.
  - This is one of those predictions that is right in direction and wrong in timing. The scent was in the air last year, but there were still motivated buyers coming from several directions, and prices for vineyards continued with another year of growth.

4 2019 US wine business predictions and observations

- We aren't making any predictions about the national and world economies. Our predictions are made with the expectation that the US economy will remain in a steady state, without a recession.
- We predict sales growth of 4 to 8 percent for the premium wine segment, roughly flat from the 2018 sales growth estimate. For the off-premise retail store channel, sales will grow between 0.5 percent and 2.5 percent, while volume will decline, with a growth rate between negative 0.5 percent and positive 1.5 percent.
- The M&A market will slow noticeably in 2019 as many of the major buyers continue to digest their purchases and execute on new brand strategies. We will still see some foreign purchases of US wineries and significant transactions for vineyard properties over the next 12 months. For wineries, the M&A will be reserved for iconic properties that might come up and sell for the full price, fatigued owners who see the flat business conditions ahead and opt out and vineyard transactions.
- Imports will gain market share at the expense of US producers.

We predict sales growth of 4 to 8 percent for the premium wine segment, and between 0.5 and 2.5 percent growth for off-premise retail sales

Supply

- By all accounts, when 2018 totals are calculated California will have crushed a record volume of grapes. We are forecasting the harvest to come in at 4.4 million tons in California. Once counted, the Pacific Northwest harvests will also set records in terms of yield.
- Overall supply is long in California. Grape and bulk prices will noticeably drop in the California market in 2019. Washington is starting with a slight excess going into the 2018 harvest, and its harvest will end up heavy. Oregon will have a record harvest but will sell it all as the demand for Oregon pinot noir continues to accelerate.
- California vineyard prices in premium regions will flatten compared with the strong growth we've seen for the past several years.
- Oregon vineyards will continue to see high interest from larger wine companies, though vineyard prices may stabilize. Washington land prices may moderate in the face of oversupply conditions for larger producers. Premium producers in Eastern Washington will see modest growth in land prices.

Grape and bulk prices will noticeably drop in the California market in 2019

Demand

- Retiring baby boomers seem to have a long tail and fortunately aren't quick to run to the pasture. They continue to buy wine at all price points, but their buying seems to be moderating both on price and volume as they age. The median boomer hits retirement age in four years.
- Premiumization is nearing its apex as a trend, as indicated by the slowdowns in total sales volume, decline in premium sales growth rates and the difficulty in passing price increases on to consumers.
- Millennials aren't engaging with wine as hoped. They lack financial capacity, currently prefer premium spirits and craft beers, and have been slow getting into careers. Cannabis demand skews to younger males today, and that is also likely playing a role in the cohort's delayed appreciation for wine.

Millennials aren't engaging with wine as hoped. They lack financial capacity, currently prefer premium spirits and craft beers, and have been slow getting into careers

- We have entered a period where the cumulative negative message about alcohol and health is impacting demand from young consumers. They have stalled in growing their wine preference, leaning toward premium spirits and craft beer.
- The Gen X cohort will surpass the baby boomers by around 2022 to become the largest fine wine–consumer demographic in the US. By 2027, millennials will surpass Gen Xers to become the largest fine wine–consuming cohort.

As an industry, we're transitioning to a period of flat to negative volume growth, low sales growth and a modest surplus of grapes, which will put pressure on prices

Price

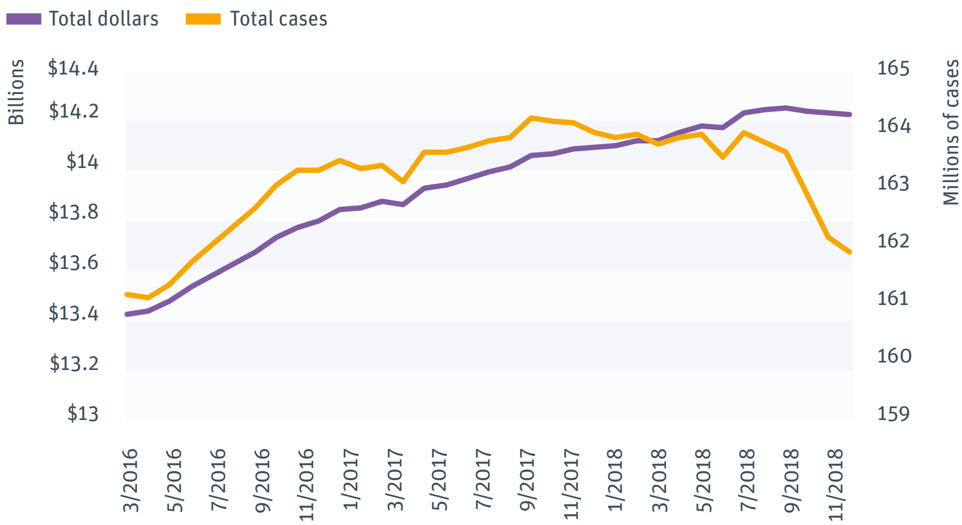
- Price increases will be very difficult to pass through in 2019. Overall pricing should be flat for premium wine as the industry works through sluggish volume growth and a surplus of wine. The added supply will show up in both négociant and value-priced private label products. We should see some limited price reductions in the middle-teens bottle pricing. Wine below $9 will continue to shrink in volume and value.
- Routinely increasing both volume and price, as has occurred over the past 20 years, will prove to be difficult for wineries given the low-growth, low-inflation environment. As an industry, we're transitioning to a period of flat to negative volume growth, low sales growth and a modest surplus of grapes, which will put pressure on prices.

5 Sales growth trends

In the 1990s and early 2000s, we saw a routine trend of growing brand strength in the wine trade, evidenced by snowballing volumes and increasing pricing opportunities for retailers. In the late 1990s, consumer demand was so strong, Silicon Valley Bank often had winery clients selling out of wine by midyear and distributors scouring the corners of the wine business, begging small wineries for their product.[11] That's clearly not the case today.

Figure 3: **Total off-premise sales in dollars and cases**

Moving 52-week average



Source: Nielsen Beverage Group, November 2018

A high-level view of US wine sales reveals that total industry dollar growth has landed in a flattening period, and growth in volume has rolled over this past year, tipping into decline as we can see in the off-premise data shown in figure 3. But is the new volume decline a short-term issue or a secular change? Or should we ignore the trend and push it off as channel shifting to sales that aren't picked up in Nielsen's store network?

Growth in volume has rolled over this past year, tipping into decline

Diagnosis is complex, but trends are clearly pointing to a slowdown in direction and fundamental change. Aggregated data shown here don't always give a complete view of performance. Often the real information lies in segmenting the results. Doing so tells us there remain pockets of opportunity and growth. We see fading segments that were at one time successful and are now in neutral and still other brands, trends and segments that have seen their best days.

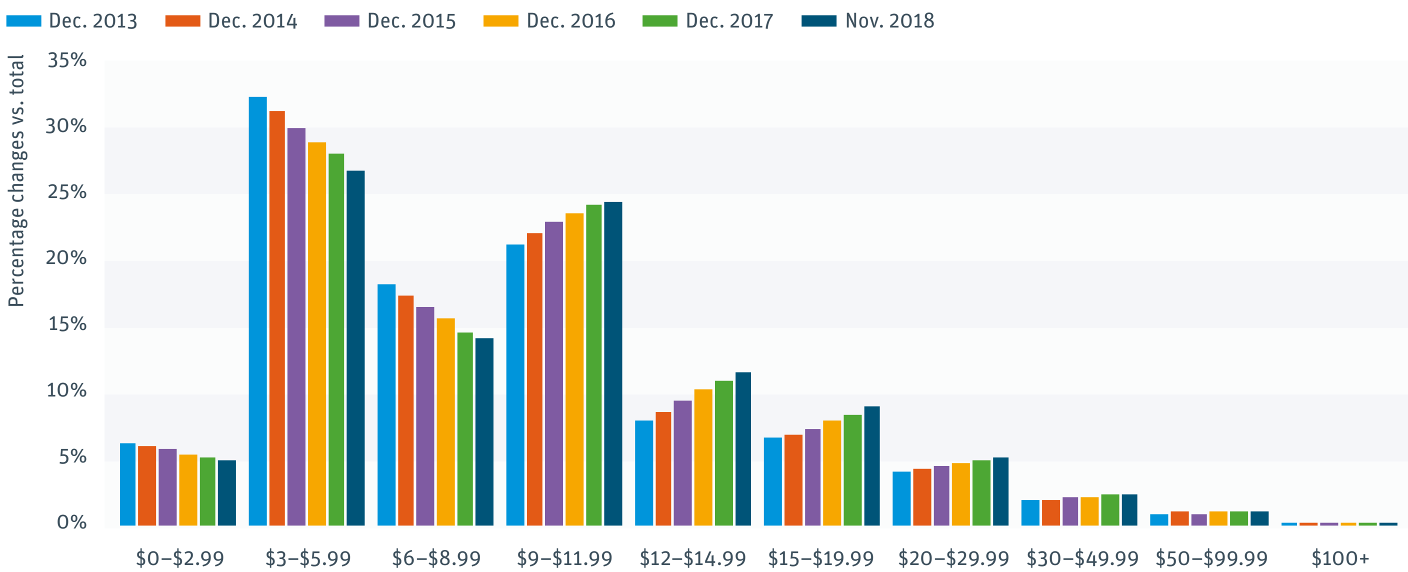
Over the past decade, we've watched generic wines, without a story or connection to a place, fall out of favor with consumers. The dated strategy of "just sell it for less" had a limit, and in recent history, we saw the effect, as lower price segments consistently declined in their rate of growth and higher-priced premium wine advanced[12] (see figure 4). That premiumization has been working well for the industry for some time, but premiumization as we've come to know it is in its final phases as a trend. What does that mean for the wine owner?

Wine selling below $9 retail — in clear retreat

Through November 2018, more than 70 percent of wine sold by volume and 46 percent by dollars was below $9 retail. The large volume segment is in full retreat, losing 9 percent of both volume and dollar sales over the 12 months ending November 2018 (see figure 5).

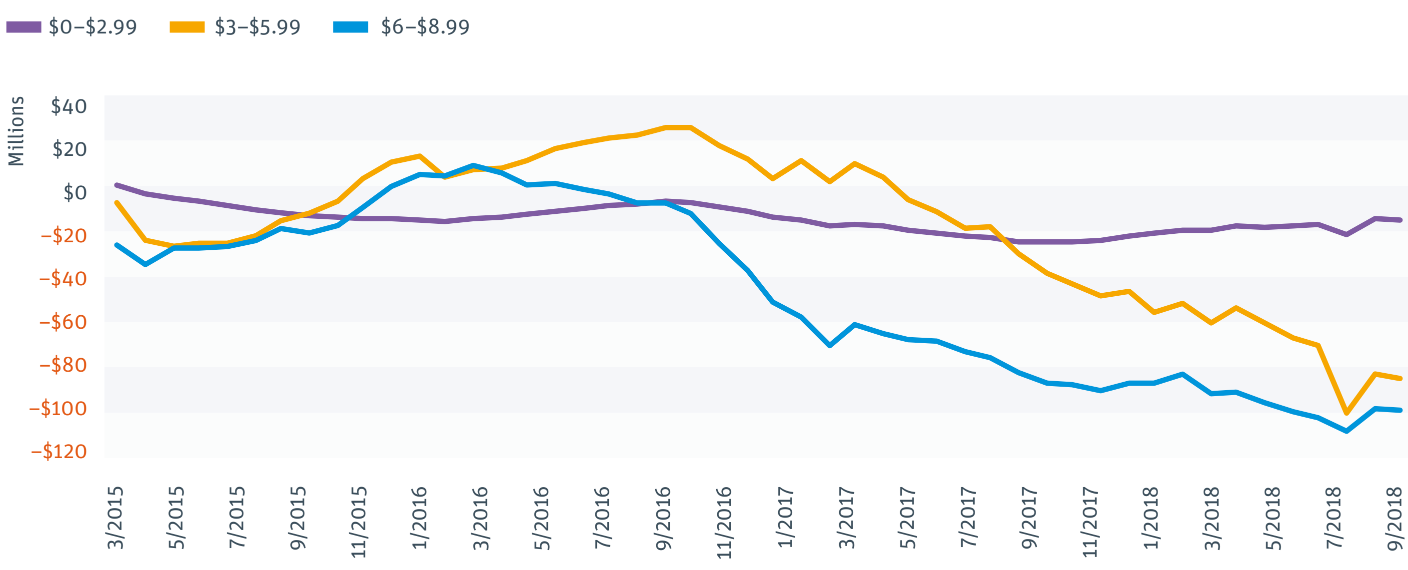
The only countervailing dynamic of the recent trend has been a short-lived improvement in $3 to $6 wines in 2017, but even that minuscule bright spot is not what it seems.

Figure 4: **Retail sales changes in price segments**



Source: Nielsen Beverage Group, 2013–2018

Figure 5: **Rolling 52-week sales growth of wine below $9**



Sources: Nielsen Beverage Group, SVB Analysis

The volume and growth came in $3 to $6 wines because all formats from Nielsen are converted to 750-milliliter bottles, and $14+ box wine is a growth segment. The box wine category has continued to do well, going up 4 percent. The large players — Constellation Brands, The Wine Group, Delicato Family Vineyards, Trinchero Family Estates and E. & J. Gallo Winery — all saw growth, each using its distribution muscle to push larger box and Tetra Pak formats. So even the minor positive news in the below $9 segment was a bit of a mirage. It really reflected thrifty consumers who gravitated to better value juice sold in larger formats.

Bridging the price break — new retail experiences

Straddling the price category divide at $9 are several new retail sales concepts trying to layer in different experiences with service, and their numbers are expanding. Today, you can buy wine and other alcohol at Bed Bath & Beyond, Starbucks, Burger King, movie theaters, tap rooms, barber shops and laundromats. You can also have it delivered from a multitude of digital and same-day retailers.

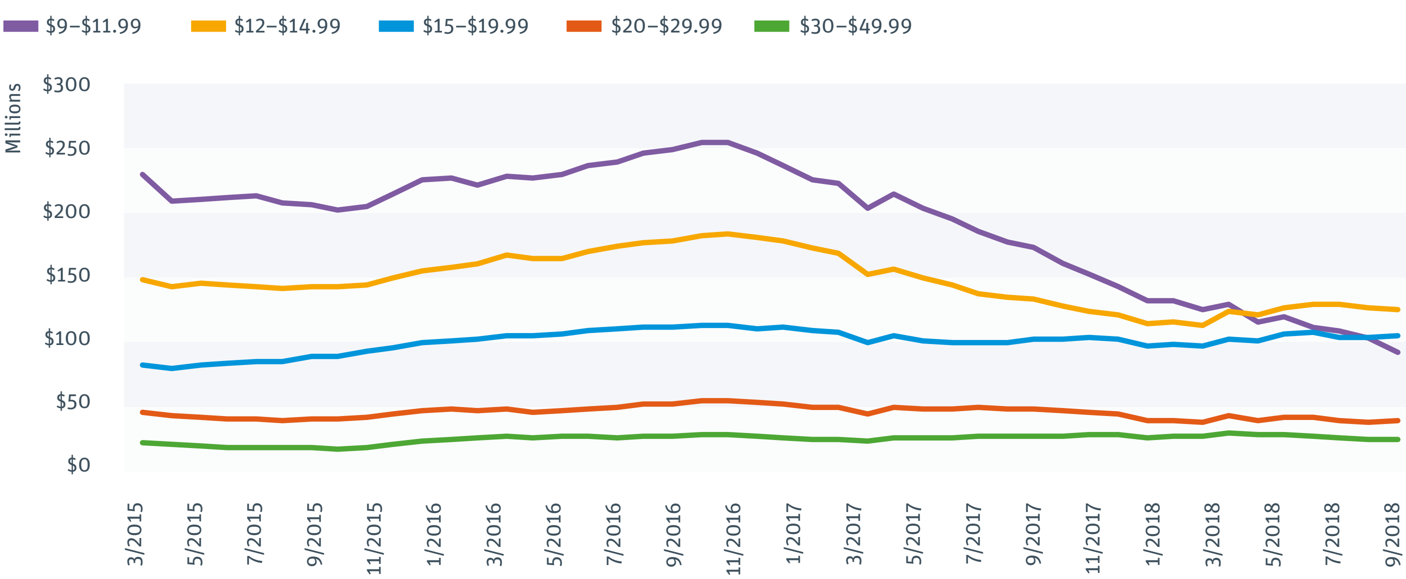
Newer entrants, discounters and private labelers with their own brands are showing good growth in the price points surrounding $10 as well. So are the more traditional US discounters like Kroger, Walmart and Target, which are each competing for private-label share with an increasingly thrifty consumer. All of this volume is being supplied by the wholesaler and skews below $15 universally, so as a consequence isn't a growth opportunity for smaller premium wine producers.

Wine selling above $9 retail — growth, but slowing trends

While there is no real definition of the term "premium wine," we define it as wine above $10 per bottle. That segment is responsible for 54 percent of the dollar sales today but only 29.9 percent of the volume.

The segment of wine sold above $9 is expanding, up 4.1 percent in dollars and 3 percent in case volume through November 2018. But one of many clues that's suggesting premiumization is beginning to break down is shown in figure 6, where declining sales growth in most price segments has become a clear trend.

Figure 6: **Rolling 52-week sales growth of wine above $9**



Sources: Nielsen Beverage Group, SVB Analysis

Syndicated data summary

Since the end of 2015, according to Nielsen data, the sales growth rate of off-premise retail wine has been declining. It's still growing, but its rate of growth is consistently slowing through the year. That's a newsworthy change of market direction.

Some analysts suggest we're just seeing a channel shift away from locations participating in data syndication, and there is some truth to that statement. The Nielsen data exclude some nontraditional channel information like Costco (the largest US wine retailer, with about $2 billion in wine sales), DTC sales, discounters like Aldi and Lidl and the on-premise restaurant trade. The growth rate from those sales isn't factored into the charts.[13]

No matter what, I always have a hard time dismissing obvious trends from healthy data collectors like Nielsen, which collects data on nearly two-thirds of the wine sold off-premise in the US. It can't be ignored, so we need to dig a bit deeper to understand if this is a change in consumer purchase behavior or something else.

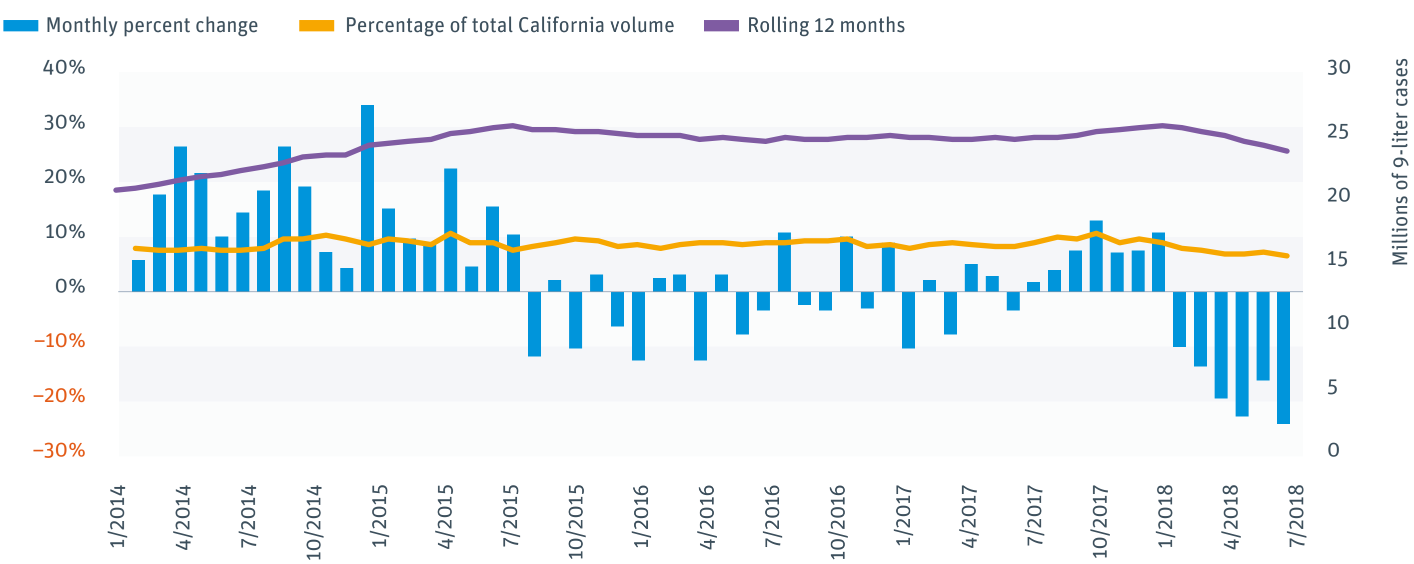
Winery shipments

Gomberg-Fredrikson shipment data from wine warehouses come at sales trends from a different perspective compared to Nielsen, using public tax documents instead of retail sales. While there is crossover, this data set excludes wine shipped from companies such as Constellation Brands, which own their own warehouses. A large portion of DTC shipments are included in the Gomberg-Fredrikson information.

