

# State of the US Wine Industry 2024

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# Forward

Every year, I receive constructive feedback from engaged readers. Sometimes, they write very kind and appreciative notes, while others are critical of the conclusions.

They may ask for clarification on a point or permission to use the content, but often they would like more coverage of similarly-sized or similarly-located wineries, or a deeper dive into a particular topic. It's all appreciated. I'm glad the industry engages.

During the last few years, we started receiving comments that the report had become too long and was challenging to read. The 2023 report was 102 pages long, which is too long even for me!

To address this feedback, we have changed the format of this year's State of the Wine Industry Report.

In subsequent editions, the report will continue to focus on industry issues as they evolve while providing the same data, charts and analysis. However, we will do so more succinctly. The style presented in this report may differ from the future state, as we will consider readers' comments and adjust the format accordingly until we find the right balance.

As we publish the report for the 23<sup>rd</sup> year, we look forward to hearing your thoughts on the new format, pro or con.

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**Rob McMillan**

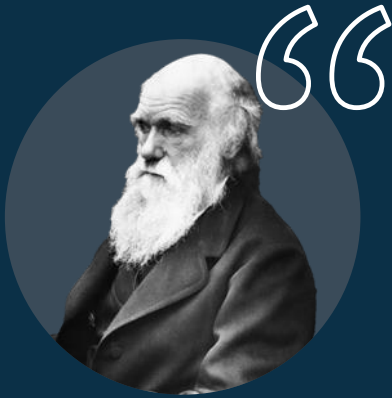
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**Rob McMillan** is one of the top wine-business analysts in the United States and the author of Silicon Valley Bank's highly regarded annual *State of the Wine Industry Report*, described by *The New York Times* as "probably the most influential analysis of its kind."

With Rob's decades of experience researching the industry and working with winery clients, his views are sought after and trusted by winery owners, journalists, entrepreneurs and investors.

He is a prominent speaker, domestically and internationally, and you will find him extensively quoted in the national, regional and trade press.

# Survival of the Fittest



*It is not the strongest of the species that survives,  
not the most intelligent that survives.  
It is the one that is the most adaptable to change.*

CHARLES DARWIN



# Introduction: Adaptation

The maxim that longevity is about the “survival of the fittest” is often used to describe an individual or group's success moving through difficult circumstances, be it challenges to a herd of wildebeests amid a protracted drought or a business tested by changing market dynamics. The latter is what we face today as an industry. How will we respond?

Most people believe Darwin said evolution and natural selection were processes influenced by the survival of the fittest. That's not true. Darwin said species that survive external pressure are 'those most adaptable to change.' That is a hint at what we need to do.

**Waiting for a fictive cohort to age sufficiently to discover wine or believing that our strategies "have always worked before" is toxic to adaptation when the context driving demand changes.** That is something the weakest businesses will do. Their lack of adaptation will cause a predictable outcome.

The solution to our industry's changing business circumstances is to change the factors limiting market opportunity collaboratively or, if we must, go it alone. Then, it will be a race to adapt by being more efficient, better at targeting prospects, retaining more existing members, and positioning products better than your neighbor.

**How do we solve these challenges? Should we go it alone, collaborate, or try something else?**

Jeremy Rifkin said in his book *The Empathic Civilization* that:

*“Darwin came to believe that survival of the fittest is as much about cooperation, symbiosis and reciprocity as it is about individual competition and that the most fit are just as likely to enter in cooperative bonds with their fellows.”*

Competition within a group or species is a net zero-sum game. I win. You lose. Successful adaption is more likely to occur when the challenged group works together to find solutions.

**The question is: Will we?**

# 2024 State of the Wine Industry Report: The Future: Predictions for 2024



- Absent an external event, **the economy will unlikely enter a recession in 2024.**
- Tasting room visitation that was lower over the past two summers will **grow in 2024.**
- Slower in 2023 through October, DTC **sales will grow again modestly** in 2024.
- Total wine category **sales will end in 2023 with negative volume growth between minus 4% and minus 2%.** Volume growth will remain negative in 2024. Value sales will hover near 0% growth, plus or minus 1.5% in 2023, and remain in that range in 2024.
- Premium wineries will **end 2023 with slightly negative volume sales. Value sales growth between 1% to 4% is expected, strengthened by a good Q423. Total premium wine sales by value will improve in 2024.**
- **Premium wineries currently have balanced inventory positions and will successfully take small bottle price increases in 2024.** High-production wineries will find price increases more difficult.
- **The industry is presently built to overproduce.** Total wine consumption is decreasing by volume. Retail inventories are backing up into wholesale. Wholesale inventories are bulging, and wineries are being more cautious about carrying inventory in a reduced-demand environment. Without improving demand, retailers can only rebalance inventories by buying less from wholesale while selling through their existing inventory.
- **The planted acreage in CA and WA is exceeding current demand.** Oregon's planted acreage is in balance with demand. When will we see a market correction for grapes and bulk wine in grapes intended for lower-priced wine? It's likely going to happen in 2024.
- **Bottle prices are showing some resilience** as of this writing in late 2023, but with demand fragile and too much supply at retail and wholesale, it wouldn't take much for the industry to increase the use of flash sales sites and increase discounts and promotions in 2024.



## 2024 State of the Wine Industry Report:

### Rewind: How accurate were the report predictions last year?

Category	Prediction	Predicted Trend	Comment
Predictions we got right			
<b>GDP</b>	No Recession in 2023	n/a	The \$3T of COVID savings on the sideline would support retail spending throughout 2023, and we would not have a recession.
<b>Bottle Pricing</b>	Those making lower-price wine will have difficulty passing through the cost of inflation, but there will be less resistance to passing on some small price increases in higher-priced wine.	n/a	The prediction was spot on.
<b>Grape Prices</b>	Grape prices would be stable in 2023	Stable trend	Grape prices in general didn't move much, so I'd call this prediction largely accurate.
<b>Demographics</b>	Boomers continue as the growth cohort	Up for the boomer segment	Consumers over 60 are still taking share from younger consumers.
Predictions that were partially right			
<b>Premium Wine Sales Growth Rate</b>	4% - 6%	Decline from prior growth	The sales-value growth for 2023 was estimated to fall between 1% and 4%. The trend, at least, was correct. The final growth rate depends on Q4 2023, but the odds of ending in the range I predicted are low.
<b>Full Wine Category Volume Growth</b>	Negative Volume Growth	Lower volume again	Directionally, we got the negative volume growth call right for the 2023 year-end. We expected the growth rate to worsen, but the early read suggests the negative volume growth rate from 2022 didn't worsen.
Predictions that we got wrong			
<b>Full Wine Category Value Growth</b>	Slightly Positive Value Growth	Lower	This is a close call. Most analysts expect negative value growth for the total category, but some suggest marginal positive growth in 2023.
<b>CA Harvest Size</b>	3.7M tons	Larger than the prior year	The harvest ended up at 3.4M tons, and was lower than the prior year. Close in nominal terms, but that's a miss.



# 2024 State of the Wine Industry Report: Executive Summary



## Premium Wineries

Premium wineries had mixed success during the past year. The value of premium wine is still growing, but volume sales will finish lower for the 2023 calendar year, partly due to the light 2020 vintage sold in 2023. Those same wineries come into 2024 with one of the best quality harvests in years and with balanced inventory positions, giving the segment a level of flexibility should the economic conditions in the US soften.

The sector successfully raised bottle prices in 2023 to partially cover the higher costs from inflation, pushed sales by value up, and produced respectable profitability, according to information from the SVB Peer Group Data Base of premium winery financial statements.

Moderate headwinds discussed within this report contributed to the mixed outcome. Direct-to-consumer sales by volume were lower in 2023, and tasting room visitation dropped for the second year in a row. Good 2023 holiday sales should improve both outlooks once those are tabulated.

Grape buyers in California in most price segments can be patient when contracting for fruit in 2024.

Typically, a fourth year of lighter-than-expected yields would drive grape pricing higher, but the lack of significant movement in price is just another indication of soft demand. That said, the SVB Annual State of the Industry Survey respondents expect some grape price increases in 2024 in most price ranges. (Page 34)





# 2024 State of the Wine Industry Report:

## Executive Summary



### High-Production Wineries

Retail wine inventories are fully stocked in the wholesale channel. Looking back, at the end of 2019, the industry had an acute oversupply. That was corrected by COVID pantry-loading and wildfires in 2020. But immediately thereafter, inventories started to creep higher again from retail into wholesale.

The wholesale inventory-to-sales ratio increased beginning in July of 2021 (slide 43), reaching a high point of 1.71x sales in May 2023. That metric has returned slightly to 1.61x through late 2023, with wholesale inventories moving lower against flat sales levels.

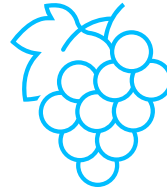
The ideal inventory-to-sales ratio through all sales channels should be 1.0x in a flat volume growth scenario, but even lower in the current negative growth environment we inhabit today. **There are structurally more planted vineyard acres than are required to satisfy consumer demand.**

Imagine you are on the sales team of a winery, with the head of your department standing at the front of the conference room asking, "What should our growth goal be this year?" It's tough for a salesperson to answer, "I think we should sell the same volume as last year!" Multiplying that scenario across hundreds of producers creates the potential to overestimate sales growth, leading to excess inventory, discounting, and price reductions. This imbalance will produce a higher-than-needed inventory supply. The oversupply at wholesale will likely linger through 2024.

Absent improving demand, some vineyards must be removed in many traditional wine-producing countries and regions, including the United States.



# 2024 State of the Wine Industry Report: Executive Summary



## Macro Factors

The business is transitioning to a lower-demand environment for reasons discussed extensively in this report over the past seven years, and repeated in part throughout this report.

Fewer US consumers see wine as their preferred alcoholic beverage; instead – they drink across categories. The sales of wines produced below \$12 have been dropping for years. Consumers today drink less alcohol, choose substitutes including RTDs, spirits, and Cannabis instead of wine, and there are more abstainers today in the population. As a signpost of shifting industry dynamics, 2023 will mark the first time in 45 years that the volume of spirits sold will surpass the volume of wine sold, according to Shanken News Daily.

In one example of changing demand, data from the National Institute of Health reported that between 2012 and 2022, for those aged 19 – 30, monthly **cannabis use increased from 16.6% to 28.8%** of the cohort, while **alcohol use declined from 68.4% to 67.5%**.

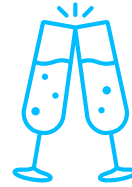
It's telling that in a separate Gallup study, 40% of adults said cannabis wasn't harmful, while only 16% cited alcohol as not being harmful.

The anti-alcohol lobby led by the World Health Organization is having success with its message – truthful or not, that 'there is no safe amount of alcohol to drink.'





# 2024 State of the Wine Industry Report: Executive Summary



At the most basic level, the potential volume growth in wine sales is the product of per capita and population growth. Across the wine-consuming world, per capita consumption is decreasing, and population growth is slowing. Because the business context has changed, some winning strategies common in the operating environment during the past thirty years will increasingly prove fallible. Predictions vary, but we would place the final 2023 dollar-based sales growth for the wine category at zero percent with a range of negative 3% growth to positive 1% growth.

## Fishing from a Shrinking Pond

There are two solutions to declining wine demand. We either work together to create a resonant message that positively influences consumption, or we use whatever means we have to increase efficiency in production, grape growing, and marketing.

Three analysts and I worked for more than two years to put together a cooperative industry marketing organization, announcing the formation of WineRAMP in January 2021. But despite solid alignment from a steering committee made of some of the industry's brightest minds throughout the formation stage, the will to support the concept evaporated once made public.

There are no collaborative solutions in process of which I'm aware. Whether we cooperate or not, the goal for every winery should be to improve efficiencies and take market share back from spirits, sports drinks, cannabis, and beer producers. A growing list of advanced analytic tools that can improve decision-making and generate efficiency is available and can help in that effort.

**Success is within reach for everyone willing to adapt.**





# World and US View

## Demand & Consumption



# We are not alone

The data we see for US wine consumers repeats itself across many other wine-consuming countries.

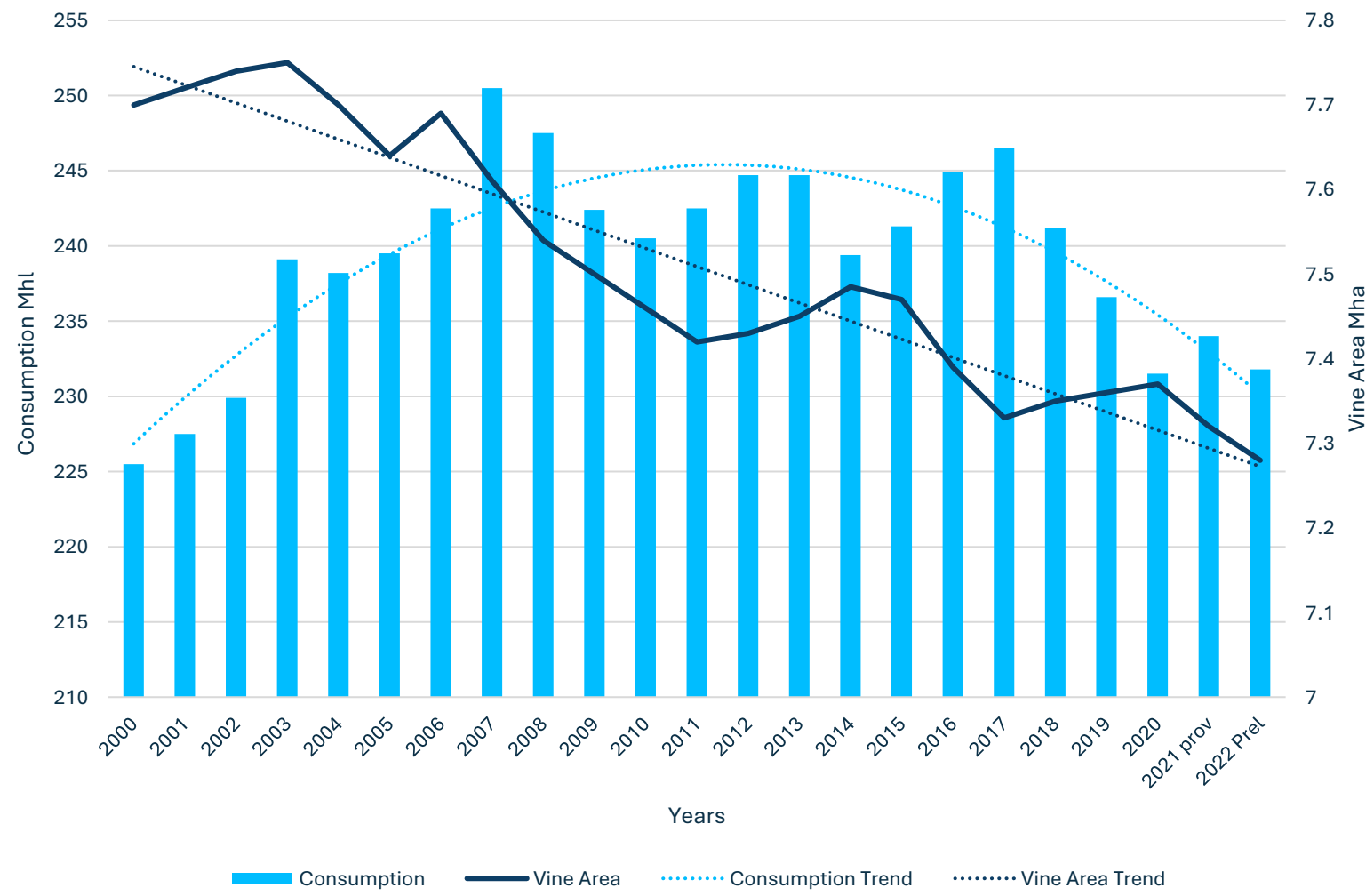
Total world consumption hinted at a downward slope in 2014 before becoming obvious in 2017. Except for a slight reprieve in 2020 during COVID, that downtrend has continued, and vine acres are being pulled in many countries.

The world’s wine-producing countries had high hopes that the growth of Chinese consumption might help business, but a crack-down on displays of wealth in the early 2010s began a decade-long decline that continues today. Maybe India will become the next hope?

Top 10 Wine Consuming Countries Ranked by Millions of 9L Cases						
Rank	Market	2015	2020	2021	2022	Vol. Chg. 2015-2023
1	United States	324.0	344.5	340.0	329.1	5.1
2	France	303.3	257.8	276.7	281.1	-22.2
3	Italy	237.8	268.9	268.9	255.6	17.8
4	Germany	217.8	220.0	221.1	215.6	-2.2
5	United Kingdom	142.2	146.7	145.6	142.2	0.0
6	Russia	107.8	114.4	116.7	120.0	12.2
7	Spain	108.9	102.2	114.4	114.4	5.5
8	China	201.1	137.8	116.7	97.8	-103.3
9	Argentina	114.4	104.4	93.3	92.2	-22.2
10	Portugal	53.3	48.9	58.9	66.7	13.4

Source: Shanken Impact Data Bank, 2023

# Annual Change in World Wine Consumption and Vine Acres 2000 – 2022



Source: International Organization of Vine and Wine

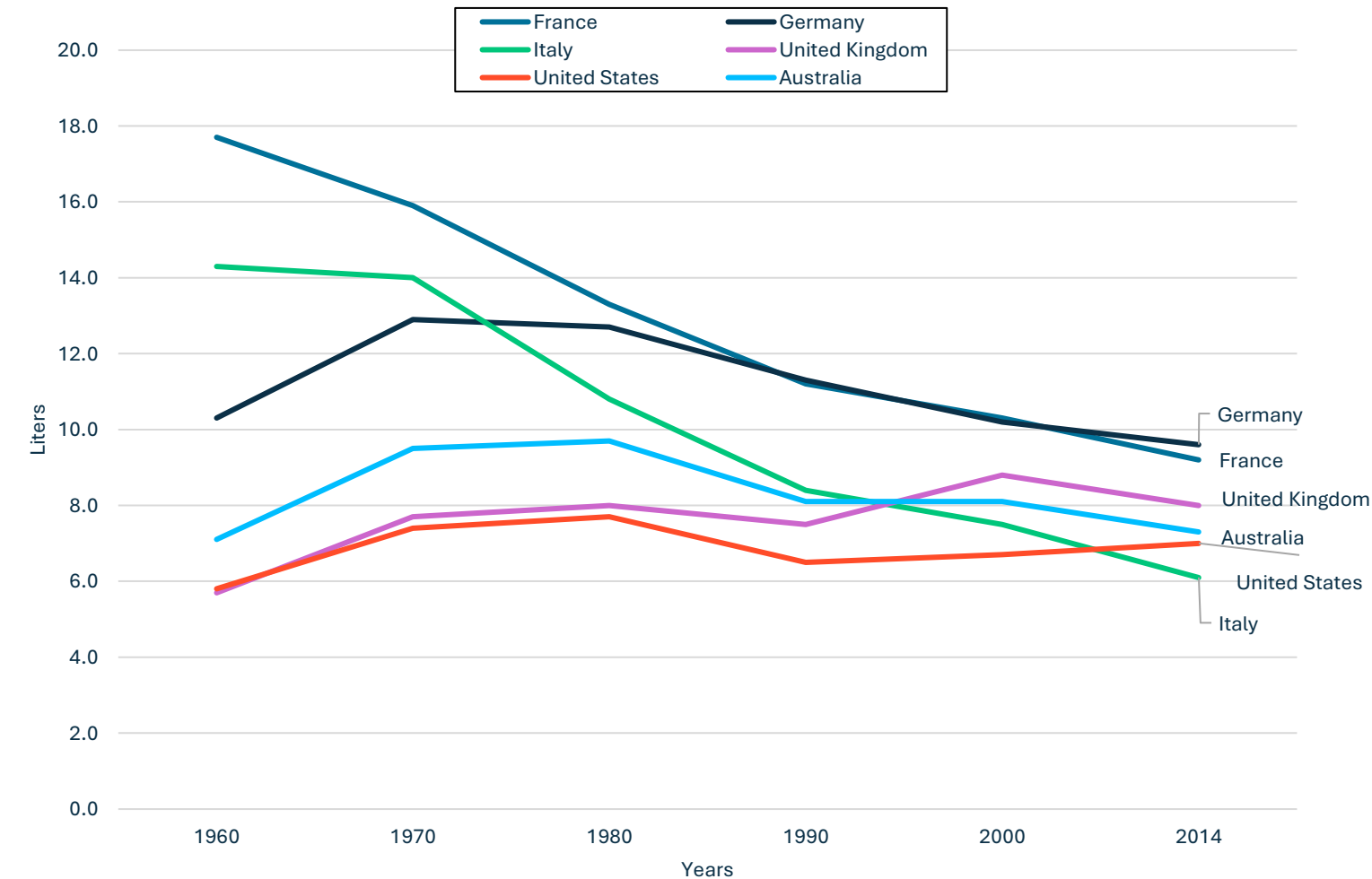
# Sales growth is trending down in many traditional wine countries

The lower per capita consumption trend in wine-consuming countries is more a story of the evolution of old-world versus new-world drinking patterns.

Starting from a higher base with an average per capita consumption above 10 liters, the countries of France, Germany, and Italy reduced alcohol consumption between 1960 and 2014 by 41%. The new-world countries of Australia, New Zealand, the United States, and Canada increased average per capita consumption by 16%, starting from a lower average per capita consumption of 6 liters per adult compared to their European counterparts.

Today, the countries growing in consumption are not making up for the decline in the rest of the world. The challenges faced in the US are mirrored in other traditional wine-producing countries.

## Indicative Countries Ethanol Per Capita Consumption 1960 – 2014



**Note:** Presented in total per capita, versus adult per capita



# World sales opportunity

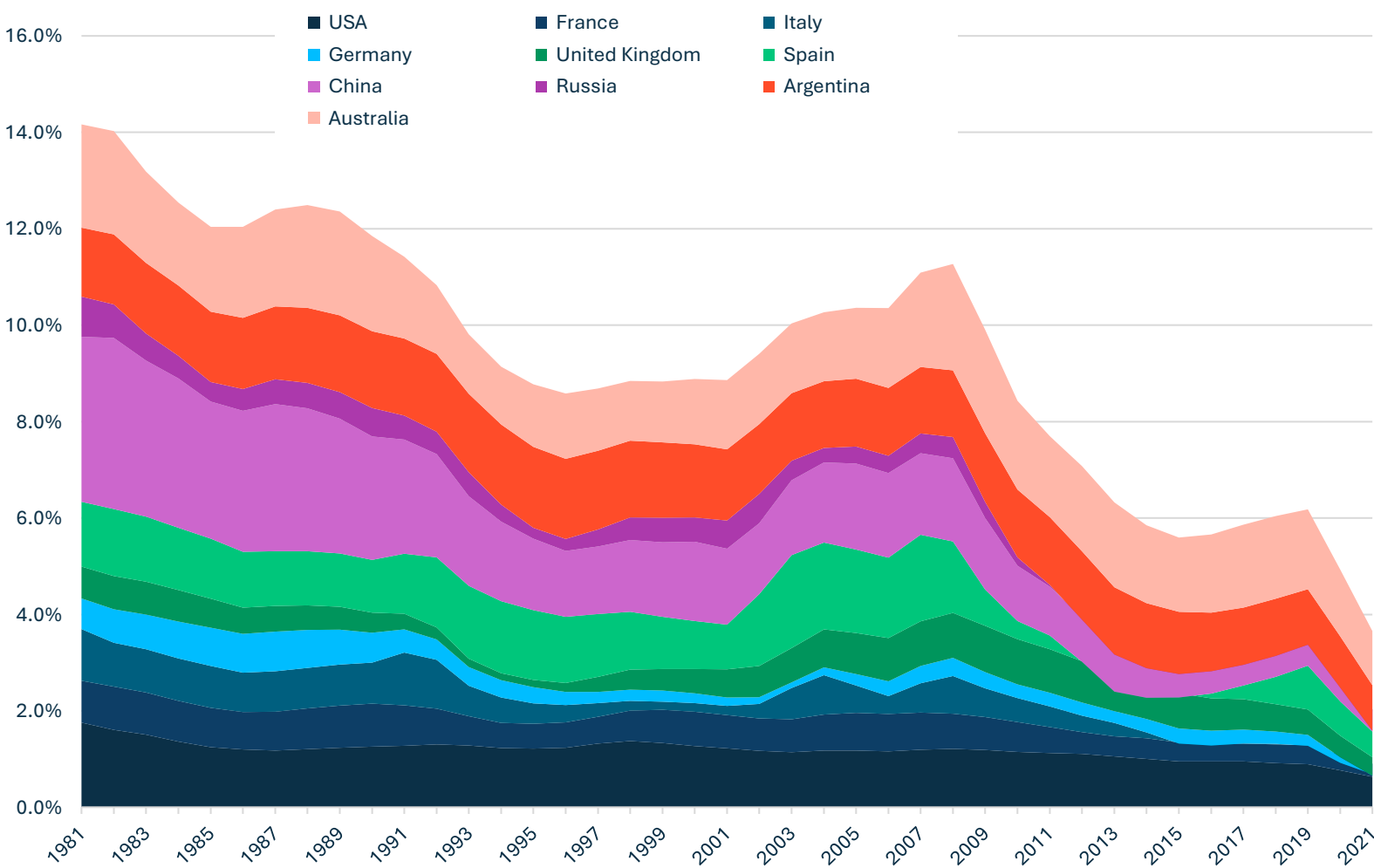
A forecast of growth in the adult drinking population, multiplied by per capita consumption, should be a rough estimate of the expected market growth opportunity tomorrow.

With declines in birth rates and per capita consumption in the largest consuming nations, the opportunity to expand wine sales in the next twenty years will be in regions and countries different from those you target today.

