

This is one of a series of thought pieces on major issues for the global wine industry extracted from ongoing research programmes at Wine Intelligence

The LIWF White Paper Style trends in the American wine market: A future of diversity?

Commissioned by London International Wine Fair

Introduction and Executive Summary

The market for wine in the USA is undergoing a revolution in terms of the scope and variety of products demanded. America now represents the world's largest market for wine by volume, consuming at 330 million 9-liter cases in 2010 (source: Gomberg-Fredrikson). Today's American wine consumer is interested in a more diverse array of varieties, countries of origin, and wine styles than the consumer of 20 years ago. The effects of this revolution are particularly apparent among consumers who have come into the wine market within the past 20-25 years.

The under-45 year old American consumer is displaying remarkably different attitudes and behaviors compared with their over-45 year old counterpart, characterized by a far broader repertoire, and an interest in experimentation. This repertoire extension can be observed in the three key dimensions of wine consumption: country of origin, varietal, and price point.

The repertoire size among American wine drinkers between 21 and 45 is reminiscent of consumers in countries such as the UK, which have undergone a similar wine revolution, and the parallels between UK consumers and the under-45 American consumers are fascinating to observe.

Wine Intelligence's view, as set out in this White Paper, is that the pace of change in the US market will continue to accelerate over the next 20 years as this new generation of American wine drinkers matures and enters their high wine consumption phase between the ages of 45 and 65. In particular we see the following trends developing:

- Growth of imported wines, at super-premium price points (\$10-20) with a distinctive and memorable regional story
- Demand / expectation for a greater diversity of imported wines with interesting stories on on-premise wine lists
- Greater diversity of wine in off-premise at the \$10-20 level from domestic regions and states, including those outside the California / Oregon / Washington / New York State establishment
- Greater diversity of wine styles, including the proliferation of drier styles of rosé (as opposed to the dominant "blush" rosé style)

AUTHORS

Richard Halstead
Erica Donoho
Joyce Steers-Greget

Please contact us for additional information

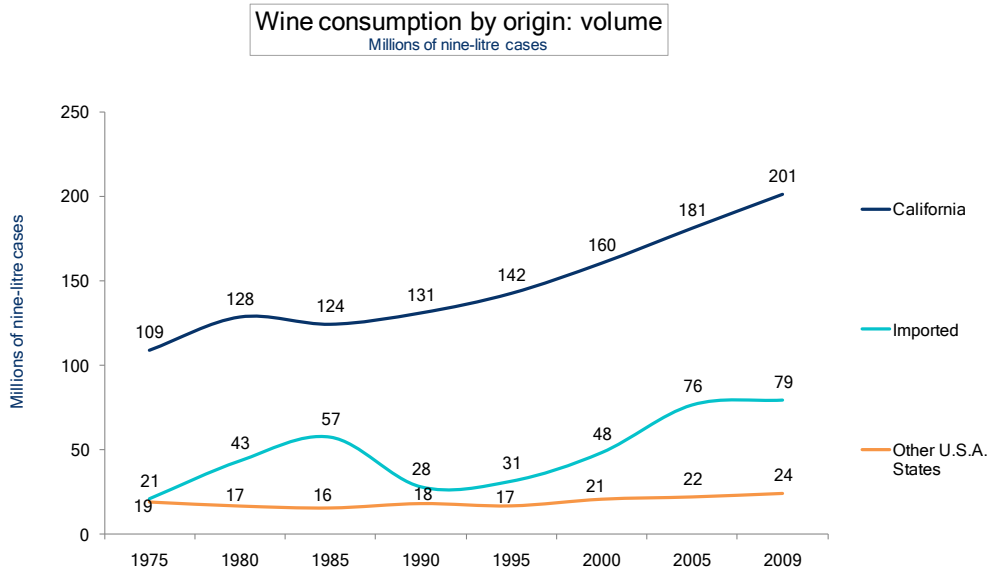
info@wineintelligence.com
+44 20 7378 1277

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Today’s American wine market in the global context

Today, the US wine market is the world’s largest by volume – slightly larger than France. The monthly wine drinking population of the USA is around 80 million adults, or roughly 36% of the adult (21+) population. This penetration of monthly wine drinking has grown substantially over the past decade, and has increased by 10% in the past year alone (source: Wine Intelligence Calibration surveys 2009-10, administered by YouGov). However it remains low by international standards: for instance, 58% of UK adults and Dutch adults drink wine at least once a month. This indicates that the USA still has some growing to do.

The wine market in America shares a number of characteristics with some other markets, which would suggest that it will undergo some significant changes that will provide opportunities for producers wishing to enter the US market, as well as those operating within the American wine supply chain.



Source: USDA NASS/IMPACT DATABANK 2010

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Wine Intelligence’s **stage-of-evolution market model** (see below) groups markets together by shared salient characteristics. Using this method, the USA is currently residing in the “High Growth Established” group. These markets are characterized by a relatively rapid evolution of tastes and behaviors with regard to wine. The markets in this group are typically experiencing above-trend consumption and volume growth, and significant numbers of new consumers are joining the wine drinking population. More interestingly, the types of wine consumed in this group are also evolving rapidly, and will continue to do so until the market reaches the next stage in development – the “Mature Established” state.

