# Challenges and Bright Spots in the U.S. Wine Industry

2024 WMC RESEARCH CONFERENCE & ANNUAL MEETING
March 20, 2024 – Napa, CA

WINE MARKET COUNCIL
2024 Research Conference


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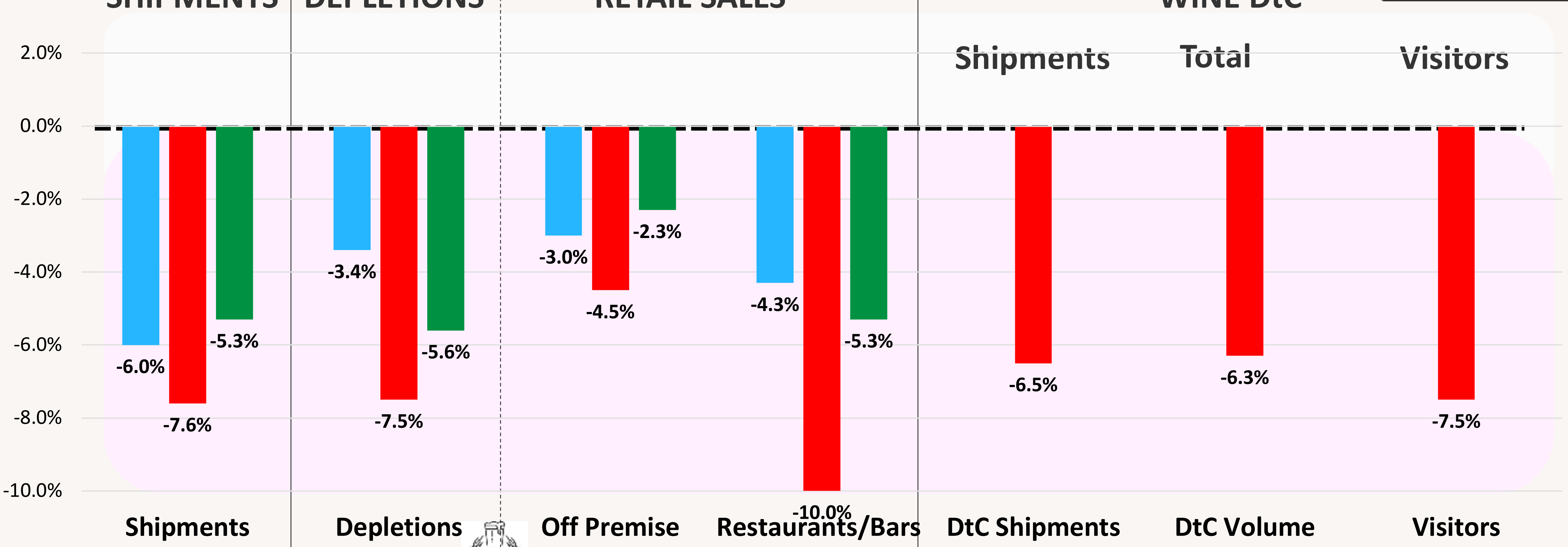
# SOME FACTS

- **Fact 1: Consumer demand for Wine is declining**
  - **Fact 1A:** so too is Beer, and now Core Spirits
- **Fact 2: There are Generational challenges facing Wine**
- **Fact 3: Social moderation behavior is on the rise**
- **Fact 4: Intense competition & threats –from within and beyond Bev Alc**
- **Fact 5: While there are challenges/headwinds, there are bright spots & opportunities too!**

# Not a pretty picture – Aberration or Tipping point?

BATTLE FOR MARKET SHARE


GFA · SipSource · BEER INSTITUTE · NIQ · CGA Powered by NIQ · WINE BUSINESS ANALYTICS · CommunityBenchmark · WINEDIRECT x ENOLYTICS

12 mos/52 weeks

GFA Shipments –thru Sept 2023/SipSource Depletions –thru Dec 2023; NIQ Off Premise – thru Dec 30, 2023; CGA On Premise – thru Nov 4, 2023; DtC Shipments thru Dec 2023

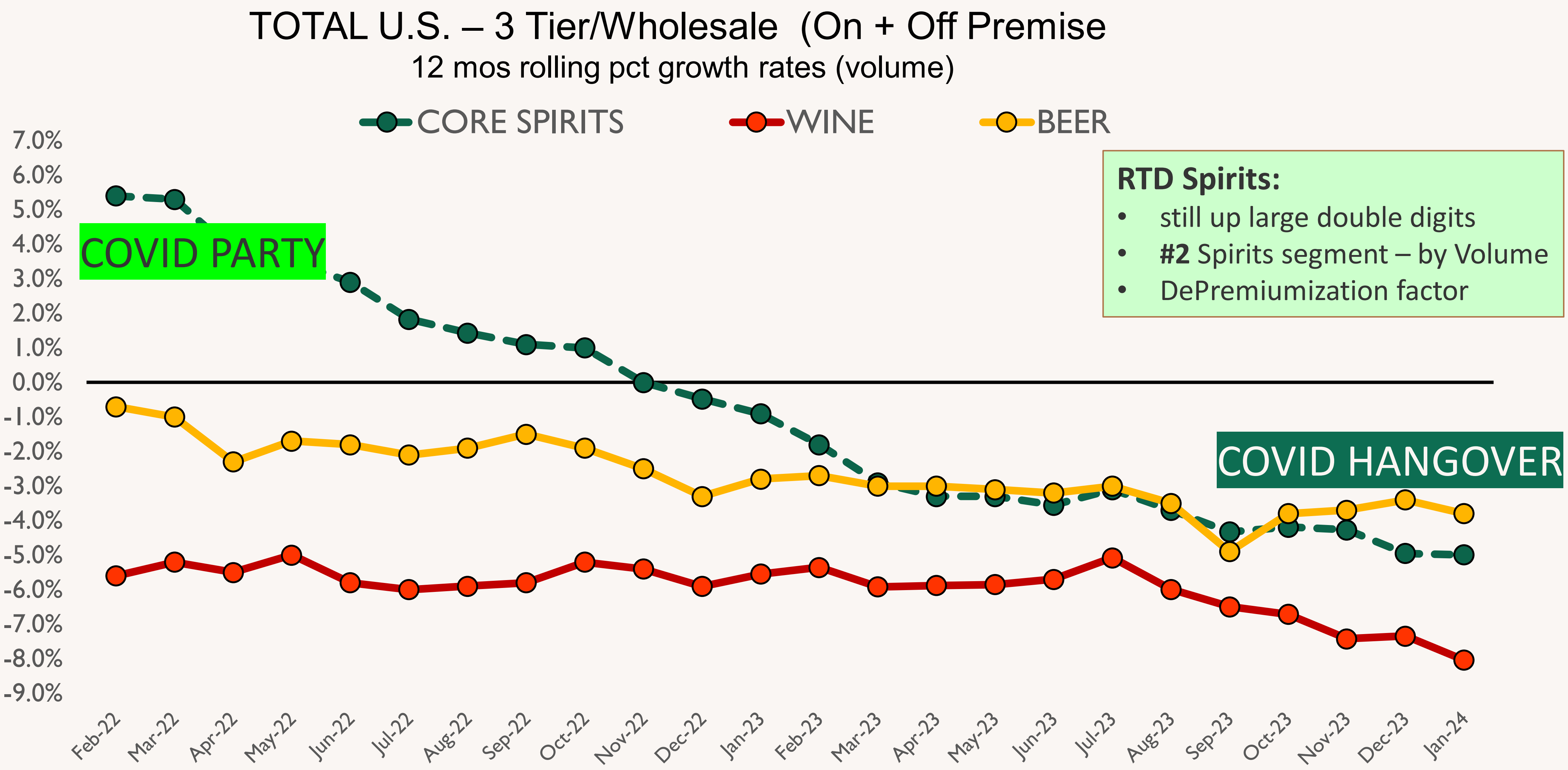
# Bev Al depletion trends converged in negative territory

Dec 2020

**+4.7%**

**+0.3%**

**+1.2%**




*12-Month Rolling Volume % Change*

# HEADWINDS

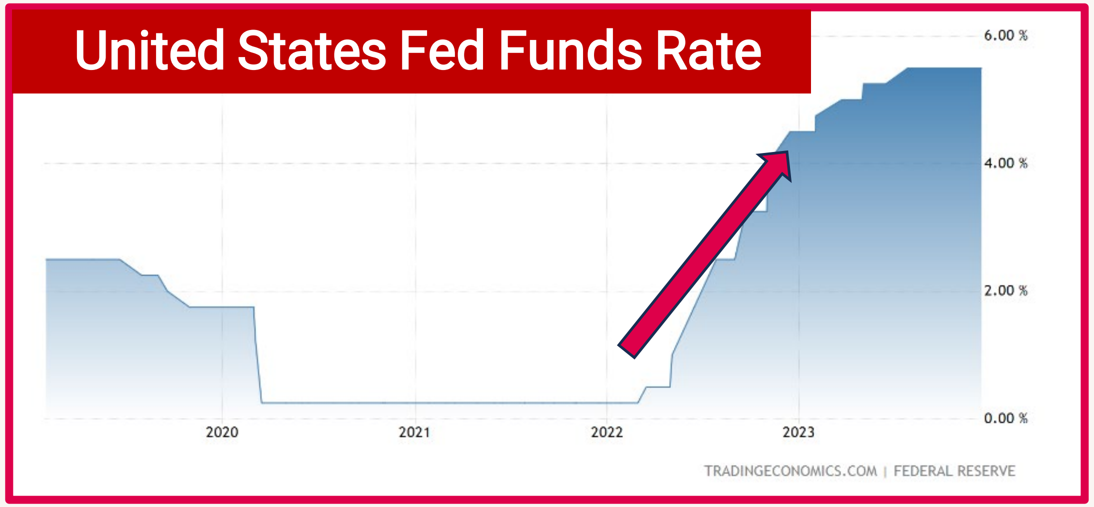
## 1. Economy
- Inflation
- Interest Rates
- Consumer Debt