Which countries have the highest forecasted population growth in the next ten years? Half of the world's population growth is expected to be concentrated in just nine countries by 2050: India, Nigeria, the Democratic Republic of the Congo, Pakistan, Ethiopia, the United Republic of Tanzania, the United States of America, Uganda, and Indonesia. If what you are doing isn't working, try something different!

If you export, most would agree that most of these countries aren't on your target list. Tomorrow, you may wish that you had done your market research in areas that seem outlandish today, as building brands in new countries takes years.

# Largest Wine Consuming Countries Adult Population Growth Rates



Source: OurWorldinData.org

## US sales growth

According to Shanken, 2023 will mark the third year of negative volume growth for the wine category and the first time in 45 years that the spirits market will surpass the wine market in total volume sales. In the US, full-category sales growth is declining and is forecasted to decline further by volume, according to almost every data source.

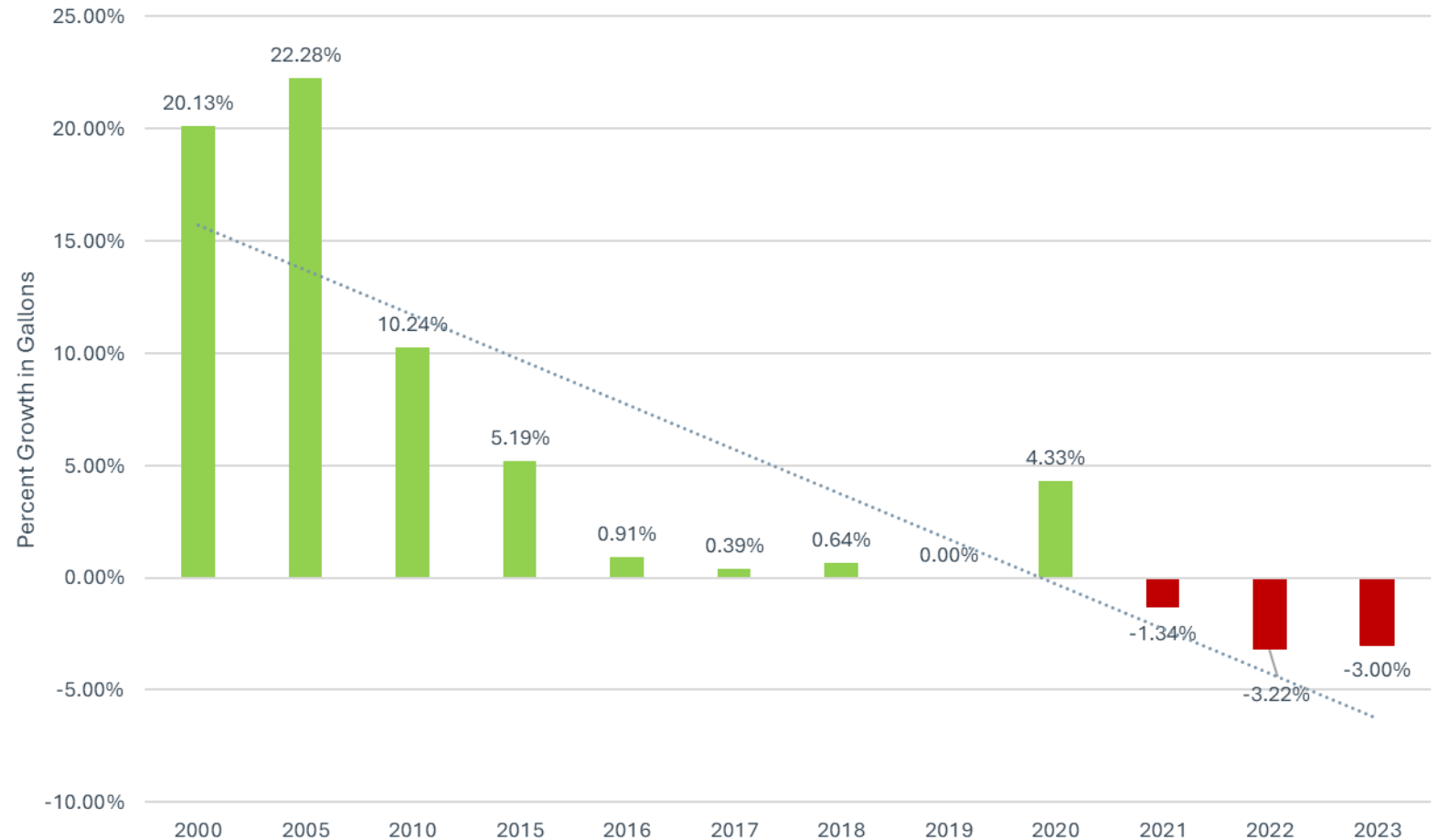
Managing such diverse legal drinking age cohorts all at once is a challenge. Wineries are in a quandary because they can't ignore their best older consumers, yet they must simultaneously change positioning for younger consumers.

There are only two operative solutions. One is to collaborate on marketing the category to expand the number of consumers and wine occasions. The second is to be more effective and efficient as individual wineries since we will all fish for the same consumers in the same pond.

The industry understands the headwinds now. A significant portion of consumers under sixty have tried wine and made their decision to consume alcohol across categories. The younger demographics consume wine differently, on dissimilar occasions compared to the past, or, in some instances, abstain from alcohol altogether.

Change is an investment in time and money. There is opportunity, and success will favor those who adapt.

## Annual Change in US Volume Wine Sales 2000 – 2023



## The growth rate in wine changed in 2013

In 1982, Congress encouraged states to enact stronger impaired-driving laws. By the mid-1980s, some of the neo-prohibitionist organizations effectively characterized wine and other alcoholic beverages as a gateway drug, linking alcohol to unrelated drug addictions.

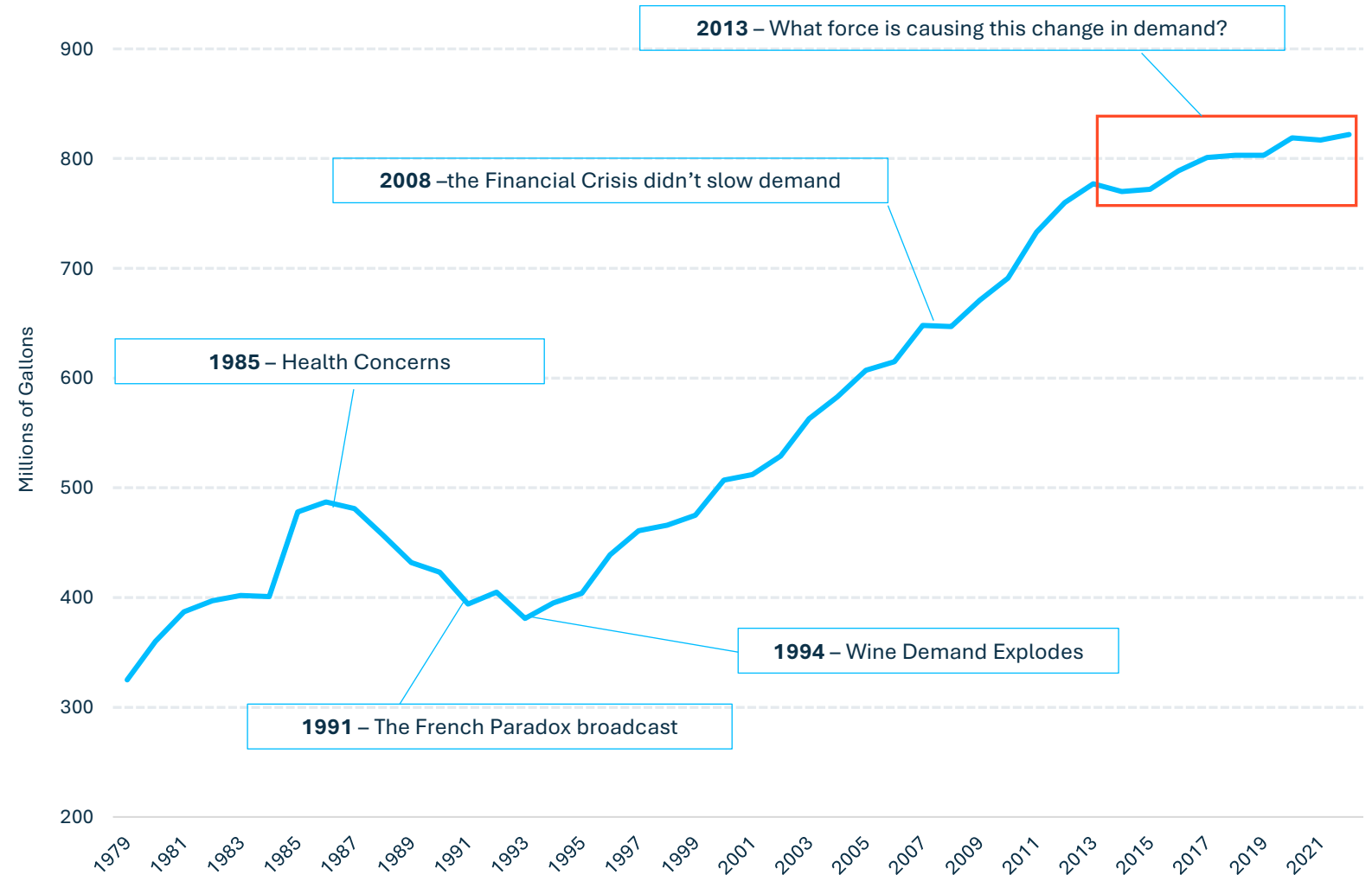
The growing clamor culminated with the Anti-Drug Abuse Act of 1988, which included the addition of government health warnings on wine bottles for the first time. The impact of those anti-alcohol efforts led to the last decline in wine consumption starting in 1985.

In 1991, CBS reported on the French Paradox, adding to the weight of positive health messaging derived from the Mediterranean Diet's popularity and Arthur Klatsky's work showing the health benefits of moderate alcohol consumption.

By 1994, wine consumption flipped positive, coinciding with baby boomers starting their most robust retail consuming years. Beginning in 2013 however, the growth rate in consumption slowed, and today, growth has turned negative in many markets and product categories.

Recapturing the message that wine is the better choice if you choose to drink is one way to improve consumer demand.

## History of US Table Wine Consumed Annually 1979 - 2022





# Which direction will premium wine sales take?

When wine demand under \$12 turned negative and pulled the whole category down, the premium wine business was the bright spot for the total wine category. Wine sales above \$12 continued a positive growth trend through 2022 and should end 2023 with positive value growth.

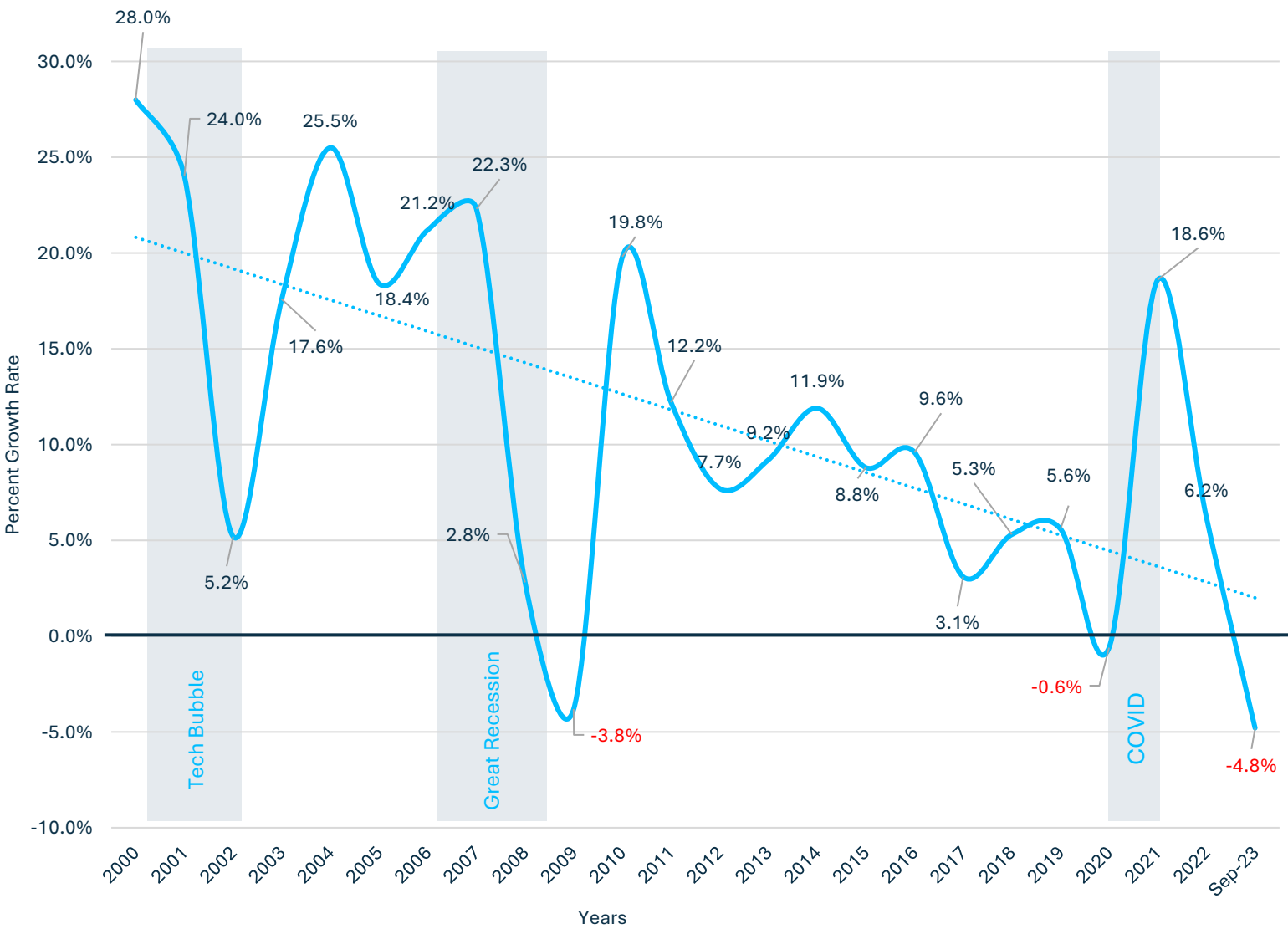
2021 was an outsized growth year for sales in the premium wine business. You still couldn't do many things for fun in 2021, but you could go to a winery and sit outside for tastings. With 18.6% growth off a difficult 2020, 2021 sales growth was the best in a decade. Tasting rooms and club sales were humming as we emerged from restricted business conditions.

Repeating the success of 2021 was unlikely, and predictably, 2022 delivered only modest sales growth of 6.2%. We had hoped to see more people in the tasting rooms with business open. Instead, consumers got on planes and caught up with missed activities. 2023 ends with a second soft summer in tasting room visitation, creating lower sales growth through September.

I expect an excellent Q4 will turn sales around, and we'll report positive 2023 year-end earnings for the premium wine segment.

The good news is that we will again see premium wine with positive value growth in 2023; however, there will be negative volume growth in increasing premium price bands.

# Sales Growth of US Premium Wineries 2000 – September 2023



# A tale of two industries

In 1992, I penned the original business plan for the SVB Wine Division in which I said,

*“U.S. table wine entered a seven-year period of declining volume in the late 80s. Industry observers attributed the decrease to changing consumer attitudes concerning alcohol consumption, health concerns, drunk driving issues and overall changing tastes as consumers drank less but better wine.”*

Doesn't that sound eerily familiar 30 years later?

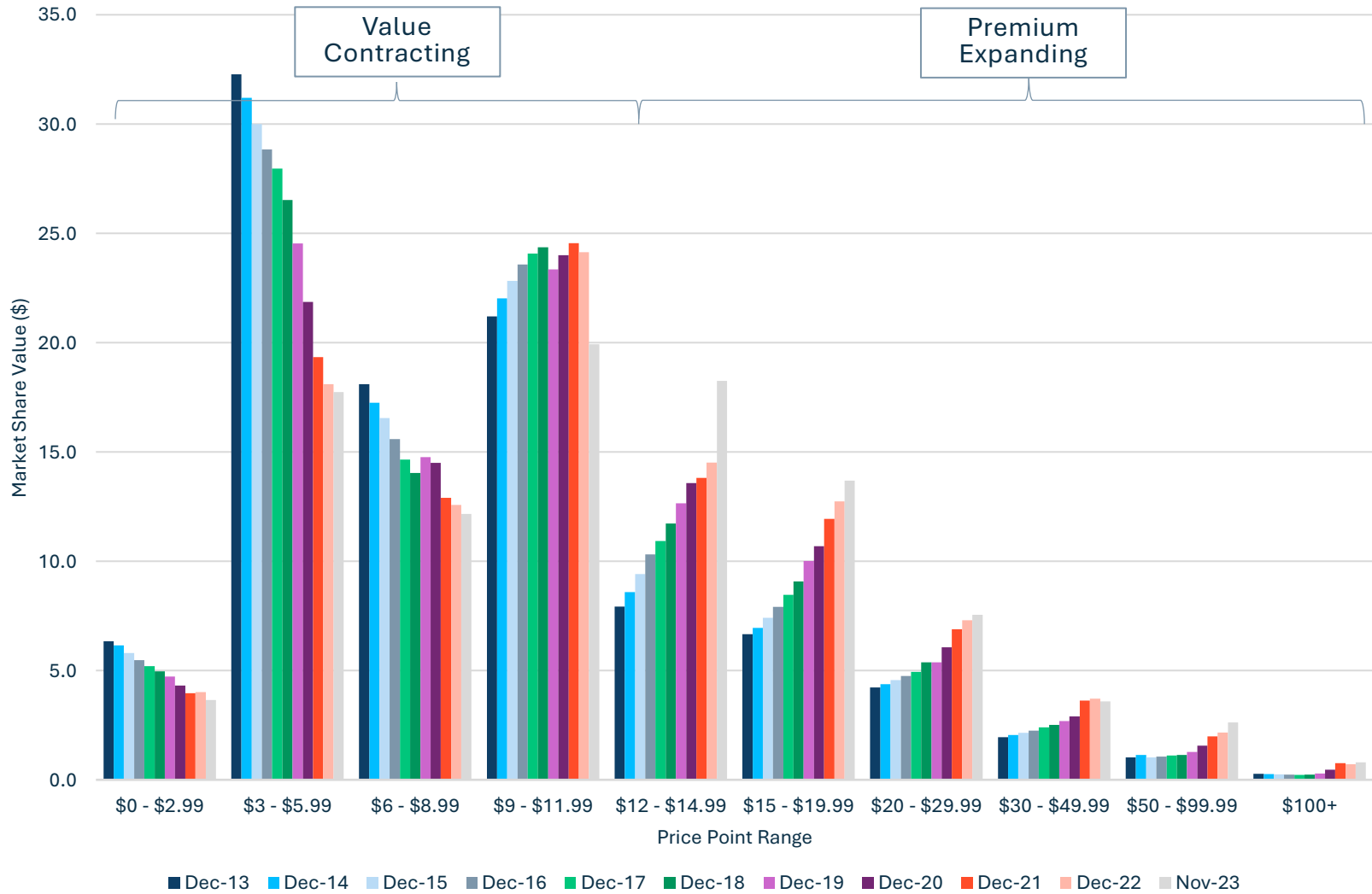
In the middle of 2016, wine below \$9 began to show value weakness. And in late 2017, those wines began to show persistent volume declines off-premise.

Wines above \$12 have been performing well but at a declining growth rate. This August, the combined channel information made us question if the above \$12 premium market was falling into the pattern of the lower-priced wine volume.

While the premium wine trends are concerning, the current data on premium sales have too few data points to call those trends a permanent shift. We also have to consider volume declines in light of the sale of the small 2020 vintage in 2023.

The premium wine segment, by any measure, is better positioned in the category at present.

# Annual off-Premise Value Share of Market by Price Range



# An example of seeing the problems and making adjustments

Larger companies have not been idle while their wine business sagged. Some have invested in product development or acquired new brands. Others have shifted focus to areas with growth potential, such as spirits-based RTDs, tequila, Mexican beer, and cannabis—or made small investments in advertising.

Some in the wine business believe that leaving the wine category for spirits shows a lack of category leadership. I don’t see it that way. The largest wineries are adapting their businesses to a changing consumer, and adaptation is what the industry needs.

Still, there is an underlying belief that the largest firms have a responsibility to the category to provide gateway products for new consumers and national advertising to expand the base for all.

That may have happened before, but expecting the same investment to happen during this cycle may not be rational. Hope is not a strategy—we need a path.

Category	2021	2022	Percent of Total Ad Spend 2021
Beer	\$886.2	\$873.3	51.5%
Distilled Spirits	\$533.0	\$501.4	29.6%
Flavored Malt Beverages	\$328.3	\$239.5	14.1%
Wine	\$122.0	\$109.5	6.5%
Total Ad Spend	\$1,869.5	\$1,696.1	100.0%

# Top Seven Wine Companies Based on Case Depletions

Sales Depletions for the Largest Seven U.S. Wineries										
Rank	Company	9-Liter Case Depletions (millions)				2022	Change	Change	Change	Change
		2018	2019	2020	2021		2018-2019	2019-2020	2020-2021	2021-2022
1	E. & J. Gallo Winery *2	98.5	94.5	95.3	93.4	90.3	-4.1%	0.9%	-2.0%	-3.3%
2	The Wine Group *3	41.5	40.3	42.0	40.5	41.7	-2.8%	4.2%	-3.6%	3.0%
3	Constellation Brands *4	21.7	21.5	21.6	20.7	23.5	-1.0%	0.5%	-4.0%	13.5%
4	Trinchero Family Estates	18.5	18.4	18.0	17.6	17.4	-0.5%	-2.0%	-2.0%	-1.2%
5	Delicato Family Wines *5	11.2	12.0	15.4	15.7	15.0	7.0%	28.5%	2.0%	-4.5%
6	Deutsch Family Wine & Spirits	11.2	10.9	12.4	11.8	12.0	-2.3%	13.7%	-5.3%	2.1%
7	Ste. Michelle Wine Estates	8.2	8.6	7.8	7.6	7.0	4.3%	-9.3%	-2.6%	-7.9%
Average Sales Growth for the largest 7 wineries							-2.2%	3.0%	-2.8%	-0.2%
Average Market Share for the largest 7 wineries		64.8%	63.3%	63.1%	61.8%	62.9%				

\*2 Includes brands acquired from Constellation in 2020 & 2021.  
\*3 Excludes brands licensed from Treasury Wine Estates in 2021 and wines acquired from Constellation Brands in 2022  
\*4 Excludes brands sold to Gallo in 2020 & 2021.  
\*5 Includes brands acquired from Francis Ford Coppola Winery in 2021.

# Premium Wineries





# The mood in the wine business is cautious

The Wine Industry Sentiment Index uses the Michigan Consumer Sentiment Index methodology to gather insights into the mood in the business. Wine industry sentiment is low this year, the weakest it's been during the past five years.

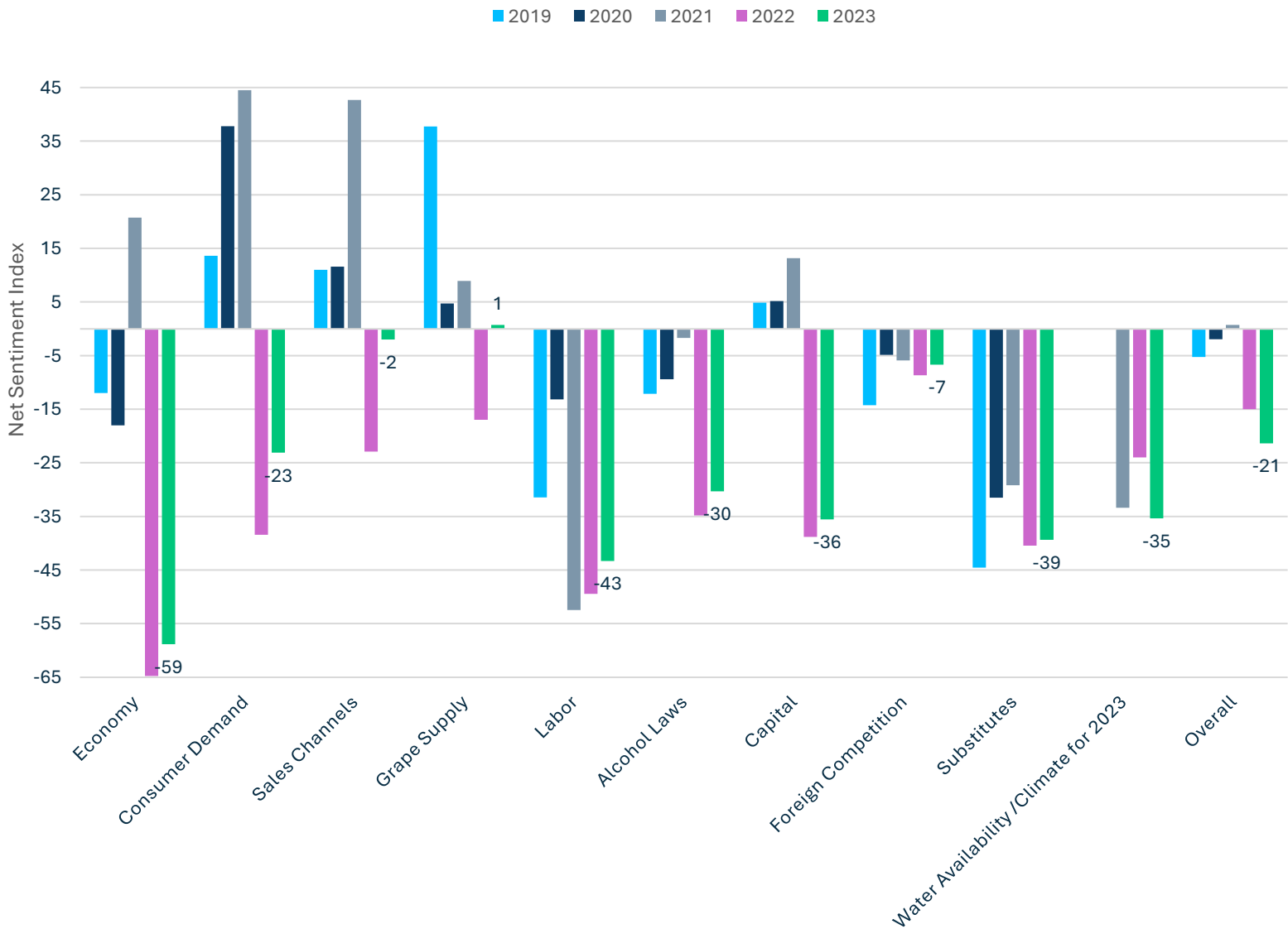
The issues of most significant concern are the economy and labor. The latter has been a top concern for years. Two other notable areas of concern are capital and substitutes. The former makes sense, given the rise in interest rates, while concerns regarding substitutes are more nuanced.

