

2008

A Look Back at 2008

A rocky year comes to an inconclusive finish for the wine industry.

Liza B. Zimmerman

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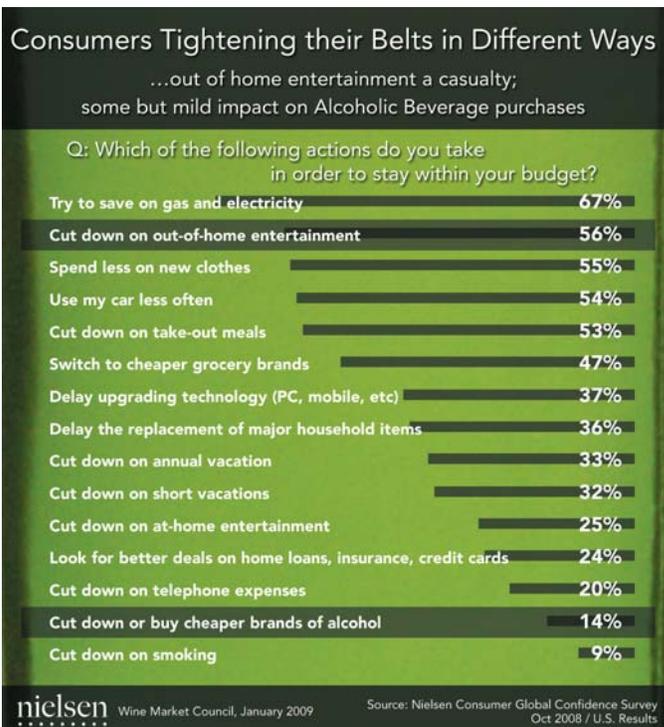


FEW YEARS HAVE SEEN the economic ups and downs of last year. While many executives in the wine business believe the industry has been somewhat insulated, there was no saving any sector completely last year from the ravages of the economy. Volume has stayed steady while total wine spending has lessened and skewed heavily to the off-premise sector. However, that's only part of the picture. This story looks at the many ways in which the wine market is evolving, according to top marketing executives and recent data.

According to **The Nielsen Company**, the wine category is still growing better than most at a single-digit rate. Premiumization had been driving growth in 2006 and 2007, both in terms of value and volume. However in 2008, consumer confidence levels were at record lows due to the energy, housing, credit and general economic issues.

The downturn in the economy has led to greater at-home wine consumption, according to Nielsen. Recent studies from the company also noted that a focus on value often trumps other needs and desires in the wine-buying arena. While consumers are drastically cutting down on overall entertaining spending, the pullback has had less of an effect on wine than on other purchases.

According to Nielsen, the percentage of consumers who sought to tighten their budgets by decreased spending on alcoholic beverages was 14 percent in 2008, a much smaller share than the 56 percent who chose to cut down on general out-of-home entertainment. The



company also noted that table wine was the fastest-growing category in terms of units among the beverage categories, showing a growth rate of slightly more than 9 percent, compared to slightly more than 2 percent for refrigerated juices and drinks for the last 13 weeks ending Nov. 1, 2008.

In a recent interview, **Jon Fredrikson**, president of Woodside, California-based **Gomberg, Fredrikson & Associates**, characterized 2008 as a "difficult year for most wineries, other than some of the largest players who had value-priced [wine] under \$10." Inexpensive wines, priced under \$6 for a 750-ml bottle, grew rapidly in

food stores last year. Shipment declines in the 10- to 30-percent range were not uncommon for small wineries, according to Fredrikson. He added that it's not likely that restaurant sales will rebound significantly in the coming months of 2009.

Last year "started out well and slowed down dramatically," said **Barbara Insel**, president and CEO of the St Helena, California-based wine consulting company **Stonebridge Research**. "Retail and distributor inventories have really been backing up on the higher-end wines," she noted. In addition, many distributors "aren't taking in any new product."



Barbara Insel thought 2008 slowed down dramatically and wholesalers may not be taking on any new wine.

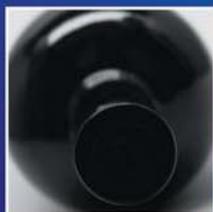
MAJOR MARKETERS TAKE ON THE ECONOMY

"It's not been a cake walk," said **Jim DeBonis**, CEO of **Ascentia Wine Estates**, the Healdsburg, California-based company that acquired eight brands from **Constellation Brands**



Jim DeBonis holds out hope for the Millennial generation.