Using the most current information as of August 2018, figure 7 shows that wine shipments from warehouses slowed starting in August 2015, which slightly precedes Nielsen's reporting of a slowdown. But this should be expected since shipments from warehouses have to predate sales at retail in the supply chain.

Shipments trended higher at the end of 2017 but have dropped off steeply in 2018. A weakness in this warehouse shipment–trend data is that when large wineries buy brands, they move this volume into their own warehouses. When that happens, movement within large winery warehouses is counted in Nielsen data but not in Gomberg-Fredrikson warehouse shipments data.

Figure 7: **Warehouse shipment trends**



Source: Gomberg-Fredrikson through August 2018

So we would show a decline in shipments in figure 7 if a sizable brand were removed from reporting public warehouses. But we have another view of those larger producers represented in figure 8 that gives us another check.

Figure 8: **Shipments from seven largest California producers**

8 months ending 8/2018

Winery	Millions of gallons	Change year over year	Percent change
E. & J. Gallo Winery	132,006	−5,511	−4.2%
The Wine Group	78,686	2,359	3.0%
Constellation Brands	62,624	−1,055	−1.7%
Trinchero Family Estates	28,994	1,458	5.0%
Treasury Wine Estates	19,800	213	1.1%
Delicato Family Vineyards	18,985	1,384	7.3%
Bronco Wine Company	13,047	−1,178	−9.0%
	354,142	**−2,330**	**−0.7%**

Source: Gomberg-Fredrikson, August 2018

The eight-month performance of the seven largest California wineries, which should typically account for about 68 to 70 percent of total annual US wine sales, showed that there were two million fewer gallons shipped, which is a 0.7 percent decline (see figure 8).

Winery financial performance

Winery financial statements are another source for verifying the wine trends. Silicon Valley Bank has collected financial statements from clients and non-clients as part of our daily routine for decades. We then aggregate the data and provide our clients with consulting and benchmarking data gratis. We also use the information to track larger-scale industry moves of premium wine.

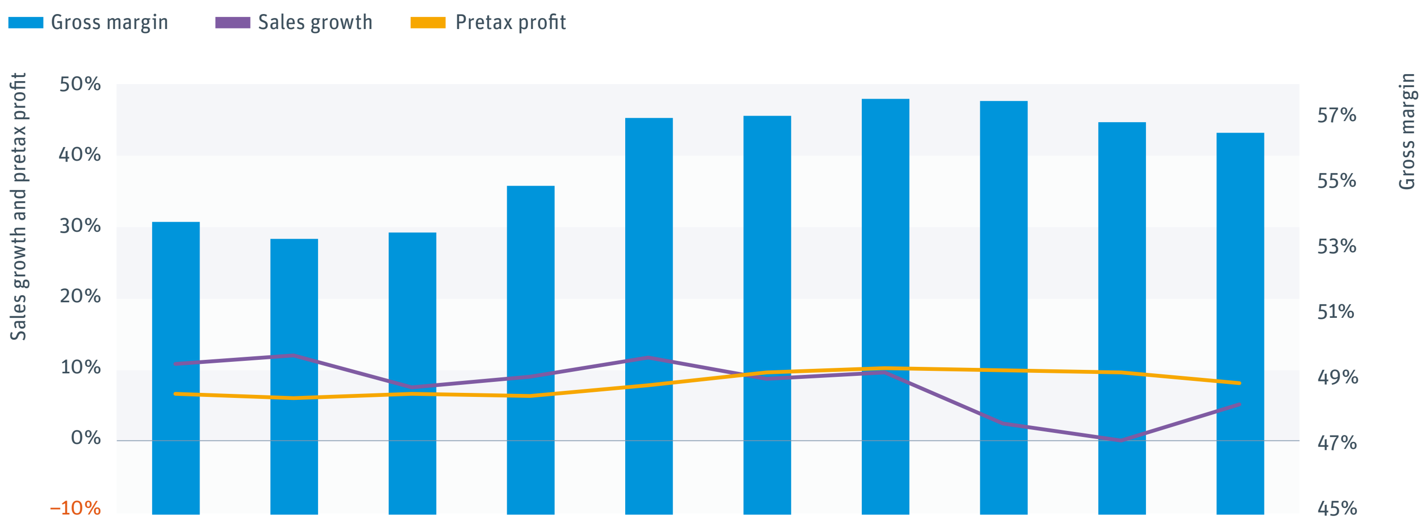
Our database reflects the wine industry overall by numbers and includes hundreds of wineries overwhelmingly from the US West Coast. Average case production in the database is 27,886, with a range of 1,000 to 750,000 cases. The average retail bottle price is about $28. It excludes the largest wineries that are captured in the Gomberg-Fredrikson chart (see figure 8).

Figure 9 is a product of that database, with data starting in 2010 when the financial crisis was in full swing. But redacted for space and just off the left of this chart in 2009, sales growth for the industry was negative 3.8 percent — it has rebounded nicely since then.

The trended sales growth rate has slowed over the past decade while wineries simultaneously evolved their strategies over to DTC models. That should imply higher average sales prices and gross margins that do show up in the information in figure 9. Gross margin has trended higher from about 53 percent to around 57 percent in the time frame displayed. Pretax profit remains between 8 and 12 percent.

On a positive note, sales growth through nine months for the benchmarked group as a whole is 5.2 percent, and while that's a low number in historic terms, it is much better performance compared to the 0.3 percent performance we demonstrated through the same nine-month period in 2017. The improved 2018 performance for the premium wine industry is likely due to more discretionary income for consumers from good economic conditions and the 2018 tax cuts. Higher grape pricing is just now starting to show up in the information in modestly lower gross margins for each of the last two years.

Figure 9: **Premium wineries' financial benchmarks**

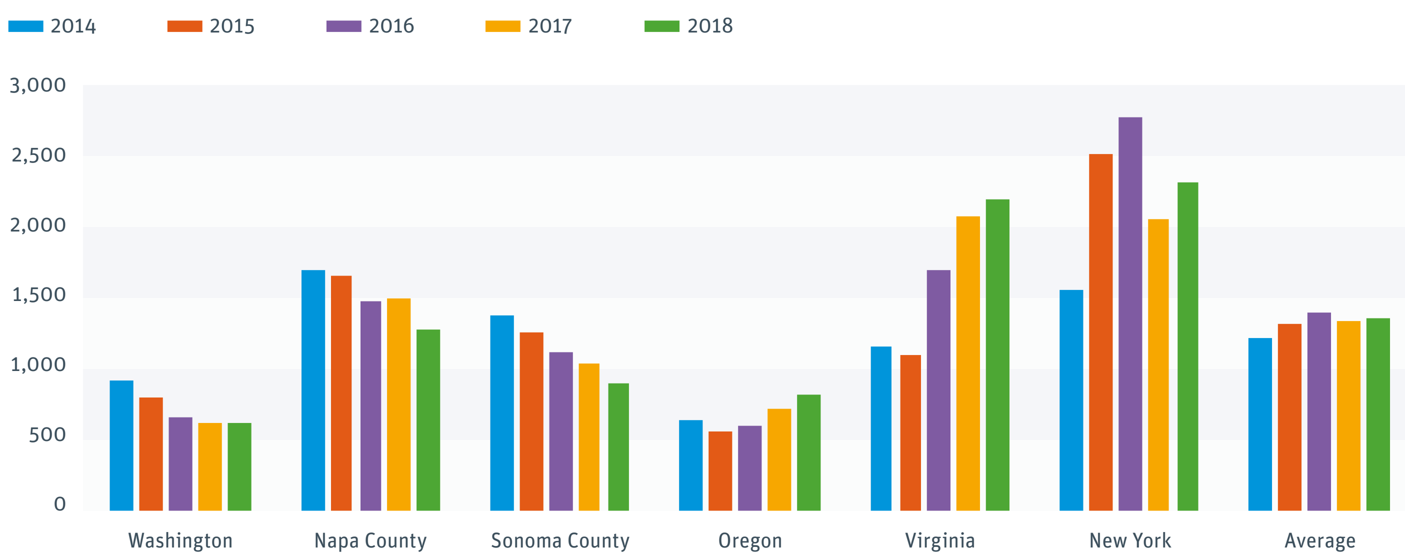


	12/2010	12/2011	12/2012	12/2013	12/2014	12/2015	12/2016	12/2017	9/2017	9/2018
Gross margin	53.7%	53.2%	53.4%	54.8%	56.8%	56.9%	57.4%	57.3%	56.7%	56.4%
Sales growth	10.8%	12.2%	7.7%	9.2%	11.9%	8.8%	9.6%	2.7%	0.3%	5.2%
Pretax profit	6.7%	6.1%	6.9%	6.6%	8.0%	9.6%	10.2%	10.0%	9.7%	8.2%

Source: 2010–2018 SVB Peer Group Analysis

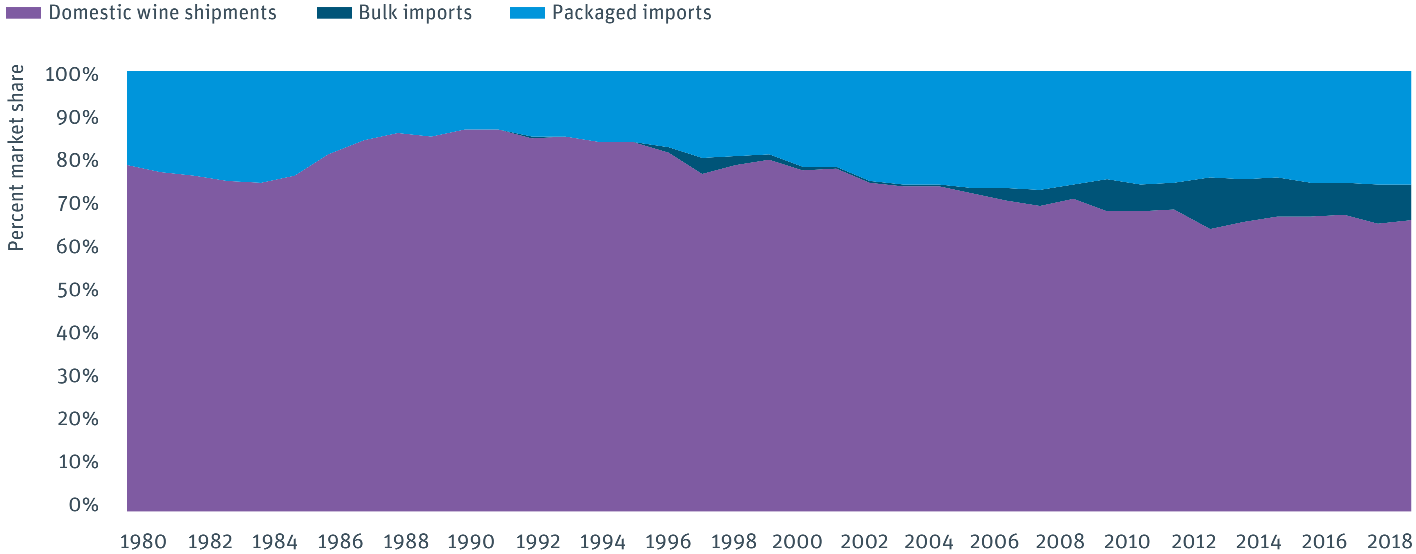
This nine-month information is missing the heavy October-November-December selling period. The 2018 SVB Annual Winery Conditions Survey also had owners reporting higher year-end expectations, so undoubtedly year-end sales will improve somewhat from what is reported here and fall in line with what we predicted in last year's report when we forecasted a growth range between 4 and 8 percent for the premium wine segment.

Figure 10: **Changes in monthly tasting room visitor counts**



Sources: 2014–2018 SVB Direct-to-Consumer/Tasting Room Surveys

Figure 11: **Decrease in US market share vs. imports**



Estimated data for 2018

Source: Gomberg-Fredrikson, November 2018

The tasting room

DTC sales make up 61 percent of the average family winery's revenue today, and almost all of that growth is dependent on a consumer first visiting the winery's tasting room.

Tasting room visitation in the regions of Napa and Sonoma has trended downward for the past five years (see figure 10). That shift is due to several factors, but it's not fewer tourists — tourism is up at the same time tasting room visitation is down in those regions. That seems like a paradox.

There are many reasons average visitation trends are dropping, but at the core is a changed consumer. The visit to wine country is no longer about the wine. The older consumers come to wine country, stay at a luxury hotel and visit one or two of their favorite wineries instead of the five they visited as young consumers. Younger consumers come to wine country, share an Airbnb with others to save on cost and visit one or two wineries that offer the lowest tasting room fees and/or the best experience, which is a different experience from that which the older consumers seek.

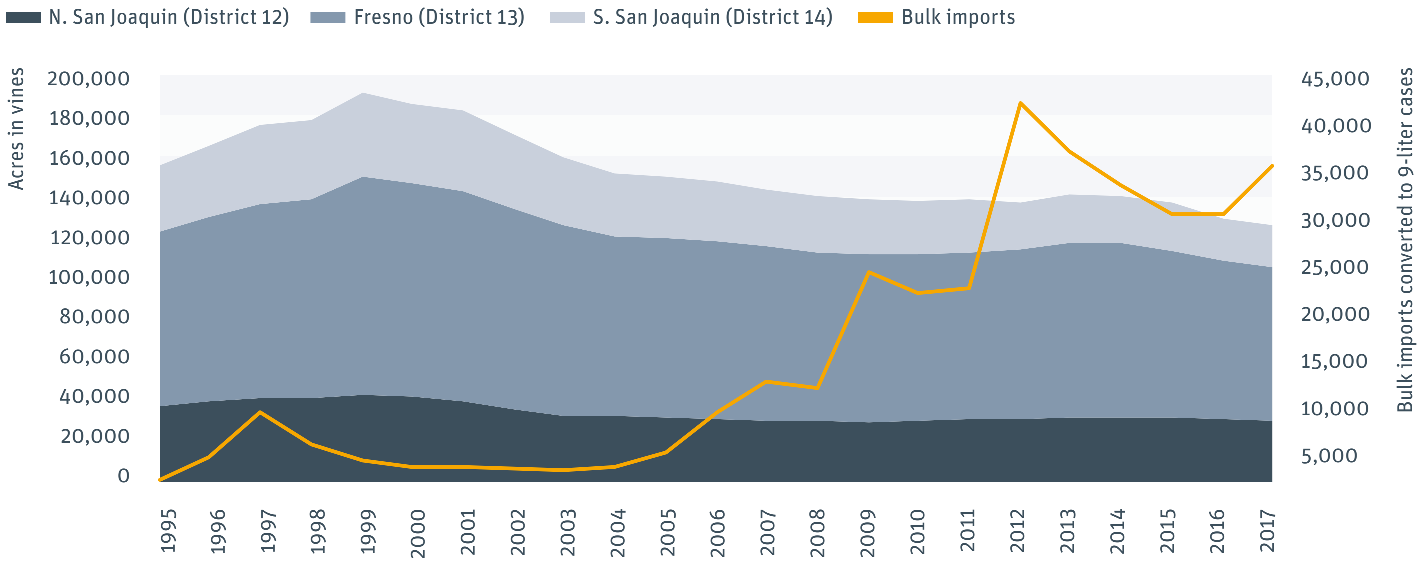
Tasting room visitation in the Pacific Northwest, and notably in Oregon, is growing well. The average sale in the tasting room is improving, which explains much of the overall growth in sales in all regions, but shifts in consumer behavior will be a growing concern, even in Oregon.

For more information on the issues behind declining tasting room visitation, see the State of the Wine Industry 2018 report, pages 31–33, and the section titled "Cracks in the tasting room model" later in this report (on page 47).

Most US fine wine producers ignored the growth trends of imports over the past 25 years but did so more particularly in the 1990s when wine "just sold itself." Today, the winery owner is far more aware that foreign competition is a current and looming risk (see figure 2). The market share of domestic wine shipments has continued to drop, starting in the early 1990s. Bulk imports have been used by large producers of domestic brands, and since the early 2000s, those bulk purchases have also grown foreign wine's share of the total market (see figure 11).

It's hard to blame domestic producers for being silent about the activities of the international interloper historically. When you have the best worldwide market in which to sell wine, you can sell all you make, increase your prices and still grow your volume, why worry?

Figure 12: **Vine acres removed in California's San Joaquin Valley vs. growth in foreign bulk imports**



Sources: Grape Acreage Report by USDA National Agricultural Statistics Service, Gomberg-Frederikson

As domestic wineries see US growth opportunities taper, they will notice more of the good-value imported wines hitting domestic shores, eroding their market share

Growers in the Central Valley of California were the first to feel squeezed out by foreign wine suppliers. While overplanting played a role in the removal of more than 100,000 gross acres from production after 1999, another significant factor has been the availability of cheaper juice that could be brought in as bulk wine from other countries.

The US generic consumer didn't care if the chardonnay was Australian, Chilean or American. That allowed large wine producers to cut back on buying local fruit, causing the removal of tens of thousands of acres in the process.[14] That relationship can be seen in figure 12.

While premiumization took hold as generics fell out of favor, it seemed there was always enough consumer demand to satisfy both the growing shipments of imports and the production of premium domestic wine. But those days are past. The future holds different conditions for the domestic family wineries today compared with the past two decades.

As domestic wineries see US growth opportunities taper, they will notice more of the good-value imported wines hitting domestic shores, eroding their market share. An individual winery's growth will be at the expense of share from somewhere else. As that realization grows, the fight will be for younger value-conscious consumers who come to the table with sharper pencils, always looking for the best deal, and are wide open to world wine.

Today, the larger producers are ahead of the changes in the marketplace. Given the high prices being paid for arable vineyard property in established appellations, they are hedging their bets by buying premium vineyards and at the same time finding ways to partner with foreign producers and fill quality gaps in their own portfolios.

Figure 13: **Imported wine into the US over 52 weeks**

Country	Sales	Value change	Percent change	9-liter-case equivalents	9-liter-case equivalent change	9-liter-case equivalent percent change	Average bottle price	Percent change in average bottle price
Italy	$1,174,264,462	$12,696,546	1.1%	10,481,911	−41,624	−0.4%	$9.34	1.47%
Australia	$727,504,683	$23,077,228	3.3%	12,013,617	15,780	0.1%	$5.05	3.04%
New Zealand	$457,322,337	$35,160,210	8.3%	3,303,259	234,051	7.6%	$11.54	0.65%
France	$450,236,731	$37,111,392	9.0%	2,939,393	258,564	9.6%	$12.76	−0.61%
Argentina	$350,131,904	−$30,083,381	−7.9%	3,877,558	−370,279	−8.7%	$7.52	0.87%
Chile	$259,152,332	−$12,357,937	−4.6%	3,864,103	−111,784	−2.8%	$5.59	−1.82%
Spain	$165,728,886	−$4,201,800	−2.5%	2,090,602	−12,592	−0.6%	$6.61	−1.92%

Source: Nielsen Beverage Group, November 2018

France had the biggest increase in volume and the largest change in dollar sales last year

If domestic wine starts losing value in the consumer's mind because of the high price, the big wine companies have foreign supply to bring into the equation, which will add further pressure on domestic producers.

Bottled wine imports continue to take a sizable chunk of the domestic business as noted in figure 11. Import sales are led by Italian pinot grigio and prosecco, Australian wine, New Zealand sauvignon blanc and French rosé and sparkling wine. France had the biggest increase in volume and the largest change in dollar sales last year (see figure 13).