Substitutes today take many forms and range from low- and no-alcohol alternatives, beer, spirits, ready-to-drink options, cocktails, and all other non-alcohol beverages ranging from sports drinks to soda.

Of particular note in the substitute category is cannabis, which many younger consumers consider healthier than wine, according to Gallup. The only component the industry feels good about in the Sentiment Index is grape supply, though if you asked growers, the answer might be different.

It's interesting to see that while the consumer demand bucket is negative in this index, it's only in the middle of the industry's perceived problems.

## Wine Industry Sentiment Index



# Seventy percent of industry respondents report their financial condition is strong

While the industry's mood is increasingly cautious, the good news is the annual SVB State of the Wine Industry Survey shows that the self-reported health of the premium wine business is stable and similar to prior years. Is that believable, given all of the other disappointing indicators?

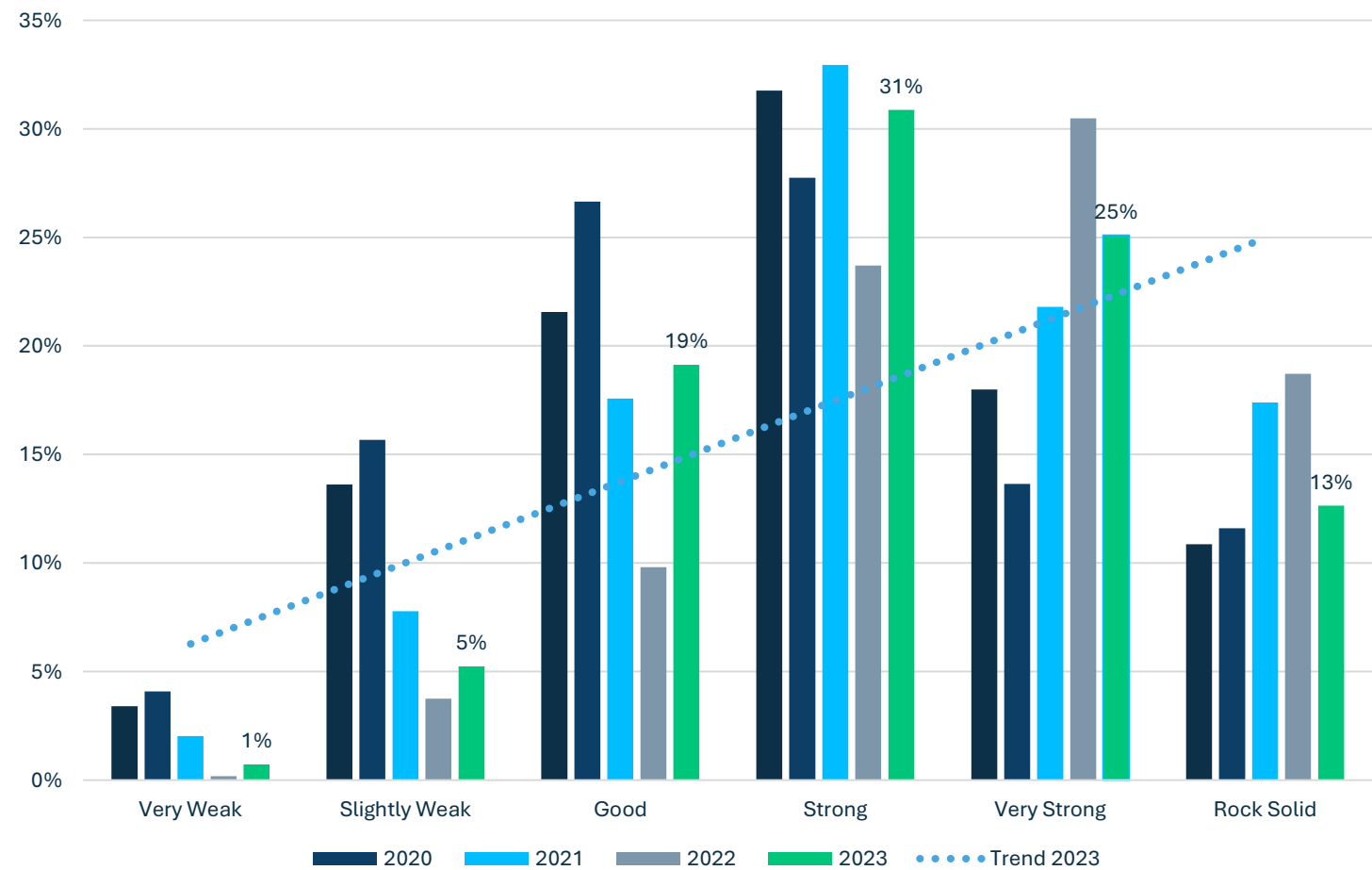
SVB's database of financial statements lends credence to the self-reported viewpoint (see slide 28 for more information on the database). Though volume-based sales are lower on the premium side of the wine business, dollar-based sales are higher on a trailing 12-month basis, and wineries partially cover some of their higher inflation costs.

Short-term borrowings are substantially higher than in the past two years, and net profit is slightly lower, but the higher borrowing isn't due to profitability issues.

Short-term borrowing increases are due to more significant and sustainable inventory levels resulting from wineries rebuilding inventory stocks depleted from the 2020 vintage.

The SVB financial statement database confirms that the industry's belief in the strength of the underlying business is warranted.

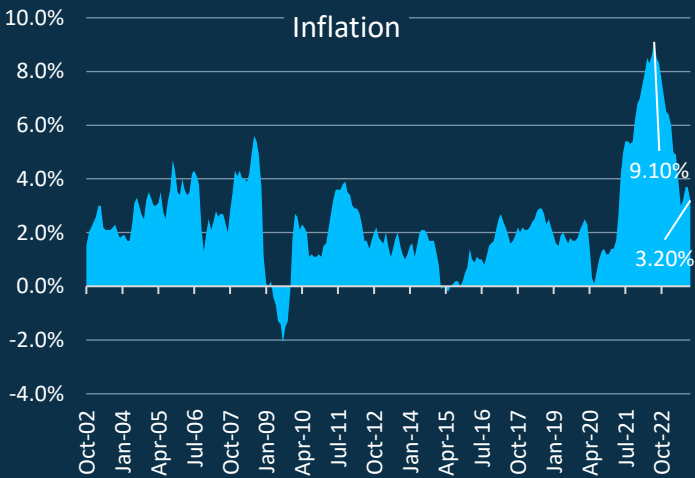
## Winery Financial Health



# Modest price increases allowed most to recapture a portion of inflated costs.

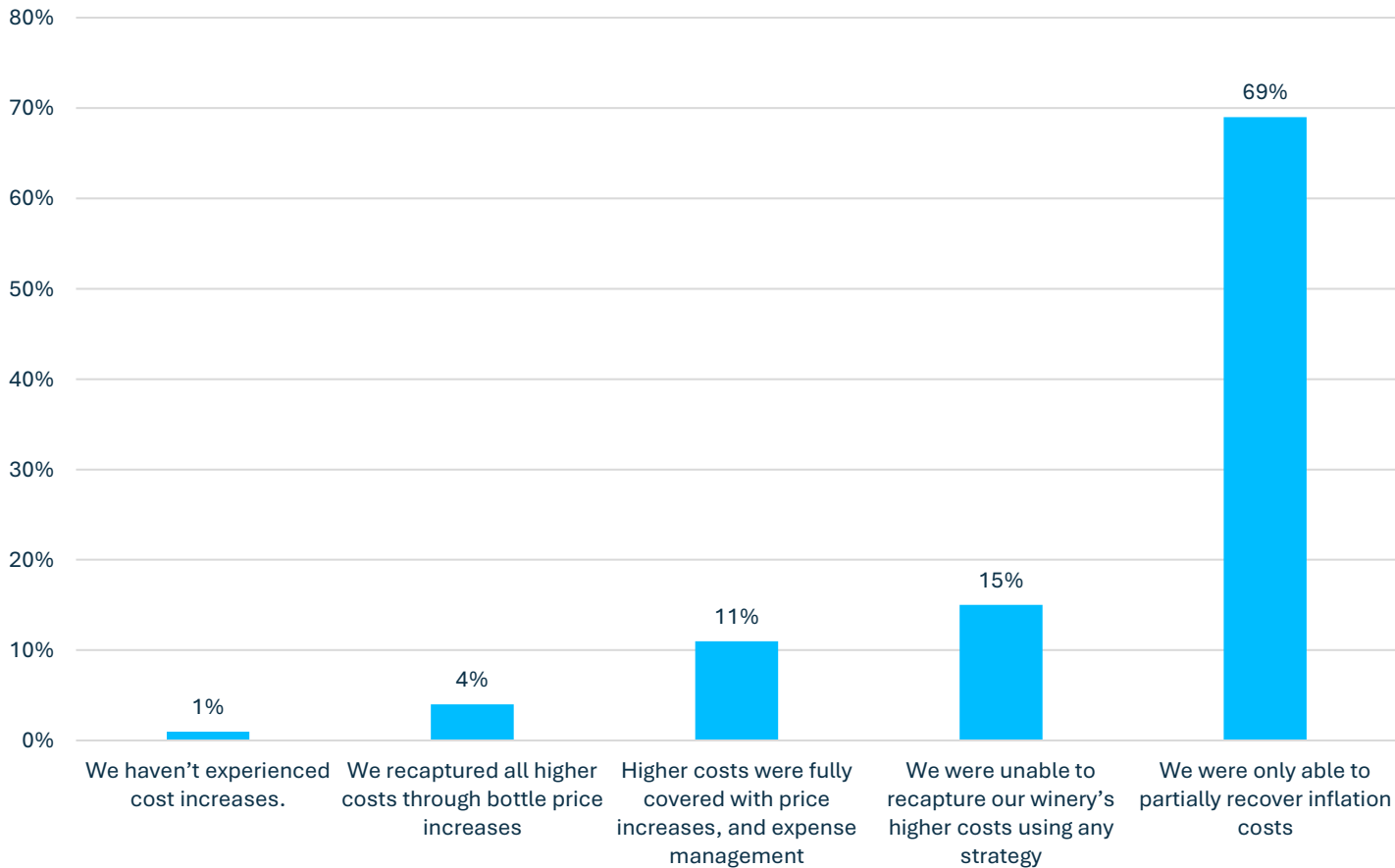
Inflation hasn't been a part of the economic discussion for decades. COVID changed that, breaking supply chains and sparking the highest inflation since the late 70s and early 80s.

Inflation is still persistently high, though it is coming down, but the premium wine industry did a commendable job recovering the higher costs of labor and materials in 2023. 70% of survey respondents partially covered their higher costs, and 15% fully recovered their added costs.



Source: Bureau of Labor Statistics

# Survey Question: How did you address higher costs from inflation?



Source: SVB Annual State of the Wine Industry Survey

# Tasting room visitation was down. Should we be concerned?

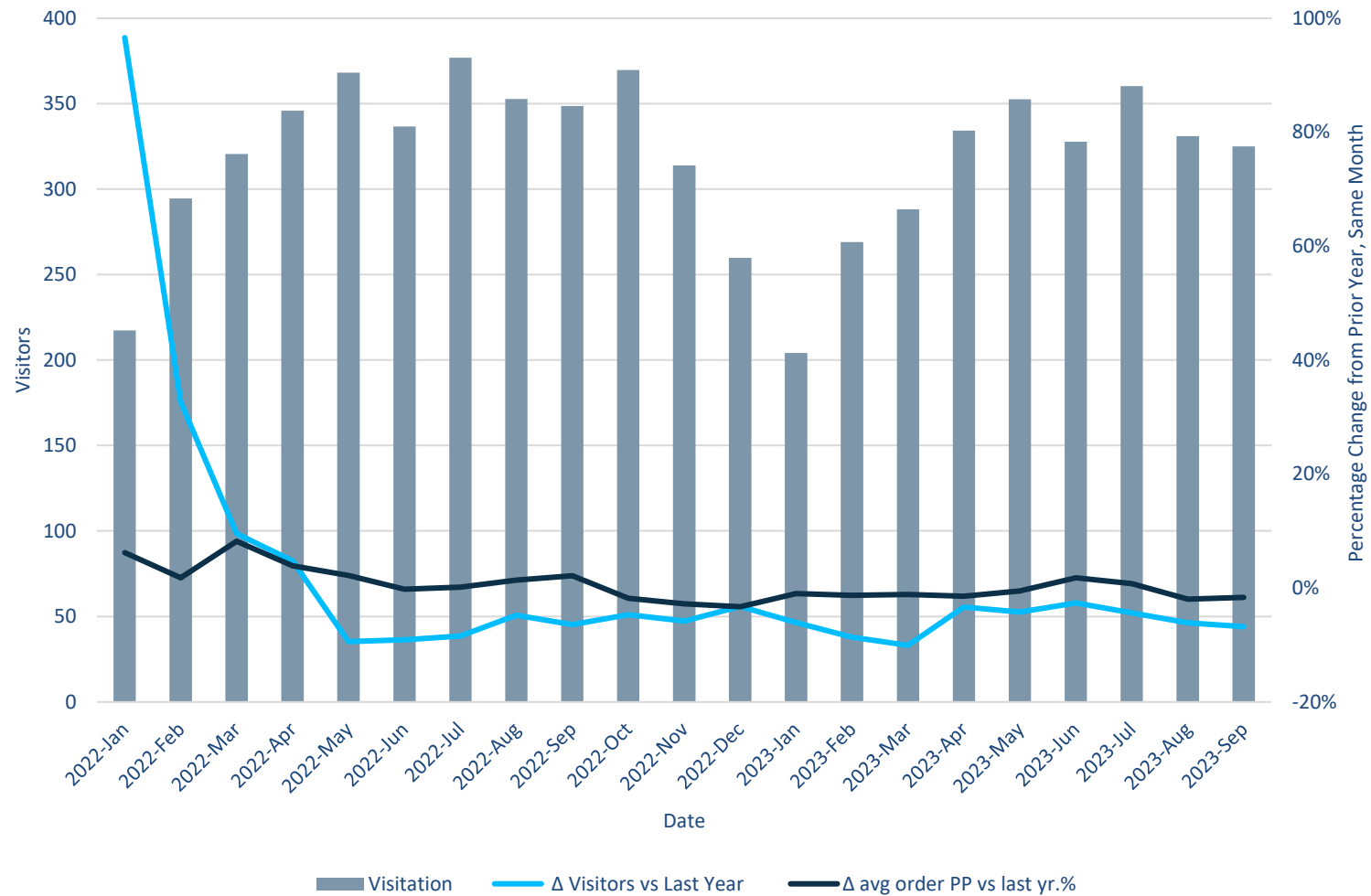
Visitation in tasting rooms declined in 2023, marking the second consecutive year of declining summer traffic. We didn't see a higher average order value to offset the lower visitation, so the drop in visitation resulted in a decrease in tasting room revenue. Although this trend has raised concerns among many, I'm less concerned.

It was expected that the decrease in tasting room traffic in 2022 would follow the spectacular year that was 2021. While numerous people expected visitation in 2023 to remain at the same level as in 2022 or even improve, unfortunately, it did not. Once again, visitors made up for lost time in the summer of 2023, hopped on airplanes, and went elsewhere. One network called the summer of 2023 'Revenge Travel II.'

The correlation between lower visitation and higher tourism can be seen in TSA passenger data on the following page.

I believe we will see improved tasting room traffic in 2024 as travel normalizes.

## Avg. Visitation to Tasting Rooms, vs. Change in Visitation and Change in Average Order from Prior Year, Same Month





# We are returning to normal travel patterns

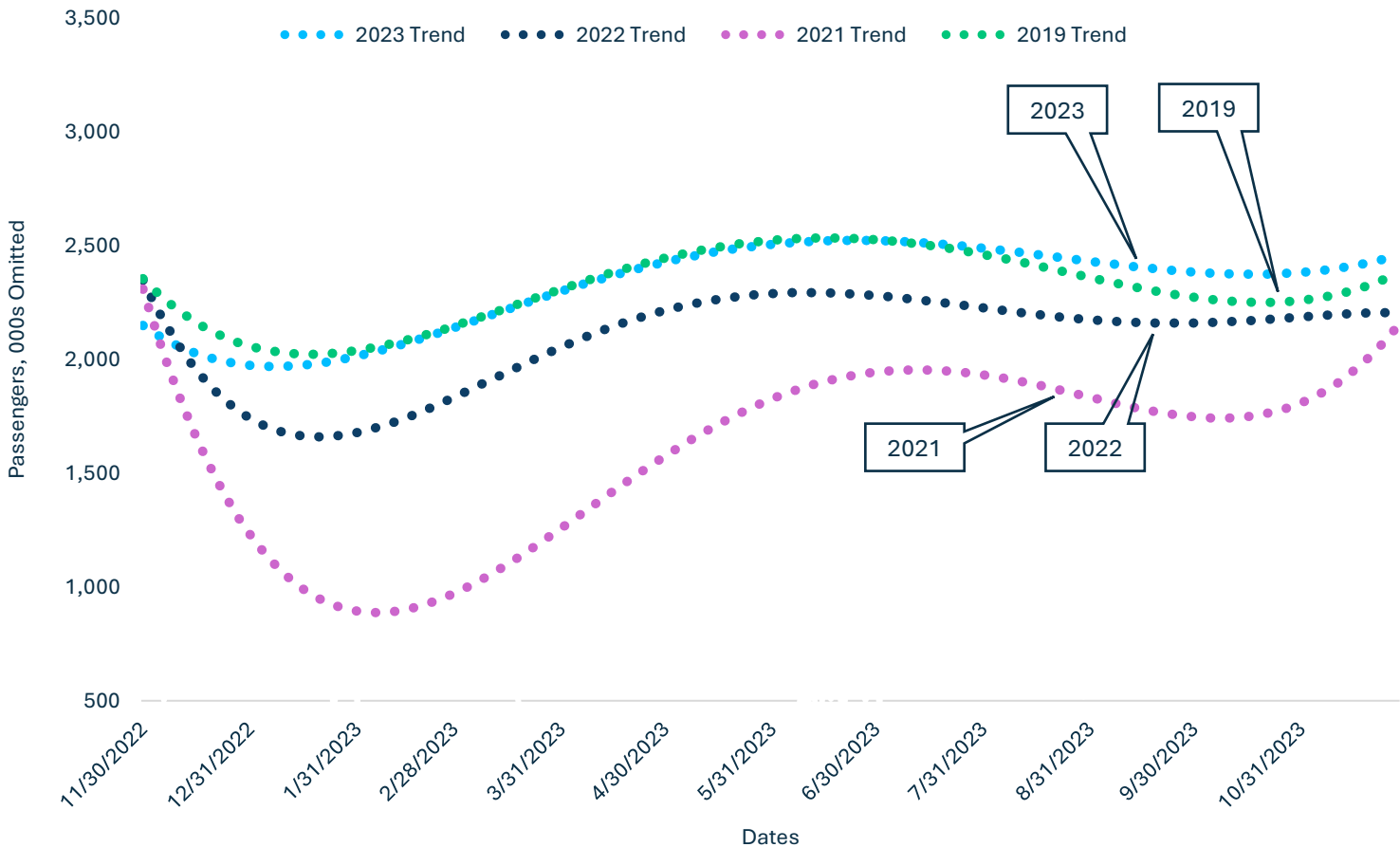
We can gauge how close we are to returning to pre-COVID travel norms from TSA information.

Interestingly, since 2020, there has been an inverse correlation between airline traffic and tasting room visitation. High airline traffic today typically results in lower tasting room traffic. It makes sense, though, as wine consumers generally are college-educated and wealthier, so they are more able to afford travel outside of the US, impacting tasting room sales.

The data shows that 2021 was a strong year for tasting rooms and was the weakest in passenger traffic, excluding 2020. In 2022, passenger volume was still below that of 2019, and tasting room traffic was lower than in 2021. We finally exceeded pre-COVID passenger volumes only in mid-June of 2023, and tasting room traffic was still down overall in 2023 versus 2022.

With a slowing economy and with a second summer of consumers catching up on lost celebrations and deferred travel, I believe we have likely established a bottom in tasting room visitation volumes.

# TSA Passenger Volumes, Trendlines Change from Same Period Prior Year



# Growth in direct sales

The SVB Annual State of the Industry Report is a valuable resource for various groups, including academia, investors, researchers, winery owners, importers, regulatory bodies, governments, and the media.

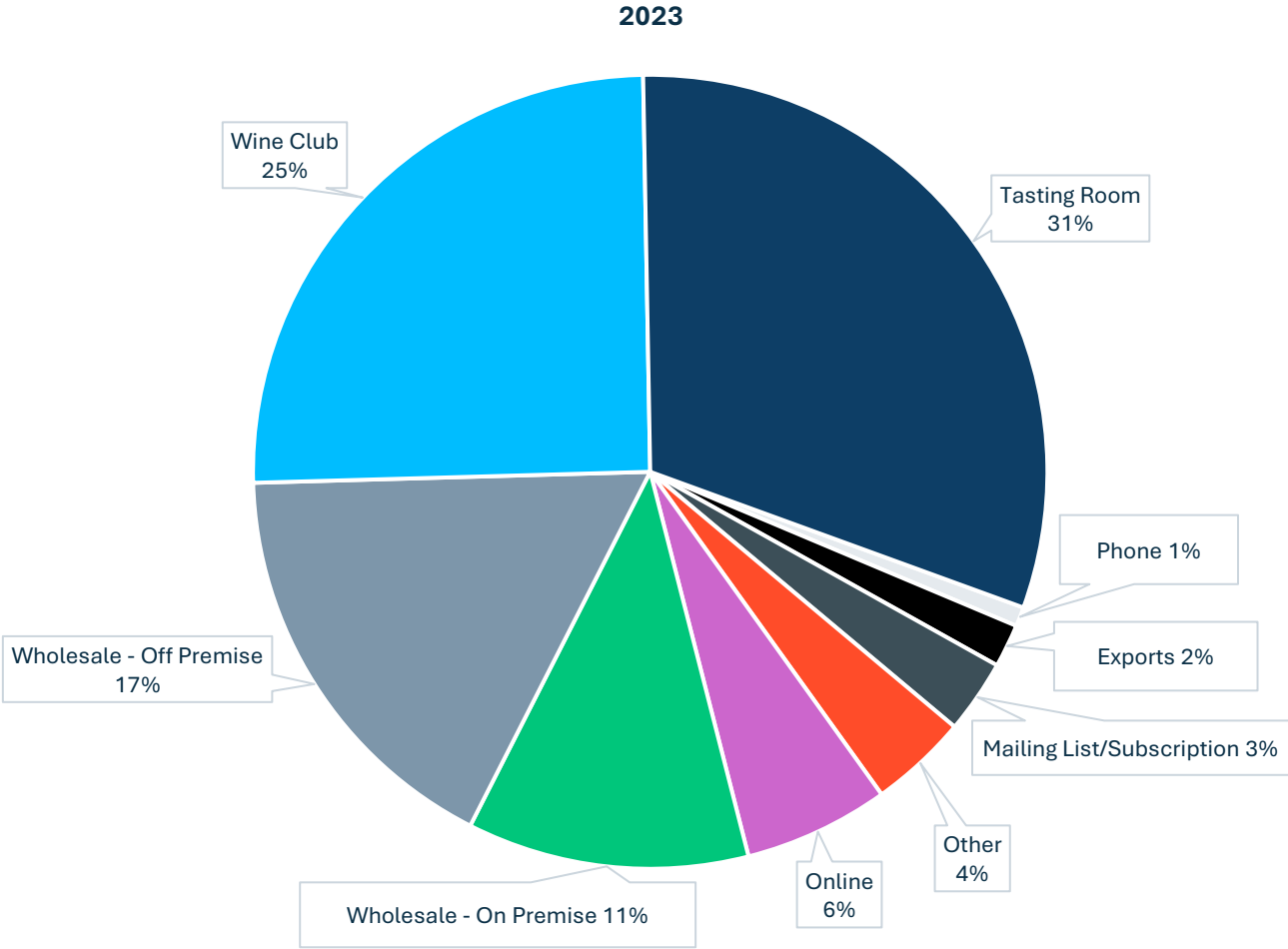
Information is readily available for the industry's high-volume wineries, but that represents relatively few players. Most wineries are smaller than 50,000 cases and family-owned. Getting reliable data for that group is more challenging.

SVB remains uniquely positioned to provide street-level intelligence for the more significant numbers of wineries and interested parties in this otherwise opaque space. We see the financial statements and live in the industry full-time.

Regarding this slide, small wineries continue to increase their direct sales, which now average almost 70% of total sales. That is a twenty basis point growth from past years. The share gained in direct-to-consumer has primarily been taken from wholesale.

Please visit the [2023 SVB Direct-to-Consumer Report](#) for more insights and benchmarks on the direct-to-consumer channel.