The shape of fine wine

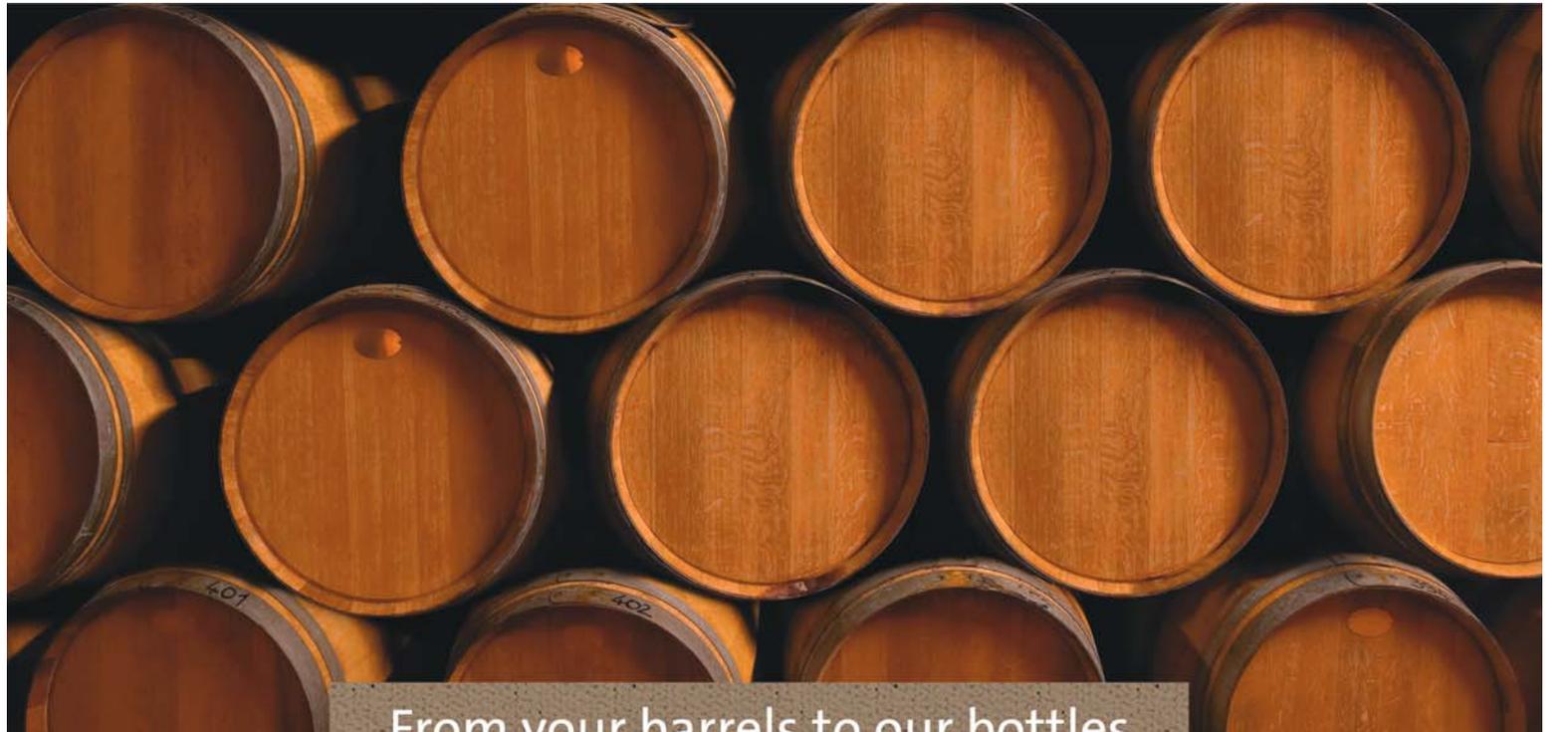


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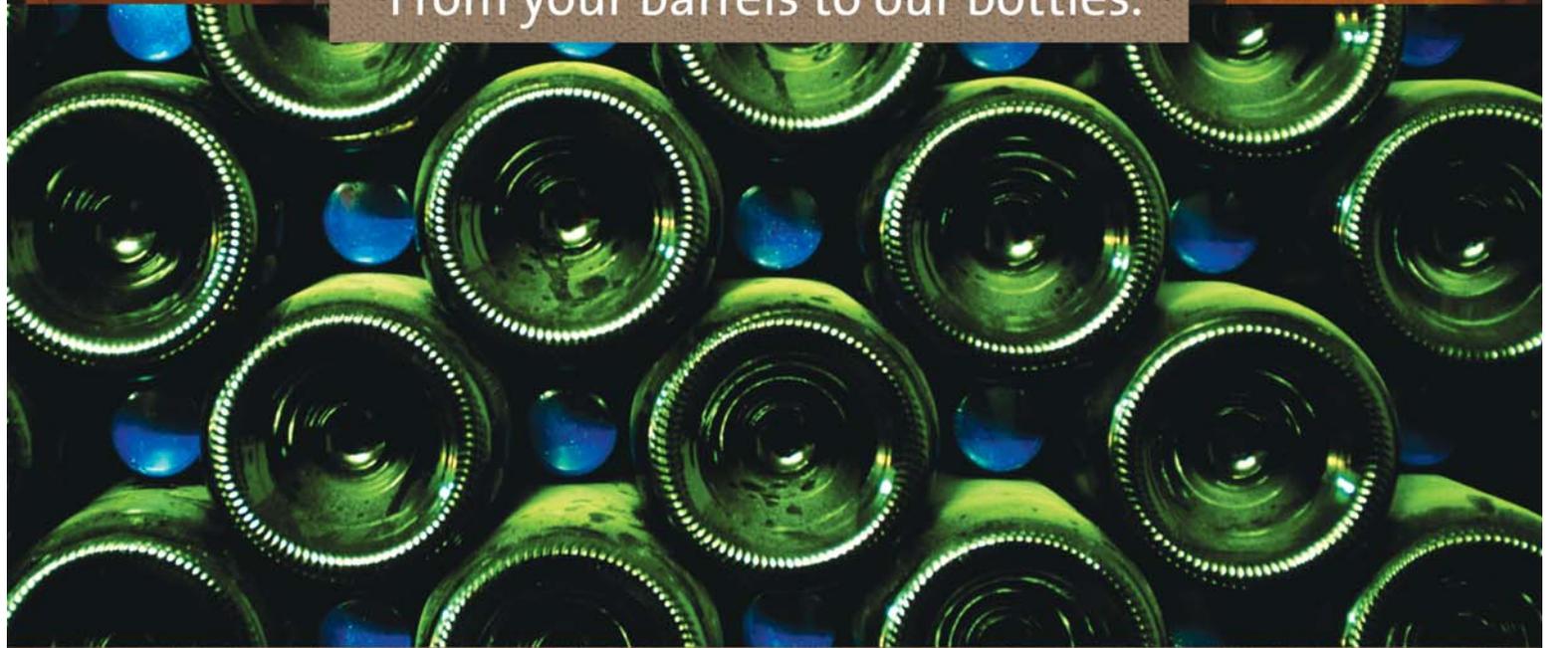
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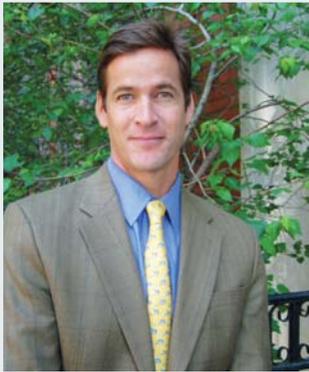
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Gib Rockwood of Wilson Daniels thought 2008 was stronger than expected.

midway through 2008. The company was founded in July of 2008 and, according to DeBonis, has consistently increased its sales figures throughout the second half of 2008.