Traditional Established	Mature Established	High growth Established	Emerging	New Emerging
Wine producing countries with high residual per capita consumption, but stable or declining	Markets with strong historical growth which is tailing off	Markets where wine is becoming a mainstream product and is experiencing above-trend growth	Markets where wine is experiencing rapid growth from a relatively low base	Markets where wine is still a relatively new and unknown beverage
Argentina Croatia France Georgia Germany Italy Portugal Spain	Denmark Belgium Ireland Japan Netherlands Switzerland UK	Australia Canada Finland New Zealand Norway Sweden USA	Angola China Brazil Hong Kong Mexico Poland Russia Singapore South Africa South Korea	India Malaysia Nigeria Taiwan Thailand UAE

Table 1. Classification of wine markets, © Wine Intelligence 2010 [countries listed in alphabetical order]

Traditional Established	Mature Established	High growth Established	Emerging	New Emerging
Decreasing volume and value trend	Stable or decreasing volume and value trend	Longer term growth trend in total market volume / value	Generally significant growth, but from small base in terms of market volume and value	Typically significant growth, but from marginal base and risk of fluctuation
Decreasing per capita consumption from high base	Stable or decreasing per capita consumption from high base	Range of per capita consumption levels prevalent	Low per capita consumption rates for wine	Negligible per capita consumption rates across the adult population as a whole
Some shift away from dominance of domestic production	Broad range of countries / regions of origin	Broad range of countries / regions of origin, often changing or developing	Narrow range of countries of origin / wine styles	Limited wines distributed and available
Shift from 'table / bulk wine' to premium bottled wine	Wine often considered drink of choice by many adults in the population	Wine often considered drink of choice by many adults in the population	Market dominated by domestic wine / spirits	Limited wine drinking culture

Table 2. Macro wine trends of wine markets, © Wine Intelligence 2010

Looking to the future: The 21-45 year old American wine consumer

If change is the order of the day in the American wine market, then what is driving this trend? The emergence of America as one of the world's "hot" wine markets owes more to youth than maturity, even though the mature elements still lead in terms of consumption volume. However this change needs some more explanation, and it's worth noting that the pace of change may not become material for at least 5 years, and possibly longer.

The building excitement over the drinking and spending habits of America's 21-35 year old wine drinkers – the Millennials – has been well documented in the media over the past few years. The headlines tend to focus more on how fast this segment is growing in terms of wine consumption, and these numbers are quite exciting. According to the Wine Market Council, a US wine trade group, around a third of Millennials were drinking wine at least once a week in 2010, up from 15% in 2005 (source: Wine Market Council, 2011). This compares with a penetration of weekly wine drinking among the entire adult population of around 19%, according to Wine Intelligence's own calibration surveys.

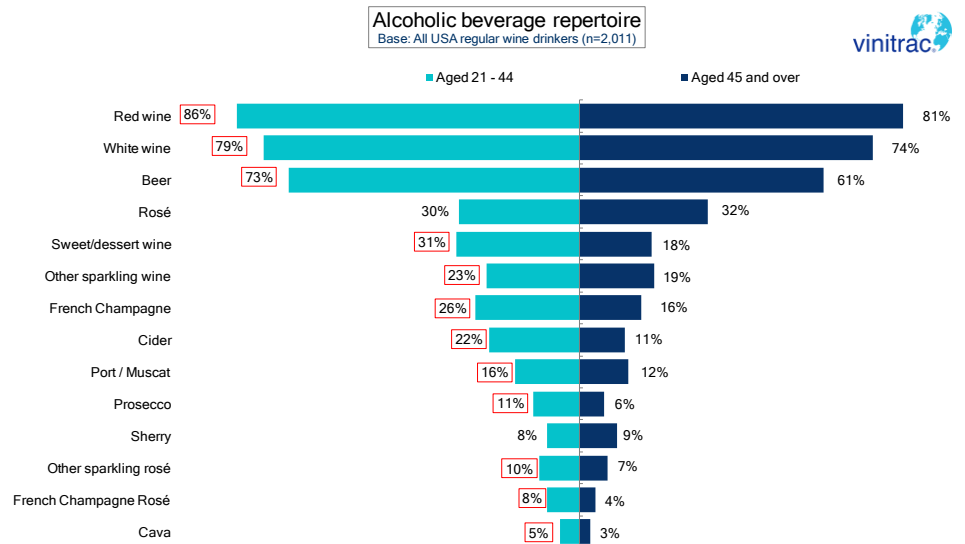
However, the Millennial "as industry transformer" argument becomes weaker when one examines the data in more detail. In the first place, the Millennials group accounts for only a quarter of the wine drinking population, while over 45s account for 52%. It also ignores the fact that Millennials still generally don't drink much wine compared to their older peers. For instance, only 6% of Millennials say they drink wine every day (source: Wine Market Council), compared with 13% of the wine drinking population as a whole (source: Wine Intelligence Portraits USA 2011).