# Premium Wineries Sales Channels Share of Revenue

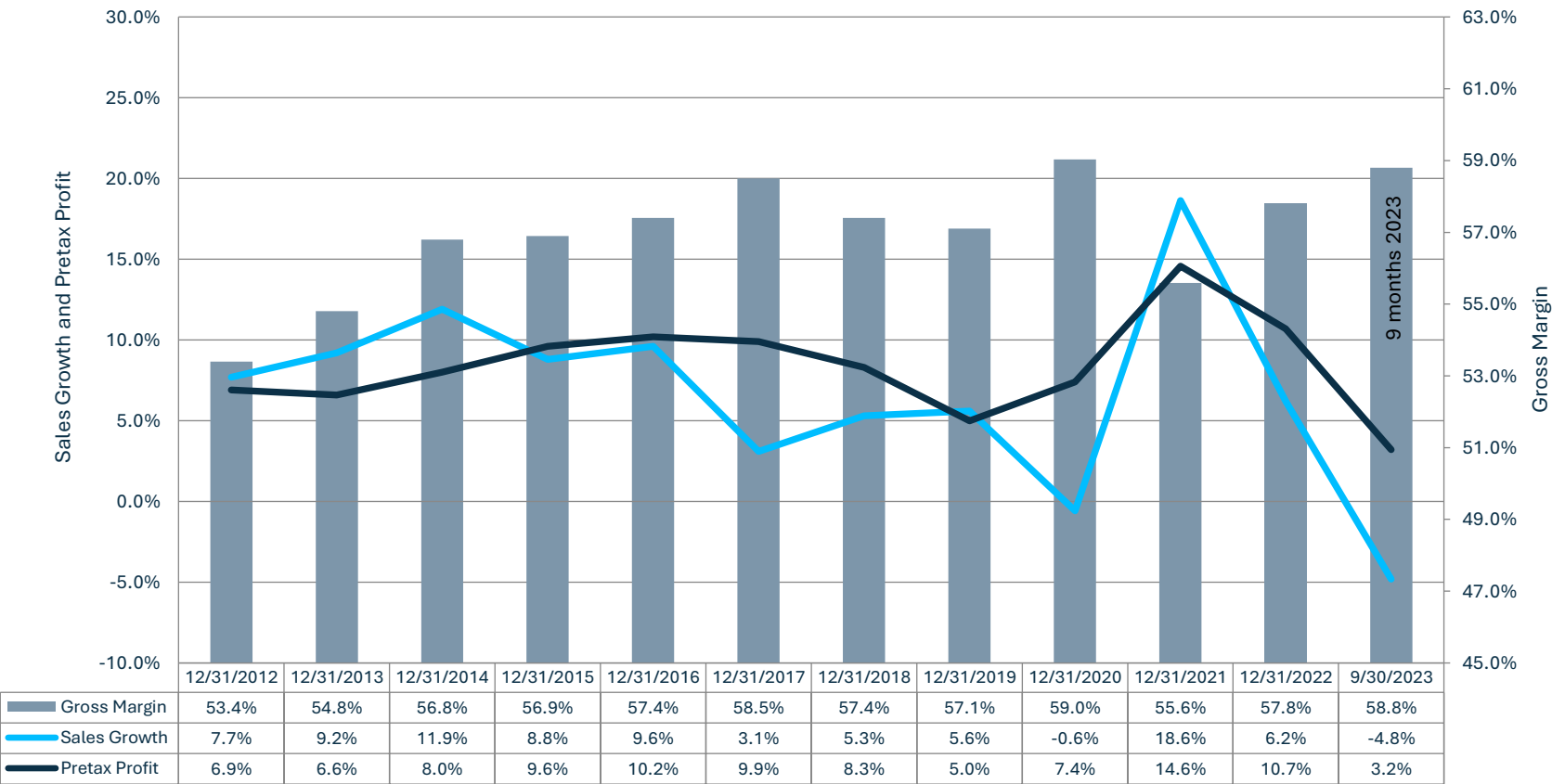


# With a good Q4, the growth rate will turn positive

This information is taken from SVB's proprietary database of financial statements of premium wineries. The average case production was 31,061, and the case price was \$370 for the dataset in 2023. [See additional comments on the following page.](#)

As noted elsewhere, we anticipate a good Q4 2023, and with that, the negative sales growth through Q3 will turn positive by the end of the year.

## Premium Wineries' Financial Performance





# September 2023 Interim Financial Performance

## Income Statement

- Cased goods revenue was down 4.8%. A portion was due to the small 2020 vintage.
- Gross margin improved by 100 basis points due to bottle price increases that were needed due to inflation and the higher costs of the 2020 vintage.
- 59% of the samples had an increase in SG&A due to higher current period costs, including labor costs.
- Movements in inflation data generally track SG&A expense growth.
- 75.8% of data samples had an increase in interest expense.
- Two-thirds of the sample had lower net income but were profitable.

## Balance Sheet

- Cash is lower by 17.5% from 2022.
- Inventory values were up 7.7% with 80% of the sample growing inventory.
- Fixed Assets were up 4.1%. 74% of wineries increased fixed assets.
- Current liabilities were up 45.1%. 64% grew current liabilities.
- Long-term liabilities were up 5.3%.
- Total liabilities were up 13%.

**For SVB clients:** Please see your account officer if you would like to be benchmarked against a narrow and anonymous set of competitor wineries.

## Select Financial Ratios

Metric	9/30/2023	9/30/2022
Current Ratio	3.05	2.80
Quick Ratio	0.49	0.54
Cased Goods Rev./Net Working Capital	0.89	1.25
Account Receivable Days (365)	25.21	29.99
Inventory Days	1,201.42	842.41
Total Liabilities to TNW	1.51	1.36
Senior Liabilities/TNW + Sub Debt	1.22	1.13
Gross Profit Margin	58.8 %	57.8 %
Sales, Marketing, Promo Ratio	18.9 %	17.4 %
Pretax Margin	3.2 %	10.5 %
EBITDA/Net Cased Goods Sales	15.3 %	20.4 %
Total Interest/Total Senior Debt	5.1%	3.6%



# Bottle Pricing



# Which wineries are adapting to higher costs?

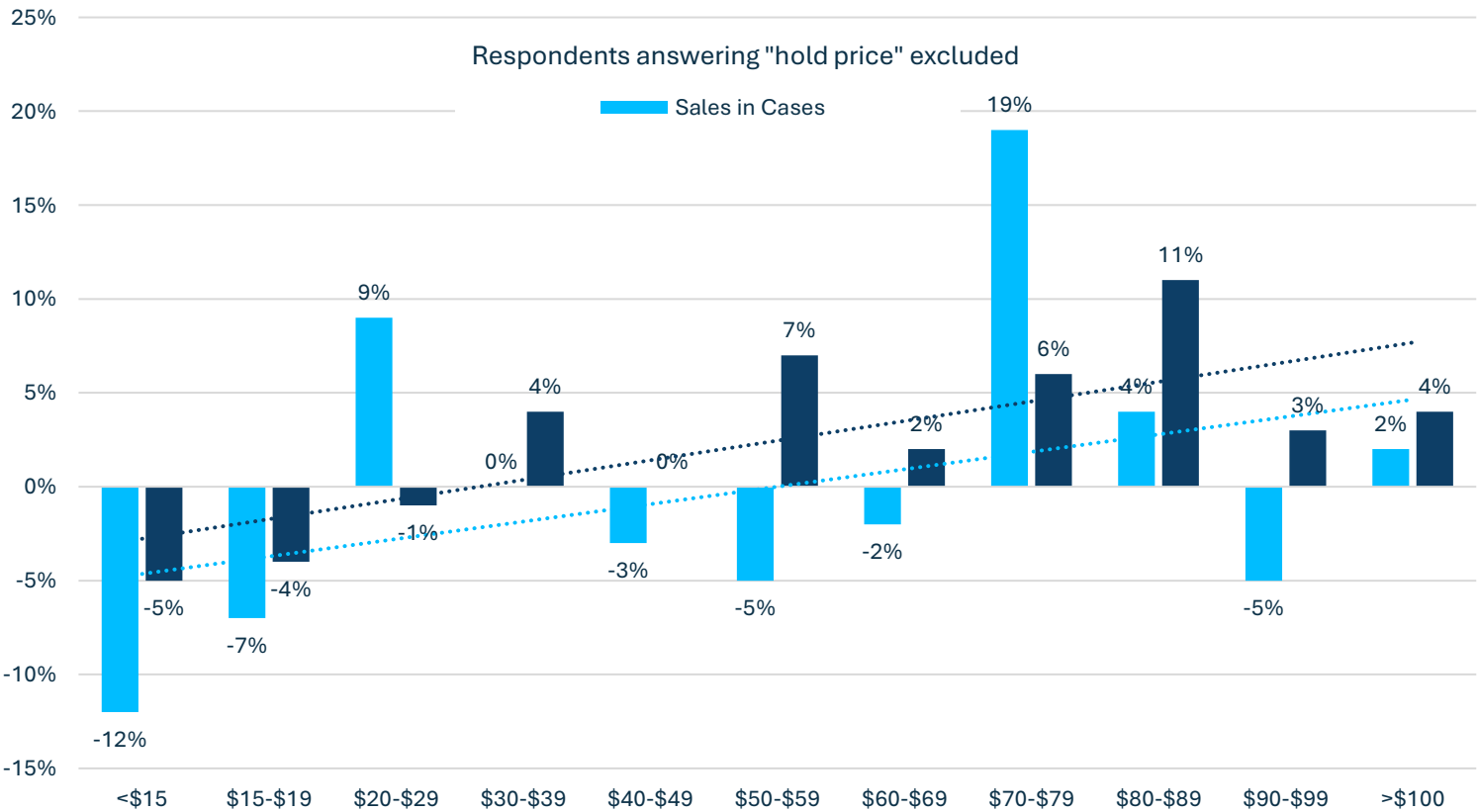
Consistent with other information, the 2023 State of the Wine Industry Survey confirmed that it was easier for owners to raise prices in the higher price bands and still retain volume gains. Wineries with lower average selling prices struggled to find increases in either value or volume.

With cost increases from inflation and difficulty raising prices sufficiently to recover the higher costs, producers are pressured to find alternative methods to reduce costs or conserve cash. That may include reducing packaging costs, blending in bulk wine from regions that produce less expensive options, or selling off the wine that was initially intended for release when bottling costs only add to the margin pressure and don't contribute to the bottom line.

Another alternative in this circumstance is to continue the SKU as constructed and accept lower returns if the belief is that the margin issue is temporary. But if the margin squeeze on the SKU looks like a permanent issue, the winery may need to consider abandoning an established SKU and rebranding the product into a new label and price.

Growers in California are being left with unpicked or rejected fruit with greater frequency. This could lead to an organic decrease in grape and juice prices in some regions and solve a portion of the margin squeeze wineries are having. However, that doesn't help the grower.

## 2023 Percentage Changes in Value and Volume by Price Range



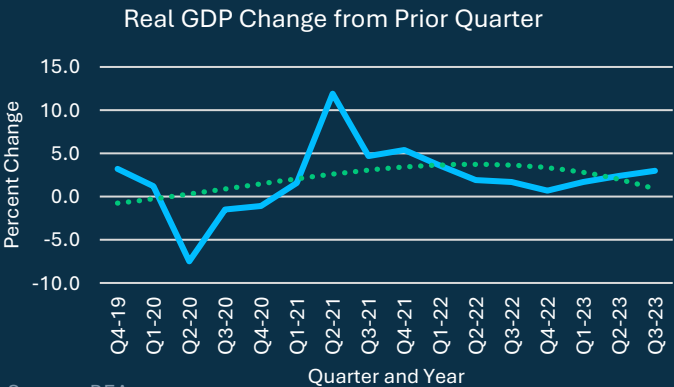
Source: 2023 State of the Wine Industry Survey

# Was it easy to raise bottle prices in 2023?

It's become increasingly difficult to raise bottle prices since 2020, when COVID pantry stuffing allowed for some price increases. Like so many other indices- inflation, GDP, the unemployment rate, or the savings rate-with normalization comes a reversion to the mean before COVID. Price increases were difficult before COVID and have returned to being difficult.

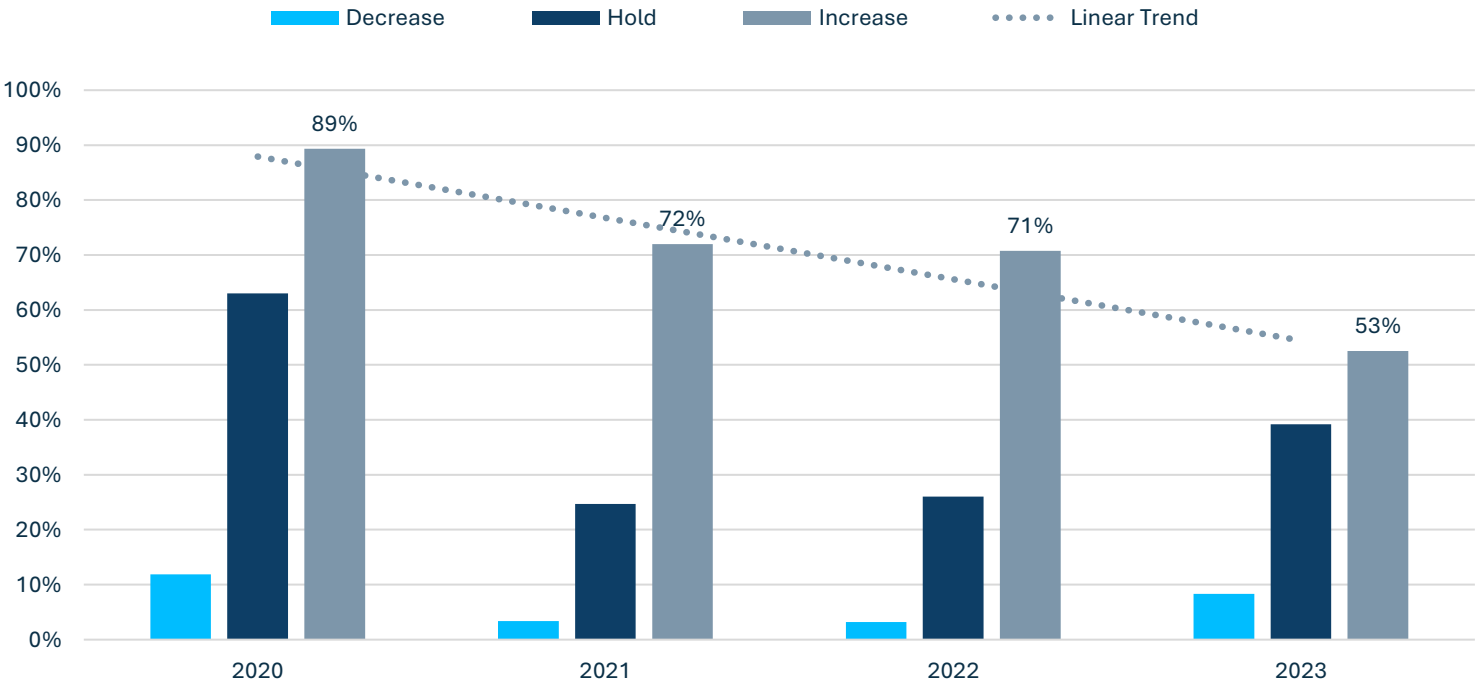
Given the heavy inventories at retail and wholesale today, along with declining category demand, increasing bottle prices should continue to be challenging for many industry players over the next several years.

The only positive news in this circumstance is that premium wines selling more direct-to-consumer enter this challenging period with balanced inventories due to several years of modest harvest volume.



Source: BEA

# Annual Expected Changes in Value and Volume



Source: 2023 State of the Wine Industry Survey

# Are bottle prices rising in the DTC channel?

While inadequate to cover cost increases, the answer to the headline question is yes.

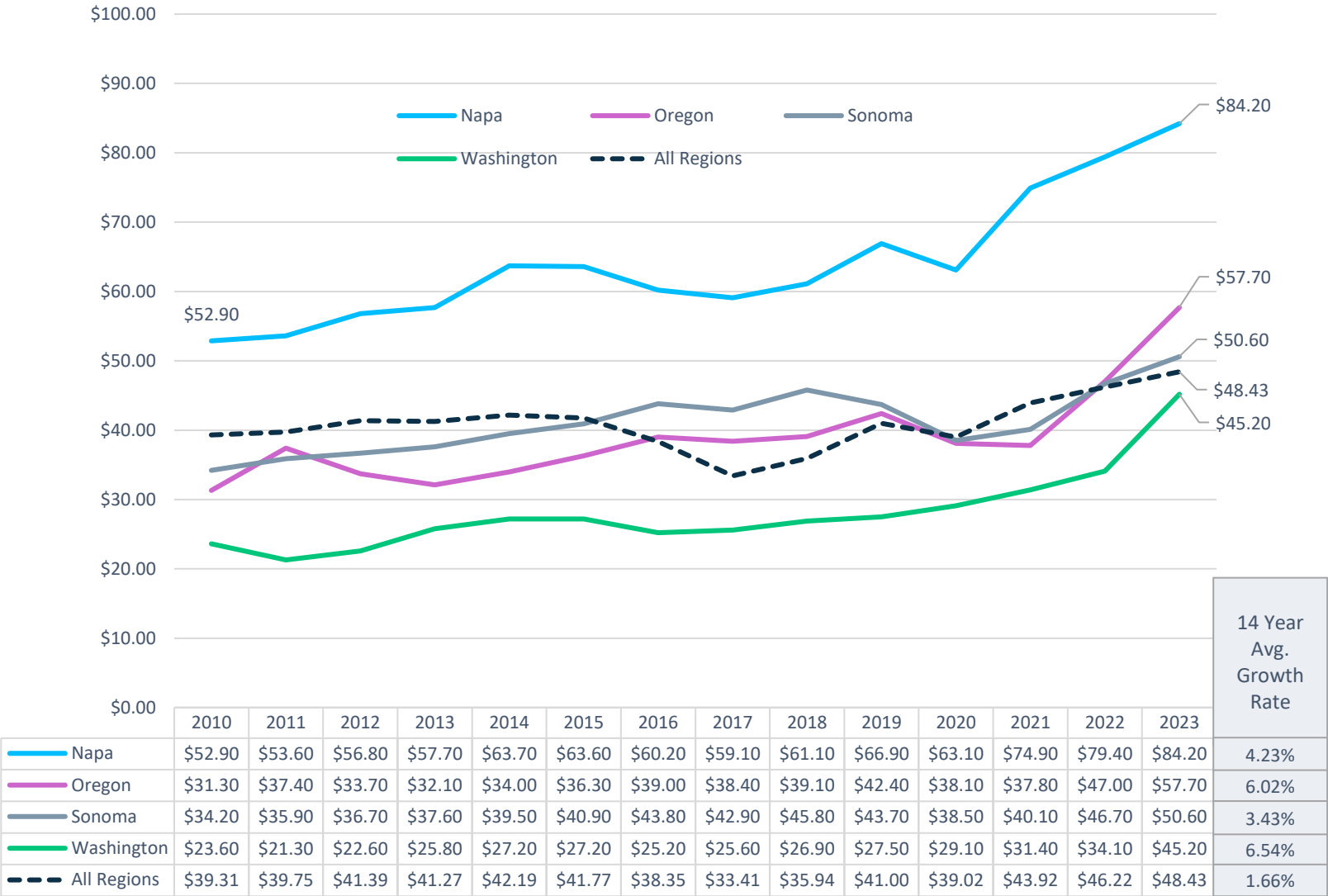
The Sovos ShipCompliant database has collected millions of direct-to-consumer retail transactions for over a decade. The analytical review conducted by Customer Vineyard has helped draw conclusions about bottle prices.

Shipping lower-priced wine directly is not profitable due to the high cost of shipping wine via a common carrier. Therefore, the data in this set mainly consist of premium wines with bottle prices above \$15 per bottle.

When the COVID pandemic caused on-premise and tasting room sales to shut down, wineries took to discounting en masse with direct sales, and that dip in price shows up here.

Post-COVID, with winery inventories balanced, consumers flocked to wineries when businesses reopened, and discounting vanished. Those circumstances resulted in prices returning to the prior growth trendline, which is most evident in the 2020-2022 Napa trendline in the chart to the right.

## Annual Avg. Direct-to-Consumer Bottle Price Changes



Source: Customer Vineyard, Sovos ShipCompliant

# What is happening to bottle price within price bands?

An average can be misleading at times. The information at right is the percentage of respondents to the SVB Survey who shared their plans on pricing for the 2024 sales year. The answers are split in the horizontal axis by the respondent winery’s average suggested retail price.

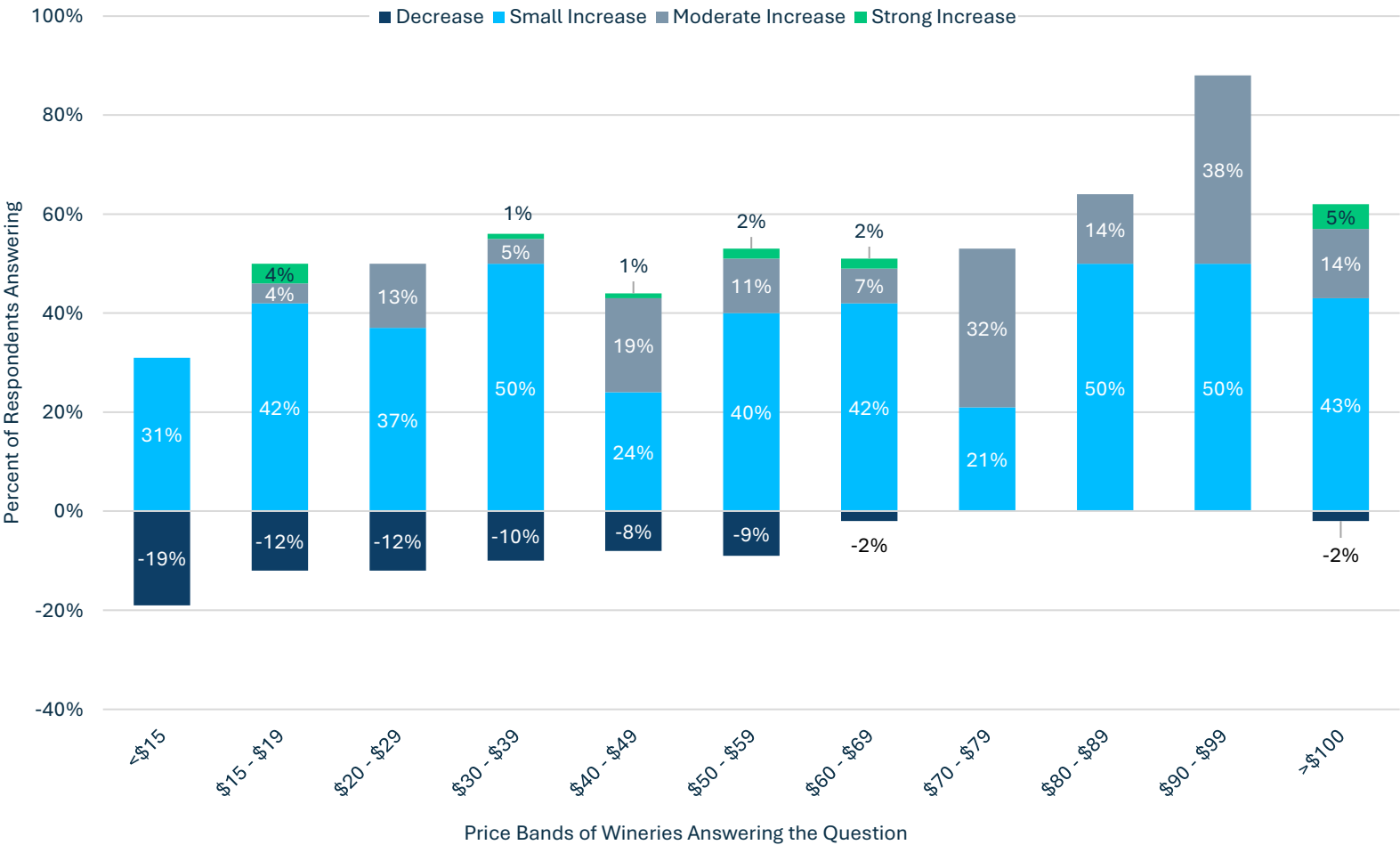
Responses range from “I can take a strong increase” to the other end of the scale, where the respondent answered that they would need to decrease their pricing.

The results show that for many price bands, a simple average isn’t as valuable a metric compared with breaking out the percentage of responses within the price band.

For wineries with ASRP above \$100, some expect to reduce price, and others can increase price moderately. The same holds for the price band between \$15-\$19.

Pricing decisions are complex. Trying to copy the pricing strategy for the average winery might not be the best choice for your specific winery, but these data are still directionally useful.

## 2024 Expected Direct-to-Consumer Bottle Price Changes by Price Tier





# Sales Channels and Varietals



# Are cased sales and dollar sales declining in the off-premise wine channel?

Quick answer: No!

