



Domestic Wine Consumption - What the Hard Numbers Are Telling Us

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For many of us our first encounter with an adult beverage was probably in the form of beer. So it may seem strange to some that in the United States we consume more wine than do the inhabitants of any other nation on earth. And it's been that way since 2010. In fact, U.S. wine consumption has been growing on an annual basis for more than two decades.

And despite the excitement in other beverage alcohol areas—the growth of craft beer and craft spirits, the resurgence of bourbon, and the flavored whiskey phenomenon—our domestic romance with wine con-

tinued last year and is expected to remain on trend this year, too. Gains are, indeed, slowing. From a statistical perspective you could call them glacial. At Beverage Marketing Corporation we measured 2015 total market consumption (depletions) up just 0.6% to 356.4 million 9-liter cases. We project similar slow growth for 2016.

But when the numbers get that big, small percentages represent large volumes. A gain of less than one per cent in this instance means an increase of well over two million cases.

Dollar growth for total wine moved up respectably, too, by about \$600 million dollars and about \$1.62 per 9-liter case, even as per capita volume continued to stagnate. And table wine—89.1% of total volume and 86% of retail dollars—appears to be undergoing a makeover in the eyes of many consumers. Brand marketers say that today’s dominant price tier has clearly moved into the \$10-\$15 range (encouraging many of them to introduce popular lines aimed even higher). Table wine also claimed about \$400 million of the aforementioned \$600 million total market gain.

Interestingly, despite this consumption growth, few Americans see themselves as particularly knowledgeable about wine. Academic studies, at least, continue to show that our taste preferences are simple; the table wines we enjoy most are fruity and semi-sweet.

For many market observers one of the most exciting shifts in the market is the surging growth of sparkling wines. We’ve seen at least five years of extraordinary growth for the bubbly. At Beverage Marketing Corporation we measured sparkling wine depletions up 6.82% last year from 20.2 million cases a year earlier to 21.6 million cases. Six years ago sparkling wine depletions were just under 16 million cases; the total jump to 2015 is an astonishing 6 million cases. Everyone agrees on the importance of prosecco as a critical driver of this phenomenon—but don’t fall back too quickly on attributing growth just to U.S. demographic or social changes. The growth of sparkling wine consumption (both prosecco and fizzy roses) is a worldwide phenomenon expected to continue at the same high growth rate at least until 2020.

Nonetheless, the key observation we can make about the most important trends now shaping the U.S. wine market is that our preferences are shifting in tandem with our changing tastes, social habits, and demographics generally.

One aspect is certainly generational change. We’ve been shedding certain wine or wine-related drinking habits for a while now. Our consumption of fortified dessert and aperitif wines like port and sherry dropped 3.8% last year, 2.7% the year before, and 2.8% the year

before that. Volume fell from 9,050,000 cases in 2010 to 8,150,000 cases in 2015—a dive of around 10%. Vermouth, too, has watched U.S. drinkers turn away. Consumption of 1,705,000 cases in 2010 had slid to 1,425,000 by last year. We have to suspect that our Martinis have been getting drier and drier.

The smiley face of the fortified wine story, perhaps, has been sake. Major brands held their own. One, Gekkeikekan, grew better than 5% last year and picked up half a share point (to 6%) in the fortified wine category.

Of course port and sherry aren’t going away. Consumers will still call for an icy fino or dry vermouth when they go out for tapas. It’s just that our generational proclivities are showing. We’re simply relegating the fading appeal of a port for dessert or with a cigar or a sherry as an aperitif to memorable scenes from novels read when we were younger.

But when you add in what most identify as last year’s biggest demographic driver of this market—the impact of Millennials with their acceptance of wine as an accessible, casual social beverage and their greater willingness to experiment with different wines than older wine drinkers have been, the evolving marketplace makes much sense.

One interesting area where we’ve seen much change already and perhaps more to come may be packaging. Think Delicato Family Vineyards Bota Box and its numerous high quality competitors. Our numbers show paper packaging has gone from 3.7 million



1-liter equivalents in 2010 to 56 million in 2014 and 56.8 million last year. There's little doubt that this is a story still being written as the twin drivers of convenience and the newly acceptable appeal of a different ways of doing things have made their presence felt.

Resistance to the box is strong. Some consumers worry whether a good wine come in a large, inexpensive box. But perhaps because of millennial acceptance and perhaps because of the ubiquity of other bag-in-box (as well as aseptic) packaging for beverages is already so visible, the challenge of assuring consumers that a 3-liter box can contain as satisfying a product as a 25.6 ounce glass bottle looks manageable. Numerous top marketers believe so and have picked up this gauntlet.