These "problems" with the Millennial theory are not terminal. It is clear this group is behaving very differently towards wine than previous generations, and supports the Wine Intelligence hypothesis that wine in the USA is undergoing a revolution. The key difference, and most worthy of note here, is that the Millennial theory ignores the age group immediately above it – the 35-44s, often labeled "Generation X" by demographers. While not perhaps likely to set pulses racing at marketing conferences, this group accounts for over 20% of the US wine drinking population, and is increasingly behaving in a "Millennial" way when it comes to wine.

Consequently, if we assess the American wine drinking population differently, by dividing them into two simple groups – the under-45s and the over 45s – we can observe an interesting pattern. The two groups are of roughly equal size (over 45s slightly larger), yet display quite divergent behaviors.

Analyzing these differences in more detail, we observe that wine is still competing hard with other beverages among the under-45s. For instance, beer is still an important factor in the under-45s drinking repertoires compared with their older peers. However there is clear evidence even at a basic repertoire level that the under-45s are different. They are far more likely to drink sparkling wines such as Champagne, Prosecco and California sparkling. They are also far more likely than their older counterparts to drink dessert wine and Port.

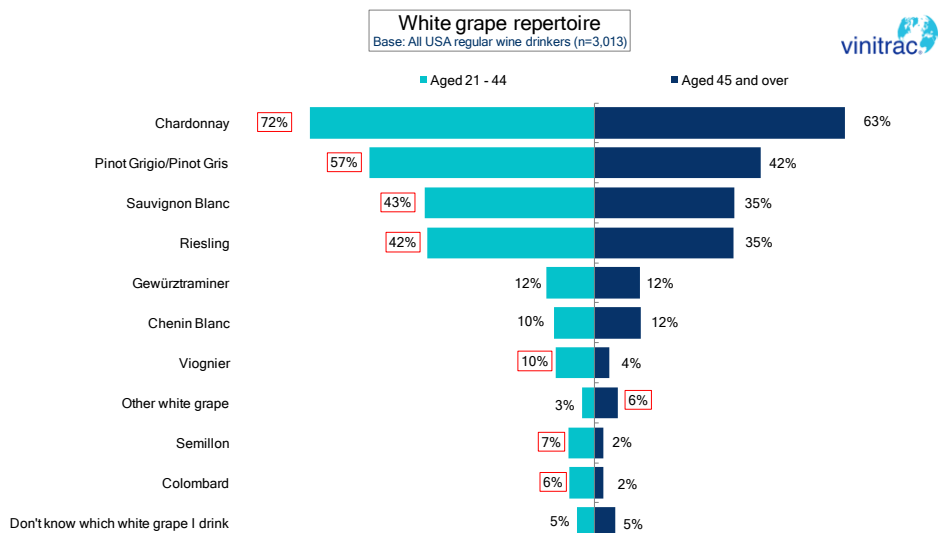
“*Millenials are behaving very differently towards wine compared with previous generations*”



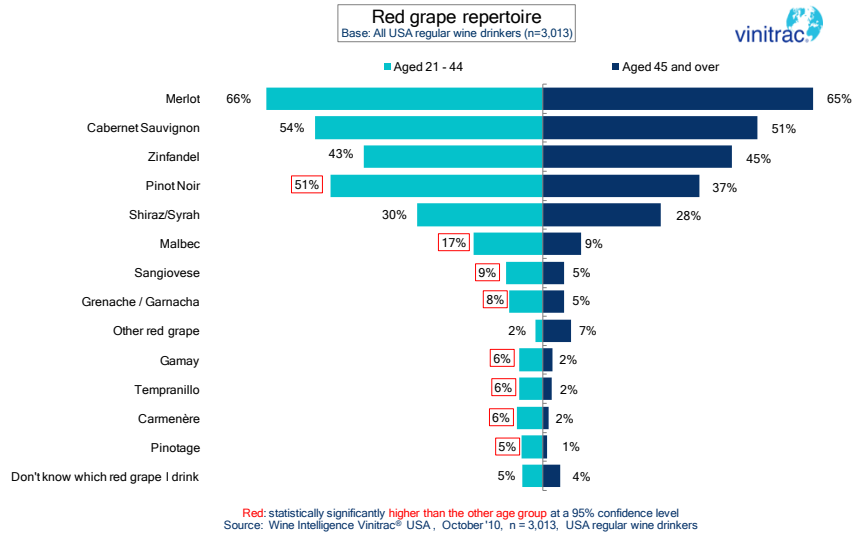
Red: statistically significantly higher than the other age group at a 95% confidence level
Source: Wine Intelligence Vinitrac® USA, March '10, n = 2,011, USA regular wine drinkers

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If we take this analysis down to the varietal level, we observe that under-45s have a larger repertoire of both white and red varietals – they regularly consume, on average, 2.5 white grape varieties and 3 red grape varieties, versus 2 and 2.5 respectively for over 45s. Remember that these under-45s are a group that – for the moment at least – drink wine significantly less frequently than their older counterparts. And while there seems to be little likelihood of mainstream varietals like Chardonnay declining any time soon, the main beneficiaries of the expanded varietal repertoire among the under-45s appear to be second-tier varietals such as Pinot Grigio, Sauvignon Blanc, and Riesling, as well as Pinot Noir, Malbec and Sangiovese.