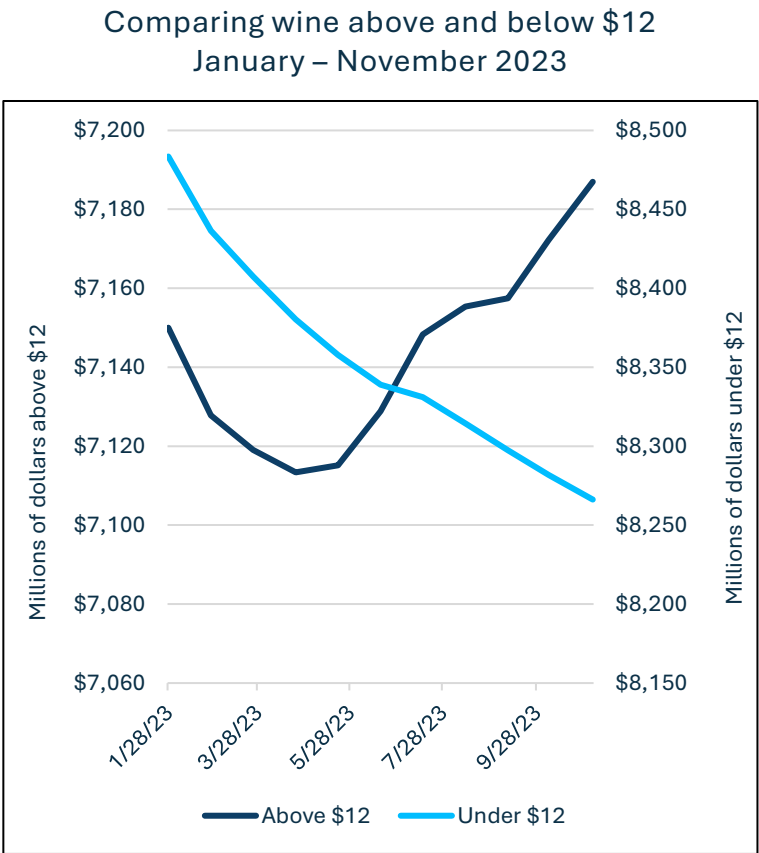
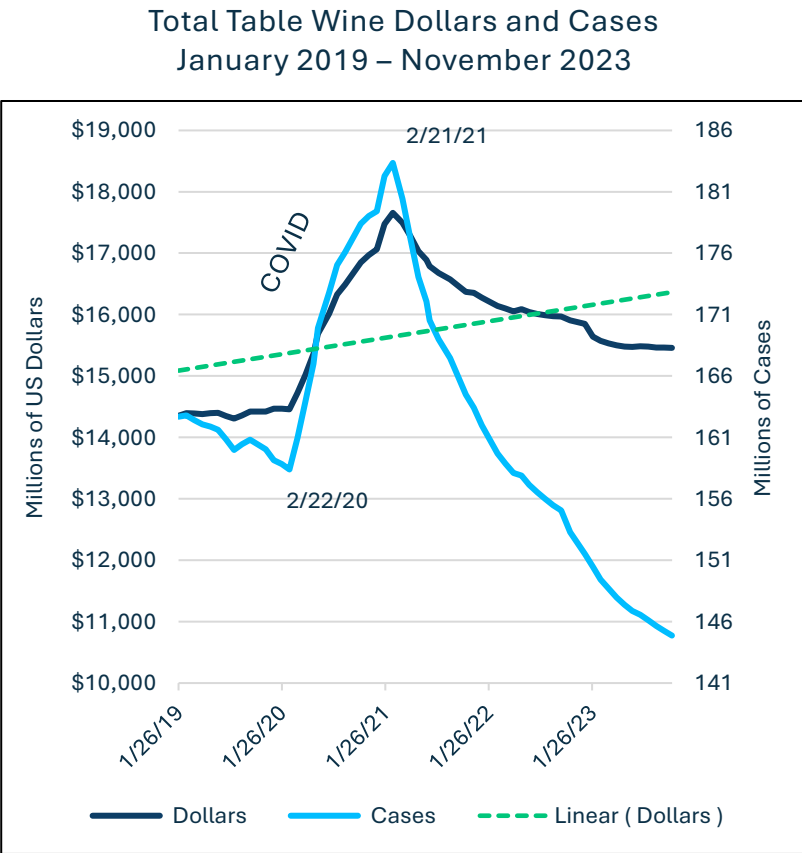
Unfortunately, no perfect monthly volume and value data source measures the entire wine business.

Analysts have to cobble together different sources of information to arrive at a conclusion. However, Nielsen tracks a large percentage of off-premise sales that we can use as a proxy for the market, understanding the caveat that channel unwinding is still taking place post-COVID so it's an imperfect indicator today.

The good news is that total wine category dollar sales have surpassed pre-COVID sales (see left slide), and wine producers are recovering a portion of higher costs from inflation from better off-premise sales (see right slide).

The above \$12 segment of the wine business is modestly growing in value. The not-so-good news is that the volume trend for the total wine category and the premium category continues to see declines in off-premise.

## Off-Premise Wine Revenue and Volume Growth 2019 - 2023



# On-premise sales continue with difficult trends

As direct sales from premium wineries have grown over the past 30 years, the percentage of sales directed to wholesale and restaurants has declined.

Over the past decade, this group saw sales to restaurants drop from a high of 31 percent of an average winery's sales in 2014 to a low of 11 percent in 2020 and 2023. (See graph to the far right.)

Many factors specific to restaurants are driving this trend. Unlike 20 years ago when the wine list was a large book, consumers today get a one-page beverage list and pair spirits, cocktails, beer, cross-over beverages, and even non-alcoholic options with their meals.

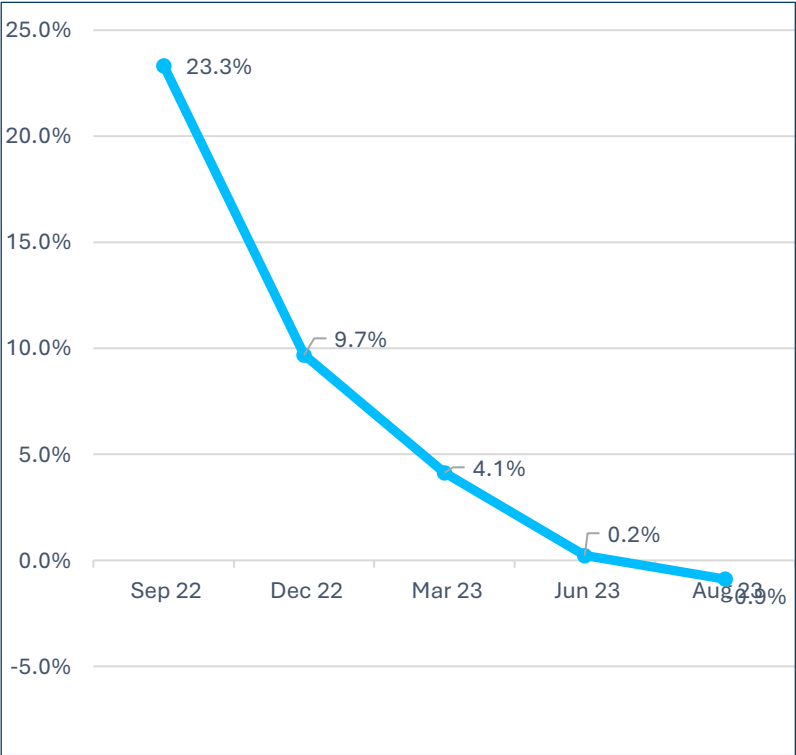
Restaurant owners are more selective about carrying large stocks of expensive bottles of wine and may be reluctant to buy any wine that doesn't yield a near-term return.

According to NielsenIQ, a serving of wine in a restaurant is more than twice as expensive as spirits.

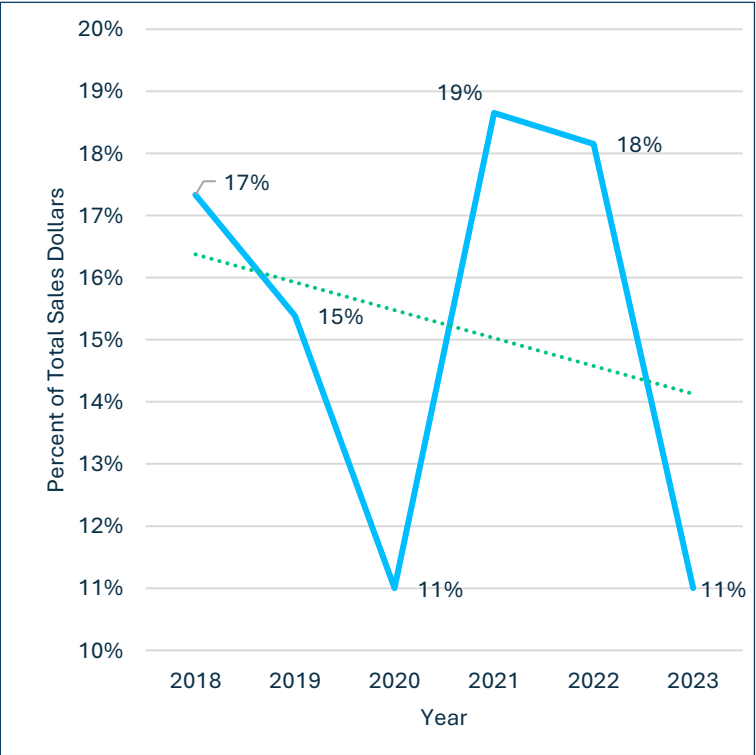
Restaurateur markups continue to increase, decreasing the value of wine by the glass. That's not the best formula to stimulate wine demand in restaurants.

## On-Premise Wine Growth

Full-category on-Premise Depletions



% of Avg. Winery's Sales to On-Premise



It's been a surprise to see the recent decline in spirits depletions.

While growth in spirits depletions was better versus wine through all of 2020, those two categories were at least demonstrating positive growth trends and tracking together on a trailing 12-month basis.

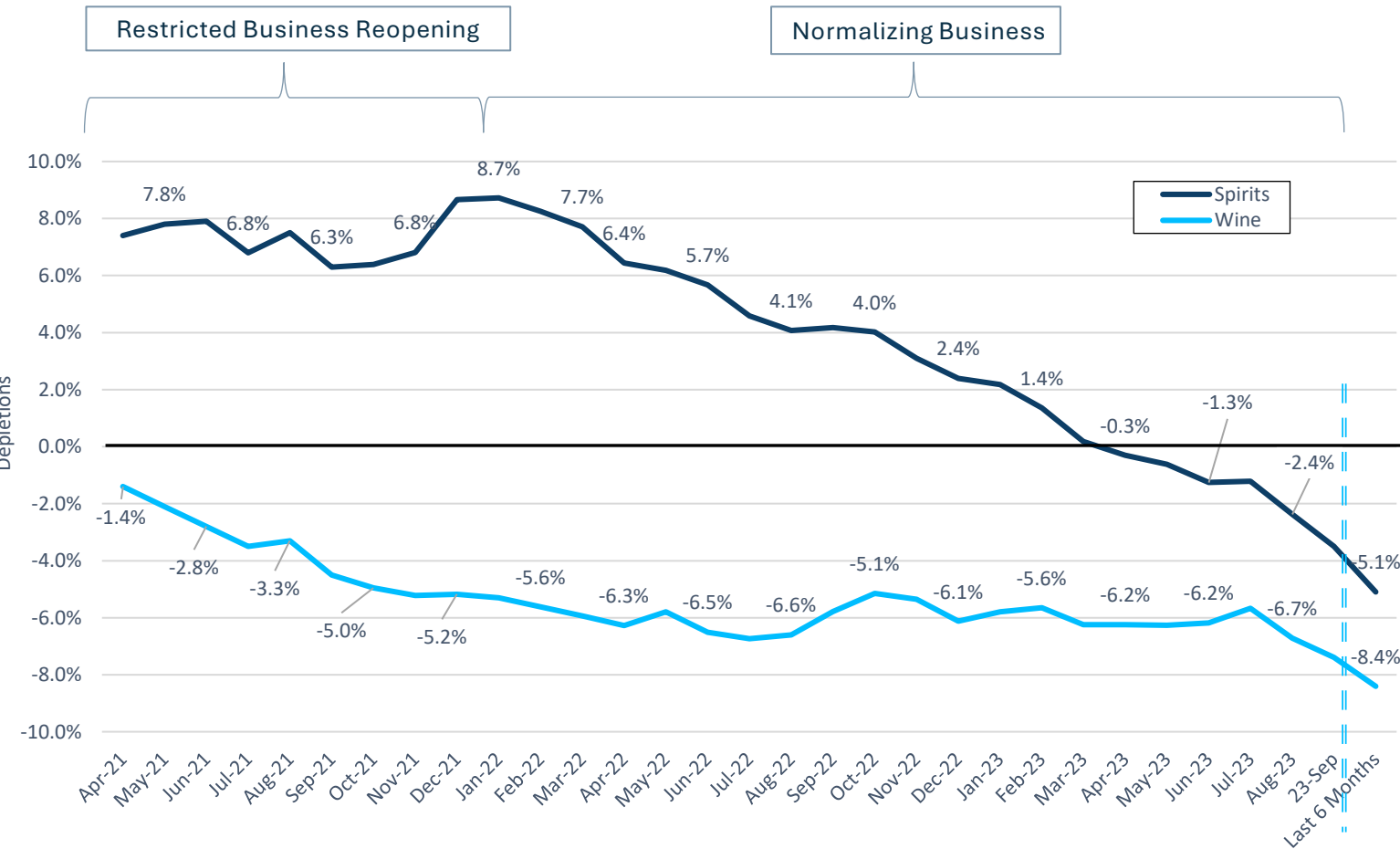
In February 2021, restaurants restocked their dwindling inventories while hotels and tasting rooms reopened with COVID restrictions. Data from the spring of 2021 showed increasing hotel occupancy rates and improving numbers of seated diners in restaurants – all good indicators that suggested improving wine sales should follow.

Growth in wine sales during the reopening was something I predicted. But even with the tailwind of reopening, wine depletions did not continue moving higher. Reflecting the changes that we see with on-premise alcohol beverage demand, to my surprise, the total sales volume of wine started trending negatively in 2021 and has remained negative since.

With on-premise resupplied with total alcohol by late 2021, in a case of misery-loving-company, without restocking sales to boost their fortunes, the spirits category began a contraction phase and since April 2023, has joined wine with negative depletion growth.

It's become clearer that the depletion problem in wine is really a depletion problem with beverage alcohol.

On- and Off-Premise Depletions of Wine and Spirits, 2021 to the Present



# Will Q4 sales turn some of this around?

Wine category depletion volume was lower through September 2023 in every major varietal and in nearly every price range.

There are many reasons to expect weak holiday sales in 2023: fragile consumer confidence, a slowing economy, restarting student loan payments, the impact of wars on markets, political infighting, and more. I agree with those facts but not with the conclusion.

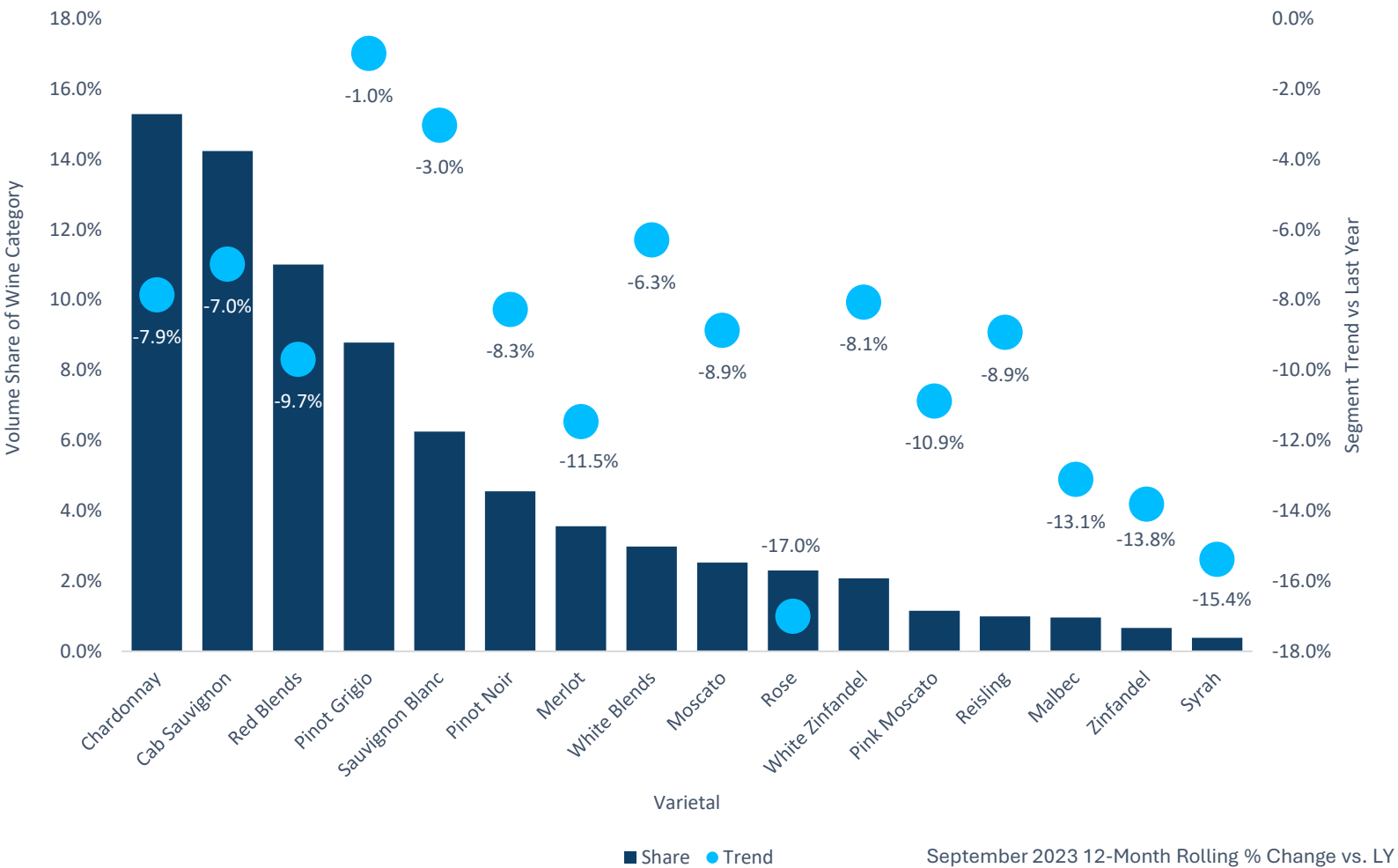
There are more reasons to expect good wine sales in Q4: People want to make this holiday season memorable. COVID is still fresh in their minds from the time when gatherings were restricted. In addition, the unemployment rate is low, and according to the FED, the consumer still has \$500B in pandemic savings to spend.

For quantitative tells: last holiday season wasn't great, so we have growth opportunity off of a low base. October 2023 DTC sales were the highest of the year. Finally, an early indicator is Black Friday sales, which were up in 2023 by an estimated 7.5% by some estimates.

As of late November, with the information we have, I believe we will see sales growth in Q4 2023.

We will know if I was right when this report is released in January 2024.

# Wine depletion sales trend and share of wine market through September





# Change in sales channels for an average sized winery

This chart shows the average of all SVB survey responses on the percentage contribution for each sub-channel to a winery's total sales. Note that this is a singular benchmark for the average winery. Yours may be higher or lower.

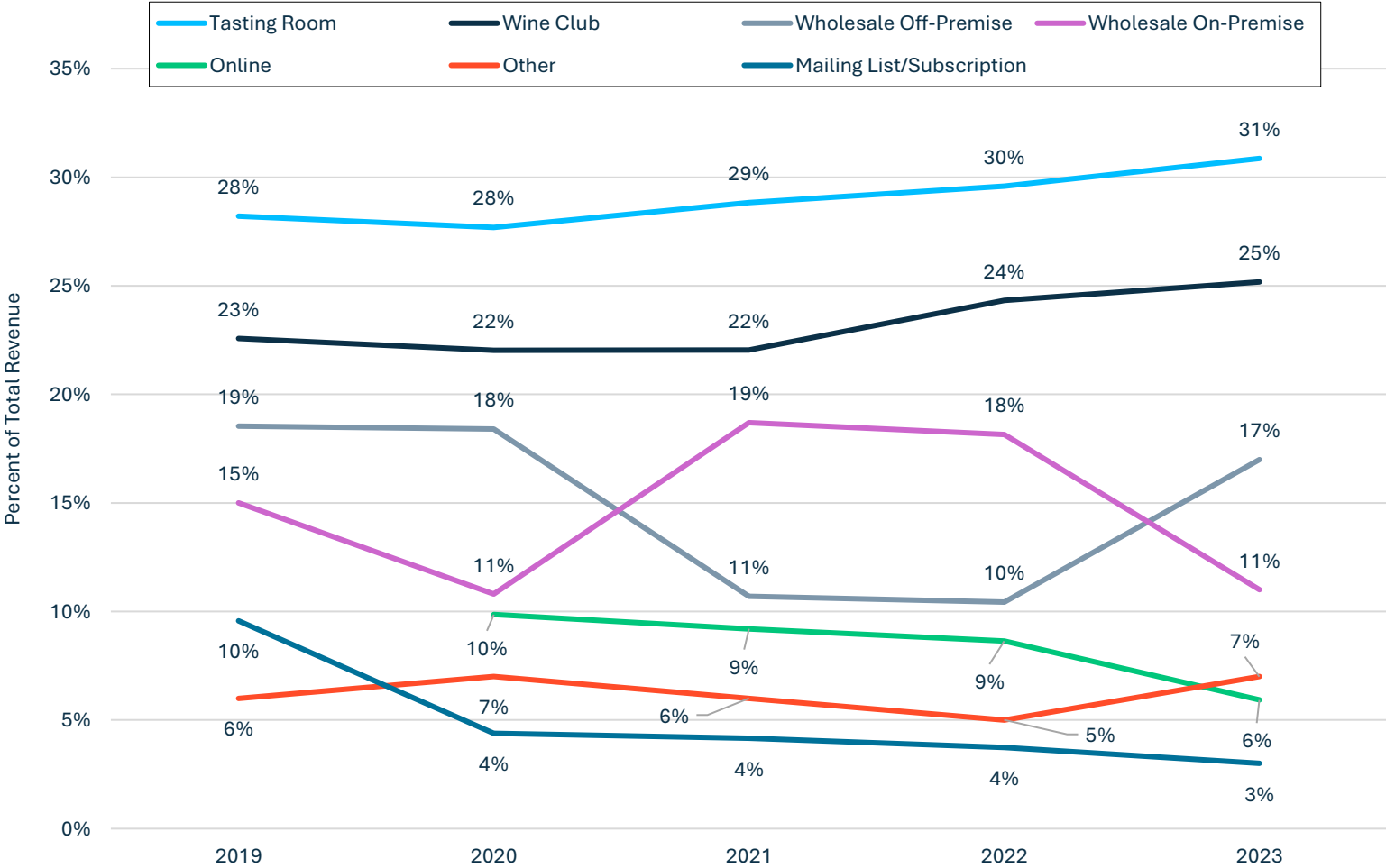
Survey participants receive all anonymized data from which they can compute benchmarks specific to their winery size and average bottle price.

The tasting room and wine club continue to grow in importance to premium wineries, with tasting rooms representing 31% of total sales.

With the on-premise recovery from COVID behind us, wholesale on- and off-premise flipped their sub-channel shares to those more consistent with pre-COVID metrics.

Online sales continue to lose share off of the COVID high.

## Premium Winery Sales Channels 2018 - 2023



Source: SVB State of the Wine Industry Survey 2019 - 2023

# Is direct-to-consumer still growing?

With on-premise and tasting rooms closed in 2020, direct-to-consumer sales showed significant growth in both value and volume. In 2021, as restaurants and businesses reopened, volume declined through DTC, but value again demonstrated encouraging growth.

Data in those two years are noisy because of the COVID pandemic and reopening. Following 2021, the pattern isn't as straightforward.

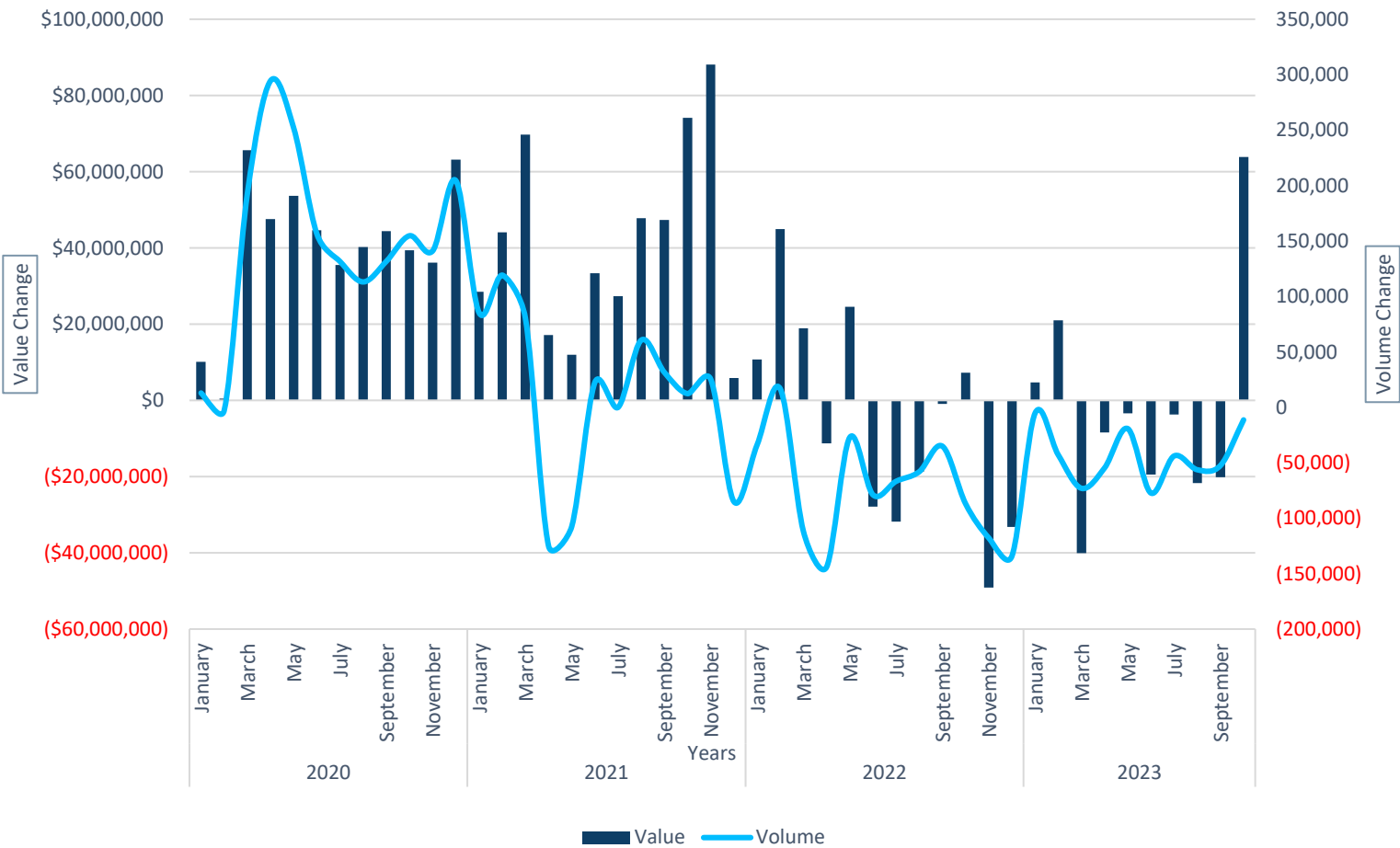
In the graph to the right, the DTC volume trend appears to be improving in 2023, while the value trend is random but remains lower.