Australian[15] and Chilean[16] exporters recognize that their reputation as low-quality producers hasn't helped their brand in the world and are working at improving their image and quality. The Australian government's $50 million Export and Regional Wine Support Package has helped their producers make some minor progress, seeing higher sales and volumes as well as an average bottle price increase, the highest among the major importers according to Nielsen, albeit off the lowest average price.

Argentina, with a good reputation for quality, is struggling with its export business due to the country's severe financial problems.[17] Chile and Spain bring up the bottom of import performance and are seeing reversals in total sales and volumes and show declining average bottle prices.

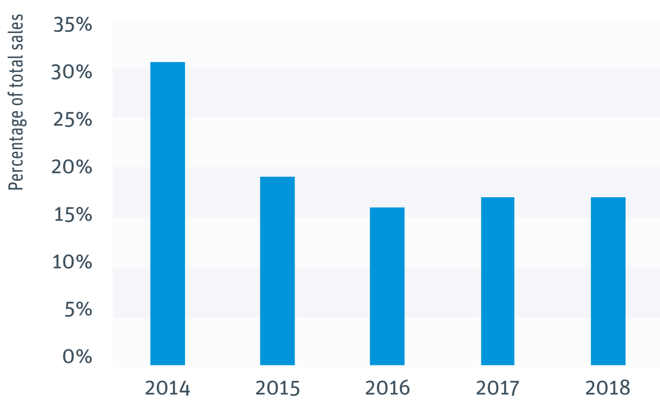
Restaurant sales and consumer shifts

Explaining the sales trend within the on-premise trade is complex. The factors shaping restaurant sales of wine today are a mix of events, starting with wholesalers' movement away from smaller wineries.

It is magnified by a consumer movement away from many of the full-service chain restaurants, the growth in fast casual dining that doesn't feature wine, increasing at-home wine consumption and declines in overall same-store consumer traffic. All of that is against the countervailing backdrop of a better retail economy in 2018, leading to higher average checks. It appears, however, that a better economy alone is not sufficient to fully offset the countervailing headwinds, and restaurants are working with newer concepts that are showing positive signs.

Retiring baby boomers are slowing both their spending and alcohol consumption as they age. Frugal hedonism[18] has overtaken our younger drinking cohort, and they don't want to pay restaurant markups. Young consumers know they can buy a bottle of wine at a store for less. In the restaurant, they are more likely to start with a craft beer or a premium cocktail vs. a glass or bottle of wine. But the consumer shifts being driven by the young consumer don't stop there.

Figure 14: **Sales to restaurants from the average winery**



Sources: 2014–2018 SVB Annual Winery Conditions Surveys

Restaurant sales

In our survey work with wineries, we ask them to tell us the percentage of their sales that flow through each of the major sales paths, such as club, wholesale, direct and restaurant. With that information, we can track relative movement in sales from wine producers to restaurants from year to year. It's important to note our data are benchmarks. That means we are providing information that in this case would be meaningful to the "average winery," and on average, wineries are small. So when we show the average winery with 17 percent of their revenue from restaurants, that's not the same thing as saying 17 percent of all wine sales comes from restaurants (see figure 14).

For the smaller winery, sales of wine to restaurants has been declining in importance for nearly a decade as distributor representation became increasingly scarce and DTC became progressively more important. Because the larger wineries have distribution, they are more successful than the smaller ones in selling to restaurants.

For 12 months through October 2018, according to Nielsen CGA on-premise information, restaurant sales of wine were higher in both dollars and volume but with a slightly lower growth rate compared to the prior year (see figure 15).

Figure 15: **US on-premise wine sales**
Restaurant and bar/nightclub channels

	2017	2018
Dollars	2.10%	1.10%
Volume	1.50%	0.80%

Source: Nielsen CGA On-Premise Consumer Survey, October 2018

Looking at just restaurant locations, fine dining is down 6.9 percent, while casual dining is up 1.7 percent. The drinking side of the on-premise business is the interesting change — total physical locations are down 1 percent; casual nightclubs have 7.1 percent fewer locations, and neighborhood bars are down 1.6 percent in numbers, while premium bars are up a whopping 19.7 percent.[19]

When we put that together with other information collected, it tells me the trends are following the change in consumer behavior, with boomers rotating out, Gen X now established and millennials rotating in. It says to me that:

- **Expensive and old fashioned is losing ground.** Lost-concept fine dining establishments, dingy nightclubs, my dad's neighborhood pub,[20] family dining chains, and sports bars where TVs are the experience have all become outdated.
- **Casual, quick and cool is gaining ground.** People are increasingly more drawn to polished and fast casual dining, and premium bars.

Why is fine dining getting hit, while premium bars are soaring in growth? Aren't they both marketing a high-end experience? It's all in the definition of what newer consumers value and the specific restaurant's version of experience.

Consumer and concept shifts

In the same way that the fraternal/social organizations in America (Moose, Elks, etc.) vanished with the mature generation aging,[21] dated restaurant and bar concepts that used to satisfy baby boomer tastes are now closing and making room for the millennial consumers.

Having been raised by parents who lived through the Great Depression, baby boomers wanted to feel successful and well-off. They showed it with conspicuous displays of wealth in their high spending years. Going to a French-themed restaurant where people dressed up, where recipes started with a cube of butter and a cup of heavy whipping cream and where the experience was all about the food — that was a boomer's idea of a great night out.

Today, if the food is the experience, it has to start with sustainable, local, fresh, healthy and organic. But the taste has to be great, the price fair and the venue more casual and interesting for young consumers. But alcohol today is finding its way into new retail establishments.

Nontraditional retailers with their own brands are focusing on wine and alcohol to improve or enhance their client experience. Today, you can buy wine and other alcohol to consume on site at Bed Bath & Beyond, Starbucks, Burger King, movie theaters, tap rooms, barber shops and laundromats, as well as through a multitude of digital and same-day retailers. These retailers are expanding and blurring the definition of a bar, wine bar or restaurant. Why go to the bar when you can grab a pint while doing laundry?

Instead of the boomer way, where hospitality at a restaurant meant child seats, new consumers are looking for active social experiences around food and alcohol. Campo di Bocce in California sells Italian food paired with bocce ball. Kaiser Tiger in Chicago offers up a beer garden in the summer and turns it into curling in the winter for their guests. Flight Club, with several locations, is taking pub darts from England and transplanting the experience in a more current concept to the US.

While the wine industry is awakening to discover the changing demographic preferences, the restaurant industry is well into its own evolution of place and engagement.

- The evolving consumer is less formal. You see it in the success of polished casual restaurants (and with business attire trends becoming less formal, for that matter). *It's not about a display of wealth.*
- New consumers value speed. Quality food is expected, but in two-income families where consumers speak in 280-character sound bites and are never unplugged from work, time is a precious commodity. So fast casual has done well thus far, and likewise, home delivery models are taking off to capitalize on the increasing premium being placed on time-saving. *It's not just about the food.*
- New consumers value visual distraction — a show or something that is more than the subject (food/wine). That is why the new consumer will pay for expensive cocktails served with flair, but won't pay for a fancy meal or expensive bottle of wine served in a stuffy restaurant. The right aesthetics within the venue drive enhanced value. *It's not just about the food or drink anymore.*
- New consumers impute value from fresh, healthy, artisan-produced, local and organic ingredients in their food and beverage choices. Today, the wine doesn't speak for itself, as many have insisted in days gone by. The term "quality" has an expanded meaning. *It's not just about the flavor anymore.*

The larger wine companies working through distribution are laser-focused on chain restaurants and creating stories for their brands, as well as giving sellers something to sell beyond the juice in the bottle. Despite visitor declines in restaurants, total sales are improving but with better results through the chains over the independents, even though independents outnumber chains 4:1.[22]

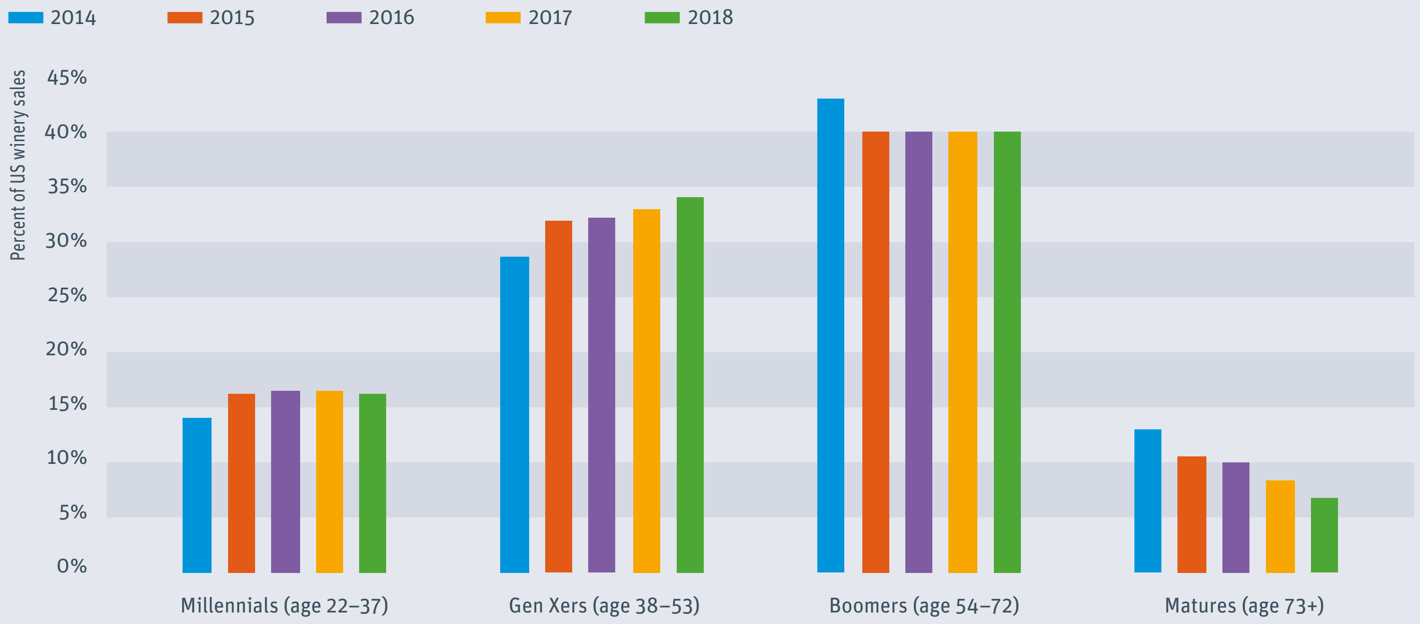
The smaller family wine business is increasingly less effective and disconnected from restaurants.

- Family wineries don't have the same access to the three-tier system that supplies most of the restaurants and chains.
- Family wineries aren't engaging with the new restaurants and bars that are doubling down on experience. Wine is being outpaced by spirits sales and mixologists who are entertaining their patrons, while the wine business is still stuck on producing a product.
- Family wineries are disconnected from the younger consumer who prefers premium cocktails and craft beers over wine, and that's reinforced with the consumer in the current restaurant trends.

The smaller family wine business is increasingly less effective and disconnected from restaurants

Cohorts — their buying preference and current impact

Figure 16: **Average wine consumption by age group**



Sources: 2014–2018 SVB Annual Winery Conditions Surveys

Matures grew up during the Great Depression. Known more as a spirits and beer generation, the matures' wine demand matched their thrifty economic upbringing. The value of alcoholic beverages was highly correlated to alcohol content or the proof per dollar spent. So when an individual from the mature cohort purchased wine, they gravitated to the high-octane fortified wines or low-priced value wines in large formats.[23] Today, matures are the smallest group of wine consumers, representing just 7 percent of the average US winery's sales (see figure 16). The mass-produced wines made for this generation have fallen out of favor gradually and consistently over the past 40 years.

Baby boomers represent the largest native population boom in US history. They first demonstrated their thirst for wine by driving the wine cooler trend[24] in the mid- and late-1980s. Neo-prohibitionism[25] led to short-term declines in wine consumption through the early 1990s. But in 1994, boomers reached a median age of 35 and were established in their careers. With money — and the positive health message of drinking red wine brought to light by the "French Paradox" as further incentive — boomers fueled the largest growth period in wine sales in US history. Today, controlling 70 percent of discretionary income in the US, boomers are still the leading consumers of fine wine and currently represent 41 percent of an average winery's sales.

Gen X is the smallest of the main consuming cohorts today. Largely ignored by the retail press, Gen Xers entered the workforce at a good time economically, and with fewer college graduates competing for careers compared with the generations bracketing them, Gen Xers have had a comparatively easy time building wealth. Today, Gen X is at the peak of their lifetime income and spending. Their presence has been below the radar, but their wine consumption continues to increase, representing 34 percent of an average winery's sales and growing. Indications suggest the majority of current growth in the above $9 wine category is coming from this generation. They are perfectly positioned to surpass the baby boomers as the dominant cohort in fine wine consumption by around 2022.

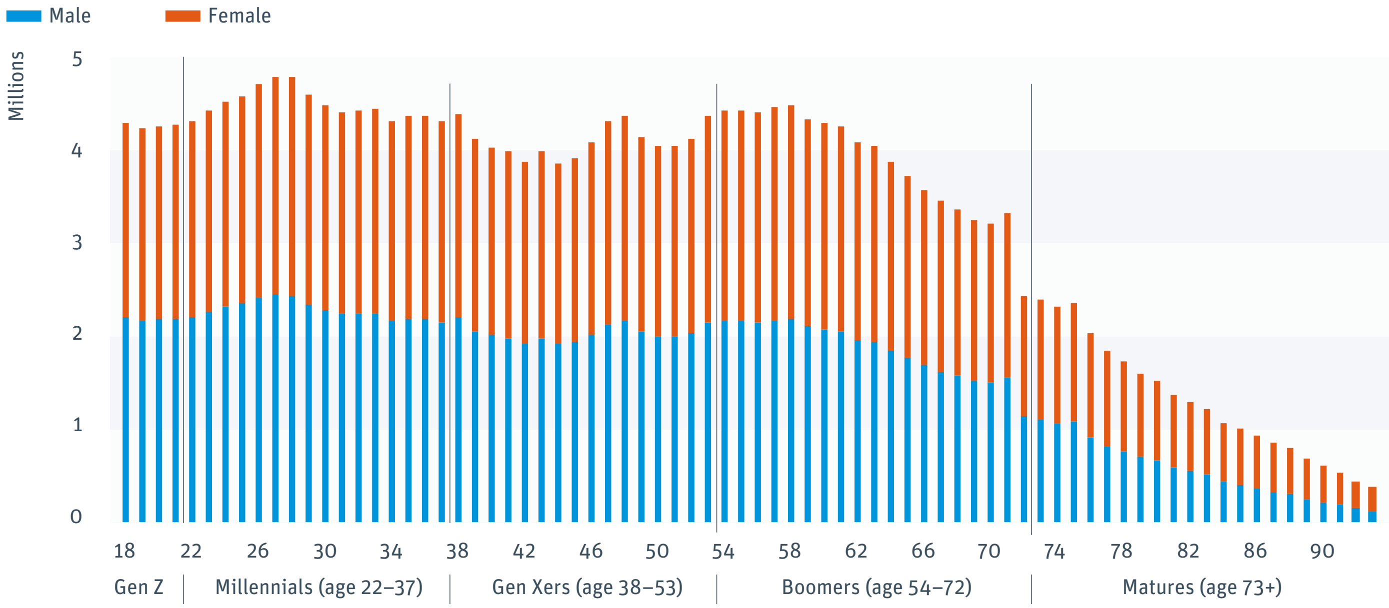
Representing 17 percent of current fine wine consumption is the millennial generation, whose outsized impact has been falsely prognosticated by the wine press[26] for at least a decade. The unfortunate reality is that while millennials have a better appreciation of wine compared with the other cohorts at a similar age, their appreciation has not been reflected in fine wine consumption. The reason? To buy something, a person needs to have both the desire and the financial capacity to make the purchase, and millennials lag prior generations in terms of buying power. We won't see the millennial generation taking over the top spot for wine consumption until 2027. But there is more than financial capacity holding back this consumer's participation in the wine segment. The wine industry isn't organized in messaging anything to this consumer that will resonate. How about: *"The original farm-to-table drink"*?

Image courtesy of Bob McClenahan Photography

6 Demographic preferences and buying behavior

The change we see in sales is due to shifts across all four major consuming cohorts as each moves through periods of wealth accumulation, their palates and preferences evolve, their population size changes, their age and health affect consumption, and their view of alcohol in the context of a healthy lifestyle changes.

Figure 17: **US population by age**



Source: United States Census Bureau Population Estimates 2017

Current demographics provide plenty of clues to understand the sea of change and crosscurrents we are witnessing in wine purchasing behaviors today. We are living with the sunset of the mature cohort who are still meaningful consumers of wine; wealth-laden baby boomers changing their spending patterns due to age, health and retirement concerns;[27] Gen Xers in their prime spending years; and the millennial cohort, which is the next growth opportunity for the US wine industry.

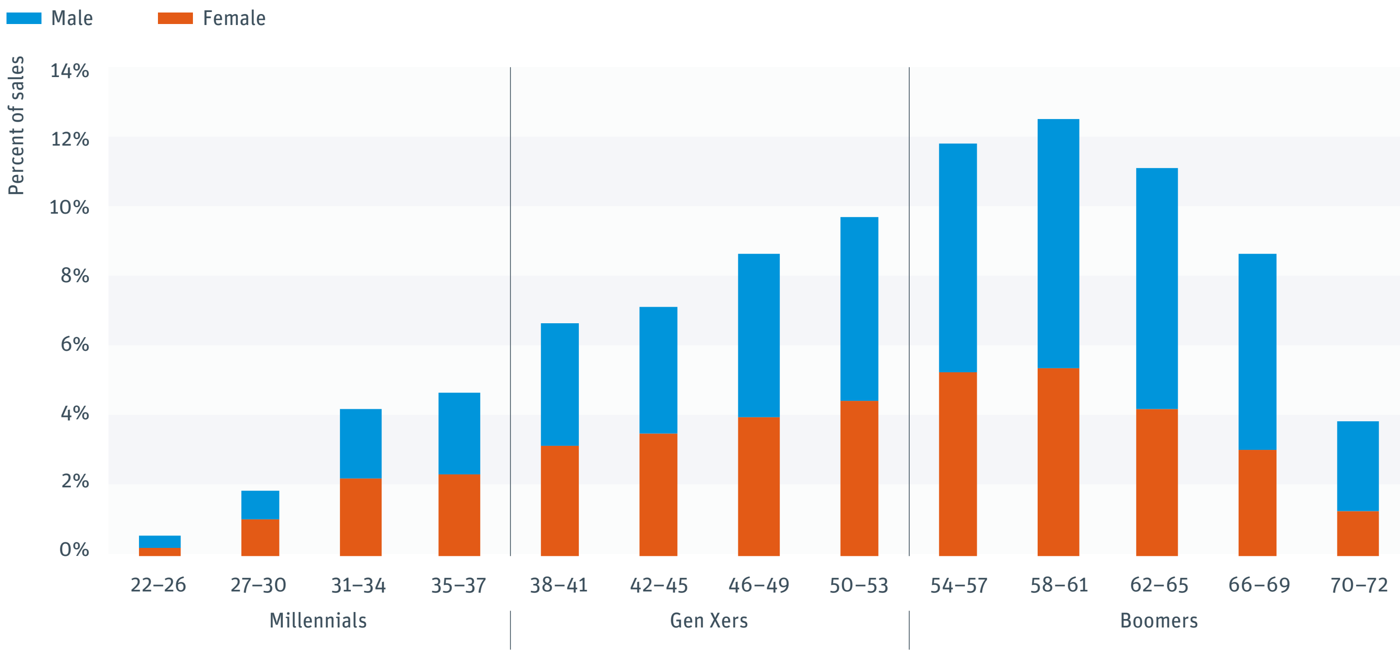
Both the millennial and boomer cohorts have key peaks in population at the ages of 28 and 58 respectively today, putting them at major transition points, with one nearing retirement and ready to scale back their spending and slowing their wine consumption patterns, and the other just getting established in their careers, holding the promise new consumers bring (see figure 17).

