



State of the US Wine Industry 2023

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01

STATE OF THE US WINE INDUSTRY 2023

Introduction

We are an industry made up of people who inhale good news. Our penchant for the positive is rooted in our typically pragmatic farming community and propagated by winemakers who see every vintage as the best of the decade and each glass a gift from the gods.



It's why bringing forth critical findings in this report can be challenging for me at times. Who in this cheery business wants to read about industry problems? On the other hand, who would read a report that said, "Everything is fine. Nothing to see here."?

You can just imagine the feedback I received in 2018 when I opened that report with these thoughts:

“

Today, consumers are leaving the lower price segments in favor of better-quality offerings, but after more than 20 years of straight-line upward growth trends, total volume growth is leveling out. Premiumization is still the dominant trend, so volume drops in lower-priced generics are part of the explanation for flattening volume; but in a more recent development, even premium wine growth is slowing.

I'm sure many stopped reading the 2018 report right there. But the perspective was supported with data and is now widely accepted as fact (see figure 13). At the time, however, the conclusion was called out as doom and gloom — an overreaction.

The point of looking at industry issues is to start a conversation or shine a spotlight on an issue that should be examined. Hopefully, we are looking around corners and calling out issues before they happen. How can we solve problems without identifying them?

Prepare yourself and take a deep breath. There are plenty of critical issues to discuss in this report, and we will. But for all of you joyously going about your day and living in the moment, there are pockets of good news for you too, so please keep reading!

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We are the best positioned than we've ever been to successfully negotiate a recession, should that actually emerge.

One piece of good news that should be underlined and shouted from the rooftops is that the premium segment of the wine business has been performing quite well after the difficult year in 2020. In 2022, the premium side of the industry experienced another good year in an increasingly challenging marketplace, with revenue up 9.7 percent, on average, through September, according to the Silicon Valley Bank Peer Group Analysis Database. That is solid growth.

The more difficult news is that for the industry as a whole, we aren't measuring up. Wine sold below \$15 continues to slide, and we will have a second year of negative volume growth in the industry as a consequence.

From our survey data, we know that the question of greatest concern to business insiders is the direction of the economy. As of this writing in December 2022, we are not in a recession, though many are predicting one.¹ While there is nothing you can do to avoid a recession, you can plan and prepare for one just in case. Believe it or not, I have good news on that front as well.

If you run a winery, the worst place to find yourself entering a recession is with bloated inventory levels. That leads to rapid discounting. In a weak vintage year, wholesalers may even try to skip over that vintage in favor of the better vintage, as was the case with the 2000 and 2001 vintages that collided with the dot-com bubble.^{2,3}

While every recession since the late '80s has started with too much wine in the tanks, the good news, even with flagging overall demand for wine today, is that with three years in a row of short harvests and good-quality vintages, we have balanced cellar stocks of well-regarded vintages across the industry, so we are the best positioned we've ever been to successfully negotiate a recession, should that actually emerge. Those are the facts as they stand heading into 2023.

But in a more intermediate-term view, there has never been a wider gulf between the success of the production side of the wine business and that of the premium side. The downward trend has been discussed in this report for many years. And while trading up is still a part of the premium space vernacular that favors the premium business today, those issues impacting lower-priced wine will eventually impact premium producers too if nothing alters the current consumer trajectory of the entire category. This is a situation our industry has to fully embrace and solve as a whole.

In this report, we pull apart many critical issues impacting the business, giving you, the winery owner, directional guidance to consider in your own strategic planning. We hope the critical comments will start discussions toward collective problem-solving. Based on our extensive expertise and deep relationships in the wine industry, we will assess where the industry finds itself today and offer our view on where it's headed in 2023 and beyond.

Seven tailwinds

1. The premium side of the business continues to deliver excellent growth and returns. Premiumization is still alive as a tailwind.
2. With low inventory levels in the business after a third consecutive small vintage, the industry has never been better prepared for a recession, should one arrive in 2023, as many predict.
3. It's difficult to see this as a tailwind, but we are fortunate to have consecutive small vintages in California. The harvest quality has been good, particularly over the past two years. The alternative of normal-size yields would have proven problematic.
4. The quality of solid technology partners and service providers supporting the wine industry with great solutions has never been better.
5. Even with the economy softer as of this writing in December 2022, the typical consumers of premium wine are sitting on more than a trillion dollars in COVID savings. Our customers have the capacity to use their savings and discretionary income to buy wine even in a soft economy.
6. The growth in the non-California wine community across North America continues. Good, approachable and continuously improving wines are being grown and made throughout the country in each state, as well as in Canada and even northern Mexico. With dedicated colleges and capital available to fund more growth, these nontraditional regions are making hand-crafted wines at affordable prices and bringing in younger new consumers to the category.
7. The IPO window is closed on Wall Street, and the M&A market has a door barely ajar given the increase in financing costs due to Federal Reserve Bank actions. But in the wine community, there are still buyers and sellers in what is a surprisingly strong M&A market for both vineyards and wineries.

Seven headwinds

1. The consensus of analysts is that the wine industry will have negative volume growth in 2023. That's a trend that needs to change.
2. Boomers still lead all cohorts in share of consumption. That would be easier to tolerate if the industry were growing. The opportunity to gain additional sales growth from a cohort with a median age of 66 will prove difficult.
3. Consumers younger than 50 drink wine but more often drink across categories. But a sizable number of alcohol consumers under 50 fall into the category of consumers who imbibe but have chosen not to drink wine.
4. Wellness has merged with the sober-curious movement, and a growing number of dry events are being popularized, such as Dry January and Sober September.⁴ Neo-prohibitionism is very much alive and well.
5. Costs (particularly inflation costs in bottles, materials, shipping and staffing) continue to be an issue. Finding labor at any price is sometimes more of a problem than it once was.
6. The impact from climate change comes in many different forms, forcing the industry to remain agile and factor in new risks in planning.
7. The wine industry isn't working together to solve the obvious demand problem for the wine category.



02

STATE OF THE US WINE INDUSTRY 2023

2022 predictions in review

We have been researching the wine business since 1991 and making predictions for more than 20 years. Some years, we properly characterize a market change. In other years, our findings might be off in timing or even wrong, but we always review the forecasts made the prior year to be fully transparent.

Last year we noted at the start:

“

It's increasingly obvious that wine as a product has lost the luster it once had with the consumer 20 years ago and is probably entering a phase of negative volume growth. For 2022, we should still see positive sales on a value (dollar) basis.”

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

What we got right

- We said 2022 would be another good year for premium wine but at lower growth rates than we experienced in 2021.
 - Silicon Valley Bank's Peer Group Analysis (PGA) Database⁵ shows a 2022 nine-month year-to-date sales growth rate of 9.6 percent, which is down from growth of 18.2 percent in 2021.
- While analysts disagreed on full industry sales growth, we predicted that, within three years, declining sales by volume would be accepted as reality by all analysts.
 - We believed that last year's volume sales were already negative, but the view was in the minority. As of this writing in December 2022, all of the analysts making predictions are forecasting negative industry volume growth in 2022.
- We expected that the 2021 California wine grape harvest would come in at 3.6 million tons, making it a second consecutive small harvest.
 - The final crush, announced in February 2022, was 3.61 million tons. Our prediction of 3.6 million tons was spot-on.
- We said that grape and bulk prices had stabilized at lower levels than we'd seen in the past five years for California and that buyers would likely remain cautious on price this year.
 - Brokers tell us that 2022 featured the most stable grape market California has seen since 2000, and buyers are indeed cautious given the unknowns of the economy and the existing soft demand in the category.
- We wrote that supply in the West was largely balanced heading into 2022, but low levels of demand suggested that some acres of vines would still need to be removed in California and Washington to sustain the balance, particularly if volume sold continued to dip.
 - About 20,000 vine acres were removed in California in 2022, and Washington also saw some removals, although we don't have confirmed data on acreage.
- We predicted that demand for wine would be slack as the median boomer hit normal retirement age in 2022 and as younger consumers continued to prefer alcoholic beverages other than wine.
 - This is true and discussed in detail in this year's report.

- We said that supply chain issues would gradually ease through the year but would likely have an impact on individual wineries' production capacities.
 - Supply chain problems are much better, but they still exist, particularly on the East Coast. Bottle price and availability did impact production schedules. The effect of the situation continues to be felt in increasing costs.
- We wrote that inflation would impact product delivery, transportation costs, labor and supplies well into 2022 and put pressure on wine sellers to increase bottle prices. Given the higher costs of production in a modest inflationary environment, we expected to see wide instances of small price increases.
 - Indeed, increases in price were common across the full industry but easier to take in higher-priced wine. The increased cost of goods from inflation isn't being covered fully by price increases in any segment.

What we got partially right

- We thought that the impact of drought would become a focal point of industry discussions and planning in 2022, particularly if the drought continued.
 - The drought did continue in the West, and while the conversation on water availability has grown, we are surprised that the discussions haven't taken on a more dire tone.
- We predicted that online sales would continue to grow as an important part of direct-to-consumer (DTC) efforts and expand past its current share of 9 percent of an average winery's total sales.
 - While the technology used by the industry continues to improve, it appears that the pandemic-induced increase in internet sales flattened out after reopening. Online sales haven't grown.

What we got wrong

- We expected that the pandemic experience would make obvious the risks of focusing too high of a percentage of sales through the tasting room and that it would push winery owners to find other means to build clubs without insisting someone first come to their winery.
 - Owners emphasized recovery through the period, and largely that meant returning to the pre-pandemic way of developing sales instead of evolving their direct-to-consumer strategies.



03

STATE OF THE US WINE INDUSTRY 2023

2023 US wine business predictions and observations



We aren't making any predictions about the national and world economies. While most economists are forecasting a recession at some point in 2023, our predictions are made with the assumption that the economy continues as it is at the end of 2022.

- We estimate sales growth of 4 percent to 6 percent for the premium wine segment in 2023, down slightly from 2022 sales growth.
- For the industry as a whole, we will see volume stabilize in 2023 at negative growth levels but slightly positive value measures. A stable year is more than likely a temporary state absent action on the demand issues the industry is facing.
- Winery margins will be reduced in 2023, as higher costs of goods buried within inventory are passed through the income statement.

Supply

- When results of the 2022 harvest size are announced in March 2023, we will have a third consecutive light crop year in California, with the crush coming in at 3.7 million tons, which will be slightly larger than the 2022 harvest.
- Overall supply is balanced in California at the end of 2022. Absent impacts from climate change, grape and bulk prices will remain stable at present levels. A normal or large 2023 harvest isn't desirable and will change the balance.
- New plantings should continue but at a slower pace in Oregon, but for California and Washington, new plantings will be few and none will be speculative.

Demand

- Retiring baby boomers seem to have a long tail and fortunately aren't quick to run to pasture. Longer-lived wine consumers are having a positive impact on wine sales today, with share growth in even the 70- to 80-year-old age band continuing. The demarcation point between growing consumption share of wine and shrinking share is at age 60, with the above-60 segment growing and the below-60 segment shrinking their relative share of consumption. We believe that trend will continue. (See figures 2 and 4.)

- The trend of volume declines in lower-priced wines will continue below \$15 through wholesale channels. (See figure 14.)
- It's becoming increasingly apparent that wine's demand problem extends beyond the millennial generation. Consumers are drinking across beverage channels, and those under 60 don't have the same appreciation for wine as those over 60.
- The trend of wide beverage menus in restaurants vs. the prior practice of dedicated wine lists will continue to expand, reflecting a rising demand for spirits, alternative beverages and lower-alcohol offerings from restaurateurs.
- The industry has a long way to go to return wine to the preferred space it once occupied in the late '90s and early 2000s, when consumers who chose to consume alcohol believed wine was better for you. That is another battle we are losing to other categories.

Price

- 2022 bottle pricing dynamics should continue into 2023. Those making lower-price wine will have difficulty passing through the cost of inflation, but there will be less resistance to passing on some small price increases in higher-priced wine.



04

STATE OF THE US WINE INDUSTRY 2023

The consumer and demand



The question is, will the wine industry become a business case study someday?

Consumer evolution

It's a little embarrassing in hindsight, but I can remember sitting in business school while professors were teaching about management miscues in companies or about products that are no longer with us. The case studies were always presented in such a way as to lead the reader to a textbook conclusion. So I always came away from the case study thinking with youthful hubris, "Those people must be idiots! I could do better than that! The train was on the tracks, the lights were on, the horn was blaring, but the company never evolved or changed!"

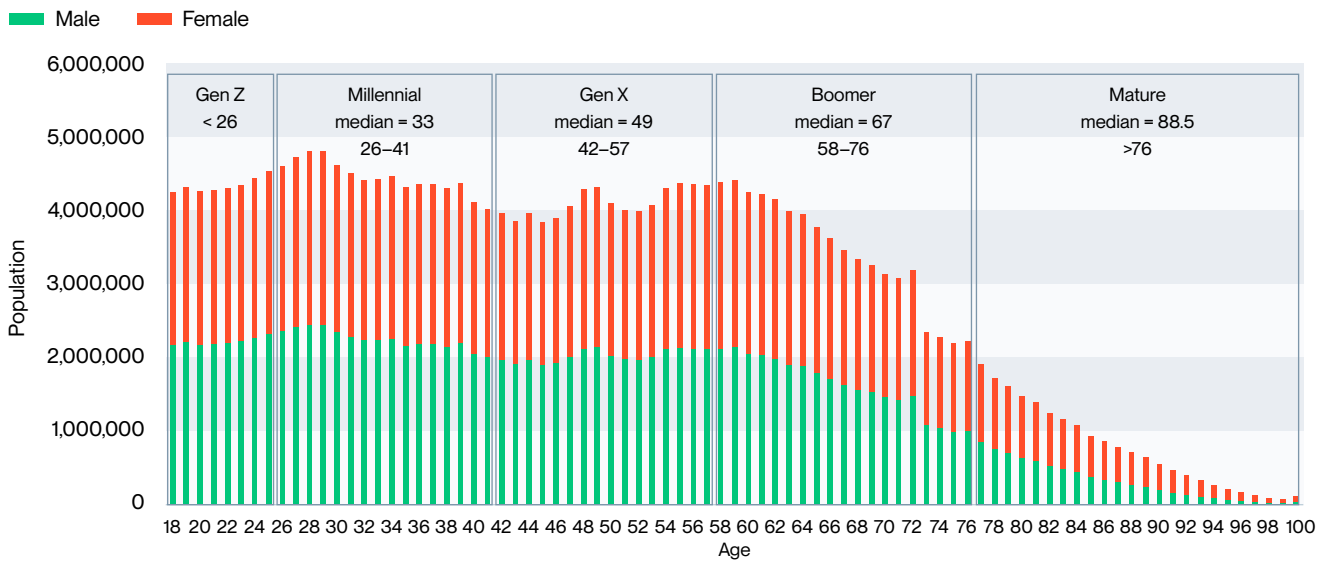
The list of examples is long — names like General Electric, Kodak, Blockbuster, Bear Sterns, Pets.com. It was a while ago, but IBM's belief that there was no viable market for the personal computer is a good one to put on the list. Then there is Steve Ballmer of Microsoft, who famously said, "There's no chance the iPhone is going to get any significant market share." Some current examples of miscues include Disney, FTX (and maybe crypto as an asset) and Facebook (Meta), which is now rethinking the cloudy metaverse. The examples are manifold.

There are a lot of smart people within that list of companies. No question that in many or most cases, the writing on the wall wasn't very legible. But there are plenty of examples of companies whose leaders saw the writing but kept doing what they were doing because "that's what we do, and it's always worked!"

I'm sure you see where this is going. While there are segments and companies that will always have a measure of success, as a whole the wine industry in the US is at a pivotal point of change. The writing on the wall is legible now.

If we can't work together and alter the trajectory of consumer adoption, then we should prepare ourselves for less-than-hoped-for industry results. The question is, will the wine industry become a business case study someday?

Figure 1: US population by age



Source: US Census Bureau Population Estimates, 2019

Losing the marketing battle for consumers

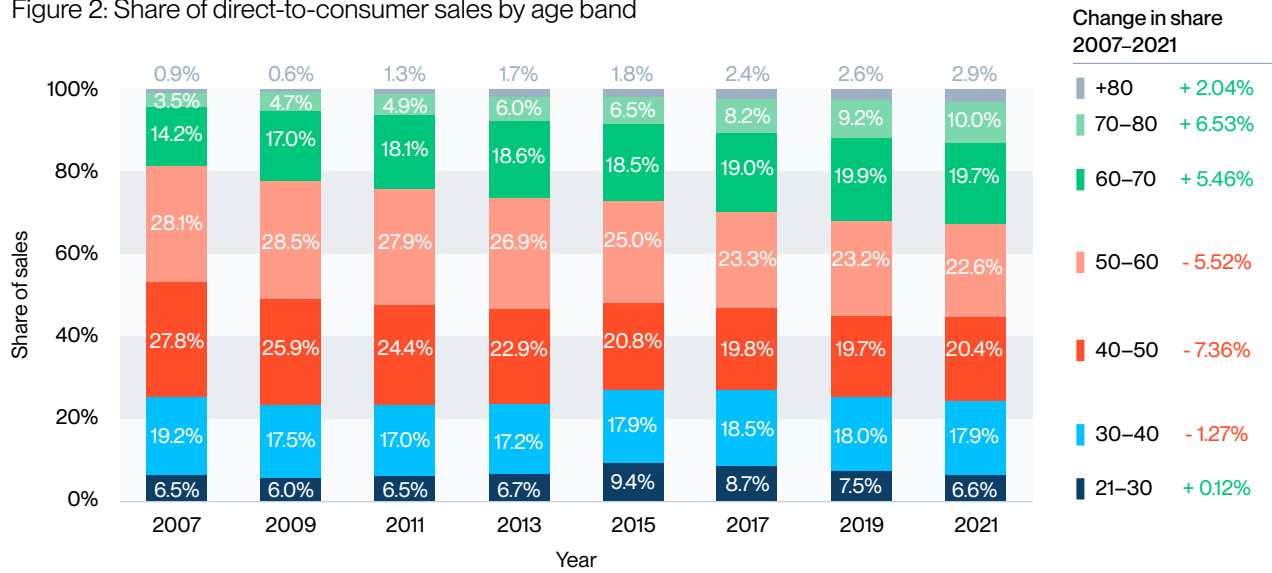
We know the US consumer is evolving. Figure 1 shows the US population by age, split between male and female, and delineates the current cohorts in play. It seems obvious that the main spending years should take place between the ages of 35 and 55, if for no other reason than there are more living adults in that age range.

It's also obvious that the boomer, who is still the top consumer in wine, is trending off in numbers, along with the mature generation. With all the discussion on cohort sizes over the years, it's interesting to note that the four main legal-drinking-age cohorts are getting very close to equal in size (see figure 3). The age bands over 60 are responsible for most of the growth in still wine over the past 25 years, as noted in figure 2. Amazingly, their share of spend is still growing. The median boomers are now on the other side of their normal retirement age of 66, and the spend in that cohort will have to decline unless they somehow get a reprieve from death and taxes.

As consumers, boomers are being replaced by younger buyers at a clip of 10,000 per day, each of those replacements possessing different tastes, values and desires than the older cohorts.

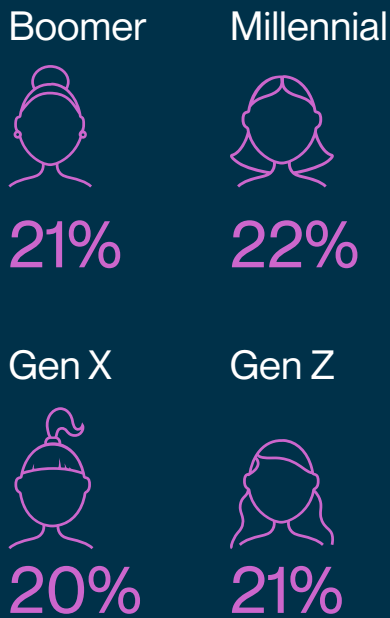
One of the things that distinguishes boomers from all other cohorts is their affinity for wine. Those younger than 60 are less in love with wine than those older than 60. That means that we're replacing consumers who are more committed to the category

Figure 2: Share of direct-to-consumer sales by age band



Source: Customer Vineyard, Sovos ShipCompliant

Figure 3: Current population share by cohort



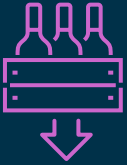
Source: Customer Vineyard

and who spend more on wine today with consumers who drink more across all the alcohol beverage categories and are less committed to wine. Add to that the growing number of wine consumers who are trying to reduce consumption for health reasons, and that doesn't spell category growth over the next decade. Those are difficult but foundational and now irrefutable truths we need to accept.

Figure 2 from Customer Vineyard via Sovos ShipCompliant comes from a database of 2,200 suppliers and 80 million direct-to-consumer wine transactions beginning in 2007. There are several things to take away from this chart. While none of this should be a surprise to anyone who has followed this report, it is still important, if uncomfortable, to see the information.

Over the past 15 years, the proportion of wine sold directly to consumers over age 60 has continued to grow in total share over all other age bands. The over-60 cohort was responsible for 32.6 percent of total direct-to-consumer spend in 2021. Said another way, the age group above 60 is still growing in the amount they spend on wine even as their population is declining. And conversely, the population younger than 60 is ceding consumption share to the older generation.

We've seen current data on the lack of engagement by the younger consumer, but figure 2 sheds additional light on the reality.



This is telling us that whatever we've collectively tried to do to engage with the younger consumer in the last decade hasn't been good enough. In fact, if we are doing something, the results are getting worse, so you could argue that we should immediately stop doing it.

I had hoped to see trended information that would show that our industry's engagement with the younger consumer was at least improving over time, even if it was disappointing nominally. But this information says the opposite. This large dataset shows that consumers younger than 60 are less interested in buying wine today than they were in 2007.

This is telling us that whatever we've collectively tried to do to engage with the younger consumer in the last decade hasn't been good enough. In fact, if we are doing something, the results are getting worse, so you could argue that we should immediately stop doing it.

As a boomer myself, it's great to hear that people are living longer and more active lives today. Longer lives partly explain the data because boomers and older people are growing their share of wine consumption. But that's not reassuring because it's difficult to expect a population above age 60 to continue to be the source of growth for virtually any product. If the younger population were growing both in consumer numbers and share, that would be a source of hope, but it's not the case.

Figure 4 is from the same Customer Vineyard dataset and is a heat map that shows how the spending patterns of a given age band compare to that band's share of the legal-drinking-age population. This allows us to see how much of the changes in consumption come from shifting ages in a population.

Figure 4: Customer spend weighted against population demographics

Age groups	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
80+	-4.19%	-4.10%	-4.00%	-3.98%	-3.84%	-3.76%	-3.66%	-3.55%	-3.48%	-3.39%	-3.23%	-3.10%	-3.09%	-2.69%	-2.83%
70-80	-4.45%	-4.05%	-3.56%	-3.12%	-2.25%	-2.45%	-2.08%	-1.74%	-1.55%	-1.18%	-0.67%	-0.28%	-0.25%	0.17%	0.42%
60-70	2.93%	3.81%	5.03%	6.02%	6.25%	6.93%	7.09%	7.54%	7.41%	7.55%	7.82%	8.29%	8.66%	8.22%	8.77%
50-60	11.89%	12.61%	13.34%	13.63%	13.51%	14.02%	13.87%	13.37%	12.90%	12.44%	11.53%	11.41%	11.26%	9.56%	9.86%
40-50	10.75%	9.60%	8.81%	8.06%	7.36%	6.72%	6.33%	5.71%	5.36%	4.85%	4.58%	4.07%	4.16%	4.21%	4.19%
30-40	-1.90%	-2.42%	-3.94%	-4.71%	-5.02%	-5.29%	-5.35%	-5.26%	-5.12%	-4.88%	-4.69%	-5.01%	-5.23%	-4.59%	-5.59%
21-30	-15.03%	-15.45%	-15.68%	-15.91%	-16.02%	-16.17%	-16.20%	-16.06%	-15.52%	-15.39%	-15.35%	-15.37%	-15.50%	-14.87%	-14.83%

Source: Customer Vineyard



We are improving engagement with 60- to 80-year-old consumers and losing the interest of the under-50 population.

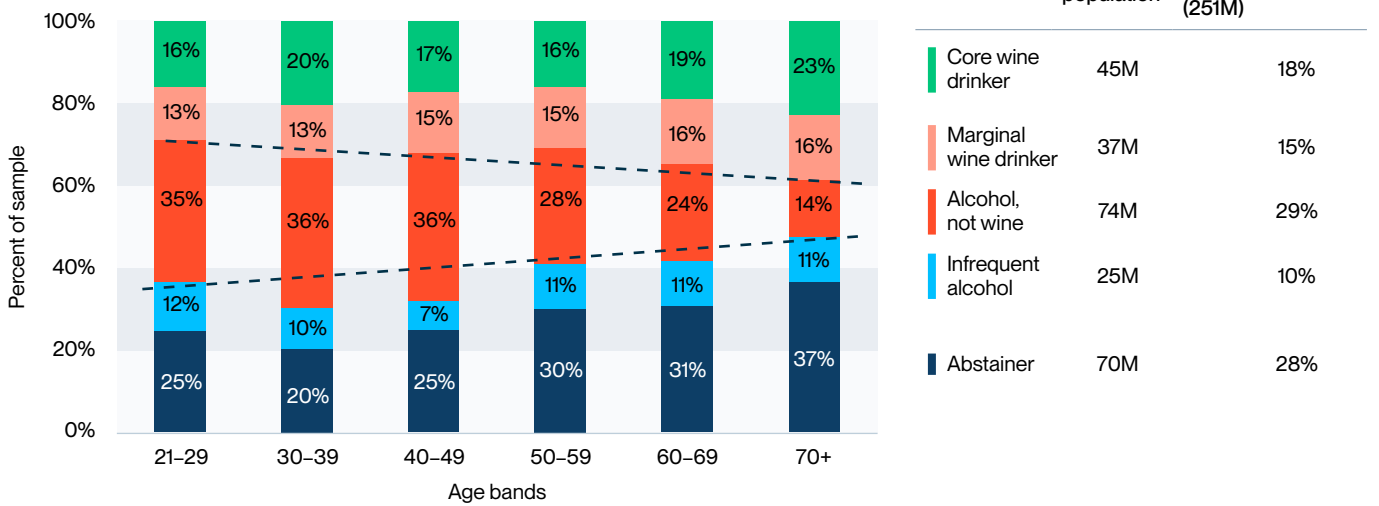
The number 0 in the table indicates that consumers are spending consistent with their population share. A negative number means they are underrepresented in their spending relative to their population size, and a positive number shows the extent to which they are overspending their population share.

Here, the 21 to 40 age bands are significantly underrepresented in their spend for each year. The prime wine consumers are in the 40 to 60 age bands, as expected, and they spend significantly more relative to their population size, but their share is declining over time.