Reviewing the data below, DTC sales have slowed since 2020 but are likely finding a comfortable bottom post-COVID, and we predict they should trend higher in 2024.

Direct-to-consumer sales showed significant growth in value and volume with on-premise and tasting rooms closed in 2020.

Annual Actuals and Growth Rates				
Year	Value	Value Growth Rate	Volume	Volume Growth Rate
2020	\$3,705,842,605	14.9%	8,385,908	27.0%
2021	\$4,201,450,284	13.4%	8,507,189	1.4%
2022	\$4,135,109,566	-1.6%	7,630,337	-10.3%
*2023	\$4,107,878,382	-0.7%	7,195,081	-5.7%
*Volume and value forecasted in Nov and Dec 2023				

## Change in DTC Value and Volume from the Prior Year, Same Month



# Are we losing share to imports?

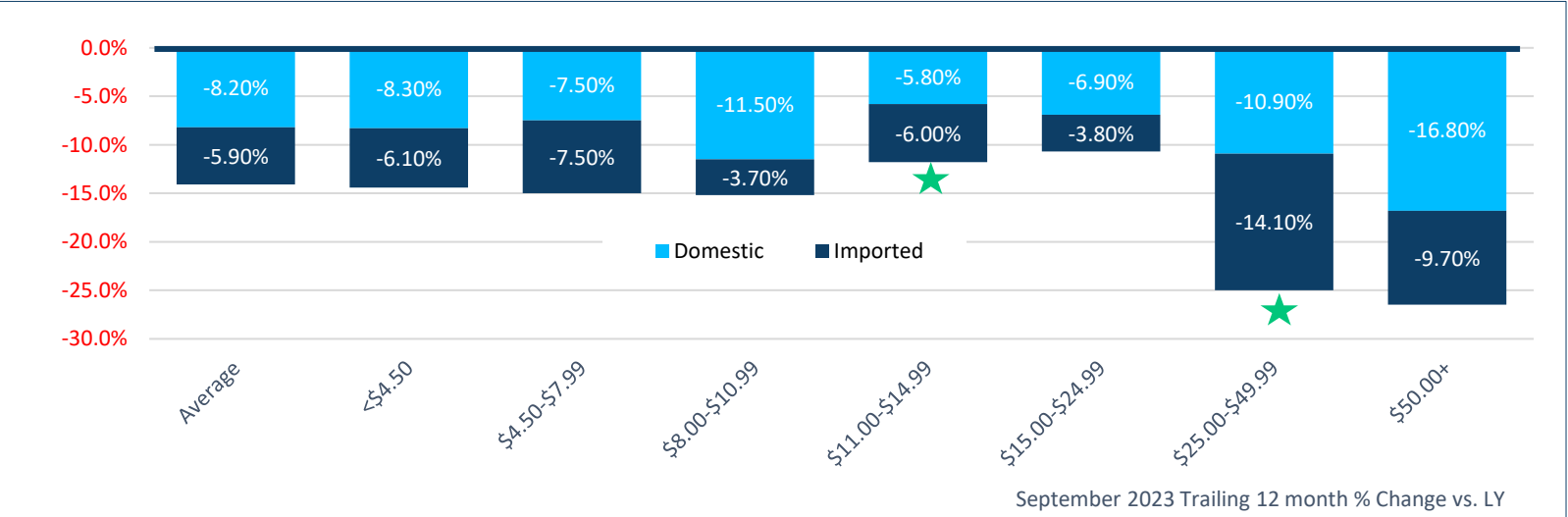
Yes. Imports are growing faster than domestic wine sales. But in this case, it's better to say imports are experiencing a slower rate of decline than domestic wine. Both domestics and imports are shrinking in nearly all price ranges as of the end of 2023.

Through September 2023, on a trailing 12-month basis, SipSource shows that imports are shrinking at a 5.9% clip, while domestics are shrinking at an 8.2% rate. The exceptions for domestic wine are the \$11 – \$14.99 and \$25 – \$49.99 price bands.

Information from the USDA agrees that wine from the largest exporters to the US is slowing.

So, the answer to the headline question is yes, we are losing our share of wine depletions to imports, and both imports and domestics are declining in full-category volume sales, according to many information sources.

## Growth in Imports



# A big oversupply.

This chart represents alcohol, not specifically wine, but it is still useful for diagnosing supply chain issues.

According to the Census Bureau, alcohol inventories were quickly drawn down in 2020 due to COVID. Producers got busy making more but overestimated subsequent demand. Alcohol inventories started backing up in the wholesale channel beginning in August 2020 and continued until March 2023.

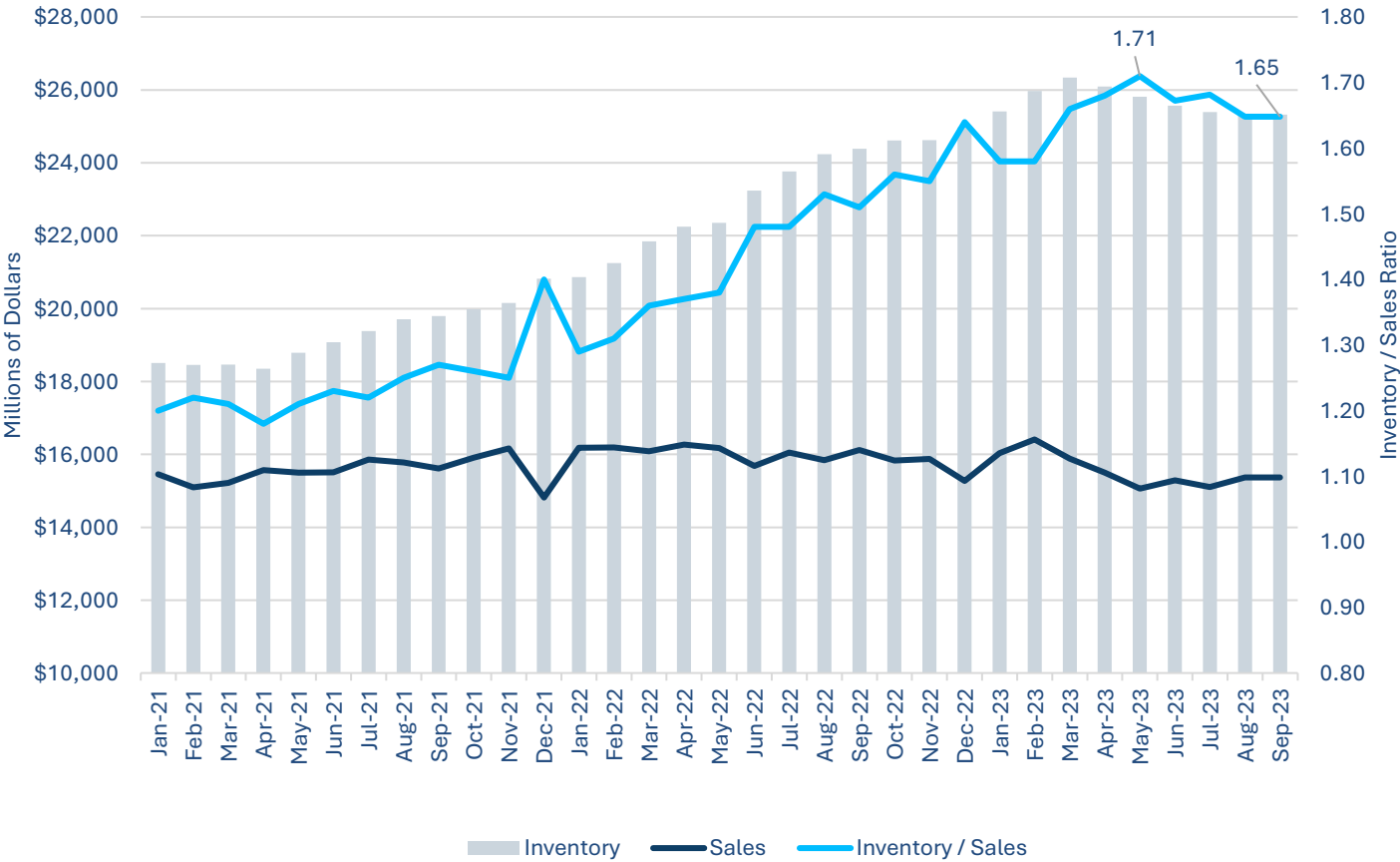
The wine industry is built for higher production than sales volume today, so there will likely be enough supply for the foreseeable future. You can see evidence of that in California, as four short harvests didn't stimulate more demand for grapes, and pricing hasn't materially changed in most regions.

I expect wholesale alcohol inventories to improve in 2024, but not to normal levels. That spells trouble for wine sold on- and off-premise.

Until demand improves for your brand, conservative sales forecasts should be the norm for all wineries selling into grocery and restaurants. Except for estate models, there shouldn't be any fear of running short.

Finding more wine to sell later will make better business sense for the present compared to paying for and then needing to discount stuck inventory on your books later.

# Wholesale Alcohol Inventory Position and Sales



# Alcohol, Demographics & Health





# Does wine hold mindshare for alcohol beverage consumers?

This chart tracks the responses to the headline question to the right.

In this view, 58 percent of the consumers over age 65 favored wine over other alcoholic beverages. Everyone else indexes almost thirty points lower. That is an unfortunate trade-off and is an important data point, that helps to shine a light on the pace of change in the category today.

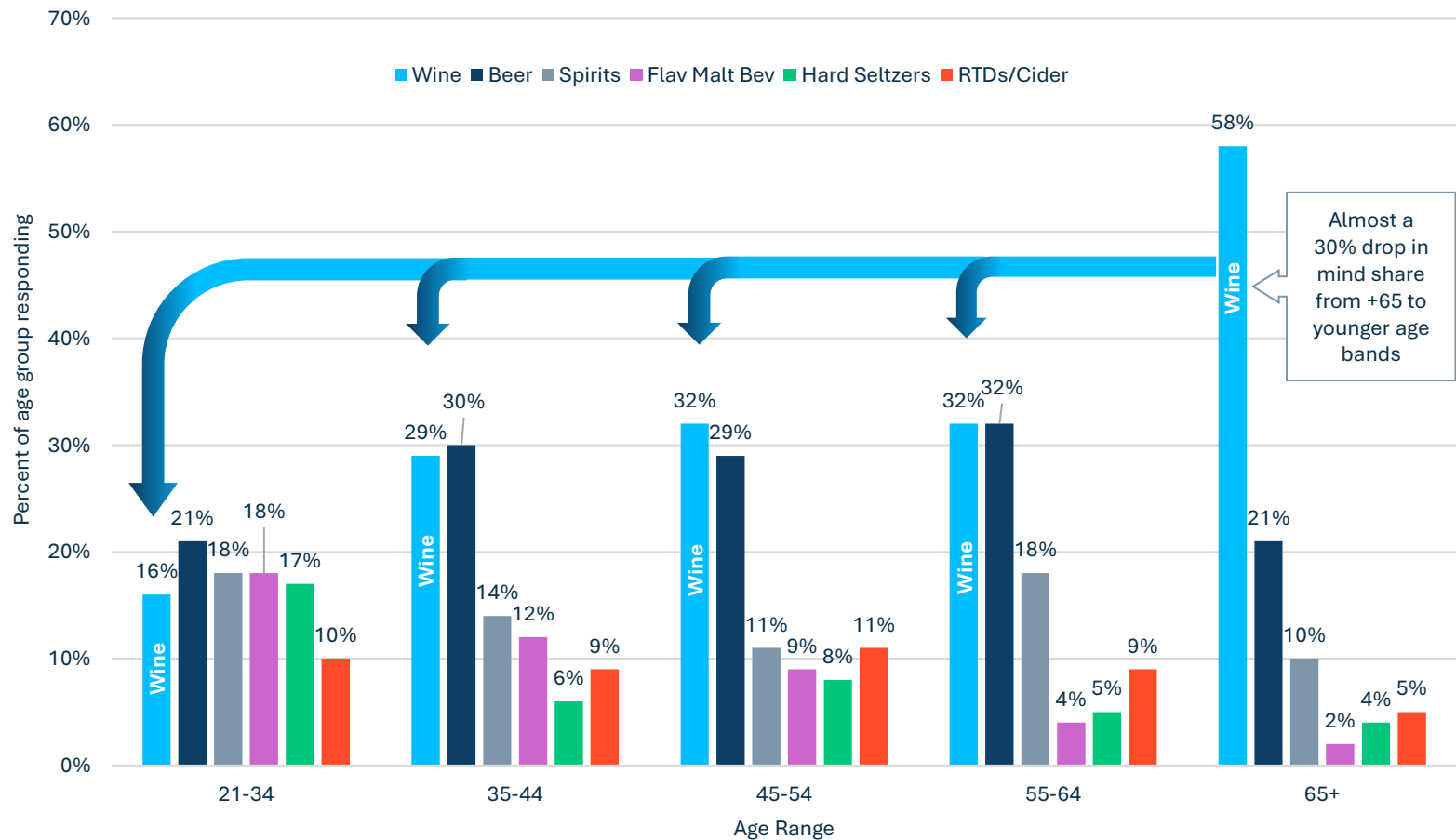
The bottom line is for every consumer over 60 who stops consuming wine; they are replaced by younger consumers with a mindshare of wine half that of their elders. Time is not on our side.

The selling and marketing of wine could be better than it is today. We understand the issues. However, we have been reluctant to change our tried-and-true methods.

Success will come when we put more effort into attracting new consumers, promoting the various occasions where wine can be enjoyed, improving the number of occasions existing younger consumers consume wine, and adapting to consumers with different values than the +60 crowd.

We must show the will to change and the creativity to evolve and adopt a new approach that retains current customers while appealing to a more diverse population.

## Survey Question: What would you most likely bring to share at a party?



Source: The Harris Poll.  
Survey conducted online by The Harris Poll on behalf of the Wine Executive Exchange November 9-11, 2021 among 1,949 U.S. adults ages 21+. The data represent the number of responses from those surveyed. Some did not respond and those were factored out from the denominator to create this chart.

# The largest growth rate by age band was age 60- 70

In the upper right corner, you can see that a person older than 80 in 2023 spends 4.82 times less than the average LDA consumer. On the other hand, in the upper left corner, a consumer older than 80 in 2010 spent 17.19 times less than the average consumer.

This indicates that the older-than-80 consumer spends more for their relative age band in 2023 than a person of the same age in 2010. Since the number is negative, however, the older-than-80 consumer still spends less than the average LDA consumer.

According to the chart, the consumers who most over-index their LDA population spending in 2023 are those between 60 and 70 years old at 1.71 times the average, followed by 50 to 60-year-olds.

Instead of using metrics just for individuals, in order to determine where the most significant total spending opportunities exist in an age band among the LDA population, refer to the lower chart of the LDA population size and multiply the LDA Consumer Index by the LDA Population.

# Index of Wine Spend Above or Below the Average LDA Consumer

Age Bands	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
80+	-17.19x	-14.57x	-13.57x	-12.67x	-11.59x	-11.09x	-10.46x	-9.42x	-8.39x	-7.90x	-7.57x	-6.85x	-5.94x	-4.82x
70 - 80	-4.27x	-3.81x	-3.43x	-3.05x	-2.80x	-2.68x	-2.55x	-2.26x	-2.05x	-1.95x	-1.86x	-1.77x	-1.61x	-1.34x
60 - 70	-1.02x	1.03x	1.11x	1.16x	1.24x	1.28x	1.31x	1.35x	1.40x	1.46x	1.43x	1.49x	1.57x	1.71x
50 - 60	1.71x	1.71x	1.73x	1.73x	1.70x	1.67x	1.66x	1.63x	1.63x	1.63x	1.54x	1.58x	1.59x	1.58x
40 - 50	2.07x	1.95x	1.80x	1.70x	1.58x	1.49x	1.42x	1.38x	1.33x	1.30x	1.30x	1.29x	1.25x	1.18x
30 - 40	1.68x	1.61x	1.52x	1.47x	1.45x	1.47x	1.51x	1.47x	1.36x	1.29x	1.36x	1.21x	1.06x	-1.24x
21 - 30	-1.80x	-1.86x	-1.96x	-1.96x	-1.83x	-1.51x	-1.47x	-1.53x	-1.65x	-1.86x	-1.79x	-2.25x	-3.01x	-6.00x

LDA POPULATION, %														
Age Bands	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
80+	17.27%	17.33%	17.38%	17.41%	17.44%	17.39%	17.32%	17.22%	17.07%	16.87%	16.46%	16.35%	16.33%	16.38%
70 - 80	18.12%	17.90%	17.81%	17.82%	17.85%	17.90%	18.01%	18.07%	18.14%	18.23%	18.38%	18.40%	18.39%	18.34%
60 - 70	19.65%	19.27%	18.83%	18.34%	17.84%	17.46%	17.16%	16.96%	16.80%	16.64%	16.73%	16.59%	16.57%	16.55%
50 - 60	19.02%	19.10%	19.11%	19.07%	18.97%	18.78%	18.49%	18.13%	17.78%	17.48%	17.44%	17.21%	16.86%	16.56%
40 - 50	13.32%	13.69%	14.02%	14.26%	14.59%	14.96%	15.32%	15.39%	15.54%	15.69%	15.86%	16.00%	16.04%	16.09%
30 - 40	7.52%	7.58%	7.72%	7.97%	8.19%	8.35%	8.52%	9.02%	9.41%	9.77%	9.90%	10.21%	10.50%	10.77%
21 - 30	5.10%	5.12%	5.13%	5.13%	5.13%	5.15%	5.18%	5.21%	5.27%	5.33%	5.23%	5.24%	5.31%	5.32%

# The impact of abstainers

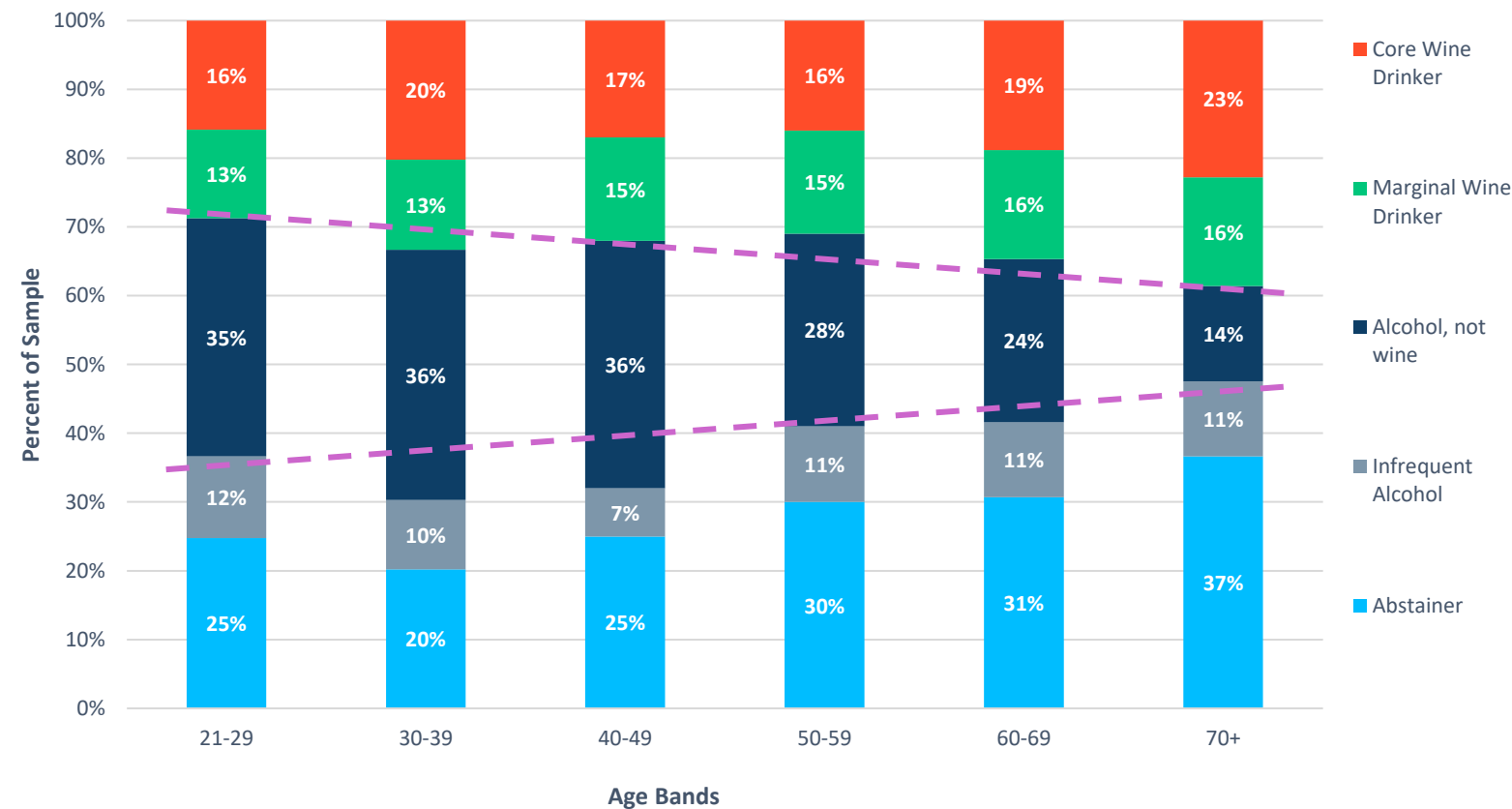
It's important to read the definitions below for each category in the chart first.

There is a belief that consumers don't commit to wine until they are older. I think more accurately, during their discovery years, alcohol consumers don't commit to any category.

The category "alcohol, not wine" in this chart becomes smaller as consumers age. That's a good thing. A small part of those move to be core wine consumers later in life, but a higher percentage today become abstainers. While respecting moderation is important, understanding why is equally important.

Definitions	
Core Consumers	Drink wine at least once a week.
Marginal Consumers	Drink wine at least every 2 - 3 months. Also includes those who drink wine 1 - 3 times per month.
Alcohol, Not Wine	Drink alcohol but not wine, every 2 - 3 months
Infrequent Alcohol	Consume less than every 2-3 months
Abstainers	Don't drink alcohol

# Drinking Classifications of Consumers by Age Band



Source: Wine Market Council Consumer Research 2022

# The youngest consumers aren't spending as much on alcohol today.

The BLS Consumer Expenditure Survey tracks annual spending by year. The data here shows spending as a percentage of income. Indexing the spending to 100 gives a comparable view of the same age band over time, allowing us to compare consumer spending on alcohol in the same age bands over decades.

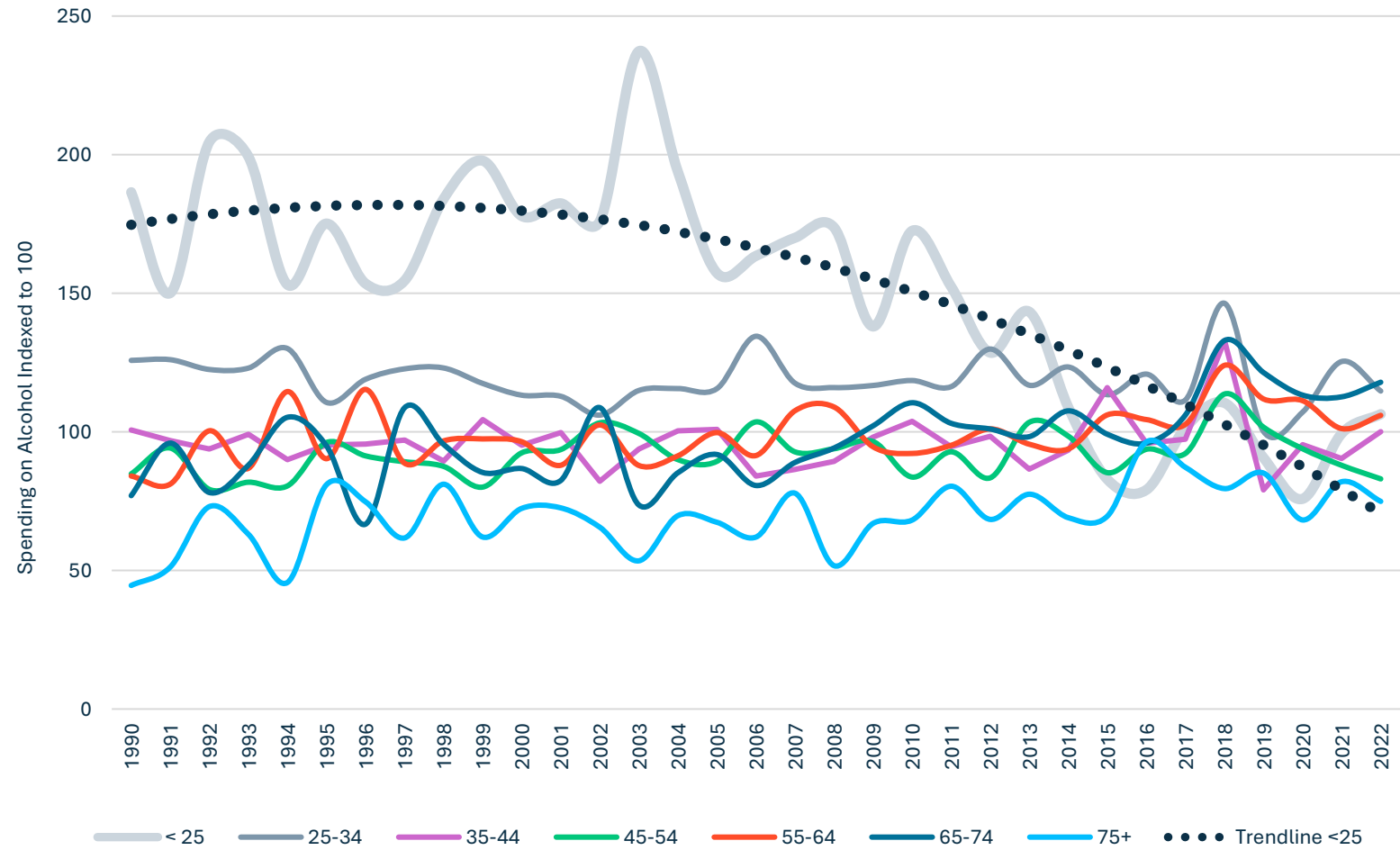
There is no clear trend for most age bands except the youngest. Starting around 2000, alcohol spending for consumers less than 25 began to shift relative spending away from alcohol to other goods and services.