The Indulgence Gap

In my view, the issue of greatest concern for the wine business today is the millennial generation's lack of participation in the premium wine category. While millennials hold slightly higher consumption shares in the $8–$11 bottle price points and are interested in wine, they haven't made any noticeable movement to become premium wine consumers for almost five years, holding firm and consuming around 17 percent of the premium market, based on Silicon Valley Bank research (see figure 16).

In my view, the issue of greatest concern for the wine business today is the millennial generation's lack of participation in the premium wine category

Figure 18: **Premium wine buying by age group**



Source: Customer Vineyard, 2018

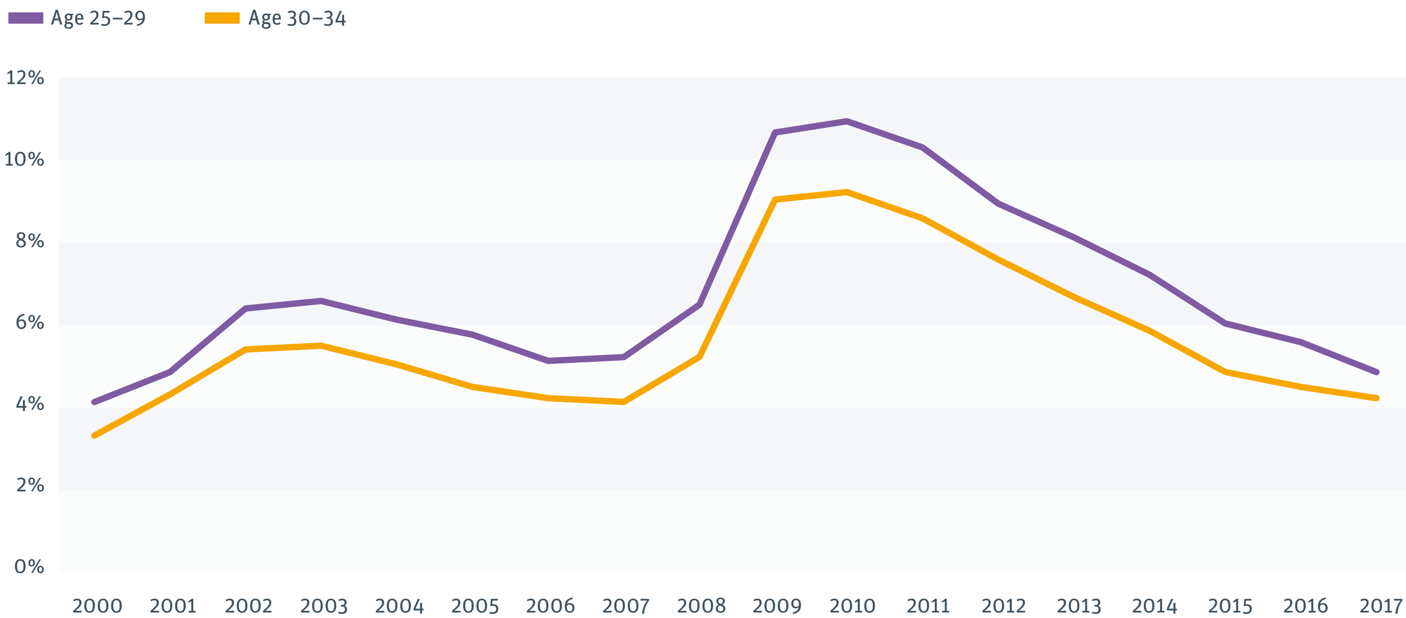
Demographers and industry analysts have mistakenly overestimated the impact of the millennial on the US wine business for some time

A separate data source from Customer Vineyard provides a more granular view of premium wine consumption but is consistent with the findings from Silicon Valley Bank research, showing millennials with even lower participation, between 12 percent and 15 percent, and boomers between 58 and 61 years of age as the largest buyers (see figure 18).

Demographers and industry analysts have mistakenly overestimated the impact of the millennial on the US wine business for some time.[28] The millennials' real progress in capturing premium glass share from boomers has been a delayed promise, however, because of several factors including their early preference for craft beer and spirits, questions surrounding the health benefits of alcohol consumption and a delay in establishing careers and families compared to prior generations.

Not all of that is a dire concern. With the median age at 30, this generation still has time to find their footing. But for today, their retail silence, particularly for discretionary and luxury goods, is deafening.

Figure 19: **Unemployment rate for younger adults**



Source: Bureau of Labor Statistics

Younger consumers financially stunted — reluctant buyers

Millennials are delaying most of the life events that would otherwise create positive economic impact. They are taking longer to graduate from college, delay or never expect to marry,[29] postpone having children[30] and have taken longer to start their careers. The homeownership rate of millennials is about 8 percent lower than the homeownership rate of Gen Xers and baby boomers at the same age.[31] A telling statistic is that more adults aged 30 or younger live with their parents compared to any time since the Great Depression.[32]

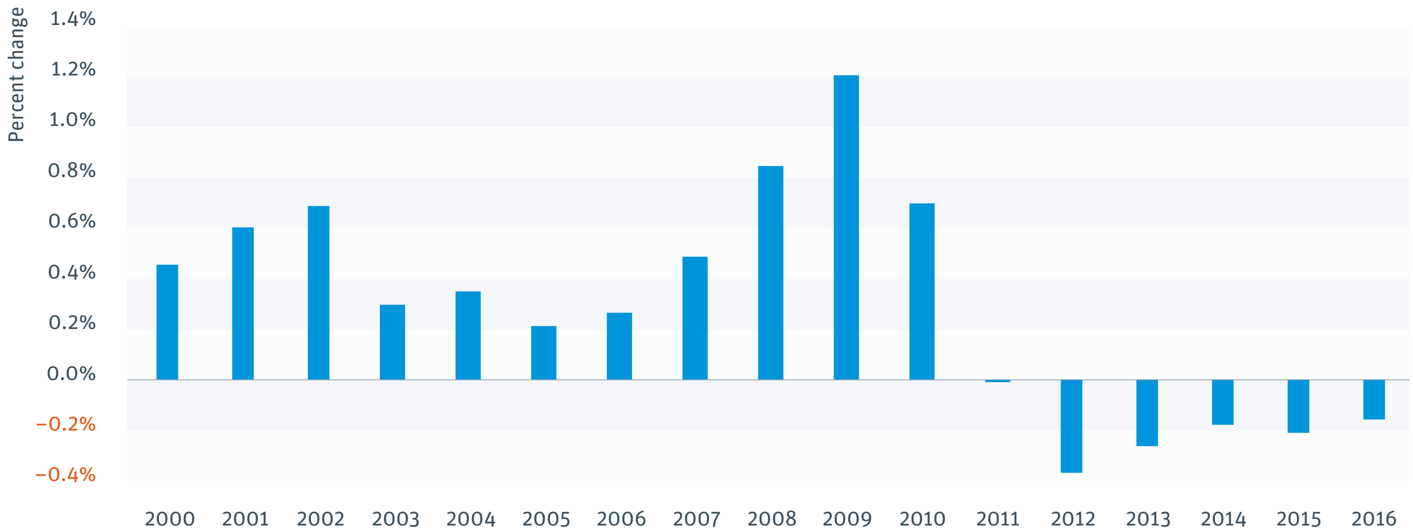
Some of the patterns we're noticing, such as millennials delaying marriage, have more to do with societal changes, but the 2008 financial crisis[33] is at least as much a factor in stunting the millennial generation's spending.[34]

In 2007, there were 18.25 million students attending college, with that year's graduating class starting to look for work. As the economy weakened through the summer, the graduates found themselves shut out of the job market (see figure 19).

Seventy percent of the college graduates had student loans, and with their debt scheduled to begin to amortize upon graduation, they had to make the difficult decision to either take a job unsuited to their degree (bartender, barista, server, etc.) or go back to school to defer the start of their loan payments and add to their debt load (see figure 20).

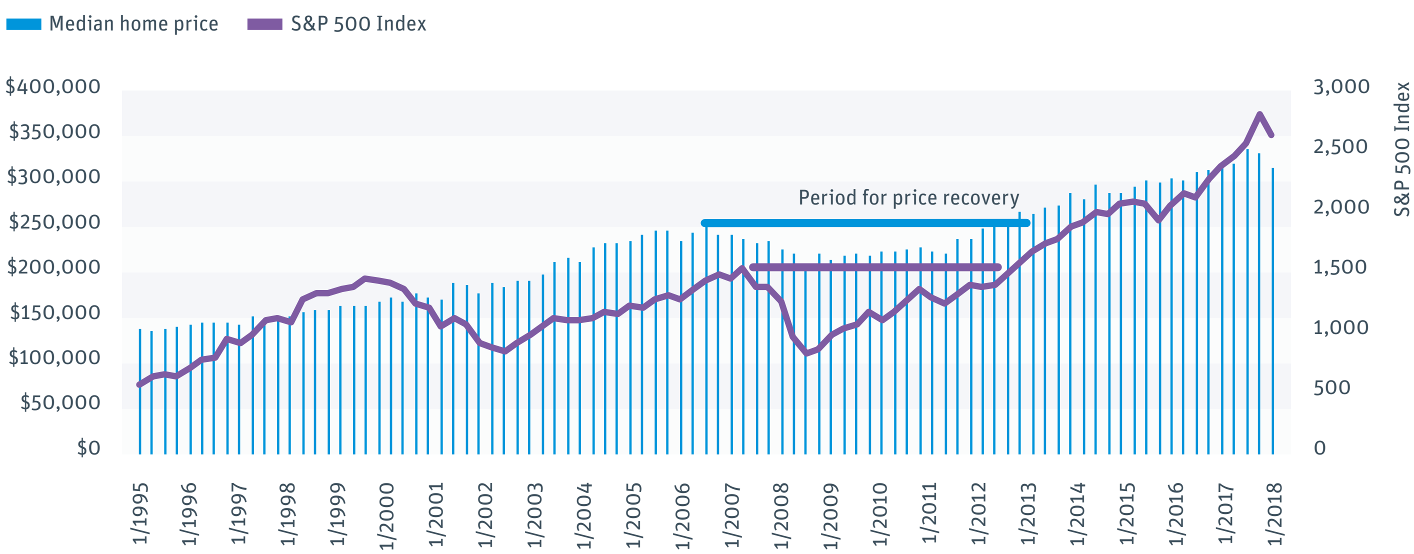
For several years after the crash, those first-vintage recession graduates found themselves standing in place, competing with newly minted graduates for the limited entry-level work while the economy recovered. To this day, many young adults still feel like they are trying to catch up.[35]

Figure 20: **Growth in college enrollment**



Sources: Statistica.com, National Center for Education Statistics, 2017 Digest for Educational Statistics

Figure 21: **Trended price changes to US stocks and homes**



Sources: Federal Reserve, Standard & Poors

Older adults financially recovered — slowing buying patterns

With the economy in disarray in 2007, the US Federal Reserve rapidly started to lower interest rates, and when rates got close to zero and the economy needed more stimulus, the Fed began a quantitative easing program,[36] the purpose of which was to calm the banking system, improve the employment situation and stabilize prices. In the process, they reflated both the stock market and home prices. Roughly six years after their prior peak, the S&P 500 and the median price for US homes returned to their earlier levels. Since then, median home prices have increased by 28 percent and the S&P 500 has risen by 68 percent (see figure 21).

Who participated in the financial recovery? Largely, it was older Americans — Gen X and baby boomers who had both jobs and assets. The younger millennials were frozen in place, without assets and looking for work, unable to take advantage of the asset reflation. To make matters worse, they were also loaded down with student debt. These are the consumers we're depending on for growth.

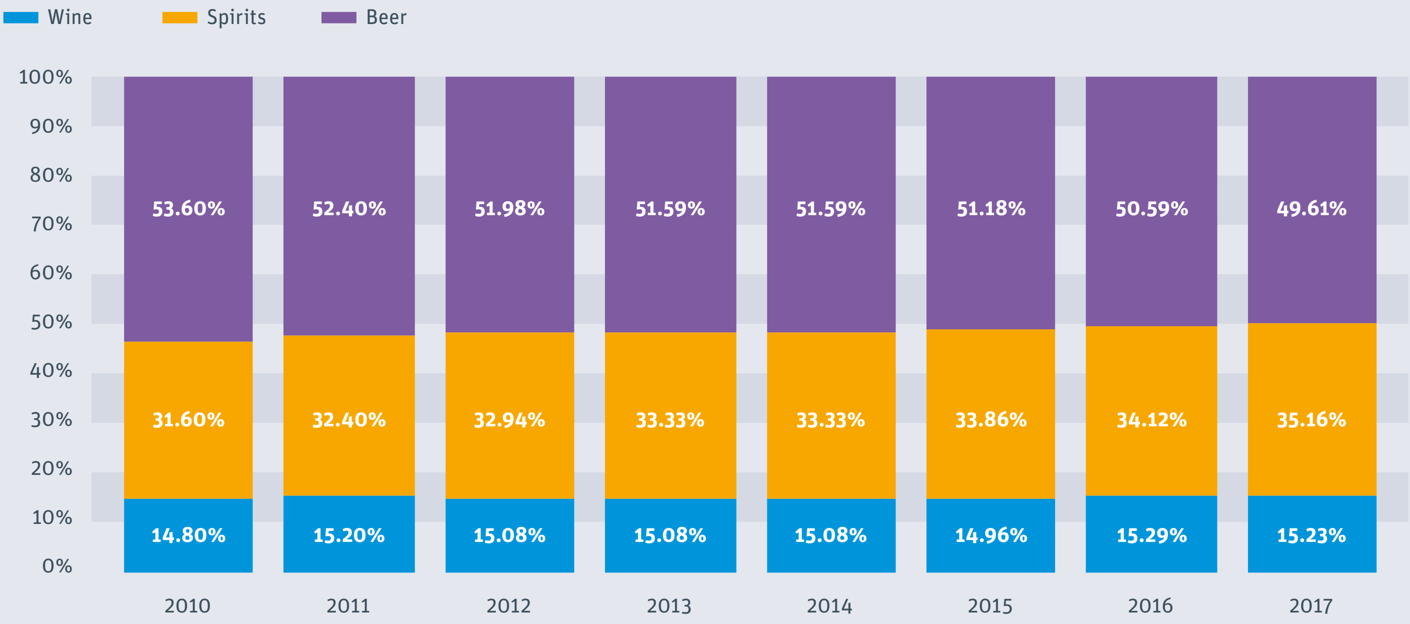
The uneven financial recovery that had millennials stuck in time, and older generations moving ahead, has created a tearing in the evenness and flow of consumer spending that we've framed as the "Indulgence Gap."

The unanticipated delay in spending by the millennial cohort will take time to normalize and look familiar. Millennials will take their place as consumers of luxury items and premium wine in due time, but first they need to make progress in their careers. That means, for a time, they will spend more of their money on basic needs, such as housing and diapers, instead of luxuries, such as vacations, premium cable and fine wine. Economists differ on their projections about the length of the lag, but their estimates range from five to 10 years.

The uneven financial recovery that had millennials stuck in time, and older generations moving ahead, has created a tearing in the evenness and flow of consumer spending that we've framed as the "Indulgence Gap"

The beer example

Figure 22: **Ethanol market share of the US consumer**



Sources: National Beer Wholesalers Association, Alcohol and Tobacco Tax and Trade Bureau

After a strong 20-year run of growth starting in 1961 driven by the mature generation, the beer industry began to see reversals in volume sales as the mature generation aged and the boomer and Gen X cohorts moved away from mass-produced beer.

The large breweries sowed the seeds of their own decline when in the 1970s they continued an intense focus on scale,[37] increased efficiencies, protectionism and marketing to spur new growth, instead of producing the better-quality beer that consumers wanted. That consolidation led to an increasingly blander mass-produced product. Illegal home brewing emerged as a consumer solution, and by 1978 the movement became so popular, Congress passed an amendment that ended the federal restriction on home brewing.[38]

Starting in 1981, beer hit its high point in sales, and total volume began to turn negative. But like premium wine in the US, craft beer emerged as a meaningful growth segment, gaining cult-level popularity in the mid-1990s with younger consumers.[39]

Gen X maintained the interest and growth in craft beer through the 2000s when millennials started adopting and evolving the product as their own. Today, craft beer and imports have each grown significantly, with craft beer now responsible for 12.7 percent of the US beer market by volume and more than 23 percent of the market by revenue.[40]

Like the larger wine producers, the major brewers have been through a period of craft acquisitions and brand introductions to get back into the consumer game, and to this point, it's been a successful approach in muting the otherwise painful volume declines in total beer sales.

With the beer industry losing market share to both wine and spirits (see figure 22), it's not entirely surprising to see anti-wine advertising emerge as a tactic from beer companies.[41] But with volume declines at the doorstep for total wine sales, at some point soon both the beer and wine industries may need to find ways to work together to identify new alcohol beverage consumers.

With volume declines at the doorstep for total wine sales, at some point soon both the beer and wine industries may need to find ways to work together to identify new alcohol beverage consumers

Millennial alcohol beverage preference

Premiumization today spans all the alcohol beverage categories, whether it's craft beer, craft spirits or premium wine. The millennial prefers craft beer and craft spirits over wine, though. Most reports cite the growth of craft beer and spirits as coming primarily from the millennial cohort.

Most of the growth we're seeing in the wine business today is from Gen Xers and boomers. The millennial is responsible for very little of the current growth in wine

In contrast to craft beer and spirits, most of the growth we're seeing in the wine business today is from Gen Xers and boomers. The millennial is drinking wine in the $8–$12 range but counter to most press accounts is responsible for very little of the current growth in wine. The question has to be asked: Is the US wine business losing the young consumer?

While all indications point to the stagnation in the young consumer's move to wine today, we have to note the median age of millennials is only 30 years old, with the oldest 38 years of age. As history shows, it wasn't until boomers reached the average age of 35 that their wine preference really emerged.

That said, other atmospherics leave a question about whether the millennial will ever advance to premium wine as prior generations did.

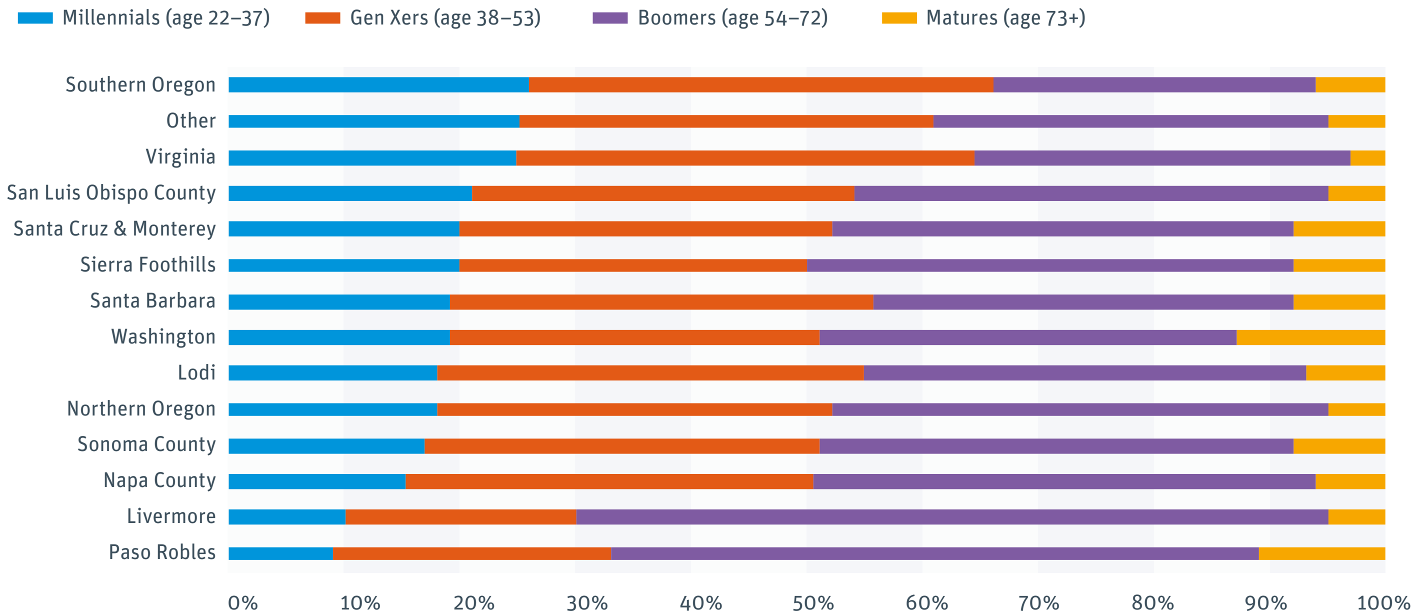
Boomers came into the growing premium wine business when US wine pricing was much lower, even on an inflation-adjusted basis, and they were in a better place financially. They could afford wine. Beer was falling out favor with the large producers paying inadequate attention to better-quality options, making wine more attractive. Maybe as important was the positive health message advanced in the 1990s regarding the benefits of moderate wine and alcohol consumption.

