

The background of the top half of the page is a photograph of a vineyard. Several large, dark purple clusters of grapes are hanging from the vines. The leaves are a mix of green and yellow, suggesting an autumn setting. The lighting is warm, creating a golden glow. In the top left corner, there is a blue square containing the letters 'svb' in white, followed by a white right-pointing chevron. Below this, the text 'Silicon Valley Bank' is written in white on a dark blue rectangular background.

svb



Silicon Valley Bank

State of the US Wine Industry 2022

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1

Introduction

We can definitively say that 2021 was a good year for the US wine industry — not a great year or a bad year, but a good year. Reopening tasting rooms, hotels and restaurants, along with thawing travel, rejuvenated sales opportunities in those venues.

Restaurant sales of alcohol recovered and surpassed pre-pandemic measures at least on a same-store basis, while direct-to-consumer (DTC) sales grew and internet sales maintained their strong pandemic-era performance. Mergers and acquisition (M&A) transactions were by all accounts the strongest ever, underscored by the first IPOs of major wineries in 20 years.¹ Strikingly, almost 30 percent of winery owners finished the year believing 2021 was not just much better than 2020, but their best year ever!

The success throughout 2021 was supported by the rollout of vaccines, allowing COVID-19 mandates to be gradually relaxed and businesses to reopen. Other factors backing the positive results included the strongest US GDP since 1984, steadily improving employment and wage growth and record levels of pandemic-induced savings that provided spending fuel for consumers. The Federal Reserve held interest rates near zero, stimulating added consumer demand from a wealth effect, as the stock market closed with more than 60 record highs during the year.^{2,3}

There was a lot to celebrate, including just getting out of the house! And that success was hard-earned. A disastrous 2020 holiday season bled into 2021; then the Delta variant caused another wave of infections and slowed reopening in many regions. Added to that were continuing impacts from climate change — more fires, more smoke, an unprecedented drought in the West and low soil moisture, which impacted yields and will require added mitigation going forward. Other stresses included the challenge of finding a sufficient number of employees and paying higher wages for those employees, rising input costs and supply chain issues, water rationing in many regions throughout the West and a scarcity of affordable property insurance — and we haven't mentioned consumer demand yet.

Looking at a single good year doesn't define the industry as successful any more than looking at 2020 defines the business as a failure. We must consider long-term trends to get a true accounting of industry health, and doing so this year reveals issues with consumer demand that may portend serious conditions for the industry for years to come.

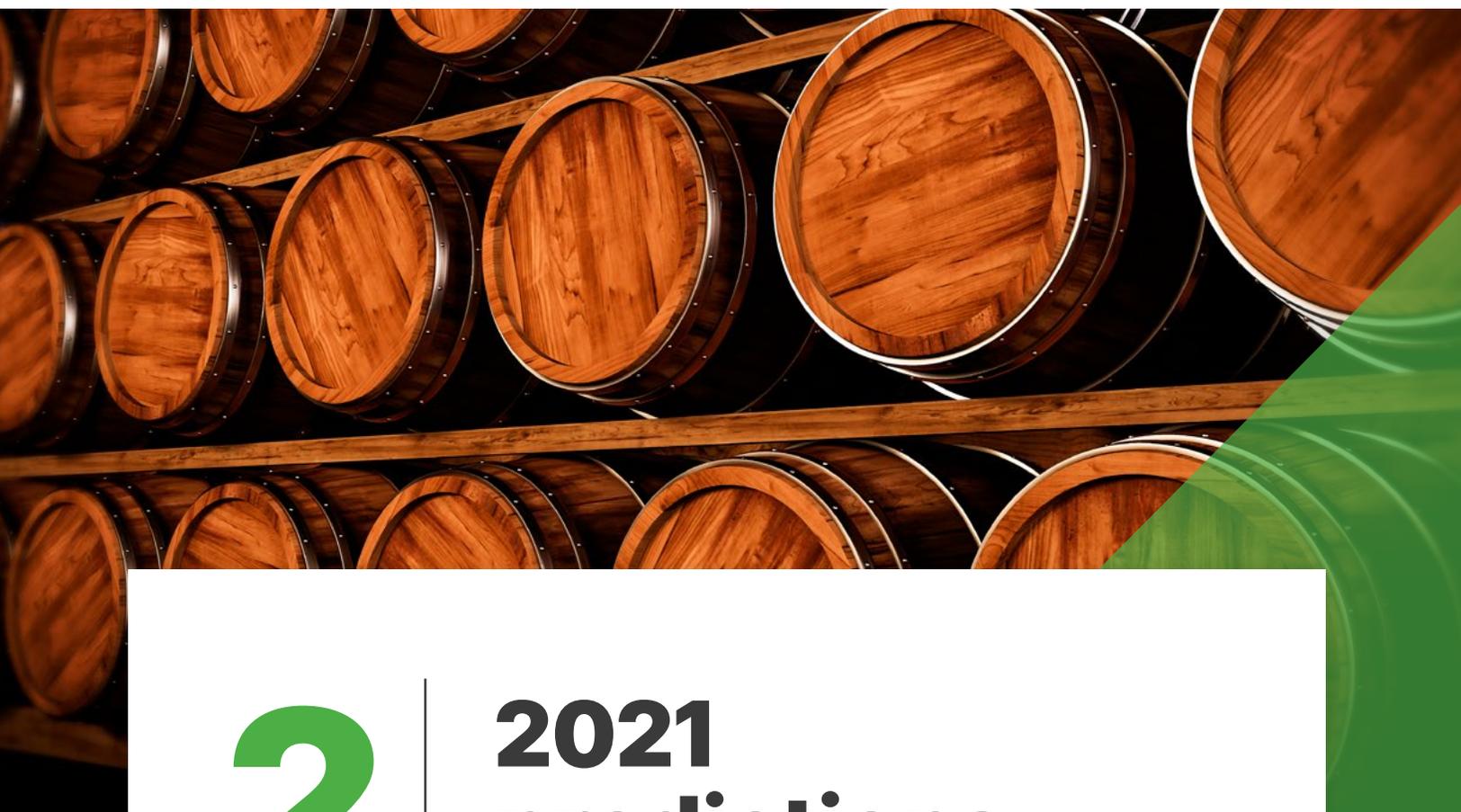
That last point is a big deal. In prior reports, we noted that the falling interest in wine among younger consumers, coupled with the encroaching retirement and decreasing wine consumption of baby boomers, poses a primary threat to the business.⁴ That issue has yet to be addressed or solved, and the negative consequences are increasingly evident.

Throughout the reopening, wine lost market share to spirits. Worse yet, total wine sold through wholesale declined through most of the year despite tasting rooms, restaurants, hotels and travel resuming business. We predicted there would be a reopening celebration, and it turns out we were correct, but the reopening celebration that took place in 2021 didn't include the wine industry.

This report is written primarily for wineries, investors in the wine business and academia. For the winery owner, it is meant to inform your team's thinking about the position you occupy within the wine business, help you anticipate scenarios that can require planning, and guide you toward strategies that might improve your opportunity to succeed in the future. For the wine industry as a whole, we hope this year's report will be a clarion call that creates greater industry cooperation to address the long-term threats that are diminishing opportunity.

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Total wine sold through wholesale declined through most of the year despite tasting rooms, restaurants, hotels and travel resuming business.



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2021 predictions in review

We have been making public forecasts in this report for 21 years. The 2020 report was a challenge for us, as it was released six weeks before the pandemic started. Obviously, our predictions didn't consider a worldwide plague! But coming into the 2021 report, we bounced back, making bold predictions about the year ahead, including pandemic impacts. Some of these predictions turned out to be remarkably prescient, others still offer promise to be correct in direction if not in specific numbers, and a very small number might have been slightly askew.

Anticipating that the country would gain control over COVID and that the hospitality sector would reopen, last year we led with the following observation:

“The post-COVID world won’t be the same one we left in early 2020. There will be many permanent changes we will need to consider, such as the shift to working from home, the increasing relocation of consumers to the suburbs and the acceleration of consumer online sales, which will take sales away from other channels. Even the best-run wineries in 2019 won’t find the same level of success in 2021 unless they evolved in 2020 and continue to do so in 2021.”

That view appears to have hit the mark. As we move through more phases in the recovery, we can clearly see how COVID is driving several changes, such as working from home and, with that, the exit from large cities by those seeking larger homes with office space. These relocated consumers have changed their buying patterns.

The country will more than likely never fully go back to the traditional office or completely recover the amount of business travel, which impacts both restaurant and airline wine sales. There have also been enduring changes to online sales, with more consumers using online as an option to purchase virtually anything instead of walking into a shop in a metropolitan city.

What we got right

- We predicted that 2021 would be a year of two phases: first, continuing to execute in a COVID-restricted mode during the early part of the year; and second, moving away from emergency responses once the wide distribution of vaccines signaled a move into a less risky, post-COVID world.
- We said there would be a reversal of the COVID-induced channel shifting as reopening gathered momentum.
- Restaurants, we predicted, would come out of the lockdown damaged and need new investment. We believed that wine sales through restaurants would not recover to pre-COVID levels in 2021 and that it might take several years.
- We thought wineries with DTC models would focus on new COVID-era strategies in the front half of the year but, upon the reopening of the hospitality sector, would finish 2021 with strong sales.
- We predicted that when restaurants reopened, their wine inventories would be minimized and streamlined into smaller wine lists and the investment in long wine lists might be limited going forward.
- We anticipated that the US economy would continue to recover and grow as vaccines and therapeutics gained traction.
- We thought M&A activity would take off due to low interest rates and the high level of liquidity looking for a return.
- We guessed that when 2020 totals were calculated, California would have crushed 3.3 million tons, which would be the smallest harvest since 2011. We came close enough, with the actual crush coming in at 3.4 million tons. We posited that the Pacific Northwest harvests in both Oregon and Washington would also come in smaller than normal, and they did.
- With respect to supply in the West, we believed the industry had remarkably transitioned in one year from being acutely oversupplied to being largely in balance for most grape supplies in most regions.
- We forecast that some acres of vines would need to be removed in California and Washington to sustain the balance.

- We thought that grape and bulk prices would stabilize at lower levels than we've seen on average over the prior five years and that buyers would remain cautious.
- We believed retiring baby boomers would continue to buy wine at all price points but that their buying patterns would moderate with lockdowns and population decline.
- In an understated view, we said that millennials weren't engaging in wine as hoped, continuing to show a preference for premium spirits and craft beers, which have a better value per serving. We should have included spiked seltzers and ready-to-drink cocktails (RTDs) in that observation, but it's a true statement that will have greater impact over the next decade unless the industry changes the way it markets to younger consumers.

What we got partially right

- In terms of sales growth, we said that wine sales would start off sluggishly until business restrictions were lifted but that sales would gather momentum through the year and end on a modestly positive note. We were correct that growth started off sluggish, but there was a distinct difference in performance for wineries producing wines under \$11 versus more expensive wines, with the premium and luxury sectors showing growth above 10 percent for the first time in years. But overall, sales of wine on volume appear to have come in lower than 2020.
- We thought that the consumer would celebrate in 2021 and make up for many postponed life events. That was largely true, but wine didn't participate in reopening as much as spirits did.

What we got wrong

- We missed our call on premiumization. We have felt that the premiumization trend in its present form, which includes higher volumes and growing sales in higher-priced wines, was nearing an apex. While we could argue this was close to correct, it's become clear over the past year that for now premiumization is continuing but as a tradeoff, with lower total volumes offsetting higher sales at higher price points. The reality was that COVID continued to accelerate premiumization, and while total volumes of wine sold are dropping, survey respondents in the premium wine segment said they increased the volume sold at higher prices in 2021.
- We said California vineyard prices in premium regions would remain lower than their prior high points, flattening in the best areas and softening in secondary regions. It turns out that vineyard buyers were out in force in 2021. Often, those buyers were funds looking for alternative investments with extra cash to spend. Vineyard prices were generally stable through the year.
- In our worst miss last year, we said that overall pricing should hold in both off- and on-premise sales, as well as in the DTC channels, as demand for alcohol and special occasions went through a spurt of temporary growth. In fact, there were price increases in the direct channel, price decreases in off-premise sales and price increases in on-premise sales. Outside of good improvement in the premium wine space, wine sales did not have a growth spurt.



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2022 US wine business predictions and observations

The US wine industry had pockets of success in 2021, but 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.

We are basing the following forecasts on the assumption that the fight against COVID will continue in 2022, but at a pace that won't put the US back into a restricted business mode, and that the economy will continue on with healthy but lower rates of GDP growth than in 2021.

As we contemplate the forecast, there are permanent changes to consider, such as the shift to working from home, the relocation of consumers to the suburbs and the move to online purchases, which was enhanced by shelter-in-place orders.

Top-level forecasts

- The pandemic experience will have owners thinking twice about the strategy of focusing sales just through the tasting room.
- Analysts disagree on year-end total sales of wine. But within three years, we believe declining sales by volume will be accepted as reality by all analysts.
- Premium wine sales were positively impacted by several one-time events during reopening, which will lead to another good year for premium wine but at lower growth rates.
- The median age of baby boomers, who drove success in the industry over the past 23 years, will hit normal retirement age in 2022. (That's not a difficult prediction, but it's an important milestone.)
- In the West, the impact of drought will likely become a focal point of industry discussions and planning in 2022, particularly if there isn't substantial rain and snow before the spring in California. With increasing climate impacts from drought, fire, low soil moisture and record low reservoir levels, there will be even more pressure for agriculture and residential users to share limited water.
- The restaurant industry will likely continue to decline in its importance to the wine industry as a viable sales channel due to overpricing on the menu and consumers who value other alcoholic beverages over wine. Restaurants may find that wine is not in demand at the prices charged and that the cost to maintain deep stocks of wine is becoming senseless.

Supply

- When 2021 totals are calculated, we are guessing that California will have crushed 3.6 million tons, which would be a second small harvest in a row. Washington and Oregon have also reported smaller-yielding vintages, but across the West, the quality of the harvest was reported as excellent. New York and Virginia began the season with perfect conditions, but in the same way that the West has to factor in drought and fire, hurricanes in August/September are becoming the norm in the Eastern US, with Hurricane Ida impacting the Eastern states.
- Supply in the West is largely balanced in early 2022, but low levels of demand suggest that some acres of vines will still need to be removed in California and Washington to sustain the balance, particularly if volume sold continues to dip.
- There was less bulk on the market at the end of 2021 compared to 2020, but buying behavior was sporadic. Grape and bulk prices have stabilized at lower levels than we've seen in the past five years for California. Buyers will likely remain cautious on price this year. The fact that price hasn't increased on bulk wine and grapes after two weak-yielding harvests says something about demand.

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Demand

- While boomers are still purchasing at higher price points, demand for wine will be slack as the median boomer hits normal retirement age in 2022 and younger consumers continue to prefer alcoholic beverages other than wine.
- While there were many reports of boomers taking early retirement in the pandemic as the stock market crested, retiring baby boomers likely will not change their preference for wine, though undoubtedly they will drink less as they age.
- Online sales will 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 sales.
- By 2025, 27.9 million Americans will cross normal retirement age at 66, while 30.3 million will cross age 40.⁵ That will be too many consumers leaving their best buying years, and too many consumers entering their best buying years, to ignore.
- The wine industry will begin to work on a USDA Research and Promotions Order (discussed later in this report). The rotation to younger consumers is not an even trade on an economic basis, but the under-40 cohorts are the likely place where we will find growth in the next decade. The story has to be taken to younger consumers in a way that engages their values.
- Supply chain issues will gradually ease through the year but will likely have an impact on individual wineries in their own production capacities.

Price

- Forty-two percent of survey respondents said they will make a small price increase in 2022. Given the higher costs of production in a modest inflationary environment, we should see wide instances of small price increases. Napa and Northern Oregon will see more moderate price increases.
- Vineyards and land retained their values in 2021. When the Fed begins to raise interest rates, that will slow up the heated demand for high-end vineyards and wineries.
- Inflation will impact product delivery, transportation costs, labor and supplies well into 2022 and add pressure on wine sellers to increase price.



Wine proved again that it is recession-resistant during the depth of the lockdowns in 2020.

Seven tailwinds

- The strong US economy and the amount of pent-up savings will play a positive role in wine sales as we continue to normalize business conditions and improve the number and frequency of occasions where wine is served.
- The oldest millennial turns 40 this year. The sheer number of consumers crossing that line means that our opportunity to get more consumers should be increasing, all else being equal.
- Families who were able to work from home saw some expense savings that position them for an expected push in spending in a post-COVID era.
- With more by-appointment tastings, wineries found an improved average check. The opportunity exists to create more off-property experiences to attract consumers who don't visit the winery.
- Wine proved again that it is recession-resistant during the depth of the lockdowns in 2020. While many consumers stocked up on everyday wines at the supermarket, consumers also rapidly switched to online options, either because their selections weren't available in grocery stores or because doorstep delivery was viewed as safer. Online sales continued hot in 2021, and there is room for wineries to expand e-commerce and integrate that with other winery initiatives.
- Not fully open through 2021, the industry stands to benefit from delayed reopening opportunities in 2022.
- Consumers who drink wine continue to show that they prefer drinking better but less wine. That benefits the premium segment.

Seven headwinds

- The labor supply is limited, and the price for labor is increasing. In the vineyard, we need better immigration laws that will allow workers from other countries to come to the US to work. In the tasting room, we need to be more creative about diversity in the hiring process.
- Water could become the most important discussion topic, perhaps as early as this year depending on the amount of rain and snow the West receives in the winter and spring of 2022.
- The wine industry has allowed the lower-priced entry-level wines to be produced without transparency as to ingredients and in a homogenous and uninteresting way that's unlikely to appeal to those young consumers who want to drink better and drink less today. Premium wine producers haven't figured out how to produce their wine for an entry-level consumer. Without an on-ramp, it's going to be hard to grow the wine category.
- The challenge of recruiting younger, health-conscious, multicultural consumers into the wine category, combined with the aging of the older core wine consumer, remains. These consumer groups have different values and spending patterns. The wine industry has done little to alter their marketing message to attract or retain either consumer cohort.
- Anti-alcohol messaging continues to grow while guidelines from a variety of government and health organizations loosely apply science to influence consumption and taxes. The renewed push to place additional and more dire cancer warnings on wine is a threat today. The industry can't allow that to become a reality.^{6,7,8}
- While 2020's and 2021's light harvests brought supply into temporary balance in most regions, more vineyards will need to be removed in California to reach sustainable farming levels in several regions. A normal harvest in California this year might produce another oversupply.
- The need to invest in sales channels other than the tasting room has never been more apparent. Our slow and traditional approach to change in our industry is a threat of its own, yet the opportunities to accelerate are growing. More and more wineries have succeeded with data-driven approaches and online sales, and an increasing number of digital platforms are available to help sell wine.

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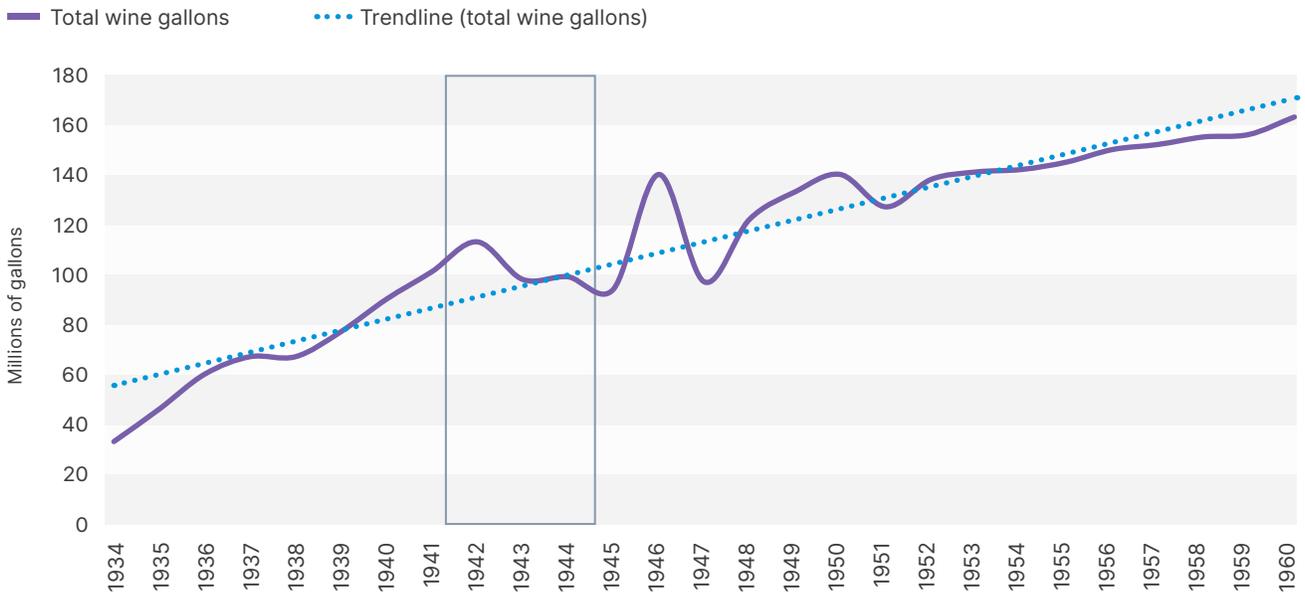
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Channel trends and changes

Sales offer the opportunity to make a profit, and profit is why businesses exist and remain sustainable. Having sales doesn't mean you will make a profit because there are many ways to produce sales and still lose money. But you can't be profitable without sales. It's a precondition to profitability and a good place to start.

Our analysis of sales opens with questions such as: Are sales likely to reoccur? Are they influenced by short-term or long-term trends? Is the rate of change in growth positive or negative? Are sales trending up or down?

Figure 1: **Total US wine gallons consumed**
1934–1960



Source: Wine Institute

Analyzing the wine business in the US has always been difficult because it's a largely private industry and private individuals don't share their personal information publicly. It's been even more challenging over the past two years.

The public data that's available on channel volume has been impacted by the degree of channel shifting that occurred with the lockdowns in 2020, followed by channel un-shifting in 2021 coincident with reopening.^{9,10} Sales on a value (dollar) basis have been harder to track because restaurants mark up their wine more than wine retailers, and without those markups, declining sales by value were almost guaranteed in 2020. But what about 2021? Haven't sales returned to more normalized conditions?

While hard to pin down because of the cross-channel noise, we'd estimate still wine sales by volume will finish 2021 between negative 2 percent and 0 percent for the year. Total value (dollar-based) sales will probably range between 0 percent and 2 percent to the positive side thanks to the reopening of restaurants and their heavier markup. Those growth ranges compare to the US population growth estimate of 0.6 percent in 2021.

Analysts grappled with the data last year because the movement of wine sales to the grocery accounts in 2020 was replaced by channel un-shifting back to restaurants,

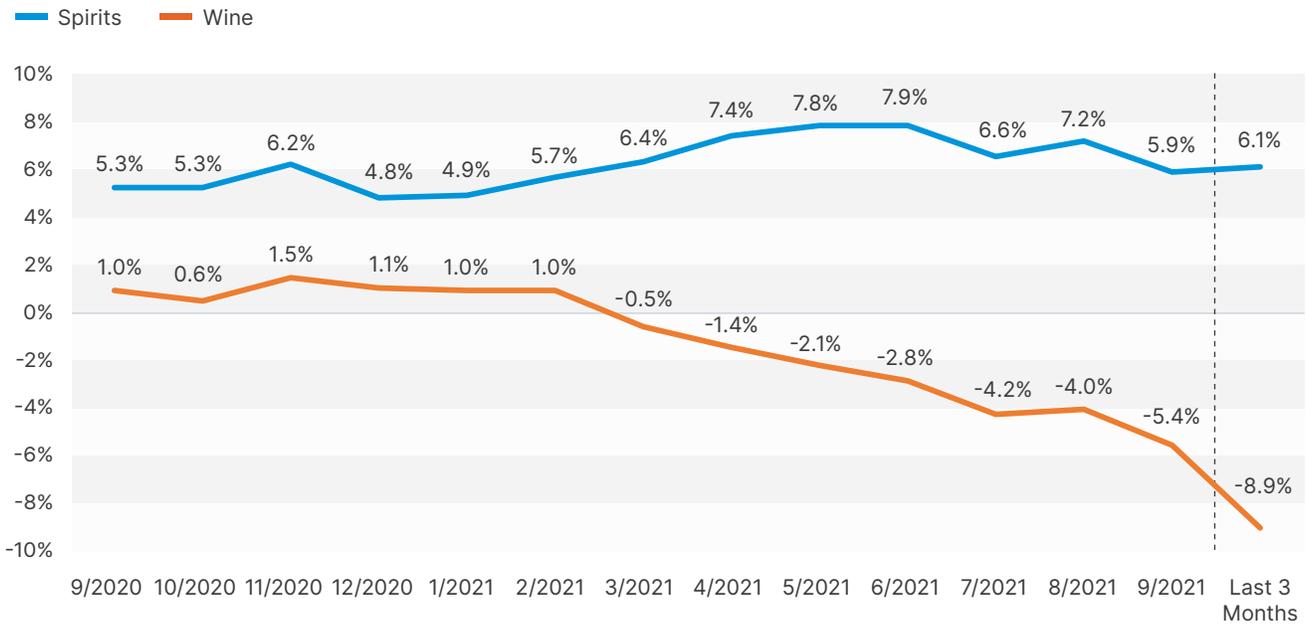
hospitality and tasting rooms. In addition, government reporting on taxes paid on alcohol has been delayed by months.¹¹ As a result, it's still difficult to get clean reads of sales performance, and you will likely see contradictory analyst reports regarding sales, particularly in the early part of 2022.¹²

Predicting a party with business reopening

In the *Annual State of the Wine Industry Report 2021*, we predicted that something resembling a party would break out during 2021 as COVID restrictions were relaxed and service industries reopened.¹³ Some analysts and writers predicted that reopening would be like the Roaring Twenties, while I likened it more to the celebrations that took place after the Allies' victory in World War II.¹⁴ We at least had data to prove there was wine consumption during that period (see figure 1), as opposed to Prohibition, when apparently nobody consumed alcohol.