## 2. Wholesaler Inventories
- Historic Highs

## 3. Competitive Threats
- Within Beverage Alcohol
- Beyond Beverage Alcohol

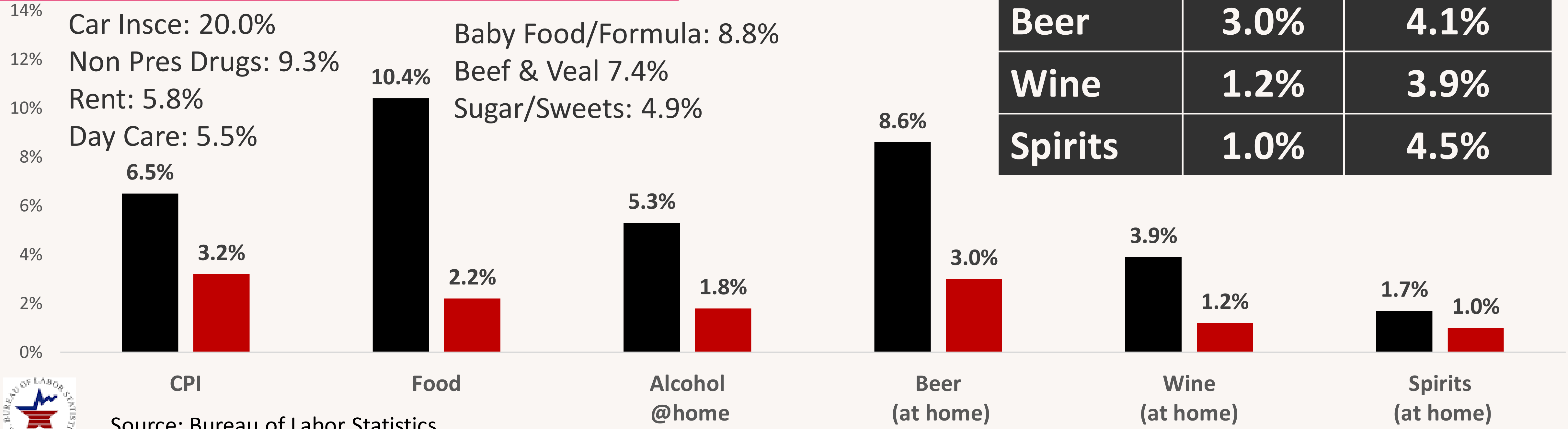
## 4. Consumer Change
- Generational Change
- Lifestyle Factors /Moderation

# Inflation cooling – but higher prices and high interest rates – still impactful to many





| Dec 2023 | At Home | Away from Home |
|---|---|---|
| Food | 1.0% | 4.5% |
| Beer | 3.0% | 4.1% |
| Wine | 1.2% | 3.9% |
| Spirits | 1.0% | 4.5% |




Source: Bureau of Labor Statistics

# Beverage Alcohol / Example Price per Serving

## Average Price per Serving


$3.00


$3.00

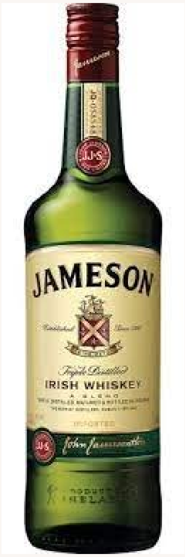
5 oz serving


$1.40


$1.33

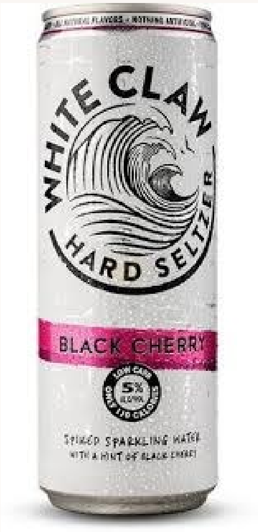
12 oz serving


$1.17




$1.35

1.5 oz serving

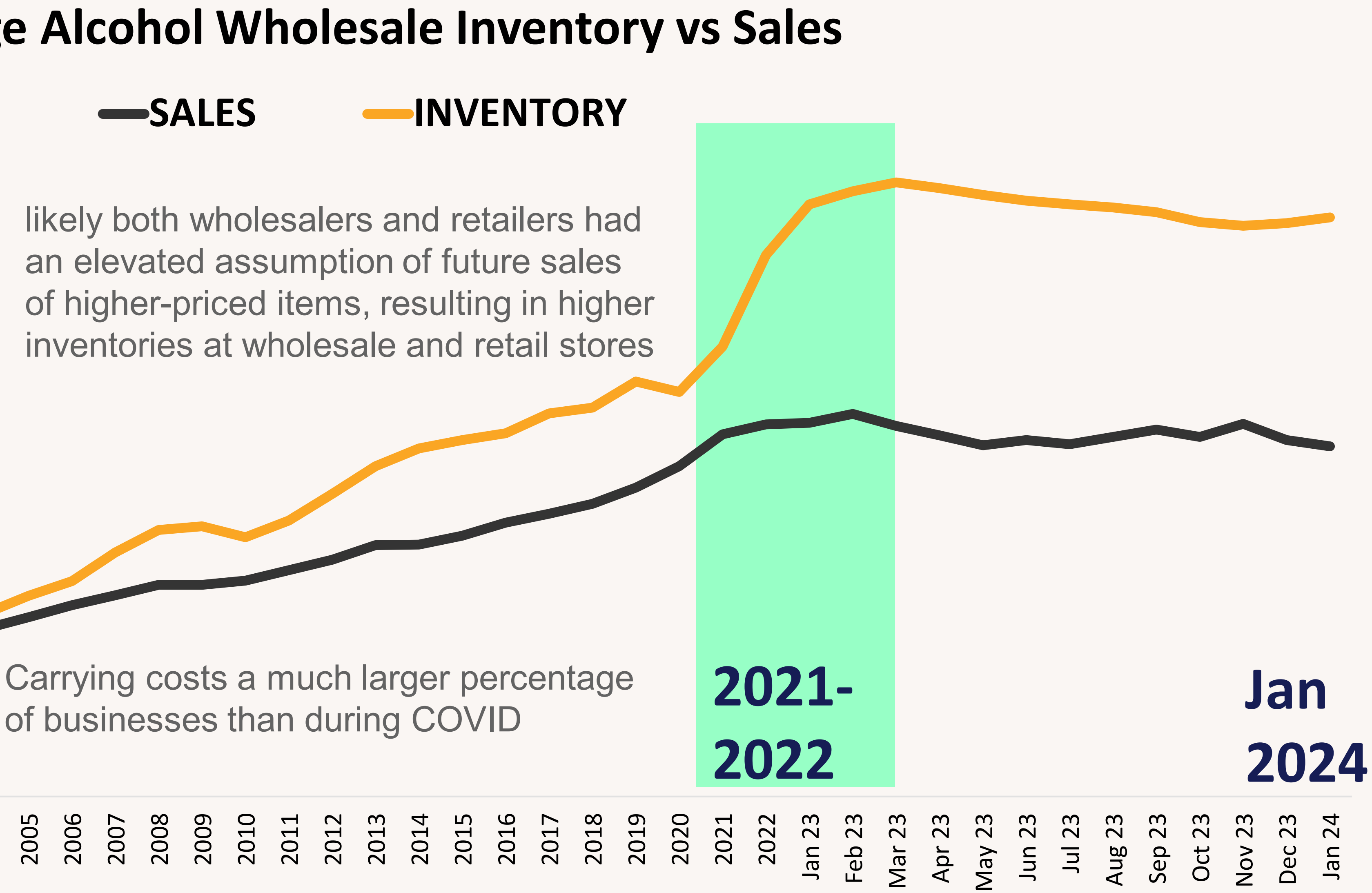



$1.50


$2.25

12 oz serving

# Wholesaler Alcohol inventories bloated – at historic highs




United States Census Bureau *Wholesale Trade Report*

# *Normalized Consumption? Inventory De-Stocking?*

The brand was down 16.5% globally, impacted by destocking in the US for the first nine months of the fiscal year. **Feb 27, 2024**

The category has been struggling recently due to normalizing consumption in the US and destocking at the wholesaler level. **Jan 12, 2024**

US down low single digits… organic net sales were down 2% for the nine-month period, driven by lower volumes, "partially reflecting an estimated net decrease in distributor inventories **March 6, 2024**

Distributor and retail inventory adjustments impacted the company's top-line results, as we saw evidence of both tiers taking a cautious view of market growth and more assertively managing inventory
**Duckhorn CEO - March 8, 2024**

We expect inventory de-loading and uncertainties around it to remain a headwind in 2024, both at-home and at the distributor level.
**TD Cowen - March 5, 2024**

Consumers are feeling squeezed. One reaction to this has likely been the destocking of consumers' pantries of beverage alcohol built up during the pandemic.
**Jon Moramarco – Industry Analyst**
**Feb 5, 2024**

The fall-off in sales volumes attributed to the decision by US consumers to reduce their wine purchases and instead run-down stock held in their houses, built up during and after the pandemic. There is still some noise in the channel from COVID
**Delicato President - March 15, 2024**

*a variety of factors creating noise within the system; making it hard to distinguish between short-term headwinds and long-term trends*

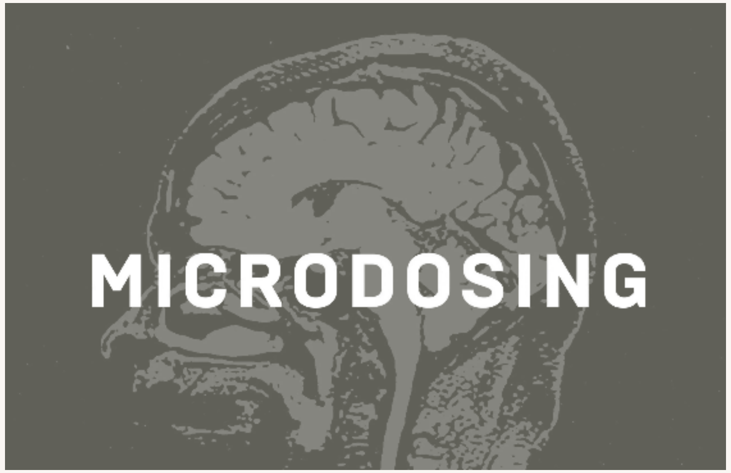
# Competitive Set? Possible Substitutes/Inhibitors



**RTD Off Premise**
- $11 Billion
- Spirits: ~$2 Billion

**RTD Spirits Pct Growth**
- Off Premise: +46%
- On Premise: +32%

NIQ 52 weeks/12 mos thru Jan 2024




# Anti-Alcohol voices are growing louder



## Canada's new alcohol guidelines advise fewer drinks

WENCY LEUNG > HEALTH REPORTER
PUBLISHED JANUARY 17, 2023

World Health Organization

The New York Times

## Even a Little Alcohol Can Harm Your Health

Recent research makes it clear that any amount of drinking can be detrimental. Here's why you may want to cut down on your consumption beyond Dry January.