Separately, data from the National Institute of Health reported that between 2012 and 2022, with those aged 19 – 30, monthly cannabis use increased from 16.6% to 28.8%, and hallucinogen use in the same time frame increased from 3.4% to 8.0%, while alcohol use declined from 68.4% to 67.5%.

In a separate Gallup study, 40% of adults said Cannabis wasn't harmful, while only 16% cited alcohol as not being harmful.

The data represents one more piece of the demand puzzle that factors into low- and no-alcohol consumption, health, and abstinence.

## Alcohol Spending as a Percent of Income, Indexed to 100



Source: Bureau of Labor Statistics, Consumer Expenditure Survey

# The moderation message doesn't work for the anti-alcohol movement

In the 1990s, attention was drawn to the headline question when 60 Minutes aired The French Paradox. The conclusion seen by those watching was that wine did have health benefits.

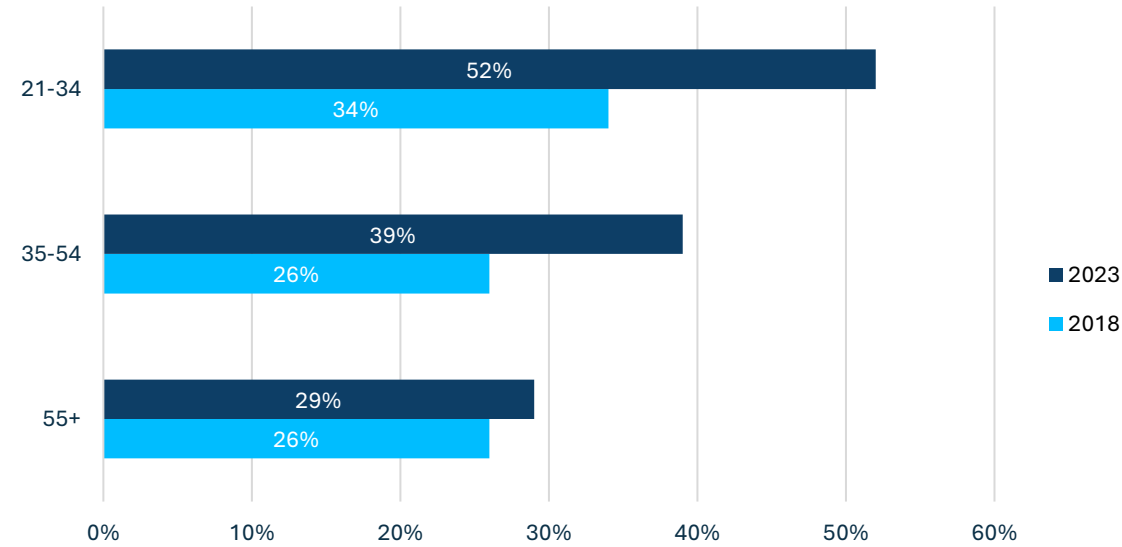
The Mediterranean Diet and Arthur Klatsky's work that proved moderate alcohol consumption improved heart health also received substantial press coverage at the time.

Gallup polled consumers' views on health and alcohol in 2018 and 2023. Those over 55 who may have seen the 60 Minutes broadcast have kept their views mostly the same.

The anti-alcohol message from the WHO is working though. More than half of the youngest consumers have now concluded that consuming alcohol, even in moderation, is bad for your health.

Cannabis is a potential substitute for wine. When adults were asked how harmful alcohol and wine are, the responding adults considered alcohol more harmful than marijuana.

## Is Moderate Drinking Bad for your Health?



### Q: How harmful are alcohol and marijuana?

	Very harmful	Somewhat harmful	Not harmful
Alcohol	30%	50%	16%
Marijuana	23%	35%	40%

# Health is only part of the explanation for declining demand

Drilling more into the “whys” of evolving behavior, The Wine Market Council, in their Benchmark Segmentation Study in 2022, asked consumers, “If you are drinking less wine today, why?”

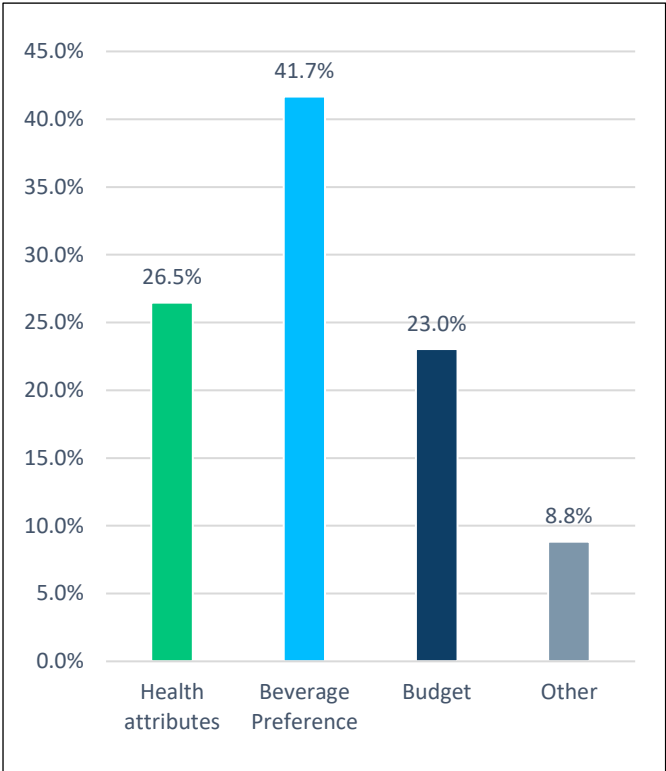
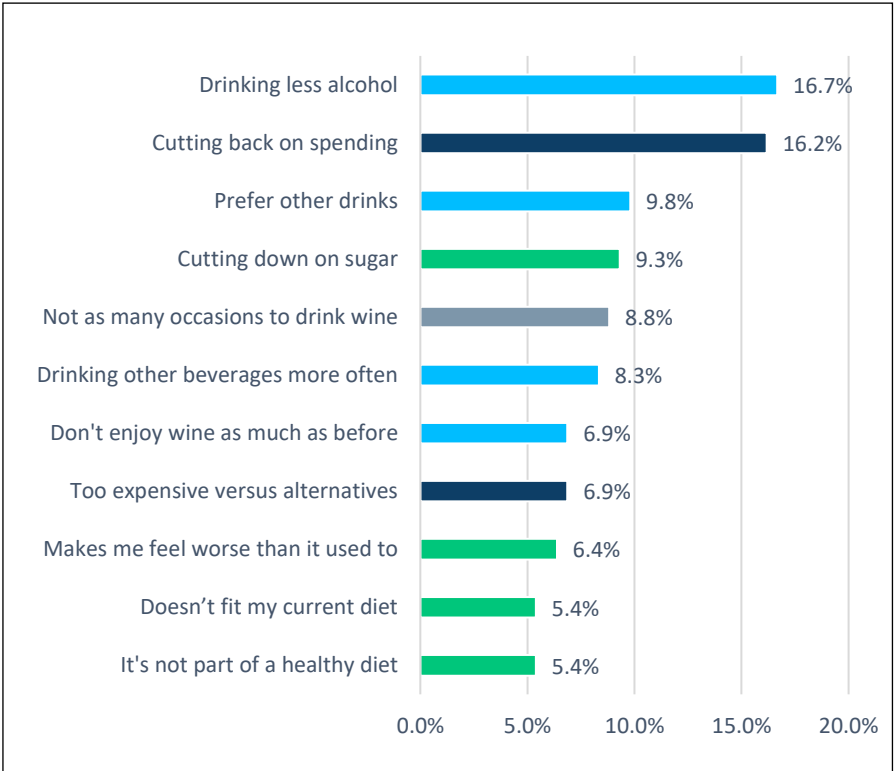
41.7% responded with an answer related to beverage preference. 26.5% gave a reason related to health, and 23.0% said they were drinking less due to budget.

The decline in consumption in the wine category can’t be put neatly into one variable. The highest responses for why this group consumed less wine fell into the ‘Beverage Preference’ category.

Said succinctly, wine is less of a preference for those consumers than other options.

More work needs to be done to understand the nuanced motivations of alcohol consumers who make the conscious choice to consume less wine.

## Survey Question: Why are you consuming less wine today?





# Grapes, Bulk Wine & Harvest



# A fourth consecutive year of below-average yields

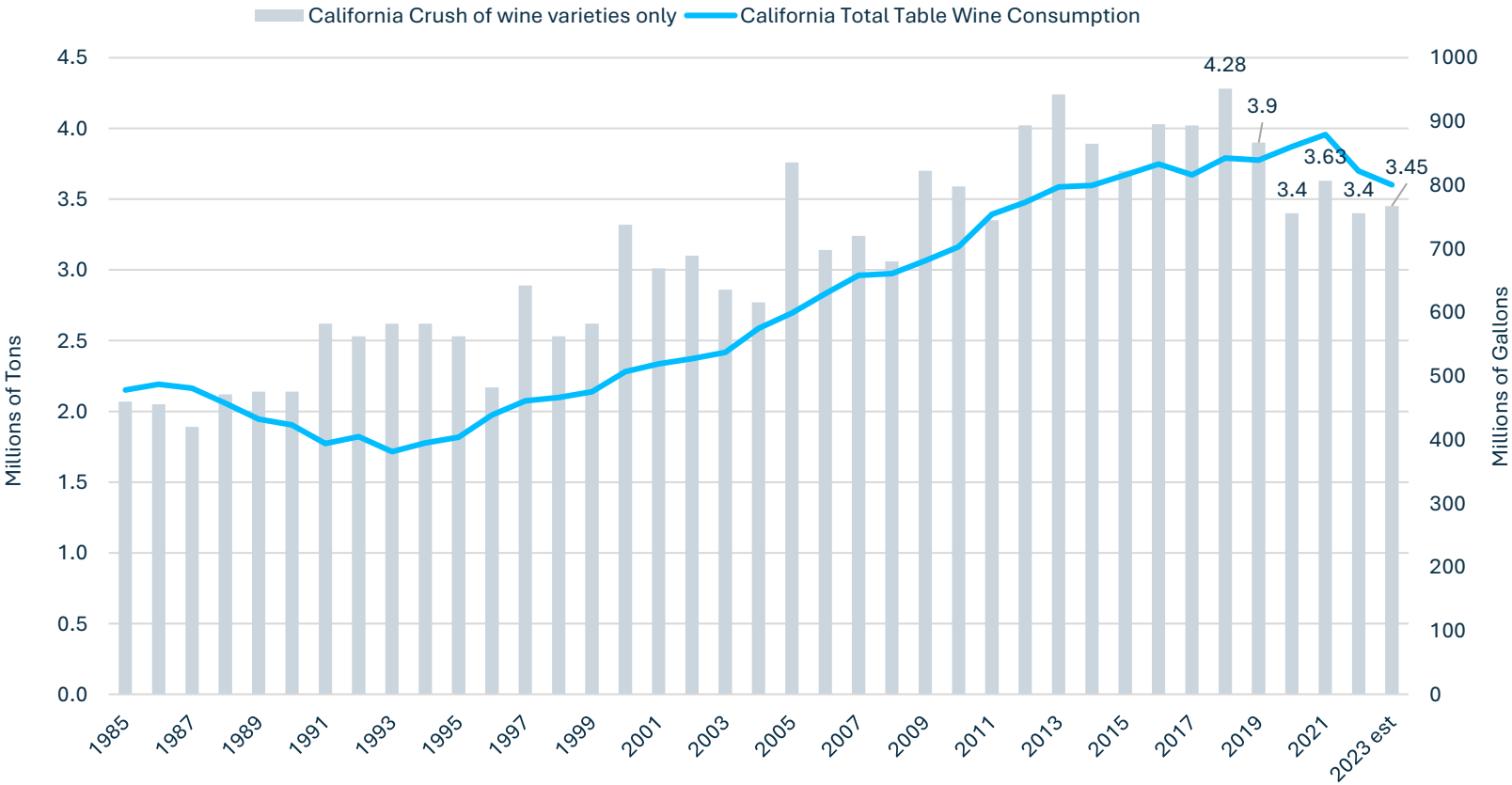
With good rain in the winter of 2022/23 creating a late bloom, the growing season could have gone either way. In the end, it appears the vintage that hung on the vine for an extended period into late October and November on the North Coast will be remarkable.

California has expected production of around 4 million tons. We won't know the real output for 2023 until early 2024, but grapes left unpicked or rejected at the scales will be a big variable again. In the annual dart-throwing contest to guess the harvest volume in California, I came up with 3.45 million tons delivered to the scales.

Top 10 US Wine Producing States			
	State	Gallons	Bonded Wineries
1	California	599,557,535	6257
2	Washington	41,852,519	1404
3	New York	32,523,641	809
4	Oregon	18,215,631	956
5	Ohio	6,906,031	538
6	Michigan	4,944,764	703
7	Kentucky	4,705,488	147
8	Florida	3,450,853	191
9	North Carolina	2,871,052	309
10	Texas	2,868,714	980

Source: US Dept of the Treasury, TTB 2023

# 2023 California Crush of Winegrape vs Consumption of CA Table Wine



Source: CA Wine Institute, CA Dept. of Food And Agriculture, Silicon Valley Bank

# The crop didn't all make it into the tank in CA and WA

There has been something new to deal with each of the last several years on the West Coast; in 2019, we were sitting on acute oversupply in California, which was caused by overestimating demand.

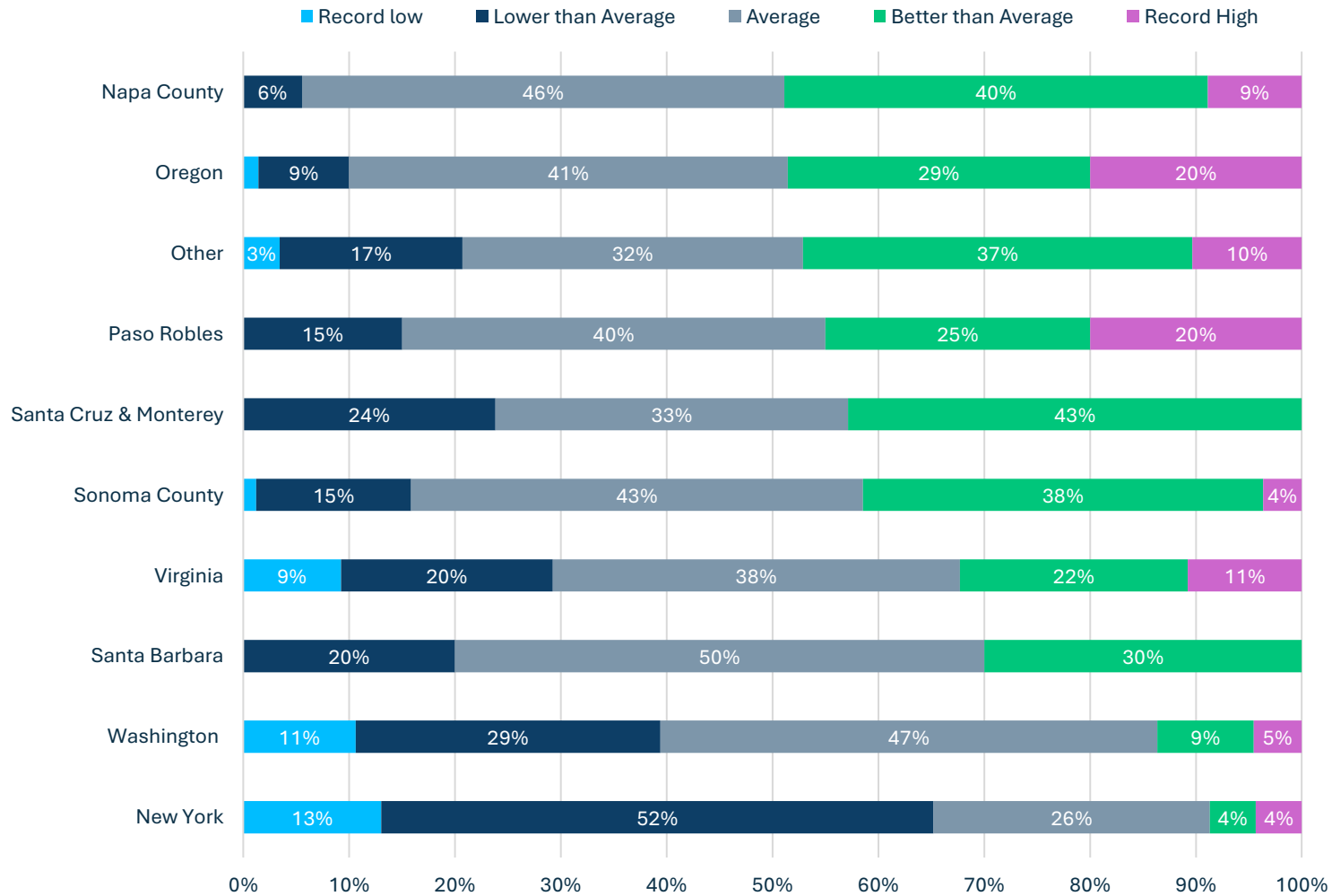
Then, there were wildfires in 2020 from a dry lightning storm, followed by a pandemic that exploded the supply chain.

The past four years have delivered light yields in California – which you would think would push prices higher on grapes and bulk wine. The fact that the price hasn't changed significantly hints at the extent of our consumer demand issue and likely presages a near-term correction in grapes destined for lower-priced wine.

For California and Washington, the yield produced from planted vines won't end up fully represented in harvest metrics because of the number of tons of grapes not picked and the grapes rejected at the scales.

In Oregon, the harvest was compressed with late heat and average to above-average yields that will all get into the tank.

## 2023 Harvest Yields by Region



# Bulk wine positions are growing again

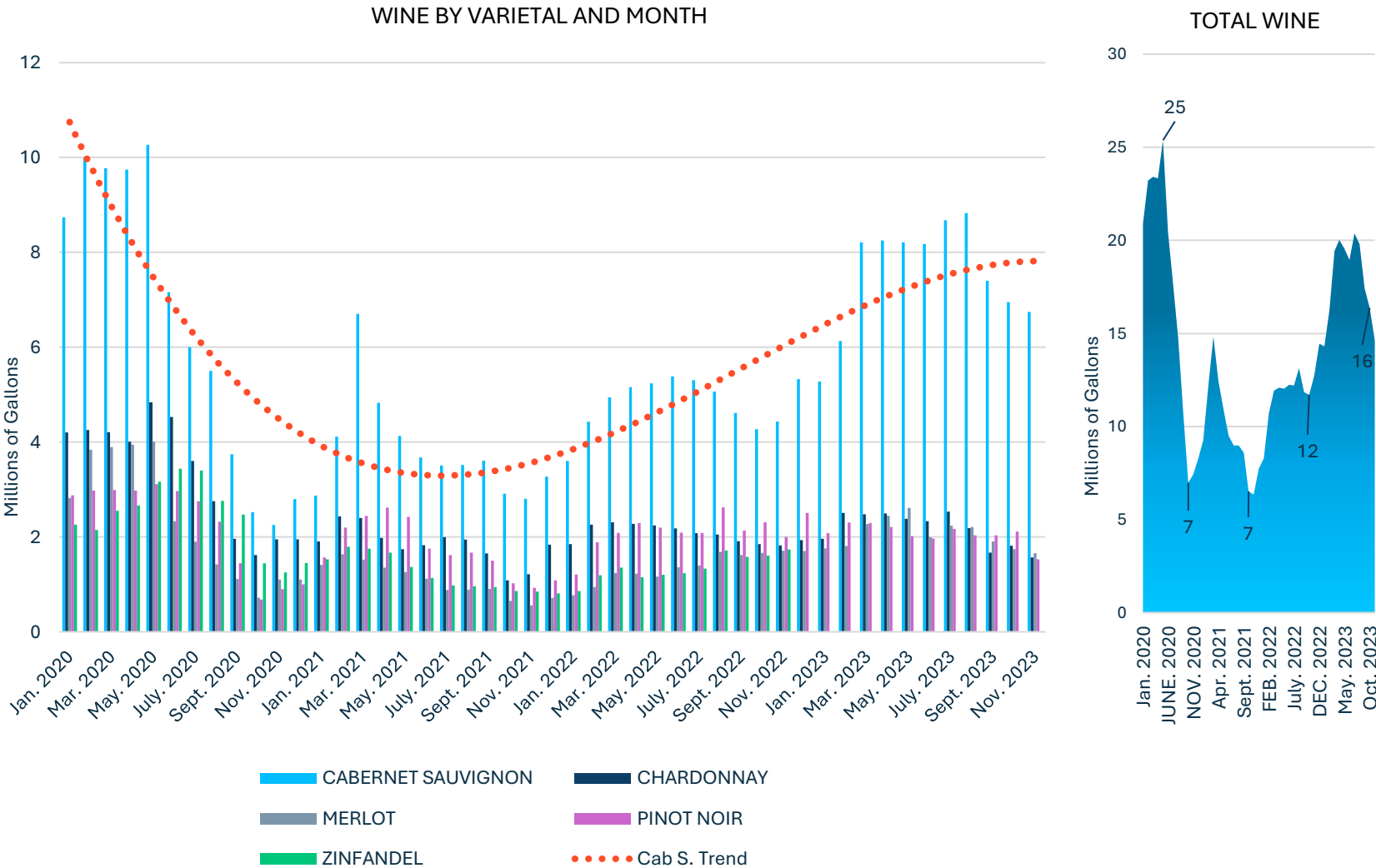
Many wine-producing countries such as France, Australia, and Chile have either removed or are considering removing excess vineyards to balance supply. The cause in each area is similar: Generic wines without branding aren't in demand.

In America, California is the largest wine-producing state, accounting for about 85% of wine made in the country. The other three major wine-producing states are Washington, New York, and Oregon.

However, even in these regions, there is a degree of sluggish demand that is being felt down to the grower level.

California has discussed removing planted acres since 2019, particularly with out-of-favor or diseased vineyards. Some progress was made, but California is still well above target plantings.

## California Bulk Wine by Varietal 2020 - 2023



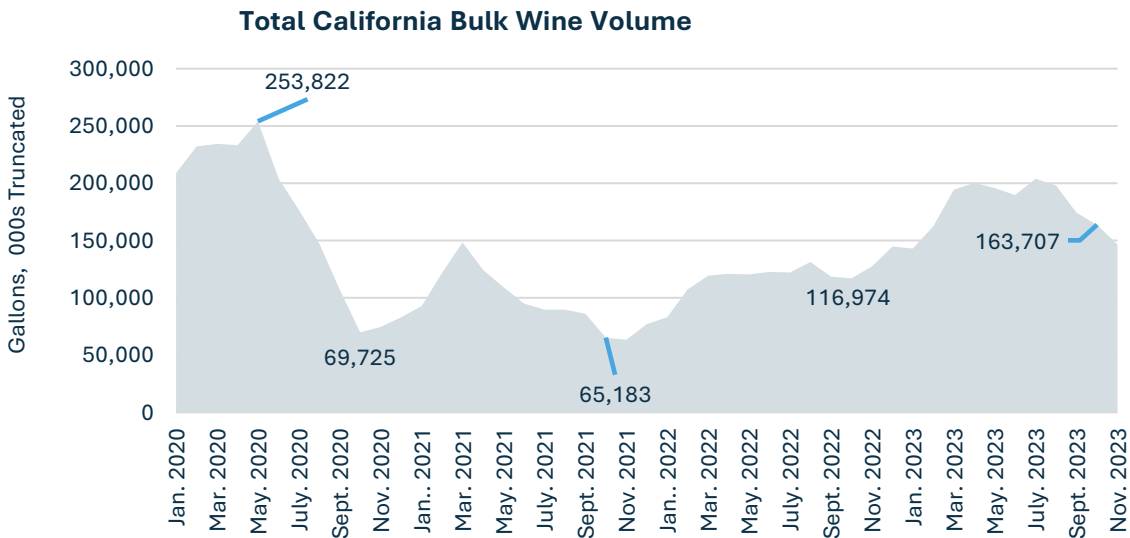


# Bulk Wine, continued

The grape and bulk wine situation in Washington is similar to that in California. Though they consistently made good value wines throughout the past several decades, of late, Ste. Michelle Wine Estates counter-intuitively for the time, ended up selling much of its production into pricing bands that lost favor, no matter the quality. The company was left with slack sales and an inventory problem in the 2010s, eventually leading a very large inventory write-off.