For any purchase to take place, the buyer must have both the willingness and the capacity to buy any good or service.

Consumers in the US traditionally spend more on services and experiences than on goods. But with so many service industries closed or restricted during the 2020 lockdowns, consumers had no place to spend that money.

Figure 2: **Growth in combined on- and off-premise depletions**

Source: SipSource

Consequently, they let their discretionary cash pile up in savings. At the peak in April of 2020, the personal savings rate in the US hit an all-time high of 33.8 percent of total personal income, according to the US Bureau of Economic Analysis.¹⁵ Consumers clearly had the capacity to spend on wine.

We also believed that with the relaxation of personal restrictions, consumers would have the willingness to get out of their homes, shop, and seek experiences that are naturally linked to wine, such as restaurant dining. By early 2021, people were clearly anxious to find normal again.

In addition to recovering those life celebrations that had been delayed or canceled, such as graduations, birthdays and weddings, consumers wanted to go to sporting events, concerts and the movies and to travel regionally. Tasting rooms, hotels and restaurants began to book up with guests. The rollout of vaccines early in 2021 bolstered our belief that there would be a celebration and a bounce-back in wine sales. Wine was clearly available, so all the conditions were present to expect growth in the category.

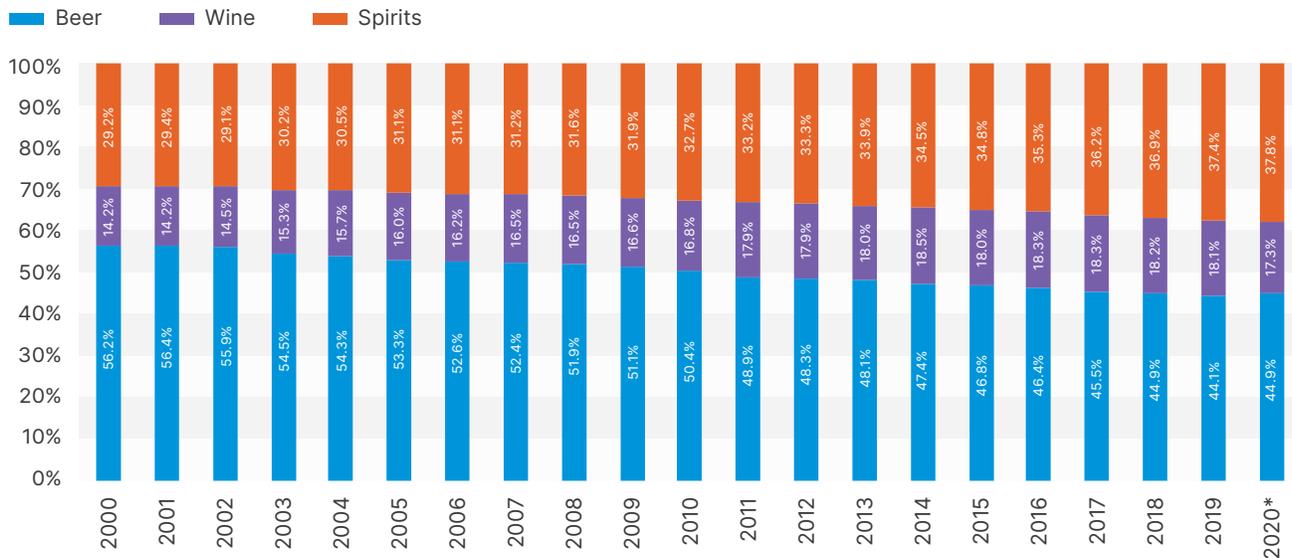
It turned out that a celebration did take place, but the wine category wasn't invited to the party! How can we understand that lost wine opportunity?

Total sales through the distributor channel

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 available.¹⁶ 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 for valid comparisons during the last two years, something no other data source can provide.

If there is one chart that's important for you to understand this year, it's figure 2, which shows the growth in total volume depletion for both wines and spirits on- and off-premise from September 2020 through September 2021. Sadly, the obvious takeaway from this figure is that consumers shunned wine and chose spirits during reopening celebrations.

While that's discouraging, through all of 2020 spirits and wine were at least tracking together and both showing positive volume growth on a trailing 12-month basis. That trend ended in January 2021 in a rather dramatic way when business reopened.

Figure 3: **Share of alcohol consumption per capita in US**

Source: National Institute of Health, Surveillance Report #117
*SVB estimate

Beginning in February 2021, restaurants started restocking their depleted inventories, and 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 higher numbers of air travelers going through security.

But even with the tailwind of reopening, wine depletions did not continue trending with spirits or show nominal growth of any kind. In fact, spirits depletion volumes increased while wine volumes went in the opposite direction and declined! That meant a loss of market share along with a negative growth rate.

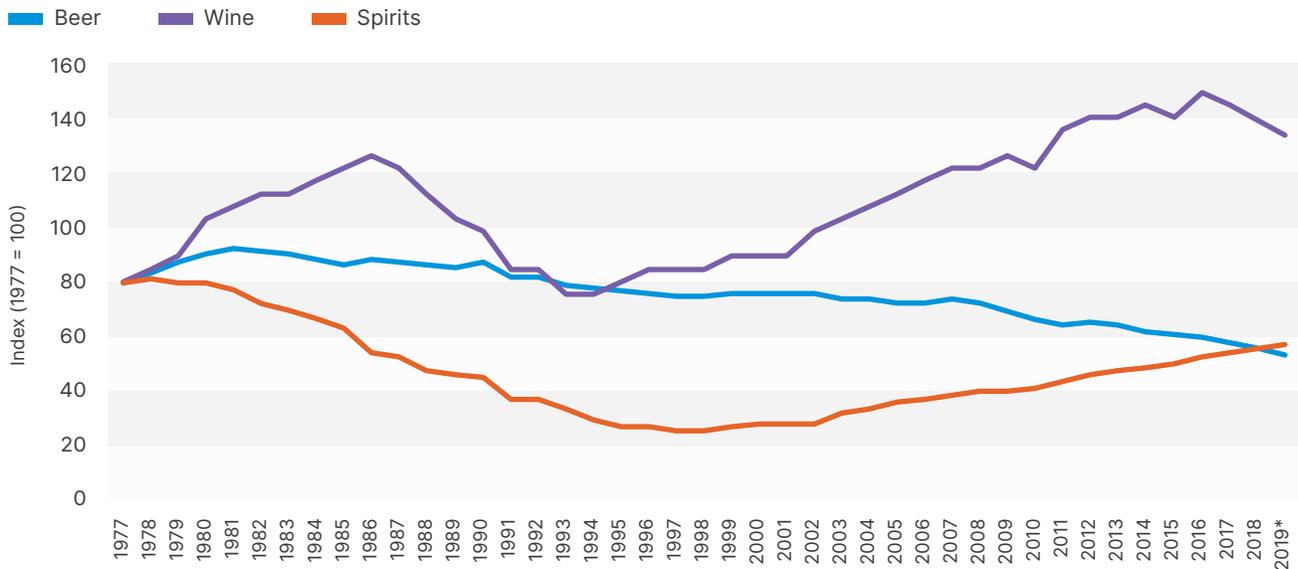
The explanation for this situation lies in the confluence of many factors: the aging of the baby boomers, consumers' increasing tendency to drink across categories (into spirits, beer and spiked seltzers), anti-alcohol messaging from modern-day prohibitionists, higher prices charged for wine in restaurants, the changed values of the next generation of alcohol beverage consumers — and, critically, a lack of leadership within the wine industry to counter these obvious trends and cooperate to form a marketing organization to promote the wine category. We'll cover all of these issues in the rest of this report.

Changes in alcoholic beverage per capita consumption

While wine's share among all alcoholic beverages had been growing at the expense of beer up until 2019, spirits slowly and consistently have been growing and taking share from both the beer and wine category since 2008 (see figure 3). One of the reasons that wine is losing share has to do with consumer change and the wine industry's inability to recognize or adapt. We've seen this story before with the beer category and should learn a lesson from their experience.

After a strong 20-year run of growth starting in 1961, the beer industry began to see reversals in volume sales as the target generation (those who came of age during WWII) got older. Spirits and beer drinkers to a large extent, this generation tended to be frugal and practical, often buying alcohol based on the cost per unit of ethanol. But when the mature generation aged and became less relevant as beer consumers, they gave way to boomers, who didn't have the same values.

The large breweries sowed the seeds of their own struggles when they focused too much on scale and increased efficiencies throughout the 1970s. Once they recognized that the consumer base had changed, they tinkered with product formulas and began an intense marketing and

Figure 4: **Change in per capita alcohol consumption in US**

Source: National Institute on Alcohol Abuse and Alcoholism, Surveillance Report #113
*SVB estimate

advertising campaign employing famous sports figures.¹⁷ The industry was reduced to only a few major producers, and the consolidation led to an increasingly blander, mass-produced product.

The new boomer beer consumer was more quality-focused and health-conscious. The beer industry's answer to health concerns was to mass-produce lite beer.¹⁸ The product missed the mark, however, and illegal home brewing emerged as a consumer solution. By 1978, the movement became so popular that Congress ended the federal restriction on home brewing, leaving large brewers with new competition.¹⁹

Starting in 1981, beer hit its high point in sales, at which time total volume began to turn negative (see figure 4). But like premium wine in the US, craft beer emerged as a meaningful growth segment, gaining cult-level popularity in the mid-1990s with younger boomer consumers.

Gen X maintained interest in craft beer and propelled its growth through the 2000s, when millennials started adopting the product as their own. Today, craft beer and imports have each grown significantly, with craft beer

now responsible for 12.7 percent of the US beer market by volume and more than 23 percent of the market by revenue.

After failing to convince consumers to like their product, the large producers went through a period of purchasing and trying to scale craft acquisitions. It's been a moderately successful approach in muting the otherwise painful volume declines in total beer sales, but there have also been some colossal failures.²⁰

The lesson in this is that consolidation may give the acquirer more pricing power, but it doesn't necessarily meet the consumer's needs. And while it may be difficult and expensive to alter a large plant to produce smaller runs with more consumer appeal, not doing that means producers will continue to lose consumers until the plant and equipment don't fit any demand at all.

Beer is in a mature industry, and for whatever reason, it's common for large industry leaders to compete for share when growth stops or declines rather than bringing new consumers into the category through cooperative promotion.²¹

Marketing should have been a key component for the beer industry when reacting to consumer changes in the 1970s. While industry leaders did spend massive amounts on national advertising, they competed against each other instead of working on delivering better quality to the consumer and developing an industry organization that could have promoted brand beer and lifted the boat for the industry.

Competing for declining share makes even less sense when marketing includes negative advertising about someone or some practice within the industry, which casts a negative pall on the whole category. That's still taking place in the beer industry; in Super Bowl LIII, Bud Light (Anheuser-Busch) cast shade on Miller Lite and Coors Light for using corn syrup in the brewing process.^{22, 23}

Similarly, there's a trending fight in the wine industry today over the words "natural" and "clean."²⁴ A narrow group of wineries is claiming to be natural or clean and implying that their practices are superior to the rest of the industry. And as in the beer industry, large producers are still pushing scale and probing for the right combination of volume and price.

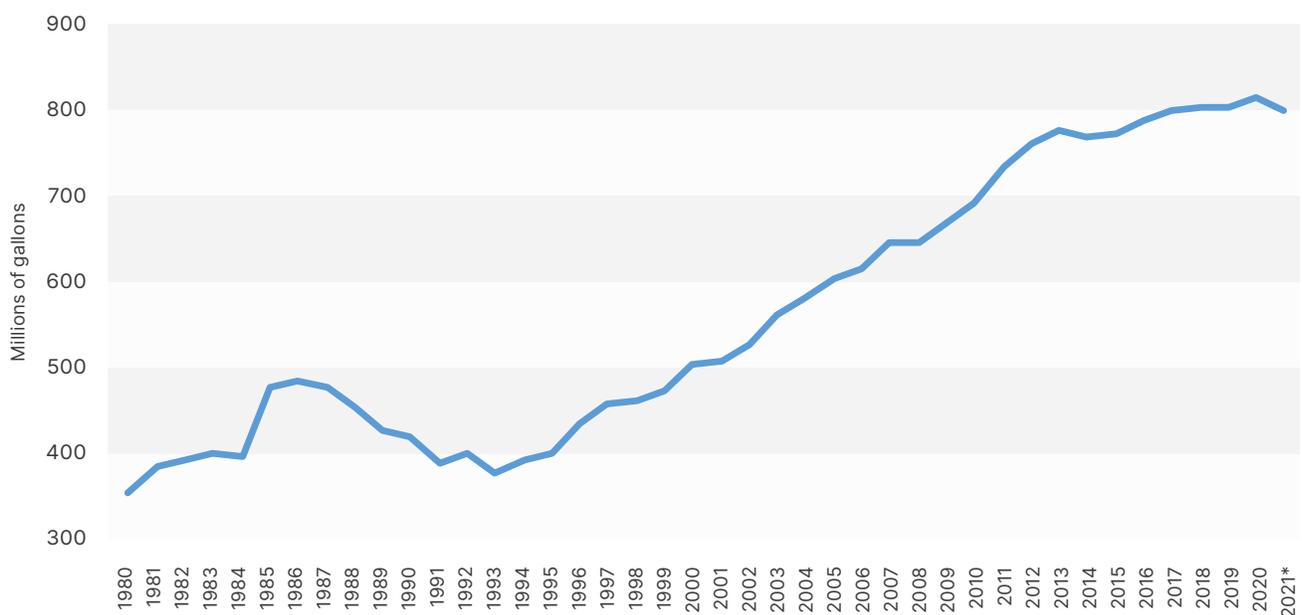
The beer companies needed to cooperate with each other to grow their consumer share of the alcoholic beverage market, and they didn't. Wine is positioning itself the same way, with producers ready to fight each other for shrinking consumption.

The decline of entry-level wine

High-production, volume-based wines have been the entry point for new consumers discovering wine for at least the last 50 years. But those entry-level wines have been showing softness for years, since their heyday between the 1960s and 1980s.

Those production wines were popular with the mature generation, who lived through the Great Depression. Early experiences of deprivation made that generation frugal consumers who often bought alcohol on an ethanol-per-dollar basis. Larger producers found a way to make a product that fit their values and pocketbooks, and these businesses thrived.²⁵

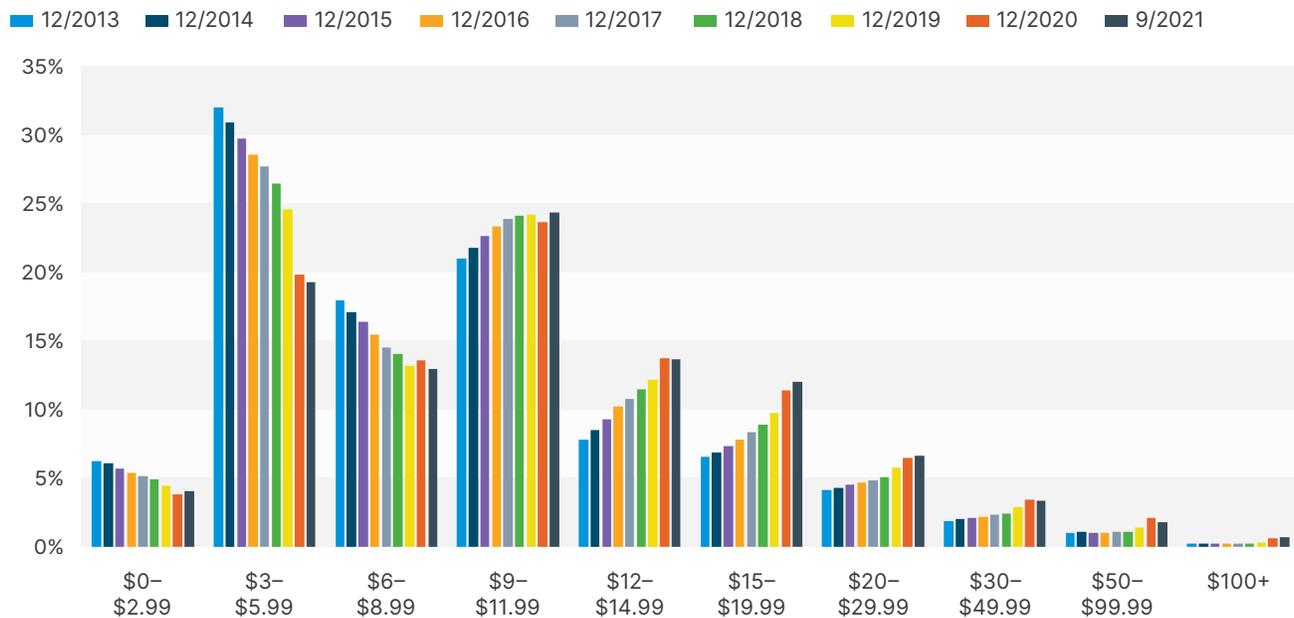
Figure 5: **US table wine consumption by volume**



Sources: Wine Institute, Gomberg-Fredrikson

*SVB estimate

Figure 6: Annual change in share (value) by price point



Source: Nielsen

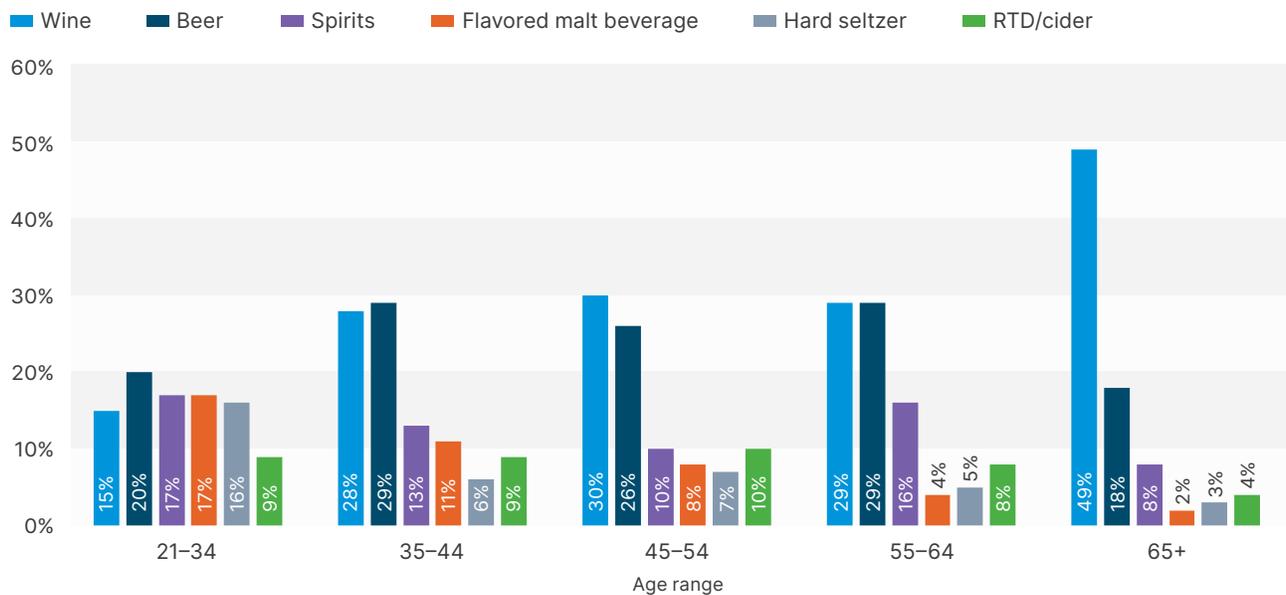
But as those mature consumers gave way to the young boomers who were reaching legal drinking age in the 1970s and 1980s, lower-priced wines started a long slow decline. Why? Because boomers were not frugal at all. They rejected their parents' advice about being thrifty and living within their means. Boomers just wanted more than their parents and competed with their next-door neighbors for displays of wealth and success.²⁶

Boomers had materialistic ambitions; borrowed on credit; were conspicuous consumers; and drank better, showier and higher-priced wines.²⁷ Domestic premium wines and some imports fit their lifestyle and expanding pocketbooks. The economic excess of the 1990s further expanded their capacity to buy those wines.²⁸ With the growth and evolution of premium wine, from 1994 to 2017 we witnessed a run of growing volumes of wine sold (see figure 5), at increasingly higher prices, at the expense of lower-priced wines.

Figure 6 is a year-by-year presentation of the off-premise share of wine by price point from 2013 to 2021. It shows a consistent year-over-year decline in each of the first three column sets.

The price point that separated wine with declining share from wine with growing share had been rising for decades but hovered around \$10 for much of the 2010s. Starting in 2018, that dividing line again shifted higher, to \$11. That is noticeable in the chart in the fourth column set, which displays the \$9-\$11.99 price range. The progressive decline in volume of cheaper wine is a data point that begs diagnosis.

We've been talking about this issue for close to a decade in this report and in speeches. Just as the mature generation had different values than their children (and the boomer's taste for jug wine never materialized), the children of the boomers are now entering their prime consumer spending years and have different values than their parents — values more closely aligned with those of their grandparents.

Figure 7: **What would you 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+.
“RTD” means ready to drink.

Today, wine isn't the next generation's preferred alcoholic beverage. The traditional on-ramp for wine consumers has been the lower-priced and higher-volume wines, but they continue to decline in popularity — and when the numbers are all in, we may well find that the reopening created acceleration in the move away from those wines.

Figure 7 is one data point among several that point out the industry's overdependence on the retiring boomer. While the good news is that the boomer consumer is still buying, the bad news is that we still aren't connecting with newer consumers' values. The inability to react to the declining volume of entry-level wines will only mean that fewer consumers will prefer wine as their alcoholic beverage of choice over time.

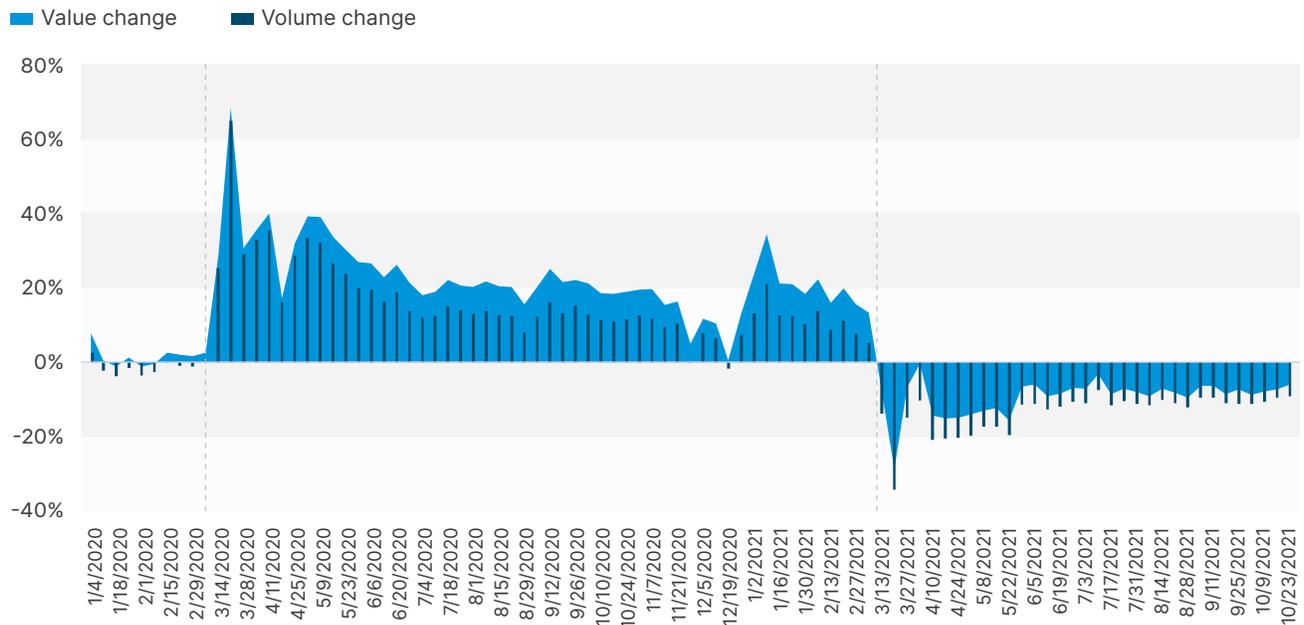
As of this writing, December 2021 sales are very good for the premium wine segment but soft for entry-level, lower-priced wine.

Off-premise (grocery) sales

Nielsen's on-premise scan data is widely picked up by the press and has historically been used by many as a proxy for sales growth. That has worked in the past, as the movement of sales between channels has been historically small for any given year.

But in March 2020, there was an explosion of alcohol sales in the grocery channel as shelter-in-place orders were being issued. Wine alone spiked 68.6 percent in grocery as panic buying for staples took over.²⁹

Nielsen reported this growth as pantry stuffing or pantry loading, but the press more often reported the explosive growth as increased drinking.³⁰ Anti-alcohol researchers applied the adage “never let a good crisis go to waste” and produced new science referencing the press reports, concluding that consumers were binge drinking. Their stories often cited relaxed alcohol laws that permitted home delivery as one of the contributing factors.^{31, 32} But by the end of 2020, total wine sales by volume came in close to zero growth.

Figure 8: **Weekly off-premise volume and value changes vs. prior year**

Source: Nielsen

Figure 8 is perhaps the best visual representation of the shift in wine purchase patterns in the US over the past two years. The chart can be divided into three segments.

The first segment represents the pre-COVID period in 2020 (i.e., the first two months of the year). We were coming off a year that suffered from acute oversupply of wine. Volume changes exceeded value changes at that point, implying that the off-premise channel was discounting overall, which is what normally occurs when there is too much of a product.