Red: statistically significantly higher than the other age group at a 95% confidence level
Source: Wine Intelligence Vinitrac® USA, October '10, n = 3,013, USA regular wine drinkers

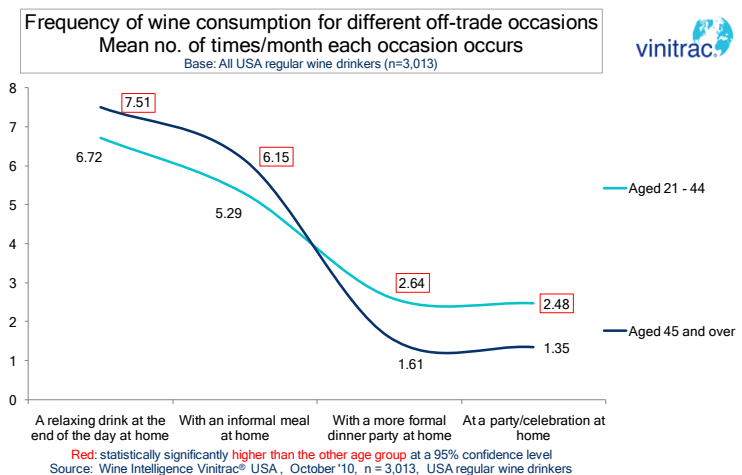


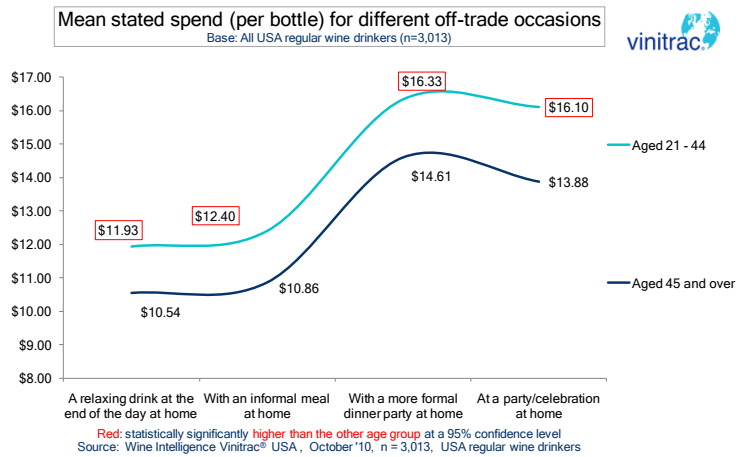
A similar tale of diversity (versus conservatism) can be observed when one compares the source country portfolios of under-45s vs over-45s. Younger wine consumers are significantly more likely to buy wines from France, Italy, Spain, Chile and Argentina, while older consumers are more likely to be California buyers, with other US regions, chiefly New York State, in their repertoire.

Is it all one-way traffic?

The differences in behavior between younger and older wine consumers illustrates a clear picture of growing diversity of tastes. As we will see below, younger wine consumers also spend more per bottle, tend to use wine as part of celebrations, and also visit the on-premise (bars, restaurants) more frequently. Faced with this potential future of diversity-seeking, highly involved, high-spending consumers, the temptation is to believe that all these characteristics will hold as today's 21-45s grow into tomorrow's 45-64s.

However it is highly likely that at least some of these differences arise from a more prosaic truth: younger people behave differently than older people, and their behavior changes as they age. There is some truth in this "life stage" model when it comes to wine consumption. The question: what wine consumption behaviors may change as our under-45s age, and what behaviors may be regarded as hard-wired for life?

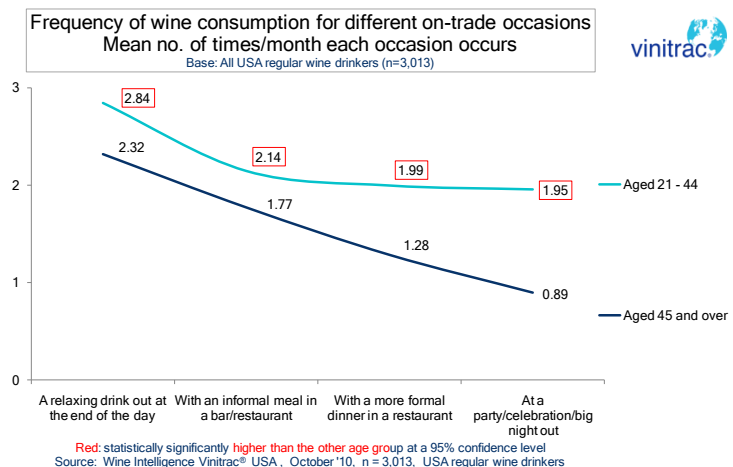




At this point, it would be ideal for Wine Intelligence to be able to offer a baseline study of today's 45-64 year olds 20 years ago to enable a direct like-for-like comparison. Unfortunately our company is only 10 years old, and we have yet to find an authoritative, detailed study of US consumer wine tastes from 1990 that can be fairly compared with data from 2010.

In the absence of robust empirical data, our approach has been to use qualitative research to test American wine drinkers' behavioral trends. Over the past 7 years Wine Intelligence has conducted approximately 100 focus groups about wine in the USA, and has also published several consumer segmentation studies, the latest of which, Wine Intelligence Portraits USA 2011, was published in February 2011. By asking consumers on both sides of the age divide what motivates them, and why they purchase certain products, we have been able to build up a deeper impression of the differences between groups – and also start to think about how this behavior might project into the future.