The chart is telling us that over the time period covered, the 40 to 60 age bands have gone from overrepresenting their population share by double digits on the left to overrepresenting by single digits on the right. It would be a good sign if the loss of population share became an increased share for the consumers younger than 40, but instead the age groups older than 60 gained ground. Again, that's the opposite of what we want to see.

Finally, notice the worrying change in the 30 to 40 age band. In 2007, that group was underrepresented by 1.9 percent. At that point, the category was a mixture of both Gen Xers and millennials. By 2021, the age range was completely filled with millennials and had declined in its share of spend to minus 5.59 percent.

Figure 5: Consumption patterns by age band



Source: Wine Market Council, US Wine Consumer Segmentation Surveys

For many years, the Wine Market Council has been doing great consumer segmentation studies that track changes in wine consumer drinking patterns. Figure 5 also shows where we are gaining or losing consumer spend.

Some definitions are important in order to understand the information.

- **Core wine drinkers** drink wine at least once a week.
- **Marginal wine drinkers** prefer wine to other alcoholic beverages and consume wine at least every two to three months. Added to that are wine consumers who drink wine one to three times a month.
- **Alcohol, not wine** consumers drink other alcoholic beverages than wine at least every two to three months.
- **Abstainers** don't consume alcohol.



This is a cohort the wine industry isn't connecting with and who have decided to stick with other alcoholic options or become abstainers.

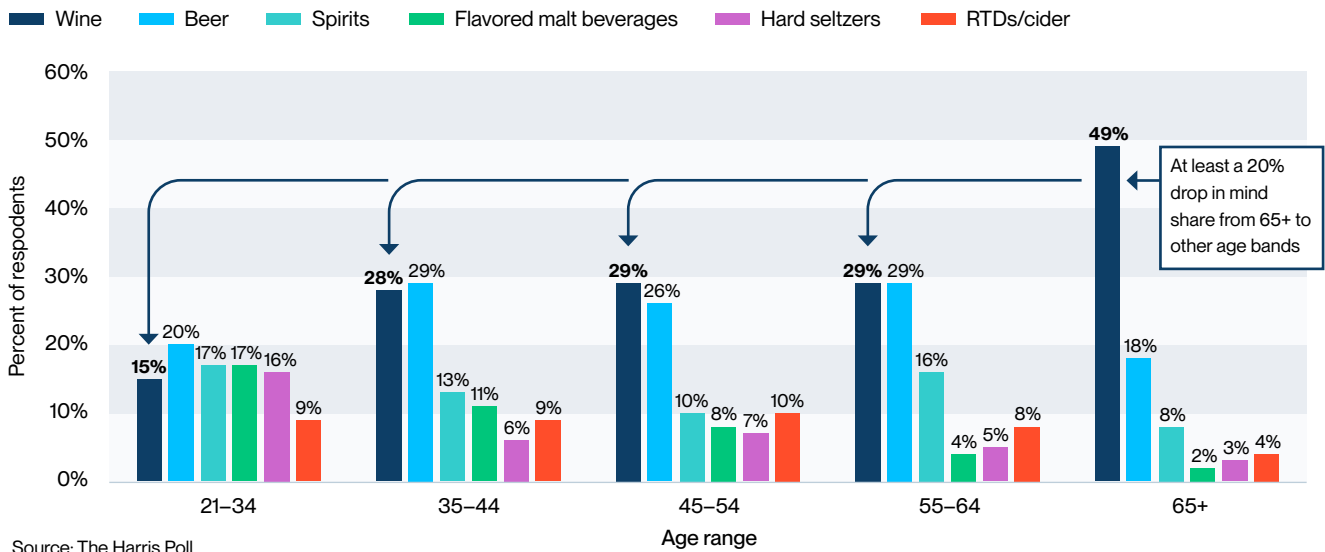
Of the total US population of 332 million people, 251 million are of legal drinking age. The most important wine consumers over the legal drinking age are core consumers. Those are consumers we want to keep. And while they indicate they will drink more if they can, it's not sustainable. In fact, core consumers are consuming less, dropping 4 percentage points since the 2017 survey.

Marginal wine consumers likewise have fallen 4 percentage points since the 2017 survey, another difficult thing to see, as that decline is another loss of share in a cohort of current consumers. Abstainers have made up their minds about alcohol and aren't going to be a source of demand, and their share of the drinking-age population has increased 4 percentage points since the 2017 survey, as the sober-curious consumer and the anti-alcohol messages gain bigger footholds.

The opportunity for the largest increase in consumption lies in the non-adopters of wine, or those who drink alcohol but have made the decision not to drink wine. The "alcohol, not wine" consumers are growing: 3 percent since 2017. This is a cohort the wine industry isn't connecting with and who have decided to stick with other alcoholic options or become abstainers.

The simple takeaway from figure 5 is that the younger the age band, the higher numbers of "alcohol, not wine" consumers. On the one hand, the fact that there are more non-adopters of wine in younger age bands could suggest that as younger consumers age, they may switch to wine. It's certainly a popular theory. But the chart is really saying that as people get older, more of the "alcohol, not wine" consumers become abstainers, not wine drinkers. And once again, this data source shows that more of the core consumers are older than 70.

Figure 6: What would you most likely bring to share at a party?



Source: The Harris Poll

Survey conducted online by The Harris Poll on behalf of the Wine Executive Exchange November 9-11, 2021, among 1,949 US adults ages 21+.



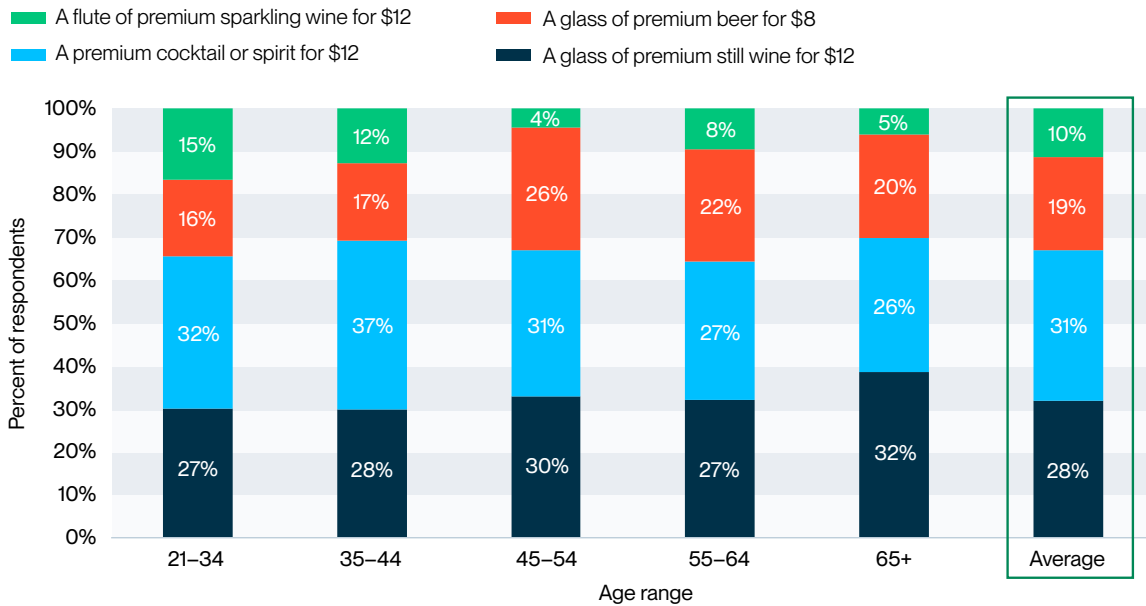
That's a 20-basis-point drop in mindshare for wine with all consumers younger than 60.

In 2021, a few analysts got together and asked The Harris Poll to run the question in figure 6. A sample population was asked, “What would you most likely bring to share at a party?” The answer was revealing.

As alcohol beverage consumers, some days we go a little downmarket, and other times we spend a little more on something better. The analysts based this question on the theory that someone going to a party would probably bring something better, since that choice is more likely to be seen as a reflection of their taste. Peer pressure should push them in an upmarket direction. What beverage would impress their friends?

Almost half of the plus-65 crowd said they would bring wine. For all the age bands under 65, though, the answer for wine fell to less than 30 percent. That's a 20-basis-point drop in mindshare for wine with all consumers younger than 60. This implies that the exchange of older consumers for younger consumers could be quite binary in purchase impact in the next decade.

Figure 7: Which premium beverage would you order at a fine-dining restaurant, presuming the cost and relative quality were equal between the choices?



Source: The Harris Poll, 2022



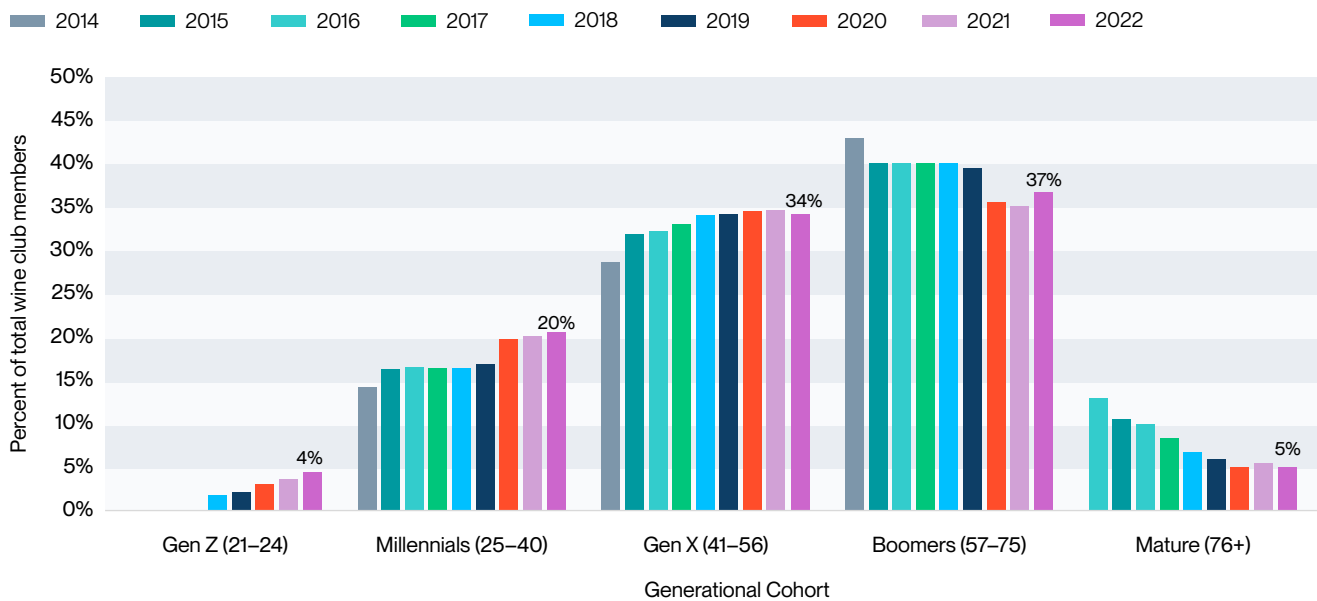
There is opportunity available if we as an industry can tap into what’s holding those consumers back from selecting wine.

The same analysts, working with the The Harris Poll, asked the question a different way this year to gain a greater understanding of consumer demand for premium wine: “Which premium beverage would you order at a fine-dining restaurant, presuming the cost and relative quality were equal between the choices?” Essentially, the question assessed the consumer’s desire — what they would want vs. what they can afford (see figure 7).

Changing the occasion to a fine-dining establishment eliminated the choice of non-premium wines. The question was asked in such a way as to mute price and quality in the decision-making process.⁶ For the premium wine industry, there are both good and bad takeaways.

The results still showed that consumers over 65 preferred premium wine more than other age bands, but the break wasn’t quite as stark as in figure 6. From that, we can infer that when the choice is more public (e.g., a friend’s party), boomers bring what they think they should. When they are choosing for themselves at a restaurant, they drink what they desire, and their selections are spread out more across all drink categories. That news is half good. But it would be better to see consumers in the younger age bands selecting wine at least as often as boomers. Again, the opposite is the case.

Figure 8: Wine club composition by age cohort



Source: SVB State of the Wine Industry Reports

The difference between consumers preferring a cocktail or craft spirit vs. wine for most age groups was small — much more so than their current buying behavior suggests. When price is less of a factor, the younger consumer may be more wine-curious. That’s a mixed blessing.

On the positive side of the ledger, this suggests that there is opportunity available if we as an industry can tap into what’s holding those consumers back from selecting wine. On the other hand, wine has typically been part of a meal in fine-dining establishments. Wine is the beverage always paired with food. With wine and spirits in nearly a statistical tie in a few age bands, this survey supports other available research telling us that the new consumer in restaurants believes that wine isn’t the only beverage that can be paired with food. In this new consumer’s eyes, spirits can be married equally well.⁷ That’s the story the restaurant trade is selling today.

A final view comes from the survey work Silicon Valley Bank has produced for more than 20 years. This specific information series started in the early 2010s. When we first began to track this data, there wasn’t much available information on the subject that was trustworthy. The published work showed results with a wide variation and, in a single case, was dramatically wrong (see figure 8).

All data, including our survey data, has bias. There's no such thing as perfect data. But it's been rewarding to see the Silicon Valley Bank data stand the test of time and prove to be similar to the other information now available, produced by many other sources.

In our survey, we ask wine producers who have wine clubs and track the data to tell us how their club stacks up against standard cohorts (see figure 8). While we don't define precisely who fits into the description of premium wineries, we can put some brackets around the survey population.

The population is taken from wine club data. The median case production is 5,000 cases, the median price per bottle is \$39 and the average length of time the respondent winery has been in the business is 21 years. The years prior to 2022 had slightly different but relatively similar metrics.

The sample varies by number each year but hovers around 600 wineries, serving hundreds of thousands of consumers, so it represents a significant share of the commercially operating premium producers in the US and a material share of wine club consumers. Club data is only a part of the normal sales in a premium winery, but we can presume that these consumers purchase wine through other channels at times, including through the grocery and restaurant channels and the tasting room, so we can make some broad generalizations about the wine consumers by looking at the club data.

In figure 8, we see a large drop-off in wine consumption between older consumers and younger consumers each year. There has been no significant movement by the two youngest consumer cohorts to assume the dominant position in wine consumption from the older consumers, though it should be noted that during the COVID business period, the younger age groups did step up their share of wine club consumption somewhat, perhaps as a result of being more comfortable with travel at that point during the pandemic.

Though not displayed in chart form here, a final dataset comes from Wine.com research from early 2019 showing that the older boomer consumers, and everyone born before 1945, ordered the most bottles per order and had the most orders per year and the highest average order value. In an interesting twist to the other data presented, those born before 1945 also had the lowest average selling price per bottle. The large group of consumers between age 21 and 41 had the highest average selling price per bottle. But the same younger cohort also had the fewest bottles per order and the fewest orders per year. What does that added piece of information tell us?



Younger consumers have brought back a phenomenon we saw in the 1980s — opening wine only on special occasions or buying it for gifts.

The evidence in this dataset indicates that older consumers drink more than younger consumers but spend less per bottle. That's not newsworthy. What is newsworthy is that today younger consumers may be wine-curious. It appears the young consumers have brought back a phenomenon we saw in the 1980s — opening wine only on special occasions or buying it for gifts.

How do we summarize the complete set of consumer charts in this report? Together, they tell a remarkably similar story. On the one hand, at least young consumers appear wine-interested. But too many consumers under age 50 drink alcohol but not wine. Too many are buying for special occasions but not for everyday use. The consumer population for wine still skews to those over 60, and that is a segment that is growing. But we are not making any headway getting consumers younger than 50 to favor wine as their beverage of choice.

For many consumers, the data shows that wine is their parents' alcoholic beverage but not their own. If this preference continues for too many more years, it will only increase the number of non-adopters of wine, as the Wine Market Council data is already showing (see figure 5).



The wine industry's outreach and the millennials' retail silence in return is deafening. The factors creating this circumstance will not evolve in the industry's favor unless the wine industry decides to take on the challenge.

In my view, this is the greatest issue of concern for the wine business today — namely, the lack of engagement and participation in the wine category by younger consumers in their prime spending years.

Luxury sales as a comp

Wine, particularly premium wine, has been called an affordable luxury. So a natural question to ask is, if younger consumers aren't buying wine, how are they impacting non-wine luxury goods sales?

As the wine industry continues to do things the way it always has (that is, not making significant strides to attract the young consumer's interest), the world luxury market is delivering quite different results.

According to the annual Bain Luxury Report, the global luxury market is projected to grow by 21 percent in 2022 and deliver additional growth of at least 3 percent to 8 percent in 2023, even factoring in a world economic slowdown.⁸ The report attributes the growth to Gen Y (millennial) and Gen Z and notes that spending by Gen Z and "Gen Alpha" is set to grow some three times faster than for other generations until 2030, by which time it will make up a third of luxury spending.

The comparison with the wine business is stark. The wine industry as a whole is still waiting for millennials to become the type of consumers boomers have been. While there are fewer expressing this view each year, many have argued that boomers only became consumers of wine in their mid-30s, so we just need to be patient. Perhaps, but the first millennials are already 41, and all the data above tells me that waiting isn't a good strategy.

In my view, this is the greatest issue of concern for the wine business today — namely, the lack of engagement and participation in the wine category by younger consumers in their prime spending years. In just 10 more years, the last boomer will pass age 66 and be eligible for full Social Security benefits. What will the average wine consumer look like then, with the under-50 preferences continuing as they are today, with fewer boomers alive and with the rest in full retirement?

Now that I've depressed everyone, let me add this: None of the preceding information means we have to live with these current industry trends. There is still some time for the wine industry to adapt. With the median age of the millennial consumer only 32 today, the industry can find its footing and compete for millennials business with the rest of the alcohol beverage market. But for today, the wine industry's outreach and the millennials' retail silence in return is deafening. The factors creating this circumstance will not evolve in the industry's favor unless the wine industry decides to take on the challenge.

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Consumers today are increasingly less interested in low-price wines and more interested in other alcoholic beverage options or are leaving alcohol altogether.

Consumer on-ramps

Most wine consumers begin their discovery stage by sampling lower-priced wines and wine-based beverages. Because of scale and operating efficiencies, the overwhelming majority of lower-priced wines are made by the largest producers and importers.

In the past, large-scale wineries brought these gateway beverages to new consumers. Wine coolers were the product entrant for the boomers.⁹ I've watched as red blends started making progress with young consumers and thought that might be the on-ramp to repeat the wine cooler boom. And the short moscato boom looked like it might bring in consumers. Recently, some of the successful Riboli Stella Rosa brands have looked like another product on-ramp.

Once a consumer does decide to consider giving wine a try, they run into another problem unique to this business. By some estimates, 200,000 different wine brands exist in the US. Nobody knows the exact number, but can we just agree that the wine category is rather saturated and fragmented? It's confusing. How is a consumer to decide which wine to purchase? In the early 1980s, with the US industry fighting the European producers for mindshare, the Benzinger family came up with the idea of the “fighting varietal.” That's still being used in the US: the varietal, such as chardonnay or cabernet, is as prominent as (or moreso than) the producer. That makes wine a little easier to understand.

Today, many companies have developed apps and online solutions to help consumers find wines they will always like. That will continue to help boost wine now and in the future. But consumer trial is the acid test, and it's one place where the wine industry is lacking. Trial is a critical component of alcohol brand adoption, and the industry is spending little time looking at the problem or devising solutions.

Outside of grocery stores that experiment with inexpensive wine in tastings (the part of the industry that is shrinking), the only other significant on-ramps for consumers to discover wine are consumption at home, visiting tasting rooms, by-the-glass programs in restaurants and bars or by purchasing smaller packages.¹⁰

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The overall lack of participation in the single-serving and RTD market might be a missed opportunity.

The ready-to-drink (RTD) beverage segment is another potential on-ramp for new consumers, but apart from wine in cans (which can be considered an RTD), the wine industry barely participates in the category despite the fact that shelter-in-place mandates helped RTD beverages explode.

According to SipSource, on a trailing 12-month basis through September 2022, the spirits category has seen 27.3 percent growth in RTD cocktails. And according to Drizly, 62 percent of spending in the category comes from millennial purchasing, with the highest growth rate seen in Gen Z. While there does seem to be some effort to dust off the old wine cooler category, the overall lack of participation in the single-serving and RTD market might be a missed opportunity.

But before we even get to the on-ramp discussion, consumers have to be curious about wine. That is a function of advertising and promotion, something we as an industry must improve upon (see figure 9 in the next section).



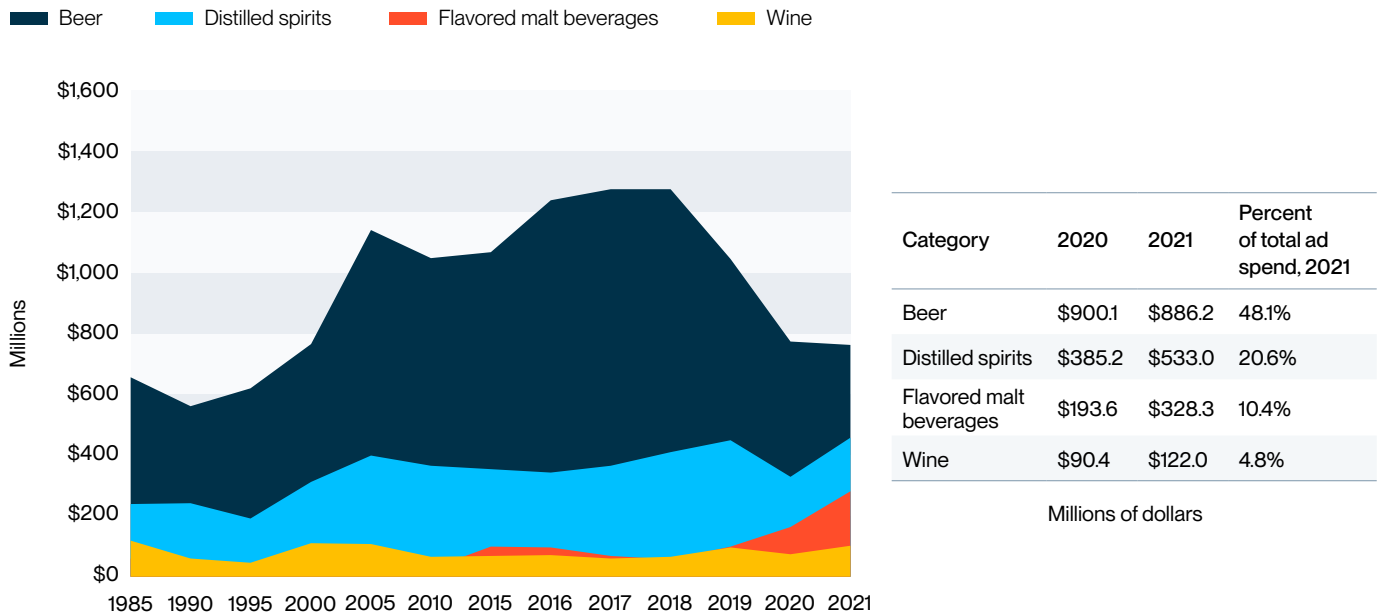


05

STATE OF THE US WINE INDUSTRY 2023

Advertising and promotion

Figure 9: Annual advertising spend for alcoholic beverages



Source: Shanken Impact Databank

Consider the demand problems facing the industry. If an average businessperson were asked to propose a solution to the negative sales trend, some would suggest increasing the advertising budget. It seems obvious! Well, maybe someone might first ask the more obvious question, “Are you discounting the price?” But that person would be out of touch with the current pace of inflation and the costs to produce wine. Lowering the price, in my opinion, is a downward spiral.

Some of the current industry advertising is directed at the under-50 consumer, but it’s not moving the needle. Much of the messaging and marketing used today was useful for an older generation, now age 60 and over.

When we do market today, we are still largely selling “long warm days, cool nights and special soils.” You know what I mean by that. We spend time talking about the date of harvest, the pH of the wine, acidity and pick dates. We speak of the owner, their background and their successes, if not also the family’s history. Some owners put drone footage of their beautiful properties on their websites to entice visitors.

What we are doing in the premium industry is selling white-linen hospitality and gracious living, with a nod to the lifestyles of the rich and famous in many cases — information that’s interesting to wine geeks and consumers over 60 but probably not to the vast majority of potential customers. That message is at best wasted on a younger crowd; at worst, it’s turning them off, as the data demonstrates.



Wine was last cool
with young consumers
30 years ago.



In the heavy-production side of the business, there is at least an attempt to use imaging and graphics that might resonate with younger consumers, but the results don't lie.

Attracting younger customers, who are more diverse than older generations, requires reimagining and redefining the audience and our individual brands. Each point of your brand expression — the website, tasting room, winemaking, growing operations, company goals, packaging, hiring practices and even the dress code — has to be evaluated for how well it will resonate with a new audience.¹¹

The solution to flagging demand is to improve the value of wine vs. competing beverages for the consumer. Reducing prices could increase value, but a better bet is to promote features about your wine that resonate with new and marginal wine consumers (see figure 10). With that information, we should start with an industry advertising campaign to boost the category, measuring success along the way.

What we as an industry are currently spending on advertising is embarrassingly low, at 5 percent of all alcohol beverage advertising spending. And that 5 percent is our spending in a good year! It's more often less than that.

Our category isn't playing in the same league as beer, spirits or even flavored malt beverages when it comes to creating interest in the products. And it's no coincidence that we are surrendering share to other beverage categories.

Wine was last cool with young consumers 30 years ago. The category back then spoke of boomer values, conspicuous consumption, outward personal success, short breaks for family gatherings and the imaginary free time that would be taken with the money earned by working.

After writing about industry challenges from the sidelines for years, I decided to get off the bench. Starting in the winter of 2018, a small group of industry analysts including me tried to advance an industry-wide marketing organization. The progress was announced in the *2022 State of the US Wine Industry Report*.¹² In the final analysis, I can say we got close but were proven unsuccessful. (See the next page for “The Rest of the WineRAMP Story.”) Cooperative industry advertising, messaging and promotion to bring in new consumers of legal drinking age seem out of reach.

The Rest of the WineRAMP Story

In last year's *State of the US Wine Industry Report*, I announced the formal formation of WineRAMP, an effort to discover paths to improve consumer adoption of wine. That announcement was made after two years of gratis hard work by three other industry analysts and me.

Also joining the effort were a variety of senior executives from wine companies, including most of the largest wineries, some medium and smaller wineries and industry suppliers. That group formed a steering committee.

The unanimous conclusion by the group was that the industry had a demand problem and a solution needed to be devised.