The second chart segment begins with the lockdown and spike in purchases due to pantry loading at the end of March 2020. At that point in time, merchants quickly reduced promotional programming and raised prices, with value changes exceeding volume changes.³³ This second segment also includes the trial reopening in May 2020, which slowed off-premise sales as purchases moved to other channels. Finally, the second segment in this chart includes the disappointing holiday sales in December 2020 due to another spike in infections and concludes

in March 2021, a full year after the original shelter-in-place orders. The third segment of the chart coincides with the vaccination rollout and the relaxing of business restrictions.

Last year in this report, we forecast a timeline for 2021 business reopening that turned out to be surprisingly close to reality. Our forecast also predicted that as COVID restrictions were relaxed, we would see a partial reversion of sales back toward the previously closed tasting rooms and restaurants, generally at the expense of a bloated grocery channel.³⁴

In March 2021, 12 months from the huge spike in grocery sales caused by shelter-at-home orders, total off-premise sales began to revert to the pre-pandemic mean. Consumers had more options for buying wine than in grocery stores, and panic buying had ended. The price increases caused by the lockdowns then gave way to price reductions in off-premise as wine started selling again in restaurants and other service venues that had had their business operations restricted in 2020.

Figure 9A: 2020 winery sales channels

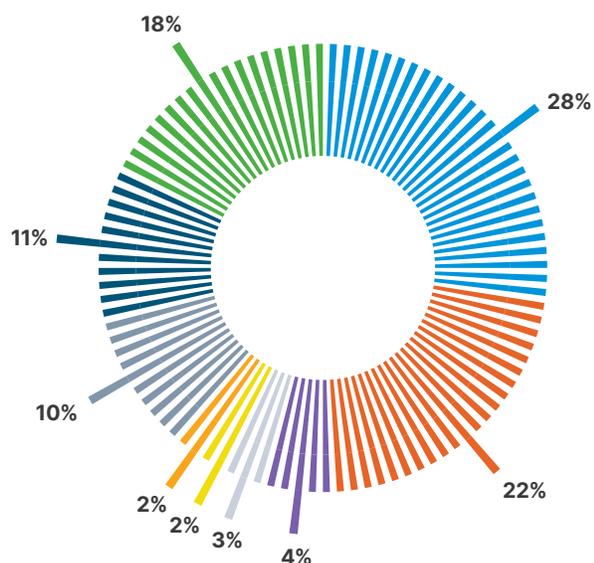
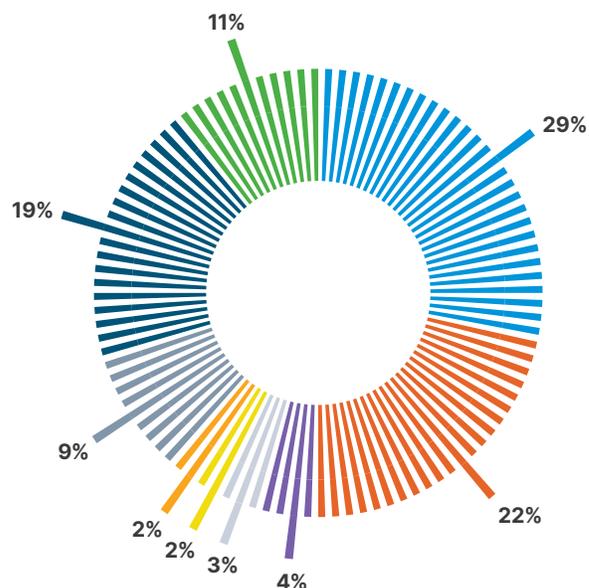


Figure 9B: 2021 winery sales channels



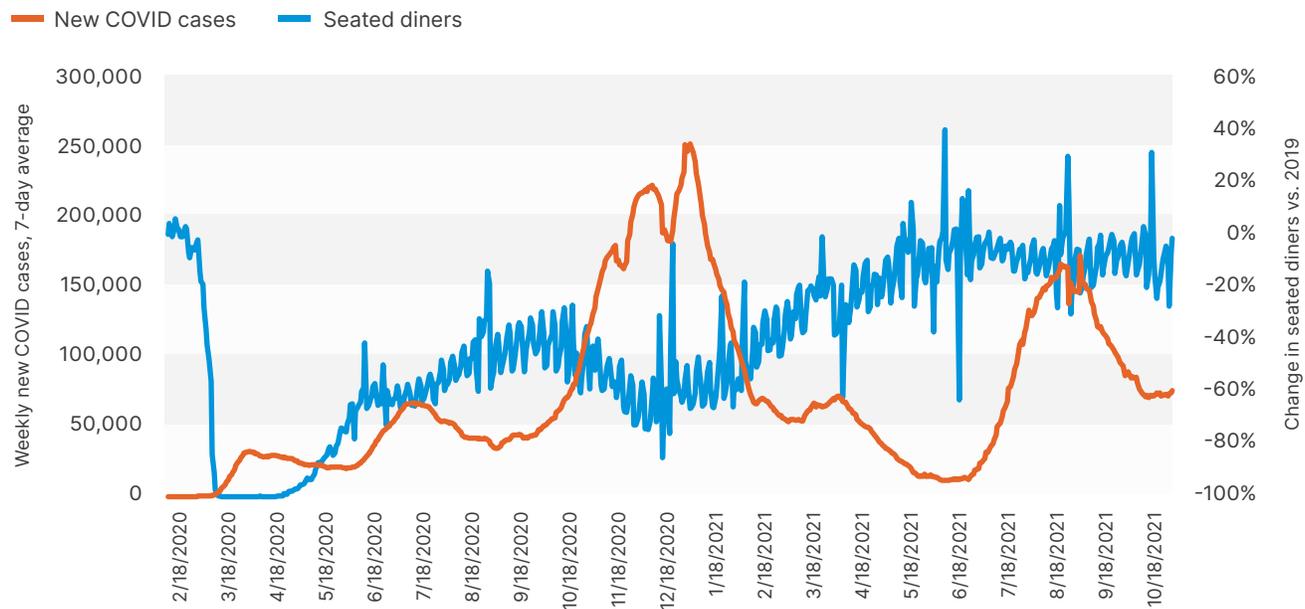
■ Tasting room
 ■ Wine club
 ■ Mailing list/subscriptions
 ■ Exports
 ■ Other
 ■ Phone
 ■ Online
■ Wholesale—on-premise
 ■ Wholesale—off-premise

Source: SVB Annual Winery Conditions Survey

On-premise (restaurant) sales

Over the past decade, the amount of sales directed to restaurants by the average winery has declined, finally hitting a bottom in 2020, when closed and restricted restaurant operations had premium wineries shifting sales into other channels.

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 wholesale on-premise (see figure 9A). Because of 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 (see figure 9B). The remaining channels for the premium wineries remained mostly static, though the strength of online sales results was a bit of a surprise.

Figure 10: **New US COVID cases vs. seated diners in restaurants**

Sources: Open Table, Our World in Data

In 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 and drugstore channel, except that restaurant sales came in multiple waves, with business opportunity inversely related to the growth in new COVID cases (see figure 10).

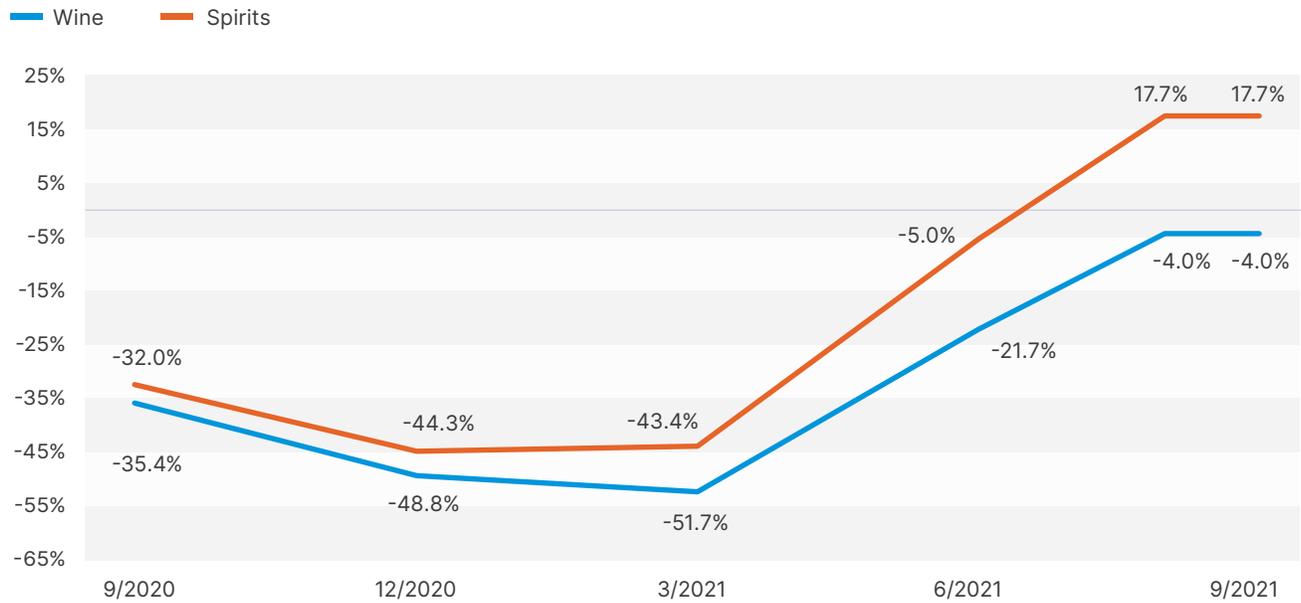
Following the early shelter-in-place orders in 2020, restaurants and bars across the country started to close, and fearful consumers stayed away from restaurants. For about a month, OpenTable reported that there wasn't a single seated diner in US restaurants.

Restaurants scrambling to survive turned to at-home delivery of food and alcohol where allowed, but on-premise wine sales had almost no pulse. While the larger chain restaurants were able to raise money in public debt

markets during the early phases of the pandemic, the small independent restaurants weren't as lucky and resorted to survival strategies, including selling off their wine cellars.³⁵

New COVID cases stabilized by June 2020, and with summer coming, regional health orders were relaxed, even allowing for restricted inside operations in some areas. For cash-strapped restaurateurs, though, the purchase of wine was limited to a narrow list of choices.

That phase of business normalization lasted only until the fall, when the Delta variant emerged and case rates spiked to 250,000 per week by December 2020, leading to another round of business restrictions and closures. The 2020 holiday season was ruined. The number of seated diners on Christmas was down 85 percent from 2019.

Figure 11: **Growth rate of alcohol depletions on-premise**

Source: SipSource

Many restaurants didn't survive 2020. *Nation's Restaurant News* determined that more than 10 percent of restaurants permanently closed.³⁶ SipSource also reported that 10.7 percent of on-premise accounts had shuttered, the majority of which were smaller independents, which are typically a target for smaller premium wineries.

On a trailing 12-month basis, alcohol depletions to restaurants bottomed in March 2021, with restaurant wine sales off 51.7 percent from the prior year. While sales turned up from that point, growth was still negative compared to the prior year (see figure 11).

By the fall of last year, restaurants were approaching positive total year-over-year wine sales, with December 2021 showing dramatic improvement on a percentage basis, but it should be noted that the growth rate in December 2021 was based off the disappointing holiday season of 2020.

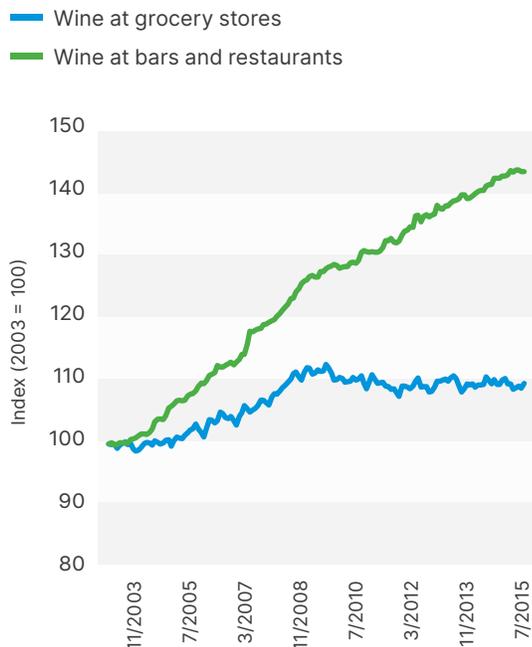
While 2021 same-store restaurant industry sales exceed 2019 levels, total restaurant industry sales were still down over 2019 by 8.7 percent (see figure 12). Given that, it's difficult to expect growth in on-premise wine sales over that two-year period. While we will end the year higher in the December 2021 period, there was never a path to recover the sales lost due to restricted business conditions earlier in the year — even with one-time restocking.

Figure 12: **Sales of wine in restaurants**

Restaurant Statistics	
2019 sales	\$864.3B
2020 sales	\$659.0B
2021 sales	\$789.0B
2019–2020 change	-23.80%
2020–2021 change	19.70%
2019–2021 change	-8.70%

Source: QSR Magazine

Figure 13: **Consumer price of wine in grocery stores vs. restaurants and bars**



Source: US Bureau of Labor Statistics, Consumer Price Index

Figure 13 shows how the consumers' cost of wine has changed whether they're drinking at home or in bars and restaurants.

While consumer prices for wine stabilized in grocery stores in 2009, price continued to accelerate in restaurants.³⁷ The consumer has noticed that widening gap and doesn't want to pay the markup.

According to Nielsen calculations, the restaurant industry's average cost for alcohol is about \$1.02 for a 12-ounce serving of beer, \$0.88 for a 1.45-ounce serving of spirits and \$1.51 for a 5-ounce pour of wine. That makes the cost of wine 72 percent more expensive compared to spirits.³⁸

Today, phones and phone apps allow for the quick comparison of wine prices, and frugal, digitally native young consumers have no problem pulling out their phones at the restaurant table.

An ongoing factor impacting total wine sales in restaurants is customer traffic. While same-store sales were 6 percent higher in October, traffic was down 6.4 percent.³⁹ One other factor is restaurant costs. Inflation is driving food costs

“

The loss in share to spirits in the on-premise channel is particularly concerning because that loss of share has nothing to do with reopening or health orders.

higher, the shortage of hospitality staff is driving wages higher and increasing costs in wine production are being passed on to the restaurant, which in turn passes along its rising costs to customers. The result is higher average checks. Restaurants are reformatting menus to hold prices to something more reasonable, and wineries are discovering that selling to restaurants is much more price-sensitive than it used to be.

Some consumers have established new behaviors, opting more often for takeout and delivery, both for convenience and safety. Some have suggested that staffing issues, which have led to degraded restaurant experiences, may also play a role in reduced traffic. Whatever the cause, takeout may be a solution for restaurant revenues, but it does not improve on-premise sales for wine.

A perfect storm of challenges — price increases, the uneven exchange of older wine-loving consumers for younger spirits-loving consumers, reduced space on beverage lists, added competition from seltzers and RTDs, the growing gap between the price in grocery stores and the marked-up price in restaurants, and spoilage — is making spirits an increasingly preferred choice over wine in restaurants, particularly for the large swath of frugal consumers under 40.

The loss in share to spirits in the on-premise channel is particularly concerning because that loss of share has nothing to do with reopening or health orders. New consumer behaviors and changing industry practices are the root causes, and they will make growth of wine in the segment difficult in the coming years.

The percentage of an average winery's sales dedicated to the restaurant channel in 2021 is probably unsustainably high, given that the restocking at restaurants during reopening was a one-time event, that wine is continuing to lose market share to spirits and that same-store sales have already exceeded pre-COVID sales.

We anticipate 2022 on-premise sales to drop back to 15 percent or 16 percent of an average premium winery's sales in a fully open business environment.

Post-COVID restaurant changes

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.⁴⁰ Unlike spirits, though, wine has a rapid spoilage factor after opening. That's a cost borne by restaurants in recovery mode and contributes to the overall cost of wine for diners, helping to make wine a much more expensive beverage per serving than spirits.

It is widely believed that restaurant owners who were forced to sell off their wine cellars to generate cash will be more selective about carrying large stocks of expensive bottles of wine going forward 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 will be the focus. Another emphasis will be unique and imported wines with an affordable price, targeting younger consumers.⁴¹

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 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."⁴²

The space for wine on the beverage lists shrank at a faster pace during the 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 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.

Premium winery sales channel shifts

Most wineries in the US fall into the premium category. Most are small, and all have been on a journey over the past 20 years to adapt to business conditions and establish reliable sales channels.

The sales model during the late 1980s and early 1990s was simple: The winery makes the wine, and the distributor sells the wine. Restaurant sales in that period represented about 30 percent of an average premium winery's sales. The remaining sales were largely wholesale and on- and off-premise, with some over-the-counter sales and some rudimentary direct sales via snail mail and phone, then email once email became widely available in 1997.⁴³

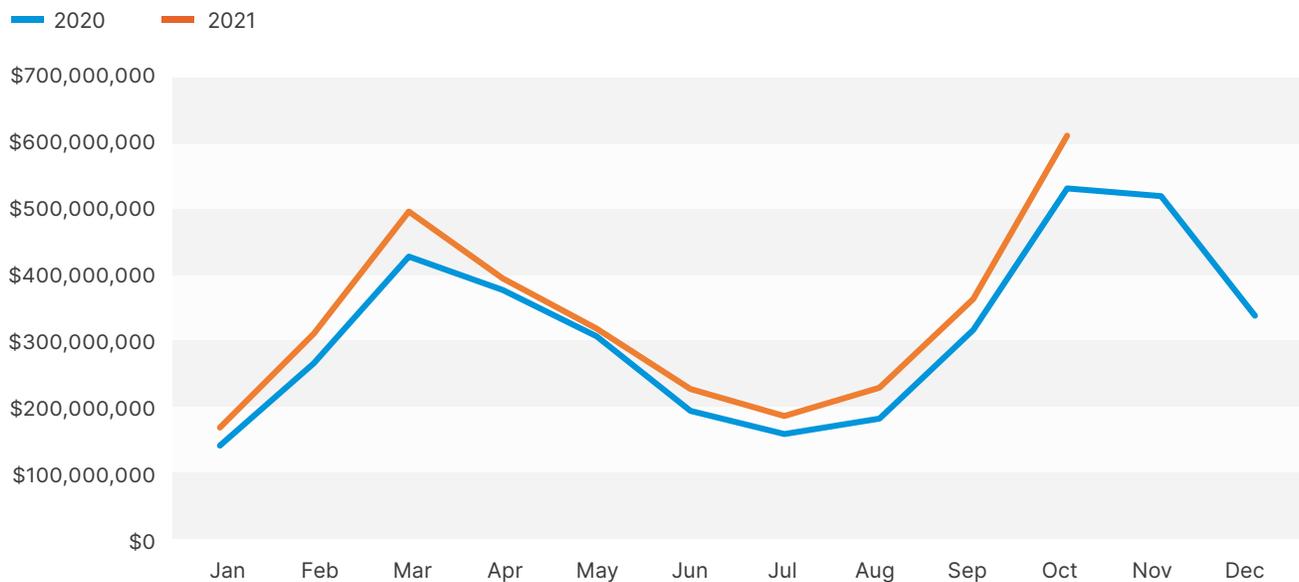
Tasting rooms were not profit centers, and wine clubs were rare during the early '90s.^{44, 45} But later in the decade, hundreds of wineries started up in the US, each expecting the distributor to place their wine.

By the mid-1990s, there were about 2,000 wineries in the US and 3,000 distributors, more than one distributor per winery.⁴⁶ Today, there are about 11,000 wineries and 600 distributors, or about 0.05 distributors per winery.^{47, 48} The number of wineries has grown while the number of distributors consolidated.

After the tech recession temporarily slowed consumer purchases of wine, distributors looked at their stuffed warehouses and concluded that they had too many winery customers and too many brands to represent and service properly.⁴⁹ They began to cull the smaller operators in favor of larger producers, leaving many small premium wineries fending for themselves.

Sales strategies and channels during the 2000s were in transition as premium wineries came to grips with the changes in distribution and began adapting and seeking alternatives. Fortunately, on May 16, 2005, the *Granholtz vs. Heald* case was favorably decided for the wine industry by the Supreme Court. That provided the legal pathway for wineries to skip the wholesaler and ship wine directly to the consumer.⁵⁰

Thirteen states had reciprocal shipping agreements prior to the *Granholtz* decision, but the rest of the states had to approve their own regulations before shipping direct was possible. Initially, compliance was a painful process involving paper forms, mail and faxes. Online solutions started to be available only in the latter part of the 2000s, creating the foundation for DTC sales.

Figure 14: **Wineries' DTC shipment values**

Note: Shipments only. Carryout not included.
Source: Wines Vines Analytics

Around 2010, premium wineries started focusing their attention more heavily on wine club and DTC channels in reaction to continuing distributor consolidation, and that effort has paid off.

Today, DTC sales represent about 10 percent of total wine industry sales in the US and about 65 percent of the average winery's total revenue in 2021.⁵¹ Through all of the channel shifting during this COVID crisis, DTC sales have continued strong, with 2021 sales exceeding every monthly benchmark from 2020 (see figure 14).

Digital and online sales

In 2020, total digital sales in the US were up a staggering 31.73 percent, to \$760 billion, on a seasonally adjusted basis. Many Americans were stuck at home, making shopping online a necessity. COVID advanced the previous rate of growth in e-commerce by perhaps a decade.

According to US Census Bureau estimates, in the third quarter of this year e-commerce increased 6.6 percent over the third quarter of 2020.⁵² Full-year e-commerce retail sales in 2021 should end up 25 percent higher than the

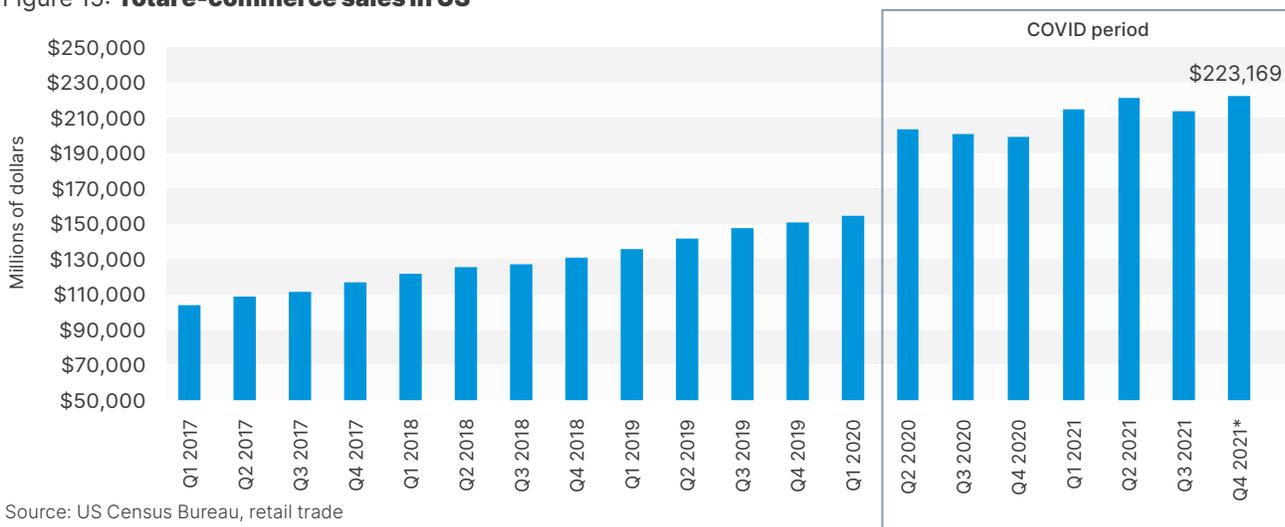
record sales in 2020. That reflects a massive difference in the way consumers are continuing to shop (see figure 15). For wineries, the news is similar.

After July 2020, when reopening began in the US, we commented that online sales for wineries were continuing at a higher pace than previous years. We also predicted that "online sales will see a permanent positive gain at the expense of wholesale. We won't unwind online sales back to 2 percent of total winery sales."⁵³

While that view turned out to be accurate, the surprise piece of sales channel data this year was that online sales from wineries only moved down from 9.8 percent of total sales in 2020 to 9.1 percent of sales in 2021. With reopening, there was a distinct possibility that online sales could drop a bit further, to the range of 4 percent to 6 percent of an average winery's sales.

That tells us that internet sales from wineries have thus far proven resilient during reopening. We may be looking at a much more robust shift in consumer buying preference than we expected.

Figure 15: **Total e-commerce sales in US**



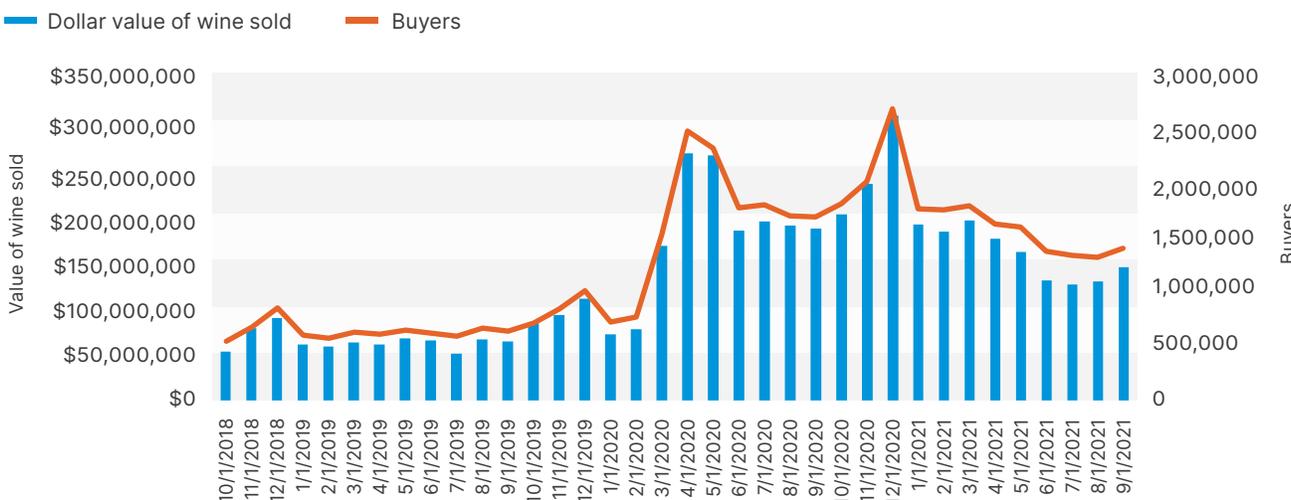
Source: US Census Bureau, retail trade
*SVB estimate

While it may be difficult to predict precisely how much consumers will gravitate to internet sales from wineries, one thing is easy to say: Large numbers of consumers will incrementally grow in their desire to shop online due to behaviors learned during COVID. That is especially true of boomers, who were the cohort with the highest growth in internet transactions during 2020.