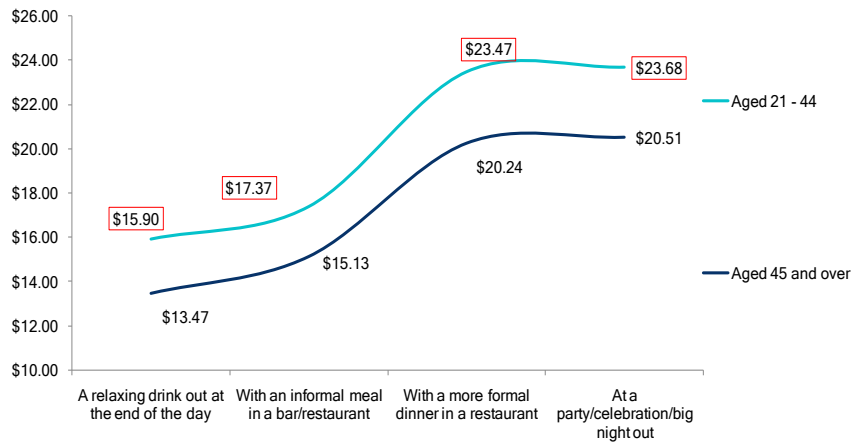
The qualitative evidence has uncovered some fairly obvious truths. For instance, younger people don't tend to drink as much wine as older people, and tend to spend more per bottle when wine is on the agenda. This is partly a function of occasion: under-45s tend to pair wine with a more formal occasion, such as a restaurant meal or a dinner with friends at home, and are less likely to crack open a bottle the moment they get in from work.



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Older consumers see wine as a more everyday drink. Exploring this spend / consumption disparity further, some life-stage factors are clearly at work. Over 45s are much more likely to have children living at home, and are much more likely to be living in suburban locations. Both factors tend to limit formal socializing opportunities, particularly in the on-premise, compared to younger, more footloose counterparts. Household budgets are also a factor – older consumers do tend to earn more, but also tend to have greater demands on that income (e.g. children, mortgage, family vacations, college costs etc.).

Mean stated spend (per bottle) for different on-trade occasions
Base: All USA regular wine drinkers (n=3,013)



Red: statistically significantly higher than the other age group at a 95% confidence level
Source: Wine Intelligence Vinitrac® USA, October '10, n = 3,013, USA regular wine drinkers

However there are also attitudinal differences – how people feel about wine – that are not so easily explained by a life stage model. For instance, American wine consumers under-45 are significantly more involved in wine – “into” the subject, as well as the product – than older consumers. When we ask American wine drinkers to describe how they started drinking wine, the typical story involves an encounter with cheap “jug” wine during college or their early 20s. However the next chapter of the wine relationship tends to diverge for older and younger consumers. Over-45s don’t recall drinking wine actively until their mid-to-late 30s, as their lives become more settled and their beer consumption declines (typically for lifestyle and health reasons). However most of the under-45s we talk to recall becoming “active” wine drinkers quite quickly – normally around their mid 20s – as their income and gastronomic tastes expanded. The evidence so far suggests that this behavior divergence is independent of income, geography, or lifestyle factors.

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The under-45 wine drinker in the United States is moving along a distinctly different path
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It appears that the under-45 wine drinker in the United States is moving along a distinctly different path in terms of their relationship with wine to that trod by the previous generation. One theory, built from our studies in markets around the world, is that the way in which wine drinkers are metaphorically “born” – the influences that cause them to take up wine as a beverage of choice in the first place – can have a profound influence on their relationship with the category throughout their lives. In more established markets, this relationship is usually initiated via family meals or events. The 21-45 year old cohort of Americans has perhaps experienced more of this family influence than previous generations – though tempered by the higher legal drinking age (21 years old) in the USA – as wine has emerged from its niche product status over the past 20 years. However if one follows the logic of this theory to its conclusion, the real impact of the apparent shift in consumer tastes and involvement in the wine category will be most significant in 20-30 years’ time, when the bulk of the children of the current 21-45 year old cohort are of legal drinking age.

Another theory that is getting increasing attention builds on the increasing diversity of the United States population, specifically the growth in households of Hispanic origin. Currently Hispanics account for around 16% of American adults (source: US Census) and this proportion is due to rise to approximately 30% of the adult population by 2050. Anecdotal evidence suggests that this growth will also accelerate wine consumption patterns, and may also contribute to the need for diversity in the offer. Some commentators have pointed to the growth in sales of the Moscato varietal (which tends to make sweeter, lower alcohol wines) as evidence of growing Hispanic influence in the wine market. It is probably too soon to judge the exact impact on the wine market of the Hispanic shift in America’s ethnic balance, other than to acknowledge that it will be one of several factors driving the broader trend towards wine consumption over the coming decades.

What will the US wine market look like in 2020?

In this paper we have described the coming changes to the US wine market in terms of a generational shift in consumer behavior. The chief characteristics of this shift are a significantly increased population of more highly involved wine drinkers than previous generations, combined with a more broad base of wine consumption beyond the approximately 36% of American adults who currently drink wine at least once a month.