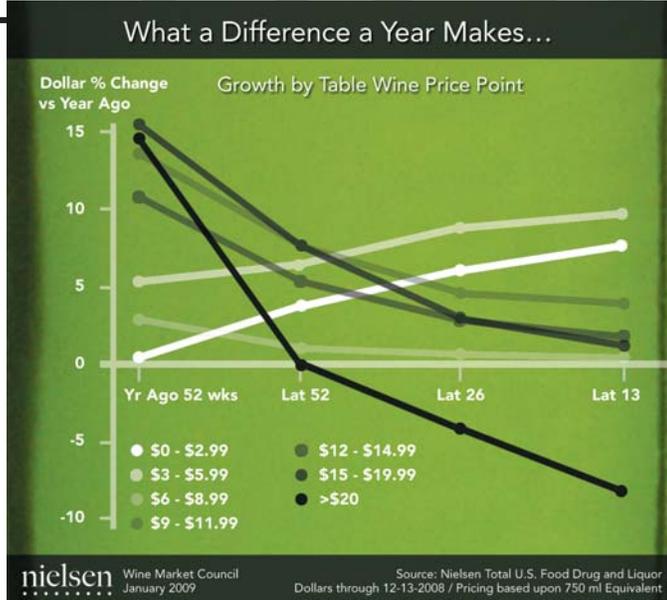
The past year was “stronger than anticipated,” according to **Gib Rockwood**, senior vice president of marketing at the St. Helena, California-based **Wilson Daniels**. He noted, however, that his import and marketing firm saw a “notable drop-off nationally in the last two months of the year [2008].” He attributed the decrease to the likely fact that “people are expecting more value for their money.”