The millennial is a frugal hedonist as I've often said. They are looking for value, but in the premium segment.

In figure 23, the trend is apparent — millennials show more impact in the lower-priced wine regions at the top of the chart. Obviously, there are regional implications for counties at the bottom and questions to be answered if the cohort stands off from the higher-price-point American Viticultural Associations (AVAs).

Other atmospherics leave a question about whether the millennial will ever advance to premium wine as prior generations did

Figure 23: **Regional consumer demographics in 2018**



Source: 2018 SVB Annual Winery Conditions Survey

Cumulative negative health messaging

Neo-prohibition, the original

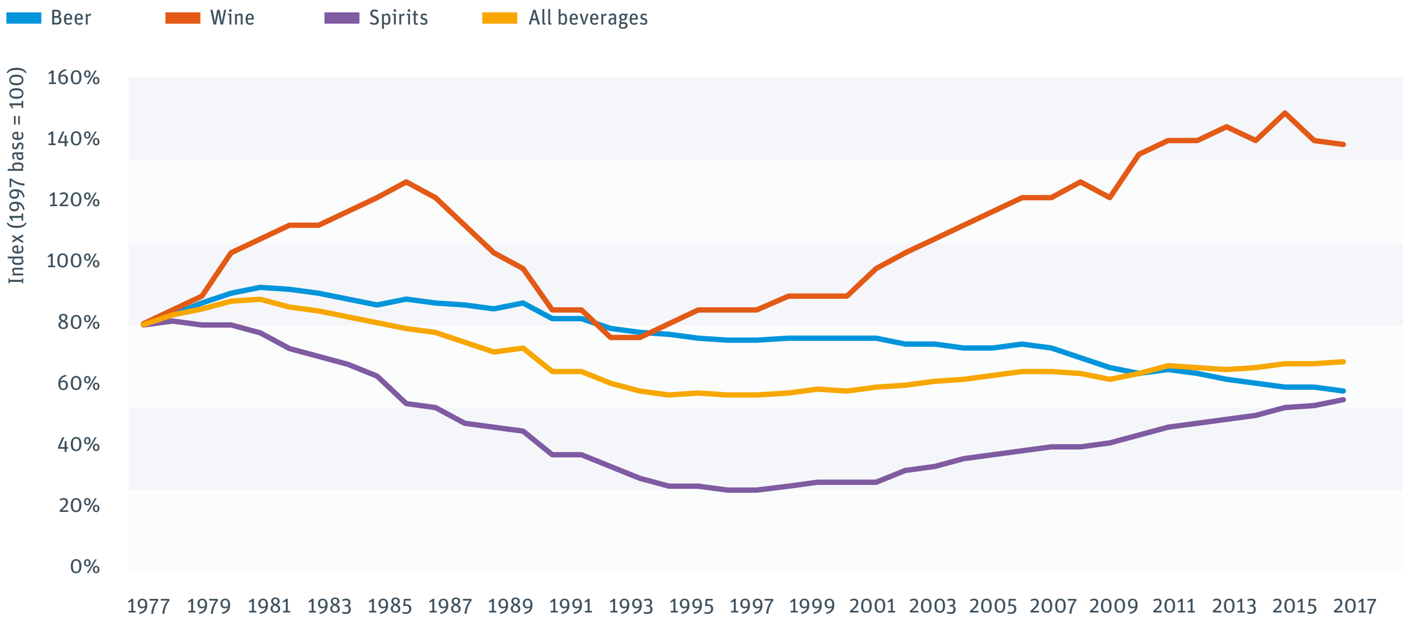
Starting in the early 1980s, a group of loosely related private and public advocacy organizations, special interest groups and governmental agencies organically aligned with the goal of reducing or eliminating the harmful effects of alcohol consumption in the US.

Like the Prohibition movement earlier in the 20th century, neo-prohibition included diverse groups such as religious organizations that viewed drinking alcohol as sinful; activist organizations whose primary goal in this case was eliminating deaths from drunk driving;[42] health organizations funded by special interests and armed with studies about the negative impact of consuming alcohol on productivity and health; and the US government, which was enacting policy.

Beginning in 1982, Congress developed a series of grant programs to encourage states to enact stronger impaired-driving laws and lower per se blood alcohol limits. By the mid-1980s, cultural engineering of the messaging was enhanced when some of the neo-prohibitionist organizations effectively characterized wine and other alcoholic beverages as another gateway drug, linking alcohol to unrelated drug addictions and the related costs plaguing society.

The growing clamor culminated with the Anti-Drug Abuse Act of 1988, which included government health warnings about alcohol and the addition of a government warning on alcohol beverage labels

Figure 24: **Percentage change in per capita ethanol consumption in US**



Estimated data for 2017

Source: National Institute on Alcohol Abuse and Alcoholism, Surveillance Report #110

The growing clamor culminated with the Anti-Drug Abuse Act of 1988,[43] which included government health warnings about alcohol and the addition of a government warning on alcohol beverage labels.

On March 3, 1988, President Clinton, through the National Highway Traffic Safety Administration (NHTSA), introduced an administrative order requiring all states to adopt a 0.08 maximum per se standard for drunk driving.[44]

The neo-prohibition message was confronted on national television on November 17, 1991, when 20 million viewers in the US heard the CBS *60 Minutes* broadcast on the French Paradox,[45] immediately causing a spike in red wine consumption. That was followed in the mid-1990s with widespread acceptance of the Mediterranean diet[46] and later punctuated with the publicized work of Dr. Arthur L. Klatsky,[47] a Kaiser-Permanente cardiologist who demonstrated the health benefits of moderate alcohol consumption over both heavy and non-consumption.

With the positive medical reports, per capita wine consumption soared starting in 1994 when baby boomers hit their consuming stride. Spirits consumption showed some modest positive change shortly thereafter due to Dr. Klatsky's findings and the premiumization trend (see figure 24).

The cumulative weight of the three studies, proving moderate wine consumption had positive health benefits, redirected the conversation away from health as part of the rationale for anti-alcohol messaging. Once the blood alcohol level was lowered nationwide and the drunk driving component of the movement won a victory, the debate settled into the background for a decade as the wine industry basked in the glow of increasing sales.

Neo-prohibition, the sequel

The debate over the health impact of alcohol never fully went away, though. Since the French Paradox story was aired on *60 Minutes*, numerous health organizations have expended considerable time and money to produce alternative research that calls into question the original research findings.[48]

With the studies coming to different conclusions and causing confusion, and with a refresh of Government Dietary Guidelines at issue, in December 2003 the National Institute on Alcohol Abuse and Alcoholism (NIAAA) funded a study to "review the empirical work done and assess the strength of the evidence related to health risks and potential benefits of moderate alcohol consumption."[49]

> *"Moderate levels of alcohol consumption do not increase risk for heart failure/myocardial infarction or stroke, and in fact provide protective effects"*

The conclusion of the report was "moderate levels of alcohol consumption do not increase risk for heart failure/myocardial infarction or stroke, and in fact provide protective effects." Nonetheless, additional government- and nongovernment-funded anti-alcohol studies have continued, gaining significant traction. Europe is ahead of the US in directing consumer sentiment away from alcohol consumption.

This year in Europe, the UK's Chief Medical Officer, Sally Davies, told a British television interviewer, "There is no safe level of drinking." Even more surprising was the statement by the French health minister, Agnès Buzyn, who said wine is bad for you.[50] The cumulative weight of the international messaging and anti-alcohol studies has been effective[51] and has once again emboldened US regulators to promote additional restrictions on alcohol consumption.

In January 2018, the National Academies of Sciences, Engineering and Medicine[52] produced a study that supported their call to lower the alcohol-impaired driving limit from 0.08 to 0.05 nationally.[53] Despite overwhelming evidence that counters the study's findings,[54] in March of 2018, Utah acted on the recommendation, and on January 1, 2019, Utah became the first state in the US to enforce a 0.05 per se DUI law. Texas and Oregon are now debating lowering their DUI limit to 0.05.[55]

Quietly, in January of 2018, the US Department of Health and Human Services (HHS) deleted the Government Dietary Guidelines that said moderate drinking could lower the risk of heart disease,[56] ignoring their own prior findings by the NIAAA.

We have returned to the neo-prohibition era in this debate. Alcohol consumption is being equated to opioid addiction again.[57] The government is rolling back dietary guidelines and issuing new directives from the US Preventive Services Task Force that recommend all primary care physicians routinely ask about, and counsel patients on, unhealthy levels of alcohol consumption.[58]

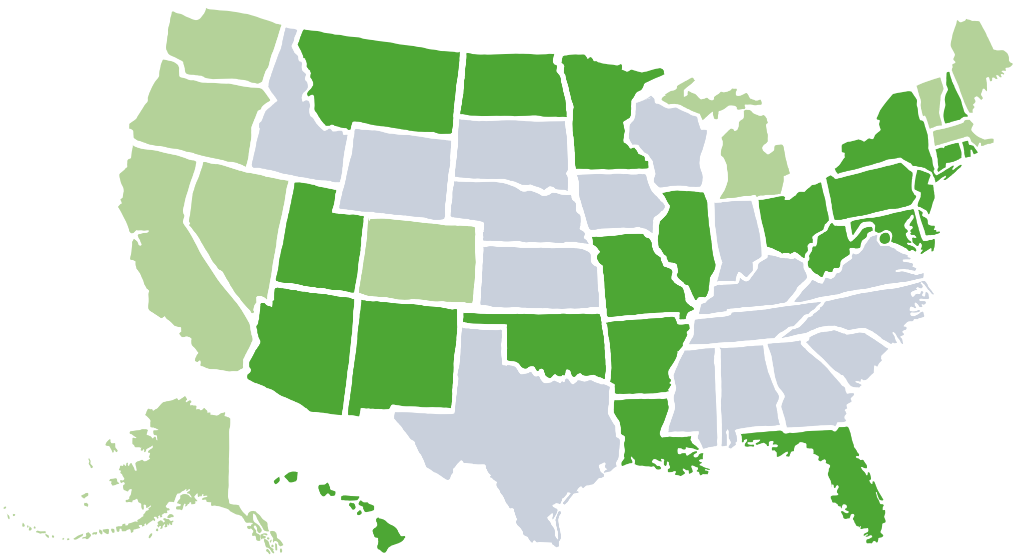
The youngest consumers are health focused, explaining the explosive growth in health beverages in the US.[59] Compared to the boomer generation who ate "if it wasn't bad for you," the current generation wants to consume things that "are good for you."[60] Influenced by the current messaging, young consumers are consuming less alcohol than prior generations.[61]

Clearly, we need coordinated industry leadership to bring balance to the conversation.

> *In January of 2018, the US Department of Health and Human Services (HHS) deleted the Government Dietary Guidelines that said moderate drinking could lower the risk of heart disease, ignoring their own prior findings by the NIAAA*

Figure 25: **Marijuana legalization status**

Medical marijuana broadly legalized
Marijuana legalized for recreational use
No broad laws legalizing marijuana



Source: Governing.com

Cannabis

Following the passage of Amendment 64 in Colorado and Initiative 502 in Washington in 2012, both of which legalized the recreational use of marijuana for the first time in the US, the question started to be asked about substitution. Is cannabis a strong substitute[62] for Guinness, Grey Goose and Gigondas?

I'm not so sure that's the right question, but it's certainly the fear in the wine business. Anecdotal evidence[63] has led many people to conclude that alcohol beverage sales were down in Colorado and the Pacific Northwest immediately after the legalization of recreational marijuana. One analyst who reviews tax data concluded that at least for Colorado there was no material change in alcohol consumption post-legalization.

For those who fear it's a substitute, what if cannabis was actually a complement[64] and encouraged wine sales in the same way that higher popcorn sales stimulates added butter sales?[65]

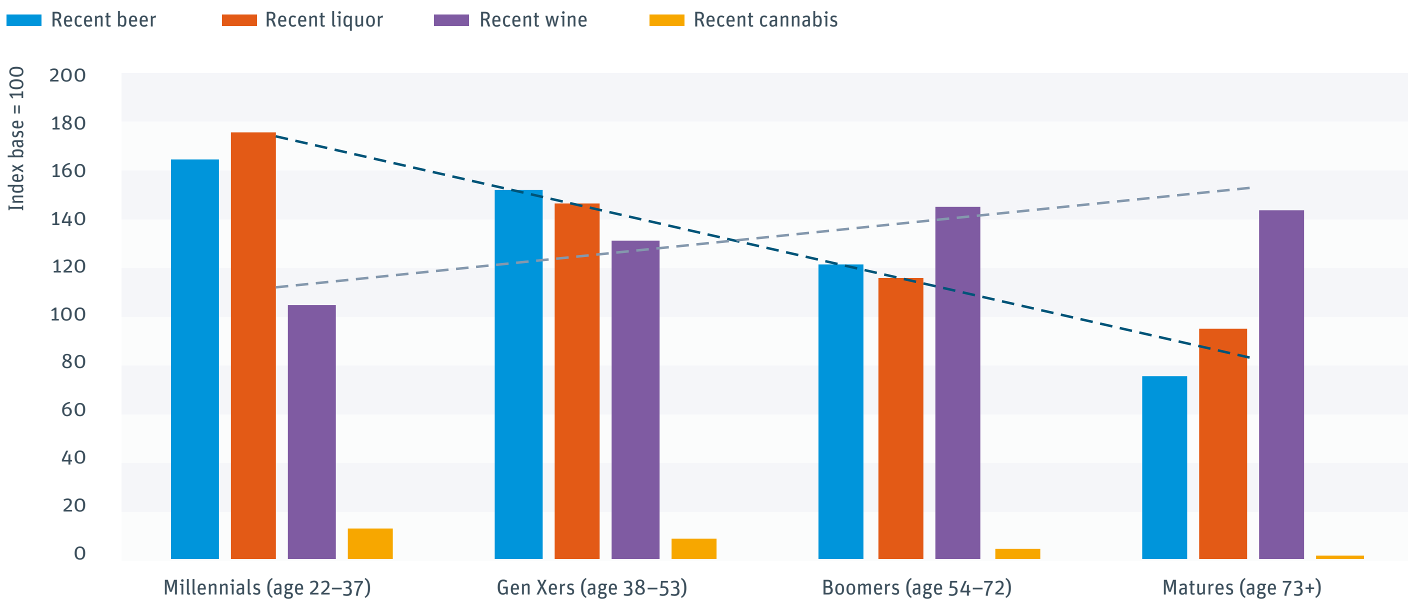
I don't think anyone doubts cannabis is a growth industry — particularly if we take into account all the illegal sales of marijuana that were already taking place. We can just pretend we're starting from zero, except the Cannabis Consumers Coalition conducted a well-run study and determined that among other things, 64 percent of current marijuana buyers had been users for 10 years or more.[66] That makes it harder to argue that legalization today is having a major impact on current wine sales.

Research hasn't provided a clear answer regarding the central question of substitution. Earlier in 2018, *Forbes* printed an article[67] that covered collaborative research[68] between the University of Connecticut, Georgia State University and Universidad del Pacifico Lima that concluded alcohol sales dropped 15 percent in states when new medical marijuana laws were approved and that marijuana was a strong substitute for alcohol. (I covered that in more depth in my blog.[69])

On the other hand, research released in Sweden this year[70] covering observations from 1989 to 2016 among more than 140,000 adolescents concluded that marijuana was neither a substitute for nor a complement to alcohol.

Figure 26: **Current consumption of alcohol and cannabis by cohort**

Adjusted for current consumer base of each



Sources: Scarborough Research, SVB Analysis

> *So if there is a substitution effect of cannabis for wine, it will show up in younger consumers' purchasing patterns*

There are some practical facts to consider in arriving at a conclusion. While there is a range of data, most reports suggest regular cannabis users represent in the low teens of the adult population. Placing a pin on it, let's say about 13 percent of adults are regular consumers of cannabis.[71] Somewhat regular alcohol consumers represent around 60 percent of the adult population.[72] Given the disparity in consumer populations, it would be difficult for the 13 percent to strongly influence the other 60 percent, even if all 13 percent reduced the number of occasions in which they drink by a substantial amount. But what if the cannabis users skewed young? Could that impact younger consumers' preference for wine?

That is in fact the case from most of the research I've reviewed. The typical description of a regular cannabis user today is a 26-year-old male. So if there is a substitution effect of cannabis for wine, it will show up in younger consumers' purchasing patterns.

Figure 26 represents information I pulled together from several different research reports and sources. It shows the difference in preference between beer, liquor, wine and cannabis in the adult population in the US. Adjusting for the difference in the consumer base, you can see how a young consumer skews more to beer and liquor and less toward wine, but as consumers age, they develop a preference for wine.

Millennials show the strongest preference for spirits, beer and cannabis and the lowest preference for wine among all cohorts

Millennials show the strongest preference for spirits, beer and cannabis and the lowest preference for wine among all cohorts. However, as consumers age, their preference for liquor, beer and cannabis tends to drop, while their preference for wine increases.

As more states legalize recreational marijuana, the legal and economic relationship between alcohol and marijuana will become better understood — and with marketing and socialization, cannabis may become a larger issue for the wine industry.

With this kind of investment and promotion, what we see today in consumption patterns could easily change

Just this year, one of the world's largest alcohol producers, Constellation Brands, invested $4 billion in Canadian cannabis producer Canopy Growth.[73] Later in 2018, Francis Ford Coppola partnered with a Humbolt County, California, marijuana farmer to produce a product line under his brand.[74] And beyond that, companies from Coca-Cola to Coors are looking at the market as an opportunity to start the next big revolution in beverage sales.[75] With this kind of investment and promotion, what we see today in consumption patterns could easily change.

My conclusion thus far is marijuana and fine wine have largely different social uses and aren't substitutes or complements, which mirrors the Swedish finding. That's not to say a premium wine consumer would never inhale. It's saying if they do consume marijuana, it would be at a different time and for a different purpose. Inexpensive wine or beer might have a similar social purpose as marijuana on the lower end of the price scale, so I could envision some substitution effect in lower price points for beer and spirits, since the user today is indexing younger where the preference is for spirits and beer instead of wine.

The promotion of cannabis could change the dynamic if more companies and celebrities like Francis Ford Coppola start to promote the product. For today, we can say cannabis isn't helping wine consumption, and for the young consumer, legalization is probably hindering the adoption of wine as a preference.

Cannabis isn't helping wine consumption, and for the young consumer, legalization is probably hindering the adoption of wine as a preference

7 Forecasting wine demand

Taking a measured look at all of the research on consumer demand and information we have on sales channels gives us the opportunity to see what's impacting wine sales today and come to a conclusion about sales tomorrow.

- The mature generation is having a smaller impact on consumption due to age and fewer consumers.
- For the boomers, there are several impacts. While there are 10,000 retiring each day, the good news is that the cohort is showing they are going to work past retirement age, live longer and consume wine longer than expected. On the other hand, mortality and health are slowing the volume they consume today, and the acceptance that they will soon be living on fixed incomes is reducing their spending on wine for years to come and causing them to be more value conscious.
- Gen X is the current growth cohort for the wine business. They consume wine in quantity and are near the peak of their spending years. A smaller generation to start, their ability to continue to support sales growth in the wine business will be limited, but next time you see one of the forgotten Gen X drinking wine, thank them for what they do!
- The millennial is both the greatest opportunity for the wine business and the cohort most at risk of disappointing on expectations tomorrow. Today, they are more spirits and beer consumers. Their focus on health against the backdrop of reports focusing on the negative health effects of alcohol consumption makes them likely to be lower-volume consumers of wine in the future compared to prior generations. The Indulgence Gap is retarding their spending on premium wine, and cannabis is likely playing a small role in delaying their spending as well.