A feasibility study run by the Haas School of Business at UC Berkeley led to the recommendation that the best way to attack the elements hurting wine demand was to come together as an industry and promote the category through a USDA Marketing Order.

We raised commitments for nearly all of the \$1 million required for the two-year approval effort. But once the effort was announced in January 2022, objections were raised by a minority outside of the steering committee. The mandatory assessments required to fund the organization were the most controversial element.

Those objecting voices carried weight, and the opposition grew to the point that the project was abandoned. We four analysts looked for other feasible options over the subsequent months but, finding none, stopped actively working on a cooperative industry solution.

Each of the four analysts engaged in WineRAMP still retain concerns around slackening wine demand, but today WineRAMP has become a footnote.

Who has the next big idea? Who will be a leader?



Everyone needs to develop a strategy for their brand or risk riding the shrinking industry tide.

Attracting the 30- to 40-year-old consumer to the wine category has to start with changing our marketing message.

The key to future success in marketing to younger consumers is recognizing the things that are important to them as opposed to what's worked in the past.

If you are a winery owner, you have to consider how to message to new and marginal wine consumers to attract them to your brand. It doesn't matter if you are selling \$10 chardonnay or \$200 cabernet, the wine consumer is changing, and everyone needs to develop a strategy for their brand or risk riding the shrinking industry tide.

Welcoming the younger consumer

To on-ramp a new consumer of legal drinking age, we first need to consider what they have in common with the existing consumer set.

While we haven't won over the young consumer, there is emerging and credible data from two separate retail sources that show younger consumers are making the largest per-bottle purchase when they do buy wine. While that doesn't mean they are spending the most per purchase (they are actually buying fewer bottles per purchase than any of the other age bands), they do appear to be buying expensive bottles for gifts and special occasions.

That's a promising start. If it can be proven with more data, it shows that the young consumers are wine-interested, and when the right marketing and quality/price are delivered, they should be buyers. But attracting the 30- to 40-year-old consumer to the wine category has to start with changing our marketing message.

Younger consumers don't put much trust in the wealthy even if they want to be rich themselves. They are skeptical about inauthentic and opaque marketing, and most of the time they don't care about your family's name on the bottle unless it comes with a story that resonates with them. A story that starts with "I made my money doing..." isn't helping your brand today.

Younger consumers are more interested in what's in the bottle — where it comes from, how it's grown, the ingredients and additives, how it can make their lives more fulfilling and how you as an organization try to the world better.

Figure 10: Generational differences

Values	Boomer	Millennial
Work life	Hard work	Meaningful work and life balance
Two-income families	Optional but allowed for life's luxuries	Now required for rent and homeownership
Defining success	Material things and awards	Fulfilling friendships and relationships
Winning	Compete to win THE trophy	Everyone wins a trophy
Technology	For improved efficiency	To communicate, connect and be entertained
Support group	Family	Friends
Marriage	Marry early. Divorce early.	Not required but secretly desired
Children	Important; two or more	Conflicted; at least one if the timing works
Choice in food	Don't eat if it's bad for you	Only eat if it's good for you
Faith	Pick one flavor	Optional but accepting; prefer spirituality to religion
Government	Not to be trusted	Not to be trusted
Business	Capitalism is the path to individual wealth	Business success comes with social responsibility
Social justice	Responsibility of government, church and law	My responsibility
Diversity	Civil Rights Movement drove change	Action and social and ethnic diversity drive change
Finances	Debt is good	Savings are good
Landfills and waste	Disposable culture	Green, reuse and repurpose culture
Spending	Conspicuously	On important things
Pleasure	Work before play	Work at play
Fun	Work is fun	Everything should be fun
Retirement	Not if I don't have to	I'll never be able to, but the sooner the better
Experiences	Bucket lists	Unique, adventurous and socially connected
Charity	Quietly donating money to causes	Publicly donating time to causes

Source: Silicon Vally Bank, 2022

The key to future success in marketing to younger consumers is recognizing the things that are important to them as opposed to what's worked in the past, then leveraging those values in marketing wine (see figure 10).

It's important to understand that I am not implying that we need to blow up what we've been making and put cartoon characters on our labels. We don't need to change the core of who we are.

We are producing a consumer product, but we are also being true to a tradition that has spanned 8,000 years.¹³ That should say something to a consumer too. We can keep traditions and traditional labels, but we have to evolve and, as marketers have done for generations with other consumer goods, find the points of agreement where changing generations have common ground, and then get better at competing for market share. We can produce wines as we always have, but we need to reflect the values of younger consumers in our branding and messaging.



Social responsibility is important to millennial consumers.¹⁴ That's a factor embedded in their purchase decisions. They are driving change in boardrooms, insisting that companies consider how they impact both the earth and society as a whole. Younger consumers are effectively using activism and social pressure to initiate change and are reframing social expectations. They didn't listen to my Business 101 course, where I learned that the goal of a company is to maximize shareholder profits.

And yes, price does factor into the decision, especially when your product is being compared to the spirits category, which is gaining market share (see figure 21).

Millennials are frugal, delaying or skipping most of the major life events. Compared to past generations, they take longer to graduate from college, delay marriage or never expect to marry,¹⁵ postpone having children¹⁶ and start their careers later. The homeownership rate of millennials is lower than the homeownership rate of Gen Xers and baby boomers at the same age. Their income has not kept pace with pandemic-influenced real estate price increases.¹⁷

But price isn't keeping the younger consumer from buying luxury goods. As noted earlier, millennials and Gen Z are responsible for all of the growth in the luxury goods category in 2022. Those in the luxury goods business market and build their brand. They know how to connect with buyers, and how to improve the value in their product, while raising prices.

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Why can't the wine industry do that?



We lack the transparency our consumers are demanding when we refuse to even put calories on the label.

Wine and health

Eating healthy is a critical value for young consumers, and there is ample evidence that suggests that older consumers are taking their cues in wellness practices from young people by adopting some of their health-conscious diets and consumption patterns too. So paying attention to health messaging is probably good for both current and potential consumers.

Respected beverage analyst Danny Brager noted that the better-for-you wine entrants such as FitVine, Bota Box Breeze, Cupcake LightHearted and Franzia Refreshers are delivering good results. NielsenIQ reported a 13 percent rise in annual sales of better-for-you brands on a year-to-date basis in September 2022.¹⁸

Part of health awareness is knowing how many calories are going into your diet. Even those of us in the industry often don't know how many calories are in a 5-ounce glass of wine. We lack the transparency our consumers are demanding when we refuse to even put calories on the label, and that is a huge marketing miss.

If we really want to reach the millennial, we need to look at how other beverages are marketed successfully, including soda, energy drinks, hard seltzers and spirits. Then we need to repurpose those ideas for our own benefit.

Have you ever looked at the back of a can of White Claw spiked seltzer? Notice the number of calories per serving. The content description has very few ingredients and nothing the consumer can't pronounce.¹⁹ It's also a lower-alcohol product (5 percent alcohol by volume), which appeals to both older and younger consumers. There are "no added sugars" as a point of emphasis. Each of those messages is being made to health-conscious consumers. Are the claims working?

Research done by the Wine Market Council (WMC) is definitive about how the consumer views spiked seltzer vs. wine (see figure 11). While over half of respondents don't attribute any health claim to any alcohol beverage category, the chart has two interesting components.

Figure 11: Share of adults who associate wellness attributes with types of drinks

	Wine	Beer	Spirits	Hard seltzer	None of these
Is low-calorie	10%	9%	9%	24%	56%
Is low-carb	11%	7%	14%	21%	56%
Contains less sugar	9%	13%	14%	21%	52%
Is a good option when dieting or watching what I eat	18%	4%	9%	18%	59%
Is healthier than other alcoholic beverages	34%	6%	5%	13%	48%
Is lower in alcohol	14%	23%	1%	22%	47%

Source: Wine Market Council

First, the dormant messages of the French Paradox, the Mediterranean diet and Dr. Arthur L. Klatsky’s work on the positive health impact of moderate alcohol consumption (see the “Cumulative Negative Health Messaging” section) still have some power with the over-55 crowd, which drives the “wine is healthier than other alcohol beverages” response in the chart according to the Wine Market Council.²⁰ Second, while more respondents view wine as healthier than other alcohol categories, the health claims made on cans of spiked seltzer are working for consumers below age 55.²¹

No, the wine industry can’t make health claims and include an icon that implies such without label approval by the Alcohol and Tobacco Tax and Trade Bureau (TTB).²² And before we get there, that messaging has to be right for who we are as a producer. Nonetheless, we can inform the public of the attributes within our products that others ascribe to health, and we should be incorporating those into our marketing messages as appropriate if we want to improve the value of what we make in the eyes of a health-conscious population.

What ingredients are in a bottle of wine? Grapes, sometimes with added yeast and minuscule amounts of added sulfites. Wine couldn’t be any more natural, especially compared to other alcoholic beverages. But we aren’t close to being transparent with what’s inside our bottles. Not letting the consumer know just how few additives are in wine, how naturally it’s made, how little sugar is in dry wine and how pure the beverage is remains a lost differentiator and a mistake.



Our industry has values that are important to younger consumers, and we are exactly the beverage they are seeking that mirrors their values. They just don't know it!

“For god's sake, we are plant-based!”

If health-conscious consumers are looking for wines that are better-for-you and transparent in their ingredients and winemaking, why not give them what they want?

Wine. It's what the young consumer wants. They just don't know it.

I ask you to consider this question: At the core, what is the wine industry about? My answer is that it's about producing a natural product that enhances life, fun, life events and experiences.²³ Wine is not a health tonic, but it is better for you than other alcoholic beverages.

The wine industry is also about giving generously for causes, advancing green practices, caring about where and how we source and grow grapes, being responsible stewards of the land and the limited water supply, using natural resources conservatively and being mindful about our partner farmworkers, often providing them the best benefit and compensation structure in agriculture.

Many owners in the wine business use sustainable farming practices, incorporate biodynamic and organic²⁴ farming techniques and take great care in their winemaking by recycling water, avoiding the use of glyphosate, building and retrofitting with LEED certification in mind and developing sustainable business models.

All of those qualities are important to younger consumers, but the fact that these consumers don't see the wine industry in those terms is a failure of unified industry messaging. Our industry has values that are important to younger consumers, and we are exactly the beverage they are seeking that mirrors their values. They just don't know it! As one of my friends once said with passion, “For god's sake, we are plant-based!”

Natural and organic wine

Many producers make wine with organic grapes, take a minimalist approach to winemaking, stay away from additives, are biodynamic farmers, use sustainable methods of farming or produce a low-alcohol wine. That's keeping up with the population's desire for cleaner food, produced without agro-chemicals.

Oddly, more times than not, the green efforts those wineries and growers make aren't being used for marketing purposes, even though the winemaker and winery owner must believe that those efforts make better wine.



I'm not at all a fan of the marketing tactic that starts by throwing shade at other wine producers with sweeping generalizations in an attempt to lift one brand.

If health-conscious consumers are looking for wines that are better for you and transparent in their ingredients and winemaking, why not give them what they want?

The TTB has recently weighed in on this question as more producers have been making health claims in social media and on their websites, trying to provide the transparency the consumer wants.²⁵

As we all know in this business, the TTB is quite clear that producers can't directly advertise or link any health benefit to alcohol. That obviously limits what can be said. But you are allowed to state anything that constitutes "the truth." For instance, you can say your wine is low in carbs, low in calories or sugar-free under specific content labeling rules.²⁶ Clearly, the gate is even wider than that, given the advertising that is common with spiked seltzers and spirits, and a growing number of producers are finding their own path to that consumer by using descriptions such as organic wine, minimalist intervention wine, natural wine or clean wine.

The story should end there, but a lot of controversy surrounds both this topic and some wine producers who are using many of those terms to sell what their wine *isn't*.

I'm referencing the growing number of wineries that see the need to start their consumer message by implying that all wine is made with chemicals and loaded with additives. They then go on to tell the story of how their wine isn't that.

I am a fan of being transparent. I've been encouraging owners to do that for many years. But I'm not at all a fan of the marketing tactic that throws shade at other wine producers with sweeping generalizations in an attempt to lift one brand. That approach is shortsighted and not a sustainable business model.

The wine category is made of consumers who drink a variety of wines. This isn't soda and a choice between Coke and Pepsi. When producers cast doubt about the rest of the wines made in the industry—the wines their target consumers enjoy—they are seeding doubt about the industry, and in the end, that can implode, particularly if that marketing technique is obfuscating any truth about their own wines. The truth will be made clear at some point. We stand a better chance being successful by working together.

“

We should be marketing what our wines are and what they stand for, not what they aren't.

Here's two marketing pitches:



(What it's not) Our wines don't contain fungicides, glyphosate, pesticides, velcorin, isinglass, bentonite, sulfur dioxide, copper sulfate or worm castings.



(What it is) Our wine is made from organically farmed grapes and contains natural yeast, natural and added sulfites for freshness and less than 1% residual sugar from the harvested grapes. A 5-ounce serving has 140 calories.

Which wine would you buy?

My advice is that we should all be selling customers what they want and should become more transparent about our winemaking and grape growing, as well as what we put in our wine. We should also advocate for more disclosure in labeling guidelines and market what our wines are and what they stand for, not what they aren't.



06

STATE OF THE US WINE INDUSTRY 2023

The Winery Sentiment Index



Have we ever had a more difficult business environment to conquer?

2022 marked the beginning of the move back toward normal business conditions. We aren't there yet, but we are closer. It's been a wild ride over the past three years, with 2020 being the low point thanks to COVID and West Coast fire and smoke issues. But for some, 2020 also was a bright spot.

While 2020 was a clear aberration for everyone, the large producers generally did well that year, with good sales growth. Their success reversed in 2021, when they failed to get the hoped-for boost from restaurants restocking. For large producers, sales growth in 2021 was going to be hard to maintain, given inflated 2020 off-premise results. Those large wineries represent the majority of industry production by volume and own the lower-price market. For that group, 2022 ended up producing mixed results at best.

At the other end of the volume sector, the smaller premium producers' results were the mirror opposite of larger producers'. 2020 was the difficult year, followed by an exceptional 2021 as tasting rooms and restaurants reopened. Restaurants did restock their cellars from the premium producers. While sales growth in 2022 for this segment wasn't at the astronomical levels we saw in 2021, the growth was still quite solid in the high single digits.

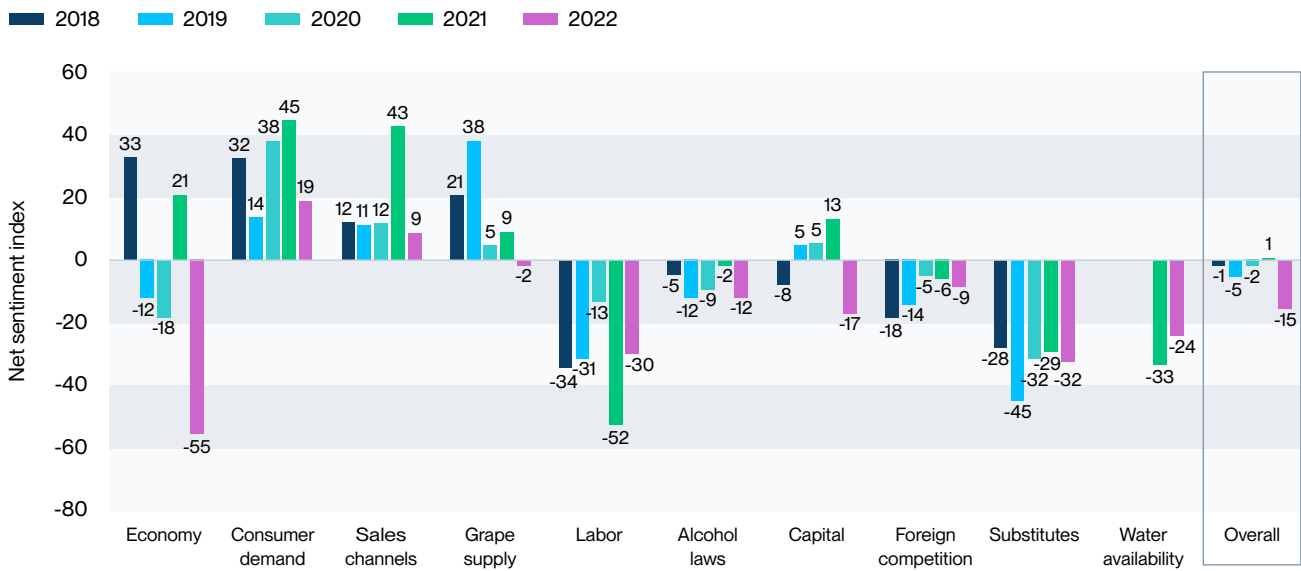
All that said, 2022 brought its own set of challenges for everyone.

The issues that winery owners needed to overcome this past year were daunting. While COVID has mostly fallen into the background now, a partial list of other headwinds includes the continuing and growing consumer disillusionment with wine under \$15, a slowing economy, neo-prohibitionism and evolving anti-alcohol laws, world political unrest, an aging wine consumer and resulting changing consumer tastes, declining total volume industry sales, supply chain shortages, finding skilled labor at an affordable price (or any price), inflation and increased material and shipping costs that were hard to fully pass to consumers in price increases, higher interest rates, higher numbers of imports and competition from other alcohol producers, and the deleterious impacts from climate change.

Have we ever had a more difficult business environment to conquer?

We have been tabulating the Winery Sentiment Index for nine years now through the annual Silicon Valley Bank Winery Conditions Survey. I'm sure if winery owners could have voted their sentiments during the Prohibition era, they would have rated it a more difficult time than today, but there is definitely anxiety hanging in the air.

Figure 12: Winery Sentiment Index



Source: SVB Winery Conditions Surveys



Small winery performance was solid in 2022 for the small premium wineries who dominate the index.

The economy, labor, wine substitutes and water availability are the largest negative contributors to owners’ sentiment today, with consumer demand and sales channels representing the only positive inputs (see figure 12).

In 2018, the overall Winery Sentiment Index dropped into negative territory for the first time since the index was created. With the exception of 2021, when the index was a positive 1, the index has remained negative ever since.²⁷

This year, the overall Winery Sentiment Index came in at a record low point of minus 15. That doesn’t mean that winery owners are losing money or jumping off a ledge. In fact, in figure 34, 40 percent of owners responded that 2022 was one of their better years or their best year yet. But the Sentiment Index does reflect a growing negative consensus around several of the index categories.

I’m viewing this in the context of the amount of current uncertainty in the world and the business environment. Many larger wineries had a difficult 2022, but financial performance, as discussed elsewhere in this report, was solid for the small premium wineries that dominate the index. Feeling positive about consumer demand and sales channels goes a long way to offset the beliefs about the other index categories.



07

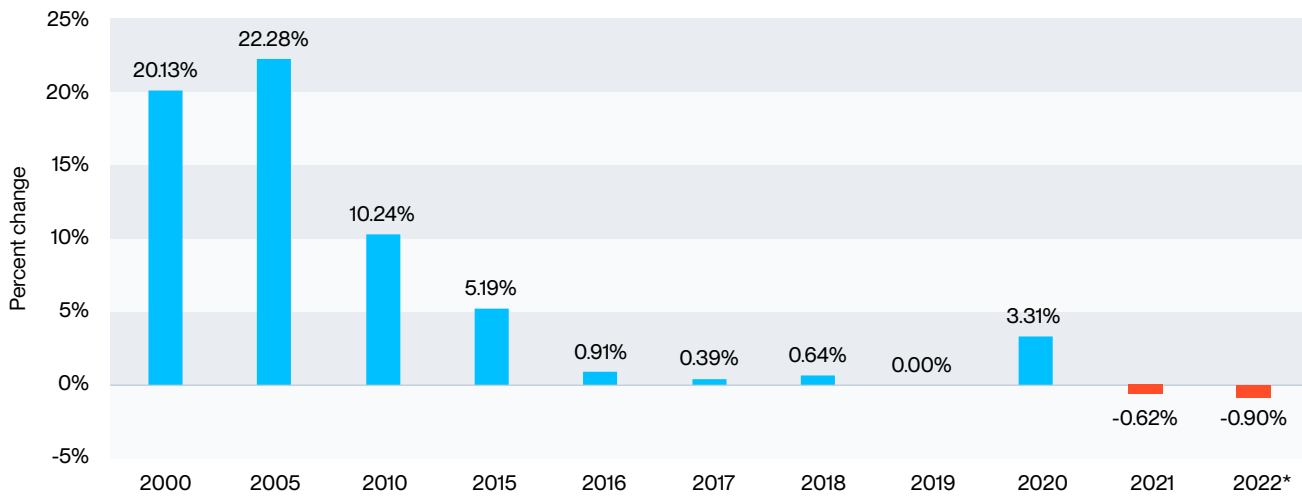
STATE OF THE US WINE INDUSTRY 2023

Sales trends

Overall US wine industry top-line performance in 2021

Sales are the potential to make a profit. Having sales doesn't guarantee a profit, but without them, there is no chance to make money. It's the first data most financial analysts review when looking at a company or segment, so it's a good starting point for a discussion on the financial performance of the industry.

Figure 13: Change in US wine volume consumed



Source: Shanken Impact Databank Review and Forecast, 2021

*Estimate



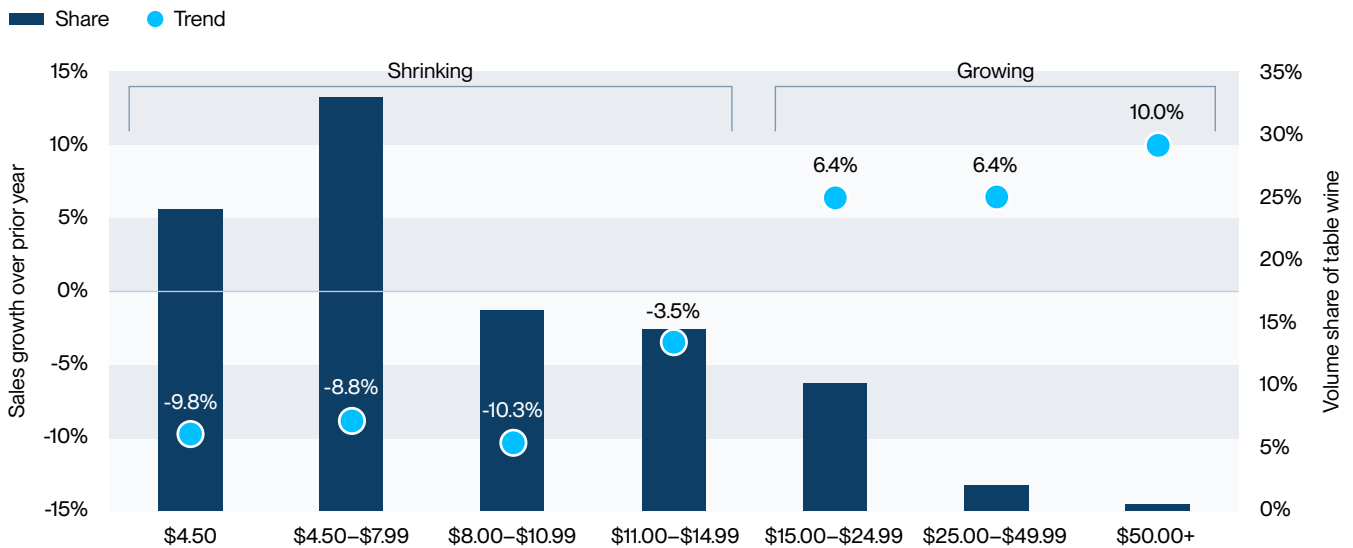
While 2022 industry volume will be negative, predictions are that sales dollars will be positive, perhaps as high as 1 percent to 2 percent growth by some early estimates.

Total consumption growth of wine in the US on a volume basis has been slowing for many years now, something that has been discussed frequently in this report in past editions.

While most market watchers have acknowledged the slowing volume trend, determining real volume consumption in wine with accuracy has always been a difficult task because the multiple inputs that need tracking can't all be measured with precision. While measurements are improving with technology as it becomes available, there is a fair bit of guesswork involved.

The volume estimates of annual sales growth in the wine industry in 2022, as of this writing in December 2022, have hovered around negative 1 percent volume change, plus or minus 1 percent either way.²⁸ But in a small anomaly today, most, and possibly all, analysts are predicting negative volume growth for year-end 2022 (see figure 13). While that is a discouraging alignment of opinions, there are bright spots in the data. For instance, while 2022 industry volume will be negative, predictions are that sales dollars will be positive, perhaps as high as 1 percent to 2 percent growth by some early estimates.

Figure 14: Wine business bifurcation



Source: SipSource



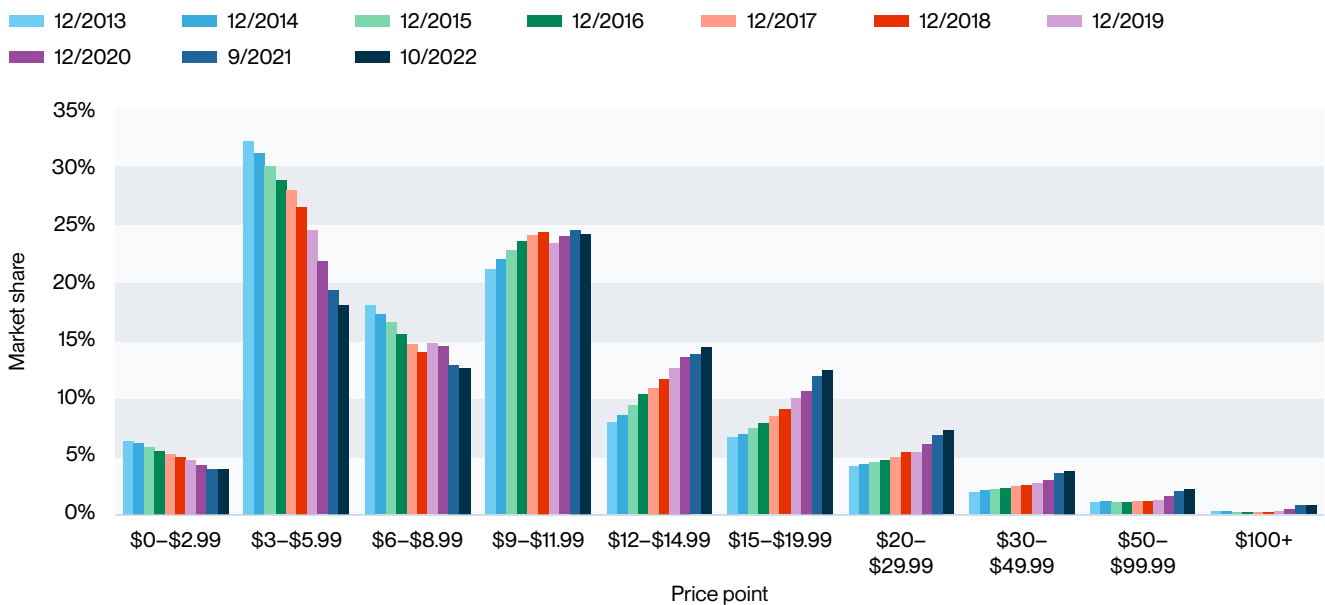
There has never been a wider disparity between sales growth in the value-priced, high-volume wine segment and the premium wine segment.

