



# HITTING A home run

For all its international reach, California's fortunes are largely shaped by its domestic market. **Roger Morris** examines the top 10 wine trends in the US at the moment and what they mean for this country's largest producer

**IF THERE** is anything the recent worldwide recession has told us about the American wine market, it is that California winegrowers largely shrugged off the economic downturn, taking a small hit in 2009 before moving on to even greater sales volumes. In the domestic market, California has also been able to meet whatever challenges foreign imports have thrown at it.

“Californian wines have a pretty solid position overall,” says Peter Morrell, CEO of the New York-based Morrell & Company, which runs both a retail store and wine bar as well as a large internet-based sales and shipping business. Katie Lazar, sales and marketing director for Cain winery in Napa Valley, says: “I see the convergence of two factors – the high-end consumer is back and [because of recent short crops] we have less wine to sell. I have a feeling of great momentum.”

Statistics from California’s Wine Institute bear them out. The most recent figures supplied by Gomberg, Fredrikson & Associates show US sales of Californian wines rose to 211.9 million cases in 2011, its highest volume ever, up 5.6% from 2010. Estimated retail value of these shipments was \$19.9 billion (£12.9bn), up 5.9%. Except for a one-year fall off of a half-billion dollars to \$17.9bn in 2009, growth in dollar volume of California’s domestic sales has been steady for the past 15 years. It is the world’s fourth largest wine producer, trailing only France, Italy and Spain, with 3,540

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wineries – mostly family owned – and 4,600 grape growers.

That is not to say that there hasn’t been considerable pain to some producers. Those heavily dependent on the hard-hit on-trade or restaurant market or who had not managed their cash flow and inventories well were forced to have “fire sales”, often anonymously and heavily discounted, primarily to the dozens of internet marketing forms.

But wine retailers helped wineries pick up the slack to their own advantage. When many restaurants could not cover their wine allocations, Frank Pagliaro, owner of FranksWine in Wilmington, Delaware, says he and other retailers snapped them up. “I’ve sold more north-of-\$100 Cali Cabs in the past five years than I did the previous five years,” he says, “mainly because I could get what my customers wanted.”

There are also several wine trends, generated both domestically and internationally, that seem to be working in the Californians’ favour:

**1 Very significantly, changes in state regulations have allowed a bonanza of direct shipping to consumers for Californian producers and for internet-based shippers.**

Each of America’s 50 states has its own regulations on how wines can be sold and delivered to customers, and some forbid wine shipments originating outside its borders to consumers. But in 2005 the US

Supreme Court ruled that if a state permitted wine shipments within a state, it had to permit shipments from out of state – chiefly California – as well. Since the ruling, some states, though not all, have dropped shipping barriers, expanding wineries’ direct access to customers and providing them with greater profit margins. “That ruling opened the floodgates,” Lazar says.

**Feature findings**

- ▶ The world’s fourth largest wine producer, California has seen steady US growth for the past 15 years.
- ▶ Domestic sales of of Californian wines reached 211.9 million cases in 2011, up 5.6% from 2010.
- ▶ While the recession hit the on-trade, it is now recovering with plenty of openings. Nor did consumers permanently scale back how much they will spend on a bottle of wine in either the on- or off-trade.
- ▶ Other trends include a boom in internet sales, the growth in popularity of sweeter and fizzier styles, and in varieties such as Chardonnay and Cabernet Sauvignon.
- ▶ The future looks brighter still with Vinexpo predicting US wine consumption to rise by 40.52m cases between 2012 and 2016 to hit 373.5m.

“In general if you look back 10-12 years, many of us increased direct sales by as much as 50%.” Sonoma-based winemaker and winery consultant Paul Hobbs agrees. “We sell a lot of wine through our wine club and though our mailing lists,” he says. Retailer Morrell concludes: “The whole world is now buying online.”

**2 Stylistically, there here has been growth in fragrant, sweeter, fizzier and blended wine segments.**

When Moscato d’Asti recently became popular in the US, it also fostered a growth in California-produced Muscat/Moscato, now at a 4% market share, and fragrant white wine blends profited as well. An executive for one of the state’s largest volume producers, who asked not to be identified, declared new blends now represent the industry’s largest growth potential. The California sweet red wine category also doubled its US sales growth to a 1% share, and ▶

# top 10 trends

blended red wines jumped to a 5% market share. Sparkling wine sales from US and foreign producers went from 13.8 million nine-litre cases in 2009 to 17.2m cases in 2011.

Adrien Falcon, sommelier and beverage director for Bouley restaurant in New York, says sparkling wine sales from all sources, including California, “are huge, especially for Saturday lunch and as an aperitif”. Many smaller Californian table wine producers, such as Frank’s Family and Inman Family, also dabble in sparkling wines for sales in their tasting rooms but are now considering much wider distribution.