*If similar guidelines - "no more than two drinks a week" - were to be adopted in U.S.*

***2/3*** of those ***21-39*** said they would either adopt the new guideline or cut down their current consumption

COLANGELO & PARTNERS

December 2023

"Wine Opinions"

HIGH NOON


**$616MM**
**10MM cases**

NIQ

**~20MM* cases overall**
**#1 Spirit brand (volume)**

*Published estimates

BEATBOX


**$127MM**
**1.8MM cases**

BuzzBallz


**$238MM**
**1.4MM cases**

WHITE CLAW HARD SELTZER

**$2 billion**
**47MM cases**

HARD ICED TEA TWISTED TEA

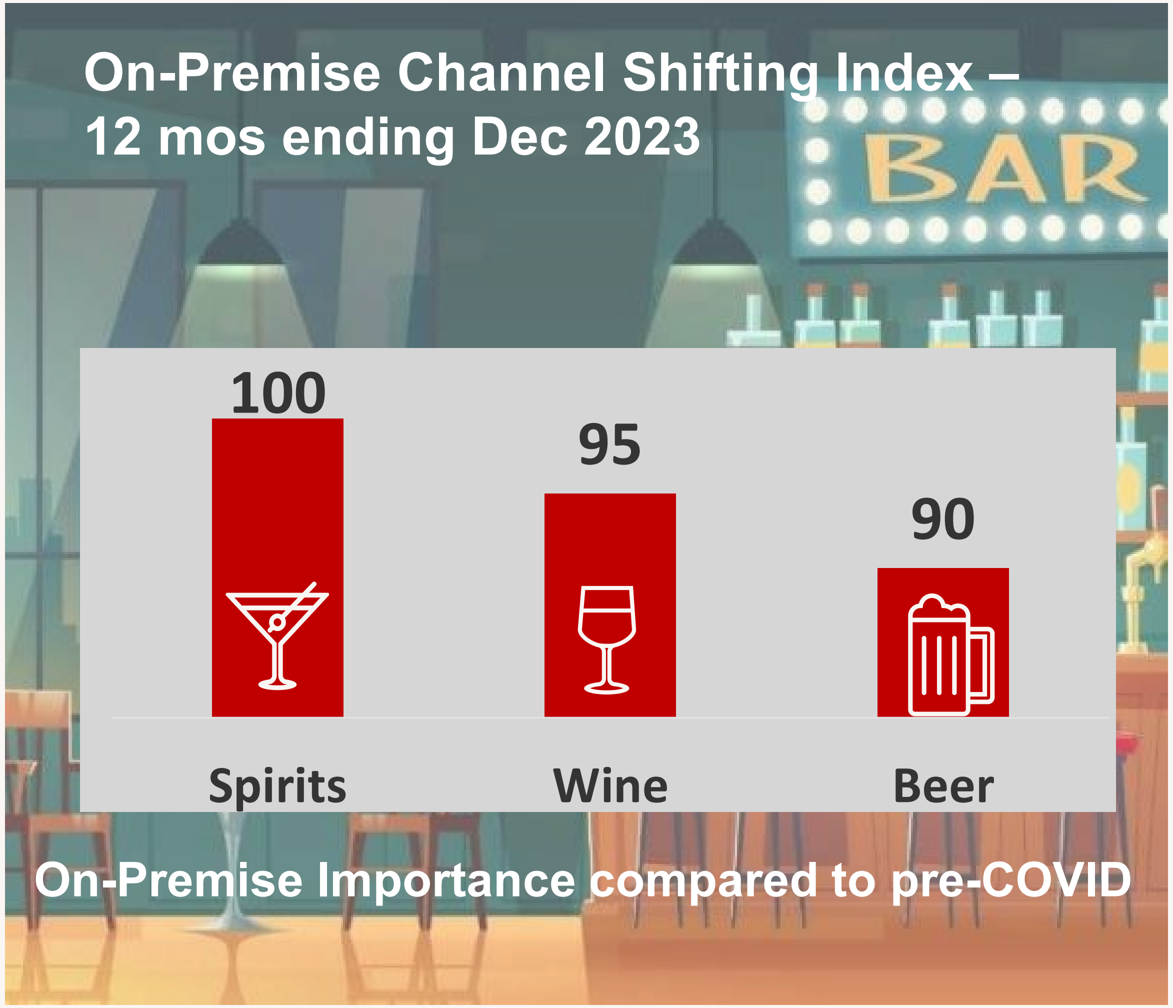
**$1.2 billion**
**30MM cases**

| Wine – for comparison | $MM | MM 9L cases |
|---|---|---|
| Barefoot | $849 | 11.1 |
| S Home | $462 | 6.0 |
| Josh | $664 | 4.1 |
| Stella Rosa | $403 | 2.9 |
| LaMarca | $382 | 1.9 |
| KJ | $306 | 1.9 |
| Cupcake | $213 | 1.8 |

NIQ Source: Off Premise Channels; 52 weeks ending Feb 24, 2024 (DOLLARS; 9L CASES)

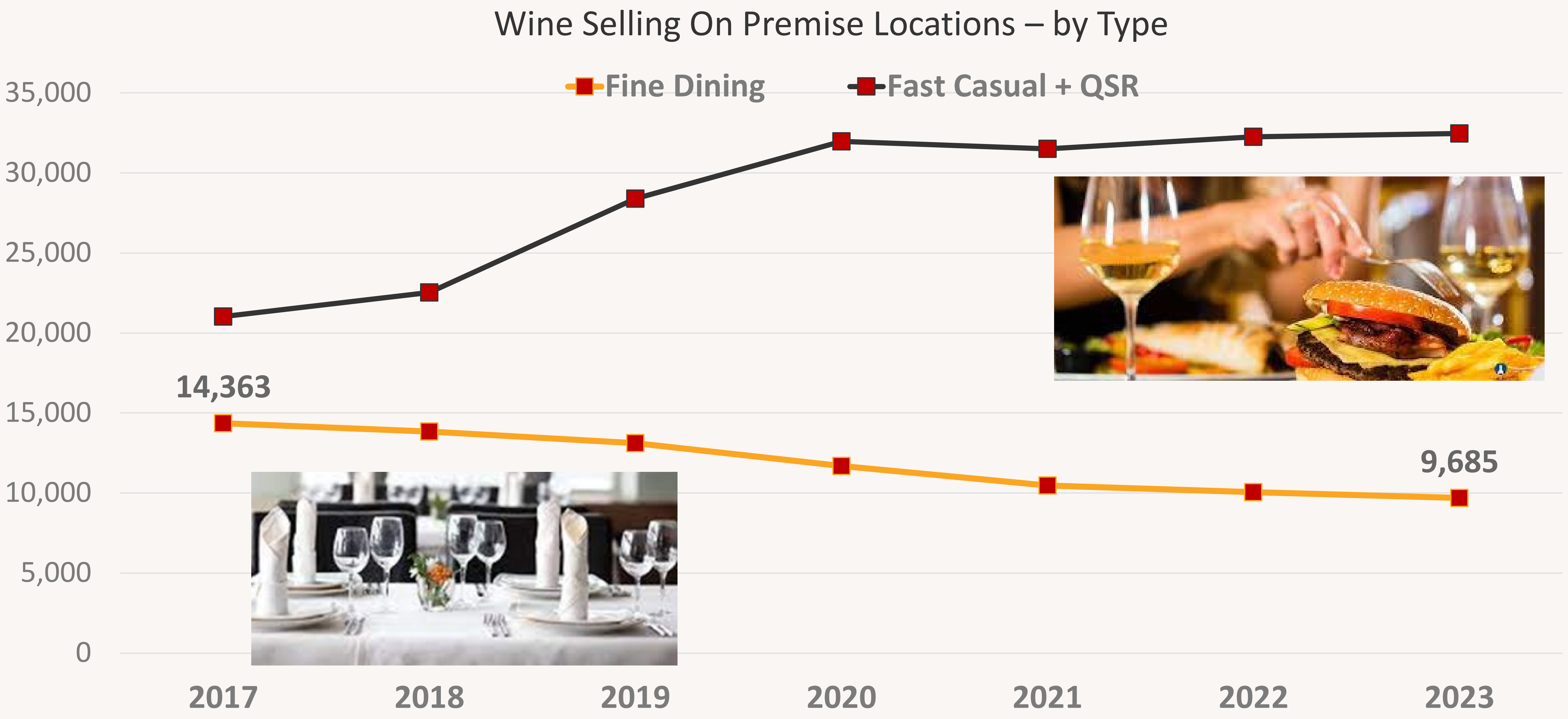
# Spirits leading in On-Premise…Wine (& Beer) trailing

| 12 mos end Jan 24 (vs Year Ago) | Wine | Spirits | Beer |
|---|---|---|---|
| Volume % Chg | -5.4% | +0.8% | -4.3% |




SipSource Beer Institute STR and SipSource, 12 mos ending Dec 2023 vs 2019

# Fine Dining locations declining; less formal venues growing




NIQ TDLinx – December 2023




- Wine Cocktails; including recipes for somms
- Different sized/priced ‘by the glass’ pours
- How about ‘order a bottle and pay for the number of glasses consumed’

# CONSUMER

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2024
Research
Conference

# Dynamic Demographics

## Generation Z (21+)

- **10K** turn **21** each day
- **Exploring** Beverage Alcohol and beyond
- Approaching with **caution**
- Seeking **‘better for you’ & ‘we’** products

## Ethnic / Racial Shifts

- **1** of every **2 multi-cultural**
  - America is more **diverse** and **multi-racial** than ever
- **Hispanics** are the fastest growing population in the U.S. (19% of population)
- **Blacks** account for 14%; **Asians** 7%

## Graying of America

- # of **65+** will surpass #21-34 by 2025 – with the highest net worth per household
- 27 Florida’s by 2025 (65+ at least 20%)
- Living longer lives; but 50K 65+ die every week

# Wine generally less developed among Younger and Multi-Cultural LDA’s

| | 21-29 | 30-47 | 48-59 | 60-78 |
|---|---|---|---|---|
| Wine | 72 | 97 | 111 | 114 |
| Spirits | 99 | 111 | 106 | 86 |
| Beer | 97 | 114 | 107 | 83 |

85 & LESS INDEX

| | White | Black | Hispanic | Asian |
|---|---|---|---|---|
| Wine | 115 | 80 | 81 | 74 |
| Spirits | 102 | 104 | 102 | 80 |
| Beer | 108 | 52 | 124 | 74 |

NIQ Spectra MRI Simmons (2023); Volume contribution compared to 21+ population importance