In 2021, Ste. Michelle Wine Estates was sold to Sycamore Partners, who have been making changes. In August 2023, they informed their growers that they planned to reduce their purchase agreements by 40%. That represented around 15% of the state's total production and will require a response from growers. Acres numbering in the thousands will need to be removed. My bet is Ste Michelle will find it's footing again selling in higher price bands.

Oregon is in the best position on the West Coast. They sell at higher prices and still have modest sales growth and reasonable amounts of non-bearing acreage. In September 2023, the University of Oregon determined that about 30% of the crop was crushed out of state, which might be a concern if it was sold at lower prices or centered with a single producer.



# A high-quality vintage along the West Coast

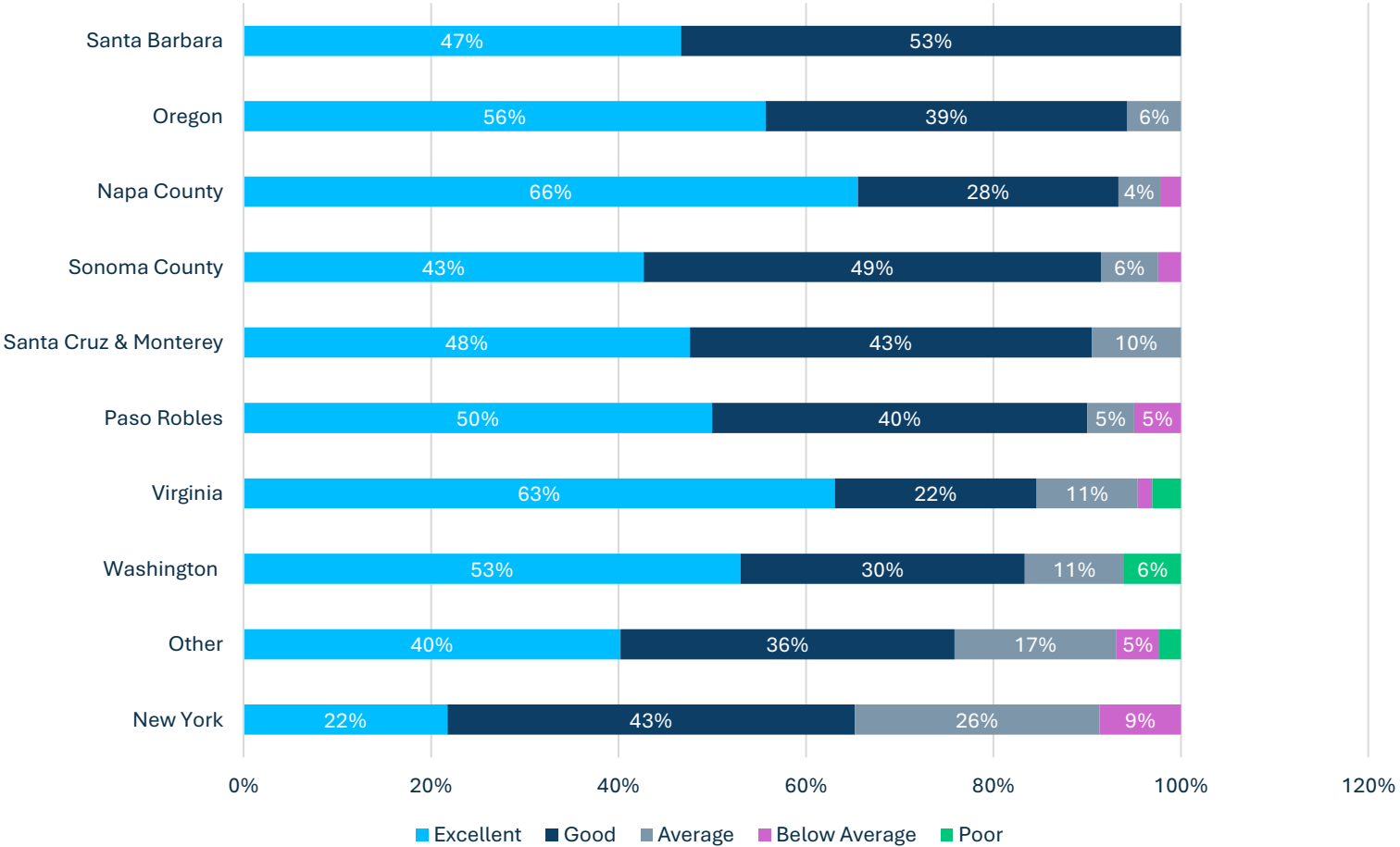
The 2023 growing season in California was cool to begin, delaying bloom. A cool summer lengthened the growing season. That combination of factors pushed harvest back about four weeks, creating one of the latest harvests in recent memory and causing some worries about ripening and the increased possibility of weather damage that comes with extended hang time.

The weather cooperated beautifully except when Hurricane Hillary’s remnants caused problems in the lower Central Valley of California. Most now expect an excellent and unique vintage, perhaps one of the best quality vintages in memory.

The growing season ran late in Oregon until a heat spike pushed the ripening process along, causing a compressed harvest. The general view is that the vintage will typify a warm-weather vintage, and the quality will be excellent.

While 'normal' seems to be an evolving term, Washington weather was described as usual for the 2023 growing season, including the right amount of heat in May to push ripening and a lack of significant rain. Harvest started in September, and a high-quality vintage is also expected.

## 2023 Harvest Quality





# Analytics



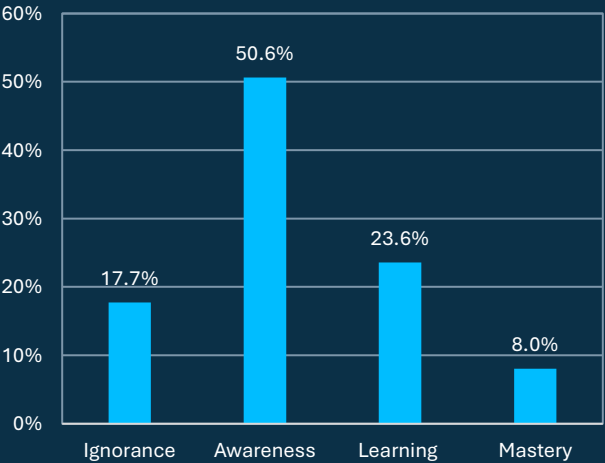
# There has to be a starting point for trending

This was the year where every commercial, conference, and news program repeated the exact words: regenerative AI and machine learning. If you said it, you must be brilliant.

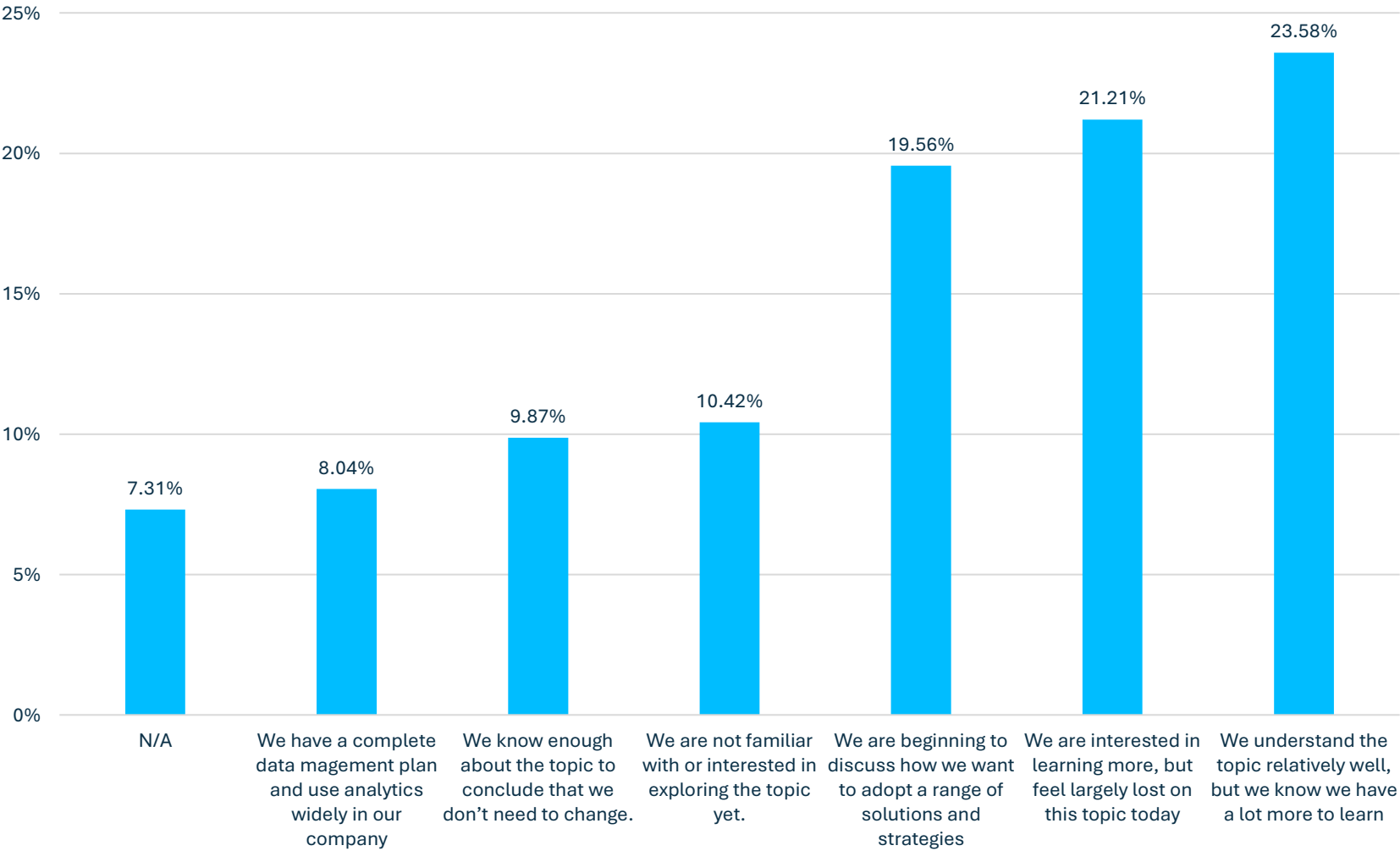
But if you're like me, you're afraid to use the phrase in a sentence because someone might discover you don't understand the topic.

The responses in the SVB Survey show more than 40% align with me in my relative lack of awareness.

Response Summary



# Survey Question: How familiar are you with Advanced Analytics and the use of AI?



# We've come a long way

Close to a decade ago, we ran a survey and asked how many wineries analyzed their own consumer sales data. It turned out that only 39% took advantage of the opportunity! So, the latest results of this question are encouraging.

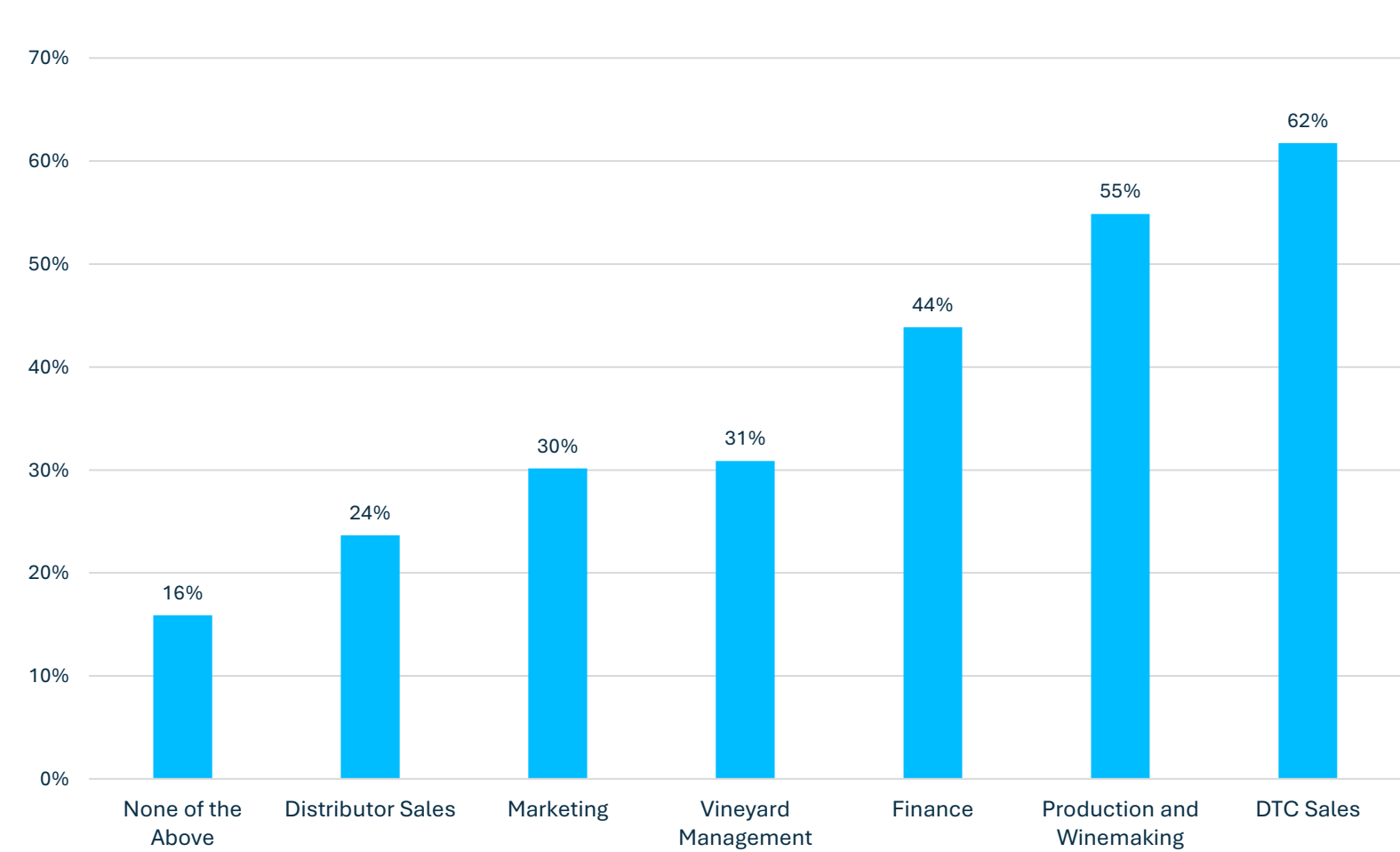
I was most surprised that only 30% of the respondents use active data management for marketing today, as for many mainstream companies today, it's common for marketing departments to have their own dedicated analytics group.

I fully expected that DTC sales would be at the top of the list, and it is with almost two-thirds of the industry, making it an essential part of running their business.

Having dedicated platforms designed for the wine business has always been challenging. Traditionally, we've had to cobble together disparate systems to manage our businesses professionally.

However, we are now at a time when data management and AI are loaded into our platforms, helping us make discoveries, create information, and make decisions. Some of those platforms focus almost exclusively on the wine business today. This is an important opportunity for every businessperson to take advantage of.

## Survey Question: In which area's of your business do you use active data management?



# Do you use AI at your company?

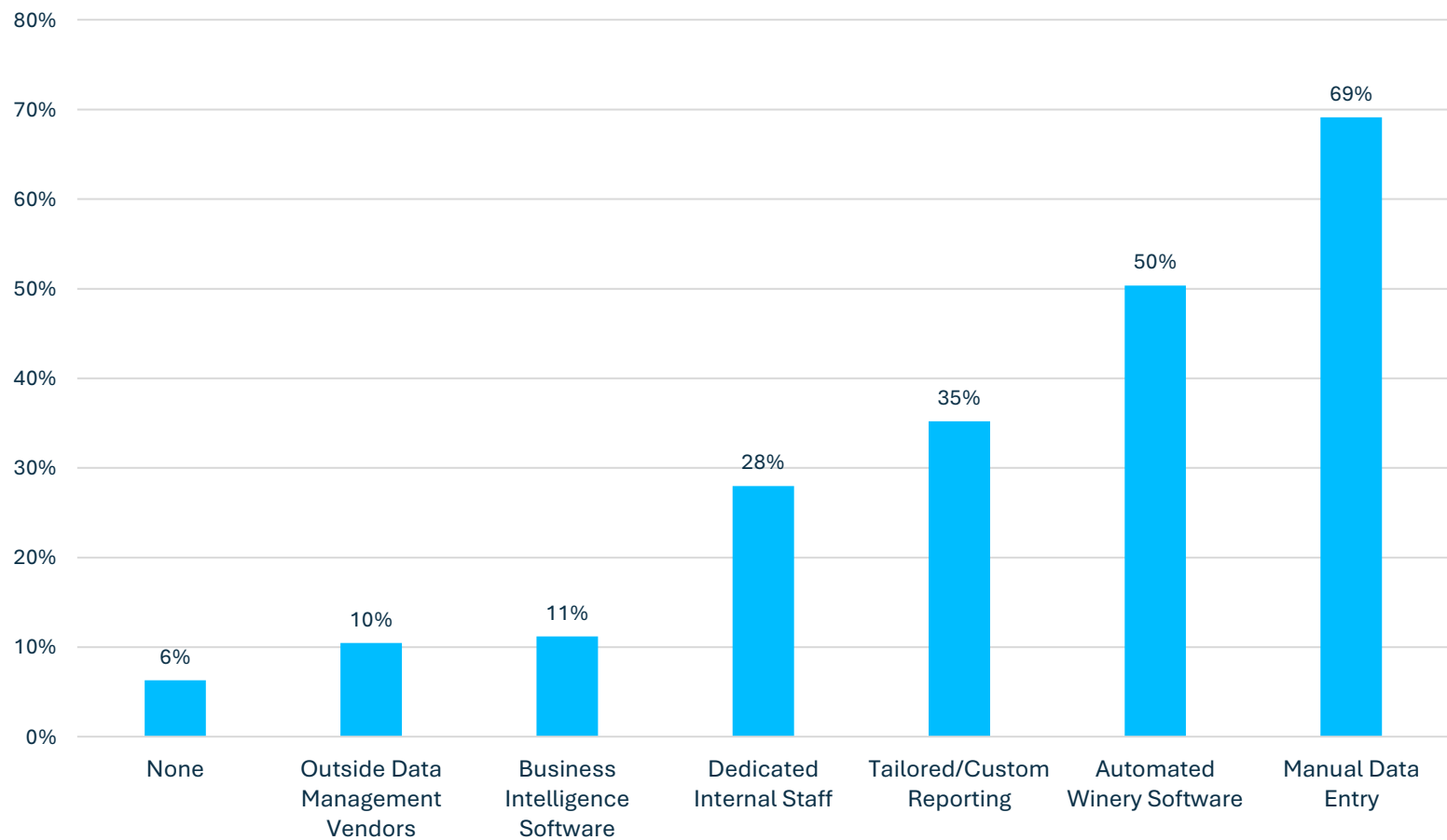
While it's not surprising to see manual data entry like spreadsheets being heavily used, it's encouraging to see the number of winery owners going further and using business intelligence software or hiring outside data management vendors to help run their businesses.

Some people mistakenly believe that ChatGPT is artificial intelligence, but it is actually an app with built-in AI processing and is limited just to language applications. That's a model for how AI will be used in the future.

While you could buy a regenerative machine learning platform to integrate into your business systems, most tomorrow will use artificial intelligence that's already embedded within a business platform, such as Microsoft Office. Every software company today is trying to make that a reality.

As an industry, we've made many advances in winemaking and grape growing over the past 30 years, but business administration and processes have lagged. I believe adopting these tools will be one of the largest industry changes we will witness in the next decade.

# Survey Question: What type of analytic tools do you employ in the business?



Source: SVB State of the Industry Survey 2023

# What will the next decade bring the alcohol industry?

The next decade will be challenging for many in the wine business. The youngest boomer turns 60 this year. That is a cohort that indexes heavily to wine. They are being replaced by younger consumers who drink across categories – so they consume less wine. It’s an uneven trade. How will we respond?

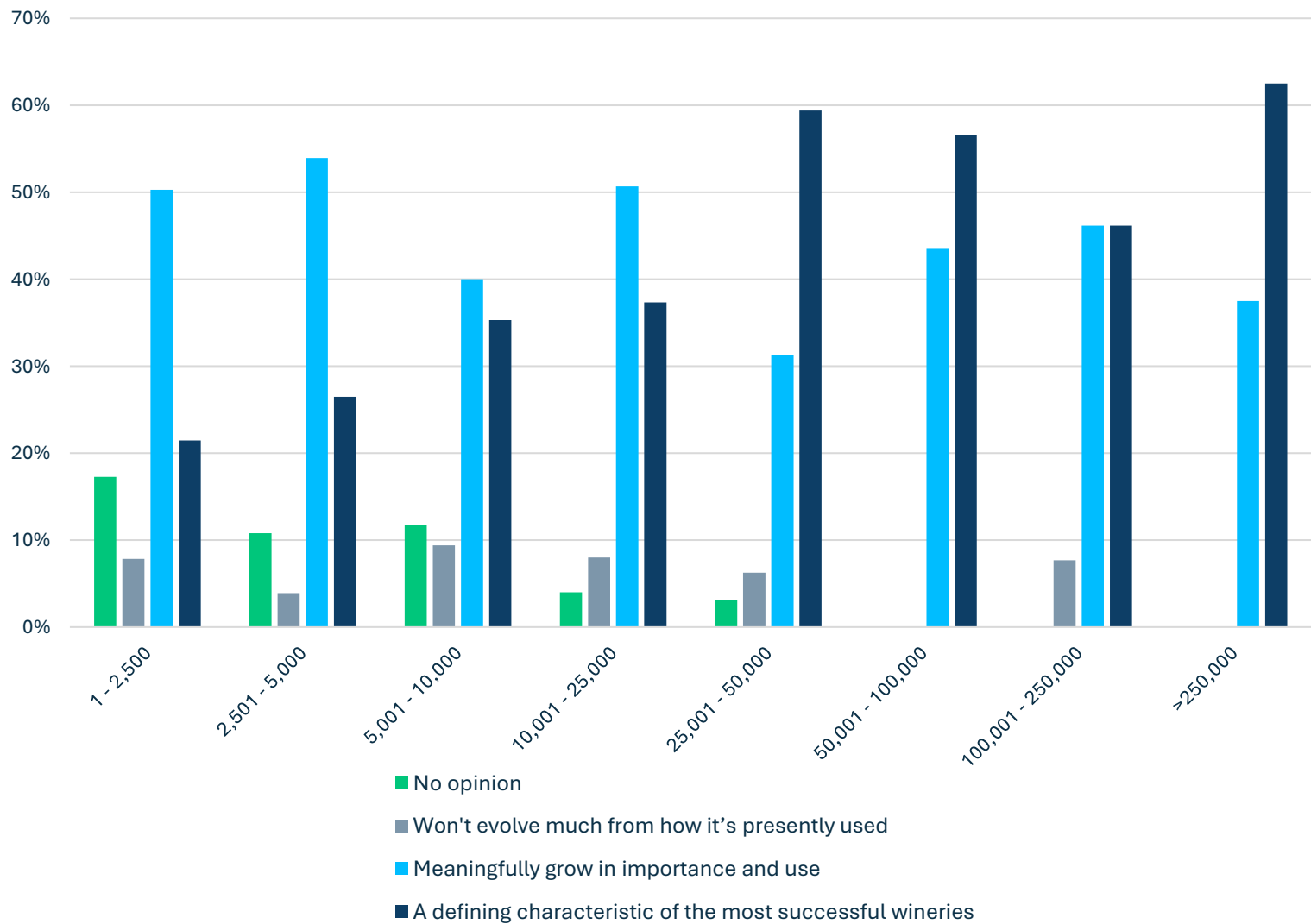
Without the industry collaborating on solutions, we will have fewer wine consumers, and those who do consume wine will consume less. There is no way to get around that reality. What is Plan B then?

**Adaptation.** The wineries that flourish in the future will understand their consumers better, create products designed specifically for their tastes at an appealing price, and be more efficient in every business discipline—specifically sales and marketing.

In the near future, you will know the probability of success and the cost of selling anywhere and to anyone. This will happen by incorporating AI and machine learning into your business systems.

The chart here is interesting from the perspective that the larger wineries, with the budget to spend, already understand that adapting new behaviors supported by advanced analytics will be a defining characteristic of successful wineries. Smaller wineries will have to evolve and better adapt in the next decade.

## Survey Question: How important will advanced analytics and AI become?



Source: SVB State of the Industry Survey 2023



## About Silicon Valley Bank's Wine Division

Silicon Valley Bank, a division of First-Citizens Bank & Trust Company is the premier commercial bank for emerging, growth and mature companies in the technology, life science, venture capital, private equity and premium wine industries. Its Wine Division specializes in commercial banking for premium wineries and vineyards and the industries that support them.

SVB has the largest team of commercial bankers dedicated to the wine industry of any bank nationwide. Founded in 1994, SVB's Wine Division has offices in Napa, Sonoma and Oregon. It serves clients in the fine-wine producing regions of California, Oregon and Washington.

By virtue of its dedication to the wine industry, Silicon Valley Bank is able to support its clients consistently through a range of economic cycles, and offer guidance on many aspects of their businesses beyond traditional banking services. Silicon Valley Bank, a division of First-Citizens Bank & Trust Company is a member of the FDIC and the Federal Reserve System. More information on the company can be found at [svb.com](https://www.svb.com).





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