The millennial is both the greatest opportunity for the wine business and the cohort most at risk of disappointing on expectations tomorrow

Because of the aforementioned, price pressure for wine is not up. In fact, it's fair to say at this point that premiumization has almost run its course, with slowed volume and no clear tailwind pushing consumption substantially higher.

The strong US economy has been a contributing factor to better sales overall and particularly important for the performance of premium wineries in 2018. For the luxury end of the market, the wealthy will be there to buy even if the economy becomes softer in 2019.

Looking out for the next five years, in an interesting collision of consumer preferences, as millennials age and become more substantial in the workforce, I believe they will gradually spend more on wine, as prior generations did, but perhaps at reduced volumes and average price points. At the same time, retiring boomers will move down the price ladder and into more modest bottle prices as they also pull back in their volume purchased. The result is that both generations will consider price more important than the average consumer does today. In the next 10 years, there will be a price range for premium wine sales where the two major consuming cohorts meet; that sweet spot will grow and become important to all wine companies.[76]

In the next 10 years, there will be a price range for premium wine sales where the two major consuming cohorts meet; that sweet spot will grow and become important to all wine companies

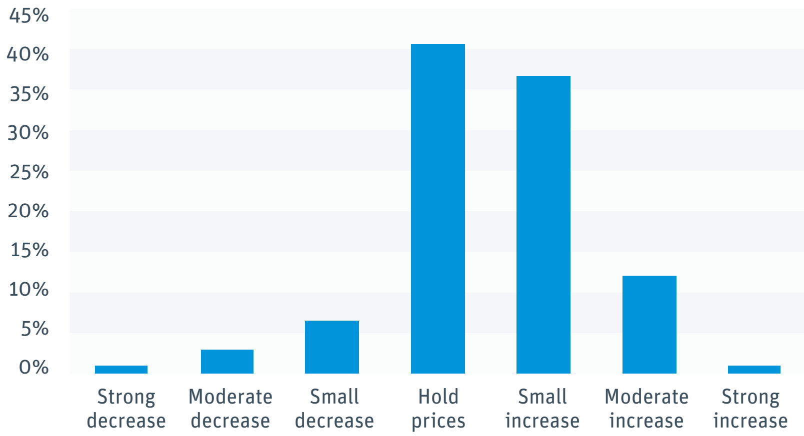
Our forecast is that Gen X will surpass the boomers as the dominant purchase cohort in 2022, and the millennial cohort will surpass the Gen Xers by around 2027 to become the largest fine wine–consuming generation.

For the off-premise retail store channel, sales will grow between 0.5 percent and 2.5 percent, while volume will decline between negative 0.5 percent and positive 1.5 percent. The fine wine segment will show growth consistent with 2018, between 4 percent and 8 percent.

8 Bottle pricing trends

The consumer's willingness to pay more for better quality wine is called trading up in some industries, but it's called "premiumization" in the wine business. Besides a butchering of the English language, it's really not an apt term because "average" often measures the wrong thing.

Figure 27: **Wine producers hope to take price increases in 2019**



Source: 2018 SVB Annual Winery Conditions Survey

Figure 28: **Average price increases by SKU and price bands**

52 weeks ending 11/2018

Current price point	Average annual change	Average percentage change
\$0–\$2.99	\$0.05	2.01%
\$3–\$3.99	\$0.05	1.47%
\$4–\$4.99	–\$0.07	–1.03%
\$5–\$5.99	–\$0.08	–0.83%
\$6–\$6.99	–\$0.01	–0.12%
\$7–\$7.99	\$0.01	0.26%
\$8–\$8.99	–\$0.01	0.00%
\$9–\$9.99	–\$0.05	–0.41%
\$10–\$10.99	–\$0.06	–0.44%
\$11–\$11.99	–\$0.03	–0.14%
\$12–\$12.99	–\$0.02	–0.11%
\$13–\$13.99	–\$0.01	0.00%
\$14–\$14.99	\$0.01	0.14%
\$15–\$15.99	–\$0.05	–0.30%
\$16–\$16.99	–\$0.05	–0.22%
\$17–\$17.99	–\$0.17	–0.89%
\$18–\$18.99	\$0.07	0.45%
\$19–\$19.99	\$0.02	0.19%
Average	**–\$0.02**	**0.00%**

Source: Nielsen Beverage Group, November 2018

In the case of wine, we are really seeing a decades-old trend of decline in market representation from the mature jug-wine consumer, juxtaposed with the emergence of the premium wine–loving baby boomer and Gen X consumers.

In our 2018 Annual Winery Conditions Survey, we asked family winery owners about their bottle pricing expectations for 2019 (see figure 27). Those owners have been dealing with rapid cost escalation in fruit price and labor rates and a more difficult selling environment requiring additional sales and marketing expenditures, both in DTC and with wholesalers. Not surprisingly, half of the respondents expect to take some type of increase.

But what you want and what the market will bear are separate issues. When the year is up, we might find 20 percent who were able to execute on minimal price increases[77] in the above \$20 segment but likely flat to lower bottle price in below \$20 price segments.

What happened to premiumization? Shouldn't price hikes be automatic? While consumers are still spending *slightly* more on average, premiumization as we have known it is in its final phases in this cycle. It was actually very difficult to increase prices in 2018, as detailed in figure 28, which is a review of narrow pricing bands and established brands within those bands sold in retail stores.

As indicated, the average bottle was barely able to hold its price last year across all price points, with the exception of the highest price bands where less than 0.5 percent increases were possible.

In the introduction, we asked why, with the economy hitting on almost all cylinders and a large cohort at the consumption doorstep, is sales growth sagging? I think we've answered the question now. The boomers are rotating off their market-leading place as wine buyers, and millennials, as a consequence of damaged financial standing, cumulative negative health messaging and cannabis legalization, are not adopting wine as hoped.

So what do we do about it?

9 Sales and marketing for family wineries

Across all generations, consumers' preferences and their price sensitivity to wine are evolving, and that should be changing the way wine is both marketed and sold.

Wineries that have great wholesale partners are doing well, particularly in the price segments above $9. For smaller family wine producers, the current product-to-market strategy remains a sharp focus in the tasting room and club models, with an ongoing struggle to cobble together wholesale representation.

The current DTC model is a reaction to losing out on three-tier representation as the wholesale tier consolidated starting in the late 1990s. The enhanced tactics and strategies that have evolved in the tasting room and wine club over the past decade have allowed the family wine business to survive and thrive, but that strategy has always been limiting.

The basic philosophy under which the tasting room and club models are executed is a reflection of a point of view we shared more than a decade ago: We aren't selling chemicals in a bottle. We are selling value, and for a luxury good like wine, that is defined as perceived quality plus experience, divided by price, where "experience" is a placeholder for things like the shopping experience, the consuming experience, an experience enhanced by a venue or sound, the way your box of wine looks when you receive it from UPS, your online experience, every interaction at the winery, the way owning or consuming the product makes you feel about yourself and much more.

$$\textbf{Value} = \frac{\textbf{Perceived Quality} + \textbf{Experience}}{\textbf{Price}}$$

The problem is that the whole evolution of the concept of "experience" within the equation was immediately stunted when the wine industry defined it as being synonymous with the tasting room experience and nothing else.

All the focus on value and brand creation has since fallen on the tasting room and wine club to the exclusion of other strategic options.

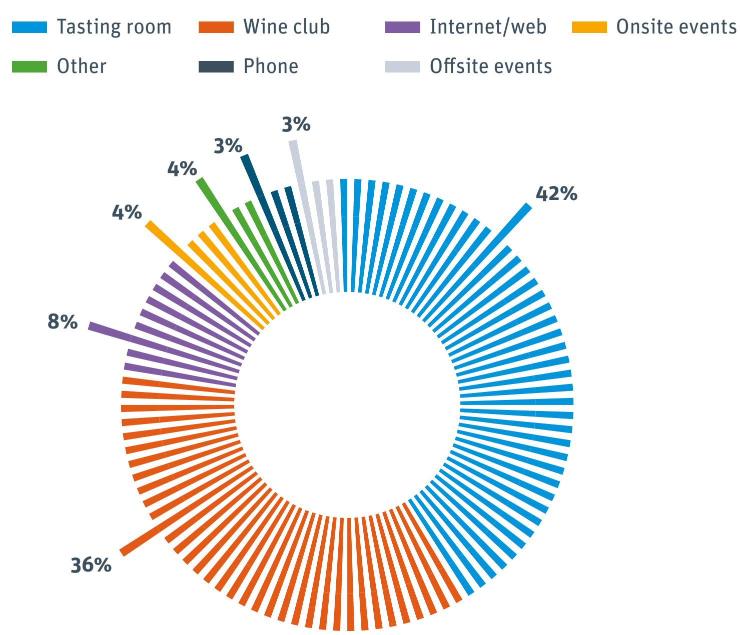
In an increasingly digital world, what industry would insist that its consumers first come to its place of business to buy its wares?

While great strides continue to be made to elevate the club and tasting room channel with metrics and training — and that should continue — consider this critical question:

In an increasingly digital world, what industry would insist that its consumers first come to its place of business to buy its wares?

That is what wineries insist upon today with the tasting room and club models. But now growth even in that important channel is also showing fatigue.

Figure 29: **Direct sales mix for the average winery**



Source: DTC Sales Mix for the Average Winery

Cracks in the tasting room model

The average winery today receives 42 percent of its DTC revenue from tasting room sales and 36 percent of its sales from the wine club (see figure 29). This means of a winery's direct sales today, 78 percent has to come from a consumer who first walks into the tasting room.

Consider the plight of the wine-loving consumer in Minneapolis. For that person to be part of your winery's revenue stream, they will have to first know you exist somehow, then get to your facility by some means of transportation, pay for wine at the tasting bar and hopefully join your wine club while there.

Enlightened wineries that understand the interwoven local hospitality network that's presented to small wineries make sure they get their share of visitors who wander into wine country without a plan. They work with concierges, livery companies and tourism bureaus.

But what about those consumers who are coming to wine country with a plan and already know the wineries they want to visit? How will you get on their agendas and get them into your tasting room before they leave home?

While average checks are still increasing from tasting room sales, in Napa and Sonoma counties and the state of Washington, visitation has been dropping noticeably for some time (see figure 10). Oregon, Virginia and New York, with lower-priced SKUs and tasting fees, are demonstrating better success. Even more perplexing is the realization that those same places showing decelerating tasting room traffic are also experiencing record levels of tourism in their area. How can that be explained?

Today's wine tourist

Today, the consumer is redefining what a visit to wine country is all about. Twenty years ago, the purpose of a wine country trip was to taste and purchase wine. A consumer might make four to five winery stops and at each visit purchase a case. That's not what's taking place today.

Today, the consumer is redefining what a visit to wine country is all about

The wine tourist is going to wine country and staying in hotels or Airbnb lodging, then making one or, at most, two stops at a winery as part of their visit. The wineries are treating their guests to seated presentations that last much longer compared to 20 years ago, so there's not as much time to visit as many wineries. Increasing tasting fees are also deterring casual consumers. It's understandable why the average tasting room sale is up. The tourist knows *exactly* where they want to visit before they leave home, and they are predisposed to buy when they walk in the tasting room.

Today, if your full focus is on a tasting room and club strategy and you put balloons in the driveway to capture a random consumer's attention as they drive by, or if you are working with hotels to have them send consumers to you, or paying limousine drivers to deliver a diminishing supply of tasting room visitors to your winery, or even spending all of your time and energy focusing on tasting room metrics, you are not paying attention to the obvious signs of change. While each of those tactics has an important place in the still-critical sales channel, your winery needs to find new growth and new consumers, and they aren't going to come from the present tasting room approach.

Your winery needs to find new growth and new consumers, and they aren't going to come from the present tasting room approach

We have to continue to evolve the tasting room and club models, but the growth opportunity for tomorrow isn't doing what you're already doing. The growth isn't in delivering better hospitality, seated tastings, planning club events or refining your hospitality training.

The growth opportunity for the small winery going forward is in:

- Getting exposure to consumers who live elsewhere and don't know you
- Finding ways to sell to them — digitally and in person, *where they live*
- Building your brand regionally by evolving the concept of "experience"

Direct to consumer — where we go next

When I try and describe where we have to go next as a family-run industry — taking the experience on the road, getting in front of consumers who are a perfect fit for your wine but live 1,000 miles away, using evolved digital strategies for selling and marketing and applying big data to the equation — I get a common question: “Who’s doing that now?” Everyone wants the blueprint for success.

We have to take the experience on the road, and we need ideas

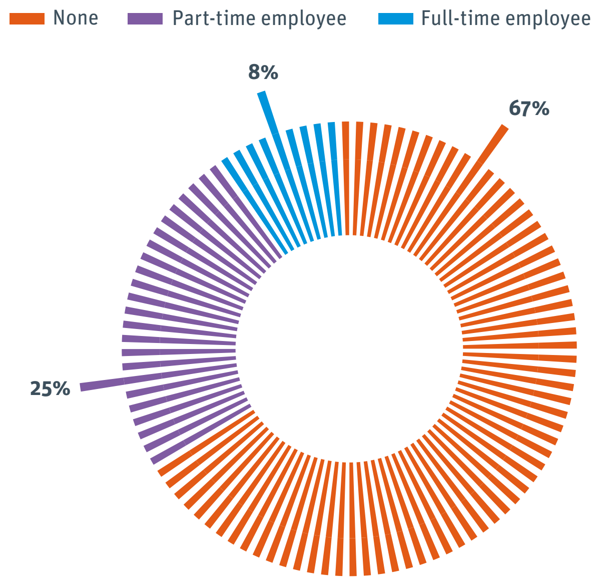
The reality is that nobody has the formula for selling wine to a consumer who has never tasted or heard of your brand. New customer acquisition away from the tasting room is still largely untested and an unknown, so the solutions will evolve with new and transformed service providers and consultants, and with wineries that experiment and fail quickly, using different techniques (print, digital, phone, etc.) to connect with remote consumers.

We have to take the experience on the road, and we need ideas. One idea might be to start by picking a region — not all 50 states — in which to build your brand. Narrow the focus. Personally invest your time in that remote market. Perhaps a charity wine auction to raise money for something important regionally. Consider entertainment and educational events that build your database of people who’ve tasted your wine and already have an opinion.

Take the winery to the customer:

- Consider how a live online video stream at the winery might bring interest and wine country beauty to a remote consumer, even allowing them to attend a winery event from their home.
- Engage the distant consumer with links to a Spotify favorites list of music played at the winery.
- Stream virtual winemaker tastings.
- Consider cross-marketing with other luxury companies in regions remote from the winery. Those companies might want to use wine to liven their own promotional events and platform.[78]

Figure 30: **Consumer data analytics person**



Source: 2018 SVB Annual Winery Conditions Survey

In the SVB Annual Winery Conditions Survey this year, we were curious to learn how many wineries had someone assigned to maintaining their customer database and analyzing consumer data. Today, 8 percent of wineries have a full-time position covering that role, and another 25 percent have someone doing it part time (see figure 30).

For the two-thirds of wineries that don’t have that role covered, this is a good year to start. In addition to providing current consumer insights about your customers, that person will be able to use the big data tools[79] that are being evolved for the wine business to help target new consumers who are outside the current model and keep the ones you have longer.

10 Grape harvest, M&A and supply

The wine business is cyclical. Some years, we have a light yield and are underplanted to a variety, causing spikes in grape prices. Other years, we are overplanted following a string of heavy years, lowering prices. Any action we take in the short term seems to have marginal predictable impact because cycles are so long-lived and Mother Nature in the end has veto power.

Figure 31: **Regional harvest quality in 2018**

Source: 2018 SVB Annual Winery Conditions Survey

2018 harvest

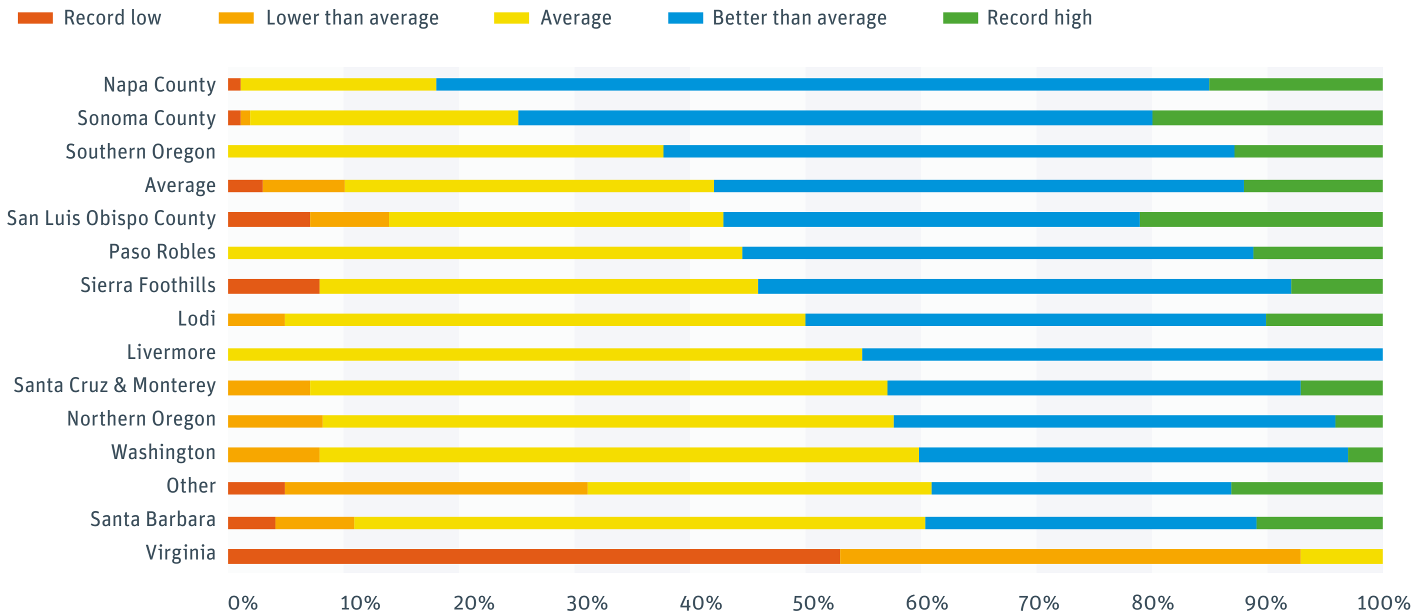
Although California and Washington seldom have the kind of harvest variation that France does, we do have our share of vintage variation — and 2018 was one of those dream years, with Napa taking the award for the combination of best quality and yield. But most counties and regions reported both above-average yields and great quality (see figure 31).

Virginia was the major exception due to summer hurricanes that ruined both the yield and quality of the year.[80] New York did not participate sufficiently in the survey this year to be broken out but is represented in the "Other" region. It, too, had significant rain to deal with but nothing as severe as Virginia.

The 2018 vintage in the Willamette Valley was another best of show in a string of them. Defining the normal climate in Oregon is anyone's guess today. In 2018, both spring and summer presented dry conditions without heat spikes and were followed by cool fall conditions that extended hang time. Other areas within Oregon reported one notch below the perfect conditions of the Willamette Valley.

Washington had another strong year. Growers described near-ideal conditions with the exception of some hot temperatures that gave way to a cooler fall and an ideal harvest.

Figure 32: **Regional harvest yield in 2018**



Source: 2018 SVB Annual Winery Conditions Survey

Bulk wine and grapes

The California bulk market was described as being "in balance" throughout 2018 before the harvest, but sluggish bulk sales belied a different situation, with buyers and sellers wondering who was bluffing. Sellers were holding on, expecting more than buyers were willing to pay through most of the year. We forecasted the 2017 California yield would come in at 3.8 million tons in this report last year, but the actual yield came in with a surprise at 4 million tons as a result of a heavier yield in the Central Valley.

While the heavy 2017 harvest had something to do with sluggish grape sales through 2018, sales and volume declines noted earlier in this report also had a role to play as wineries apparently weren't bluffing. They had all the wine they needed.