Our forecast for the market indicates a monthly wine drinking population of around 40-45% of US adults in 2020, giving a total population of regular drinkers of approximately 100 million. The two main drivers of this growth will be an increase in the more committed, involved wine drinking population at one end of the scale, whose consumption will be at least weekly, and a larger hinterland of occasional drinkers who have relatively low involvement in the category. Currently 46% of regular drinkers (around 37 million adults) drink wine more than once a week, and we see this increasing to around 50% of regular drinkers (or 50 million) by 2020. At the same time we anticipate that Americans drinking wine monthly but less than once a week will also increase by around 7 million adults, though will fall slightly as a proportion of the monthly wine drinking population.

As a result we foresee two quite different demand characteristics emerging over the next decade as the wine market offer adjusts to meet this new reality. The stronger of the two factors will be the response to the growing weekly+ wine drinkers, who will be chiefly made up of today's thirty-somethings transitioning from the single / dual income, no children life stage into a more settled, family existence. The increase in wine volumes consumed, combined with the life stage effects on budget discussed earlier, may well reduce this group's average spend per bottle. However if one considers the group they are effectively replacing in this period (75+ year olds who are exiting the wine market for health, lifestyle reasons or mortality), the average spend is still likely to be markedly higher in 2020 compared with today.

In terms of specifics, we would expect the demand shift from this first factor to be felt across the US\$10-\$25 per bottle range (off-premise retail prices), with particular focus on US\$15-20. Product ranges themselves would need to have greater diversity, in terms of varietal, wine style and country / region of origin. These would be essential to meet the needs of an involved population which is now drinking wine more often than before, and still seeking to explore the category and grow their portfolio of wine experiences. This greater diversity of product would also need to come at a wider range of prices, to reflect the broadening occasion mix (and therefore budget thresholds) that these consumers would be willing to seek out.

The second demand factor – the growth in occasional drinkers – will have less of a strong economic effect than the first, though it will have a noticeable effect on product ranges. Here, the consumers will be more dependent on value reliability at a given price point. This consumer need will manifest itself as a seeking out of familiar brands or products, by which we mean high profile brands that project an image of safety and reliability. They will also need to exist within a “safe” price range, which we anticipate would be between \$8-\$15 per bottle in off-premise retail, with a particular focus on \$10-\$12. There would be less need for diversity in this offer compared with consumers described in the first demand factor above, though consumers would expect to find a sufficient range that met their value expectations.

In summary, we expect the American wine market of the future to be an exciting place to do business, both for domestic and international producers. Volumes of wine consumption will increase significantly, and average value per bottle will be subject to a two-way pull between the two demand factors described above. The net winner in this tug-of-war is likely to be more involved wine drinkers, so the optimistic view – which we share – is that value will at least keep pace with volume growth over the next decade, subject of course to short-term economic fluctuations.

Clearly there will be both winners and losers in this new reality. The challenge for America's wine market infrastructure is to migrate from the current offer to best meet demand. The retail wine offer is already diversifying, as evidenced by the spectacular growth of Australian wines in the early part of the last decade, and the more recent surge in Argentinean wines, led by Malbec, a previously obscure red varietal. The winners in this new retail world will be firms that can manage this move to diversity in the wine offer, and / or create a merchandising environment that supports both the growing number of high involved consumers and the more brand and value-oriented occasional drinkers.

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Appendix: A brief history of wine in America

Alcohol has always had a curious, and often turbulent, role in American culture. Starting in colonial times, there was effectively a free market system in the distribution and sale of alcoholic beverages. This pleased those settlers who saw the New World as a place where they could act without the stifling influence of government, regulation or vested interests. However it was strongly disapproved of by a number of religious groups who made America their home in the 18th and early 19th centuries.

By the mid 19th century, the industry had evolved into a corrupt and violent oligopoly, with a few large suppliers controlling “tied drinking houses” with a combination of incentives and the threat of violence. Spurred by negative public opinion and the growing influence of the religious-based Temperance Movement, the states and the federal government started to make laws to try to exert more control over the industry and curb the more extreme abuses. This didn’t mollify the anti-alcohol campaigners, who began touting the more ambitious aim of outlawing alcohol altogether.

After years of debate, and amid the social upheaval that followed the end of the First World War, Congress passed the 18th Amendment to the Constitution in 1919, outlawing the sale of alcohol in the US. What happened next has been well documented: the criminalization of alcohol forced its distribution and sale underground and into the hands of organized crime. However it took 14 years, and another bout of social upheaval – the Depression – to force Congress to pass the 21st Amendment. This new law ended prohibition, but, in a key concession to anti-alcohol campaigners, gave states the authority to regulate the production, importation, distribution, retail sale and consumption of beverage alcohol within their borders. This was primarily designed to prevent a return of supplier oligopolies, and remains largely the regulatory situation today. Each state has its own laws to regulate the sales, promotion and merchandising of alcoholic beverages.