AVIS MANDEL

Dale Stratton believes that consumers will continue to seek out well-priced wine brands.

For Constellation Wines, 2008 was a good year as the company had already streamlined its portfolio early in the year, according to **Dale Stratton**, the San Francisco-based vice president of **Strategic Insights**. He added that the



BROWN-FORMAN

John Tichenor of Brown-Forman said consumers appear to be dropping more than one price-point and going straight to value-priced wines.

wine category is “growing and has continued to outpace consumer package goods in general.”

THE DOMESTIC ARENA AND PRICE-POINTS

Ascentia’s DeBonis noted that his company’s domestic wines have been faring well overall in a trend that’s reflective of the market at large. He noted, though, that overall growth had been slower in 2008 than in the past.

Constellation’s Stratton agreed that “last year saw imports take a back seat and ... domestic [wine] grow at a much better pace.” Nielsen reported that domestic wine showed a 5.5-percent growth rate in the last 13 weeks ending Dec. 12, 2008 while imports showed only .01 percent growth in the same period in terms of dollar value.

With steady volume purchases and increased spending in the off-premise section, it would seem that many core wine consumers have stayed faithful to the category while reining in their spending patterns. Ascentia’s DeBonis added that the very high-end wine category has seemed to slow down in the last three months of last year through January of 2009.

There’s always a sweet price-point, particularly in this economy. Wines priced from \$5 to \$11 were performing the best in the beginning of 2009, according to DeBonis. Constellation’s Stratton also agreed that consumer interest primarily falls in the \$8 to \$11 price category per bottle. Stonebridge’s Insel also added that wines in the \$6 to \$10 retail category have been growing the most in early 2009. Nielsen’s data

supports the consumers’ move to lower-priced wines. The up to \$2.99 and the \$3 to \$5.99 price-points showed the greatest growth, at 7.7 and 9.7 percent respectively, in the last 13 weeks leading up to Dec. 12, 2008, in terms of dollar percentage change.

Consumers, according to **John Tichenor**, group brand director, foundation wines of the Louisville, Kentucky-based **Brown-Forman Corporation**, noted that “consumers appear to be dropping more than one price-point, going straight to value-priced bottled wines and/or bag-in-the-box [wines].” He added his belief that low-priced wine would continue to gain market share while long-term focus on premiumization would return at the same time.

THE SKEW FROM ON- TO OFF-PREMISE

Historically in a recession, consumers focus on the off-premise channel to get more bang for the buck. According to Nielsen, a greater number of consumers are continuing to gain access to the wine market, both in the on- and off-premise, in an almost consistent four-year growth pattern.

Based on a Nielsen/**Bevinco** bar survey conducted in May of 2008, 44 percent of bar managers and owners reported a decrease in consumer traffic, and 25 percent of them saw a decrease in drink orders. Only 11 percent of them reported that wine is faring better than beer and spirits.

Nielsen’s figures for 2008 also reported that the grocery channel accounted for close to half of the busi-



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ness in the off-premise arena for the last 13 weekends leading up to Dec. 12, 2008. It's a figure that might well account for much of the on-premise sector's down tick in total sales value.

According to Ascentia's DeBonis, "in a number of areas, the on-premise and restaurants in general are suffering." He said it may well be too soon to tell if this will be a long-term pattern for consumer spending in the on-premise.

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According to the Nielson/Bevinco bartender survey, bar managers said overwhelmingly that price wasn't the only important issue. They added that keeping up to date with popular wines, wall signage and education and training of wait staff were the three most important things, in order, they would like to see their suppliers do to best support them.

WHO'S DRIVING THE MARKET AND THE VARIETAL GAME

Many top marketers have wondered if the newer generations will save this market. They seem quite impervious to the dips in the economy and have continued to show a solid interest in wine.