Understanding the nuanced view of sales trends in the wine business starts with acknowledging that there has never been a wider disparity between sales growth in the value-priced, high-volume wine segment and sales growth in the premium wine segment. While some brands and wineries defy the overall trends today, all price segments less than \$15 are experiencing declining sales volume, according to SipSource information, and those above \$15 are still growing in sales volume (see figure 14).

Over the past eight years, the demarcation line between growing or shrinking industry sales volume has marched consistently higher in Nielsen data — from \$8.99 per bottle as recently as 2014 to \$11.99 in 2021 and, with reopening post-COVID, to \$14.99 in 2022. That is a rapid shift in consumer buying behavior underway.

On a value basis, the data is slightly better, with the \$11 and below segment now declining while the \$12 and above segment is still growing in market share (see figure 15). It's important to recognize that the \$11 and below category represents roughly 73 percent of total wine volume sales in the US today and dominates the sales metrics for the category.

Figure 15: Annual change in share (value) by price point



Source: Nielsen



For these persistent trends to be reversed, we need to do something different, because what we're doing now isn't working.

While it would be easy for the owner of a growing premium winery to conclude that reversing the negative trends in the under-\$15 wine category is the job of the large production wineries — and there is a large amount of truth to that — declining consumer interest in lower-priced wines should be a concern to everyone in the wine business at all price points.

For these persistent trends to be reversed, we need to do something different because what we're doing now isn't working. Today, the wine industry is failing to identify and apply effective measures to attract new people to the category, create more occasions for wine to be consumed by existing wine consumers or take market share back from the spirits category. The spirits industry is doing a much better job of selling and marketing their product.

Figure 16: Sales depletions for the largest seven US wineries

Rank	Company	9-liter case depletions (millions)				Change	Change	Change
		2018	2019	2020	2021	2019–2020	2020–2021	2019–2021
1	E. & J. Gallo Winery*	98.5	94.5	95.3	93.4	0.9%	-2.0%	-1.2%
2	The Wine Group†	41.5	40.3	42.0	40.5	4.2%	-3.6%	0.5%
3	Constellation Brands ‡	21.7	21.5	21.6	20.7	0.5%	-4.0%	-3.7%
4	Trinchero Family Estates	18.5	18.4	18.0	17.6	-2.0%	-2.0%	-4.1%
5	Delicato Family Wines§	11.2	12.0	15.4	15.7	28.5%	2.0%	23.7%
6	Deutsch Family Wine & Spirits	11.2	10.9	12.4	11.8	13.7%	-5.3%	7.1%
7	Treasury Wine Estates Americas**	11.4	11.6	10.8	9.9	-7.0%	-9.0%	-18.1%
Average sales growth for the largest seven wineries						3.0%	-2.8%	-0.2%
Average market share for the largest seven wineries		64.8%	63.3%	63.1%	61.8%			

* Includes brands acquired from Constellation in 2020 and 2021.

† Excludes brands licensed from Treasury Wine Estates in 2021 and wines acquired from Constellation Brands in 2022.

‡ Excludes brands sold to Gallo in 2020 and 2021.

§ Includes brands acquired from Francis Ford Coppola Winery in 2021.

** Includes Frank Family Vineyards and brands licensed to The Wine Group in 2021.

Source: Shanken Impact Databank

Impact of pandemic-influenced channel shifts

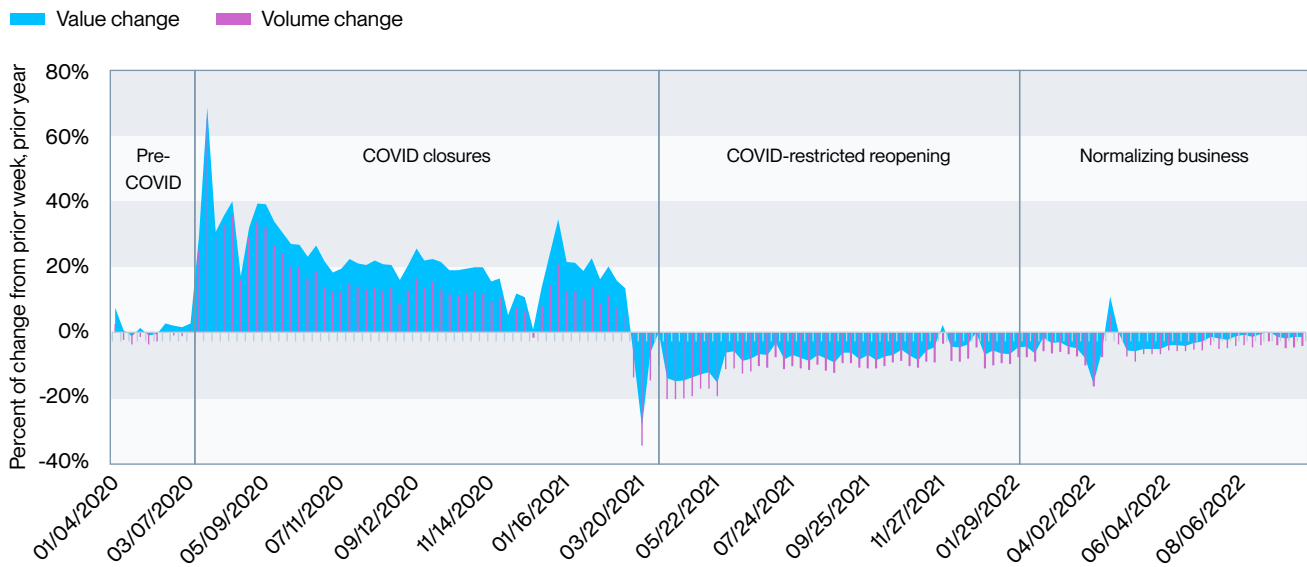
Large production wineries

The top seven wineries represent about 60 percent of total wine sales. For all but two of these wineries, 2020 was a very good year, with more wine sold to their retail and grocery accounts across the nation. When 2021 came and restaurants reopened, though, those gains reversed, and only one of the seven had positive year-over-year depletions. 2022 continued the trend, with all but three of the seven showing depletion declines, even given the weak prior-period comps.

For the longer period from 2019 to 2021, total depletions for this group were just slightly negative. The sales depletion performance of those producers shown in figure 16 indicates the scale of the issue.

Because of COVID, the last three years have seen the most dramatic channel shifts in history, unless you consider Prohibition a channel shift. The COVID-induced shifts caused restrictions on business conditions, creating winners and losers in each of the last three years. Even to this day, the impacts and reverberations from those shifts are still being felt.

Figure 17: Weekly off-premise volume and value changes vs. prior year



Source: Nielsen

Figure 17 is perhaps the best visual representation of the shift in off-premise wine purchase patterns in the US over the past three years and is instructive on where channel shifting stands today. This chart, which shows only grocery and drug channels, can be divided into four segments.

The first segment represents the pre-COVID period in 2020 (i.e., the first two months of that year). Just prior to the pandemic, wine suffered from an acute oversupply in the US. In early 2020, “normal” meant that large production wineries had minimal growth and were discounting, while smaller premium wineries were finding growth rates around 5 percent. As a category, we were moving toward negative growth. In early 2020, volume changes exceeded value changes in grocery stores, implying that the off-premise channel was discounting, which is done when there is acute oversupply.

The second segment in the chart begins in March 2020 with the COVID lockdowns. Alcohol sales in the grocery channel exploded as shelter-in-place orders were being issued and restaurants were shuttered along with tasting rooms. Wine sales spiked 68.6 percent in the off-premise channel as panic buying, or pantry loading, for wine and other staples took over.²⁹

Because of the frenzied buying behavior, supply became restricted in the off-premise channel, and stock-outs of some well-known comfort brands in isolated stores became a talking point, with store employees working through the night to restock shelves. Off-premise merchants quickly reduced promotional programming and raised prices. Value changes exceeded volume changes.³⁰



The large producers with distribution in the grocery channel did well during the period during COVID business closures, while the second segment of the chart was not kind to smaller producers who had closed their tasting rooms and laid off staff.

The second segment concludes in March 2021 with the vaccination rollout, a full year after the original shelter-in-place orders had been issued.

The third segment starts in April 2021 as businesses reopened and mandates were relaxed, with wine purchases creeping back into their prior closed channels. This period also included supply-chain issues, which impacted inventory in grocery stores, and a spike in the Omicron variant, which led to disappointing holiday sales in December 2021.³¹ The spike rolled back some of the restrictions that had been relaxed and slowed both on- and off-premise sales.

The fourth segment of the chart starts with early 2022 and the official relaxation of mask mandates and business restrictions. As business conditions continued to normalize, wine sales continued to drift away from off-premise to the channels that emphasize premium wine.

The large producers with distribution in the grocery channel did well during COVID business closures, which were not kind to smaller producers that had closed their tasting rooms and laid off staff. It wasn't fatal, however, as wine club sales, online sales and other creative tactics helped sales growth in premium wineries to minus 0.6 percent for 2020 (see figure 18).

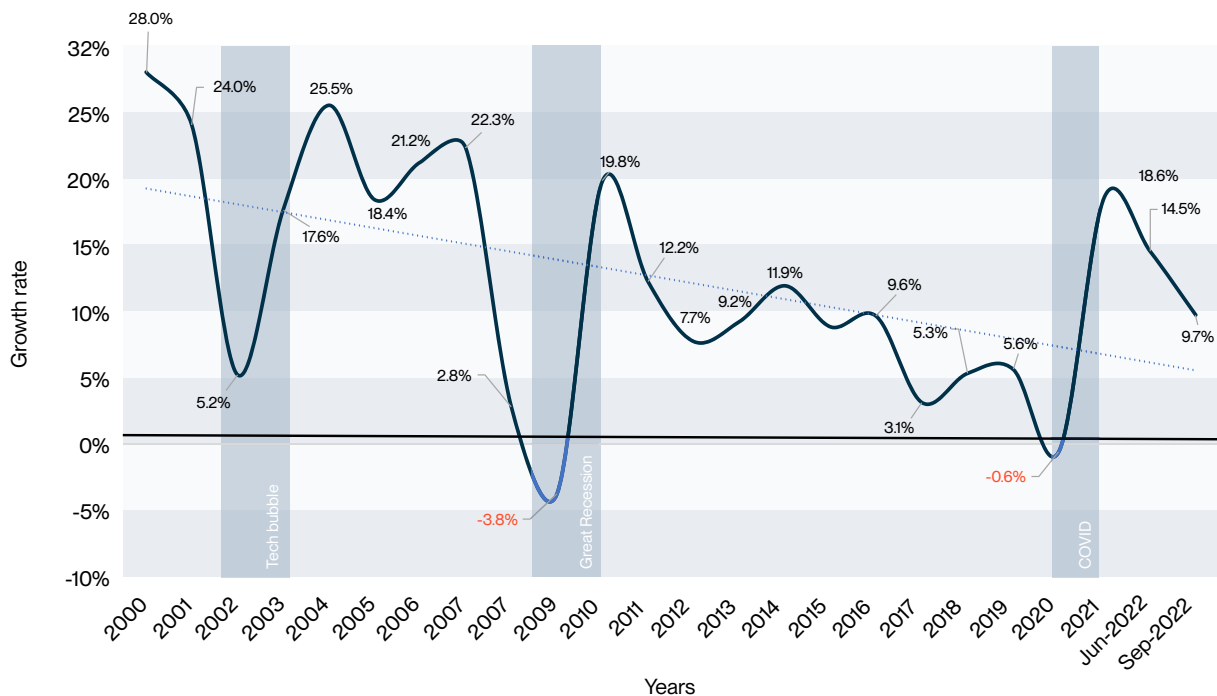
Small premium wineries

While larger producers raised prices in the off-premise channel in 2020, small producers took to discounting or offering reduced-price shipping to move supply during that time.

In March 2021, 12 months after the shelter-at-home orders and resulting huge spike in grocery sales, total off-premise sales began to revert back to the pre-pandemic statistical mean. Consumers had more options for buying wine than just grocery stores and online.

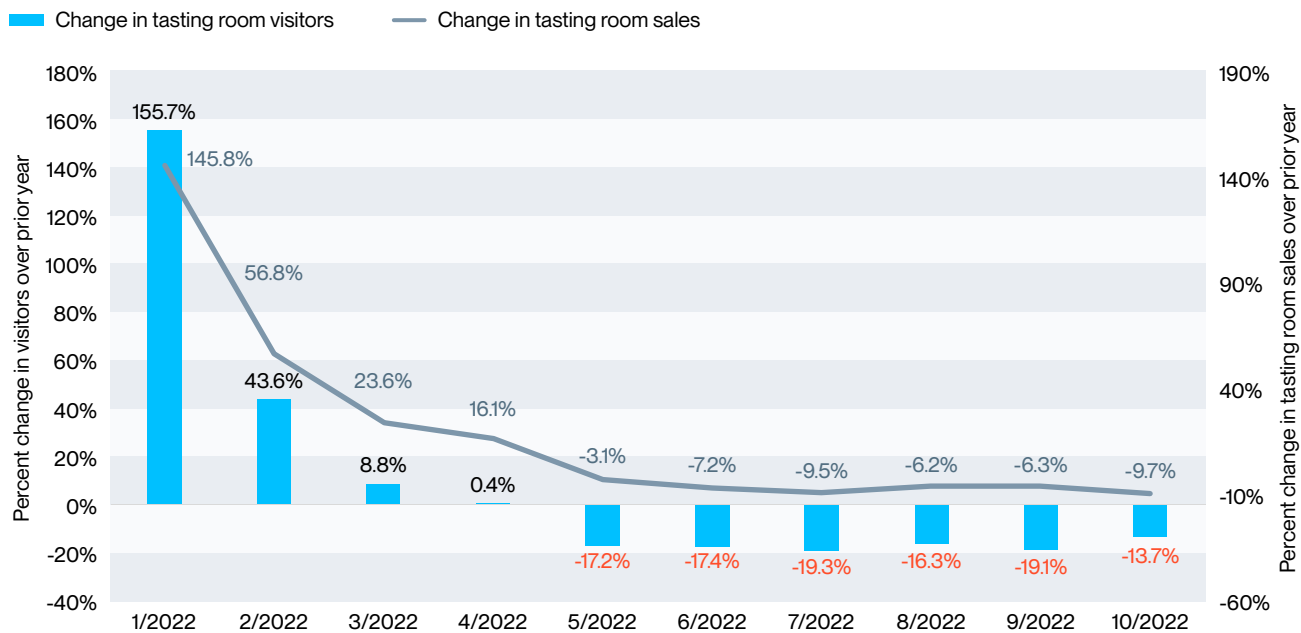
While it couldn't really be called normal business in 2021, given the masking and added COVID precautions, wine did start selling again in tasting rooms, bars, restaurants and other service venues. Even with smiles hidden behind surgical masks, 2021 was a very good year for small premium producers, with total sales growth up an average of 18.6 percent compared to a small sales decline in 2020 (see figure 18).

Figure 18: Sales growth rate for premium wineries



Source: SVB Peer Group Database

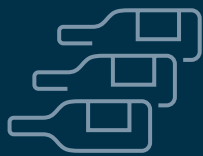
Figure 19: Tasting room visits and sales in 2022



Source: Community Benchmark



2022 was light compared to 2021 in visitation, particularly after May 2022, when travel restrictions and mask mandates began to be fully relaxed.



We should end 2022 with premium wine industry sales growth somewhere around 9 percent plus or minus 1 percent.

The strong growth was due not only to smaller premium producers reopening their tasting rooms but also to consumers who wanted to get out of their homes but found long-distance and international travel still restricted. Close-to-home visits for outdoor wine tastings were a great solution.

After the Omicron Grinch stole holiday sales beginning in November 2021, there were high hopes for a better spring, marked by the full rollback of health restrictions. Most restrictions did end in 2022, but the result didn't materialize in quite the way most envisioned (see figure 19).

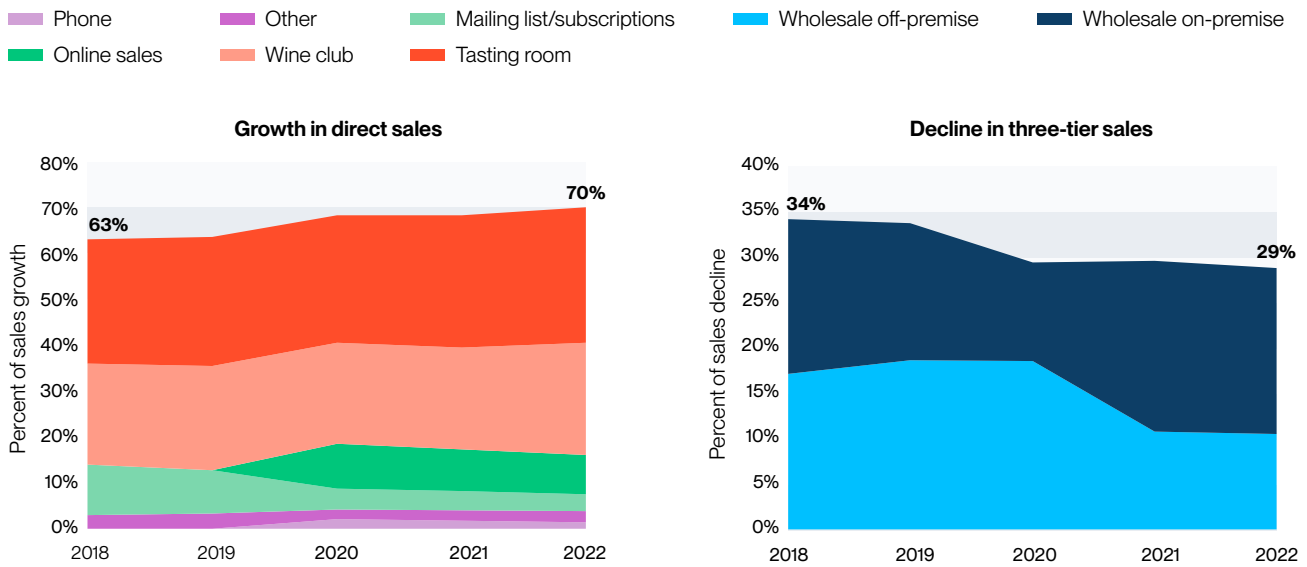
Information from Community Benchmark is the most definitive information available on monthly visitation. 2022 was light compared to 2021 in visitation, particularly after May 2022, when travel restrictions and mask mandates began to be fully relaxed. Visitation was off an average of 17 percent from May to October 2022. Indications are that trend continued through year-end. Tasting room sales fared better, only off an average of 7 percent during that time frame.

With travel restrictions and mask mandates ended in 2022, many delayed celebrations and adventures became possible again. A portion of the normal Wine Country crowd decided to make up for all the missed opportunities that COVID snatched away, and they opted to travel elsewhere in 2022.

In figure 18, the anomaly in the general industry sales trend is obviously 2021, with sales growth at 18.6 percent. That's the highest growth rate since 2010. In the same way 2021 was a rebound year from COVID, 2010 was a rebound year from the impacts of the Great Recession. In all past recessions, the pattern has been to slump, recover with strong sales growth the following year, and then revert to the mean, which for premium wine is around 5 percent growth.

In addition to lowering tasting room spending, reduced visitation negatively impacted total premium sales growth, which ended nine months in September 2022 at 9.7 percent growth (see figure 18). Growth for the full year shouldn't drop below that, given the weak comps from the prior year.

Figure 20: Sales growth of premium wineries



Source: SOTI Survey, 2022
 Note: Excludes export sales.

While great strides continue to be made today 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?

Luxury wineries sell 70 percent of their wine through direct-to-consumer channels today. It’s really a shame that most consumers don’t know how to get wine other than through the grocery channel. But I see that as an opportunity because it means the premium industry still has a lot of upside if it can tap into the wine-interested consumers who aren’t buying directly from the winery.

The annual State of the US Wine Industry Survey data shows that from 2010 to 2016 there was significant channel shifting away from wholesale and over to the DTC channel. This stabilized between 2017 and 2020, when DTC became virtually the only option for small wineries to move wine slated for restaurants and tasting rooms. As figure 20 indicates, wholesale on-premise sales recovered with reopening, while off-premise has remained a smaller part of an average winery’s sales mix today.



What is still working for the wine industry is the premium category. Consumers are leaving lower-priced segments and continuing to trade up to higher-price, higher-quality products.

It should be noted that with only three states (Delaware, Mississippi and Utah) still prohibiting direct shipment of wine to consumers, the opportunity to expand direct sales when new states open to direct shipping is now more limited than in the past decade. Growth in this segment will come from new subscription models and wineries' ability to grow their sphere of influence and take their direct sales efforts and winery experience on the road to new locations and customers.³²

What is still working for the wine industry is the premium category. Consumers are leaving lower-priced segments and continuing to trade up to higher-price, higher-quality products. Wine and spirits have both benefited from this trend since the mid- to late 1990s. But how long can trading up continue without a consumer "trading in" to the wine category in the first place?

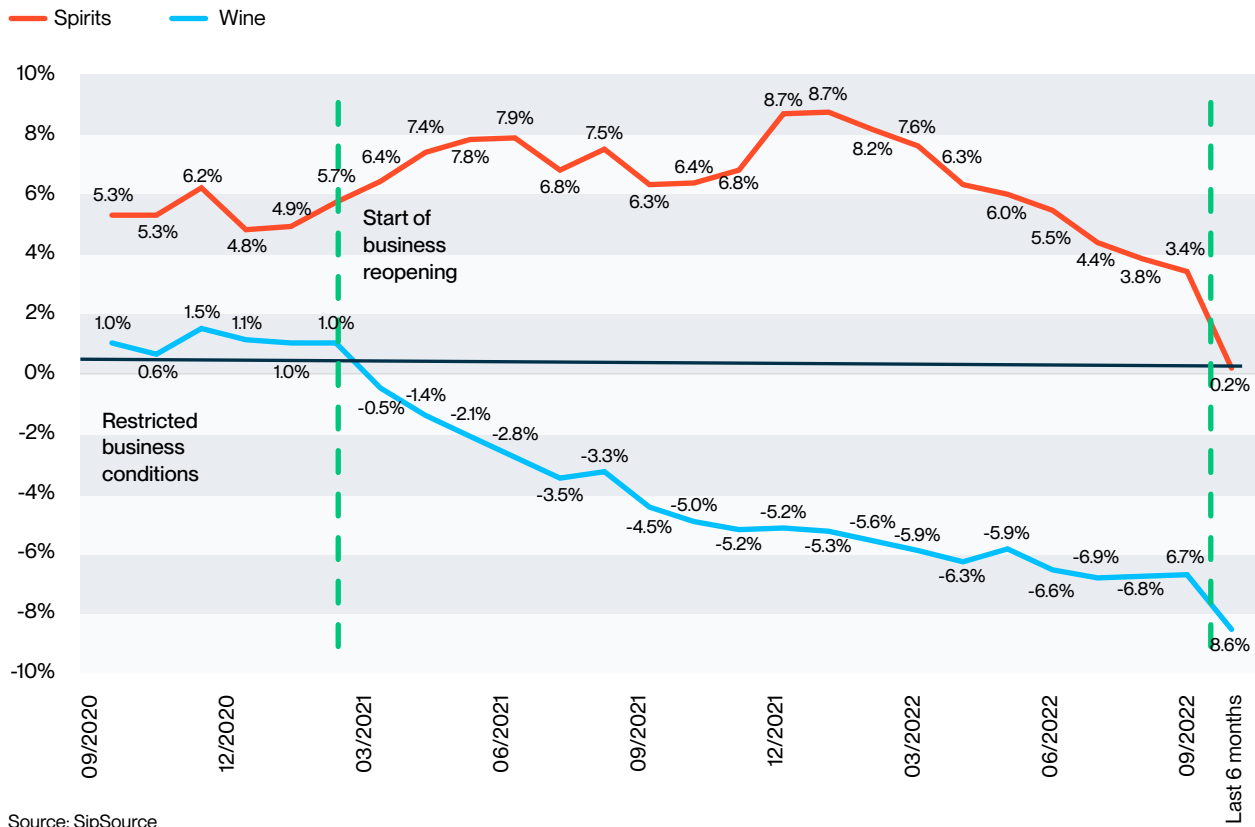
If your winery is in the premium category and still doing well with consumers trading up, congratulations are in order. But don't get too comfortable with tomorrow just yet. While trading up might be reassuring to some of us, total industry volume growth is negative today, so it behooves all of us to ask what will change that trend. Today, any individual winery's growth means it is taking share from one of its neighbor wineries. How do we return to increasing consumer demand that floats all boats?

Sales through distribution

There is one source of information today that cuts through much of the fog from channel shifting, at least between on- and off-premise. SipSource is a newer data consortium of large wine and spirits wholesalers that contribute their sales data through the Wine & Spirits Wholesalers of America to provide the most reliable depletion-level information that I can find.³³ The company doesn't produce total wine sales data because not every sale of wine goes through wholesalers. But it does track both on- and off-premise sales by volume — allowing valid comparisons on a relative basis during the last few years, something no other data source can provide.

Figure 21 shows the growth in total volume depletion for both wines and spirits on- and off-premise from September 2020 through September 2022. I think it's important to talk through what has happened with these two beverage categories over the past few years.