Are canned wines next? Very possibly. There are no reliable numbers on their growth over the past year or so but their spread in outlets such as Whole Foods may make them a harbinger of what's to come. In building acceptance, canned wines have a couple of advantages over boxed ones: they're starting with higher price points and product that plausibly is viewed with greater esteem. (The higher price points here should translate into better margins and stronger incentives for retailers.)

Alternative closures such as synthetic corks and screw caps (Stelvin caps) are also reported making gains but driven by different factors.

Looking specifically at studies we have reviewed on consumer wine purchasing behavior a number of forces shaping the current market become clear in 2015 data we obtain from Scarborough:

- Men are more likely than women to be red wine purchasers.
- Women are more likely to be purchasers of any blush or rose, champagne or sparkling wine, or white wine.
- Millennials are the clear guzzlers in the sparkling wine category—but to a degree they're mirrored in this regard by the oldest demographic groups.
- Level of education has a tremendous correlation

with likelihood of wine purchase—college grads are much more likely than any other group to buy wine.

- Married people tend to be more likely purchasers than unmarried ones.
- Regarding ethnicity, non-Hispanic Asians have more open wallets for wine purchases than other groups.
- The likelihood of blacks to purchase red wine is much lower than that of whites (indexes for the two groups don't vary greatly otherwise).
- Unsurprisingly, income has a tremendous impact on likely wine purchase; only those earning upward of \$75,000 across-the-board are more likely to purchase any (and every) category of wine than others earning less.

Wine marketers are not known as big advertising spenders but they did move last year to back their understanding of wine's new realities and marketplace trends with promotional dollars in key areas. Some benchmarks in data from our own sources and Kantar Media:

- Cable advertising jumped almost \$3 million dollars last year—the actual gain was 15.2%
- Newspaper advertising gained about 16.8%—a significant reflection of marketplace health

Other areas like magazines and outdoor advertising such as billboards saw pullbacks. Nonetheless, overall measured media for wine gained a respectable 1.8%.

Likely much more important has been the explosion of powerful social media communications of all sorts. Events with local marketing teams coming face to face with consumers are often integrated into such efforts. Just a few examples that attracted press attention last year or the year before:

- La Crema's Virtual Vintner™ digitally put participants into the winemaking process--23,000 participants actually became the vintners in a com-

petitive winemaking process. Significant gains in case sales have been attributed to the program.

- Rodney Strong, as part of the “Rodney Strong Silver Anniversary and James Beard Foundation’s Celebrity Chef Tour Dinner” broadcast an event to participating venues in four cities and then hired an agency to create an integrated earned media program that included Facebook, Twitter, Instagram, Pinterest, and specially selected blogs. The key result was to target consumers outside of their regular wine communication channels.
- Pernod Ricard decided to reach its Millennial marketing target on behalf of its Deadbolt brand with an “influencer program” associating the wine with indie rock artists. They developed the Music Cellar series with local rock artists set against a backdrop of Deadbolt.

Much else is changing in the wine market, too, some of it perhaps faster than in the beer and spirits arenas. The future of wine distribution is a book with many blank pages. Mail order marketing has been joined by home delivery services. Amazon and many others are working out the wrinkles—for the most part successfully. Wine delivery deals like Total Wine & More’s pact with Instacart in cities in MN, FL, TX, MA, and NC, are typical. Private labels, which have been creeping into on-premise for a while, are now walking into supermarkets (and wholesale clubs).

Despite all the change, however, much is still the same. How much has the heart of the market changed? Red blends have joined more the more traditional varietals Cabernet Sauvignon, Chardonnay, Sauvignon Blanc and Pinot Noir as U.S. volume drivers. Red blend growth has been exceptional, jumping 1.6 million cases last year to 9.3 million. At the top of the market, however, Chardonnay has held steady at 53 to 54 million cases since 2011. Cabernet Sauvignon has been making steady gains and hit 32.3 million cases last year. Merlot has slipped slightly but is still the U.S.’s number three. Pinot Noir has shown good growth (7.2% last year) as have Blush/Roses at 3.2%. Further down the list, Cabernet Sauvignon has been on a multi-year charge jumping ahead 6.7% to 6.2 million cases in 2015.

For wine drinkers the world has been getting way bigger and much better in terms of options. Wine imports into the U.S. from the top 20 countries have grown a flabbergasting 136.8 million liters since 2011. Certainly this has impacted pricing as a factor driving the domestic market. One important aspect, however, as far as promoting consumer interest has been the number of new varietals for aficionados to discover on retail shelves and wine lists.

Looking forward, you can’t say this market is altogether rose. Remember, overall growth has slowed. But it’s certainly very rose-hued—and there’s no pun intended in that at all.

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