# LDA Gen Z - & their concerns

**Gen Z 21+ …*How willing would you be to purchase the products of a certain company, if the company supports…***

***<u>% more likely to purchase…</u>***

**34%** - **LGBT** community

**46%** - **racial/ethnic** minorities

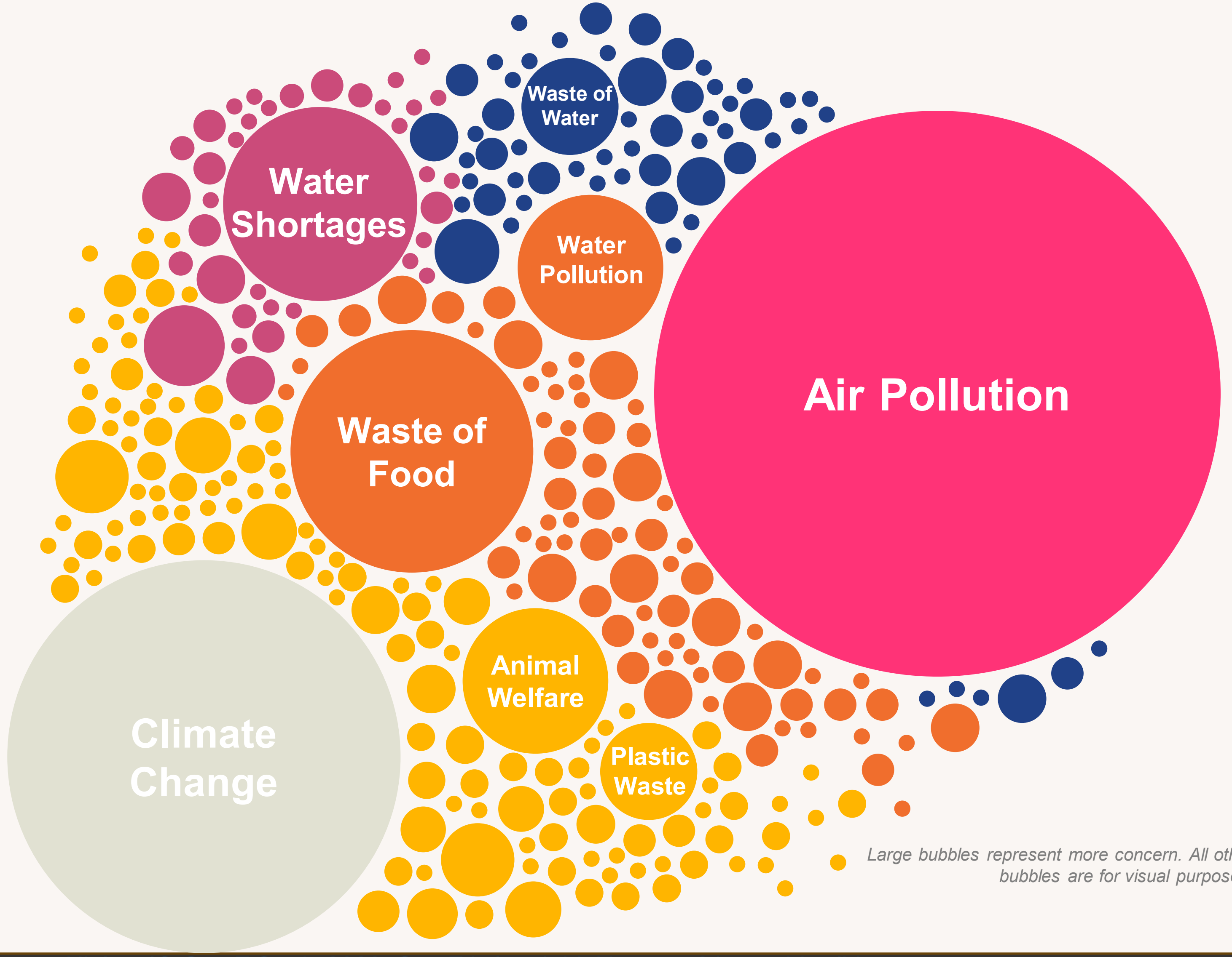
**46%** - **socially responsible issues**

NIQ

NIQ Gen Z Study; Gen Z is legal drinking age 21+ on this slide; Q6 on the survey

***What are Gen Z (21+) concerned about?***

*Q4: Which of these topics are you personally most concerned about? select all that apply.*




*Large bubbles represent more concern. All other bubbles are for visual purposes.*

Source: NielsenIQ Gen Z Study 2023; Gen Z is legal drinking age 21+ on this slide

# THE BRIGHT SPOTS

## Growth, trend improvements, or opportunity

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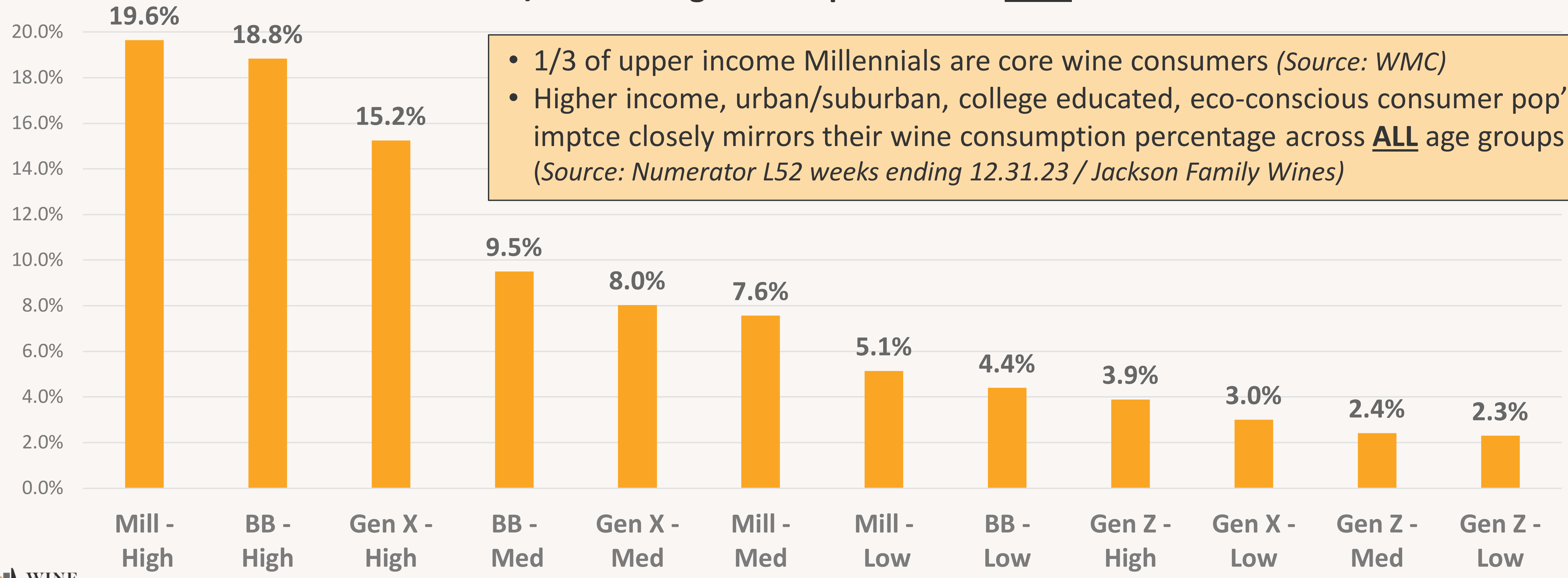
# High income Millennial consumers are the most important Core wine consumers; Boomers next

## Generation/Income Segment Importance to Core Wine Consumers

- 1/3 of upper income Millennials are core wine consumers *(Source: WMC)*
- Higher income, urban/suburban, college educated, eco-conscious consumer pop'n imptce closely mirrors their wine consumption percentage across **ALL** age groups – (*Source: Numerator L52 weeks ending 12.31.23 / Jackson Family Wines)*




**2023/24 BENCHMARK SEGMENTATION STUDY (HI INCOME: High : $100K+; Low < $50K)**

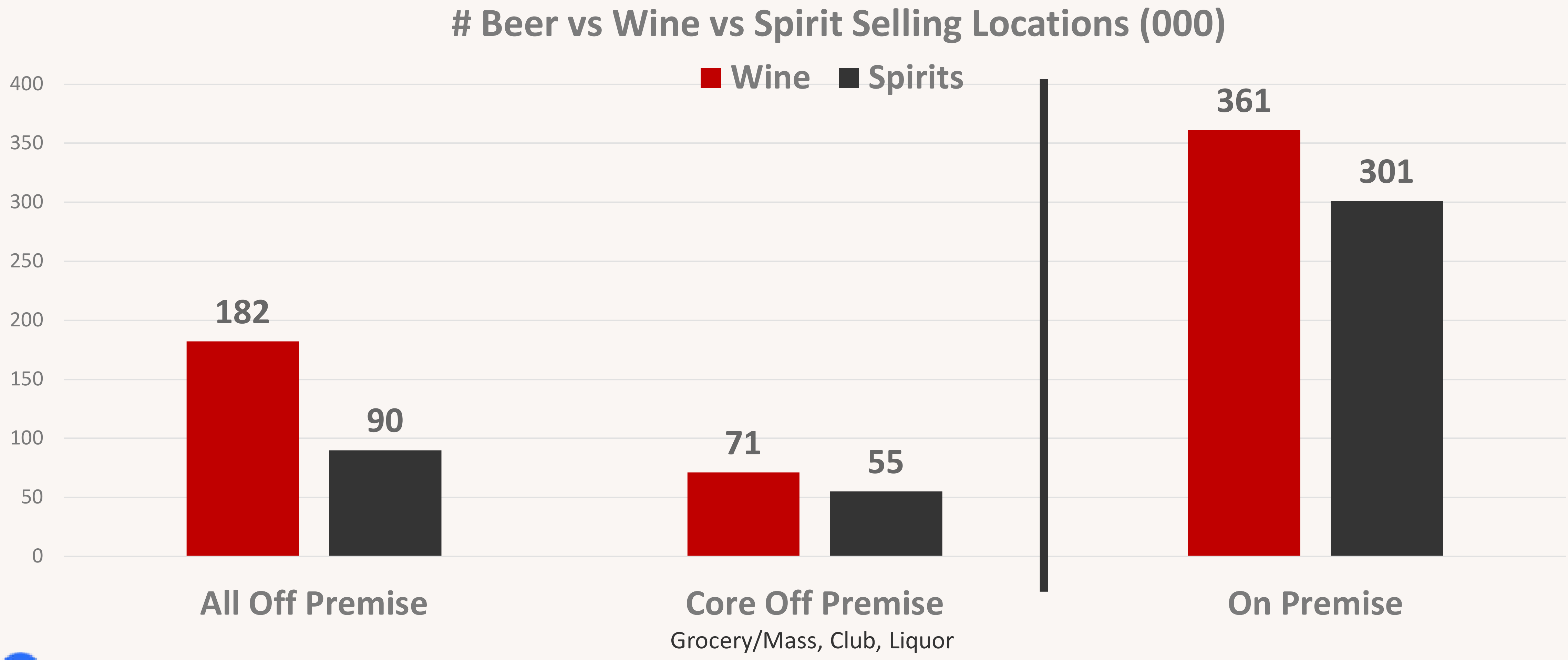
# Generational Purchase Metrics @ wine.com