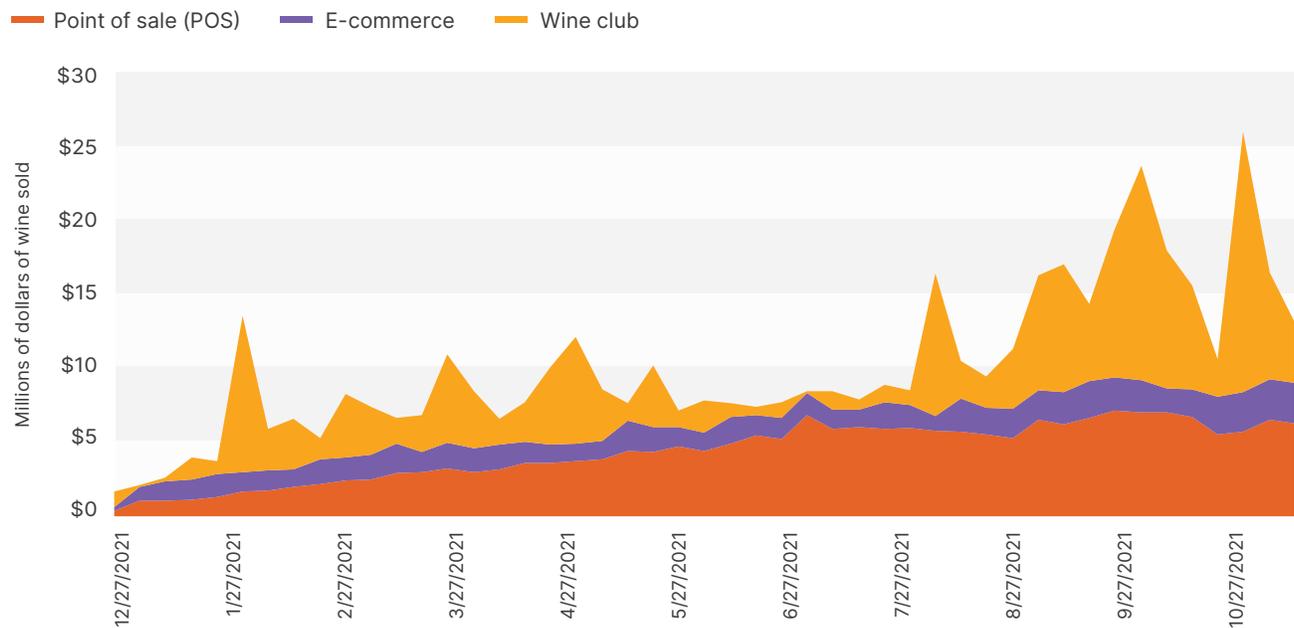
The amount of wine delivered through the three-tier system⁵⁴ to e-commerce retailers looks similar to the national e-commerce trends, but with seasonality. The

pattern of wine delivered to online merchants through the three-tier system had three peaks: in early April/May 2020, just past the first shelter-in-place orders, and in December of 2020 and 2021 (see figure 16). Total holiday wine sales in all channels during 2020 were disappointing because renewed lockdowns restricted celebrations, but online sales behaved differently. Peak e-commerce buying in December 2020 offered a small offset to the lower holiday sales in other channels.

Figure 16: **US wine delivered to online merchants through three-tier system**



Source: Nielsen

Figure 17: **DTC channel movement in 2021**

Source: Commerce7

The takeaway is that wine consumers might not have gone to holiday parties in 2020, but they purchased wine for delivery to their homes, and they did it online.

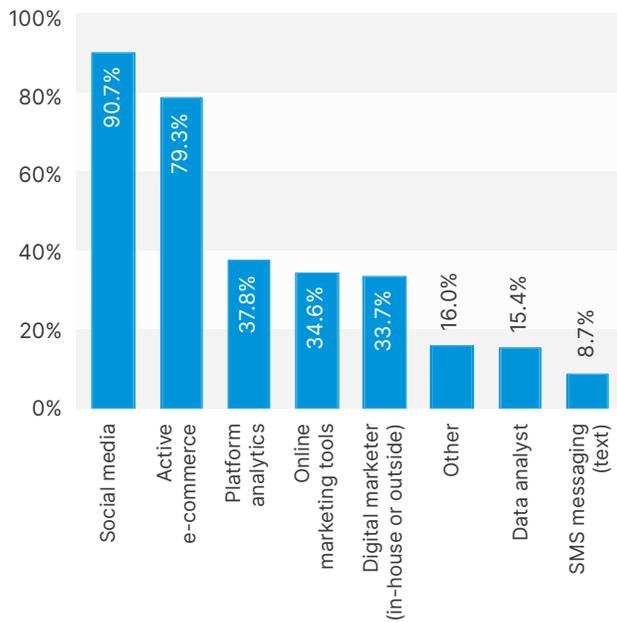
While wine e-commerce sales were 12 percent lower than peak fourth-quarter sales in 2020 through the three-tier system, overall e-commerce sales in 2021 were still 146 percent higher than pre-pandemic numbers — perhaps the most important thing to note. It's more evidence that consumers are still evolving the way they purchase wine, and e-commerce is a critical part of sales.

Premium wineries with tasting rooms provide a slightly different view of 2021 because wineries have clubs, do carry-out point-of-sale (POS) transactions and collect tasting fees in addition to pure web sales.

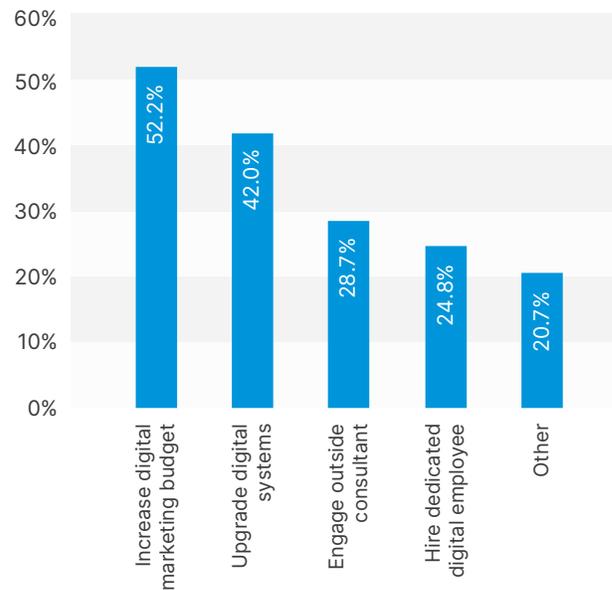
Figure 17 shows how reopening starting in the early part of 2021 improved opportunity for POS sales and web sales, both of which showed a consistent growth rate through the year. POS sales reflected the gradual but strong increase in customer traffic, growing by about 275 percent from the early part of the year to the end of the year. E-commerce sales rose by about 20 percent from the start to the end of the year, and club sales continued their healthy growth rate during this period, with fall club releases doing particularly well.

The growth opportunity for tomorrow isn't going to come by waiting the pandemic out and hoping we return to pre-pandemic business conditions, switching to by-appointment tastings, planning club events, refining your hospitality training or, for that matter, delivering better hospitality. Those are good ideas for most wineries to consider, but the best solution for almost all wineries is increased attention to and investment in the multitude of digital opportunities in data, streaming and e-commerce. Examples include:

- Getting digital exposure to new consumers who live elsewhere and don't know you.
- Finding ways to encourage those consumers to join your wine club via digital means instead of insisting that the only method for club growth is tasting room visitation.
- Building your brand regionally by offering experiences away from the winery, including a digital component. Zoom is just one tool for that.
- Investing in understanding your existing consumer data.

Figure 18: **Which digital tools do you employ?**

Source: SVB 2021 Direct-to-Consumer Survey

Figure 19: **Planned digital investments for 2021**

Source: SVB 2021 Direct-to-Consumer Survey

E-commerce is much broader than having a shopping cart on your site or sending an email with a URL and a discount offer. Among other things, it includes using data to market to potential club members, using digital means to market and drive consumers to your site, connecting with buyers and lost buyers, personalizing web visits to the winery and employing automation or AI to enhance the consumer experience and improve your chances to sell what a consumer is likely to value.

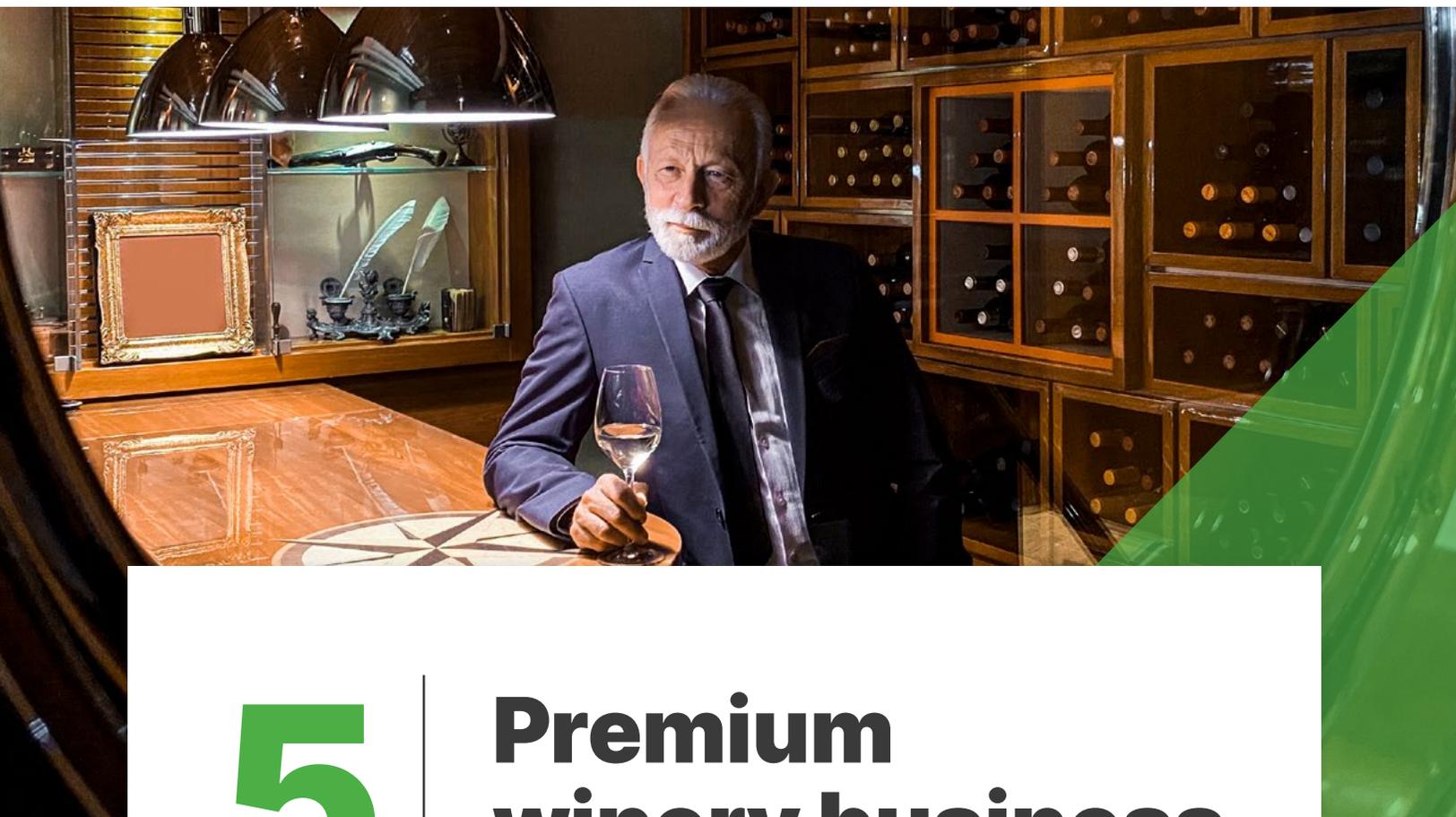
With that in mind, if you're a winery owner, some of the questions to ask your team are: How will you reach the consumers who are working from home and eating all their meals at home with family? How will you connect with them over their dinner table? How will you use platforms like Zoom to reach customers and prospective customers and at the same time grow sales and new club members? How will you rethink differences between local club members who can visit the winery and those who might come to Wine Country once in four years?

The overwhelming majority of wineries now acknowledge that they use social media, and the increasing use of other digital tools offers some hope that as an industry, we are finally moving forward and are recognizing the importance of digital marketing for online sales (see figure 18).

With needed investment by premium wineries in digital and online sales, there is a chance that online sales could become an important growth channel for wineries with still-emerging capabilities.

If you were the beneficiary of higher online sales over the past two years but that growth has largely come from the consumer finding you versus any change in your strategy, this is a time when you absolutely must factor e-commerce more forcefully into your winery's sales strategy and harvest the consumer who will permanently shift a portion of their wine acquisition to online purchasing. If you don't invest, those sales will go to another winery.

When asked where they'd make digital investments in 2021, most wineries in our survey said they would be increasing their digital marketing budgets — most likely reflecting the overwhelming use of social media (see figure 19). But the 25 percent who said they planned to hire a dedicated employee to help with digital sales and outreach gives us hope that wineries see sales possibilities and plan on focusing someone on the opportunity.

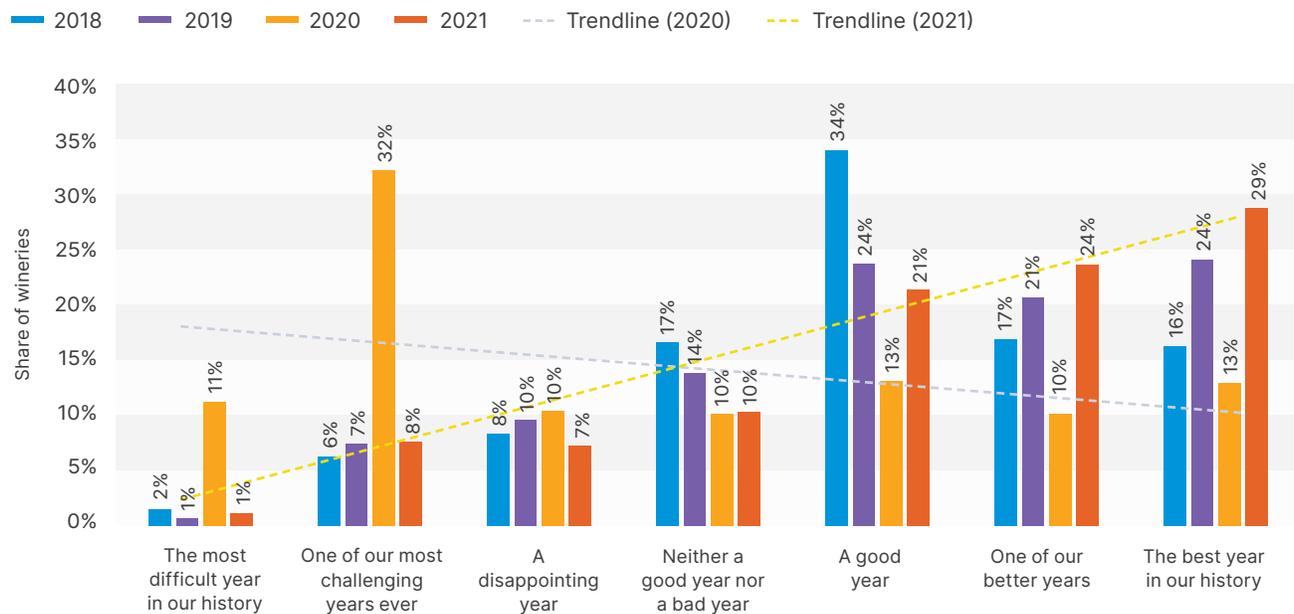


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Premium winery business performance

Each year in the SVB Annual Winery Conditions Survey, we ask the general question “How was your year?” (see figure 20).

2020 was a difficult year for the smaller premium wineries in the US. Not only did they lose their ability to sell in restaurants and tasting rooms due to COVID restrictions, but many also had smoke and fire issues to deal with during harvest. It was a year we’d all like to forget, but we never will.

Figure 20: **How was your year?**

Source: SVB Annual Winery Conditions Surveys

Forty-three percent of SVB survey respondents said 2020 was either their most difficult year in history or one of them, and the average age of the wineries in the survey is over 20 years, so that was a bad year!

But in 2021, the story was substantially different. With restaurants and tasting rooms reopening, and with lessons learned when restricted business conditions drove innovation and evolution, 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! So that was a very strong year!

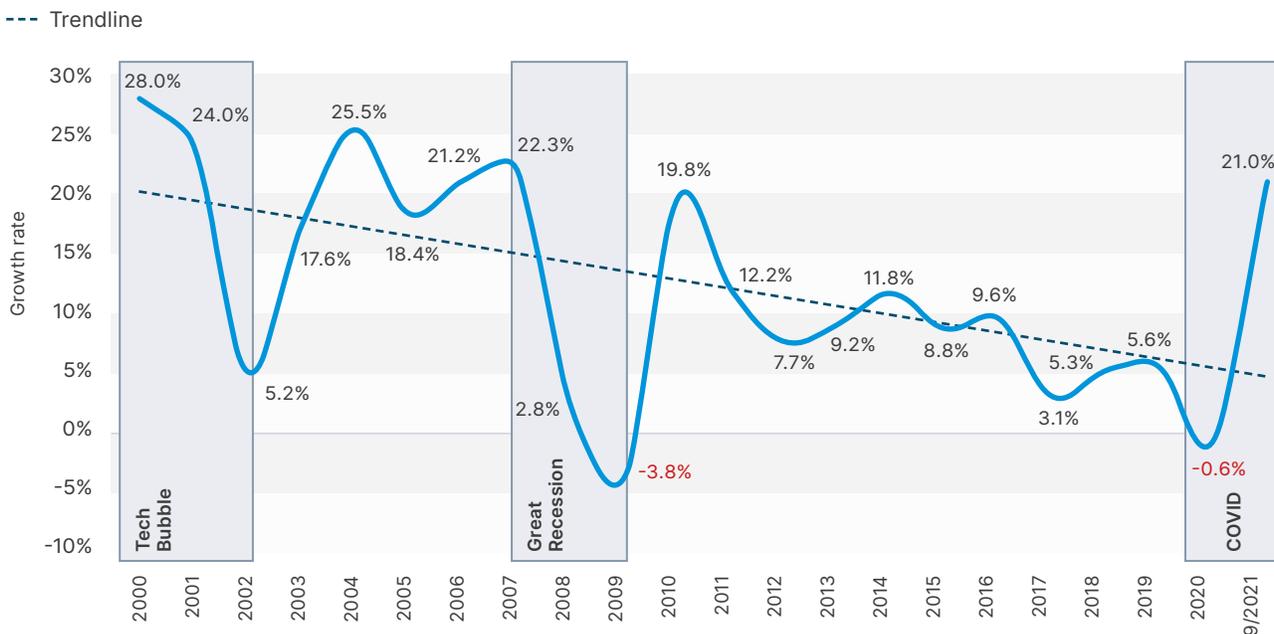
Some might suggest the positive responses in 2021 were rose-colored and influenced by the external improvement in business conditions. While that's a possibility, it's difficult to ignore the nearly 30 percent of wineries that said it was their best year ever, because their history extends beyond the multiyear COVID period back into what we used to think of as normal business conditions.

While surveys have their own bias, financial statements are an even better indicator of industry performance. When we look at sales growth metrics, claims that it was the best year ever appear credible.

Silicon Valley Bank has a database of reviewed and audited financial statements extending back to the 1990s. Each year, there are greater numbers of financial statements in the system, but the database of audited and reviewed statements typically comes from 100 to 150 separate wineries, meaning that while the wineries in the database may change, the sheer number of records leads to statistically significant benchmarks.

Reviewing these statements yields a few things worth noting (see figure 21). Premium winery sales growth can have a large beta in recessions, with dramatic swings down when business conditions are difficult, and then equally dramatic swings up when conditions recover. But another point that's hard to miss is the trendline of sales growth, which has been on a downward trajectory since 2000, when the sales growth for that year was 28 percent! That kind of growth was the story of the middle to late 1990s, when wine demand was very hot and we couldn't put sticks in the ground fast enough to increase grape supply. Of course, that led to a grape bubble and removals, but that's agriculture. I think most people would be happy to have the problem of 28 percent growth.

Figure 21: **Sales growth rate for premium wineries**



Source: SVB Peer Group Database

Figure 22: **Average case price and average cases sold**



Source: SVB Peer Group Database
* Estimate

The anomaly in the general trend is obviously 2021, with growth at 21 percent. That's the highest growth rate since 2007. Maybe the wine industry as a whole didn't participate in the reopening party, but the premium wineries got the invitation.

Figure 22 shows average case price and average cases sold for a premium winery. While we don't define who fits into the description of premium wineries, the chart with average cases sold and case price is a good approximation of the way we view the term. Note that average cases sold are a blend of DTC and three-tier sales, generally consistent with the Winery Sales Channels 2021 chart (see figure 9B).

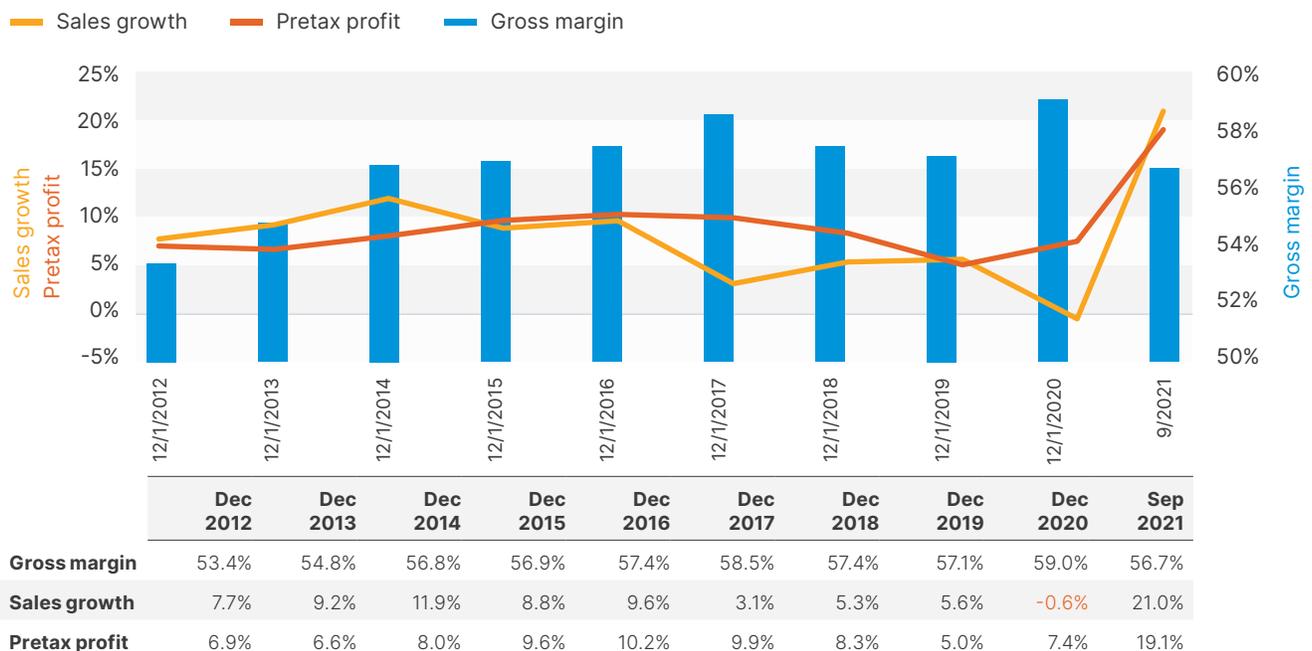
During the pandemic, nothing looked like normal for premium wineries. In 2020, average cases sold in our database of premium wineries increased 6.3 percent, from 38,700 cases to 41,100 cases, while the average price per case dropped 8 percent, from \$262 per case to \$241 per case. Premium wineries found themselves without restaurant or tasting room sales.

With less access to the off-premise channels where wine was being sold during lockdowns, premium wineries decided that the best approach would be to discount wine and/or give away free shipping to incentivize sales. More cases were sold in 2020 to make up for lost revenue per case, so total sales growth for 2020 was essentially flat at minus 0.6 percent (see figure 23).

Profitability was surprisingly strong in 2020 due to staff reductions in customer-facing jobs from COVID, reduced harvest costs and winemaking costs due to fires and smoke, and lower overhead allocations. In addition, many wineries availed themselves of Paycheck Protection Program loans in 2020, which were forgiven both in 2020 and 2021.⁵⁵

2021 was once again the opposite of 2020 in terms of business conditions and results. As businesses and tasting rooms reopened, wineries were coming off a year with small crop sizes, so they stopped discounting and refocused on the tasting room and higher-end restaurants, which were restocking. With more wineries moving toward seated tastings and reservations in 2021, the average check per customer increased. Average cases sold for the average winery decreased as part of a strategy by many to stretch out vintages to cover the short 2020 year.