Figure 21: Growth rate of alcohol depletions on- and off-premise



Source: SipSource

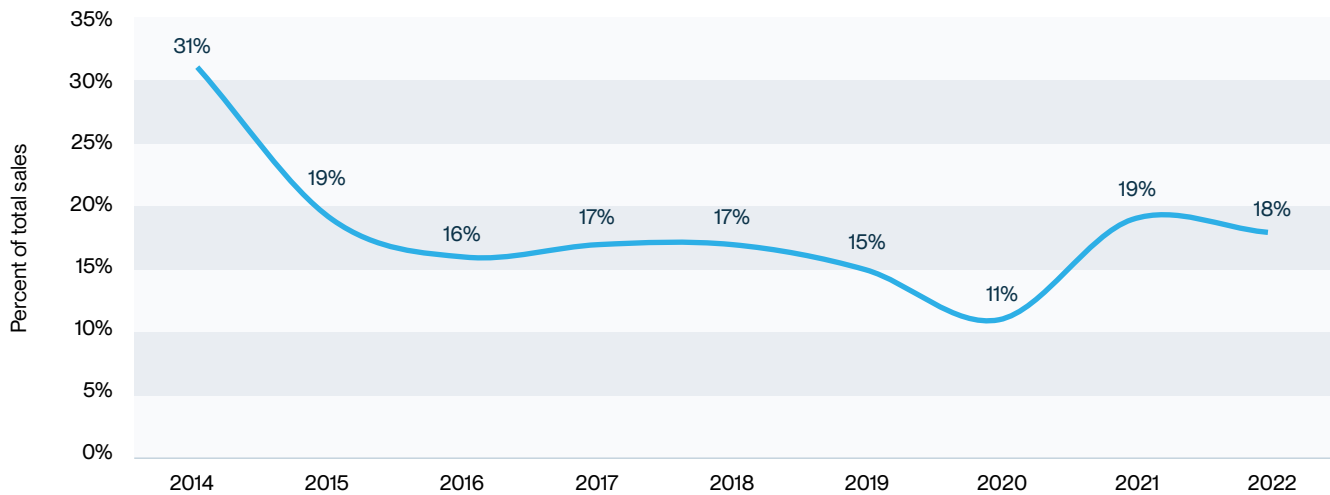
Even with the tailwind of reopening, wine depletions did not continue trending with spirits, and instead total sales volume of wine started to turn negative.

While growth in spirits sales depletions was better than wine through all of 2020, those two categories were at least tracking together and both showing positive volume growth on a trailing 12-month basis.

Beginning in February 2021, restaurants started restocking their depleted inventories, as hotels and tasting rooms also began reopening. Data from the spring of 2021 showed increasing hotel occupancy rates, improving numbers of seated diners in restaurants and larger numbers of air travelers going through security, which should have boosted wine sales. Those trends persisted through the middle of 2022.

Growth during reopening was a prediction that I made last year. But even with the tailwind of reopening, wine depletions did not continue trending higher with spirits, and instead total sales volume of wine started to turn negative.

Figure 22: Average winery's restaurant sales



Source: SVB Annual Winery Conditions Surveys

From March 2021 to the present, the volume of wine sold has declined while the volume of spirits sold has increased. That is consistent with other data, suggesting that wine will have negative volume growth for 2022.

It's not a positive sign that since early 2022, spirits too have demonstrated declining growth rates. From April to September 2022, growth in spirits was a meager 0.2 percent and seemingly is poised to join wine with negative growth.

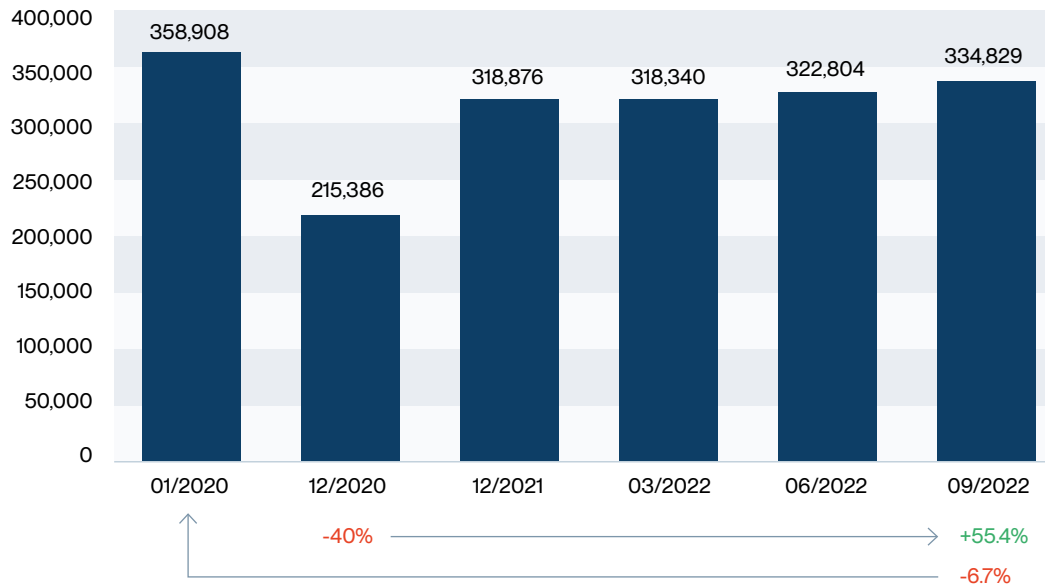
The explanation for this situation lies in the confluence of many factors: the aging of the baby boomers, consumers' increasing tendency to drink across categories (spirits, beer, RTDs and spiked seltzers), anti-alcohol messaging from modern-day prohibitionists, higher prices charged for wine in restaurants, the changed values of the next generation of alcohol beverage consumers — and, critically, a lack of leadership within the wine industry to work together to counter these obvious trends.

The restaurant channel

During 2020, the restaurant industry experienced its worst year since the Great Depression, and perhaps the worst year ever, considering that during the Great Depression people could still go inside a restaurant.

The story of wine sales in restaurants over the COVID period is the exact opposite of sales in the grocery store and drugstore channel, except that the recovery in restaurant wine sales came in multiple waves, with business opportunity inversely related to the growth in new COVID cases.

Figure 23: Active on-premise accounts



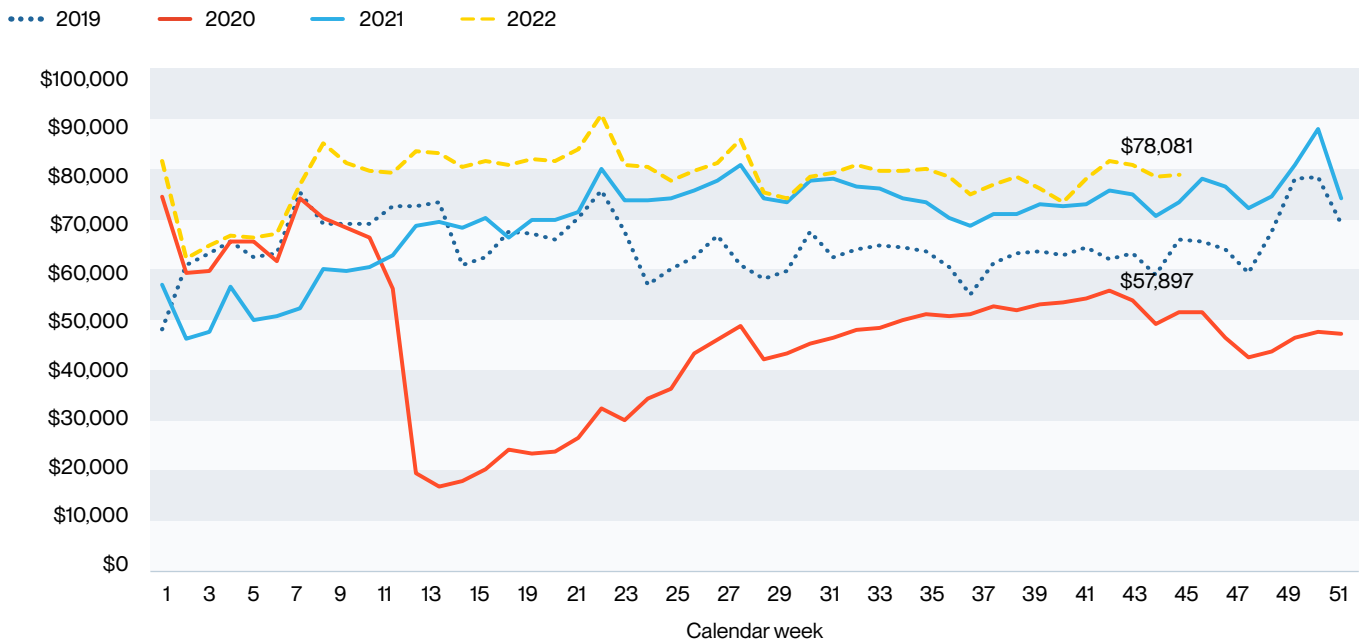
Source: VIP Outlet Database

As premium winery direct sales have grown over the past 30 years, the amount of sales directed to restaurants by the average premium winery has declined, particularly over the past decade, from a high of 31 percent of an average winery's sales in 2014 to a low of 11 percent in 2020 (see figure 22). In the fall of 2020, Silicon Valley Bank survey respondents reported that 18.4 percent of their sales came through wholesale off-premise and 10.8 percent through wholesale on-premise.

After reopening in 2021, those figures nearly flipped, with wholesale off-premise representing 10.6 percent of an average winery's sales, and wholesale on-premise representing 19.2 percent of an average winery's sales. The numbers have stabilized for 2022, with wholesale off-premise representing 10 percent of sales, and wholesale on-premise representing 18 percent.

It's further evidence that while restaurants as a whole are reducing their wine lists in favor of beer and spirits, premium wine is still doing well in restaurants looking for better wine. Furthermore, it's telling that of small winery sales, only 10 percent now is sold through the grocery and drugstore channels. The grocery channel isn't the place consumers buy small-production wines anymore. As the owner of a small winery, how will you connect with a consumer who buys all of their alcoholic beverages in grocery stores?

Figure 24: Average sales per open restaurant



Source: Nielsen CGA

Many restaurants didn't survive 2020. *Nation's Restaurant News* determined that more than 10 percent of restaurants permanently closed.³⁴ SipSource also reported that 10.7 percent of on-premise accounts had shuttered.

2022 saw more healing in the business, with 5 percent growth in the number of active on-premise accounts, leaving the restaurant industry 6.7 percent below the number of restaurant accounts from the pre-COVID era (see figure 23).

Total restaurant sales per open location in the US recovered to pre-COVID measures by week 16 in 2021. Through week 45 in 2022, average sales for an open restaurant were ahead of 2021 by 6.3 percent, and ahead of 2019 by 14.1 percent (see figure 24).

While these improved numbers are comforting, the data is tempered by a persistent decline in traffic counts. Average checks are higher, as are industry sales in total, but the higher sales are due to increased average checks closing in on 9 percent growth.³⁵

Future restaurant challenges and changes

Today, if the food is the experience, it has to start with a sustainable, local, fresh, healthy and organic menu. But the taste has to be great, the price fair and the venue more casual and interesting for young consumers.



Unlike 20 years ago, when pairing food and wine was as common as pairing fries with ketchup, consumers today are pairing spirits, cocktails, beer and non-alcoholic options with their meals.

While the wine industry is awakening to discover changing demographic preferences, the restaurant industry is well into its own evolution, thanks to these new trends:

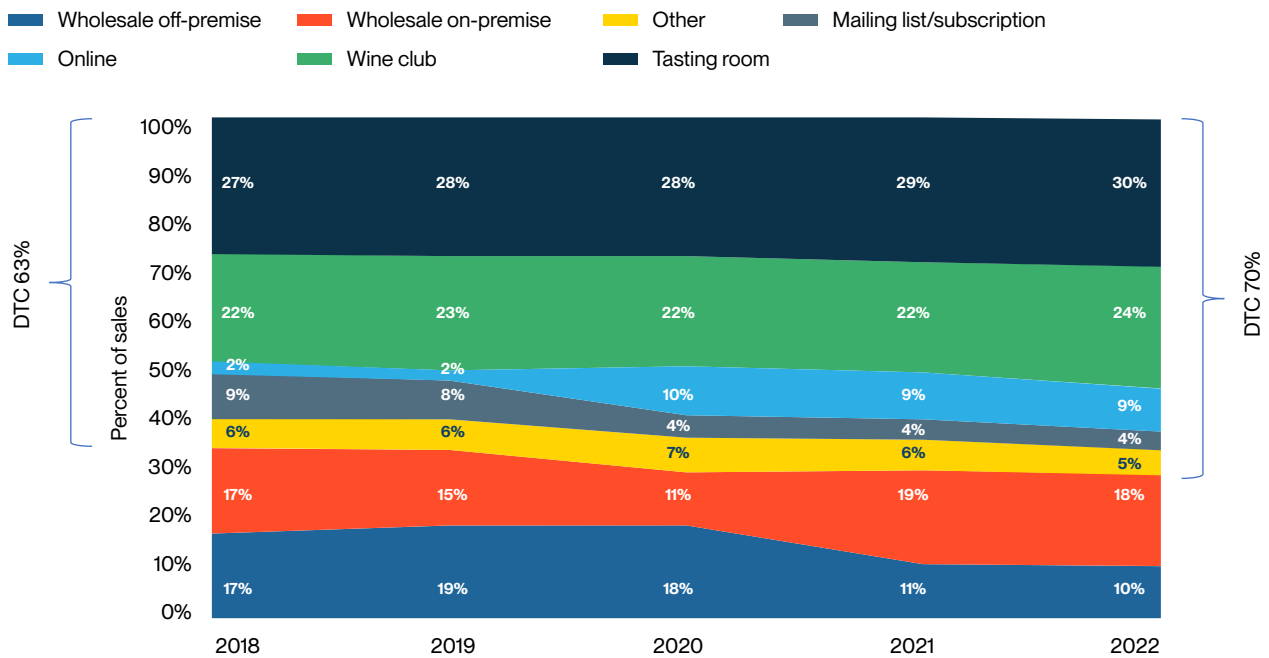
- The evolving consumer is less formal. That's clear from the success of polished casual restaurants and a shift away from formal business attire. *It's not about a display of wealth.*
- Today's customers value speed. Quality food is expected, but in two-income families that speak in sound bites and are never unplugged from work, there is no time. So fast casual has done well thus far, and home delivery models have taken off during COVID 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, something that is more than the subject (food/wine). That is why they will pay for expensive cocktails but won't pay for a fancy meal in a restaurant last remodeled in 1990. *It's not just about the cocktail or the glass of wine.*
- New consumers impute value from fresh ingredients and expensive liquors offered in a cool or themed environment and served with flair to enhance the experience. *It's not about generic ingredients.*

Unlike 20 years ago, when pairing food and wine was as common as serving fries with ketchup, consumers today are pairing spirits, cocktails, beer and non-alcoholic options with their meals.³⁶ Unlike spirits, though, wine has a rapid spoilage factor after opening. That's a cost borne by restaurants and contributes to the overall cost of wine for diners, helping to make wine a much more expensive beverage per serving than spirits.

Restaurant owners are being more selective about carrying large stocks of expensive bottles of wine and may be reluctant to buy any wine that doesn't produce a near-term return. For many restaurateurs, sales of classic and recognizable wines that have a more predictable turn rate are the focus. Owners also favor unique and imported wines with an affordable price, targeting younger consumers.³⁷

But for restaurants, pleasing these customers includes a greater emphasis on beverages other than wine. In casual restaurants, the amount of ink dedicated to wine has been on a downward trend at least since the Great Recession ended, having been replaced with a beverage list that includes beer, spirits and, more recently, RTDs, spiked seltzers and ciders. Each of

Figure 25: Sales channel shifts of premium wineries



Source: SVB Annual Winery Conditions Surveys

those beverages is a substitute for wine. But the changes aren't limited to casual restaurants. In high-end restaurants, the leatherbound book has been replaced by a two-sided page of wine selections or, in some cases, by a curated daily "micro list."³⁸

The space for wine on the beverage lists shrank at a faster pace during the pandemic reopening given the financial realities restaurants faced. But it's not so much the amount of space dedicated to wine that's a concern, but what it represents — the continuation of a longer-term trend in the way restaurateurs react to what the consumer wants. Their message is that diners want less wine than before, and as the full industry trends show, there are fewer homes for inexpensive and mass-produced wine. There is no sign of that view changing.

Unless some solution is found, there is every reason to believe wine will continue to lose share to spirits and other beverages in the on-premise channel.

For an average winery today, direct sales make up nearly 70 percent of total sales, up from 60 percent in just 2018 (see figure 25). DTC really has become the way of life for a small premium winery.

A casual observer of the wine business could easily think that direct sales have always been a critical part of a typical winery's strategy, but that has not always been the case. While gross margins are essentially doubled by selling direct instead of through a wholesaler, owners have historically been more comfortable growing grapes, making wine and then letting the distributor sell the wine.

Selling wine directly to the consumer was an afterthought in some eras but a survival requirement in others. You'd think the industry would be more strategic than reactive, but like so many things in this business, evolution is a reaction to business pressures and change comes slowly.

Today perhaps more than any other time, the business needs to be out ahead on strategy because, for most wineries, the solution will spell the difference between success and failure in the coming decade.

It's instructive to remember how the DTC channel has evolved because it can help us deduce the next adaptation.

Direct sales from the 1930s to 1970s

When Prohibition ended in the 1930s, Beringer Vineyards started wine tours and tastings as a promotional effort to bring back consumers. In the decades that followed, wineries opened tasting rooms so that consumers could sample and purchase their wares. It was the winery equivalent of the roadside fruit stand.

Much like Procter & Gamble, which sent samples of its products to every mailbox in the country, wineries saw a need to deliver samples to their consumers to support retail sales in the three-tier system. Outside of providing a little tax-free cash for the winery through souvenirs, that DTC effort was not about driving direct profitability.

Tastings were generally free, and success was measured by how many people you could get through your tasting room, not by wine sales. Legh Knowles, chair of Beaulieu Vineyard in the Napa Valley, said in the 1980s, "I have the greatest respect for our customers, but I will admit the daily touring and tasting doesn't sell a lot of wine."³⁹ This was the direct model that existed through the 1970s, until demand for wine began to slide in the 1980s.

Direct sales in the 1980s

In the late 1980s, with the economy coming off two recessions, total wine sales were declining due to both neo-prohibitionism and the aging out of the mature generation. While most small wineries couldn't materially influence the wholesale channel, wineries reacted to declining three-tier sales by focusing their efforts on

what they could control, which was the tasting room, and that activity formed the initial stages of the wine club and subscription concepts. It was DTC v2.0, and semi-passive promotion of grocery store wine wasn't the goal this time. This was about making sales.

Not everyone was convinced that DTC was a good idea, though. The amount of compliance required was daunting. Each state had its own laws and regulations. Postage to send out offerings was expensive, without a guarantee of a return on the investment. Ground shipping was still relatively new.⁴⁰ But direct shipping across state lines was quietly growing in other states, despite laws prohibiting it.

Some estimates of DTC sales in the 1980s put the total at less than \$100 million per year,⁴¹ and that may be a generous estimate. There were far more closed states, where consumers could not purchase wine directly, than states in which shipping was legal. But this was the start of wine tasting as a consumer and tourist activity.

Direct sales in the 1990s

In 1996, wineries could only ship legally to 13 reciprocal states and an additional 17 “personal use” states, many of which allowed consumers to buy less than a quart of wine annually.⁴² Underscoring the absurdity of the laws, at that time more states allowed people to carry concealed weapons than purchase wine directly from the producer.⁴³

In the early 1990s, a very large percentage of owners did not charge tasting room fees. Much like today, the industry was at a generational transition point, and sales by volume had been dropping for almost a decade. But in 1994, the median boomer hit age 35, which was a magical year. US wine sales took off, and distributors found themselves knocking on the doors of even the smallest wineries to meet consumer demand.

During the middle to late '90s, it was common to see small winery growth rates exceeding 20 percent and wineries completely sold out of wine before the next release.⁴⁴ With that kind of demand, most wineries began charging a tasting fee. In Napa and the North Coast of California, the tasting fee stayed around \$10 for many years.

Unlike today, the average winery's direct sales in the early 1990s represented only about 15 percent to 25 percent of total sales for the small family winery. That period was still pained by the complexity of state-to-state compliance, functional inefficiencies with shipping, a lack of professional staffing and a model that largely sent everyone in the wine club the same case of wine instead of allowing the consumer a choice. But the greatest problem was that the internet was only in its infancy.

Because DTC sales were still difficult, once demand greatly exceeded supply during the latter half of the 1990s, owners reprioritized wine back into wholesale channels. They dropped their active management of the more expensive tasting room channel and, with wine being short, were able to stop their erstwhile questionable shipping practices into unpermitted states like Florida. Marketing wine meant picking up the phone.⁴⁵ There was a lack of appreciation for direct sales in the '90s, but that period soon came to a rapid end.

Direct sales in the 2000s

As though a switch were flipped, coincident with the brief 2001 tech recession⁴⁶ and large 2000 vintage, supply caught up with demand, and wholesalers began to look for efficiencies, which meant moving away from selling the production of small wineries.

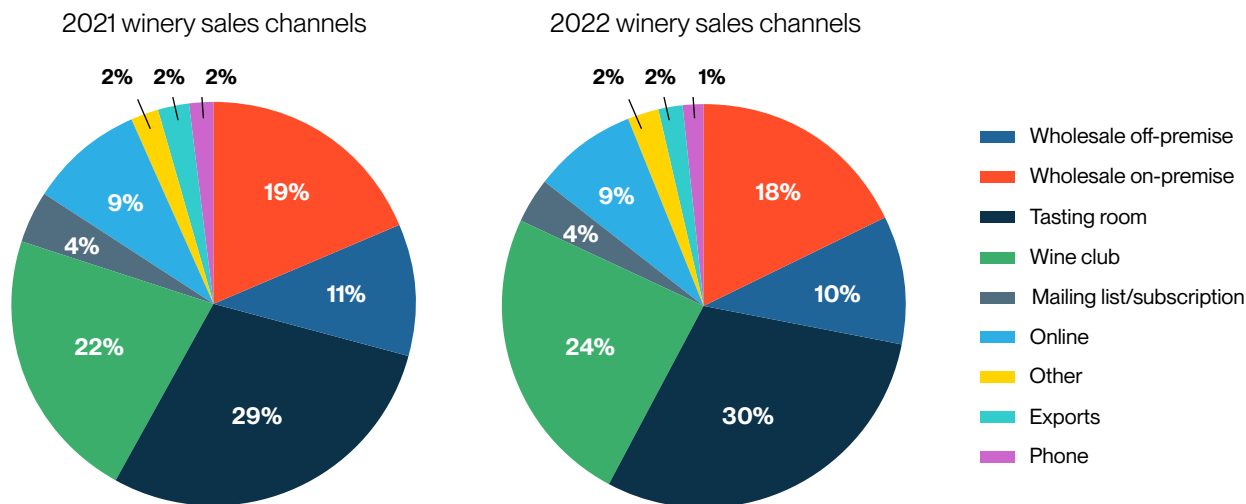
The wholesalers had been consolidating, and their client base had evolved from small chains and unit stores toward nationwide big-box retailers. At that point, for the distributors, larger wineries could fill national consumer demand almost by themselves. With sales flagging again for small producers, the prior decade's DTC playbook was dusted off, and once again, direct sales became a critical source of income and even a matter of survival for smaller wineries.

The movement away from three-tier and back to DTC sales would take time to develop, given the lack of successful models, lack of trained staff and bias in the pay policies for tasting room staff.

In the early 2000s, the internet had just begun to be useful. Amazon started selling books online in 1995, and PayPal arrived to help with payments in 1998. Always behind in change, a few wineries only began to add shopping carts in the mid-2000s. That meant that marketing wine was done by licking a lot of stamps (if you even had a customer list), and orders for wine came in by phone or fax or from across the tasting bar. Compliance for sale to other states was accomplished through paper forms via the US mail.

The small premium industry caught a huge break with the Supreme Court's favorable *Granholm* ruling in 2005. That ruling knocked the legs out from under the protectionist state laws that favored in-state wine producers and provided a legal pathway to shipping wine direct in all 50 states.⁴⁷ Smaller producers would have been put out of business long ago without that decision. The subsequent evolution of the internet enabled direct shipping compliance, made communication faster and cheaper, improved logistics support and helped common carriers develop an appetite for shipping wine direct.

Figure 26: Change in the average winery's channel mix from 2021 to 2022



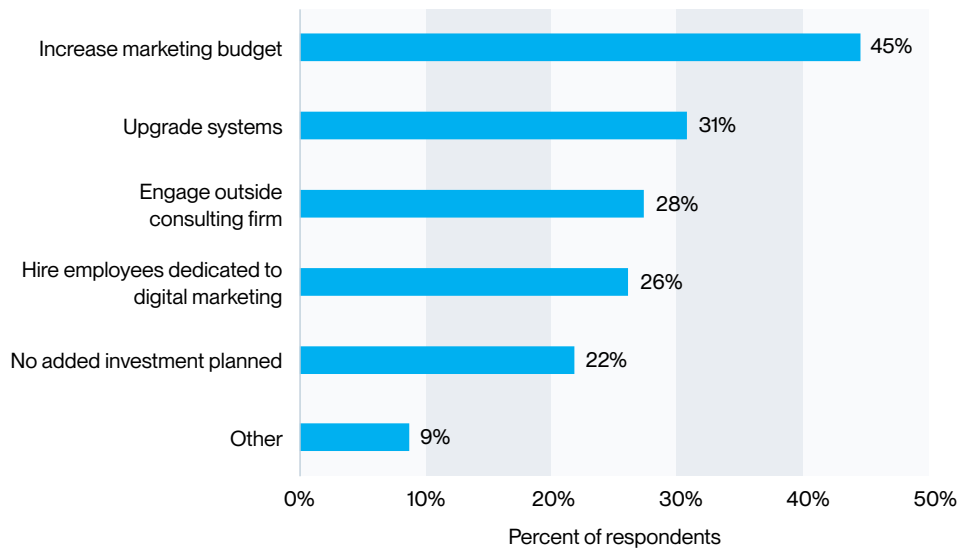
Source: SVB Annual Winery Conditions Surveys

Direct sales from the 2010s to the present

The Granholm decision in 2005 had a tremendous impact on wineries' direct sales. By 2010, distributors had consolidated and represented increasingly fewer small wineries. Without the Granholm decision, the premium wine business in the US would have been running on hope. The impact of that change is shown in figure 26: DTC sales now make up almost 70 percent of sales for the average small premium winery.

There was little digital investment in 2010, so growth in online sales was passive through 2019, never exceeding 2 percent of an average winery's sales. That changed with the COVID lockdowns. Consumers — particularly boomers sheltering at home — discovered that home delivery worked for more than just Amazon deliveries and found their way to buying online direct from wineries.