1st Place
2nd Place

| | Gen Z 21-26 | Millennials 27-42 | Gen X 43-58 | Boomers 59-77 | Older 78+ |
|---|---|---|---|---|---|
| Revenue (%) | | | | | |
| Avg Order Value | | | | | |
| Avg Selling Price | $43 | $36 | | | |
| Orders (%) | | | | | |
| Customers (%) | | | | | |
| New Customers (%) | | | | | |
| Bottles/Order | | | | | |
| Orders/Customer | | | | | |

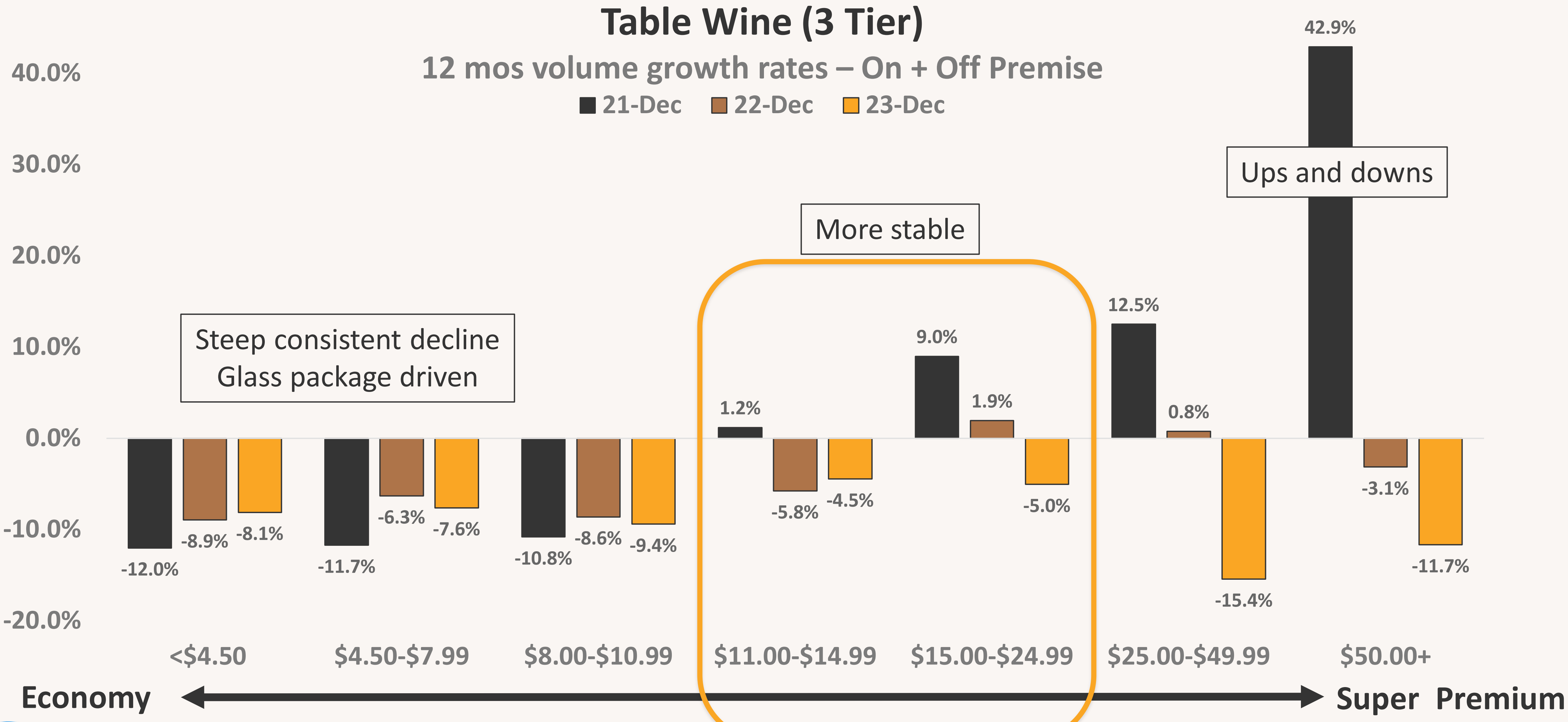
Annual 2023 wine.com

# Wine has an advantage in selling outlets compared to Spirits – use it to your advantage



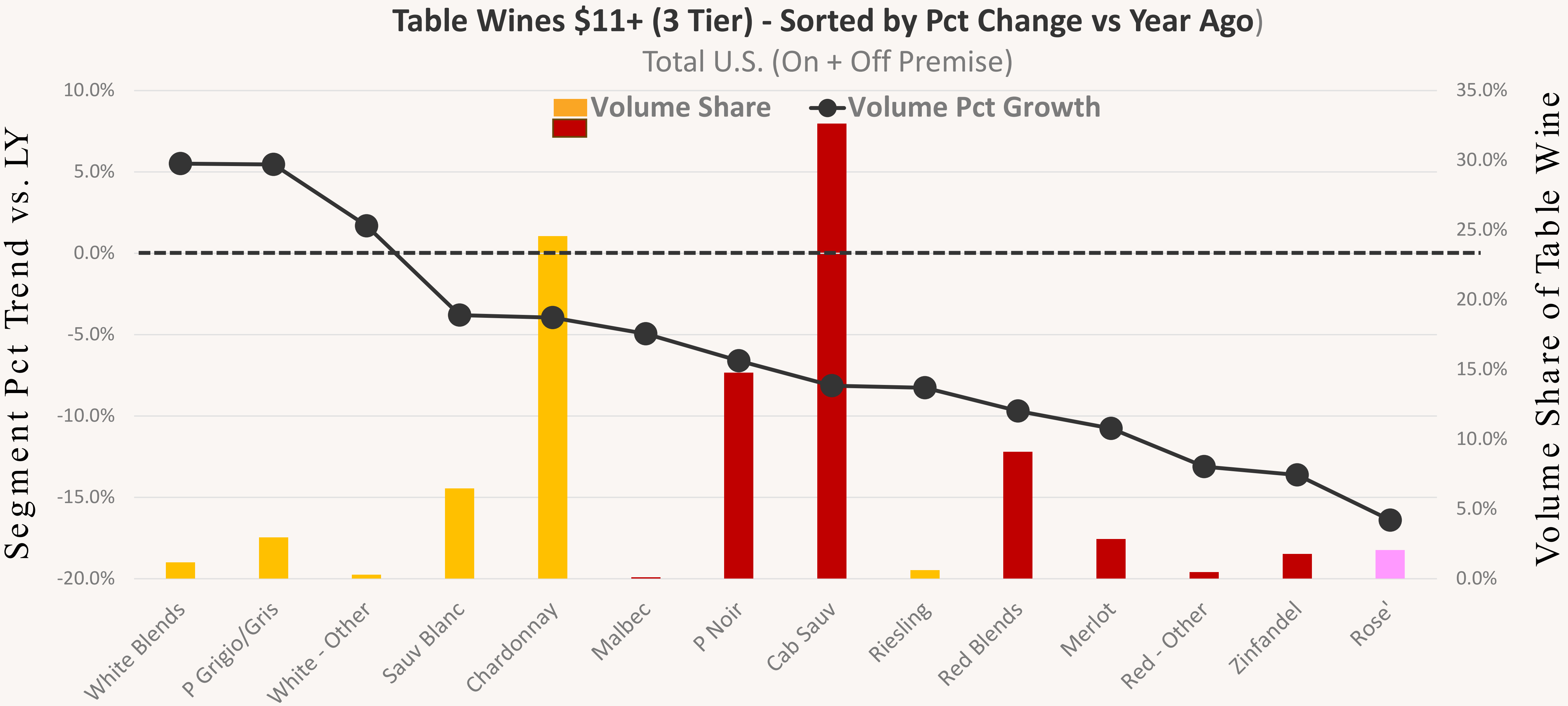

NIQ TDLinx – December 2023

# Table wines $11-$25 relatively better off than other tiers




SipSource 12 mos thru December of each year (Volume)

# Whites performing better than Reds generally




SipSource By WSWA

12 mos end January 2024

# 2023: varieties growing @ wine.com

| Red | White | White | Other |
|---|---|---|---|
| Agiorgitiko | Albarino | Picpoul | Red Sparkling |
| Aglianico | Arneis | Pinot Blanc | Madeira |
| Barbera | Assyrtik | Rhone Wht Blds | Sangria |
| Corvina | Cortese | Torrontes | Sherry |
| Frappato | Falanghina | Trebbiano | Vermouth |
| Gaglioppo | Fiano | Verdejo | |
| Gamay | Furmint | Verdicchio | |
| Lagrein | Garganega | Vermentino | |
| Mencia | Godello | Vernaccia | |
| Montepulciano | Greco | Viognier | |
| Negroamaro | Grenache Blanc | White P Noir | |
| Nerello Mascalese | Grillo | Other Wht Blends | |
| Primitivo | Gruner Veltliner | | |
| Sagrantino | Kerner | | |
| Schiava | Malvasia | | |
| Xinomavro | Melon de Bourgogne | | |
| Zweigelt | Moschofilero | | |

Annual 2023
wine.com

Based on Dollar % Growth (Minimum: 1,000 bottles)