Figure 23: Premium winery income statement averages



Source: SVB Peer Group Database



6

Demographics and marketing

The US wine industry isn't doing a good enough job of marketing and selling its product, often remaining wedded to successful strategies from the past while the culture, country, business environment and consumer have radically evolved. It's flat-out not good enough, and the overall industry results show it.

There are any number of charts that demonstrate our failure to market to young consumers. As mentioned earlier, The Harris Poll asked the simple question, “If you were invited to a party and asked to bring an alcoholic beverage to share, what would that beverage be?” (see figure 7). This gives us an understanding of which alcoholic beverages consumers prefer.

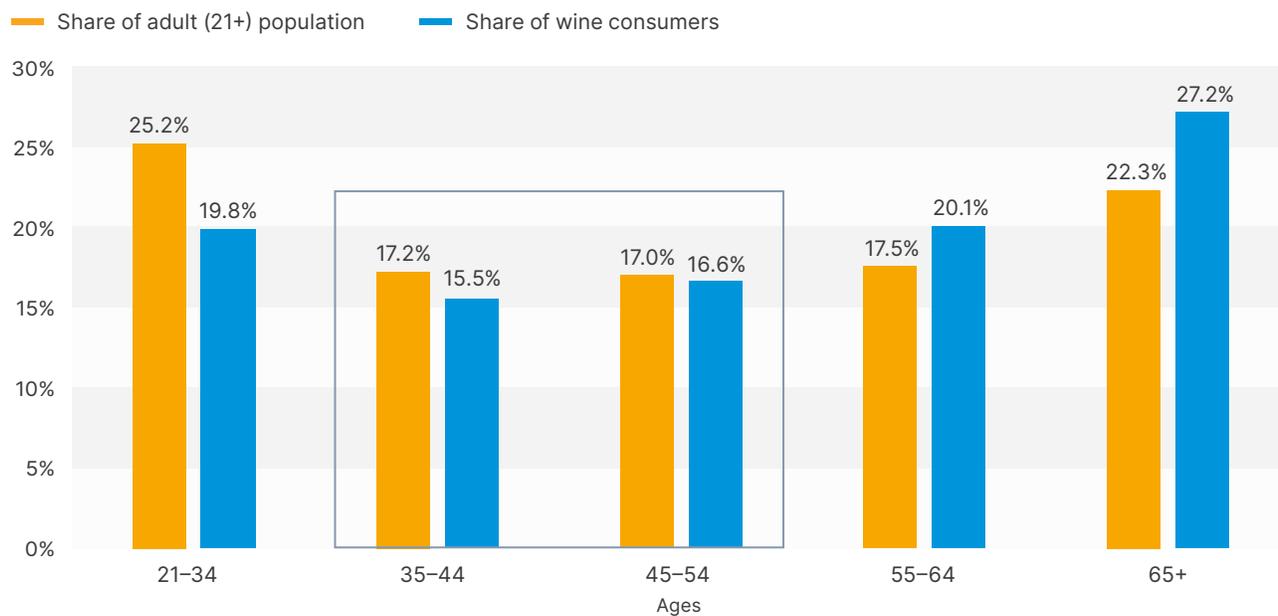
While wine scored highly across the age categories, it was heavily preferred by those over 65, 49 percent of whom would bring wine; in the rest of the age groups over 34, wine scored 20 percent lower. The cohort aged 21 to 34 were the least likely to favor wine. That’s clearly indicative that wine sales are overly dependent on older age groups.

The poll’s warning is that wine isn’t at the forefront of many consumers’ minds when they think of an alcoholic beverage. Unless the industry does more to attract consumers younger than 65, wine consumption might drop by 20 percent when boomers sunset. Many will quibble with that statement, but I encourage the quibblers to come up with their own positive projection from the data.⁵⁶

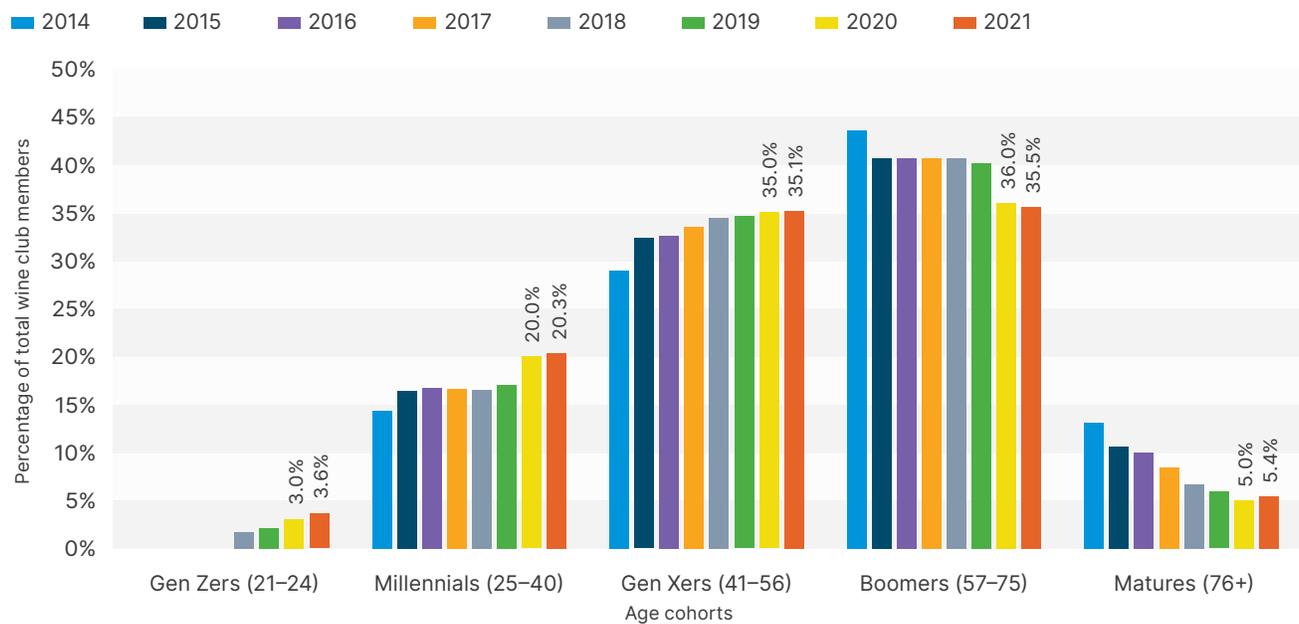
A second analysis comparing the share of the population to the share of wine consumption yields similar results (see figure 24). Since wine consumption skews to college-educated and wealthier homes, we would expect to see the 21- to 34-year-old group not yet punching their statistical weight as wine consumers.⁵⁷ But by the time people reach their middle 30s, the consumption measures should improve.

Since the greatest spending years for consumers fall between 35 and 55, in the highlighted segment of figure 24 we should see consumption rates greater than each group’s share of population size. For many retail goods, there would be a bell-shaped lifetime consumption curve, but wine has had a U-shaped curve and for at least the past 20 years. The industry has explained this away by arguing that younger consumers will come around when they age. Will they? What is the magical year when a consumer decides to be a wine consumer? Or is it that purchase decisions and loyalty have little to do with age?

Figure 24: **Wine consumption rates compared to share of adult population per age group**



Source: Nielsen Homescan, 52 weeks ending December 26, 2020

Figure 25: **Wine club composition by age cohort**

Source: SVB State of the Wine Industry Reports

Silicon Valley Bank runs two industry surveys each year: the Annual Direct to Consumer Survey and the Annual Winery Conditions Survey. In these, we ask wineries for information about the ages of their club members, and figure 25 collects those answers over the last eight years, covering millions of customers at more established premium wineries.

With figure 25 showing a growth in millennials' participation in wine clubs over the last two years, it appears that during the pandemic more millennials were either engaging digitally in Zoom tastings or out visiting wineries and joining clubs in person. This might be due to two factors: that other entertainment options were closed and that younger people were less susceptible to COVID than boomers. While the increase in millennial consumption is good, boomers are still the largest consumers by almost two-to-one over millennials.

With less than a single percentage point separating boomers' consumption share from that of Gen X this year, boomers can't be considered the dominant group anymore, even though they still have 70 percent of the disposable income and more than 50 percent of wealth in the US.

In the *Annual State of the Wine Industry Report 2016*, we predicted that boomers would cede their top spot to the Gen X cohort in 2021. As expected, they are

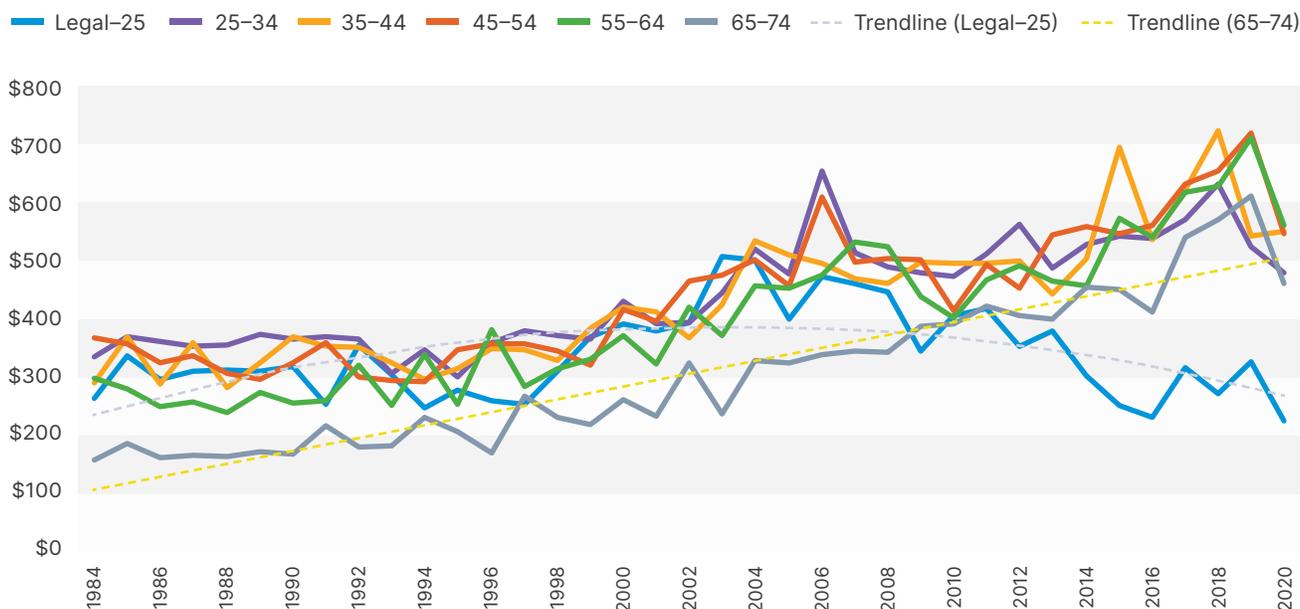
exhibiting changing spending patterns due to age, health and retirement concerns.⁵⁸ But while the pandemic has convinced some boomers to take early retirement, the good news for the wine industry in the near term is that many will continue to work past normal retirement and keep buying wine.

Another view of alcohol consumption comes from the Consumer Expenditure Survey, which tracks the alcohol spend of different age bands. Using that data, figure 26 allows us to see, for instance, how the youngest consumer's behavior changes as time passes. Interestingly, this chart shows a drop in per capita spending in 2020 across all age groups. But there was a limited amount of restaurant sales of wine, and those sales were heavily marked up, which boosted the dollar total of wine sales in 2020.

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Boomers can't be considered the dominant group anymore.

Figure 26: Annual per capita spending on alcohol by age group



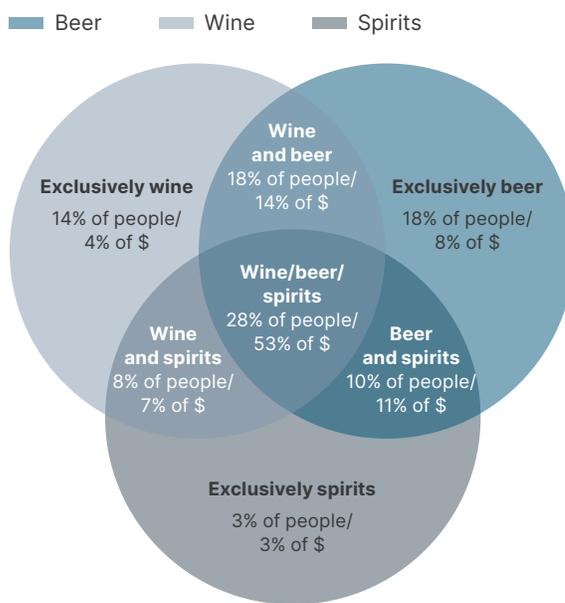
Source: US Bureau of Labor Statistics, Consumer Expenditure Survey

What stands out is that the highest spenders per capita are all in the 35 to 55 age group. That is consistent with other data in this report. But higher spending patterns in the 35- to 55-year-old category reinforce the fact that we are losing share to other alcohol categories, since this chart represents all alcohol sales and that age bracket isn't where our customer resides.

Another concerning data point is the youngest cohort. Historically, that age range spent about the same on alcohol as other cohorts. But starting in 2003, this group began spending increasingly less per capita up to the present. We know a large part of the reason behind that is due to the cumulative impact of negative health messaging originating from the World Health Organization and other anti-alcohol groups. That topic will be covered elsewhere in this report.

The wine industry competes with other beverages across categories today (see figure 27). Fifty-three percent of the spending on alcohol comes from consumers who drink through all categories. And this cross-consumption has been increasing over time, as beverage alcohol has continued to produce better products at higher prices. The resulting shift away from “category consumers” to “alcohol consumers” has been a part of the declining growth rate of wine.

Figure 27: Competition is beer and spirits



Source: NielsenIQ Homescan Panel, Total US: Annual 2020/Off-Premise
Wine includes still and sparkling; beer includes FMB and cider.

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What will the average wine consumer look like with the boomer in full retirement?

At this point, those who consider themselves exclusive wine drinkers only represent 4 percent of the dollars spent. Those who consider themselves wine and beer drinkers, though, represent 14 percent of dollars spent, the highest amount for any combination of two categories. Wine maintains a strong presence in the alcohol market, but without evolving the marketing message and attracting more consumers beyond the 0.6 percent population growth in the US, we will likely enter an extended period of negative volume growth and less-negative revenue growth.

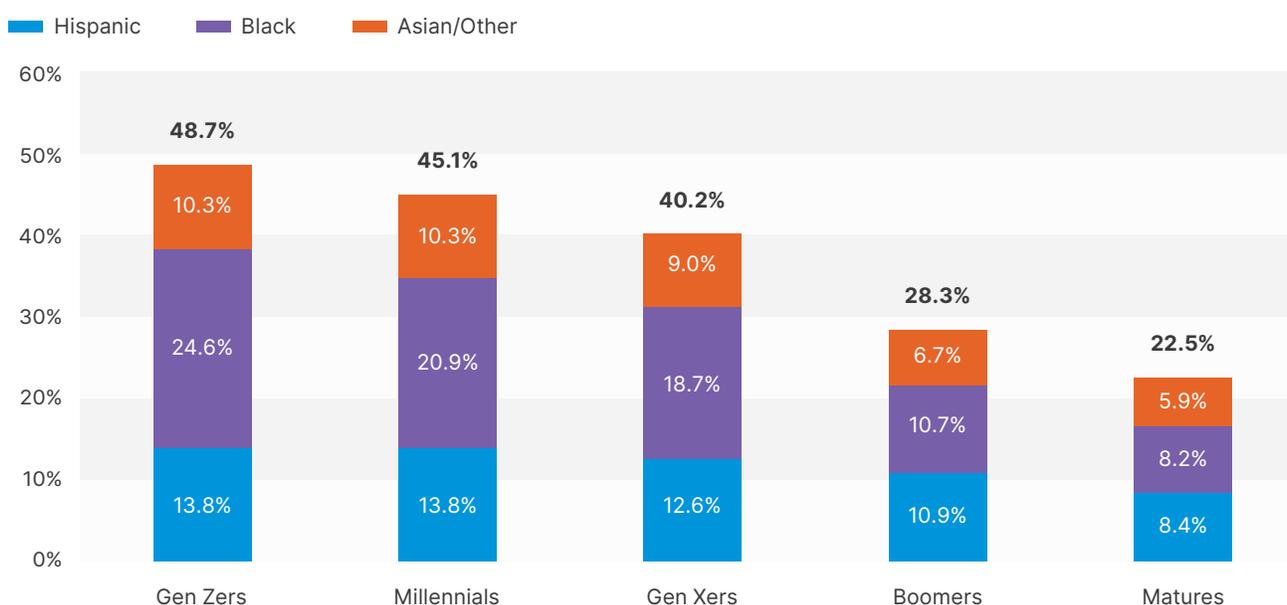
The issue of greatest concern for the wine business today continues to be the lagging participation in the wine category by the large millennial generation. In just eight more years, the last boomer will pass age 66 and be eligible for full Social Security benefits.⁵⁹ What will the average wine consumer look like with the boomer in full retirement?

Consumers younger than 40 have different values, are more health-conscious, have lower discretionary income and wealth and are more ethnically diverse than previous generations. While the wine industry is taking a more passive approach to attracting the young consumer, the luxury market has gone all-in, adapting product offerings for younger tastes, spending on digital communication paired with engagement strategies and evolving distribution channels at the same time. The comparison with the wine business is stark: About 20 percent of millennials consume wine, yet two-thirds more — 33 percent — consume luxury goods.

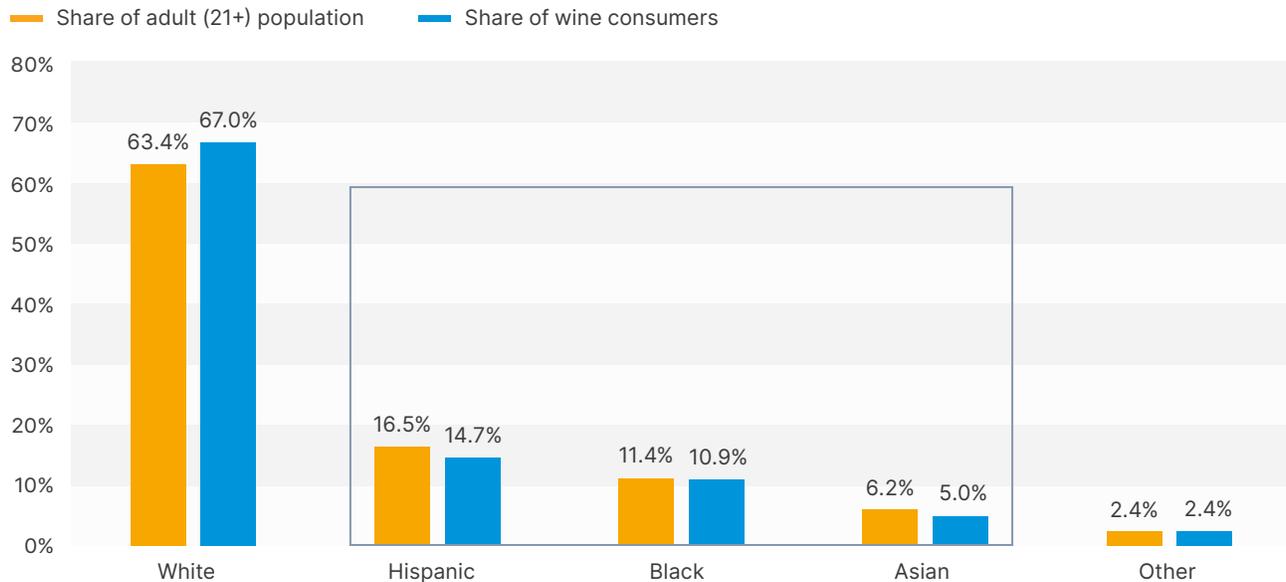
The millennials' potential to replace retiring boomers as wine consumers has been a delayed promise because of several factors, including their early preference for craft beer and spirits, questions surrounding the health of alcohol consumption and the fact that it takes longer to establish careers, families and wealth than it did in prior generations.

One other difference is the racial composition of the generations. While only 28 percent of the boomer population is non-white, 45 percent of the millennial population — and almost half of Gen Z — is non-white (see figure 28).⁶⁰

Figure 28: **Percent of non-white consumers by age cohort**



Sources: Chris Bitter, Vintage Economics; US Census Bureau

Figure 29: **Wine consumption rates compared to share of adult population by ethnicity**

Source: Nielsen Homescan 2020

While today 67 percent of wine consumers are white and 33 percent are other ethnicities (see figure 29), in 2045, according to the Brookings Institute, the US population will have roughly even numbers of white and non-white people.⁶¹ This only reinforces the point that the wine community must adapt to the needs of a more varied consumer base in order to grow into the future.

Millennials versus boomers

When hitting their spending years, status-seeking boomers loved to display their wealth and success prominently. They were the generation that premiumized wine in America. Getting information about special soils, harvest dates, pH, the winemaker or a wine score allowed those consumers to indirectly reference the price of a bottle to their friends without coming right out and shouting it to everyone.⁶²

The younger wine consumers now, having lived through the Great Recession and a pandemic, aren't destined to be consumers who will show off their wealth. They too will work for a better lifestyle but are defining that in different ways, including a more balanced work/life schedule. They also want to know that those who have wealth are contributing to the world in some way, and instead of bragging about the price of a bottle, they would rather have a cocktail and talk to friends about the good work that a brand and its owners are doing to make the world better.

In addition to sustainability, health and environmental issues, today social justice, equity and diversity concerns are driving younger consumers to place unprecedented pressure on companies to adopt these issues into their brand platforms. A brand's social values are increasingly connected to a consumer's decision to purchase particular products, including wine.

Future success in marketing to millennials depends on recognizing the things that are important to them, which are distinct from what's important to the boomers (see figure 30). That's not to imply that wineries need to run from the boomer consumer or change their core brand or make a traditional label into something edgy. But the industry must evolve and leverage the new consumer's values when marketing wine.

For some, that might mean taking a different approach to a second label. While second brands have often been a mirror of the top brand but at a lower price, perhaps they can become an on-ramp for new consumers by reflecting those consumers' values and tastes, while the expensive top brand continues to be marketed as usual.

During my last speech in front of a live audience in March 2020, I ended with the following statement: "Wine. It's the beverage young consumers want. They just don't know it."⁶³

Figure 30: **Generational differences**

Value	Boomers	Millennials	Action
Support group	Family	Friends	Drive club socialization
Choice in food	Don't eat if it's bad for you	Only eat if it's good for you	List ingredients, calories; show how it's "better for you"
Business	Capitalism is the path to individual wealth	Wealth comes with social responsibility	Define your contribution to social values
Diversity	Civil Rights Movement drove change	Social and ethnic diversity drives change	Diversify in staffing, advertising and tasting room
Landfills and waste	Disposable culture	Green, reuse and repurpose culture	Lower carbon footprint with better packaging and sustainability strategies
Spending	Conspicuously	On important things	Improve wine value by selling on important personal values
Fun	Work before fun	With everything!	Embed into events, tasting room, marketing and communications

Source: SVB

The strange reality is that it would be easy to start talking about wine in an evolved way and to reference the many things that are already a part of what we do to produce wine and that would resonate with younger consumers, yet as an industry we are not doing it.

Many in the wine business use sustainable farming practices and take great care in their winemaking by recycling water, avoiding the use of glyphosate, building and retrofitting with LEED Certification in mind and being good stewards of their land. Some use biodynamic and organic⁶⁴ farming techniques, but little of that shows up in marketing a bottle of wine today, and none of it appears in terminology and graphics the young consumer expects.

Millennials appreciate locally sourced foods and plant-based products. What is our industry if not locally sourced and plant-based? We just aren't transparent enough to let them see how our existing winery values already mirror theirs.

Eating healthy is a critical value of young consumers, and there is ample evidence that as boomers age, they are taking their cues from young people and adopting the millennial's health-conscious diets and consumption patterns. In years past, out of all alcoholic beverages wine had the most scientific evidence to show that it was part of a healthy diet and lifestyle.⁶⁵ Today, health touchpoints show on non-wine packaging in the form of indicators such as "clean," "natural" and "non-GMO."

Calories matter too. Look at snack foods today, and you will see that they often come in 100-calorie packages. No doubt that's because young consumers are conscious about their health, and weight is a factor in living a healthy life. That concern likely helps to make a vodka brand (Tito's) the largest-selling brand of spirits today.

What is the lowest-calorie mixed drink at a bar? Vodka and soda. How many calories are in a vodka soda? Sixty. How many calories are in a glass of wine? You don't really know, do you? Even most of us in the wine industry 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 put calories on the label, and that is a huge marketing miss.

