The U.S. Wine Market in a Global Context

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How might a U.C. perspective differ?

• More Objective? We don’t produce or sell wine. Treat it as an interesting good but still a good that responds to supply/demand

• Focus on supply? Grapes are an agricultural product and we study production. Little actual consumer research

• California-centric? California dominates U.S. production

• Historical? Current events placed in longer term perspective
Core Consumers enjoy at least one glass of wine a week or more. At 20% of the adult population they number about 36 million and they consume 91% of all table wine—averaging 70 liters per person.

Marginal consumers drink less than 1 glass a week, although they say they enjoy wine. They drink the other 9%.

Source: Wine Market Council
How Does the U.S. Compare?

Percent Adult Abstainers

- Germany
- France
- U.K.
- Japan
- Argentina
- Canada
- U.S.

Source: WHO Global Status Report on Alcohol 2004
Wine Consumers – the traditional view

Quantity & Quality

Thanks to Christian Miller for the slide!
Wine Consumers – Defined by Price and Frequency of Consumption

- Occasional wine drinkers
- Regular wine drinkers
- Bag-in-Box buyers
- Wine aficionados
Constellation’s “Project Genome” 3500 in-depth interviews in 2005

**SIX KEY CONSUMER SEGMENTS**

- **ENTHUSIAST**: 73%
- **IMAGE SEEKER**: 49%
- **SAVVY SHOPPER**: 59%
- **TRADITIONALIST**: 54%
- **SATISFIED SIPPER**: 33%
- **OVERWHELMED**: 28%
# Genome by Quantity

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent Consumers</th>
<th>Glasses per week</th>
<th>Percent all wine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enthusiast</td>
<td>12</td>
<td>5.1</td>
<td>18</td>
</tr>
<tr>
<td>Image Seekers</td>
<td>20</td>
<td>3.3</td>
<td>23</td>
</tr>
<tr>
<td>S.Shoppers</td>
<td>15</td>
<td>3.5</td>
<td>18</td>
</tr>
<tr>
<td>Traditional</td>
<td>16</td>
<td>3.0</td>
<td>16</td>
</tr>
<tr>
<td>Satisfied</td>
<td>14</td>
<td>2.2</td>
<td>11</td>
</tr>
<tr>
<td>Overwhelm</td>
<td>23</td>
<td>1.7</td>
<td>14</td>
</tr>
</tbody>
</table>
What about supply?
2010 U. S. Wine Sales by Price Category

<table>
<thead>
<tr>
<th>Price Category</th>
<th>% Volume</th>
<th>% Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$3</td>
<td>21%</td>
<td>7%</td>
</tr>
<tr>
<td>$3-$7</td>
<td>36%</td>
<td>24%</td>
</tr>
<tr>
<td>$7-15</td>
<td>30%</td>
<td>36%</td>
</tr>
<tr>
<td>&gt;$15</td>
<td>13%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Data sources: Jon Fredrikson and Christian Miller
The U.S. wine market in 2010

• California supplied 61% of all wine sold.
• 82% of California wine was sold in the U.S.
• Of the 18% exported, half was bulk, and valued at $1.05 a liter
• Approximately 57% of the wine sold in the U.S. retailed for under $7 a bottle ($9.33/L) and 21% sold for less than $3 ($4/L) a bottle
• Most of this wine came from the San Joaquin Valley
## 2010 Imports to U.S.

<table>
<thead>
<tr>
<th>Country</th>
<th>Value ($ Millions)</th>
<th>Volume (million Ls)</th>
<th>$/L</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>1,253</td>
<td>246</td>
<td>5.09</td>
</tr>
<tr>
<td>France</td>
<td>988</td>
<td>90</td>
<td>10.97</td>
</tr>
<tr>
<td>Australia</td>
<td>603</td>
<td>211</td>
<td>2.85</td>
</tr>
<tr>
<td>Chile</td>
<td>274</td>
<td>121</td>
<td>2.26</td>
</tr>
<tr>
<td>Argentina</td>
<td>269</td>
<td>87</td>
<td>3.09</td>
</tr>
<tr>
<td>Spain</td>
<td>264</td>
<td>53</td>
<td>4.98</td>
</tr>
<tr>
<td>New Zealand</td>
<td>197</td>
<td>31</td>
<td>6.35</td>
</tr>
</tbody>
</table>

The above figures are import values. Retail prices are at least 2X, perhaps 3X
Tons of U.S. Grapes Crushed Vintage 2010