Figure 27: Planned digital marketing investments for 2023

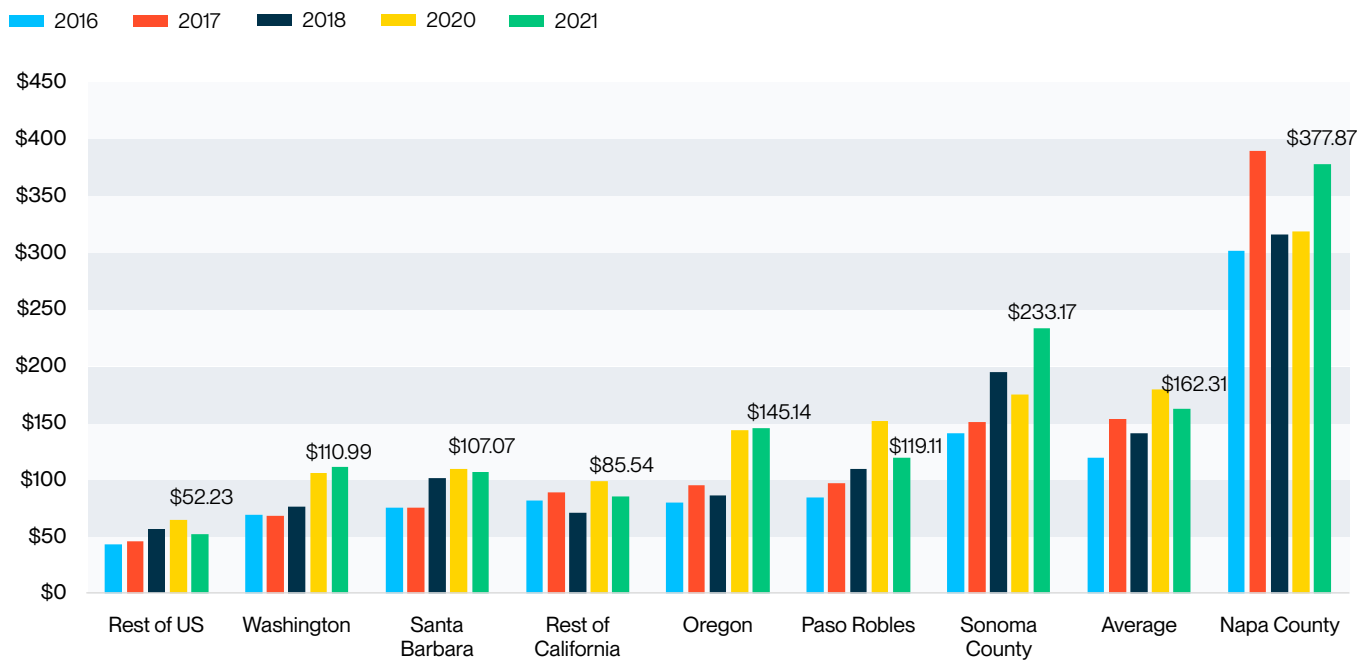


Source: SVB Direct-to-Consumer Survey, 2022

Today, e-commerce in the US represents \$266 billion, or 14.8 percent of total retail sales, with Amazon accounting for nearly half of that.⁴⁸ While wineries have made some investment in digital sales, the real focus has been on the club and tasting room, at least until COVID shelter-in-place orders meant that consumers needed to figure out a new way to get wine. With 9 percent of sales taking place online now, there is even more reason to make additional investment in that path today (see figure 27).

As in past eras, the wine industry has reacted to external circumstances and found new ways of doing business. Some of these new tricks will stay and grow even as conditions change, while others will fade. In Silicon Valley Bank's Direct-to-Consumer Survey in 2022, over 40 percent of respondents said they fully discontinued their virtual tasting program. Some of that is predictable with reopening, but are all virtual sales destined to disappear?

Figure 28: Average tasting room purchase



Source: SVB Direct-to-Consumer Survey, 2022

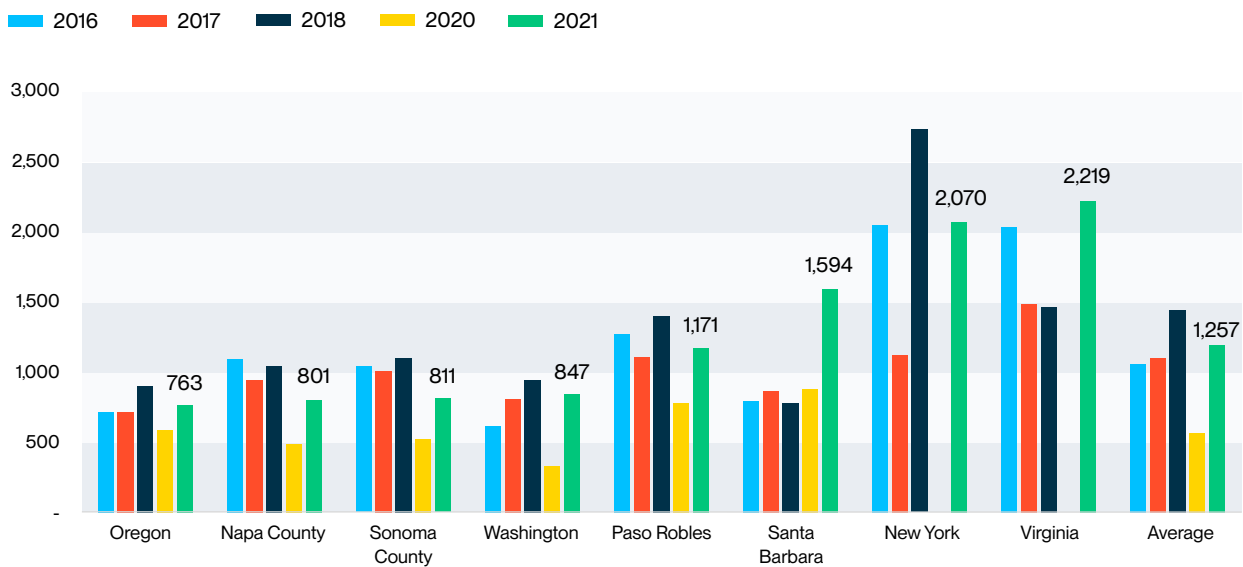
Sales through the tasting room

How did your winery negotiate the past three years relative to your peers in the tasting room? What can you learn from others who had greater success? What strategies can you enhance and retain to drive future revenue? The whole tasting room model continues to evolve.

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 stop purchase a case. That's not what's taking place today.

Now, the wine tourist is going to Wine Country for an experience that includes but isn't limited to your winery. They are staying in hotels or Airbnb lodging, then making two or, at most, three stops per day at wineries as part of their visit. The wineries are treating their guests to seated presentations that last much longer than they did 20 years ago, so there's not as much time to visit as many wineries. Increasing tasting fees are also dissuading casual consumers, who in the old model might not buy any wine or only bought a token bottle. It's understandable why the average tasting room purchase is up almost 40 percent over the past five years (see figure 28). 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.

Figure 29: Average number of monthly visitors

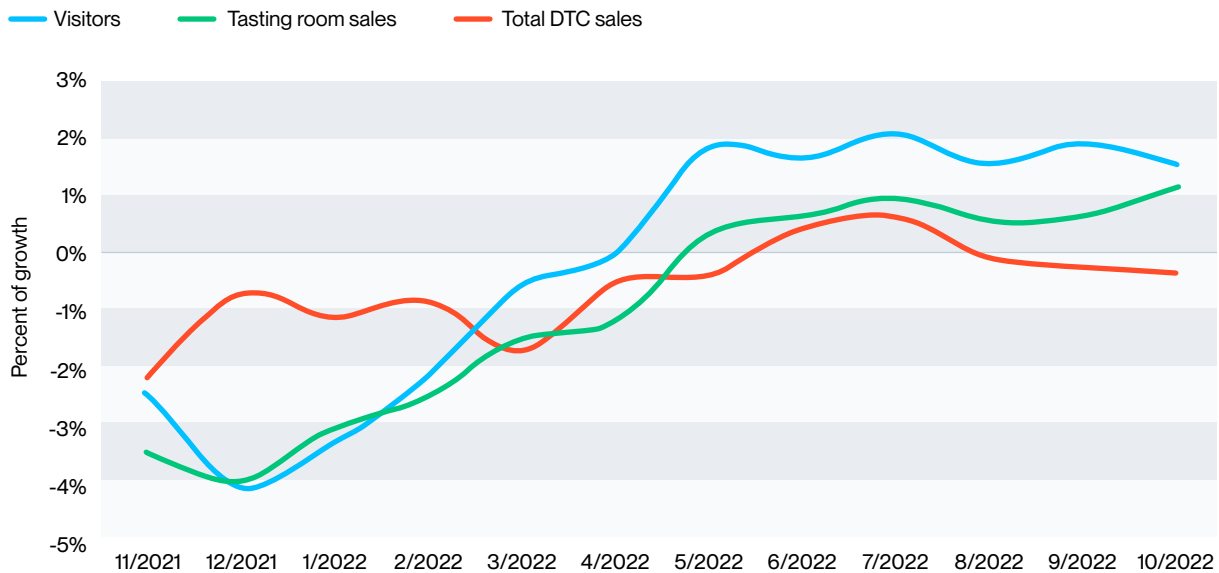


Source: SVB Direct-to-Consumer Survey, 2022

So much has changed in the past three years, and the change is still ongoing. Internet sales have more than doubled. By-appointment tastings, which many feared before COVID, were mandated by state and local officials, and the results were positive. Now what consumer wants to taste again at an elbow-to-elbow walk-in tasting bar? As a result of COVID, by-appointment or a mix of walk-in and by-appointment tasting is the favored approach. We'll likely never revert to a pure walk-in model again. That shift toward a slower service model will have an impact in visitation numbers from here forward (see figure 29). But current visitation numbers are reflecting something more.

2020, unsurprisingly, saw weak visitation across the region, but in 2021 average visitation doubled. The moment tasting rooms opened for business again, people were knocking at the gates (see figure 30). And with all the hype around virtual tastings in 2020, it's been interesting to watch the rush to unplug the cameras in 2021 and 2022.

Figure 30: Growth of visits to West Coast wineries (trailing 12 months)



Source: Community Benchmark

One thing I hope we've learned through the pandemic is that there is a risk in focusing too much on any one channel. The average winery today receives 30 percent of its total revenue from tasting room sales and 24 percent of sales from the wine club (see figure 26), which means that 54 percent of total sales have to come from a consumer who first has to find the winery and walk into the tasting room. That is a risky choke point.

Today, if your full focus is on a tasting room and club strategy and you put balloons on 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 direct sales channel, your winery needs to find new growth and new consumers, and they aren't going to come from the present approaches.

Direct sales — tomorrow

Selling through a distributor isn't a complete solution for the small winery. If you can get the attention of a distributor, it is a useful and viable channel to employ. But we have to continue to evolve the tasting room, wine club and new models.

I believe that the growth opportunity for tomorrow means not doing what you're already doing. If you just stick with the current model of asking everyone in your club to first walk in your front door, you will first recover fully from COVID, but soon thereafter your club size will top out, with current member losses equaling new member acquisition. That's already happening in some premium wineries, and it's an expensive model.

So future growth does not lie in delivering better hospitality, tuning up your seated tastings, planning more glitzy club events, refining your hospitality training or taking customers from your neighbors. The growth opportunity for the small winery going forward is in opening up new direct markets by:

- Getting exposure to consumers who live far from your winery and don't know you.
- Finding ways to sell to them — digitally and in person, where they live.
- Taking advantage of enhanced data and diagnostics from companies like Commerce7, Enolytics and Community Benchmark.
- Measuring and developing strategies to attract new club members electronically.
- Using a live online video stream at the winery to bring interest, engagement and Wine Country beauty to remote consumers, even allowing them to attend a winery event from their homes.
- Engaging the distant consumer with links to a Spotify favorites list of music played at the winery.
- Not giving up completely on Zoom. Hybrid events are worthwhile, particularly corporate events.
- Considering 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 platforms.

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

The reality is that nobody has the perfect formula for selling wine to a consumer who has never tasted or heard of your brand. New customer and club member acquisition away from the tasting room is still in its infancy, so the solutions will evolve with new and reformed service providers and consultants and through wineries that experiment using different techniques (print, digital, phone, Zoom, etc.) to connect with remote consumers.

My recommendation is to look at the map of where your current club members live and start by investing in an in-market sale/events/hospitality person in the leading region, both to support your existing club members there and to grow new members from word-of-mouth customer evangelism. Try one region. Learn, then open a second region.



08

STATE OF THE US WINE INDUSTRY 2023

Cumulative negative health messaging

Neo-prohibition, Act I

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.



With the positive medical reports, per capita wine consumption soared starting in 1994, when baby boomers hit their consuming stride.

Like the Prohibition movement earlier in the 20th century, neo-prohibition included diverse groups, such as religious organizations that saw drinking alcohol as sinful; activist organizations whose primary goal was eliminating deaths from drunk driving;⁴⁹ 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.⁵⁰

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.

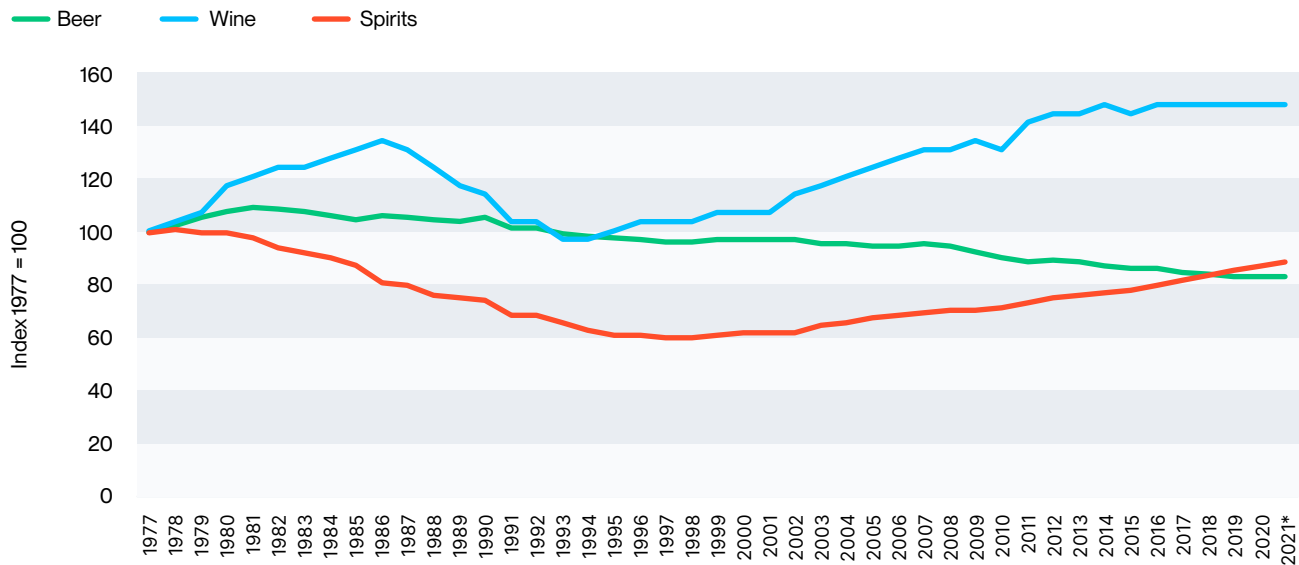
The growing clamor culminated with the Anti-Drug Abuse Act of 1988,⁵¹ which included government health warnings about alcohol and the addition of a government warning on alcohol beverage labels.

On March 3, 1988, President Clinton, through the National Highway Traffic Safety Administration, introduced an administrative order for, and penalties against, any state not adopting a 0.08 maximum per se standard for drunk driving.⁵²

The neo-prohibition message was confronted on November 17, 1991, when 20 million viewers in the US heard the CBS *60 Minutes* broadcast on the French Paradox,⁵³ which suggested that wine consumption had health benefits. It immediately caused a spike in red wine consumption. That was followed in the mid-1990s with widespread public acceptance of the Mediterranean diet⁵⁴ and later punctuated with the publicized work of Dr. Arthur L. Klatsky,⁵⁵ a Kaiser Permanente cardiologist who separated the discussion of moderate and heavy consumption and showed the health benefits of moderate alcohol consumption over both heavy consumption 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 growth shortly thereafter due to Dr. Klatsky's findings and the industry's bid to join the premiumization trend (see figure 31).

Figure 31: Change in per capita ethanol consumption, United States 1977–2021



Source: National Institute on Alcohol Abuse and Alcoholism, Surveillance Report #117

*SVB estimate

The cumulative weight of the research and media reports linking moderate wine consumption to 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 to further discourage drunk driving, the conversation settled into the background for a decade as the wine industry basked in the glow of increasing sales. The debate over the health impact of alcohol never fully went away, though.

Neo-prohibition, Act II

Since the day the French Paradox story was carried on *60 Minutes*, numerous health organizations have expended considerable time and money to produce alternative research that calls into question or counters the original research findings.⁵⁶

With alcohol studies coming to different conclusions and causing confusion and with a refresh of Government Dietary Guidelines under discussion, 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.”⁵⁷

The conclusion of the report was that “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 privately funded anti-alcohol studies have continued, gaining significant traction.

Europe is even farther ahead of the US in directing consumer sentiment away from alcohol consumption. 2018 saw a bellwether win for neo-prohibitionists. 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 that wine was bad for people.⁵⁸ That sound bite has been repeated many times since.⁵⁹ It continues to impact French farmers, who are today being encouraged to pull up vineyards.⁶⁰ The combination of international messaging and anti-alcohol studies has been effective and has once again emboldened US regulators to promote additional restrictive regulations on alcohol consumption.

In January 2018, the National Academies of Sciences, Engineering, and Medicine produced a study that supported their call to lower the maximum blood alcohol level while driving from 0.08 to 0.05 nationally.⁶¹ Despite overwhelming evidence that counters the study's findings,⁶² in March 2018, Utah acted on the recommendation, and on January 1, 2019, Utah became the first state to enforce a 0.05 DUI law.⁶³ California and Michigan debated adopting the law in 2019.⁶⁴

Quietly, in January 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,⁶⁵ ignoring prior findings by the NIAAA.

In July 2020, as everyone was busy dealing with a pandemic and recession, a handpicked panel of scientists with an anti-alcohol bias, with no empirical support, recommended to the USDA and HHS that the USDA's dietary guidelines for alcohol consumption be reduced from two drinks per day for a man to one drink per day, the same as the guideline for women.⁶⁶

The panel also de-emphasized prior discussion about safe or healthy levels of drinking, repeating the same statements made in Europe that there was no safe level of alcohol to consume, wording that originated from the World Health Organization.⁶⁷ Public comment was rushed and closed on August 13, 2020, leaving only about a month for the public to weigh in — in the middle of a pandemic.

While those who devised the prior guidelines focused on total mortality and decided that there were benefits from moderate consumption that led to longer lives, this panel concluded that "because alcohol is not a component of USDA food pattern guidance, its added energy is discretionary and should be considered in the present context of high and increasing obesity prevalence." The panel then contemplated the relationship between alcohol consumption and "all-cause mortality," thereby including obesity, cancers and any other illness in the estimates of the number of deaths created from alcohol consumption. It's another attempt to move the goalposts — even if science shows there are health benefits to moderate consumption of wine.⁶⁸



We have returned to the neo-prohibition era in this debate.

We have returned to the neo-prohibition era in this debate. Alcohol consumption is being linked and discussed again in the same breath as opioid addiction.⁶⁹ 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.⁷⁰

The youngest consumers are health-focused, which explains the explosive growth in health beverages in the US.⁷¹ Compared to the boomers, who ate food “if it wasn’t bad for you,” the current generation wants to consume things that are “good for you.”⁷² With the unbalanced health messaging in the current narrative, young consumers are consuming less alcohol than prior generations.⁷³

The alcohol beverage industry can’t deny that there are risks and negative consequences in consuming alcohol and greater risks in consuming alcohol heavily. That’s not in question. But the countless studies that are paid for by either side, seeking a conclusion for or against a preconceived view and calling it science, are not science. They’re marketing.

There is science that supports the health benefits of moderate consumption. What we lack is an industry-sponsored repository of information the press and legislative bodies can access that can direct those interested to the unbiased science that exists.

Clearly, we need coordinated leadership to bring balance to the conversation. I’m unaware of anyone trying to take on that role in the wine industry.

Side note: The most egregious example of paid-for science I’ve seen is the study that concluded that drinking one bottle of wine in a week is equivalent to smoking 10 cigarettes.⁷⁴ The study hypothesis started with a preconceived conclusion and backed into estimates to support the thesis. And it was peer-reviewed! It was successful because it was picked up by news sites such as the BBC, Forbes, the *New York Post*, CBS and countless medical sites around the globe.

If you have some time, the short paper is worth a read to get a sense of the politics involved today. Pay attention to the last paragraph in the “Background” section, where the authors explain what they were trying to “discover” in the name of new science.



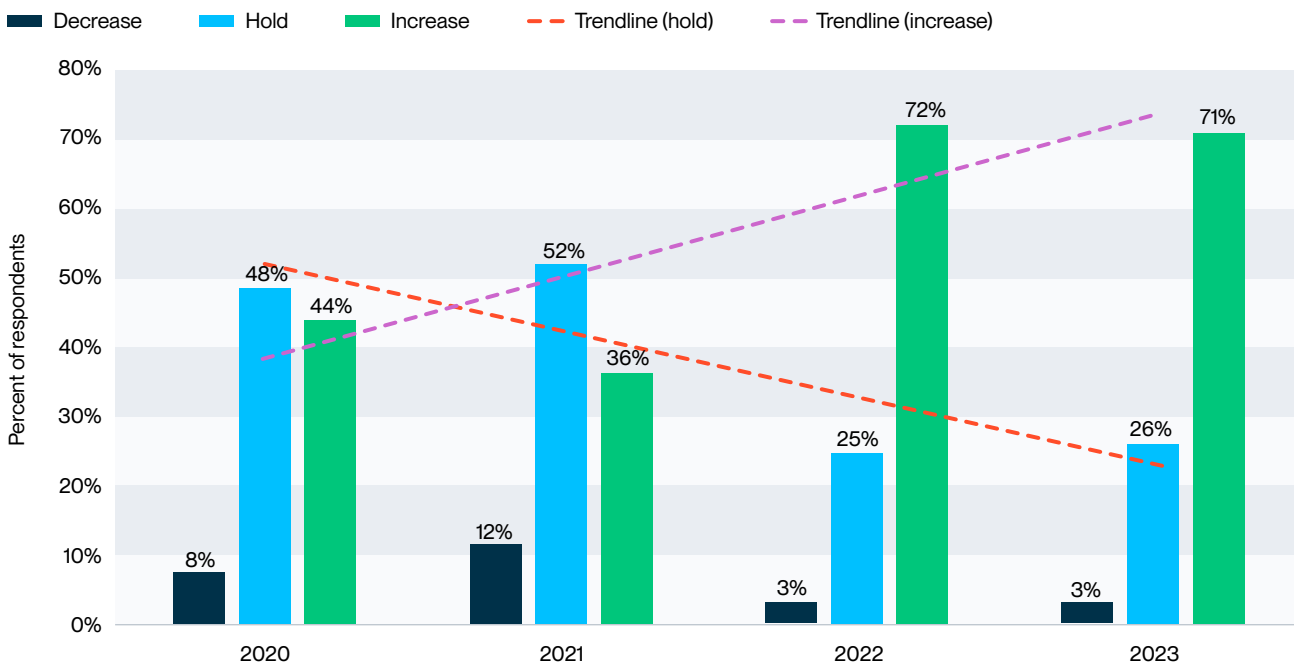
09

STATE OF THE US WINE INDUSTRY 2023

Have we ever raised bottle prices?

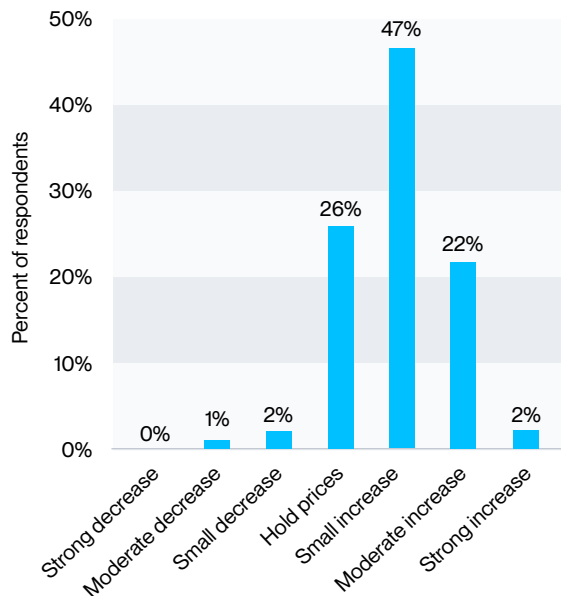
The answer to the section title is yes, we have raised bottle prices over time, of course but the easy opportunities that made price increases acceptable to customers have been less frequent than we'd like.

Figure 32: Anticipated bottle price increases



Source: SVB Annual State of the Wine Industry Surveys

2023 detail



Source: SVB Annual State of the Wine Industry Surveys

I always say that the most difficult thing about running a winery is managing inventory positions. For premium red production, you might be planning your volume needs two and a half to three years before a bottle is sold. Consequently, while owners almost always predict they are going to raise prices (as shown in figure 32), in my experience their plans don't typically materialize when the new year comes around.

During the 1980s, there were two recessions, or one long recession that ran into the '90s, depending on your point of view. The 1990s started with the sniffles from the prior decade, given very high interest rates, slow economic data, disappointing employment numbers and sluggish wage growth.⁷⁵ Wine too had



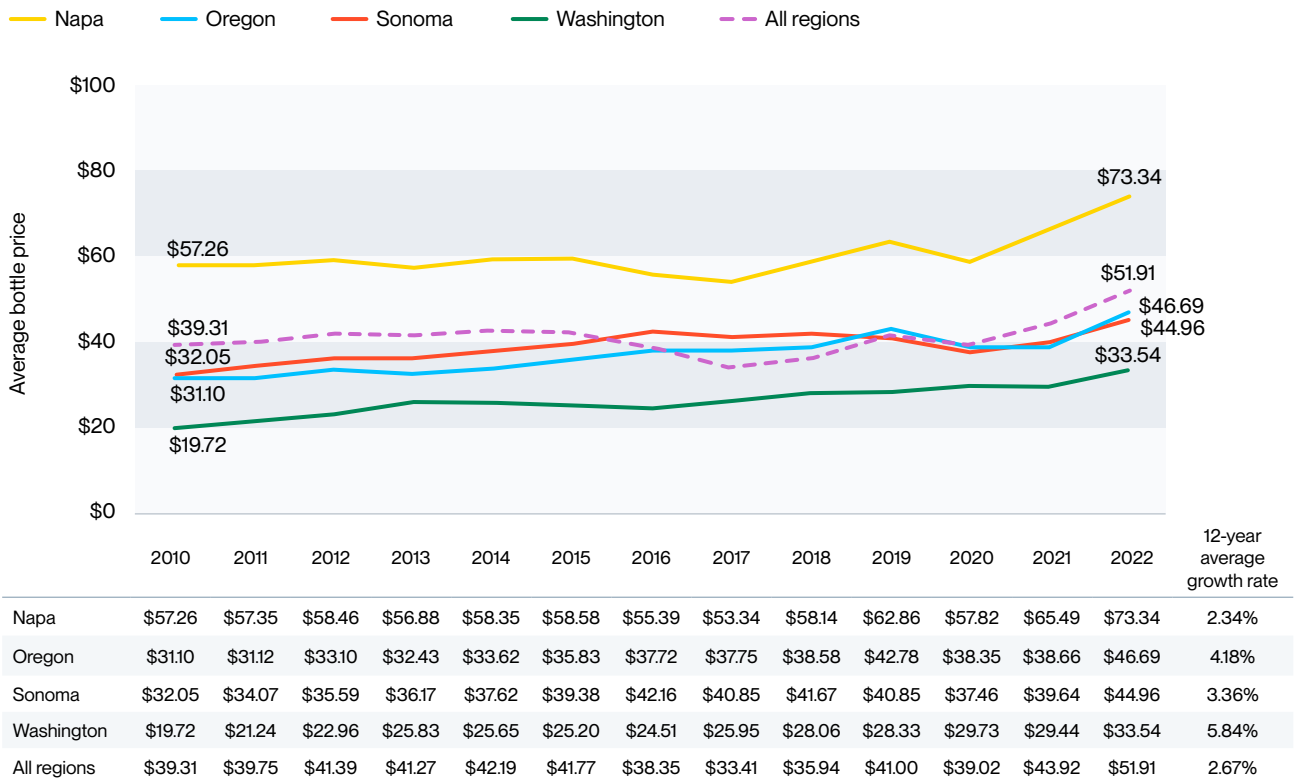
caught a cold through the late '80s into the early '90s, the result of both the sluggish economy and the growing discussion about alcohol's impact on health. Prices didn't see much uptick on a real basis, but costs increased routinely.