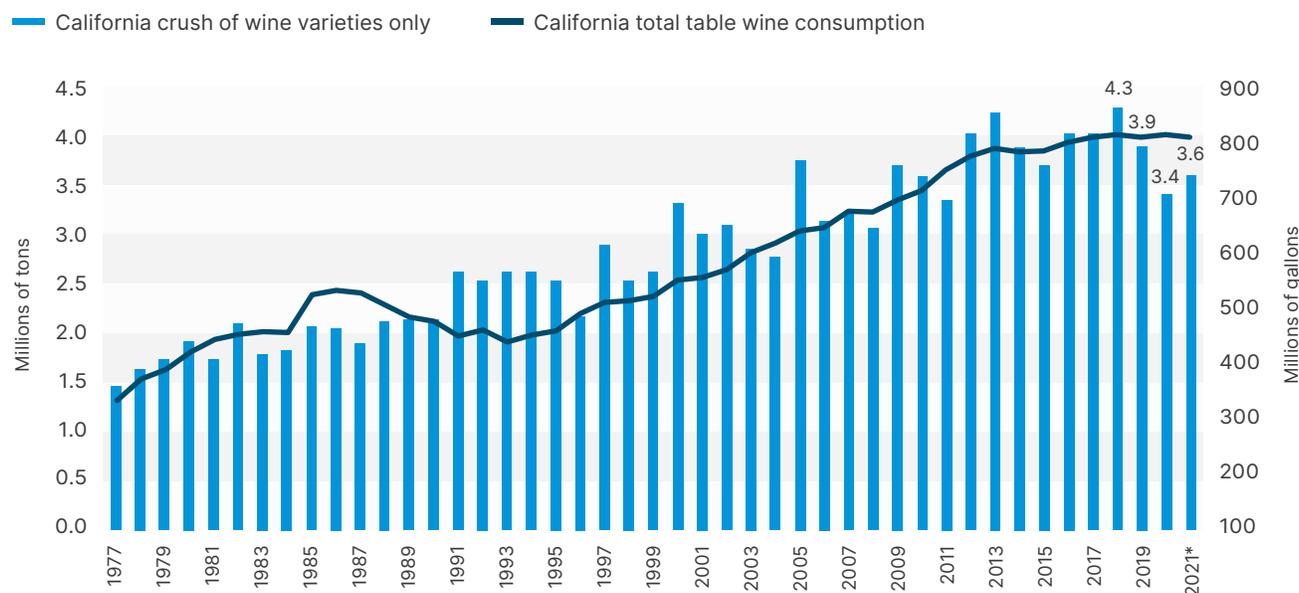
If we really want to reach the millennial, we need to move away from lifestyles of the rich and famous and add cause-based marketing to our outreach. We need to hire more people in tasting rooms with tattoos and with different ethnicities. We need to promote our efforts at being carbon-neutral and our support for social justice.⁶⁶ We don't need to be cheap. We can be a luxury product or a mass-produced wine, but we have to direct companies and brands toward the younger consumer's values.

By looking at how other beverages — particularly spirits but also soda, energy drinks, hard seltzers, RTDs and sports drinks — are marketed successfully, winemakers can repurpose those ideas for their own benefit.



7

Harvest and grape and wine supply

Figure 31: **California crush of wine grapes vs. consumption of California table wine**

Sources: Wine Institute, California Department of Food and Agriculture, SVB
*SVB estimate

With two consecutive bad yields in California, shouldn't grape and bulk prices rise?

The question in the subhead is one we should all be asking ourselves. We have long known that prices of grapes react to changes in the volume of yield from growers and to changes in demand from wineries. So with supply on a roller coaster after two very small crops in a row (see figure 31), prices must be going up for grapes and bulk wine in California, right? Surprisingly, the answer is no. Prices are generally not rising as of this writing, in December 2021.

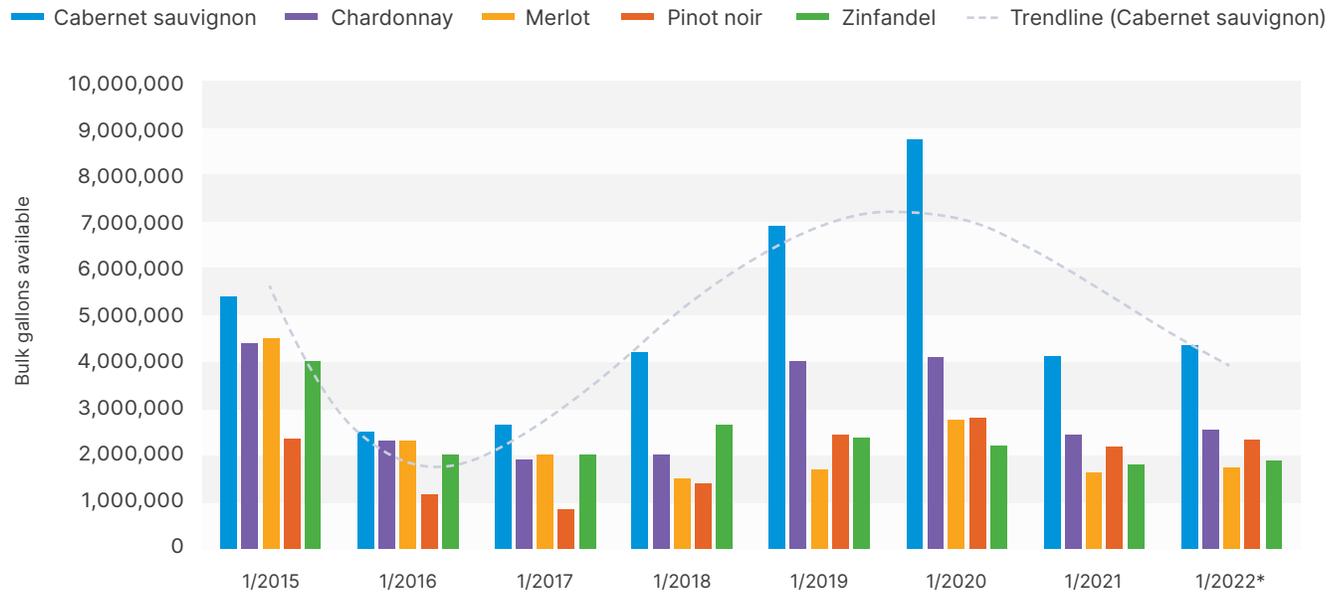
That says something about what wineries have in tank and what they need. Consumer demand is flat at best by volume. The fact that there has been no price movement in grapes after two short crops can only mean that wineries think they have enough already and they see no need to buy more for now. The industry isn't predicting growth in consumption.⁶⁷

How did we get to this position in supply? If the data leads you to conclude that there are too many acres planted, then sadly, you might be right. Jeff Bitter, president of Allied Grape Growers — and a person who understands vineyards and math — has been calling for acreage removals since 2020. The short crop combined with no price movement on supply probably does mean we still have too many gross acres planted, and in California, a normal yield of 4 million tons is not welcome. With current demand, we would be oversupplied again.

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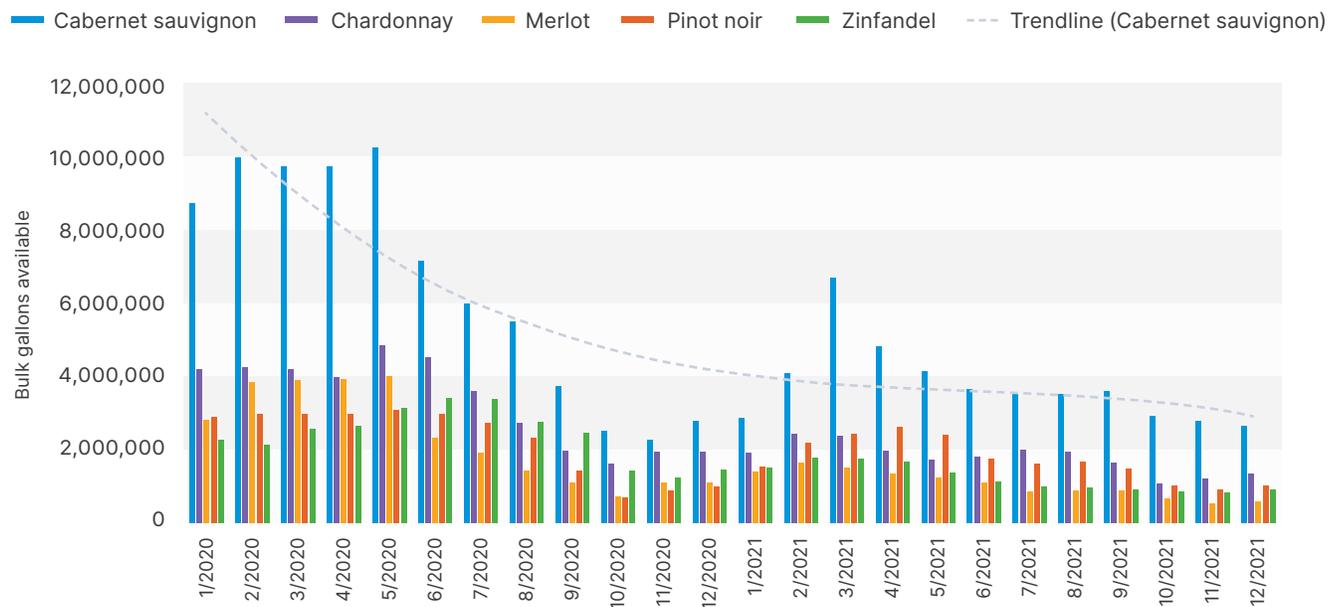
The fact that there has been no price movement in grapes after two short crops can only mean that wineries think they have enough already.

Figure 32: **California bulk wine inventory**



Source: Ciatti
*SVB estimate

Figure 33: **Monthly changes in California bulk wine inventory**



Source: Ciatti

Volatile harvest swings for the past several years

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 (see figure 32).⁶⁸ With nothing changing on the demand side and a normalized 2019 crop delivered, the industry hit a point of acute oversupply.

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.”⁶⁹ 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. Less than one year from our forecast of acute excess supply, we were balanced across most regions and varieties. 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 from COVID began to take effect and panic buying set in. The larger producers that purchase a lot of fruit in the Central Valley weren’t prepared for the high volumes demanded. Even though they started out the year oversupplied, by June they had worked through their oversupply in cellar. By July, those wineries started to buy down excess bulk wine to match off-premise demand, cleaning out the remaining 2018 supply (see figure 33).

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, 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.

Fortunately, the 2021 harvest year was nothing like the last several unless you were in the Sierra Foothills of California and had to deal with fires and months of smoke. Otherwise, California and Oregon came in with balanced supply, and most cited generally good growing conditions through the year with few heat events. Washington is still a little long on fruit with some acres needing removal.

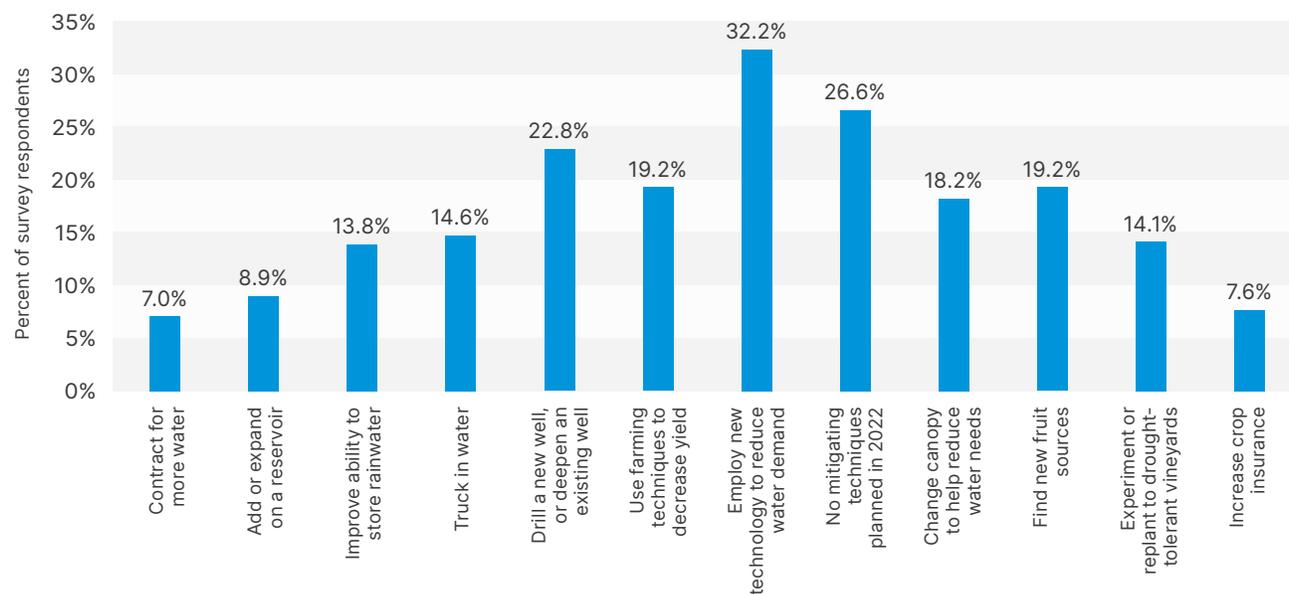
Harvest came off with a few hitches in some cases, where whites and reds ripened together and where labor was in short supply, but overall it was a relief from what the industry has experienced over the past several years. We are predicting the 2021 California harvest will come in light at 3.6 million tons.

Impacts from disasters

These are some of the most difficult business conditions outside of Prohibition the wine industry has faced. The impacts from fire, flood and pestilence have been almost biblical in tenor, and they keep presenting themselves in different ways. For example, drought weakens trees, allowing bark beetles to kill the trees and add fuel for fires. It also led to highly unusual dry lightning storms in California and Oregon in 2020, which were the match that lit record fires. And it’s lowering underground water tables and causing regional restrictions and bans on some water use. But 2021 brought in a new problem: record low soil moisture.

This phenomenon explains why the California harvest was light when the growing season was almost ideal for most regions in the West.

Drought in California has consistently been an issue, but today the extended years of drought have caused soil moisture to fall to levels that impact yields. This hasn’t impacted everyone equally because some growers have access to water. But in 2021, California water managers made unprecedented cuts to allocations, shutting down access to some water sources for growers.⁷⁰ Other growers ran out of water in holding ponds while some lost their wells.

Figure 34: **What growers plan to do to mitigate drought in 2022***(Respondents could select multiple answers.)*

Source: SVB Annual Winery Conditions Survey

When water is in short supply, mature vines will protect themselves by producing lower yields, and farmers will take other actions to reduce water loss (see figure 34). While the San Joaquin Valley has dealt with restrictive water allocations for some time, the circle is expanding. This isn't a short-term problem.

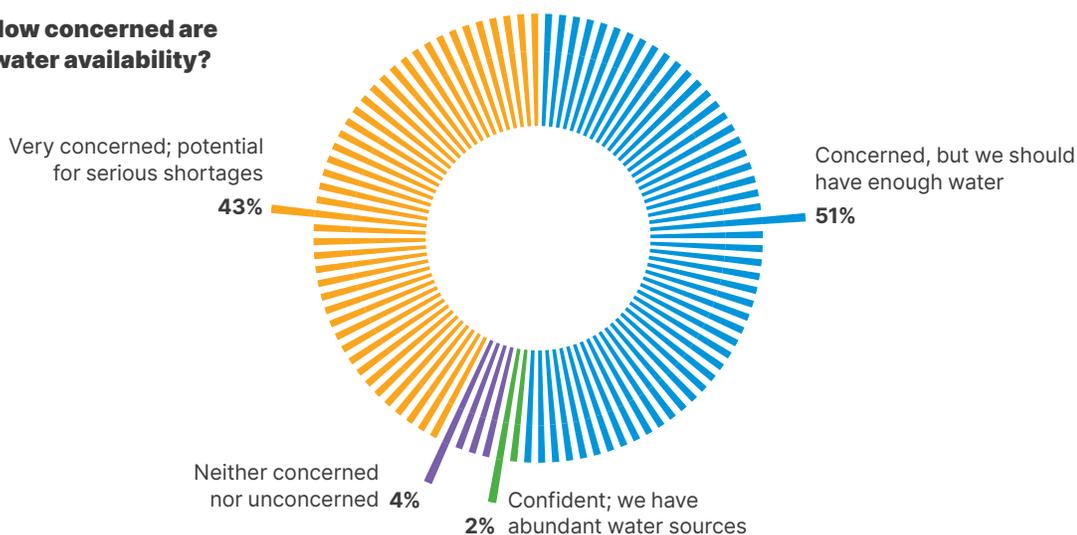
The mountains and drainage basins in the West, including the Sierra Nevadas and Colorado River Basin, are dealing with warmer storms that bring less snow. In 2021, the April snowpack in California measured in respectably at 59 percent of normal, but of the runoff that followed, only 20 percent made it to the streams and lakes while the rest soaked into the dry soils or evaporated.⁷¹

In prior drought years, when we hit points of low soil moisture, growers could irrigate and get a full yield. With this current drought, as of early December 2021, the reservoirs were 35.7 percent full in California. While Seattle and Portland had heavy rain in the fall of 2021, California had one promising early storm in mid-October, followed by several more in December. But for California to restore reservoir levels, abnormally high levels of rain would have to fall well into 2022.

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For California to restore reservoir levels, abnormally high levels of rain would have to fall well into 2022.

Figure 35: **How concerned are you about water availability?**

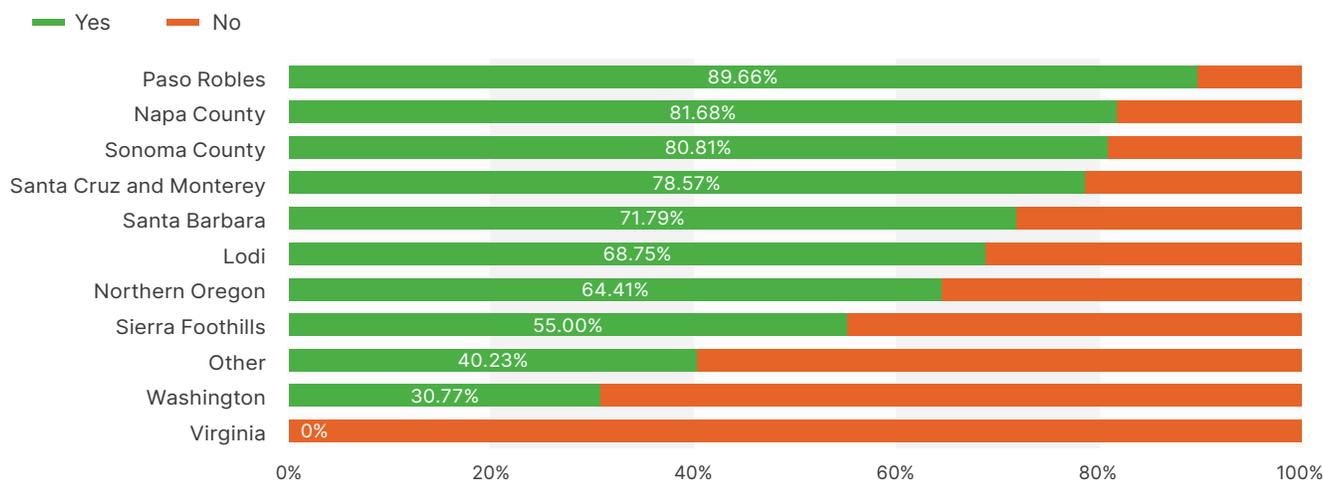


Source: SVB Annual Winery Conditions Survey

We asked the wine community if they felt impacted by the current drought. Only 2 percent said they were confident they had abundant water sources, while 43 percent said they were very concerned about the potential for serious shortages (see figure 35).

Paso Robles, which has consistently faced difficult water situations, is at the top on the list reporting drought impact, with almost 90 percent of wineries saying the drought has affected them (see figure 36). Even regions that normally have adequate water, such as Lodi and Northern Oregon, had 60 percent or more of their wineries reporting impact. The only region not suffering from the drought was Virginia, though that region has its own weather issues.

Figure 36: **Is your winery impacted by the drought?**



Source: SVB Annual Winery Conditions Survey

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Eight percent of the wine industry was unable to obtain insurance in 2021, and another 27 percent said they couldn't obtain sufficient coverage.

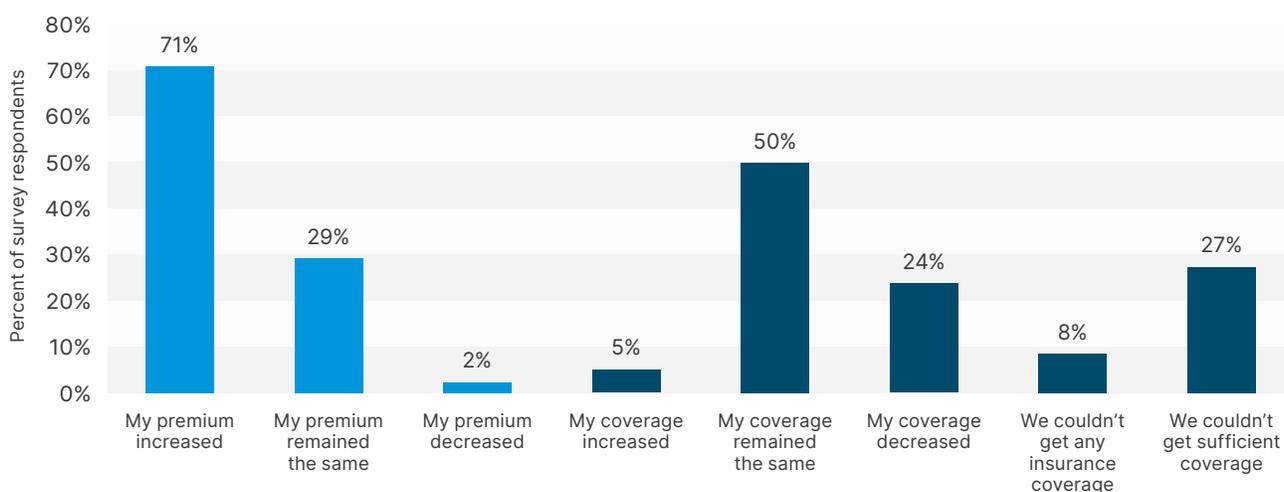
Another critical issue related to climate change is the cost to obtain insurance.⁷² Given the billions lost to wildfires over the past several years in the West, insurance companies have been applying new risk mitigation measures and using technology to update wildfire risk maps. The new risk definitions incorporate a number of variables, such as past fires, elevation and the amount of vegetation available.⁷³

Over 70 percent of those surveyed this year said their insurance costs increased (see figure 37). Eight percent of respondents were unable to obtain insurance in 2021, and another 27 percent said they couldn't obtain sufficient coverage. This situation puts winery owners in a position to lose everything and impacts their ability to get loans to run their business. California's FAIR Plan is a last-resort option for wineries but limits maximum coverage to \$8.4 million, which is nearly double the prior policy limits but still insufficient for many.⁷⁴

COVID has had many impacts on winery operations, most of which are obvious, such as the lockdowns that have been covered elsewhere in this report. One less obvious issue for consumers has been the disruption of supply chains.

The record backup at the ports has gotten extensive news coverage.⁷⁵ The shift in consumer spending from services (which were closed) to goods is partly to blame for the port crisis. That has been compounded by many other factors, such as aging infrastructure at the ports, shortages of truck drivers, shortages of containers, port closures from COVID lockdowns around the globe and — most recently — the lack of empty containers because they are stuck and stacked in ports. With buyers unable to get goods, the price of those goods has gone up.

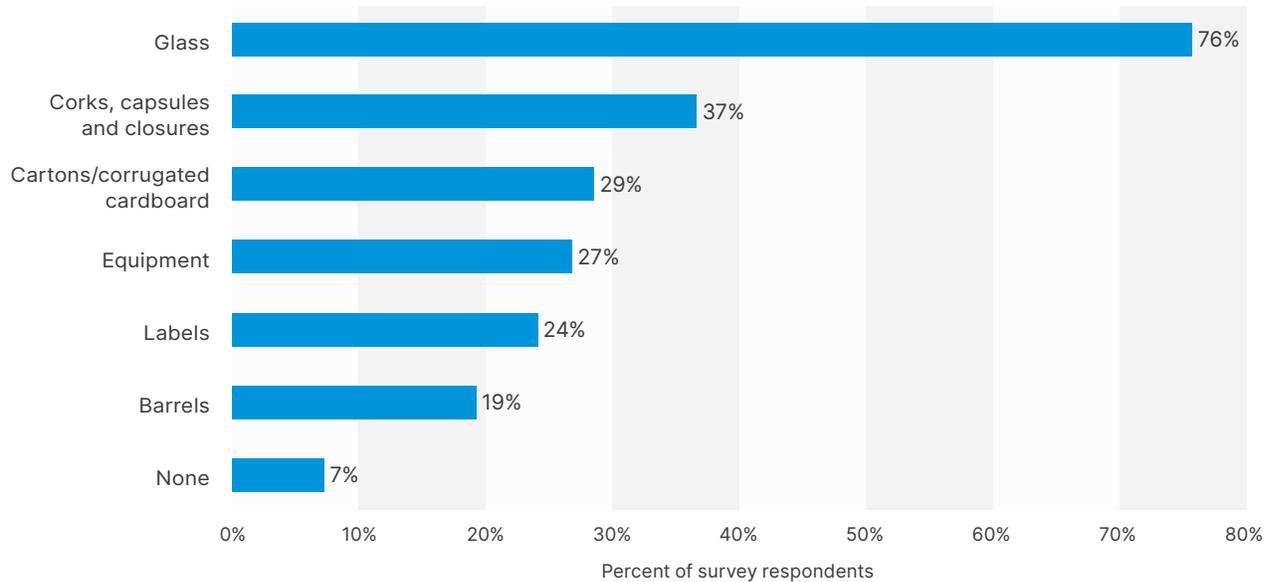
Figure 37: **Wineries' property insurance coverage in 2021**



Source: SVB Annual Winery Conditions Survey

Figure 38: **Which supplies have been difficult to source in 2021?**

(Respondents could select multiple answers.)



Source: SVB Annual Winery Conditions Survey

The wine industry has suffered its own issues with supply chains, some of which are tied to trucking shortages and the transportation needed to get wine supply to market. The cost of all items used in production has gone up, and in some cases the availability of manufacturing materials has caused production breaks and slowdowns. Consider the issue you would face if you needed a heavy machine part from an Italian supplier today. You couldn't get it by ship in a predictable amount of time. If you needed it delivered in a certain time window, your only option would be to send it by costly airfreight.