Many wine producers and marketers remain hopeful about the 20-somethings or what demographers call the "millennial generation." It's a generation that, according to DeBonis, is "going straight to wine." Brown-Forman's Tichenor confirmed his belief that "the greatest growth will come from millennials, whose numbers increase as they reach drinking age."

Time-honored grape varieties still continue to rule the market although it is opening up to lesser known grapes like Riesling. "Cabernet Sauvignon, Chardonnay and Merlot continue to be over 40 percent of the business," according to Constellation's Stratton.

In terms of top varietals, Pinot Noir and Sauvignon Blanc showed the largest growth rates according to Nielsen, in the last 13 weeks leading up to Dec. 12, 2008. The legendary Pinot Noir, mythologized by the 2004 release of the movie *Sideways*, grew close to 11 percent as a table wine varietal in that same time period. It was closely followed by Sauvignon Blanc at close to 10 percent growth. Other grapes that had strong showings include Riesling, Pinot Grigio and of course Cabernet Sauvignon, according to Nielsen.

THE PULL OF BRAND LOYALTY

It has been said that consumers can be more brand loyal and less willing to experiment in economically risky times. Major wine marketers concur with this picture, and many believe that core wine consumers will continue to patronize brands with which they have always been familiar.

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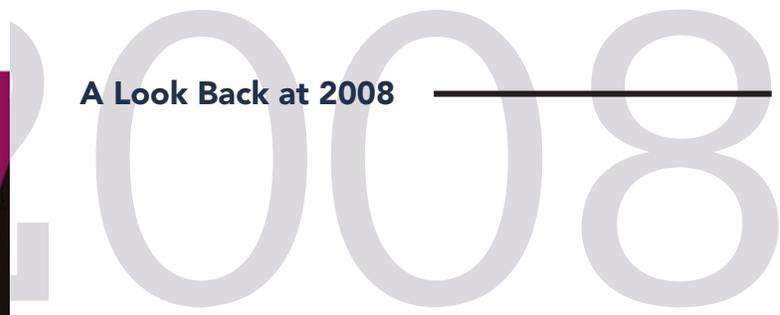
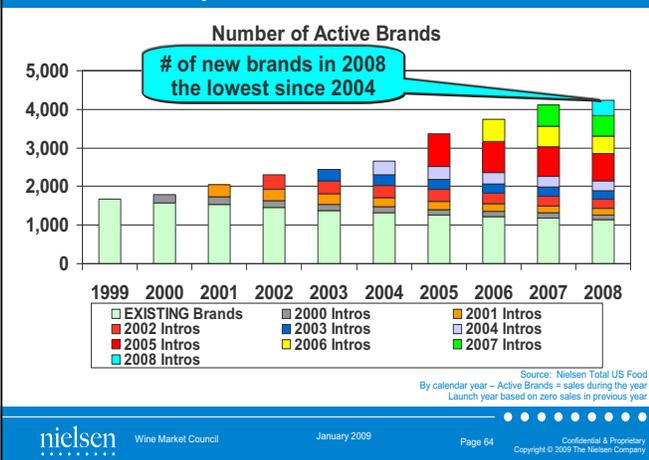


Table Wine New Introductions are Slowing
 Since 1999, 3,900 new brands have hit Grocery store shelves, accounting for almost 73% of today's active brands, and about 20% of dollar sales



According to Constellation's Stratton, "larger brands will continue to outperform others." He also sees "trusted, established brands winning in 2009." Stonebridge's Insel also noted that "it's a flight to known brands. People are very risk-averse."

As a reaction to the appeal of the familiar, the number of new brands introduced last year has dramatically dropped. According to Nielsen, 2008 heralded the lowest number of new brands since 2004.

WHAT LIES AHEAD

As a new president takes office and the American economy has a long road to hoe, it's difficult to predict what 2009 has in store for the wine business and the market. According to Constellation's Stratton, this year will continue to pose challenges, and consumers will continue to seek out affordable and well-priced wines.

Stonebridge's Insel believes that the market will pick up toward the end of

2009 but doesn't imagine that it will be immediately reflected in wine inventories as they have been so inflated over the past year.

According to Nielsen, 2009 will offer an opportunity for greater at-home consumption. Consumers will continue to focus on value throughout the year, potentially to the detriment of local restaurants.

It remains clear that while the wine business is a resilient, albeit evolving business, one can only hope that we can learn and grow in this new economy. I am not entirely convinced that our business is quite as insulated as some might think; however, I believe we have the soul, substance and consumer support to continue to push forward in a shaky economy. **wbm**

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