Starting in 1994, everything changed. As the median boomer reached age 35, premium American wine became an overnight success. The demand growth for wine in the mid- to late 1990s was fueled by dynamic increases in US productivity and by the French Paradox, which created a belief that wine had some health-boosting properties. The period was one of the strongest and lengthiest eras of economic expansion in US history.⁷⁶

The boomer had discovered premium wine, and the business was short the inventory it needed to satisfy demand. In the 1990s, not everyone made good wine, but by the early 2000s, there was a big improvement in quality. Naturally, bottle prices, grape prices and land prices all moved north, and there wasn't much pushback. In fact, it was common during that short span in the late 1990s for wineries to have both increasing case sales and increasing bottle prices and still struggle to maintain supplies. That's what I call premiumization!

Real price increases were normal until the dot-com bubble hit in the early 2000s. That coincided with a planting bubble, when thousands of new acres all delivered fruit at the same time. Demand hiccuped commensurate with too many tons of grapes being delivered. The economic environment recovered long enough for industry participants to catch their breath for a few years, and then came the real estate recession. That's not an easy time to raise prices either.

Figure 33: Average DTC bottle price



Source: Customer Vineyard, Sovos ShipCompliant

Figure 33 represents the story of price increases from 2010 to the present. The chart is constructed from a large database of 80 million DTC transactions.

In the early 2010s, coming out of the Great Recession, demand became sluggish. The issue turned out to be secular.

At the time, this report asserted that industry sales growth was slowing due to the rotating and unequal value of older and younger consumer cohorts. Too many wineries didn't believe it.⁷⁷

In those middle years of the decade, higher demand was predicted by producers who took aggressive inventory positions to supply the expected growth. The result for several years running was that growth targets were missed and wine backed up in the cellar. The large 2018 vintage brought the situation to a head. No price increases could be taken.



Napa leads all regions in anticipating price increases, with 71 percent of owners expecting to raise bottle prices, but those increases are anticipated to be small. That's probably a good forecast.

Industry growth was noticeably slowing going into 2020. Through all of those years, optimistic owners expected to raise prices, but the opportunity was seldom there (see figure 33). Even in October 2019, owners expected to take price increases in 2020, but they couldn't know that the world would change a few months later.

It's been interesting to see some price increases since 2020. Who could predict a pandemic would create conditions that would accommodate higher prices? As the physics Nobel laureate Niels Bohr is quoted as saying, "Prediction is very difficult, especially if it's about the future." Maybe he took that quote from Yogi Berra, though?⁷⁸

A preponderance of owners plan on taking a small price increase in 2023. Given increased costs, I hope there will be room to take price a little higher, but much depends on the interplay of the current balanced inventory positions against the possibility of a recession.

Heading into 2023, Napa leads all regions in anticipating price increases, with 71 percent of owners expecting to raise bottle prices, but those increases are anticipated to be small. That's probably a good forecast, but I'm not a Nobel laureate.



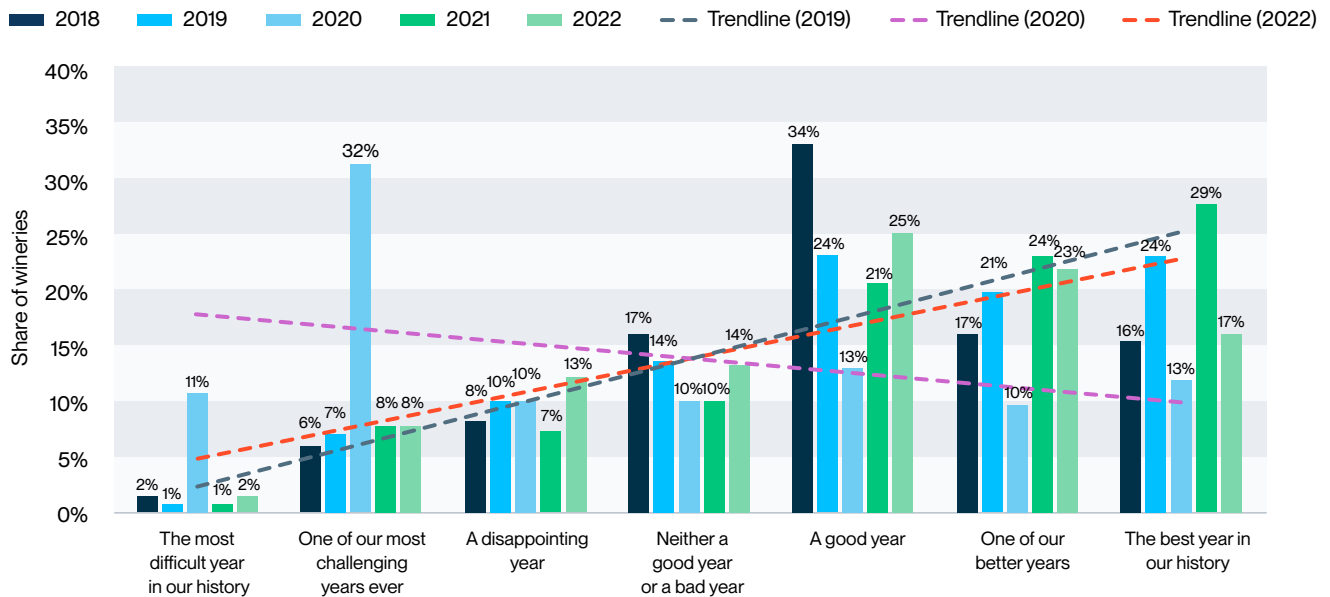
10

STATE OF THE US WINE INDUSTRY 2023

Premium winery financial performance

Despite current headwinds, when winery owners were asked the simple question, “How was your year?,” the response for the 2022 survey proved to be quite positive. That says a lot about the resiliency of the industry players. But looking at the past few years gives a better read of how the industry has felt through this COVID period. The ride has been a roller coaster.

Figure 34: How was your year?



Source: SVB Annual Winery Conditions Surveys



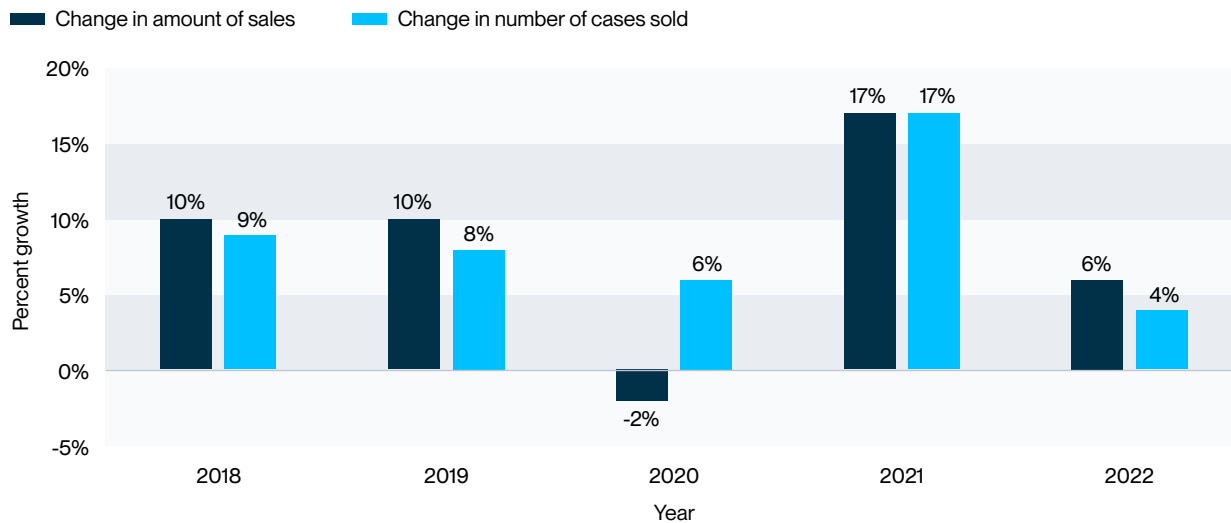
When winery owners were asked the simple question, “How was your year?” the response for the 2022 survey proved to be quite positive. That says a lot about the resiliency of the industry players.

2019 was a normal year, or what we used to think of as normal, with sales growth rates in the low single digits and many owners saying that it had been a good or great year. But not surprisingly, with the COVID lockdowns, 43 percent of survey respondents said 2020 was either their most difficult year in history or one of them. Since the average age of the wineries in the survey is over 20, to have so many saying it was their worst year ever underscores the pain! The chart’s trendline for 2020 goes downhill, expressing the widespread disappointment.

But 2021 was a bounce-back year. With restaurants and tasting rooms reopening and with lessons learned from the prior year’s restricted business conditions, 24 percent of respondents said 2021 was one of their better years, and a full 29 percent said the year was their best in history! That sentiment repeats throughout the data, including in figure 36, which shows trended annual financial performance.

With the strength of 2021 in the premium industry, 2022 was bound to be less stellar. Nonetheless, the year was viewed far more positively than indicated by responses to the Wine Industry Sentiment Index (see figure 12).

Figure 35: Volume and value changes



Source: SVB Annual State of the Wine Industry Surveys

In the current survey, 23 percent of respondents said 2022 was one of their better years, while another 17 percent said it was their best year in history. The linear trendline for 2022 nearly matches 2019, attesting to the fact that we are getting back to normal.

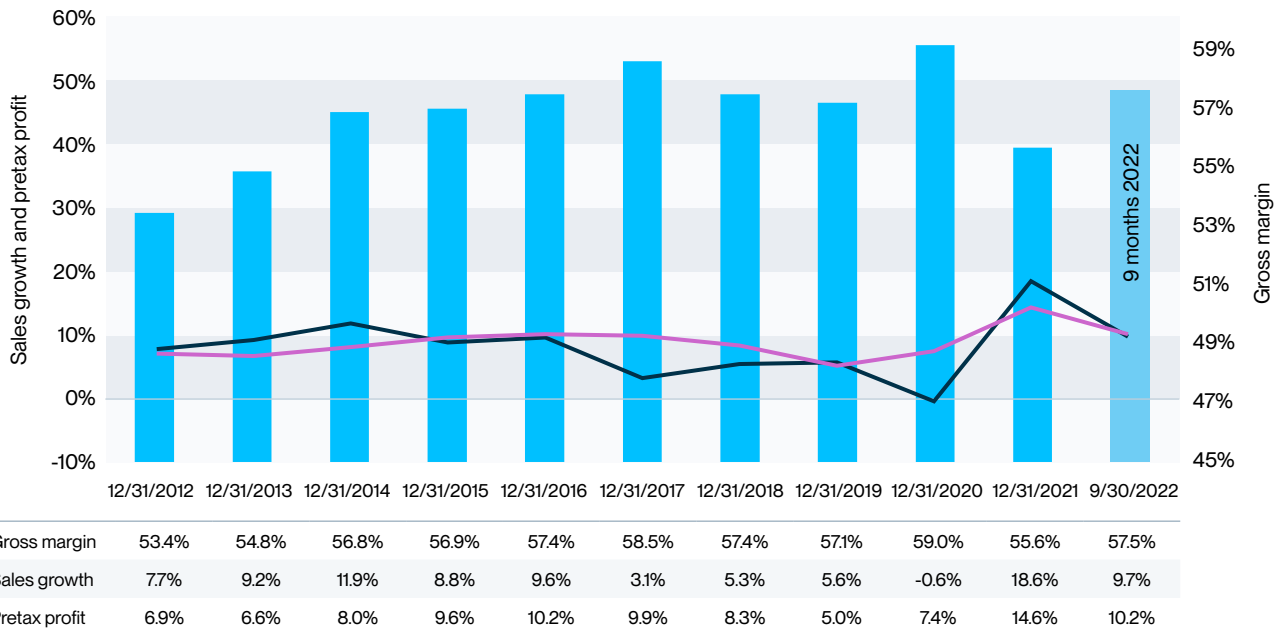
Figure 35 shows changes in reported average cases produced and sold from 2018 to the present for premium wineries in our survey database.

With less access to the off-premise channels where wine was being sold in 2020, premium wineries decided that the best approach would be to discount wine and/or give away free shipping to incentivize sales. More cases sold but for less revenue, so total dollar-based sales growth for 2020 was essentially flat at minus 0.6 percent (see figure 18).

As noted earlier, 2021 was a fantastic year for premium wineries. Wineries reported 17 percent growth in cases sold and dollar sales, meaning that the discounting vanished. Financial statement growth from that year was 18.6 percent (see figure 36), so the owners made some pretty good estimates in survey reporting that year.

In 2022, we saw the final result of three consecutive years of light crop size. Wineries sold fewer cases and delivered more revenue, which implies that case prices are going up. Not only was extending inventory the right business move to assure that there was sufficient wine to sell through the year, but raising the price per case was also important to recapture the higher costs of ingredients from inflation.

Figure 36: Annual financial performance of premium wineries



Source: SVB Peer Group Database

Silicon Valley Bank collects financial statements from clients and non-clients as part of our daily routine. We then merge them together and provide our clients with gratis consulting and benchmarking, and with that information we are also able to track larger-scale industry moves.

At the start of 2012, the financial meltdown of 2008 was firmly in the past. The trended sales growth rate had slowed over the prior decade (see figure 18), while wineries simultaneously evolved their strategies to direct models. The move to more DTC sales yielded higher average sales prices and improved gross margins (see figure 36). Pretax profit generally remained between 8 percent and 12 percent, with 2021 proving to be a great bounce-back year for the industry and the most profitable year ever from this database.

Note: The following applies to figures 18, 36, 37 and 38: Our database of winery financial statements reflects the wine industry overall and consistently includes just short of 200 wineries today, overwhelmingly from the US West Coast. Median case production in the database is 18,000 cases, with a range of 1,000 to 2.3 million cases. The database is not weighted to volume. That would produce entirely different results that would prove useless for benchmarking the small premium winery. The average retail bottle price is about \$28.

For premium wineries, profitability was surprisingly strong in 2020 due to savings from staff reductions in customer-facing jobs, reduced harvest and winemaking costs from fires and smoke, and lower overhead allocations. In addition, many wineries availed themselves of Paycheck Protection Program loans in 2020, which were largely forgiven both in 2020 and 2021.

If 2020 was largely a year to forget, though, 2021 was a year to remember. As businesses and tasting rooms reopened, premium wineries were coming off a year when small crop sizes brought supply into balance, so they stopped discounting and refocused on the tasting room and higher-end restaurants, which were restocking.

With many wineries mandated to move to by-appointment models, with higher levels of seated tastings in 2021, the average check per customer increased. The number of average cases sold decreased as part of a strategy by many premium wineries to stretch out vintages to cover the short 2020 year.

Because many have asked for it (particularly academicians), we are producing a common-size nine-month interim balance sheet and income statement for the premium industry for the first time (see figures 37 and 38).

Figure 37: Balance sheet

Nine months balance sheet 9/2022	Common size
Cash	3.28%
Accounts Receivable	3.14%
Inventory	29.54%
Other Current Assets	1.65%
TOTAL CURRENT ASSETS	37.61%
Fixed Assets	46.38%
Accumulated Depreciation	12.99%
Net Fixed Assets	33.39%
Other LT Assets/Investments	0.76%
A/R and N/R Shareholders	0.89%
Net Intangible Assets	27.35%
TOTAL LONG TERM ASSETS	62.39%
TOTAL ASSETS	100.00%
Line of Credit	7.49%
CMLTD & Leases	0.95%
Accounts Payable	1.43%
Grapes/Grower Payables	0.07%
Accrued Liabilities	3.41%
TOTAL CURRENT LIABILITIES	13.35%
Senior LTD & Capital Lease	20.61%
Sub Debt - LT & ST	2.26%
Other LT Liabilities	6.12%
TOTAL LONG TERM LIABILITIES	29.00%
TOTAL LIABILITIES	42.35%
SHAREHOLDER EQUITY	57.65%
TOTAL LIABILITIES AND EQUITY	100.00%

Source: SVB Peer Group Database

Figure 38: Income statement

Nine months income statement 9/2022	Raw average (000's Omitted)
Cased Goods Revenue	\$12,962
Disc. & Allow.	\$108
NET CASSED GOODS SALES	\$12,855
COGS Cased Goods	\$5,290
Depreciation in COGS	\$684
TOTAL COGS	\$5,973
GROSS PROFIT - CASSED GOODS	\$6,881
Sales & Marketing Expense	\$906
Other G/A Expense	\$3,159
Owner's Compensation	\$8
Depreciation Expense	\$195
Amortization Expense	\$18
TOTAL SELLING, G/A EXPENSE	\$4,286
OPERATING INCOME	\$2,595
Gain(Loss) on Bulk Wine	\$(12)
Non-Wine Net Revenue	\$6
Other Income	\$338
Other Expense	\$308
TOTAL OTHER INCOME (EXPENSE)	\$23
Total Interest Expense	\$385
Capitalized Interest	\$-
Net Interest Expense	\$385
PRE TAX INCOME	\$2,233
Tax Expense	\$415
NET INCOME	\$1,819
Dividends/Distributions	\$385
EBITDA	\$3,515

Source: SVB Peer Group Database

Takeaways from the wineries' 2022 financial statements include:

- 2021 was so good financially, it was a difficult sales comp to improve on, but thanks to price increases among premium brands, 60.5 percent of the sample did have better revenue in the comparable first nine months of 2022, producing lower growth in sales compared to year-end 2021, but still reporting a healthy 6.3 percent growth rate through the interim period.
- Wineries are being hit hard by inflation and were unable to pass along all of these costs to their customers. Costs of goods sold were up 10.1 percent, with 68 percent of the sample reporting higher costs.
- Substantial increases in SG&A (selling, general and administrative) costs ate away at profitability in 2022. In the sample population, 83.7 percent showed an increase in SG&A expenses through the first nine months of 2022 compared to the first nine months of 2021. SG&A expenses were up 13.4 percent through the first nine months of 2022, with a majority of the increased cost happening in the 1st half of the year. SG&A expenses were up 26.3 percent through the first half of 2022 but only up 4.1 percent in Q3. Interest expense was down 29.9 percent, with only 16 percent of the sample population showing an increase.

The balance sheet (see figure 37) provides a number of insights:

- It's probably not a surprise to anyone in the business, but changes in cash balances were not significant. Cash is a rare commodity in a business that is so asset-intensive.
- Inventory in the nine-month period was higher on average by 3 percent, with slightly less than half of the sample ending with more inventory in 2022. Inventory carry at present is below normal given the years of consecutive light harvests.
- Fixed assets reported were up 3.6 percent, with 74.4 percent of the populating reporting asset growth.
- Current liabilities were down 9.1 percent on average, but 51.2 percent of the population showed higher current liabilities balances.
- Long-term liabilities were higher by 1 percent, but growth only occurred in 39.5 percent of the sample population.
- Shareholder equity grew 6.1 percent, with 67.4 percent of the sample increasing equity.

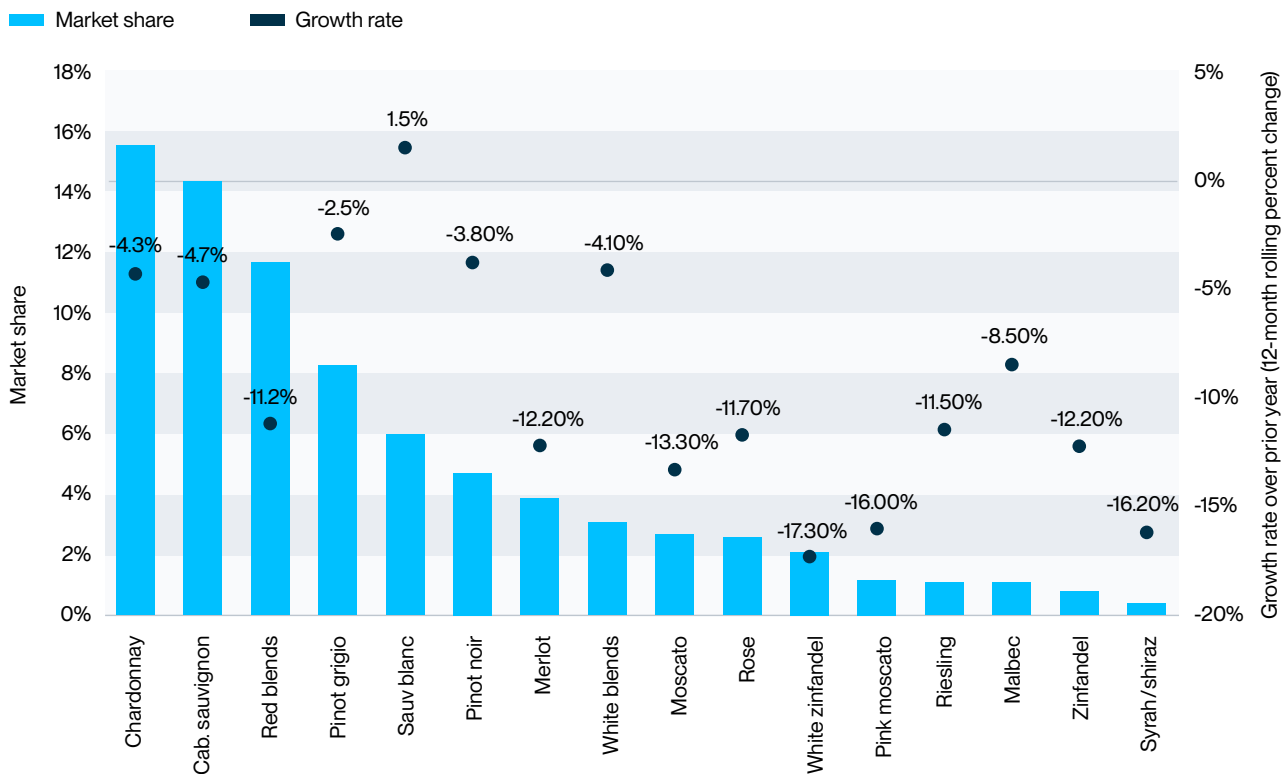


11

STATE OF THE US WINE INDUSTRY 2023

Grape and wine supply

Figure 39: Varietal growth and share of market



Source: SipSource, 9/2022

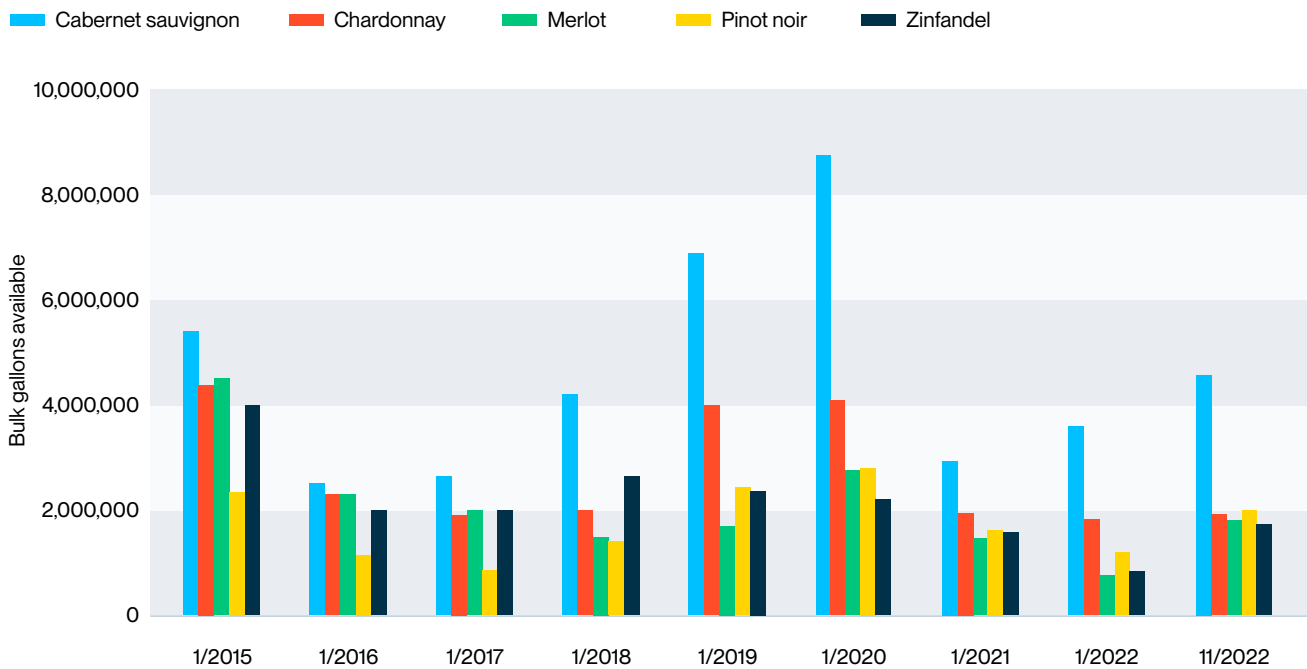
Varietal segment growth

The year-over-year growth rates of still wine varietals aren't delivering good news (see figure 39). In 2020, there were seven varietals that showed positive growth rates. This year, all major varietals in still wine had negative growth rates in depletions, with the exception of sauvignon blanc, which grew 1.5 percent on a trailing 12-month basis. Pinot grigio and pinot noir were close to breaking into positive territory, showing less than a minus 4 percent growth rate.