Leading the list of materials in short supply is glass (see figure 38). Seventy-six percent of respondents said they had issues getting sufficient supplies of the right glass on time for production. In some cases, the inability to bottle wine before harvest created additional production problems at the winery.

Glass availability has been impacted by a number of things, including positive COVID cases in factories, a furnace being taken offline in the spring of 2021, a fire in a glass factory in Argentina, an overdependence on foreign glass makers, a shortage of boxes for shipping glass and all the transportation issues previously noted.

But the story with the supply chain doesn't end with glass. Smaller wineries have less negotiating power and have been suffering production holdups. Their frequently cited issues include the inability to source bottling supplies, cardboard, equipment and labels. While a smaller number said they had issues with barrels, that problem would probably have been more widespread were it not for leftover barrels from the small 2020 vintage. Only 7 percent of survey respondents said they had no problems, and 40 percent believed the supply chain issues won't be resolved until the second half of 2022.



8

Packaging and varietals

Alternative packaging is continuing to evolve.

Over the past year, the growth rate of the traditional 750-milliliter bottle format has dropped 3.6 percent, while the larger packaging of 1 liter and above fell between 4.6 percent and 12.1 percent (see figure 39). That's a contrast from 2020, when large formats were flying off the shelves, driven by consumers making sure they had their wine while sheltering at home. That trend is now reversing. The smaller sizes were gaining in popularity pre-COVID, and there is every reason to expect they will resume that growth in a post-COVID world.

The year-over-year growth rate of varietals isn't delivering good news. In 2020, there were seven varietals that showed positive growth rates. This year, all major varietals in wine had negative growth rates in depletions, with the exception of sparkling, specialty (such as fruit-infused wines) and prosecco, with the latter leading growth at 15.1 percent. The worst-performing varietals were merlot, white moscato and sangria (see figure 40).

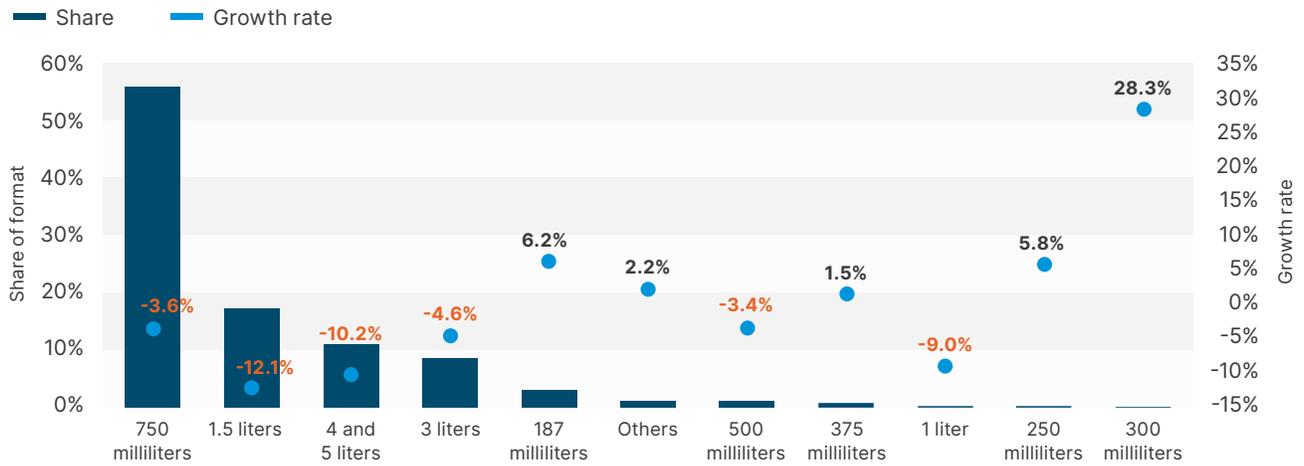
There hasn't been much movement in the order of consumer preference for varietals. The unfortunate story here is that the four most popular varietals by share are all trending solidly negative in growth.

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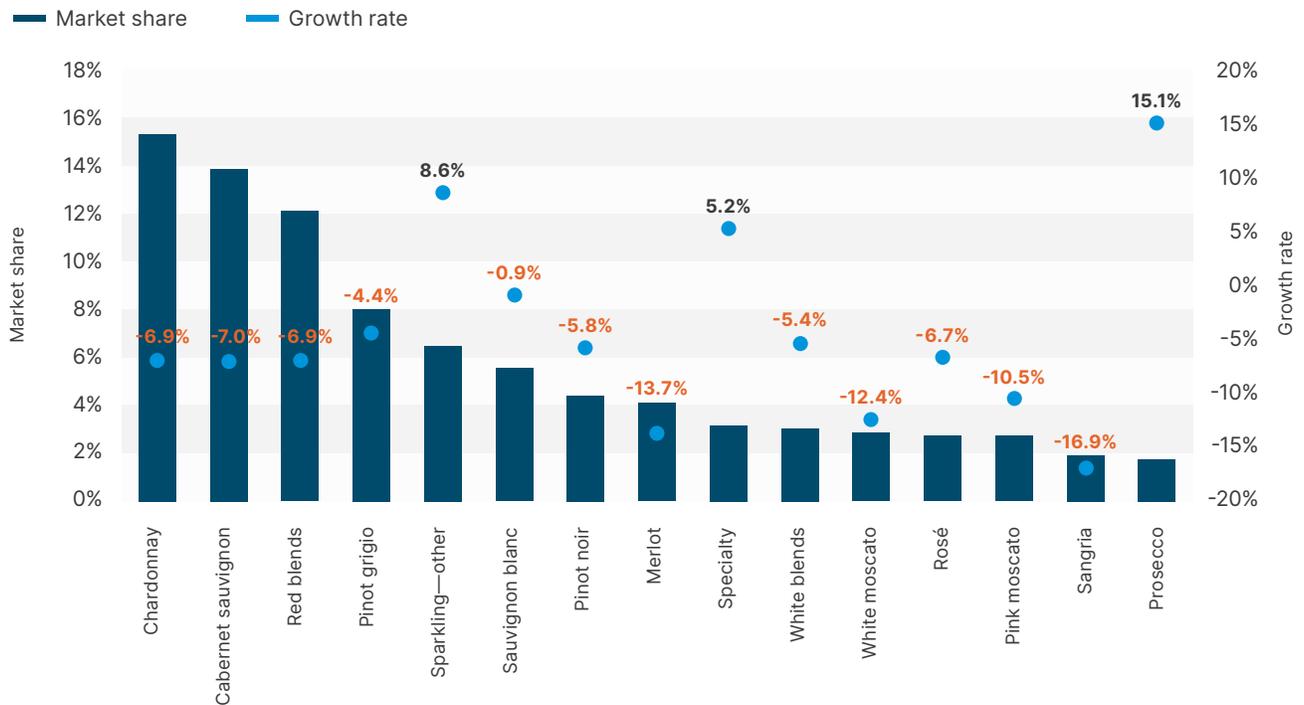
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Figure 39: **Growth and market share of formats**



Source: SipSource, October 2021

Figure 40: **Varietal growth and share of market**



Source: SipSource, October 2021



9

Cumulative negative health messaging

“Our country has deliberately undertaken a great social and economic experiment, noble in motive and far-reaching in purpose.”

—Herbert Hoover addressing the topic of Prohibition at the Republican National Convention, 1928

Let's just agree that the Prohibition experiment was a failure. Let's further acknowledge that moderate wine consumption is under attack, no matter what the science says about improved mortality and morbidity rates.

Neo-prohibition — the start

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

Like the Prohibition movement earlier in the 20th century, neo-prohibition included diverse groups, such as religious organizations that saw drinking alcohol as sinful, activist organizations whose primary goal was eliminating deaths from drunk driving,⁷⁶ health organizations funded by special interests and armed with studies about the negative impact of consuming alcohol on productivity and health, and the US government, which was enacting policy.

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

The growing clamor culminated with the Anti-Drug Abuse Act of 1988,⁷⁷ which included mandatory government health warnings about alcohol and the addition of a government warning on alcohol beverage labels.

On March 3, 1988, President Clinton, through the National Highway Traffic Safety Administration (NHTSA), introduced an administrative order for, and penalties against, any state not adopting a 0.08 maximum per se standard for drunk driving.⁷⁸

The anti-alcohol momentum was confronted on November 17, 1991, when 20 million viewers in the US heard the *CBS 60 Minutes* broadcast on the French Paradox, which suggested that wine consumption had health benefits.⁷⁹ It immediately caused a spike in red wine consumption.

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With the positive medical reports, per capita wine consumption soared starting in 1994.

That was followed in the mid-1990s with widespread public acceptance of the Mediterranean diet⁸⁰ and later punctuated by the publicized work of Dr. Arthur L. Klatsky, 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, surprisingly, non-consumption.⁸¹ Subsequent work proved that there were lower morbidity rates associated with moderate consumption.

With the positive medical reports, per capita wine consumption soared starting in 1994, when baby boomers hit their consuming stride, which coincided with their prime retail spending years. The consumption of spirits showed some modest positive change shortly thereafter due to both Dr. Klatsky's findings and the premiumization trend, which the spirits industry joined after seeing the success in the wine business.

The cumulative weight of the studies proving that moderate wine consumption had positive health benefits redirected the conversation away from health as part of the rationale for anti-alcohol messaging. Once the blood alcohol level was lowered nationwide and the drunk driving component of the movement won a victory, the debate settled into the background for a decade as the wine industry basked in the glow of increasing sales, but the anti-alcohol movement never stopped fighting the war.

Modern-day prohibition

Since the French Paradox story was carried on *60 Minutes*, numerous anti-alcohol groups have expended considerable time and money to produce alternative research that calls into question or counters the original research findings.⁸² Most conclude that the research is controversial without calling the science wrong.

With alcohol studies coming to different conclusions and causing confusion, and with a refresh of the government's Dietary Guidelines for Americans 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."⁸³

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 and have gained significant traction in the past decade by instead changing the focus to cancer and all-risk mortality.

Europe is ahead of the US in directing consumer sentiment away from alcohol consumption. In 2018, 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.⁸⁴ The cumulative weight of the world messaging and of anti-alcohol studies has been effective⁸⁵ and has once again emboldened US regulators to promote additional restrictions on alcohol consumption.

Quietly, in January 2018, the US Department of Health and Human Services (HHS) deleted the dietary guidelines that said moderate drinking could lower the risk of heart disease,⁸⁶ ignoring their own prior findings by the NIAAA.

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With today's messaging, young consumers are consuming less alcohol than prior generations.

In July 2020, as everyone was busy dealing with a pandemic and recession, a handpicked panel of scientists with an anti-alcohol bias 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.⁸⁷

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 came from the World Health Organization.⁸⁸ Public comment was rushed and closed on August 13, leaving only about a month for public comment — 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, 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 measurements. It's another attempt to move the goalposts — even if science shows that people live longer lives by consuming wine moderately.

We have returned to the neo-prohibition era in this debate. Alcohol consumption is being equated to opioid addiction again.⁸⁹ Ultimately, the USDA rejected the latest panel's efforts to amend dietary guidelines,⁹⁰ but in recent years the government has issued new directives from the US Preventive Services Task Force recommending that all primary care physicians routinely ask about, and counsel patients on, unhealthy levels of alcohol consumption.⁹¹

The youngest consumers are health-focused, which explains the explosive growth in health beverages in the US.⁹² Compared to the boomers, who ate "if it wasn't bad for you," the current generation wants to consume things that are "good for you."⁹³ With today's messaging, young consumers are consuming less alcohol than prior generations.⁹⁴

If we don't do anything to offer a counter argument, within the decade we should expect to see cancer warnings on wine bottles, no matter what the science proves. This type of labeling was adopted as law in Ireland in 2018 and in the Yukon Territories in 2020 and is being pursued in numerous other countries.^{95, 96, 97}

Prior to March 2020, the US wine business was clearly hitting a ceiling in its ability to grow, largely due to fundamental challenges the industry hadn't fully accepted or yet addressed, such as the neo-prohibition movement. We can't correct what we don't identify or acknowledge.

The growth rate of off-premise wine sales turned negative starting in 2017. But in March 2020, using just the grocery channel, that rate turned decisively positive, and news reports and anti-alcohol groups — linking surveys to consumption volumes and citing Nielsen data — concluded that consumers sheltering at home were binge drinking.⁹⁸ None of that was true, as the researchers would have known if they'd factored in the loss of sales from closed restaurants and other venues, as well as all the lost family occasions, such as Easter, graduation, New Year's and weddings.

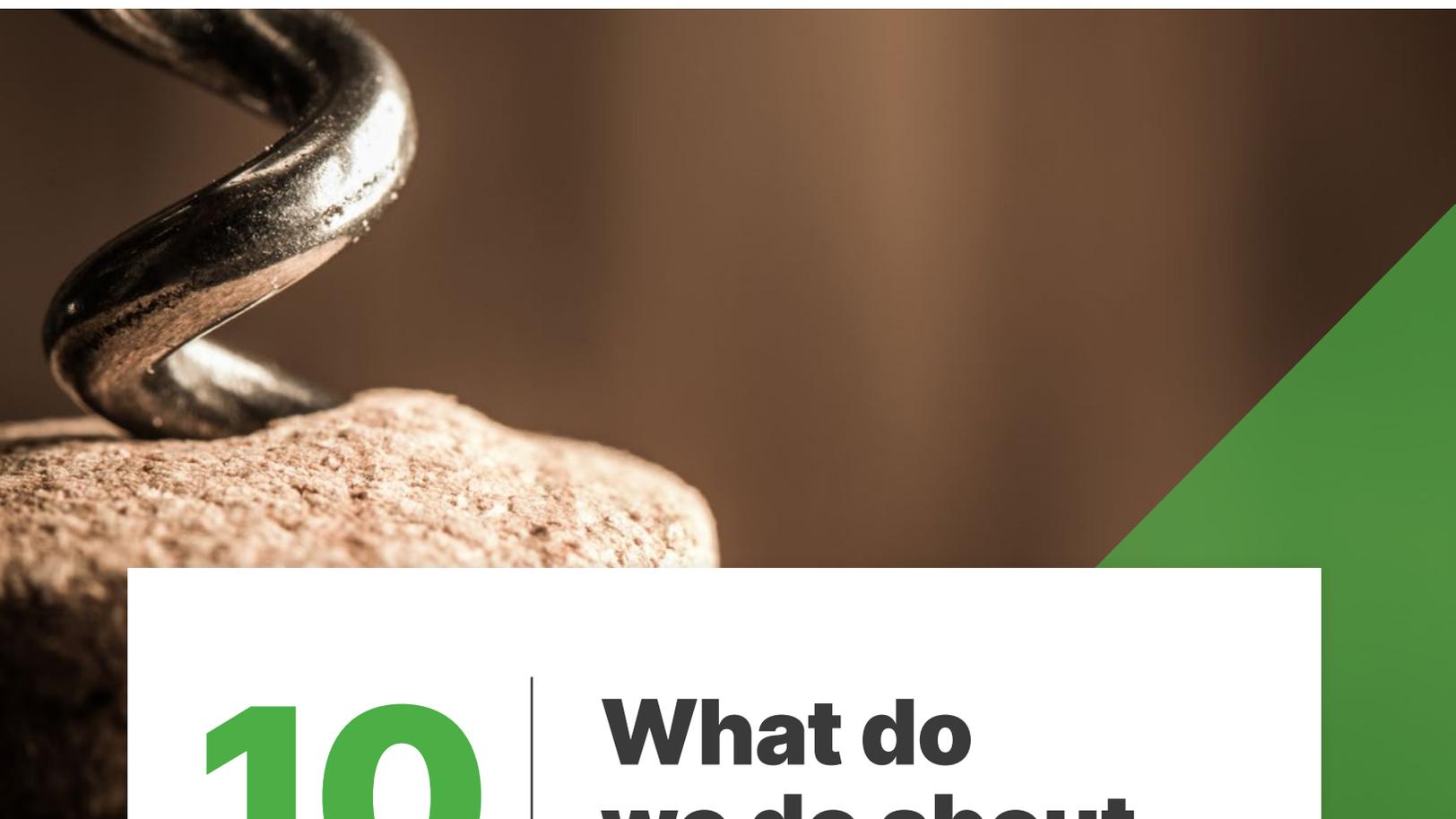
The reality is that consumers didn't buy more wine during the lockdowns, and restaurants ordered more from the spirits category than the wine category during the business restart in 2021. While premium wineries had a very strong year, that success was built on pent-up demand for experiences and on white-tablecloth restaurants restocking. Some of that is non-repeatable. Even the fine wine category had seen sales growth rates move from north of 20 percent in the early 2000s to 5 percent before the pandemic.

The anti-alcohol lobby continues to push an agenda, supported by science, that starts by concluding that all alcohol consumption is bad and then backs into the research. The cumulative negative health message is eroding public faith in the science that proved moderate wine consumption was healthy.

With continuing attacks on moderate consumption, we can count on new adverse legislation. Eliminating advertising is one stated goal that's high on the list for the World Health Organization, as its website notes. Without the wine industry showing up to push back on false science (that, for example, "proves" an equivalence between smoking and drinking), we will also have enhanced cancer warnings on labels soon.⁹⁹ When will the wine industry show up to help promote well-researched, positive science on moderate consumption?

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10

What do we do about declining demand?

The beginning of a change in how we do things

If you've read this report in past years, you know that I started calling out the issue of decreasing growth rates in the wine category in 2017. I identified the main issue as boomers not being replaced by millennial consumers in equal numbers, but there are several other factors in play that I've discussed since then:

- Boomers retiring and aging
- All other cohorts showing less interest in wine
- Specifically, the lack of adoption of wine by the large millennial generation
- Alcoholic beverage consumers (including boomers) increasingly drinking across categories
- The industry's inaction that allowed the "better for you" health message that wine owned in the '90s and '00s to vanish from the consumer's mind
- Neo-prohibitionists increasingly winning a war on legislation and anti-alcohol messaging
- The industry's failure to evolve marketing that resonates with the values of younger people
- The lack of a cost-effective on-ramp for young consumers to discover and enjoy wine
- The higher per-serving expense of wine compared to other alcoholic beverages
- Successful marketing to younger audiences by competing beverages, particularly the spirits industry
- The excessive markups on wine in restaurants, which has had a negative impact on wine-by-the-glass programs
- The lowest level of spending on alcohol by the youngest drinkers since 1984
- The industry's slowness in adopting digital sales tools and consumer/data analytics

That's a lot. What do we do about this situation?

I started talking about the need for a USDA Marketing Order in 2011 during a speaking engagement in Fresno.¹⁰⁰ I've brought the topic up several times in public discussions since, but there was no leadership or momentum in the industry to take it on and there were significant doubters who thought it was a bad idea (see "Objections" below). My hope was that someone would pick up the gauntlet and do something. But seeing no takers, I went to Plan B.

In 2019, Danny Brager, head of Brager Beverage Alcohol Consulting, and I presented our views to an audience of about 35 CXO-level leaders, including representatives from many of the larger wineries as well as executive directors of major industry support organizations and nonprofits. Mary Jo Dale, CEO of Customer Vineyard, led the event and discussion in a large room at a Napa hotel. We hoped to engage the attendees in a dialogue that either would convince Danny and me that we were missing something and overreacting or would encourage the group to acknowledge a demand problem that needed to be addressed as an industry.

Agreeing on a path

When Danny and I finished, I was surprised — maybe shocked — at the unanimity in the room and the widespread acknowledgment that, indeed, the wine industry had an issue that required attention.

Since that meeting, we've added Dale Stratton, president of the Wine Market Council, to the founding advisory board, which includes me, Danny Brager and Mary Jo Dale, each of whom has donated their time while maintaining full-time jobs. We've all had numerous individual and group discussions with industry leaders to elicit responses, hear objections and define consensus around a strategy. We received unanimous consent that we should move forward to the next step and produce a feasibility study.

Money was raised from industry vendors to pay for a Request for Proposals (RFP). The goals of the project were developed, and the RFP was sent to a half-dozen firms for the project.¹⁰¹ With most bids coming in around seven figures, which was out of our range, we settled on a lower-cost workable solution and engaged the UC Berkeley Hass School of Business, putting their MBA candidates to work in their capstone coursework under the guidance of senior executives from McKinsey & Company.

With about three months of exhaustive work interviewing industry leaders and government officials, the team from Berkeley arrived at a consensus. They presented several options to our group and recommended the industry apply for and develop a marketing program by means of a National Research and Promotions Order, a type of Marketing Order administered by the USDA.

With COVID slowing the process, the advisory board met for almost a year with the original CXOs, in addition to a few important individuals who were added based on the feasibility study recommendations. Subsequent to the presentation, we ran a poll to double-check if the group still believed we were moving in a direction they supported, and a second poll asking if the National Research and Promotions Order was the right path. We had nearly unanimous votes in the affirmative, so we are moving forward.

Beginning to make WineRAMP a reality

The solution has been tentatively named WineRAMP (the Wine Research and Marketing Project). It will help us to work together to build “brand wine” in the US marketplace and promote the positive attributes of wine to current and new legal consumers. It’s not a new or risky idea. There is a long list of other agriculturally based products in the US successfully promoting themselves through National Research and Promotions (R&P) programs. Based on expert independent audits, these organizations have delivered an industry return more than 10x for every \$1 invested.

It’s important to note that the USDA provides some legal protection for marketing campaigns and research promoted via an R&P program. For instance, since the USDA dietary guidelines state that two glasses of wine for men and one glass for women are acceptable in a healthy diet, we can make that claim without concern about legal liability. But the program also gives us the broader ability to promote the positive research that has been done by the scientific community for decades.

Finally, an R&P program can invest in and support the work of existing wine industry associations. The idea isn’t to compete with other wine organizations. It’s to succeed together and not duplicate effort.

Now, a little over two years since beginning this journey, I am happy to say that funding has been secured from some of the largest wineries in the group, some large distributors, importers, a few smaller wineries, vendors and Silicon Valley Bank. Those funds will be used to pay for the first year of the two years it will take to develop the formal objectives, hire a small staff of two that can focus on the project, define the articles and the voting structure, determine the manner in which all wineries will pay for the organization and gather at least the 50 percent vote needed from the nation’s wineries to establish the organization under the USDA charter.¹⁰²

Objections

There are always objections when you have a large audience to please, such as the US wine industry, and you try to change the status quo. We’ve heard many objections, such as: “We don’t need another tax,” “we can’t afford it,” “we’ve tried it before and it failed,” “there is only so much industry support money that can be spread around” and “this is duplicative of other efforts underway in our region.” And then, there is the “hope” strategy: We can just wait and hope for millennials to come around. That’s less expensive — or is it?

We need to wait for the millennial to get older.

That’s an objection I’ve gotten for over a decade as I’ve pointed out the lack of adoption by younger audiences. In that time, wine has gone from growth rates of 6 percent to 4 percent, and now we’re at 0 percent plus or minus, and even worse performance on volume to the point that we’re pulling acres out of the ground in the Central Coast and Fresno. But the “hoppers” correctly point out that millennials haven’t reached the age of boomers when they switched to wine, as if age alone can explain their hesitance.

The facts are that the median age for boomers was 38 when wine turned positive in 1994, and the median age of millennials is only 34 now. That’s the model some people apply when they argue that we should just be patient. In four more years, the young people will begin to flock to wine because “they always do” when they get older. But that’s not the way consumer demand works. It’s not based on age, and markets don’t operate in a vacuum.

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It was wine’s reputation for being cool and better for you that pushed sales higher for 25 years.

People consume things based on need, style, values, outside influences, cost of substitutes, discretionary income, the type of good and much more. Marketing also plays a role. Age, though, is not one of the primary factors.

Here’s more proof: The mature generation never adopted wine. They didn’t evolve to like wine in their 30s. If they consumed wine, it was in gallon jugs; generally, they identified as spirits and beer consumers. The next generation, baby boomers, weren’t frugal like their parents but gross users of debt. Boomers didn’t follow their parents’ tastes in cars, clothes or wine either. And they came of age just as wine got a big boost from scientific research and media coverage.

Back in 1975, US wine won the Paris Tastings, proving we could produce world-class wine. The press covered it with zeal.¹⁰³ Then in the 1990s, while neo-prohibition was taking a toll on wine consumption, the French Paradox, the Mediterranean diet and the work of Arthur Klatsky came to the forefront of publicity about health and wine consumption. You can’t ignore the tremendous lift in wine sales from the positive PR those events spawned at the time.

Wine achieved the highest quality of the major alcoholic beverage categories in the 1990s, and consumers believed it was the best for you, if you chose to drink. Beer was mass-produced and of average quality, and spirits were still largely selling based on their bang for the buck (ethanol per dollar). Premium wine was far less expensive in the mid-’90s even on an inflation-adjusted basis, with most Napa cabernets selling for less than \$20 per bottle.

That’s why boomers became wine drinkers during the 1990s. It had nothing to do with their age. It was wine’s reputation for being cool and better for you that pushed sales higher for 25 years.

Today, all alcohol is premiumized, and premium is the only segment with consistent growth for 20 years. Alcoholic beverage consumers largely drink across categories — even boomers. Wine is twice as expensive per serving as spirits in stores and has been extensively overpriced in restaurants, which ends up putting lesser wines into the restaurant to compete with craft cocktails, and it’s not working.

Young consumers are more frugal today and financially disadvantaged compared to boomers. They have been pushed to spirits because of the perceived price/quality relationship versus wine. And yes, wine is confusing. With spirits, how many varietals or regions do you need to know?

We aren’t hitting the mark on anything millennials value, and yet despite all the evidence, we continue to market the same way we did for boomers. “Don’t fix what isn’t broke” is another objection I get from the small group of the uninformed, the uninterested or the adequately successful and self-interested.

So the question becomes: What is the economic or social event that will cause millennials now established in their careers, buying homes and starting families, to turn to wine? The answer isn’t age. And if we keep assuming it is, boomers will sunset, and consumers who are not wine lovers will replace the boomers. If that’s true, wine could drop 20 percent in volume in the next decade before leveling out. That’s the calculus.