# Declines yes, but some exceptions too!

## Annual 2023 Growth Rates by Product Class, and Price Tier

**Segments where price tier volume share is 1% or higher**

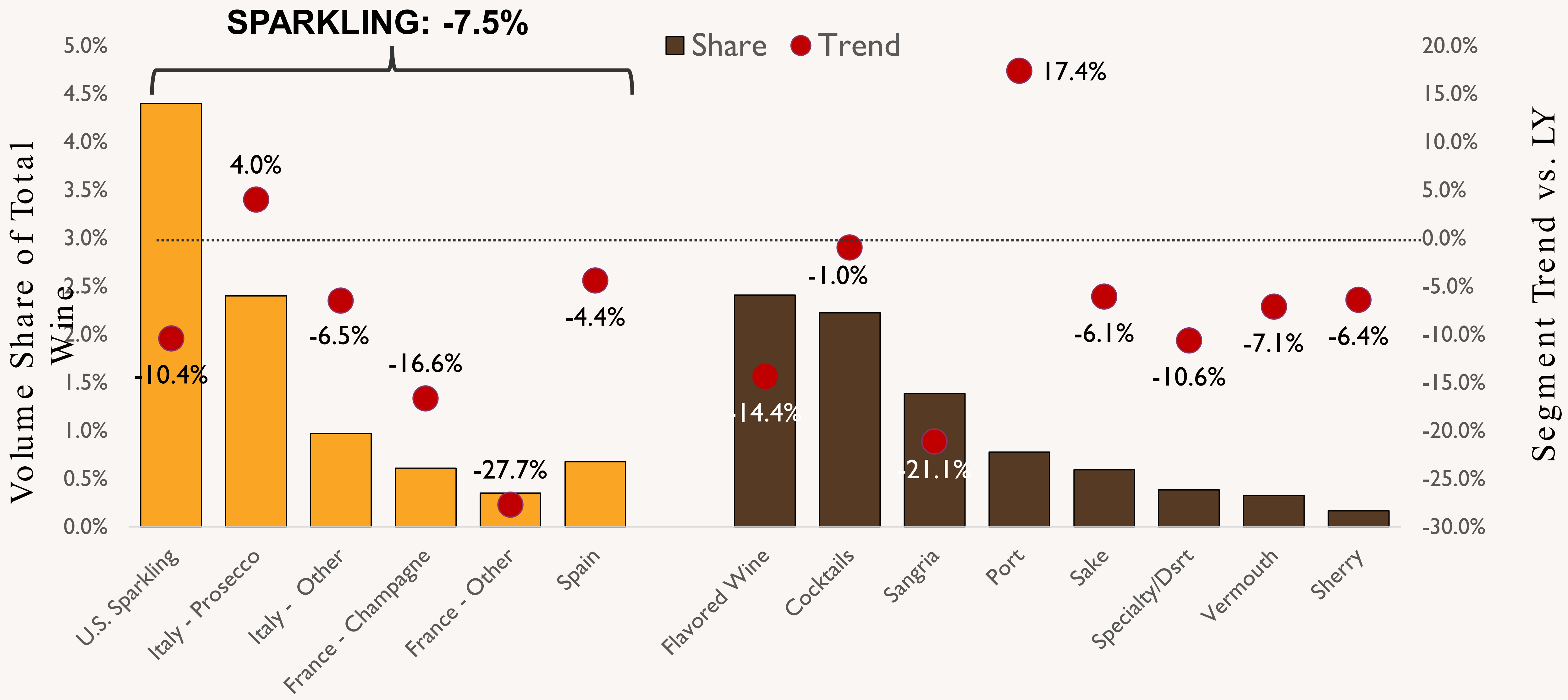
12 mos Volume Growth

SipSource By WSWA

| | | <$8.00 | $8-$10.99 | $11-$14.99 | $15-$24.99 | $25-$49.99 | $50+ |
|---|---|---|---|---|---|---|---|
| Domestic | Napa | | | | | | |
| | Sonoma | | | | | | |
| | Monterey | | | | | | |
| | SLO | | | | | | |
| | Santa Barbara | | | | | | |
| | Oregon | | | | | | |
| | Washington | | | | | | |
| Imported | Australia | | | | | | |
| | Chile | | | | | | |
| | France | | | | | | |
| | Germany | | | | | | |
| | Italy | | | | | | |
| | New Zealand | | | | | | |
| | Portugal | | | | | | |
| | Spain | | | | | | |
| | S Africa | | | | | | |

January 2024 12-Month % Change vs. LY (volume)

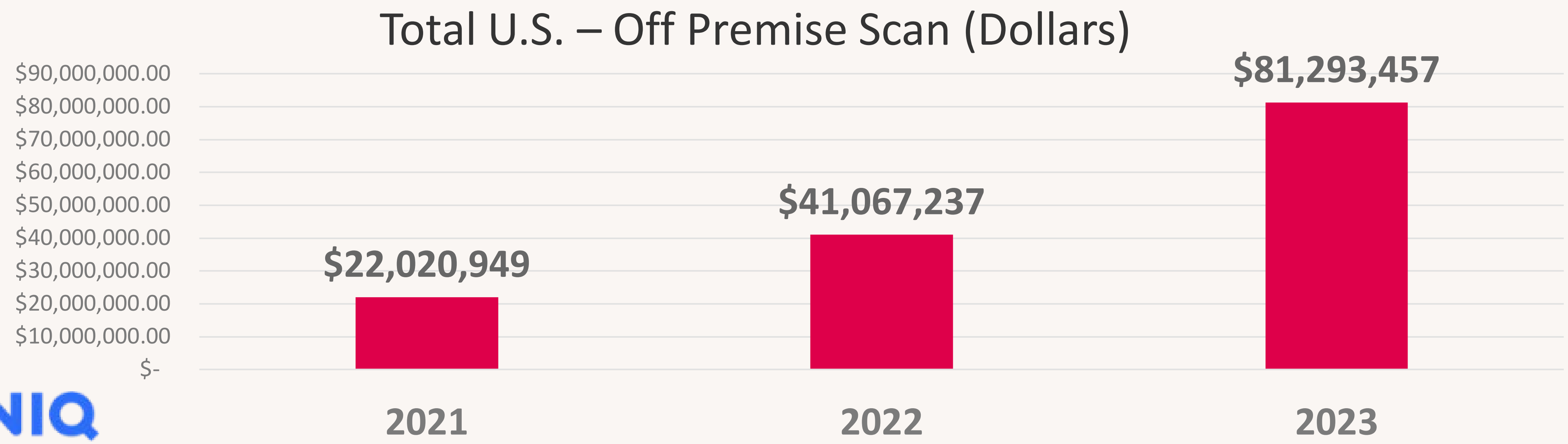
# Prosecco continues its roll - Port (Domestic) Tik Tok backed surge fading



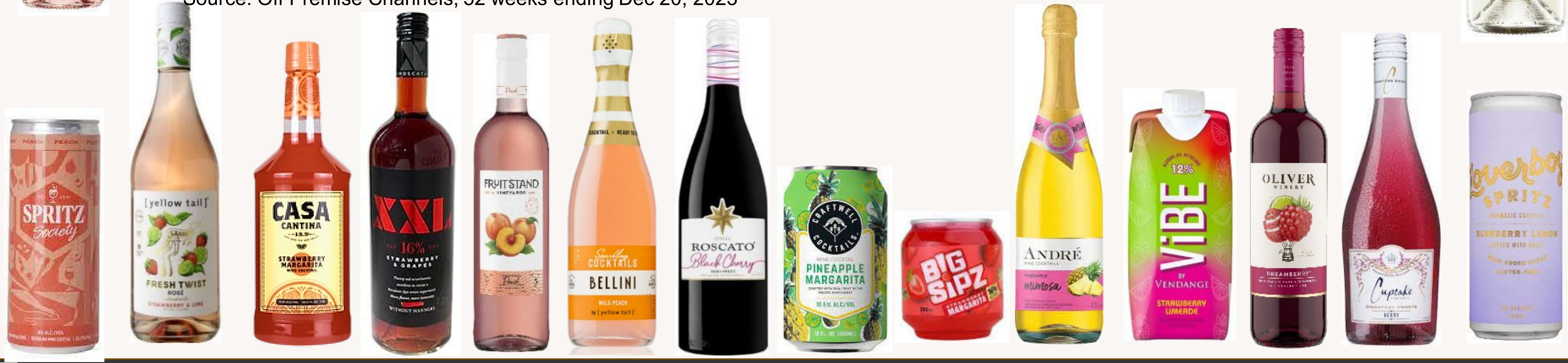

SipSource

January 2024 12-Month

# Flavor forward examples in Wine




Source: Off Premise Channels; 52 weeks ending Dec 20, 2023



# The *lifestyle* of moderation gaining momentum

**52%**
*21-34 say that drinking – even in moderation – is bad for your health*

vs **34%** in 2018

GALLUP

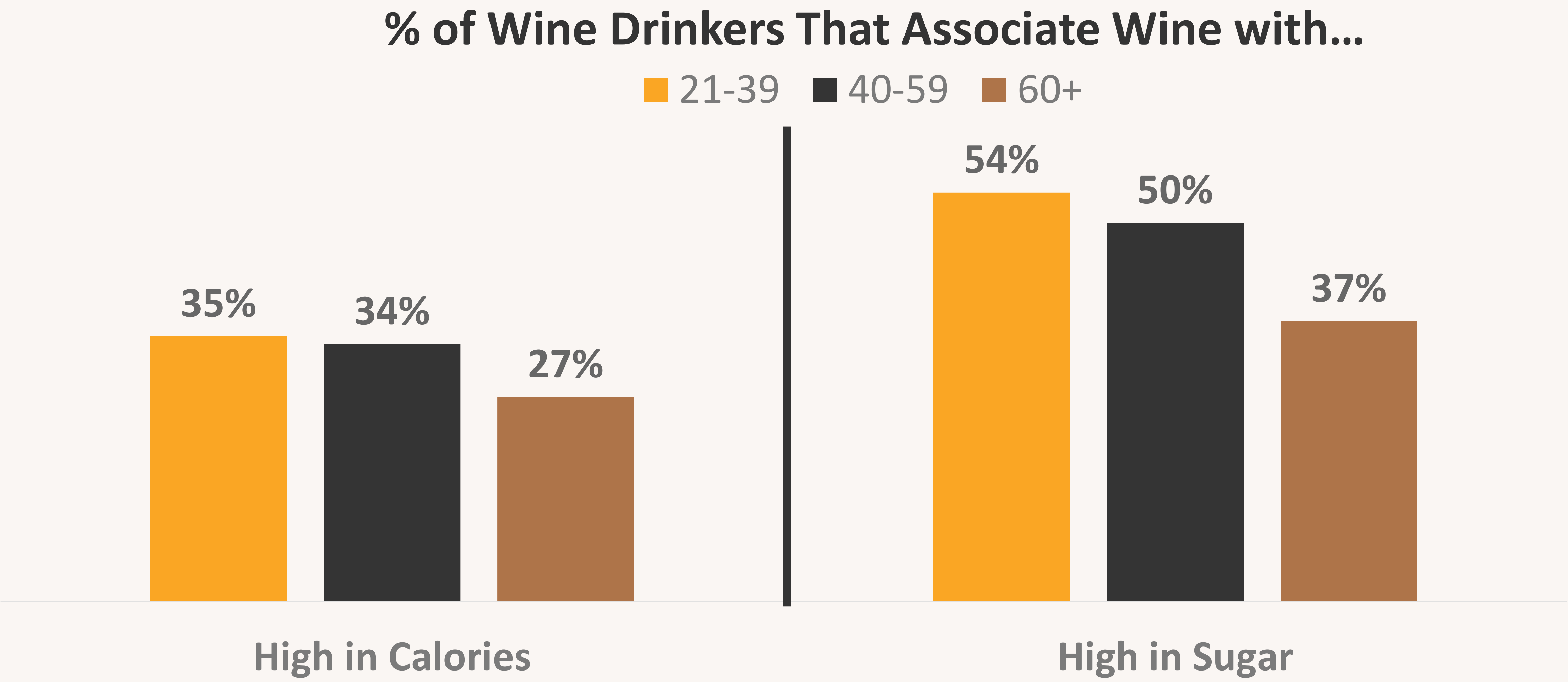
**94%**
*of Non Alc buyers also purchase Alcohol (Beer, Wine, or Spirits)*