Based on early estimates for the 2018 harvest, expectations are for a larger and perhaps record yield this year in California and Oregon. In the annual "anyone's best guess" contest, we are expecting a record California harvest of 4.45 million tons, reflecting the nearly 60 percent of wineries that are reporting better-than-average yields in figure 32.

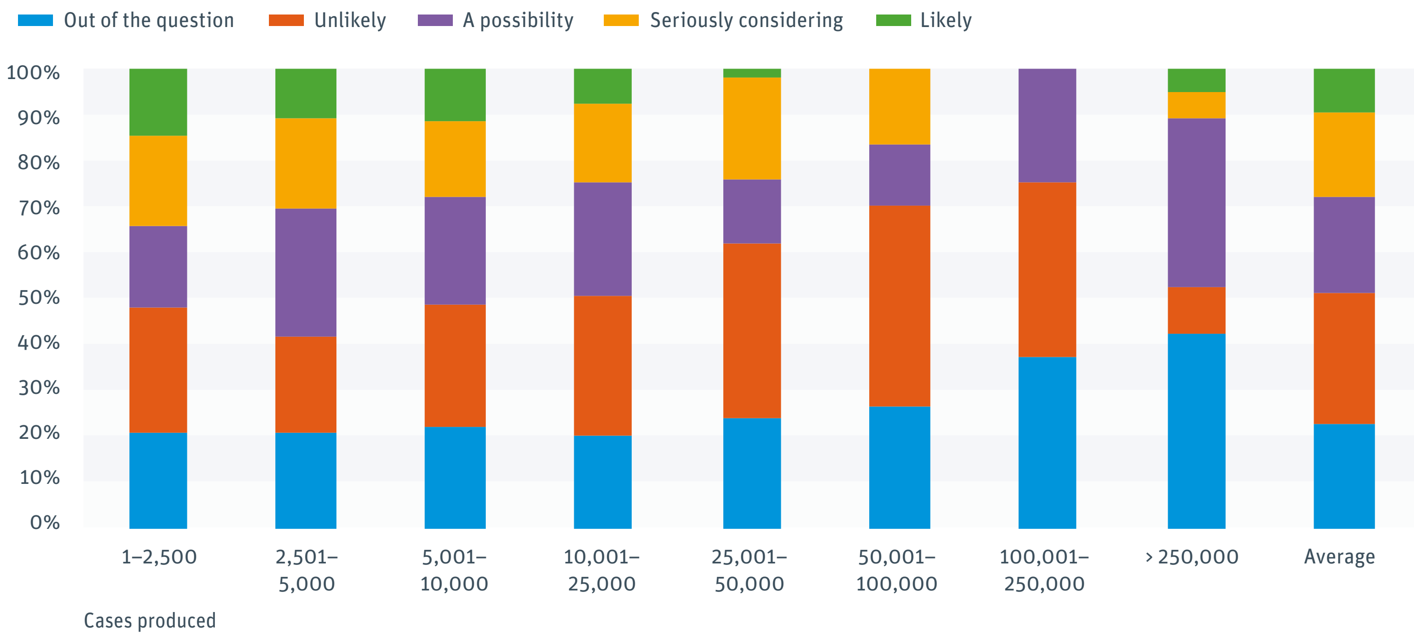
Subsequent to the 2018 harvest, the bulk market has rolled over and capitulated, and now oversupply has become a common topic. Moving by the liar's-dice phase of the cycle, we are now showing our cards and getting to that part where we see how far grape and juice prices will drop before buyers are interested again.

Finding some improved pricing on grapes will be useful for California wineries that have seen five-plus years of price increases, which have been difficult or impossible to pass on to consumers.

For growers hoping to see a quick recovery from expected price declines, the message is mixed. While this isn't the year 2000 when we were severely overplanted, we won't be able to grow our way out of this oversupply as we did back then. The oversupply could be shallow or extended, depending on what happens to the 2019 harvest, and/or any other demand shock such as economic softness. Another record yield would not be welcome under any scenario.

In the Pacific Northwest, Oregon will have a record yield due to non-bearing acreage beginning to produce, combined with excellent 2018 growing conditions. Washington should be near a record yield but perhaps just below when the 2018 harvest is counted up.

Figure 33: **Likelihood of selling winery in five years**



Source: 2018 SVB Annual Winery Conditions Survey

Land and M&A

Despite the heavy unrelenting upward trends in North Coast vineyard values since 1994, we believe we are at a place in the cycle where both grape prices and land values should pause their climb in both California and Washington. We aren't predicting the decline of vineyard prices — just a pause for all but the most sought-after pieces. Oregon will likely see increasing vineyard values for another year.

With the major players largely content and digesting their current acquisitions, the M&A market will now slow down and evolve to a place where the sellers will discover they have waited just a little too long to begin the marketing process, and sales prices will fall somewhat from the prices being paid more recently, just because there are fewer buyers.

Figure 33 is from the 2018 SVB Annual Winery Conditions Survey, and you can see the wineries considering sale today fall in the more difficult-to-sell, smaller case–production categories.

Vineyard transactions are likely to continue for the present. We are noting that some financial investors are taking some chips off the table already, but expectations and patience for financial investors aren't typically the same as a family winery that can enhance the financial return with vertical integration and a longer time horizon for a hold.

The M&A market will now slow down and evolve to a place where the sellers will discover they have waited just a little too long to begin the marketing process

Of course, there will always be the buyers who have cash and will bottom feed, larger production facilities with strong brands that will attract buyers, and the iconic historic properties that come up once in a lifetime and attract very high prices.

With smaller growth options, we may see an increasing appetite for the acquisition of new esoteric brands that might already have wholesale presence and could help increase sales in a company with otherwise flattening growth.

Overall, there will be a diminishing appetite for acquisitions through 2019 compared to the pace of closings represented in figure 34.

Figure 34: **Selected closed M&A transactions in 2018**

Closing date	Target	Acquirer	Assets acquired	Location
January	Layer Cake and Cherry Pie	Vintage Wine Estates	Brands	Napa, California
January	Benton-Lane Winery	Huneeus Vintners	Brand and facility	Monroe, Oregon
January	Tamarack Cellars	Vintage Wine Estates	Brand and tasting room	Walla Walla, Washington
January	Maison Bleue	Willamette Valley Vineyards	Brand and tasting room	Walla Walla, Washington
January	Bellacosa	Deutsch Family Wine & Spirits	50% interest in brand	North Coast, California
January	Lolea Sangria	Zamora Company	Brand	United States
February	Cross Canyon Vineyard	Hancock Natural Resource Group	Vineyard	Paso Robles, California
March	Freixenet S.A.	Henkell & Co.-Gruppe	50.7% of outstanding shares	Sant Sadurni d'Anoia, Spain
April	Acrobat	Foley Family Wines	Brand	Eugene, Oregon
April	Vintage Wine Estates	AGR Partners	Minority investment	Santa Rosa, California
April	Heitz Cellar	Gaylon Lawrence	Brand, facility and vineyards	St. Helena, California
May	Rancho Real Vineyard	E. & J. Gallo Winery	Vineyard	Santa Maria, California
May	Sierra Madre Vineyard	E. & J. Gallo Winery	Vineyard and Sierra Madre trademark	Santa Maria, California
June	Accolade Wines	Carlyle Group	100% of company	Sydney, Australia
June	Various locations	E. & J. Gallo Winery	Brand	Multiple regions worldwide
June	Codorníu Raventós Group	Carlyle Group	Majority stake	Haro, Spain
July	Outpost Wines	AXA Millésimes	Brand, facility and vineyards	Napa, California
August	Kosta Browne Winery	Duckhorn Wine Company/TSG	Brand, facility and vineyards	Sebastopol, California
August	Beso Del Sol Sangria	The Wine Group	Brand	Sourced in Castilla-La Mancha, Spain
August	Weidert Farm	Farmland LP	Large farm (vineyard potential)	Walla Walla Valley, Washington
August	Truett-Hurst Inc.	Precept Wines LLC	Wholesale (control label) business	Healdsburg, California
August	Stony Hill Vineyard	Long Meadow Ranch	Majority stake in brand, facility and vineyards	Calistoga, California
September	Duck Pond Cellars	Great Oregon Wine Company	Brand, facility and vineyards	Dundee, Oregon
September	Swanson Oakville Vineyards	Huneeus Vintners	80-acre vineyard with winery site	Oakville, California
October	Parker Station	Guarachi Wine Partners	Brand	Central Coast, California
October	Vista Hills Vineyard	The Family Coppola	Facility and vineyards	Dundee, Oregon
October	7 Deadly Zins	The Wine Group	Brand	Lodi, California
October	Saracina Vineyards	Taub Family (Palm Bay International)	Brand, facility and vineyards	Hopland, California
November	Qupé	Vintage Wine Estates	Brand	Central Coast, California
November	Shenandoah Vineyards	Michael Shaps Wineworks	Brand, facility and vineyards	Shenandoah Valley, Virginia

Source: Zepponi Company

11 Endnotes

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11. Note: If you are a small winery, and if the industry ever enters an extreme shortage phase again, when a wholesaler tracks you down and tells you they have changed and will never leave you, before handing over all of your sales, consider talking to a therapist.
12. In normal demand theory, an increase in price leads to a decrease in volume sold. In the case of wine bunching around \$9, the change from sales declines to sales growth is so stark, a producer selling a wine for \$8.75 will probably see volume increase if they increase the price to \$9.25. I believe that makes the below \$9 price segment economically inferior goods, and above \$9 normal goods, and at some point higher, the demand curve is straight up and down when it becomes a luxury good. For someone working on their Ph.D. in economics, there is a research paper in there. Let me know when you figure it out.
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16. Gabriel Stone, "Chile Adapts Strategy to Global Change," *The Drinks Business*, September 10, 2015.
17. Sam Meredith, "Argentina's Central Bank Hikes Rates to 60% as the Currency Collapses," *CNBC*, August 30, 2018.
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20. Almost 4,000 neighborhood bars have closed since June 2013 according to Nielsen CGA.
21. "Why Did Membership in Fraternal Organizations Die Out Over Time?," *The Sociological Mail*, September 26, 2018.
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30. Quoctrung Bui and Claire Cain Miller, "The Age That Women Have Babies: How a Gap Divides America," *The New York Times*, August 4, 2018.
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For more information on this report and to learn more about how SVB can help you move bold ideas forward for your company, please contact Rob McMillan at 707.967.1367 or email him at rmcmillan@svb.com.

Vision 2020 – Blueprint for VA Wine

Vision Statement for 2020

By year 2020, the Virginia Wine Industry will have a definitive brand identity and be established as the Eastern capital of the American wine industry, measurable by premium wine sales.

Objectives and Strategies

Objective #1:

Increase the amount of vineyard acreage to meet market demand by 2020 with a goal of 100% Virginia grapes being used in all Virginia Farm Winery license production

Short Term Strategies:

1. Develop a packet of information to support the planting of new vines by recruiting absentee landowners, new farmers to put land back into production and to urge existing farmers to diversify and include wine grapes in portfolio.
    a. Conduct economic study/report to show viability of planting new vineyards.
    b. Conduct a survey of winemakers to determine varietals and clones to be planted in specific regions
    c. Include information on available funding (public and private)
    d. Show cost and value of acre/wine grapes and need for more wine grapes to support increased wine production
    e. Gear packet of information for vineyards of 10+ acres.
2. Indentify and put together a team to make presentations and meet with interested parties.
    a. Experienced grower
    b. Experienced winery owner with successful contracts
    c. Viticulturist
    d. Wine Maker

    e. Accountant
    f. Banker
    g. Lawyer
3. Identify Audience (Potential Growers) and Reach Out
    a. Absentee landowners
    b. Deep pockets
    c. Existing farmers who want to diversify
    d. Write articles about need and advertise sessions in local newspapers, via extension offices, newsletters, local farm bureaus, local banks
    e. Work with VSU and VT Outreach Programs
    f. Attend Ag Expo and other trade conferences to speak with current farmers
4. Secure funding to support vineyard development in form of cost share program

Long Term Strategies

1. Establish Vineyard Management Team to bring new agricultural lands into wine grape production
2. Increase access to capital for wineries and vineyards
3. Maximize Winery and Vineyard Tax Credit to encourage planting of new seedlings
4. Increase funding for Wine Promotion Fund; maintain funding for Virginia Winery Distribution Company

Objective #2: Reduce the financial risk of grape growing by reducing cost of growing wine grapes and improving profitability of vineyards and wineries

Short term Strategies

1. Long term contracts between growers and winemakers
2. Low-interest loans or grants
3. Explore crop-insurance
4. Site selection / varietal education (Virginia Tech Virginia Viticultural Suitability Investigative Tool)
5. Co-operative purchase of grape-growing materials
6. Identify federal grants for underserved areas
7. Identify internship programs and relationships with colleges, other countries
8. Start discussion with VT, Community Colleges re: certificate programs, internships, classes

Long Term Strategies
1. Address economy of scale issues for Virginia wineries and identify ways to minimize financial impact
    a. Investigate the cooperative type structure
    b. Research reducing chemical usage
2. Study on profitability
    a. Identify costs of labor, materials
    b. Identify areas to diversity - agritourism
    c. Investigate ways to provide for more vineyard mechanization wherever possible

    d. Incentivize frost protection and assistance, irrigation
3. Develop plan to develop vineyard into winery
4. Education on best practices/mitigation of problems for growing in a humid climate
5. Share equipment/Utilize Coop
6. Increase access to capital for vineyards and wineries
7. Increase pool of trained labor and/or vineyard management/mechanization to support vineyard expansion
    a. Bi-lingual training classes
    b. Explore certification
    c. Specific training for Spanish-speaking audience (Traveling Program)
    d. Increase use of H2-A program
    e. Explore practical mechanisms for small vineyards

Objective #3: Relationships with local and state government
Short Term Strategies
1. Improve sharing of information with industry and with VWC regarding local issues
    a. Send surveys and request information from wineries, vineyards
2. Develop a white paper on economic impact of industry
3. Develop model sense of board/local ordinance
4. Develop list of threats from local government action/be proactive in averting adverse action
5. Develop list of government agriculture development officers
6. Funding of VWC needs to be more broad based
7. Plug into council of states and distribute information
8. Outreach to economic development departments – local and state
9. Meetings with local representatives; meet the candidates; encourage attendance at meetings
10. Publish Annual Report

Long Term Strategies
1. Oppose a patchwork of local laws and restrictive regulations from land use to taxation
2. Support Virginia's Use Value Assessment Program
3. Engage with localities in the development of local economic development plans and in education and workforce development

Objective #4: Marketing

Short Term Strategies
    a. Drive sales of Virginia wines through wineries
        i. Continue to build travel demand through media
        ii. Align statewide promotions to support this objective
            1. March Wine & Dine Month –shift to April travel
            2. October Wine Month – Trade focus and travel
        iii. Partner with VTC to promote Virginia as a wine destination

    iv. Continue to create vehicles for consumers to find easy access to winery travel information
    v. Create promotional opportunities to generate interest in visiting VA wineries

b. Build Virginia Wine Brand through Strategic Events & Communications
    i. The Virginia Governor's Cup
        1. The winners set tone for what is working in Virginia
        2. Set the tone of quality wines
    ii. The Virginia Wine Summit
        1. Use this format to define important messaging for Virginia wines
        2. Invite important opinion shapers to Virginia to participate
        3. Continue to build the post-messaging from this event
        4. Continue Virginia wine tastings vs. benchmark wines
    iii. Target opinion shapers to experience Virginia wines
        1. Trade tours
        2. Wine Camps
    iv. Establish more AVA's in Virginia

c. Increase sales in VA with "Drink Local" Messaging
    i. Build brand loyalty with Virginians
        1. Develop a local advertising program with VA based publications
        2. Continue to Build Restaurant/retail incentives
        3. Create synergies with the local food movement
    ii. Target lifestyle publications vs. wine publications

d. Preserve Virginia wine shelf space
    i. Promote wine shops that promote Virginia wines
    ii. Fully engage wine marketers – market to trade
    iii. Continue to build trade tours
e. Support Governor's Office Efforts to Promote Virginia wines
    i. Marketing Materials
    ii. Trade Missions

Long Term Strategies

1. Expand Virginia wine sales both in Virginia and beyond

2. Improve the overall reputation of Virginia as a quality wine producing region

3. Protect and support on-site retail sales for Virginia wineries
    a. Support Virginia Wine Organizations that track and fight for these efforts.
    b. Build valid information that supports wineries rights to sell their product onsite
    c. Establish statistics on winery income vs. strain on local economies

4. Build interest for sales and distribution of Virginia wines out-of-state.
    a. Create interest for Virginia wines through select marketing opportunities within targeted markets

        Markets of interest include

        1. Washington DC
        2. North Carolina
        3. Maryland
        4. South Carolina
        5. New York
        6. Illinois

        Other states to include:, Florida, Georgia, Pennsylvania

5. Create a national "Virginia" brand that definitively positions Virginia as a preeminent wine region
    a. Expand Virginia brand beyond Virginia borders
    b. Continue to build strong loyalties with key influencers
    c. Build relationships with key media
    d. Further define what attributes make Virginia unique as a wine region
    e. Develop messaging that positively promotes those key attributes.

The New York Times

THE POUR

It’s Time to Rethink Wine Criticism

Dreary scores and tasting notes are of little long-term use to consumers. What they need most are inspiration and liberation.

By Eric Asimov

June 17, 2019

Robert M. Parker Jr., who dominated wine criticism in the United States for roughly 30 years after his enthusiastic embrace of the 1982 Bordeaux vintage, formally announced his retirement last month after quietly withdrawing from writing a few years ago.

The post-Parker era actually began a decade ago, as more critical voices and points of view began to be heard and heeded.

It’s time to re-examine the nature of American wine criticism today, a methodology that Mr. Parker helped both to popularize and to institutionalize. And it’s time to consider a better model that might be more useful to consumers, a system that would empower them to make their own choices rather than tether them endlessly to critics’ bottle-by-bottle reviews.

Mr. Parker started writing a bimonthly newsletter, which would eventually be called The Wine Advocate, in 1978. His influence grew in the mid-1980s, particularly with his unconditional, flamboyant praise for the 1982 Bordeaux vintage, which contained none of the hedging with which many wine writers protect their flanks.

At roughly the same time, two leading publications for consumers, Wine Spectator in the United States and Decanter in Britain, were founded. They were later joined by Stephen Tanzer’s International Wine Cellar, Wine Enthusiast, Wine & Spirits, Burghound.com and Vinous.com, among others.

Whether in print or online, and regardless of their individual differences, all continue to follow a similar formula: They review hundreds of bottles, each with a tasting note and a score.

Sometimes, the reviews are supplemented with a brief thematic overview of a particular vintage, or they are bounded within a price range. Some publications, like Decanter and Wine Spectator, publish profiles, regional overviews and lifestyle articles as well. But always, the dominant element is the many individual bottles that critics evaluate and rate.

At first glance, perhaps, this system makes perfect sense. What could be a better service for consumers than a thumbs up or thumbs down on the bottles they would be most likely to encounter?

I'd like to suggest, though, that maybe the best role for wine critics is not the tedious recitation of bottle reviews, and that maybe consumers are less helped by them than we might think.

One of the core goals of any good wine writer should be to give consumers the tools to educate themselves. Almost everyone agrees that wine is intimidating and makes people anxious. By making it seem less arcane, the thinking goes, consumers will be more likely to embrace wine as a pleasure, rather than shun it as a burden.

> "I believe that the most valuable thing wine writers can do is to help consumers develop confidence enough to think for themselves."

But do the bottle reviews help to achieve this goal? I would say they do not. In fact, they do the opposite. By subjecting seemingly every bottle to evaluation, year in and year out, these reviews convey the sense that the quality of a wine is random.

With nothing else to go on but these reviews, consumers are not liberated by knowledge; instead they are bound to reviewers, dependent on the direction of the critical thumb. The best consumers can do is to learn whether their own tastes correlate with one reviewer's more than another's.

I believe that the most valuable thing wine writers can do is to help consumers develop confidence enough to think for themselves. This can best be achieved by helping consumers gain enough knowledge to make their own buying decisions without the crutch of the bottle review.

For one thing, bottle reviews are not that trustworthy. More than any other beverage, wine is subject to the context in which it is drunk. Perceptions of a particular wine change depending on your mood, what you are eating, the weather, how long a bottle has been opened, how long it's been in a glass, the temperature of the wine, whether you are listening to music and countless other considerations.