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What is the economic or social event that will cause millennials now established in their careers, buying homes and starting families, to turn to wine?

The other objections

We can't afford it.

Would you pay someone a dollar if they had some magic and could sell your wine for \$10 more a bottle? The independent audits done on organizations in existing R&P programs show a tenfold return on investment on average.

We tried a Marketing Order before, and it failed.

That's a true statement. There were a few reasons that the last USDA Marketing Order ended, chief among them a lack of industry alignment when market conditions began to feel better, but the core issue was a voting structure that gave too much power to too few wineries.

That said, I would argue that the last USDA Marketing Order was successful. At the time, wine was served only for special occasions. A campaign was developed using the tagline "Wine. What are you saving it for?" and that campaign helped grow the category.¹⁰⁴

The obvious answer is that we need to learn from past mistakes and develop a more equitable and inclusive voting structure. We realize that full industry consensus is impossible but are working toward that goal.

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There is only so much industry support money that can be spread around.

If the R&P Order is successful, as similar orders have been in other industries, we will have more money to spread around. Apart from that, the rules of the order allow for WineRAMP to invest in and work directly with other wine organizations on research and joint marketing campaigns.

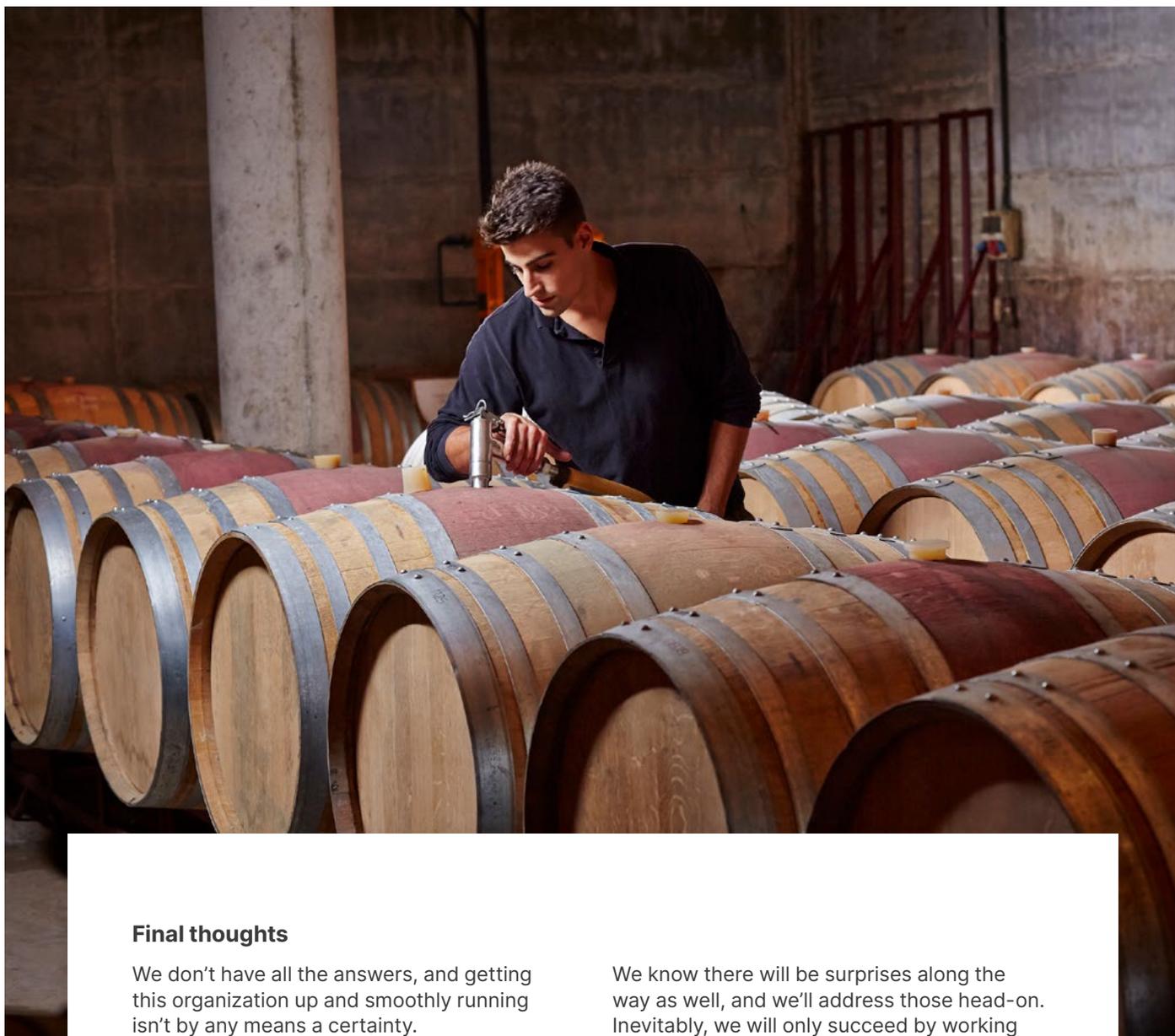
This is too West Coast-focused.

This is a national order, so the goal isn't to promote only wine from California, the West or any state. While there is no rule that disallows marketing for a specific region, the intent of this is to promote wine as a category and change the value proposition for younger consumers so that wine has a cool factor. With the psychic benefit reinforced, younger consumers should then be willing to pay more and try more wine.

This will duplicate what is already being done in our region/state.

It's important to note that there is no one taking on national marketing for wine and unifying our voice as an industry, but this is still an objection we have to address in formation. There are some well-run state and regional marketing organizations, and we don't need to duplicate what they are doing. That would be a bad investment.

I would only say that this is about promoting the entire category and giving younger consumers a reason to adopt wine as a beverage of choice. That should support and add to the efforts of any state or regional marketing organization.



Final thoughts

We don't have all the answers, and getting this organization up and smoothly running isn't by any means a certainty.

When we began this journey, I gave it a 1 percent chance of success. Today, with two years of work behind us, and an amazing level of consensus from iconic industry supporters, I'd give it more than a 50 percent chance of success. That's significant progress!

We know there will be surprises along the way as well, and we'll address those head-on. Inevitably, we will only succeed by working collaboratively to get broad-based industry support from big and small wineries, growers, distributors, retailers, importers and vendor partners. There is a lot of work ahead of us.¹⁰⁵

Please visit [WineRAMP.org](https://www.wineramp.org) to learn more about this endeavor and lend your support.

Endnotes

- ¹ Esther Mobley, "[California Wine Companies Are Doing What Hasn't Been Done in 20 Years: Go on the Stock Market](#)," *San Francisco Chronicle*, February 19, 2021.
- ² US GDP in 1984 was 7.24 percent.
- ³ The wealth effect is a behavioral economic theory that, at its simplest, suggests a consumer is more likely to spend on discretionary items when their wealth and/or stock portfolio increases in value. Even if their assets were not converted to cash, the theory goes that they feel more wealthy, secure and confident in their ability to meet their fixed costs, so they spend more.
- ⁴ The median baby boomer hit normal retirement age in the US during 2021.
- ⁵ US Census Bureau Population Estimates, 2019.
- ⁶ Rita R. Robinson, "[Put a Cancer Warning on Alcohol, Consumer and Public Health Groups Urge](#)," November 7, 2020.
- ⁷ Consumer Federation of America, "[Consumer, Public Health Groups Petition for Cancer Warning on Alcohol](#)," October 21, 2020.
- ⁸ Rob McMillan, "[Get Ready for Cancer Warnings on Wine Labels](#)," *SVB on Wine*, September 11, 2019.
- ⁹ "Channel shifting" means that large volumes of a product (wine, in this case) have changed to a different sales channel — wine that used to be sold through restaurants is now being sold through grocery stores, for example.
- ¹⁰ I realize that "channel un-shifting" isn't the best use of the English language, but it's a useful way to present the fact that 2020 was an abnormal sales year, and 2021 will be yet another abnormal year as sales revert back to something approximating what we were used to in January 2020.
- ¹¹ The Gomberg-Fredrickson report uses tax data to report trends. COVID and the work-from-home trend have slowed the government reporting that could be used for analysis. As of this writing in late November 2021, the TTB (Alcohol and Tobacco Tax and Trade Bureau) had issued June data.
- ¹² Our analysis is one of the best available.
- ¹³ "Top-Level Forecasts," *2021 SVB State of the Wine Industry Report*, page 9.
- ¹⁴ Rob McMillan, "[Predicting Higher Demand for Wine in 2021](#)," *SVB on Wine*, January 18, 2021.
- ¹⁵ US Bureau of Economic Analysis, "Personal Savings Rate." [See 2020 to the present](#).
- ¹⁶ 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.
- ¹⁷ "[Tastes Great vs. Less Filling Softball Game Commercial](#)," YouTube, 1983.
- ¹⁸ "[The Story of 'Tastes Great, Less Filling'](#)," YouTube, 1987.
- ¹⁹ John Harry, "[Jimmy Carter: American Homebrew Hero?](#)," National Museum of American History blog, September 30, 2019.
- ²⁰ Mike Pomranz, "[Ballast Point Was Once Valued at \\$1 Billion. It Just Sold for a 'Surprisingly Low' Amount](#)," *Food & Wine*, December 9, 2019.
- ²¹ Matt Palmquist, "[What Can the Cola Wars Teach Us about Brand Loyalty?](#)," *Business + Strategy*, August 25, 2016.
- ²² Mike Pomranz, "[Yes, Beer Companies Are Still Fighting About that Corn Syrup Super Bowl Commercial in Court](#)," *Food & Wine*, May 4, 2020.
- ²³ "[Bud Light Super Bowl 2019 TV Commercial, 'Special Delivery'](#)," iSpot.TV, February 3, 2019.
- ²⁴ Alder Yarrow, "['Clean Wine' Is a Commercial Scam](#)," *Vinography*, July 15, 2020.
- ²⁵ I can't skip through the decline of lower-priced wine without mentioning one obvious exception: the marketing success of Charles Shaw wine in the early 2000s. Karen Frazier, "[History of Charles Shaw Winery](#)," *LoveToKnow.com*.
- ²⁶ While this AT&T commercial didn't include a boomer actor, it perfectly describes the desires of the never-satiated boomer consumer: "[It's Not Complicated](#)," YouTube, 2013.
- ²⁷ Boomers entered their earning years with a federal tax deduction for consumer interest. That meant the 20 percent APR you paid on your credit card debt was at least partially underwritten by the federal government, so you really weren't paying 20 percent and could afford to buy even more! That deduction was removed as part of the Reagan Tax Reform Act of 1986, but it taught consumers to be debtors and spenders. Julia Kagan, "[Tax Reform Act of 1986](#)," Investopedia, updated July 31, 2020.

- ²⁸ Between 1993 and 2000, the US exhibited the best economic performance of the past three decades. In 2000, the US economic expansion surpassed in length the expansion of the 1960s, and thus became the longest economic expansion on record. Jeffrey Frankel and Peter R. Orszag, [Retrospective on American Economic Policy in the 1990s](#), Brookings Institute, November 2, 2001.
- ²⁹ That is the answer to a parlor game question for your next party: What do wine and toilet paper have in common? Answer: Both were hoarded during the early phases of the pandemic.
- ³⁰ Lucy Handley, [“The Booze Boom: Here’s What We Drank at Home During Lockdown,”](#) CNBC, May 26, 2020.
- ³¹ Michael S. Pollard, Joan S. Tucker and Harold D. Green Jr., [“Changes in Adult Alcohol Use and Consequences During the COVID-19 Pandemic in the U.S.,”](#) JAMA Network Open, September 29, 2020; and [“Rebalancing the ‘COVID-19 Effect’ on Alcohol Sales,”](#) NielsenIQ, May 7, 2020.
- ³² Elyse R. Grossman, Sara E. Benjamin-Neelon and Susan Sonnenschein, [“Alcohol Consumption During the COVID-19 Pandemic: A Cross-Sectional Survey of U.S. Adults,”](#) *International Journal of Environmental Research and Public Health*, December 9, 2020.
- ³³ 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.
- ³⁴ “Top-Level Forecasts,” *2021 SVB State of the Wine Industry Report*, page 9.
- ³⁵ Wellsley Kesel, [“The Saddest Restaurant Closures in Your State,”](#) *Eat This, Not That!*, November 10, 2020.
- ³⁶ Bret Thorn, [“Datassential: More Than 10 Percent of U.S. Restaurants Have Closed Permanently,”](#) *Nation’s Restaurant News*, March 29, 2021.
- ³⁷ This dataset from the Bureau of Labor Statistics only extends to 2015. I’ve contacted the BLS to see if they can update the information, but so far have not gotten a response. While the current data would be very interesting, it doesn’t diminish the importance of the information presented.
- ³⁸ Email from Danny Brager, head of Brager Beverage Alcohol Consulting.
- ³⁹ Black Box Intelligence, press release, November 11, 2021.
- ⁴⁰ Colleen Graham, [“How to Pair Cocktails and Food,”](#) *The Spruce Eats*, March 17, 2021.
- ⁴¹ David Williams, [“How Do You Spot a Hipster Wine?,”](#) *The Guardian*, February 19, 2017.
- ⁴² Elin McCoy, [“The Restaurant Wine List Is Dead. Long Live the Wine List,”](#) Bloomberg, January 16, 2019.
- ⁴³ Hotmail was the first free web-based email service. It was launched on July 4, 1996. According to the United Nations/ITU, by 2006, 10 years after email became accessible to the general public, there were 1.1 billion email accounts in use worldwide.
- ⁴⁴ In the 1980s and early 1990s, tasting rooms were viewed more as support for distributor sales, and tasting room fees were free or negligible. Wineries were just offering samples. The early thinking was that if tourists came to Wine Country, they would know what to buy in the grocery store when they went home.
- ⁴⁵ Part of the reason wine clubs weren’t popular in the early 1990s related to the cost of postage and the lack of good mailing lists. Wineries didn’t collect names, and direct sales were viewed as too expensive compared to three-tier sales. Further, the demand for premium wine spiked in 1994, and for a period of six years selling wine was as easy as answering the phone; distributors were begging small wineries for product. That all changed with the wide adoption of free email combined with the tech recession, when supply caught up with demand.
- ⁴⁶ Estimates from the TTB and the Wine Institute.
- ⁴⁷ SVB estimates of total wine distributors from multiple sources. Getting a concrete number for wholesalers is a difficult task. The Wine & Spirits Wholesalers of America reports that it represents over 3,000 locations run by 370 members. Wines Vines Analytics estimates that there are 1,200 distributors in the US. The TTB lists 31,053 distributors by location as of September 2021; however, there is no indication of how many owners this represents, and that number also includes beer distributors. To determine how many wine distributors exist would require eliminating all the beer distributors, then looking up the owner for each of the remaining wholesalers, and when finished, it would still be imprecise. If anyone would like to take that task on, please contact me.
- ⁴⁸ Wines Vines Analytics believes that there are about 11,000 physical wineries in the US. The [TTB lists 16,397 wineries](#) with an active permit in the US as of September 2021. Not all of those are bonded, and not all have a physical location. While every winery used to be required to have a bond, in 2015 the Obama Administration signed the Consolidated Appropriations Act so that small wineries could operate without one. That makes it increasingly difficult to determine with precision how many physical wineries exist.

- ⁴⁹ [The tech recession, or the dotcom bubble](#), was a short period in the early 2000s when speculative excesses within internet companies drove investments and valuations higher, then led these tech stocks to crash between 2001 and 2002.
- ⁵⁰ Justice Kennedy, [Granholm v. Heald \(03-1116\) 544 U.S. 460](#), May 16, 2005.
- ⁵¹ Silicon Valley Bank, [Direct-to-Consumer Wine Survey Report](#), 2021.
- ⁵² US Census Bureau, [“Quarterly Retail E-Commerce Sales,” 3rd Quarter 2021](#), November 18, 2021.
- ⁵³ Silicon Valley Bank, [2021 SVB State of the Wine Industry Report](#), January 2021, page 23.
- ⁵⁴ “Three-tier sales” refers to the system in which producers or importers sell to wholesalers, who then sell to retailers, who sell to consumers. In *Granholm v. Heald*, the U.S. Supreme Court determined that states couldn’t allow direct shipment of wine to consumers within their own states while applying different laws for out-of-state licensees.
- ⁵⁵ The [Paycheck Protection Program](#) (PPP) was a novel forgivable loan program for small business funded by the federal government and administered jointly by the US Treasury and the US Small Business Administration. The goals of the program were to keep businesses going during the lockdown and to enable them to pay employees they would otherwise have to lay off. The thinking at the early stages of the pandemic was that the virus might be under control by early summer 2020, so the PPP was a short-term means for businesses to remain viable and restart quickly once reopening took place. In theory, the program was brilliant, but execution was fraught with problems including poor communication, insufficient infrastructure and fraud.
- ⁵⁶ Yes, quibbler is a real [word](#). So stop quibbling over a forecast that’s still 15 years out and focus on the point. There is nothing in that chart that will lead someone to say wine sales are going to be up and to the right.
- ⁵⁷ Dr. Chris Bitter, [Demographics and Wine](#), Vintage Economics, November 2021.
- ⁵⁸ Forty-two percent of boomers had no retirement savings as of 2018. Baby boomers began reaching age 65 in 2011 — 26 million so far, and another 50 million will turn 65 over the next 10 years. Twenty-six percent expect to work past age 70.
- ⁵⁹ I performed a search to determine if Las Vegas posted odds on the chances of receiving full Social Security benefits. Las Vegas will allow you to bet on almost anything. Since they aren’t making book on that one bet, I can only presume bookies don’t see Social Security as a good bet.
- ⁶⁰ Chart courtesy of Dr. Chris Bitter, [Vintage Economics](#), 2021.
- ⁶¹ William H. Frey, [“The US Will Become ‘Minority White’ in 2045, Census Projects,”](#) Brookings, March 14, 2018.
- ⁶² I’m sure I was one of the consumers, as a younger boomer, who just came right out and told the table how much the wine that I brought to the party cost. “Hey, everyone, this wine is incredible. I spent my whole bonus on this \$11 beauty.”
- ⁶³ March 2020 was my last speech on a stage. I’ve had many video-based speeches and a few speaking opportunities where organizers tried a hybrid approach since then. But as of this writing, with the Omicron outbreak beginning to surface at the beginning of December 2021, I still have no speaking engagements planned for a live audience. I miss those days!
- ⁶⁴ Unlike with 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.
- ⁶⁵ US Department of Agriculture and US Department of Health and Human Services, [Dietary Guidelines for Americans, 2020–2025](#), 9th edition, December 2020.
- ⁶⁶ Promotion of social justice by companies is controversial. Many believe that a business should focus on profitability. While I agree with that, I believe diversity in hiring, for example, is something that will drive profitability in an increasingly diverse population. Either way, marketing to their values, not your own, may help attract young consumers.
- ⁶⁷ Yes, I know that that’s all conjecture and there are plenty of examples of grape prices going up, but my conjecture is experienced. There are always exceptions at the margin, though.
- ⁶⁸ This was covered in detail in the *SVB 2020 Annual State of the Wine Industry Report*.

- ⁶⁹ I have a highly scientific supply gauge that helps detect supply excesses called the Gonzalez Indicator. It came about because of a pit stop I made at a gas station in the remote rural town of Gonzales, California, in the spring of 2019. Among the Slim Jims, Budweiser and candy on display were several cases of luxury wine between \$75 and \$110. Finding luxury wine in the last place you expect — at the bottom of a distributor’s placement list — is a great indicator the channel is overstuffed.
- ⁷⁰ Matthew Renda, [“California Water Managers Vote to Cut Off Farmers as Statewide Drought Intensifies,”](#) Courthouse News Service, June 15, 2021.
- ⁷¹ Kurtis Alexander, [“Snowpack in California’s Sierra Nevada Could Disappear in Just 25 Years,”](#) *The San Francisco Chronicle*, November 29, 2021.
- ⁷² Matthew Lavietes, [“Western U.S. Wildfires Cost Insurers up to \\$13 Billion in 2020,”](#) Reuters, December 15, 2020.
- ⁷³ Lisa Pickoff-White, [“Map: Do You Live in a High-Risk Fire Zone?”](#) KQED, May 10, 2021.
- ⁷⁴ California Department of Insurance, [“Commissioner Lara Announces Comprehensive Solution to Growing Agricultural and Commercial Insurance Needs,”](#) press release, October 12, 2021.
- ⁷⁵ Lisa Baertlein, [“As Port of Los Angeles Import Backups Ease, Empty Containers Pile Up,”](#) Reuters, November 16, 2021.
- ⁷⁶ [Mothers Against Drunk Driving \(MADD\)](#) and [Students Against Destructive Decisions \(SADD\)](#).
- ⁷⁷ [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.
- ⁷⁸ National Highway Traffic Safety Administration, [“Introduction,”](#) which discusses President Clinton’s call for a nationwide 0.08 maximum standard for drunk driving.
- ⁷⁹ Morley Safer, [“The French Paradox”](#) (video), *60 Minutes*, November 17, 1991.
- ⁸⁰ [Mediterranean diet](#).
- ⁸¹ Arthur L. Klatsky, M.D., [“Moderate Drinking and Reduced Risk of Heart Disease,”](#) Alcohol Research and Health, Volume 23, Number 1, 1999.
- ⁸² J. Ferrières, [“The French Paradox: Lessons for Other Countries,”](#) *Heart* (Journal of the British Cardiovascular Society), Volume 90, Issue 1, 2004.
- ⁸³ [State of the Science Report on the Effects of Moderate Drinking](#), National Institute on Alcohol Abuse and Alcoholism, December 19, 2003.
- ⁸⁴ James McAuley, [“Wine Is Bad for You, France’s Health Minister Warns. It’s Not Going Down Well,”](#) *Miami Herald*, March 6, 2018.
- ⁸⁵ Michael Greger, M.D., [“What About the French Paradox?”](#) NutritionFacts.org, May 22, 2018.
- ⁸⁶ Justin Scheck and Tripp Mickle, [“With Moderate Drinking Under Fire, Alcohol Companies Go on Offensive,”](#) *The Wall Street Journal*, November 29, 2018.
- ⁸⁷ Anahad O’Connor, [“Should We Be Drinking Less?”](#) *New York Times*, July 10, 2020.
- ⁸⁸ Caroline Paulus, [“The Federal Government Is Coming for Your Moderate Bourbon Habit,”](#) *The Bourbon Review*, August 11, 2020.
- ⁸⁹ Kelly Wynne, [“Alcohol Is Killing More People Per Year Than the Opioid Crisis, and Most Deaths Are Young Women,”](#) *Newsweek*, November 17, 2018.
- ⁹⁰ Helena Bottemiller-Evich, [“Trump Administration Rejects Stricter Advice on Alcohol, Added Sugars,”](#) *Politico*, December 29, 2020.
- ⁹¹ US Preventive Services Task Force, [“Screening and Behavioral Counseling Interventions to Reduce Unhealthy Alcohol Use in Adolescents and Adults,”](#) *JAMA*, November 13, 2018.
- ⁹² Emma Liem Beckett, [“Consumers Are Demanding More From Their Beverage Experiences,”](#) *Food Dive*, January 22, 2018.
- ⁹³ 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.
- ⁹⁴ Joel Achenbach, [“Teenagers and College-Age People Drink Less While This Group Pours Another Round,”](#) *The Washington Post*, April 16, 2018.
- ⁹⁵ Jessica Fu, [“Less Than Half of Americans Know That Alcohol Is a Carcinogen. Big Booze Wants to Keep It That Way,”](#) *The Counter*, December 1, 2020.
- ⁹⁶ Ewan Somerville, [“Calls for Cancer Warnings on Alcohol Amid Lockdown Drinking Surge,”](#) *LBC News*, November 18, 2020.

- ⁹⁷ Robert Preidt, "[When Booze Labels Carry Health Warnings, Drinking Declines: Study](#)," *U.S. News & World Report*, May 4, 2020.
- ⁹⁸ Alyssa Lukpat, "[Coronavirus Stress, Isolation and Free Time: People Are Drinking More Amid Pandemic, Study Says](#)," *Raleigh News & Observer*, July 16, 2020.
- ⁹⁹ Rob McMillan, "[The Real Threat to Wine Sales Is Being Ignored](#)," *SVB on Wine*, August 10, 2020.
- ¹⁰⁰ Rob McMillan, "[Is California Wine at a Pricing Inflection Point?](#)," *SVB on Wine*, July 29, 2012.
- ¹⁰¹ Special thanks to [Vinventions](#) and [Cork Supply](#), who together funded the early costs and the feasibility study. What they have quietly done for the industry deserves your thanks and business if you're a winery.
- ¹⁰² While the organization can be approved with a 50.1 percent affirmative vote, we want to have as many wineries as possible understand the return on their investment and be part of the solution.
- ¹⁰³ [The Paris Tastings](#) were held in Paris in May 1976. It was a blind tasting between American and French wine, with French judges. American wines won the tastings in the white category and red category and by average score. It was the first time the world discovered that wines could be made in the US that could rival the best international wines, which until that time was almost a heretical thought.
- ¹⁰⁴ Jeremy Hay, "[Wine Market Council – 5-Year Goal: Boosting Consumption to New Highs](#)," *Wine Business Monthly*, January 2002. In addition to this article, this is information that I have received from many sources, combined with research I've done over time. I wasn't in the industry when the original USDA Marketing Order was approved, and we all know messages can get garbled over time. But this is what I've pulled out of research and discussions over the past 30 years in the industry.
- ¹⁰⁵ Final endnote: Some have asked me what the four of us on the Advisory Council get out of this effort. How do we benefit? A few have even asked if this is something I'd run in retirement. I assure you I will not seek, and I will not accept, the nomination to be president of WineRAMP (a little LBJ humor for those old enough to remember that speech). The truth is, none of us have designs on serving with this proposed organization other than in an advisory or board capacity.

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