One of the key planks of the beverage alcohol regulatory infrastructure at the state level is to maintain three distinct and separate layers of distribution from the supplier – the so-called three-tier system of distribution. This places an independent licensed wholesaler between the producer/importer and the retailer. In theory this system is designed to protect smaller retailers from being dominated by large and powerful producers and suppliers. In practice, the wholesaler tier has emerged as the power center in most states, essentially acting as a gatekeeper to the market. This creaking, Byzantine system is slowly changing, thanks in part to legal reforms at state level and a landmark 2005 Supreme Court ruling. However the power of the vested interests remains strong, and large scale change in the distribution system is unlikely in the short term.

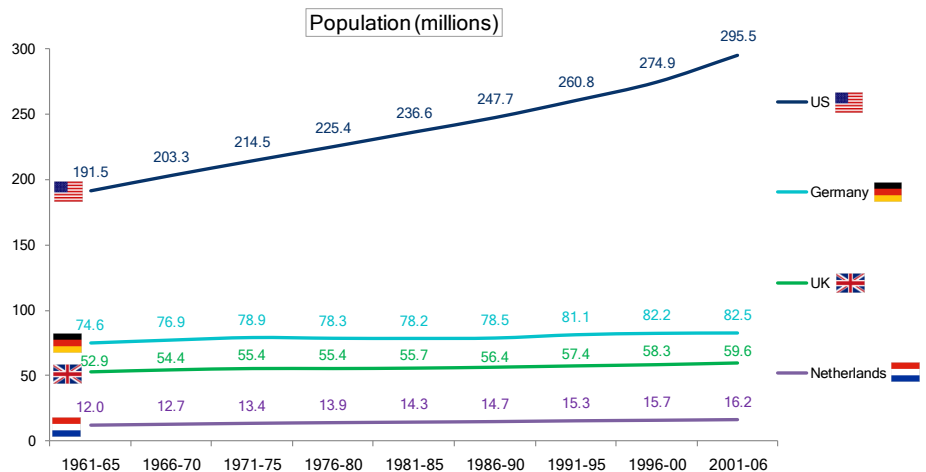
Not all states operate identical regulatory systems. There are 31 states which are broadly described as ‘Open’ states. These include major wine consumption states such as California, New York and Texas. The three tier system operates here, and there are often additional regulations affecting distributor and retailer power – such as the New York law governing the number of liquor stores a single company can operate in a designated geographic area. However there is no direct state government linkage to the alcohol supply chain. The remaining 19 states are generally described as “Control” states, which is to say the state government actively plays a role in one or more of the supply chain “tiers”. These include large Midwestern states such as Pennsylvania, Ohio and Michigan.

The “control” in question can manifest itself as direct ownership of the wholesale relationship, or (in the case of Pennsylvania and New Hampshire) in the outright ownership of all retail outlets selling beverage alcohol. In this regard the states operate a similar policy to that practiced in the Canadian states of Ontario and Quebec, and in Sweden, Norway and Finland.

If America’s historical relationship with alcohol can be described as complex and fractured, the same goes for its traditional relationship with wine. The cultivation of grapes and the making of wine from them in the modern sense has been going on for at least 300 years in the USA. Starting with the British colonists in Virginia in the late 17th Century, and progressing through waves of immigrants from Southern Europe and Germany, winemaking has become a well established agricultural practice.

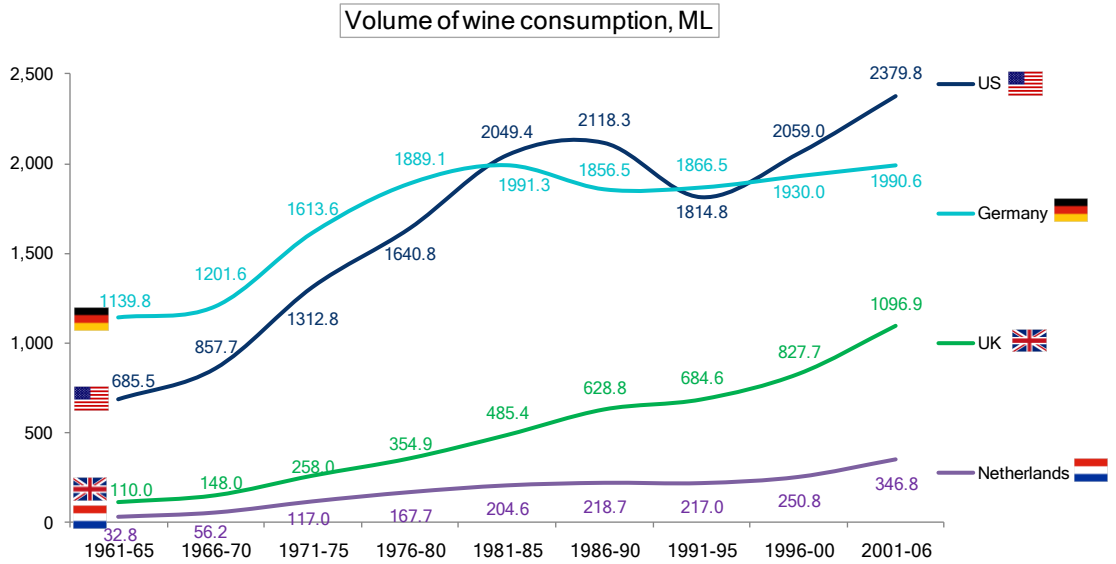
However the increasing anti-alcohol sentiment among Americans, which culminated in Prohibition, dealt a series of devastating blows to American wine culture. Following the repeal of the Prohibition laws, the wine businesses that emerged were generally starved of expertise and ability, and production in the 1930s, 40s and 50s tended to be low grade, sweet, cheap wines. During this time, other alcoholic beverages were very much in the ascendant – local beer companies quickly developed into national powerhouses, and liquor producers (especially whisky) also gained sales and market power.