For that reason, reviewers often try to eliminate context by paring away these outside elements. All that is left, and all that is judged, the thinking goes, is what's in the glass.

Is that a good thing? I'm not convinced. Usually, wines are scored in mass tastings where very little time can be devoted to each bottle. The critics taste, spit so as to diminish the effects of alcohol, evaluate, maybe taste and spit once more, and move on to the next glass.

These sorts of tastings are generally blind, meaning that while reviewers may know what sorts of wines they are tasting — Argentine malbecs, say, or Sonoma cabernet sauvignons — they do not know the producers of the wines.

At The New York Times, we continue to do blind tastings for our monthly wine panel columns. Short of spending a week or so in a particular wine region, tasting a number of bottles is a good way to get a sense of what's available to consumers. We try to put these tastings in a more general context so that they are not merely critiques of bottles but recommendations of a type or style of wine.

We also limit the tastings to 20 bottles to avoid palate fatigue. Many wine critics will taste far more in a sitting, more than 100 or so in a day. It's a bit like a baseball team playing a quadruple-header. They might get through it, but the end will not be nearly the same quality as the beginning.

Proponents of blind tastings assert that they free reviewers from any sorts of preconceptions they might have about particular producers. I have my doubts: Reviewers ought to be professional enough to overcome their preconceptions, because it deprives them of useful information that could contribute to their understanding of what's in the glass.

Yet in some circumstances, blind tasting can be a useful educational exercise. I don't think it's always necessary, but our wine panels will continue to do it.

In any case, my bigger issue is with the quick tasting and spitting, which is the only way to get through vast numbers of bottles. Some wines can be evaluated this way, especially commodity wines that have been produced and stabilized to maximize consistency and eliminate uncertainty.

But unlike soft drinks, good wines are not stable. They change continually, and trying to define them at one particular moment is like photographing the sky and assuming it will always look like that picture. It's one reason I advocate drinking rather than tasting, getting to know a wine over time, with a meal, rather than relying on the quick transitory sample.

Perhaps a better way of making useful recommendations to consumers is to evaluate producers rather than particular bottles. Producers can be assessed for their styles of wine, their methods of production and farming, how they think about wine and so on. Many writers do this already, generally in books (rather than in periodicals) as this sort of evaluation does not have to be repeated with each new vintage.

They can likewise assess importers, the styles of wines they prefer, their ability to find skilled producers for their portfolios, their determination to ensure that wines are properly shipped and stored.

This sort of information is more useful, easier to store and recall, and longer-lasting than the fish-wrap of bottle reviews.

Back when Mr. Parker began writing about wine, his view was that many famous wine producers were coasting on reputations, and that most wine writers of that era were giving them a pass because they enjoyed cozy relationships. Sometimes, the reviewers themselves were members of the wine trade.

The wine world was smaller and clubbier then, with far fewer wines available in the United States. Wine is a much more competitive business today, with more good wines from more places in more diverse styles. The quality standards are higher than they have ever been.

The best way for consumers to negotiate this confusing but pleasure-packed landscape is with some good general knowledge and the courage to explore.

[Learn more about wine in our comprehensive guide.]

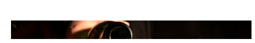
Wine writers have so much to offer beyond the bottle reviews: introducing unfamiliar regions, grapes and producers while revisiting old ones; offering critical appraisals of styles; and assessing what's new and what's ripe for rediscovery.

Many writers are doing this already. But this sort of wine writing is still subordinate to the dutiful bottle reviews, which in the minds of most readers contain only one salient bit of information: the score. Bottle reviews, ultimately, are a dreary service.

Perhaps Mr. Parker's greatest contribution to wine writing was his infectious enthusiasm. Whether people ultimately agreed or disagreed with his taste, they were inspired to want to find in wine what he so exuberantly found himself.

The biggest gift wine writers can give to their readers is inspiration, arousing in them the sort of excitement that motivates learning. From there, consumers can travel to their own muse, which is the best possible outcome.

More on wine from Eric Asimov



How to Drink Wine Nov. 28, 2018

How to Pick a Wine Store Feb. 29, 2016

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Eric Asimov is The Times's wine critic. @EricAsimov

A version of this article appears in print on June 19, 2019, Section D, Page 4 of the New York edition with the headline: Wine Criticism Reconsidered

READ 224 COMMENTS

The New York Times

Yes, African-Americans Drink Bourbon. You'd Never Know It From the Marketing.

Groups like the Black Bourbon Society have formed to share an appreciation of the whiskey, and distillers are finally starting to pay attention.

By Clay Risen

May 20, 2019

Who is the typical bourbon drinker? Judging by the marketing for most whiskeys, a safe guess would be a white man, of middle age, and Southern by birth or at least aspiration. It could be a blond woman in full Kentucky Derby pastels, holding a mint julep.

Many people would probably not picture someone like Samara Rivers, because African-Americans like her are almost completely absent from bourbon marketing.

That's why Ms. Rivers founded the Black Bourbon Society, a national organization for African-American whiskey fans that since its creation two years ago has grown to more than 4,700 members. In late April, Ms. Rivers led 35 of them on a weekend tour through Kentucky, beginning with private tastings at distilleries like Woodford Reserve and Buffalo Trace and ending with a Sunday brunch in Louisville, where they honored the history of black horse jockeys.

Ms. Rivers founded the Black Bourbon Society in 2017. It now has more than 4,700 members. Aaron Borton for The New York Times

“There’s this big hole in the market,” said Ms. Rivers, 38. “What do black consumers look like? We’re teaching brands how to engage with fans like us.”

While white people make up about three-quarters of all bourbon consumers in the United States, according to a survey by the media company Gravity, the details are more complicated. African-Americans are the most likely demographic group to prefer spirits like whiskey or Cognac over beer or wine, according to Nielsen research. But while they constitute 13 percent of the total population, they are just 9 percent of bourbon drinkers.

That represents a significant gap in the market, one that may grow more pronounced as the number of nonwhite consumers — what marketers call the multicultural demographic — continues to expand with America’s rapidly diversifying population.

Members of the Black Bourbon Society watch as a barrel is charred during a demonstration at the Woodford Reserve distillery. Aaron Borton for The New York Times

These realities hold for other types of spirits, like Scotch and vodka. But bourbon sales are on a decade-long tear, growing at 6 percent or more a year, according to the Distilled Spirits Council of the United States. That has American whiskey companies scrambling to create or expand their marketing efforts to people of color, and rethinking how they approach black consumers in particular.

“The growth is all coming from multicultural,” said Ryan Robertson, the head of multicultural marketing for Diageo, the British spirits company that produces bourbon brands like Bulleit and I.W. Harper. “For our brands to be sustained in the future, we have to absolutely start with a multicultural lens.”

During a brunch to celebrate the history of black horse jockeys, members of the Black Bourbon Society sample whiskeys from the Rabbit Hole distillery in Louisville, Ky.
Aaron Borton for The New York Times

For many black bourbon drinkers, the change isn't coming fast enough. They say that most brands, when they do reach out, still pigeonhole African-American consumers with outdated playbooks aimed at the "urban demographic"— industry-speak for lower-income, younger black consumers who supposedly gravitate toward sweeter spirits like Cognac and flavored whiskey.

"Don't promote to me with honey flavors or some hip-hop star," said Jamar Mack, 36, an African-American bourbon fan in Louisville. "My race is not my palate."

Like Ms. Rivers, a few years ago Mr. Mack found himself falling in love with premium bourbons like Woodford Reserve, but he was frustrated by the lack of attention paid to minorities at the events sponsored by his favorite brands.

Jamar Mack founded Kentucky's Original Black Bourbon Enthusiasts in 2017. Erin Trimble

In 2017 he founded Kentucky's Original Black Bourbon Enthusiasts, a Louisville-based club that has since added several thousand members, some as far away as West Virginia, who attend private tastings, distillery tours and charity events around central Kentucky.

“We did a survey of our members, and 98 percent of them are college graduates, and 70 percent make over $150,000 a year,” Mr. Mack said. His events regularly attract 100 members or more, he added, but until recently, he had trouble getting distillers to send ambassadors to lead tastings, a common practice in the industry.

Such differential treatment is something Kurt Maitland, the founder of the Manhattan Whisky Club and the author of “Drink: The Ultimate Cocktail Book,” knows all too well. Mr. Maitland, who is black, said he had no problem getting distillers to send a representative to his monthly events in Midtown Manhattan. But in the Bronx, where he lives near Yankee Stadium, premium bourbon is almost nowhere to be found, in bars, stores or advertising.

Bourbon cocktails from the Rabbit Hole distillery during the Black Jockey Brunch hosted by the Black Bourbon Society. Aaron Borton for The New York Times

“There are groups of people in my neighborhood who I know are interested in high-end whiskey,” said Mr. Maitland, 47. “But they aren’t exposed to it in their regular life.” He isn’t going to wait for the brands to catch up: Mr. Maitland plans to open a spinoff of his whiskey club in the Bronx later this year.

Bourbon makers aren’t the only ones in the alcohol industry trying to attract nonwhite consumers. Some craft brewers and winemakers have made concerted efforts to diversify their workforces and their marketing appeal beyond their middle-class white base.

But when it comes to race, the bourbon industry has a particularly fraught history. Up to the 1950s, brands were often marketed with explicitly racist imagery, depicting black men as minstrels, fools and servants. Some popular bourbons, like Rebel Yell — named for a Southern battle cry from the Civil War — even played on Confederate imagery to win over Southern whites.

Until the late 1950s, American whiskey brands often used racist imagery in their advertisements, like this one for Star Whiskey from the late 19th century.
via Library of Congress

Beginning in the 1960s, many bourbon producers began marketing to African-American consumers. This ad from 1966, for Old Taylor, shows a black couple touring the distillery.
Granger

But as the civil rights movement raised the industry's awareness of black middle-class consumers, whiskey makers began to reach out to African-American drinkers. They filled the pages of Ebony magazine with advertisements tailored to the magazine's readers: One, from 1966, showed a stylish black couple touring the Old Taylor distillery; another, produced by Jim Beam in 1977, featured Ella Fitzgerald.

With the precipitous decline in bourbon sales between the late 1970s and the early 2000s, though, marketing of American whiskey virtually disappeared. The few advertising dollars still available were spent on the industry's core white-male audience — a group that, critics say, remains the focus today, even as the consumer base has grown and diversified.

"These brands are not necessarily innovative in their marketing," Mr. Maitland said.

One of the few to take a different approach is Uncle Nearest, founded in 2016 by Fawn Weaver and named for Nearest Green, the former slave who became Jack Daniel's first master distiller.

In 2016, Fawn Weaver founded Uncle Nearest, a whiskey brand named for a former slave who became Jack Daniel's first master distiller.
Shelley Mays/The Tennessean, via Associated Press

Ms. Weaver, 42 and African-American, said that when she was starting her business, the most common advice she heard was to focus on white men ages 29 to 55 — advice she quickly rejected. But she is also wary of people who assume that just because she is black, and her whiskey celebrates a black distiller, she is making a product exclusively for black consumers.

Instead, she wants her brand, and whiskeys generally, to eschew race-based marketing in favor of a broader approach.

“As an African-American, I don’t want to be targeted, but I do want to be included,” she said. “For many brands, in their marketing you’ll see all white folks, and then a separate campaign that only appears in places like Atlanta or Washington, D.C.”

Some of the established companies are starting to get the picture. In 2018 Brown-Forman, which owns Jack Daniel’s and Woodford Reserve, restructured its multicultural team; in the past it was siloed away from the brand-specific marketing efforts, but now it acts as an in-house consulting operation, helping the groups working on Jack Daniel’s and other products to improve their outreach to consumers of color.

“Multicultural used to be thought of as a niche,” said Tracey Johnson, the company’s multicultural marketing manager. “Now we say, it’s everyone’s responsibility. Our goal is to have our message be relevant across cultures.”

Diageo has likewise expanded its multicultural initiatives. It has hired more people of color for its marketing teams — including Mr. Robertson, the company’s head of multicultural marketing. Its I.W. Harper brand, which bills itself as a drink for refined hipsters (Diageo calls them “fashionable gents”), is one of the few bourbons to include mostly African-Americans in its ads and social-media postings.

Lewis Douglas enjoying a bourbon tasting for the Black Bourbon Society at the Woodford Reserve distillery. Aaron Borton for The New York Times

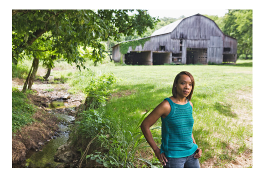
“They may skew African-American, but the brand is meant to be inclusive,” said Mr. Robertson of Diageo (though the women left out of the “fashionable gents” might disagree).

Ms. Rivers, of the Black Bourbon Society, said that for all the industry’s missteps, she sees a genuine desire to get it right, if only because in a diversifying society, “it’s bad business not to be diverse in your marketing.” And she hopes that the success of grass-roots groups like hers will persuade bourbon brands to move beyond ill-fitting stereotypes about the urban demographic.

“We’re here,” Ms. Rivers said, “and we bought products without any marketing. Now, imagine what you could do with some awareness.”

More on Whiskey and Race

When Jack Daniel’s Failed to Honor a Slave, an Author Rewrote History
Aug. 15, 2017



Jack Daniel’s Embraces a Hidden Ingredient: Help From a Slave June 25, 2016

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***Correction:** May 21, 2019*
An earlier version of this article misidentified the group founded by the author Kurt Maitland. It is the Manhattan Whisky Club, not the Manhattan Whisky Society.

A version of this article appears in print on May 22, 2019, Section D, Page 1 of the New York edition with the headline: A Taste for Bourbon

The New York Times

THE POUR

Wine Industry Finds a Companion in a Competitor: Marijuana

By Eric Asimov

April 14, 2017

Legal intoxication is big business and getting bigger. More states have legalized marijuana, leading some in the alcohol industry to regard it as a threat to their profit margin.

Those concerns are warranted in some cases. In Colorado, Oregon and Washington, where recreational use has been legal for several years, beer sales are down, mostly among mass-market brews. The liquor industry opposed several marijuana legalization initiatives last year, and has expressed fears for its bottom line.

The fine wine industry, however, has not panicked. Despite occasional efforts to pit wine and weed against each other, many in the wine business exude an air of mellow acceptance that the two substances can coexist in harmony.

“People are trying to say there is a threat, but I really haven’t talked to any wine industry person yet who actually sees it that way,” said Tina Caputo, a freelance wine and food writer, who in August will be a moderator at the first Wine & Weed Symposium. The event, a wine industry initiative, will explore possible business opportunities in California, which legalized recreational marijuana use in November.

“We haven’t actually seen anybody who’s laying down their glass of wine to pick up a bong,” Ms. Caputo said. “There’s room in people’s lives for both.”

What brings consumers of cannabis (the marijuana industry’s preferred term) together with lovers of wine, craft beer and artisanal spirits is a sense of connoisseurship.

Mr. Coturri checking on his marijuana plants. Jason Henry for The New York Times

The idea that alcohol and marijuana are in competition comes from those whose primary reason for drinking is inebriation. These are the people who are more likely to trade one intoxicant for another.

This is not to dismiss the buzz factor of wine. Many people begin to explore wine, beer and spirits out of curiosity about alcohol, and for some, the reason to drink will mostly be the chemical effect.

For others, different considerations take precedence as they explore beer, spirits and wine. How does it smell and taste? How does it go with food? What were the grapes? Where did they come from? Who made the wine and what is their history? How does it express culture?

This sort of curiosity leads eventually to discourse, by which I emphatically do not mean stuffy snobbery and phony mastery,

but rather discernment: the ability to notice differences and express preferences.

Marijuana inspires a similar conversation.

Robert Mark Kamen is a screenwriter whose works include “The Karate Kid,” and the “Taken” and “Transporter” series. He also grows grapes and makes fine wines at Kamen Estate in Sonoma, Calif. And he loves marijuana.

“I can tell you just as the side effect of wine is the high, so too is it with weed, although the experience is different,” he said in an email recently.

“There are different flavors and bouquets to good weed, and different strains that elicit different effects,” he added. “There are real body highs, and real stony highs, and there are highs that are cerebral and ethereal. There are levels of socializing that can be enhanced or inhibited, depending on the strength and the amount you smoke.”

Mr. Kamen’s vineyard is overseen by Phil Coturri, one of the leading organic and biodynamic viticulturists in Sonoma and Napa Counties. Renowned for his vineyard practices, Mr. Coturri is as exalted locally for the marijuana he has grown as a hobby for almost 40 years. At first, Mr. Coturri said, he grew it to supplement his income from managing vineyards. But he came to love the marijuana plants themselves.

“As Nero Wolfe would take care of his orchids in his brownstone, I would spend a couple of hours a day cultivating cannabis,” Mr. Coturri said. “I can’t see myself not harvesting grapes every year for the rest of my life, and I can’t see myself not growing marijuana for the rest of my life.”

Himself a bridge between the two worlds, Mr. Coturri sees marijuana as a complement to wine rather than a competitor. Many in the wine industry are ardent fans.

“Our world revolves around intoxicants, but it also revolves around flavor,” he said. “Just as we look at wine, we might look at a bud and dissect its aroma and characteristics.”

Like wine, marijuana is an agricultural product, and where it is grown can determine its character.

“Just as we look at wine,” Mr. Coturri said, “we might look at a bud and dissect its aroma and characteristics.” Jason Henry for The New York Times

“How you grow it really affects the flavor and the high of the pot,” Mr. Coturri said. “If it’s grown in a greenhouse, it’ll be a lot different than if it’s grown in the hills. It thrives in certain soils and with a long growing season.”

Just as with wine, the marijuana industry is diverging, Mr. Coturri said, between inexpensive plants grown in quantity indoors or hydroponically, and marijuana that, like good wine, has a sense of place.

“There is going to be a high-end marijuana industry, with distinctive strains and distinctive effects,” Mr. Coturri said. “And then you’ll have your ‘Walmart pot,’ your ‘Yellow Tail of pot’ that will be insipid.”

He sees artisanal cannabis as a growth industry, evolving as craft beer did, with new strains and hybrids developed by visionary farmers.

Marijuana, like wine, has the ability to articulate its terroir, Mr. Coturri said, adding that cannabis growers have already inquired about creating the equivalent of American Viticultural Areas, a system of appellations for wine-growing regions with common characteristics.

Mr. Coturri spoke of the many similarities between wine lovers and marijuana lovers, who may discuss the differences between the indica and sativa species of pot. Indica tends to have more exotic aromas and is more relaxing, almost like a sedative, while sativa, with its greener, almost piney flavor, offers a more active, productive high. Some prefer marijuana that is young and fresh, while others like it aged, or cured, storing it in humidors.

As for competition, Mr. Coturri said he had not experienced it, except possibly in the hiring of seasonal workers for harvests. He attributed the labor shortage more to fears among immigrants stoked by the Trump administration than to the marijuana industry, which he says is hiring roughly the same number of workers for harvest that it has for years, regardless of legalization.

"I see marijuana growing as something underground that is coming to the forefront," he said. "It's almost a companion piece. I don't see competition with the wine industry at all."

Collaboration is a likelier scenario. In Colorado, where marijuana tourism has flourished, one company, Cultivating Spirits, offers dinners that pair food, wine and cannabis. The Wine & Weed Symposium in California will examine how legalization will affect the wine industry and how the cannabis industry has evolved in other states. It will also explore ways that the two industries can work together, especially in areas of regulation, tourism and hospitality. In the days before legalization, winemakers sometimes made marijuana-infused wines for private consumption.

I've seen weed wine made in California and weed wine made in France. It's probably made anywhere that people smoke pot and produce wine. Now, the first commercial combinations of cannabis and wine are showing up, like CannaWine, a Spanish wine that has been fermented with marijuana. This manufacturing process, over a prolonged period, apparently produces a gentler high than, say, the abrupt elevation that might come from consuming pot brownies.

I'm not a marijuana enthusiast, and I've never tried CannaWine. But I have tried several winemakers' weed wines, and I can attest that the high is indeed gentle, and the flavor herbal.

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A version of this article appears in print on April 19, 2017, Section D, Page 4 of the New York edition with the headline: Winemakers Find a Companion in Marijuana