The worst-performing varietals were merlot, white zinfandel, zinfandel, moscato, pink moscato and syrah. The varietals with major share that performed the worst were red blends, with minus 11.2 percent growth, and merlot, which declined 12.2 percent.

There hasn't been much movement in the order of consumer preference for varietals since 2020. Chardonnay takes the top share, with cabernet sauvignon second. The unfortunate story here is that, like 2021, the four most popular varietals by share are all negative in growth.

Figure 40: California bulk wine inventory



Source: Ciatti

Bulk wine

The wine business is cyclical. Some years, we have a light yield and are underplanted in a variety, causing spikes in grape prices. Other years, we are overplanted following a string of heavy years, which lowers 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 in any given year.

Figure 40 shows the bulk wine inventory positions in California over the past several years. The year that stands out is 2020, when there was too much wine. What created that imbalance in 2020, and how did it get absorbed in the same year?

After several years of good-sized harvests and flattening consumption starting in 2015, a supply bubble began to form. That bubble got popped in 2019, after the record 2018 wine grape crop in California came in at 2.28 million tons. With light to flat demand growth and a normal-sized 2019 crop (3.9 million tons), the industry hit a wall.

In January 2020, with our best interpretation of available information, we said, “We are at a position of oversupply across the entire supply chain. That extends through retail and every growing region in California at every price point.” We said it would take three to six years to correct. By April 2020, that was no longer true.

Circumstances changed on the demand side in March 2020, and they changed on the supply side in August. How could we move from acute oversupply to balance in months? The unpredictable struck: COVID, then fires.

The supply situation changed almost overnight in March 2020, when the shelter-in-place orders began to take effect and panic buying began in the groceries and drugstores — that part of the market supplied by the large producers. Those producers weren’t prepared for the high volumes demanded and purchased a lot of fruit in the Central Valley. Even though they started out the year oversupplied, by June they had worked through their oversupply in the cellars. By July, those wineries started to buy down excess bulk wine to match off-premise demand, cleaning out the remaining 2018 supply.

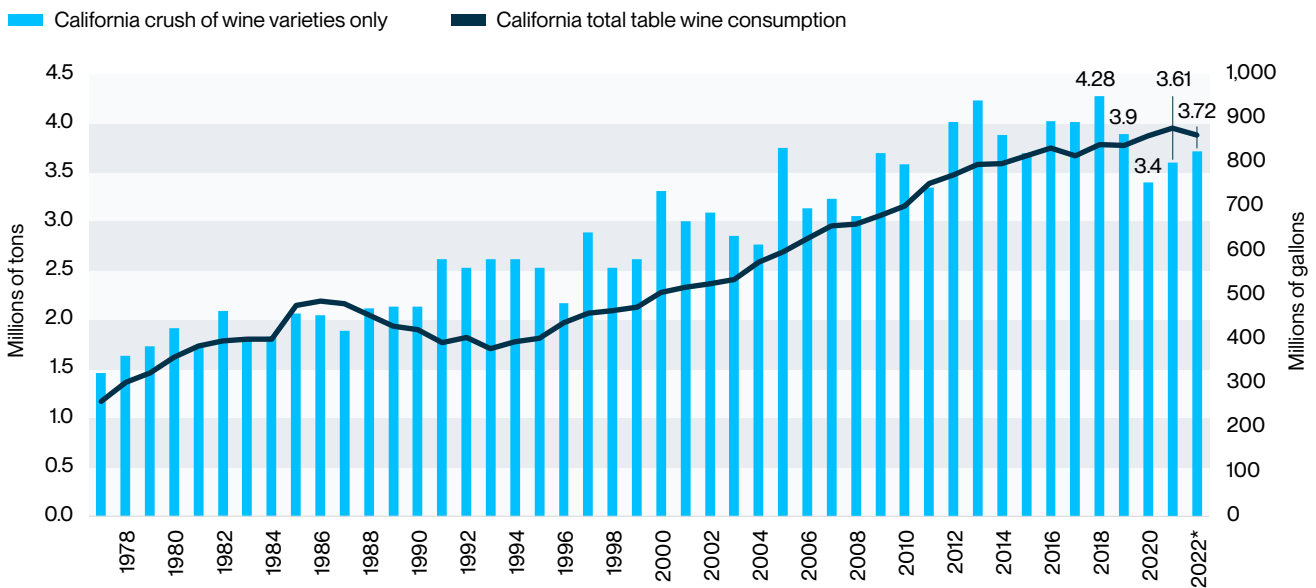
As hard as it was to believe, the high-volume end of the market was close to being in balance before summer was over. But the North Coast had significant tons of fruit without contracts headed into harvest. And with wineries just starting to reopen to limited numbers of visitors, the problem of excess supply would not improve just from tourism and tasting room activity buying down wine inventory.

Then came August 16 and the never-before-seen dry lightning storms that spread wildfires across Central California into Southern Oregon in several large fire complexes, burning 4 million acres in California and over 1 million in Oregon and leaving cities in the West under unhealthy air conditions for weeks on end.

The losses of grapes due to smoke taint for the 2020 season could not be accurately counted but undoubtedly were in the hundreds of thousands of tons. If there was any silver lining to the fires, grape supplies in the North Coast of California and Oregon were able to come into balance from this tragedy.

With 2021 also delivering low yields, where does that leave us today?

Figure 41: California crush of wine grapes vs. consumption of California table wine



Source: California Wine Institute, California Department of Food and Agriculture, Silicon Valley Bank
 *SVB estimate



If we still had increasing demand for wine, three consecutive short vintages should move prices higher.

Grape and bulk pricing

In California, the final tally isn't in, but we are certain this will mark the third harvest in a row that is light and predict the 2022 harvest will come in at 3.72 million tons (see figure 41).

With the third consecutive harvest with low yield in California, shouldn't grape and bulk prices rise? That question is one we should all be asking ourselves because if demand is growing and supply is shrinking, we should expect to see prices increase. One of the inputs to that equation isn't delivering.

We have long known that prices of grapes react to changes in the volume supplied from growers and to changes in demand from wineries. If there is too much juice in tanks, prices of bulk wine and, by extension, grapes should drop. If consumers are drinking the tanks dry on the other hand, prices will go up.



With the third small crop in a row, are the wineries scrambling for supply? Surprisingly to many, the answer is no. Grape and bulk wine prices are generally not rising as of this writing in December 2022, and wine brokers tell us that activity is light as well. Wineries aren't looking for more juice, with the exception of Sonoma County pinot noir and Napa Valley cabernet.

That says something about the volumes wineries have in tank and what they need. But even more, it reinforces figure 13 showing that consumer demand for wine is turning negative by volume. It also indirectly ties into all the charts and the conclusions we've drawn in the section "The Consumer and Demand." If we still had increasing demand for wine, three consecutive short vintages should move prices higher. If the data leads you to conclude that there are too many acres planted, you might be right.



12

STATE OF THE US WINE INDUSTRY 2023

Final thoughts

I don't even like to tell people how many years I've been in the wine business, but let's say I'm counting in the decades now.

A famous saying many attribute to the late Robin Williams goes, "If you can remember the '60s, you weren't there." But I vividly remember the early 1960s, when my family would come up to the Napa Valley for free wine tastings at Charles Krug and Beringer. It was really just the start of what we think of today as the US wine industry.

Yes, the California wine business has been around since the middle 1800s. But Prohibition virtually killed what had been established by that point in time. Wineries went into disrepair, vineyards weren't tended and there were no grapevine nurseries, no vineyardists and nobody to make barrels. It was a full restart in 1933 when Louis Martini decided to build his winery in Saint Helena, California.⁷⁹

Post-Prohibition, this is a very young business. In 1966, the Robert Mondavi Winery was the first winery built in Napa since the Louis Martini Winery. The Mondavi winery's addition increased the number of operating wineries in Napa to 11.⁸⁰

It amazes me, but it's not much of a stretch to say that I've held a front-row seat for the entire post-Prohibition growth in the US wine industry. It's not that I remember the repeal of Prohibition; I'm hardly that old. But I do have firsthand memories of the founding of the wine business as we know it today, and that gives me a certain perspective.

I've seen the cycles in the business. I remember the last time wine was under attack by neo-prohibitionists in the late 1980s, a time when the two-martini lunch was seen as normal. But attitudes shifted as the mature generation was reaching the retirement age. The boomers reconsidered alcohol's place in society and its impact on health. Jazzercise and leg-warmers were "in", along with moderation in drinking. Wine was a beverage reserved for special occasions.

In figure 41, we can see what happened to wine consumption in that era. Volume dropped starting in 1987, and for eight years it continued to decrease. What changed the direction of consumption back to positive? It had almost nothing to do with the boomer getting old enough to appreciate wine, a fallacy that many want to apply to the current younger cohorts.

The explosive growth in wine consumption was due to a combination of events: the boomers being well into their careers in a good economy, the Judgment of Paris in 1976 setting the stage for premium consumption, the Mediterranean diet becoming popular in the 1990s and 60 Minutes airing the story about the French Paradox, which proposed that there might be some health benefits associated with drinking wine, particularly red wine.

My long-held belief is that the boomers then were growing weary of moderation and the French Paradox gave them permission to enjoy wine. So starting in 1994, the growth in the US wine business took off for 25 years. It's been a great time to be in this business.

We are now at the start of a very similar pattern to the one that began in 1987. The neo-prohibitionists are getting strong funding from the World Health Organization, the consumer is focused on a new version of health-consciousness, the young consumer we hope to attract is using wine for special occasions, we are likely



Instead of investing time in an industry solution, will we decide to fight over the crumbs of dwindling opportunity — taking market share from each other?

entering difficult national and world economic times, and we are clearly entering an era where the volume of total wine sales is in decline, while at the same time we are the most important target for foreign wine companies. How long will this next downcycle last?

Is that doom and gloom? I'm sure some will say it is, particularly if you work in the premium wine industry, which is showing good growth right now. But this is something we need to talk about and solve for. It should matter to every person with a stake in the US wine business. If the rising tide floats all boats, what will a shrinking tide do for your business?

Last year, as noted in this report, three other analysts and I tried to provide industry leadership and formed WineRAMP. It was two and a half years of volunteer work focused on finding a way to align the industry on a message and attract new consumers to the category. We were close, but we failed. So now what?

Are we as an industry going to sit by as we shrink, just doing things the way we have for the last 25 years and pretending there are no issues? Instead of investing time in an industry solution, will we decide to fight over the crumbs of dwindling opportunity — taking market share from each other?

If we can't work together and alter the trajectory of consumer adoption, then we'd better prepare ourselves for less-than-hoped-for industry results.

The question is, will the wine industry become a business case study someday? Will a young person in business school conclude, "I could do better than that! The train was on the tracks, the lights were on, the horn was blaring, but the wine industry never evolved or rose to the challenge!" Will the case conclude that we stood by and, with forethought, decided to do nothing together? Or will the case study talk about the leadership that sprung up to unite the business to take action?

Who will lead?

Endnotes

- 1 Tristan Bove, [“Over Two Thirds of Economists Believe a Recession Is Likely to Hit in 2023,”](#) *Fortune*, June 13, 2022.
- 2 Dean E. Murphy, [“California Grape Rush of 90’s Withers as Prices Collapse,”](#) *New York Times*, May 25, 2003.
- 3 It should be noted that the 2000 California vintage was regarded as weak for red wine. The vintage was also a record harvest at 3.32 million tons. The 2001 vintage was still large for the time, at 3.01 million tons, and was regarded as a very good vintage. That circumstance, headed into a market slowdown, caused many retailers to try and skip over the 2000 vintage and go right to the 2001 vintage.
- 4 Katie Kindelan, [“‘Sober September’ Is Here: What Can Taking a Month off from Drinking Do for Your Body?,”](#) *Good Morning America*, September 5, 2018.
- 5 Silicon Valley Bank’s Peer Group Analysis (PGA) Database is a proprietary information set that includes both client and non-client financial statements and extends back into the early 1990s. We are able to use this for diagnosing industry and regional trends, as well as for providing anonymized comparisons to our winey client base.
- 6 The full question we asked was: “Imagine you are visiting an upscale (or fine dining) restaurant that serves a wide food selection, and you are deciding on an alcoholic beverage to have with your meal. Assuming each of the following alcohol beverages are of the same relative premium quality for their category, which beverage are you most likely to choose?” In the choices, we provided different by-the-glass pricing options to level-set price.
- 7 One example of numerous articles on the subject: [“How to Use Food and Spirits Pairings to Boost Restaurant Profitability,”](#) Bartenders Business.
- 8 [“Global Luxury Goods Market Takes 2022 Leap Forward and Remains Poised for Further Growth Despite Economic Turbulence,”](#) Press Release, Bain & Company, November 17, 2022.
- 9 Wine coolers were made by several companies and peaked in the 1980s. Though not the first wine cooler, Gallo’s entrant, Bartles & James, became hugely successful. The product was heavily promoted on national television with iconic ads, which had to help the full wine category. If you’ve never seen some of the examples, [here is one you might enjoy.](#)
- 10 Some companies are delving into trial-size marketing using formats smaller than 187ml splits. [Tubes](#) is one good example of a company that is helping solve for that, using 100ml tubes and telling stories of the wine in the packaging. Tubes is not a client of Silicon Valley Bank.
- 11 Hint: If nobody has tattoos among your tasting room staff, your idea of service and hospitality is probably dated. Suggestion: If you want to attract a consumer group, test your ideas on consumers in that age range. Ask them what you should do. They will give you something to think about. Also, before implementing a programmatic change, do a consumer trial. Test marketing story: If you were with me having a glass of wine, this is where I tell you the story of the farmer who, without testing their thesis, decided to rip out an orchard and plant Jerusalem artichokes to corner the market.
- 12 Rob McMillan, [State of the US Wine Industry 2022, Section 10, “What Do We Do About Declining Demand?,”](#) Silicon Valley Bank Research, January 2022.
- 13 David Lordkipanidze, [“Early Neolithic Wine of Georgia in the South Caucasus,”](#) *PNAS*, October 7, 2017.

- ¹⁴ Charles Taylor, "[What Makes a CSR Message Resonate With Millennials and Generation-Z?](#)," *Forbes*, April 30, 2019.
- ¹⁵ Wendy Wang and Kim Parker, "[Record Share of Americans Have Never Married](#)," Pew Research Center, November 24, 2014.
- ¹⁶ Quoc Trung Bui and Claire Cain Miller, "[The Age That Women Have Babies: How a Gap Divides America](#)," *The New York Times*, August 4, 2018.
- ¹⁷ Paulina Cachero and Ella Ceron, "[These Charts Show Why Most Millennials Couldn't Buy Homes at 24](#)," Bloomberg, March 23, 2022.
- ¹⁸ Pam Strayer, "[TTB Likely to Seek Wine Industry Input on Nutritional Wine Labeling in 2023](#)," *Wine Business*, November 30, 2022.
- ¹⁹ White Claw [website on labeling](#)
- ²⁰ Arthur L. Klatsky, "[Alcohol and Cardiovascular Health](#)," *Oxford Academic Integrative & Comparative Biology*, August 1, 2004.
- ²¹ [Wine Market Council](#) 2021-22 Benchmark Segmentation Study.
- ²² I checked with a respected beverage attorney before adding these comments about health attributes and was told that it was within the bounds and legal for permit holders to do so. That said, we can't include a health icon that says "healthy" on a bottle. That seems obvious. But if you want to go down this path and talk about your wine's attributes, please get your own legal advice on this complex topic and keep me out of hot water!
- ²³ I'm using the term "natural" here in a broad context. Grapes are natural, and if ripe and squished, the juice will naturally convert to wine with the ambient yeasts on the skins. The discussion of natural wine as a subcategory in the market will be briefly touched on elsewhere in the report.
- ²⁴ Unlike other products, the use of the term "organic" has mixed consumer responses when it comes to wine. But the natural wine movement is an outflow of the concept. Finding the right tone with the terms "organic" and "natural" isn't black and white but invites exploration. My suggestion is to use your wine club to get answers. Tell them you're thinking of a change and ask them what they think. They will appreciate that you consider their advice useful, and that engagement by itself is positive.
- ²⁵ Mike Pomranz, "[Alcohol Brands Shouldn't Be Making 'Clean' Health Claims, TTB Says](#)," *Food & Wine*, April 19, 2022.
- ²⁶ TTB, [Alcohol Beverage Labeling: Statements Related to Calorie and Nutrient Content, Serving Facts, Alcohol Facts, and Sugar Content](#), last updated June 25, 2021.
- ²⁷ The Sentiment Index is created using the Annual Winery Conditions Survey that's run in October of each year. Winery owners are asked whether a given subject is a positive, negative or neutral factor in running their business. For example, if an owner viewed the economy as a positive factor in their current business, they would answer positive. If the economy was hurting their business, the answer would be negative. The raw positive answers are netted against the negative responses with the neutrals excluded. That is then divided by the total responses, including the neutral responses, to create the index. Positive 100 and Negative 100 are the maximum scores possible, but to attain that, all the respondents would have to elect positive or negative, with no neutral responses.

- ²⁸ Many of my analyst colleagues publish their estimates on total wine consumption and tell me they feel very confident in their figures because they have a “proprietary algorithm” that helps them fill in the blanks. My response is always the same. Unless your algorithm was constructed by a defected physicist from the former Soviet Union, it’s just math and it’s still an estimate. Estimates may be good or not, but it’s important to know that the forecasts of total industry sales are made with good data from numerous sources but are supported by educated guesses to get to the final estimate.
- ²⁹ Brian Feldman, “[For Wine Stores, Coronavirus Has Brought a ‘Fire Hose’ of Customers](#),” *New York Intelligencer*, March 19, 2020.
- ³⁰ It’s interesting to note that wine was still in acute oversupply when shelter-in-place orders were issued, yet discounting was pulled back in the grocery channel and prices increased. That’s not typical economic theory, but fear-based purchasing isn’t rational.
- ³¹ Zac Costro, “[Noticing Your Favorite Spirit Is Absent From Liquor Store and Bar Shelves? You’re Not Alone](#),” *Salon*, July 27, 2021.
- ³² How would car sales be impacted if Detroit required consumers to come to Michigan to pick up their car? I encourage wineries to look outside the existing tasting room model and go to regions where there are pockets of club members, essentially taking an experience on the road and gaining club members in the process. Zoom can be a help with engaging remote customers as well. Why not be the most important winery in Des Moines or Madison?
- ³³ Depletions in this context are removals of wine or spirits from the wholesaler’s inventory. It doesn’t mean the inventory is sold to a consumer, but it’s a good early indicator of retail sales.
- ³⁴ Bret Thorn, “[Datassential: More Than 10 Percent of U.S. Restaurants Have Closed Permanently](#),” *Nation’s Restaurant News*, March 29, 2021.
- ³⁵ Black Box Intelligence, “[Restaurant Sales Remain Strong With Last Two Months Posting Highest Growth Since March](#),” *Nation’s Restaurant News*, November 17, 2022.
- ³⁶ Colleen Graham, “[How to Pair Cocktails and Food](#),” *The Spruce Eats*, March 17, 2021.
- ³⁷ David Williams, “[How Do You Spot a Hipster Wine?](#),” *The Guardian*, February 19, 2017.
- ³⁸ Elin McCoy, “[The Restaurant Wine List Is Dead. Long Live the Wine List](#),” *Bloomberg*, January 16, 2019.
- ³⁹ *Napa Valley Register* archives, part IV, April 1985, p. 19.
- ⁴⁰ FedEx started delivering nationally on April 17, 1973.
- ⁴¹ Estimates of total direct sales in the mid-1990s vary widely in the literature.
- ⁴² Peter Sinton, “[Wine Sparks War Between the States](#),” *San Francisco Chronicle*, April 6, 1996.
- ⁴³ In 1999, 31 states allowed concealed weapons, while 30 allowed any shipment of wine direct-to-consumers. Daniel Webster and Jens Ludwig, “[Myths About Defensive Gun Use and Permissive Gun Carry Laws](#),” Berkeley Media Group, October 15, 1999.

- ⁴⁴ Silicon Valley Bank clients routinely had stock-outs in the mid-1990s, with some selling all of their vintage in mere months, which sounds nice, but it puts the brand out of customers' view for the remainder of the year. Unabated planting began in an effort to catch up with shortages, and Mondavi even started a Chilean joint venture (Viña Seña and Arboleda) to help fill the gaps in the supply of cabernet in particular.
- ⁴⁵ To give you an example of the heady feelings in that period, I had one winery owner in that era tell me, "I only sell wine to people I like." It reminded me of the [Seinfeld episode in the soup store](#) that aired during the same period in 1995.
- ⁴⁶ The National Bureau of Economic Research [defines when a recession is a recession and not an economic lull](#). The tech recession in 2001 was so short it's debatable that it was a recession, unless you owned one of the internet companies that failed during that time.
- ⁴⁷ Justice Kennedy, [Granholm v. Heald \(03-1116\) 544 U.S. 460](#), May 16, 2005. While the ruling provided a pathway to ship wine legally between states, it would take more than a decade for all states to address the legal decision. To this day, there are a few straggler states.
- ⁴⁸ US Census Bureau, "[Quarterly Retail E-Commerce Sales, 3rd Quarter 2022](#)," Press Release, November 18, 2022.
- ⁴⁹ [Mothers Against Drunk Driving \(MADD\) and Students Against Destructive Decisions \(SADD\)](#).
- ⁵⁰ An example of an anti-alcohol funding source today is the Bill & Melinda Gates Foundation. Jess Thompson, "[Young People's Health at Risk From Excessive Drinking, Report Finds](#)," *Newsweek*, July 15, 2022.
- ⁵¹ [The Alcoholic Beverage Labeling Act \(ABLA\) of the Anti-Drug Abuse Act of 1988, H.R. 5210](#), is a US federal law requiring that (among other provisions) the labels of alcoholic beverages carry a government warning.
- ⁵² National Highway Traffic Safety Administration, "[Introduction](#)," which discusses President Clinton's call for a nationwide 0.08 maximum standard for drunk driving.
- ⁵³ Morley Safer, "[The French Paradox](#)" (video), 60 Minutes, November 17, 1991.
- ⁵⁴ The [Mediterranean diet](#).
- ⁵⁵ Arthur L. Klatsky, M.D., "[Moderate Drinking and Reduced Risk of Heart Disease](#)," *Alcohol Research and Health*, Volume 23, Number 1, 1999.
- ⁵⁶ J. Ferrières, "[The French Paradox: Lessons for Other Countries](#)," *Heart* (Journal of the British Cardiovascular Society), Volume 90, Issue 1, 2004.
- ⁵⁷ [State of the Science Report on the Effects of Moderate Drinking](#), National Institute on Alcohol Abuse and Alcoholism, December 19, 2003.
- ⁵⁸ James McAuley, "[Wine Is Bad for You, France's Health Minister Warns. It's Not Going Down Well](#)," *Miami Herald*, March 6, 2018.
- ⁵⁹ Sandee LaMotte, "[Global Study Finds Surprising Results for Alcohol Consumption](#)," CNN, July 14, 2022.
- ⁶⁰ Vedika Bahl and Kevin Baptista, "[The Bordeaux Region, in Crisis, Calls for Help to Pull Out Vines](#)," *FRANCE 24 English*, December 6, 2022.
- ⁶¹ National Academies of Sciences, Engineering, and Medicine, "[New Report Calls for Lowering Blood Alcohol Concentration Levels for Driving](#)," Press Release, January 17, 2018.

- ⁶² Jackson Shedelbower, "[Once the Facts Are Known, It's Clear .05 Blood-Alcohol Limit Won't Save Lives](#)," *USA Today/Times Record News*, November 20, 2018; and Etienne Blais and Pierre Maurice, "Toward Improved Evaluations of Laws Against Drink-Driving," *The Lancet*, December 12, 2018.
- ⁶³ Bill Chappell, "[Utah Cuts DUI Alcohol Limit to Lowest Level in U.S.; Law Also Affects Gun Owners](#)," NPR, March 24, 2017.
- ⁶⁴ Kazia Conway, "[States Consider Adopting Lower BAC Limit of .05](#)," Intoxalock, May 3, 2019.
- ⁶⁵ Justin Scheck, "[With Moderate Drinking Under Fire, Alcohol Companies Go on Offensive](#)," *Wall Street Journal*, November 29, 2018.
- ⁶⁶ Anahad O'Connor, "[Should We Be Drinking Less?](#)," *New York Times*, July 10, 2020.
- ⁶⁷ Caroline Paulus, "[The Federal Government Is Coming for Your Moderate Bourbon Habit](#)," *The Bourbon Review*, August 11, 2020.
- ⁶⁸ Mayo Clinic Staff, "[Alcohol Use: Weighing Risks and Benefit](#)," Mayo Clinic, December 11, 2021.
- ⁶⁹ Josh Bloom, "[Why Target Opioids When Alcohol Is A Much Bigger Problem?](#)," American Council on Science and Health, November 6, 2022.
- ⁷⁰ US Preventive Services Task Force, "[Screening and Behavioral Counseling Interventions to Reduce Unhealthy Alcohol Use in Adolescents and Adults](#)," *JAMA*, November 13, 2018.
- ⁷¹ Emma Liem Beckett, "[Consumers Are Demanding More From Their Beverage Experiences](#)," *Food Dive*, January 22, 2018.
- ⁷² Imagine consumers wanting to consume food and beverages that are good for you! According to multiple studies, moderate alcohol consumption is good for you, but that's not part of a balanced message being delivered.
- ⁷³ Joel Achenbach, "[Teenagers and College-Age People Drink Less While This Group Pours Another Round](#)," *The Washington Post*, April 16, 2018.
- ⁷⁴ Theresa J. Hydes et al., "[A Comparison of Gender-Linked Population Cancer Risks Between Alcohol and Tobacco: How Many Cigarettes Are There in a Bottle of Wine?](#)," BMC Public Health, March 28, 2019.
- ⁷⁵ Christian E. Weller, "[Learning Lessons From the 1990s](#)," Economic Policy Institute, April 10, 2002.
- ⁷⁶ Yun Li, "[This Is Now the Longest US Economic Expansion in History](#)," CNBC, July 2, 2019.
- ⁷⁷ It's not easy to see what's happening when you are in the middle of a trend change. In this case, producers were used to higher sales growth. I can imagine the discussion in industry boardrooms: With the winery experiencing high growth the previous year, the head of sales told the owners his target for the next year was to sell fewer cases than the previous year. The owner more than likely held the sales team to higher goals, and the production team had to produce the volume for the forecast. Multiply that circumstance countless times across the industry.
- ⁷⁸ "[Yogi Berra's Most Memorable Sayings](#)," MLB.com, December 7, 2021.
- ⁷⁹ Jeff Leve, "[Complete Napa Valley California Wine History from Early 1800s to Today](#)," *The Wine Cellar Insider*.
- ⁸⁰ David Thompson, "[Historical Napa Wineries](#)," The Napa Wine Project, January 27, 2010.



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