California, 90% all tonnage: 3,400,000 tons

New York: 60,000 tons (only 9,550 vinifera)

Washington: 160,000 tons

Oregon: 40,000 tons
2010 Crush Percentages

Volume: Tons Crushed
- Valley: 74%
- Coast: 26%

Value: Percent Dollars
- Valley: 39%
- Coast: 61%
California’s San Joaquin Valley (districts 11, 12, 13, 14 and 17) crushed 78% of all grapes in 2009 but received only 40% of the value. Districts 12, 13, and 14 crushed 52% of all grapes and District 13 accounted for 1/3\textsuperscript{rd} of California wine grape production.
Can Winegrapes compete with Almonds?
About 85% of California’s almond acreage and 50% of winegrape acreage are in the San Joaquin Valley, (winegrapes down from 60% in 1980).
Gross Revenue per Acre

Almonds
Winegrapes
Bearing Acres San Joaquin Valley

![Graph showing the change in bearing acres for almonds and wine grapes from 1980 to 2010. The graph indicates a significant increase in the number of bearing acres for both crops, with almonds showing a steeper increase compared to wine grapes.](image-url)
5 Year Weighted Average Returns per Acre San Joaquin Valley, 2005-2009

<table>
<thead>
<tr>
<th></th>
<th>Almonds</th>
<th>Winegrapes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment</td>
<td>4839</td>
<td>6746</td>
</tr>
<tr>
<td>Total Cash Costs</td>
<td>2761</td>
<td>2603</td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>3747</td>
<td>2571</td>
</tr>
<tr>
<td>Difference</td>
<td>986</td>
<td>-32</td>
</tr>
</tbody>
</table>

Costs do not include non-cash overhead expenses such as interest on land or depreciation of vineyard/orchard establishment. Gross revenue is derived from County Ag. Commissioner reports and is a 5 year (2005-2009) weighted average.
Total California Shipments
(Domestic and Export)

Millions of gallons or pounds
The World Matters for Both

<table>
<thead>
<tr>
<th></th>
<th>Almonds</th>
<th>Wine</th>
</tr>
</thead>
<tbody>
<tr>
<td>% World Production</td>
<td>80</td>
<td>7</td>
</tr>
<tr>
<td>% California Production Exported</td>
<td>70</td>
<td>17</td>
</tr>
<tr>
<td>% of World Shipments</td>
<td>90</td>
<td>4</td>
</tr>
</tbody>
</table>

Two ways of looking at these numbers:

1. Since there is a large demand for wine in the world, California producers have a major opportunity to increase volume if they can compete with other producers. In contrast, California almond producers may well face increased international competition and lose market share.

2. International demand is still growing for Almonds and California has brand recognition. In contrast, demand for wine is stable or shrinking and major old world producers dominate.
World map weighted by total GDP in 2005
World map weighted by estimated GDP in 2015
Lapsley’s predictions for 2030

• Population and per capita consumption will both increase—leading to a 45% increase in volume

• A 2030 market of 407 million cases is an increase of 125 million cases, requiring 1.75 million tons of grapes

• Assuming California supplies 60%, and that half sells at $5 a bottle or below, the San Joaquin valley needs to expand production by 500,000 tons, or 42,000 acres at 12 tons/acre

• Total acreage is down by about 50,000 acres
So how will wineries meet demand?

Bulk Wine Imports and Price per liter

[Graph showing bulk wine imports and price per liter from 2000 to 2010. The x-axis represents years from 2000 to 2010, and the y-axis represents volume in 1000's liters. The price per liter is shown with a line graph, with 2009 and 2010 having higher values.]
The future of Winegrapes in districts 13 and 14?

- With average yields of over 12 tons/acre, the region is very productive but is in competition with other bulk wine producing regions of the world.
- Of the 92,000 acres currently planted in districts 13 and 14, 91,000 are over 10 years old and will probably be pulled by 2030.
- Will those acres be replanted and another 40,000 added to meet projected increased demand—or will wineries meet demand by importing bulk wine?
- Replanting is probable only if major wineries commit to long-term contracts and if California winegrapes can compete with winegrapes grown elsewhere.
Thanks for your attention!

And thanks to: Dan Sumner, Jonathan Barker and Jessica Vergati, Agricultural Issues Center, UC Davis and to Christian Miller, Full Glass Research, Berkeley