NIQ




Consumer Research (2023)

# A significant portion associate wine with being high in sugar/calories – especially among younger LDA

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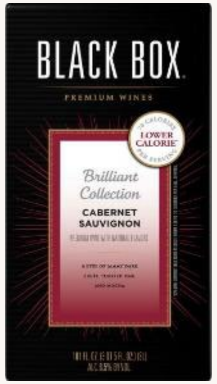
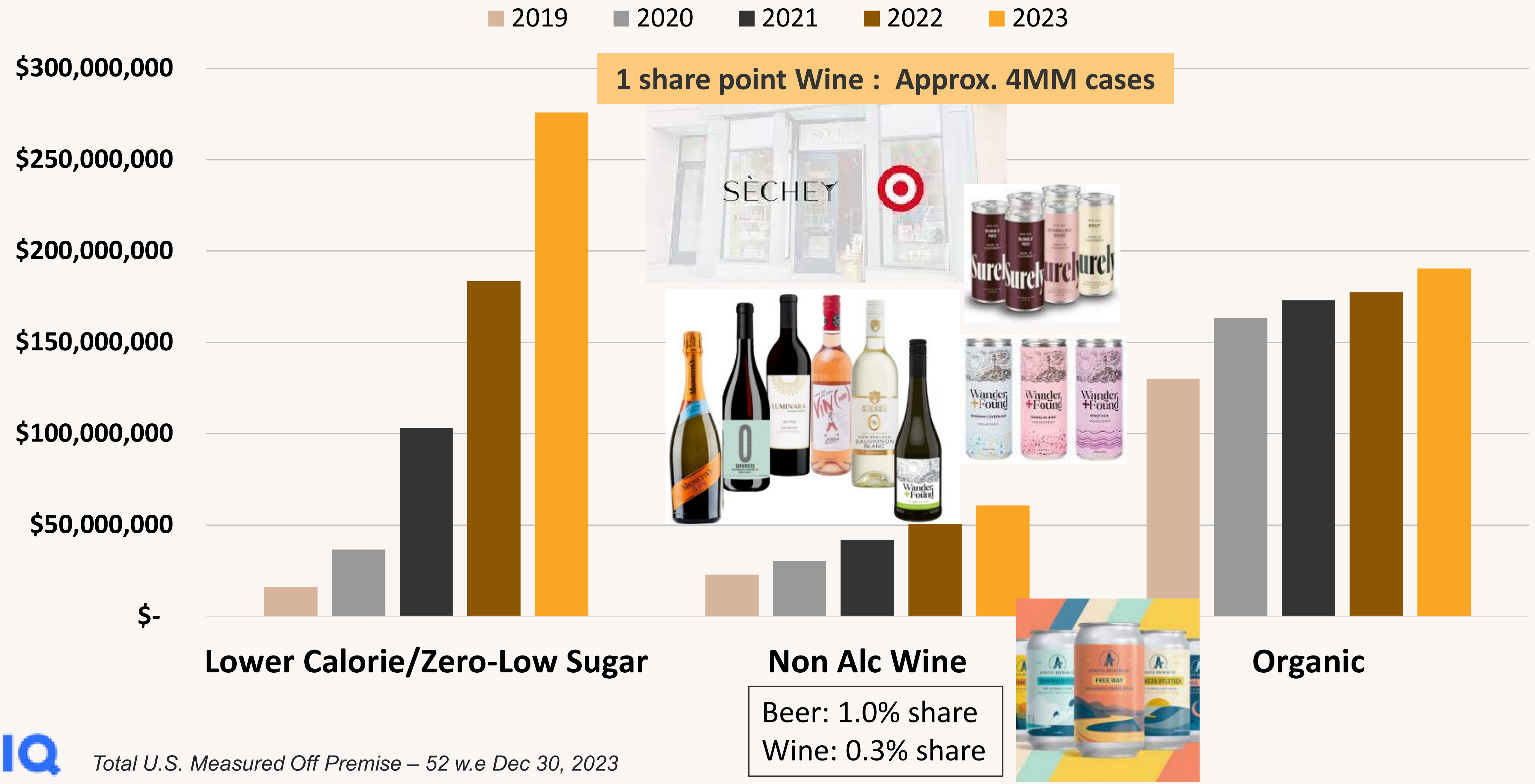
Consumers and Ingredient/Nutrition Labeling Study (Core & Marginal Wine Drinkers)
Nov-Dec 2022


# Some Examples
# Zero/Low Sugar/Low Calorie



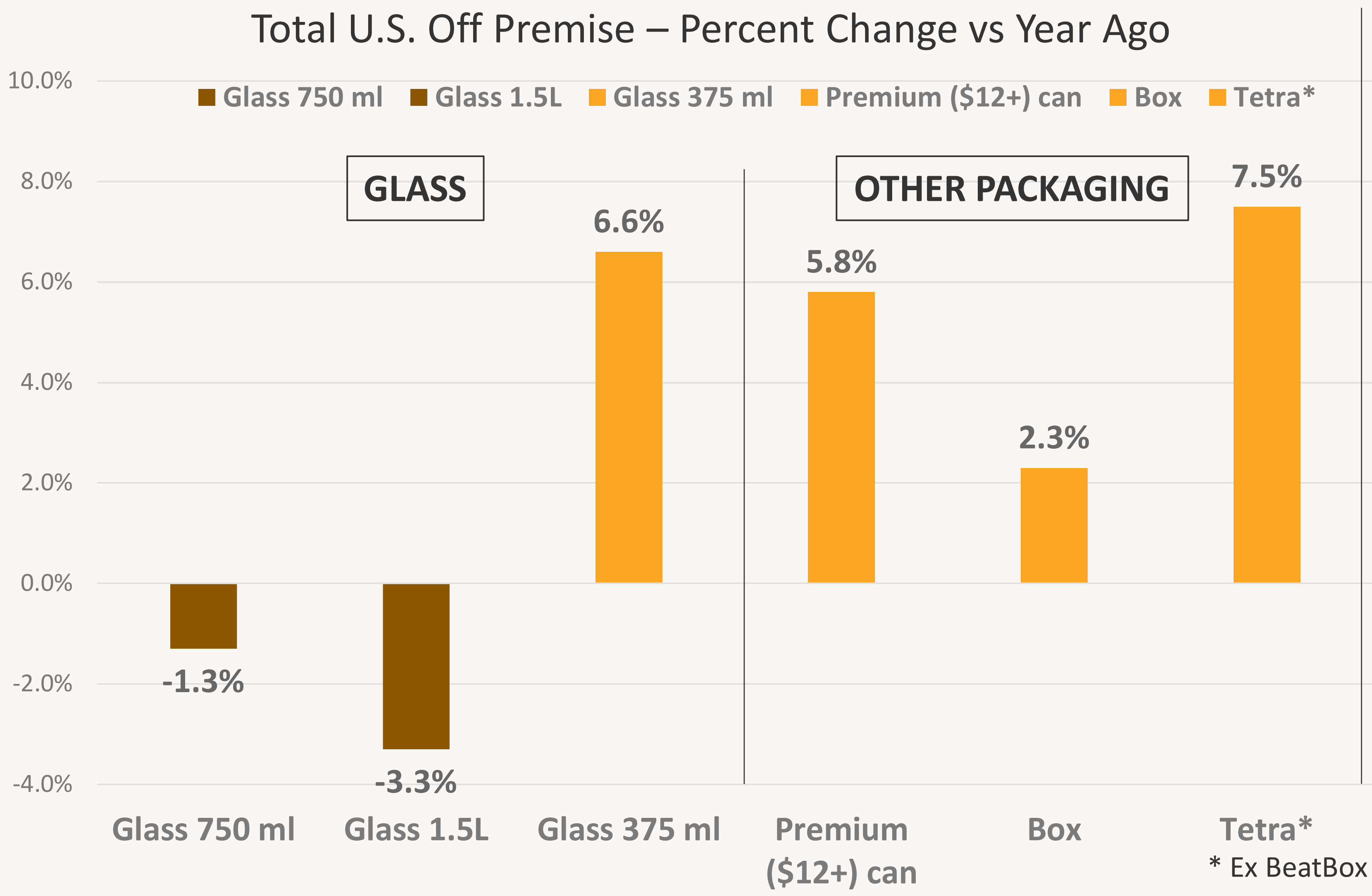
# Wines associated with *"lighter/free from"* attributes are growing

Total U.S. –Measured Off Premise Channels - Dollars

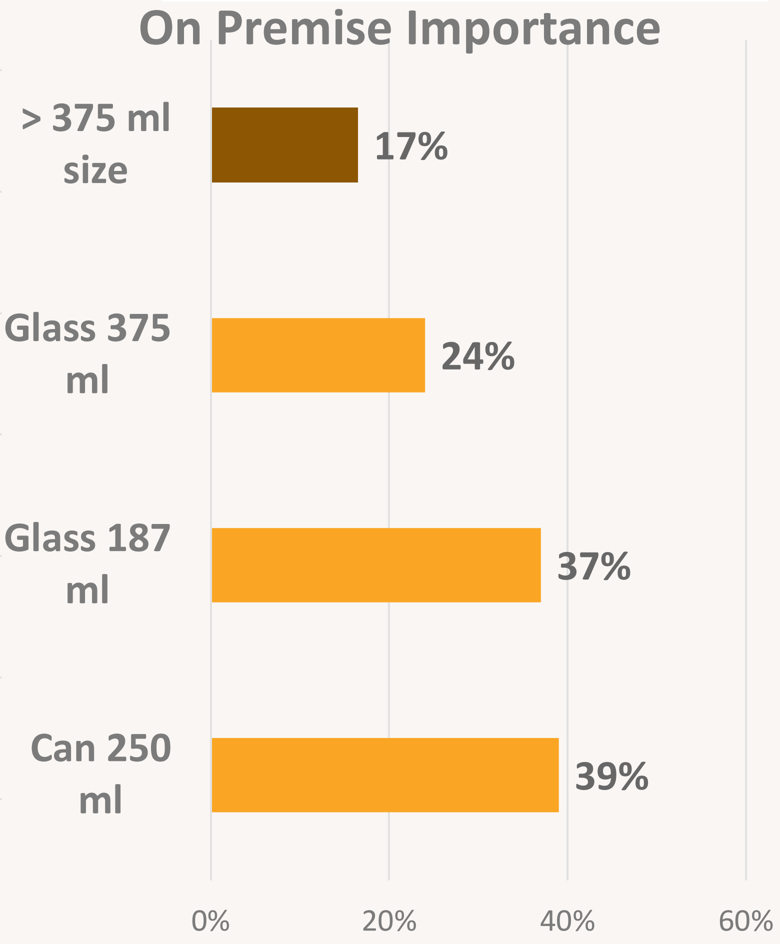



*Total U.S. Measured Off Premise – 52 w.e Dec 30, 2023*

# “Alternative” packaging suits various occasions/venues – small sizes provide trial opportunities








NIQ 52 weeks thru Feb 24, 2024 (Dollars)