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**3 Among grape varieties, Cabernet Sauvignon, Sauvignon Blanc and Chardonnay continue strong growth.** The Wine Institute reports that Chardonnay is by far the most popular varietal wine it produces for the American market – a whopping 21% by volume – while Cabernet is 12% and Merlot 10%. Pinot Noir continues to grow, but still has only a 4% share. “What seemed to be a Pinot Noir boom was just Pinot getting up to speed,” says Bouchaine Vineyards’ veteran winemaker Michael Richmond, who adds: “Pinot Noir seems to be living up to its mystique of providing diversity and controversy like no other variety.” Paul Goldberg, a principal in Bettinelli Vineyards, one of the biggest grape growers in Napa Valley, reports: “We are seeing very high demand

for Napa Valley Cabernet Sauvignon grapes,” as well as “pretty good demand” for Chardonnay, Pinot Noir, Sauvignon Blanc and Merlot.

### **4 Arguments over politically correct wines still largely bore consumers.**

While wine writers and others in the trade debate such issues as alcohol levels and the quality of organic and “natural” wine production, retailers and sommeliers report most consumers couldn’t care less. “I have more customers asking for sulphur-free or gluten-free wines,” Falcon says. While some Napa producers have tried to lower the alcohol in their Cabernets, which

often exceed 14 and 15%, the issue hasn’t slowed sales.

Dennis Cakebread, whose family’s eponymous wine brand continues to be a popular restaurant listing, reports that “2011 was our best year ever for sales”.

### **5 The impact of the recession has been greater on restaurants than on retail, but on-trade sales are recovering.**

“As the economy has improved and unemployment declines, we see lots of evidence the restaurant consumer is coming back,” Cakebread says. “New restaurants are opening and the standbys are doing as well as ever.” Plus a study by the Stonebridge Research Group reports in its key findings that the “sweet spot in on-premise is increasing to \$65-85 [per bottle], with more movement above \$100.”

### **6 Sommeliers continue to be potent brand and category builders.**

It’s difficult to find anyone who doubts the influence of sommeliers in their ability to give new wines opportunities to test the market or to build a winery’s or a region’s reputation. “Brands are made on-premise more than at retail,” says Morrell, whose company works in

both sectors, “and there has been a mushrooming in the number of wine directors and sommeliers in restaurants all over the country.”

### **7 A combination of “high tech” and “high touch” is a growing customer influence.**

Winery personnel from France, Italy and Spain are often amazed on their first visit to Napa Valley by the volume of traffic and the spending power involved in wine tourism. A customer who has a pleasant visit to a winery may exhibit a life-long allegiance. At the same time, a younger generation is more likely to be influenced by their social-media peers – with their constant tweeting and photo snapping of everything they eat and drink – than by traditional wine critics. “Millennials don’t get their information from Robert Parker,” says Lazar, who was herself a top executive at a tech company before going into the wine business, “so we need to connect with the emerging wine drinker. As someone else once said, ‘We need the right combination of high tech and high touch.’”

### **8 While wineries see the value of being “green”, consumers appear to be colour blind.**

Wineries have turned greener without customers demanding it. Winemakers always boast to visitors about their green, organic, sustainable or biodynamic programme, but there remains a distinct lack of statistics or even anecdotal evidence that it’s a consideration when a customer chooses a wine. As everyone talks about being green, consumers seem to take it as a given.



## **9** Packaging remains a potent sales tool.

After years of watching the Australians take market share with their cute critter labels, such as Yellow Tail, California wineries have launched full-tilt into cute and irreverent brand names and label art, especially in the under-\$10 category. Additionally, surveys show most wine is purchased by women, so marketing agencies are falling over themselves with focus groups trying to figure out what appeals to women buyers. In fact there are even “for women only” brands, and women are seen – rightly or not – as prime targets for the sweeter, fizzier, more-fragrant wine styles.

Additionally, customers do care about packaging, and the convenience factor is showing up not only in lighter bottles and screwcaps, but also in the proliferation of quality wines in boxes. While it represents only 2% of the US market for table wines, boxed wine grew last year by about 25% in volume and in revenue, led by Constellation’s California-based Black Box brand and Delicato’s Bota Box.

## **10** The belief that customers would find quality wines at lower prices and would remain bottom dwellers when times got better proved to be a fantasy.

Three years ago many writers and industry analysts predicted that customers would permanently scale back how much they would pay for a bottle of wine. This doesn’t seem to have happened. “It seemed that the over \$20 per bottle wine never lost its market share,” Pagliaro says, adding that while some customers cut back, others stepped up, particularly as younger buyers’ tastes matured.

So as the recession ends – or at least pauses – the future for California winemakers looks even brighter. Americans consumed 333m cases in 2012 and that consumption is expected to increase to 373.5m cases by 2016. That will mean about two extra bottles consumed for every American of drinking age.

And as Californian producers already own about 61% of the American market, that is sweet mathematics and sweet music to those in the industry. *clb*

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