Only in the early 1960s, with the development of new and innovative winemaking techniques in California, did the wine market in the USA start to come to life. During this time America’s growing wealth and economic power also started to change consumer behavior, with the wealthy middle class now able to afford some of the best wines of Europe (chiefly France and Italy), most often in a restaurant setting.

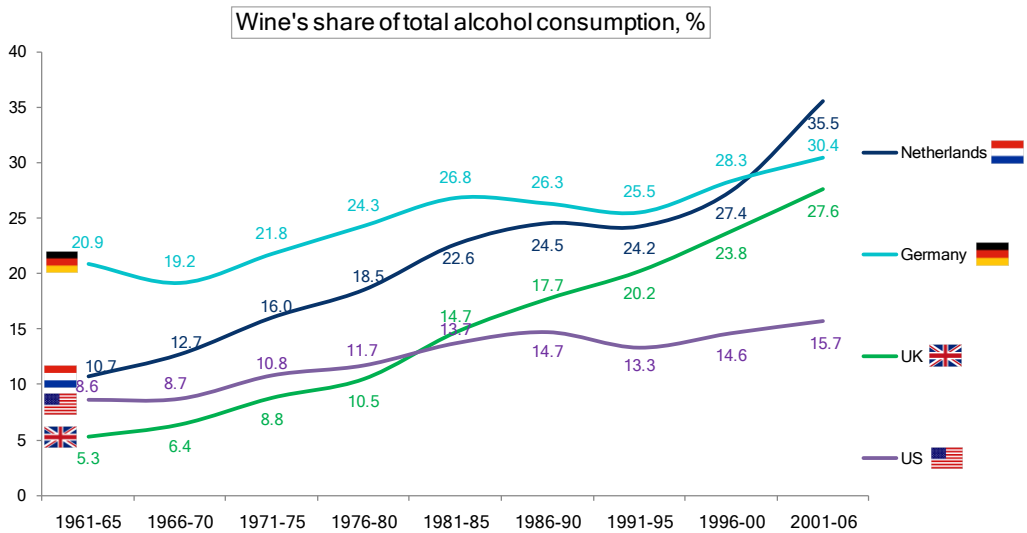


Source: The Global Wine Statistical Compendium, 1961-2006

In the 50 years since, the United States population has grown by 55%, and the country’s ethnic mix has diversified significantly, with large influxes from Hispanic nations (Mexico, Cuba, and other parts of South America), Southern Europe, Asia and the Indian sub-continent. During this time wine consumption has also risen dramatically, though in per capita terms Americans still drink significantly less than their counterparts in mature European economies. By 2000, US per capita consumption had reached 9.6 litres per adult, a 43% increase over the preceding decade. Fast-forward another decade to 2009, and per capita consumption had reached 11.6 litres per adult, another 21% increase (source: IWSR).



Source: The Global Wine Statistical Compendium, 1961-2006



Source: The Global Wine Statistical Compendium, 1961-2006



About Wine Intelligence

Wine Intelligence is the leading research-led strategy consultancy serving the global wine industry. It conducts client-specific research projects to enable companies to gain greater insights into wine markets and wine consumers, and helps business leaders develop business strategy and marketing plans. The company also assists businesses in developing new brands, and in formulating and communicating marketing messages within the industry. For more information, please visit www.wineintelligence.com

About the Authors



Richard Halstead, COO

A former financial journalist, Richard entered the world of wine when, as a newly-graduated MBA from the London Business School, he was appointed the first Business Development Manager of Virgin Wines shortly after its launch. He claims he started Wine Intelligence so he could answer all the questions that eluded him whilst at Virgin, and has since led numerous research and strategy projects on behalf of clients across the world.

Richard holds an Advanced Certificate in Market & Social Research Practice from the Market Research Society and an MBA with distinction from London Business School.



Erica Donoho, Country Manager – USA

Having worked for 8 years as a Litigation Attorney, Erica developed her examination and interviewing skills as well as her ability to collect, analyse and present data. She graduated with a BA (Hons) in English from Columbia University and a Doctorate of Jurisprudence from Vanderbilt University.

A true wine enthusiast at heart, Erica has travelled with her family to vineyards throughout the United States, Italy and France. She recently completed the WSET Intermediate Certificate at The International Wine Center in New York.



Joyce Steers-Greget, Business Development Manager – USA

Joyce has 15+ years of market research, business development and brand management experience in a diversity of industries, most recently as the Global Marketing Manager for Supreme Corq, LLC. Her previous roles include marketing management positions with a variety of companies, including Nestle' USA and the Marriott Corporation.

Joyce holds an M.B.A. in International Marketing Management from U.C. Los Angeles and a B.S. in Business Administration from U.C. Berkeley.