SipSource 12 mos end Jan 2024

# NIQ Top 100 Selling Brands (2023)

| 1-10 | #1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 11-20 | 11 | | | | | | | | | |
| 21-30 | 21 | | | | | | | | | |
| 31-40 | 31 | | | | | | | | | |
| 41-50 | 41 | | | | | | | | | |
| 51-60 | 52 | | | | | | | | | |
| 61-70 | 61 | | | | | | | | | |
| 71-80 | 71 | | | | | | | | | |
| 81-90 | 81 | | | | | | | | | |
| 91-100 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | #100 |

NIQ Scan Off-Premise Channels; 52 week period ending Dec 30, 2023 (top 10 based on dollars)

# 33 of the top 100 Wine brands growing

Growth (<+10%)

Growth (>+10%)

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1-10 | | Josh | | Bota | | | LaMarca | | Black Box | Kendall Jackson |
| 11-20 | | | Meiomi | | | | Decoy | | | |
| 21-30 | Kim Crawford | BuzzBallz | | | | | | | Francis Coppola | |
| 31-40 | | | BeatBox | | | | Oyster Bay | Vendange | | |
| 41-50 | Bread & Butter | | | Caymus | | | | | | |
| 51-60 | Taylor | Rombauer | Matua | | | | | | Whitehaven | Justin |
| 61-70 | | Daou | Sonoma Cutrer | Mionetto | | | | Hess | | |
| 71-80 | | Duckhorn | Mark West | La Vieille Ferme | | Ferrari Carano | Starborough | | | |
| 81-90 | | | | Seaglass | | | | | | |
| 91-100 | | Bonanza | | | | Juggernaut | | | Conundrum | |

NIQ Scan Off-Premise Channels; 52 week period ending Dec 30, 2023 (top 10 based on dollars)

# PARTNERSHIPS/COLLABORATION OPPORTUNITIES

FUN FOOD

MUSIC

ART

TRAVEL

FASHION

ACTIVITIES

CRAFT BEER

ENTERTAINMENT

SPORTS

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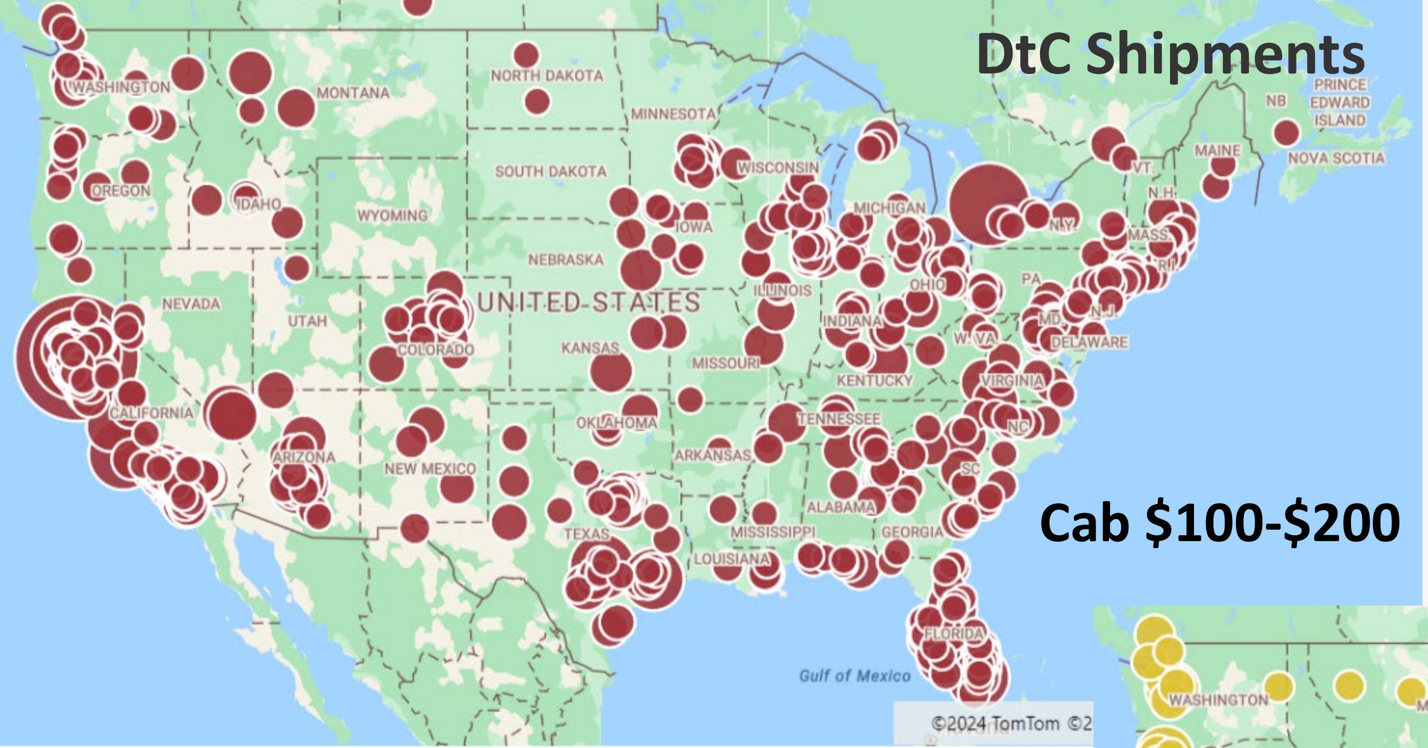
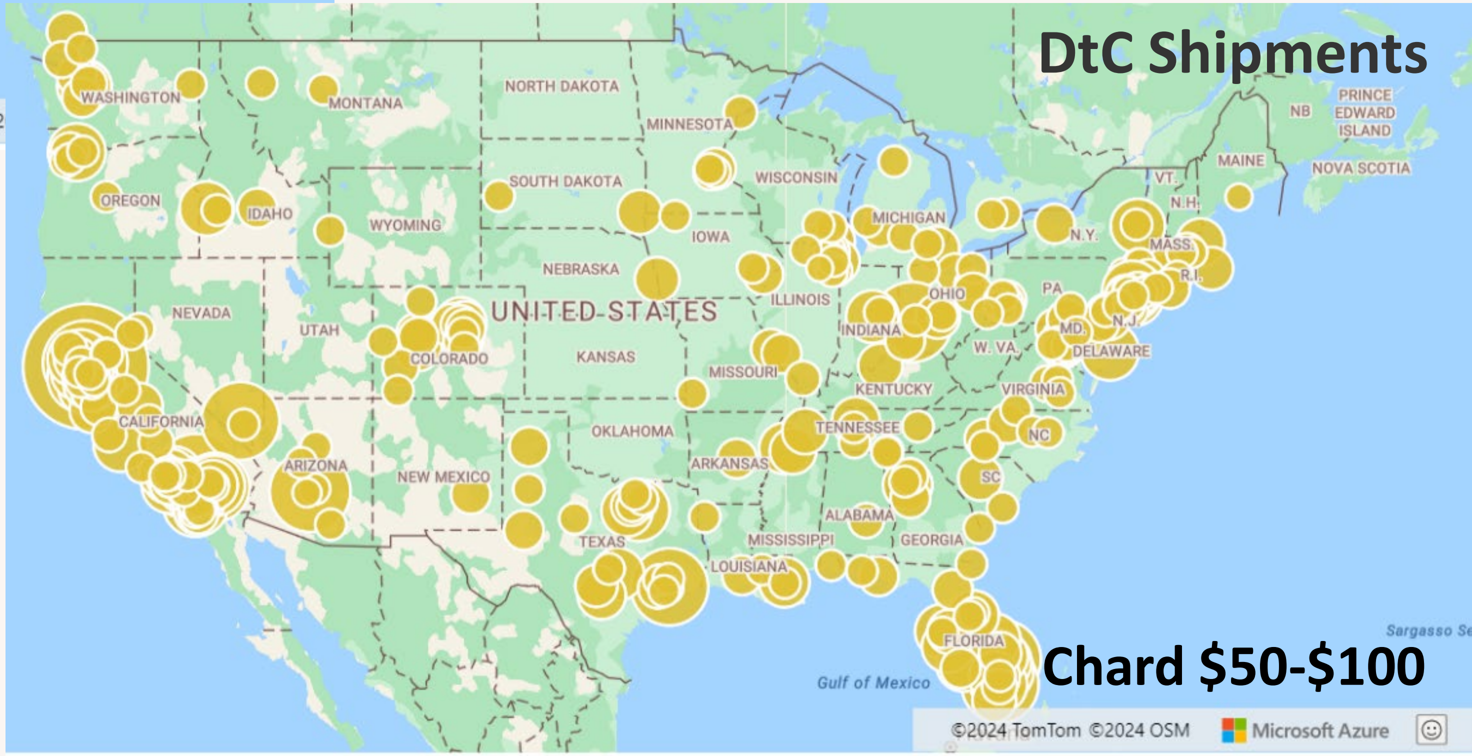
# MEET THEM WHERE THEY ARE, NOT WHERE YOU WANT THEM TO BE




# DATA to INSIGHTS

## DtC Shipments (aggregate)

- Fish where the fish are…
  - Size of segment (e.g. varietal, price tier)
  - Growth rates
  - Age of purchaser




## CONSUMER…

- Who is your customer?
- What else do they do/interests them beyond Wine?
- Share of wallet – what % of your customer's overall DtC spend do you account for ?

CustomerVineyard

# Consumer Drivers

- Importance of multi-cultural backgrounds
- Flavor forward
- Convenience seeking – what/where/how they buy
- Wellness driven – for ‘me’ and ‘we’
  - Social moderation/healthier lifestyles
  - Sustainability/Planetary health
- Transparency seeking
- Importance of company purpose/ values
- Requesting simplicity; not complexity
- Seeking ‘experiences’
- Experimental Driven

- *Take a consumer first approach*
- *Focus first on <u>what</u> you do well, and <u>where</u> you do it well; don’t try to be all things to all people*
- *Apply a fact-based approach – at a granular level*

# THANK YOU!!!

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https://winemarketcouncil.com/

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