



Napa Valley Grape Growers: Business of Vineyards

*The 2023 crop, a changing market, and
implications for Napa growers...*

Jeff Bitter
Allied Grape Growers
March 14, 2024

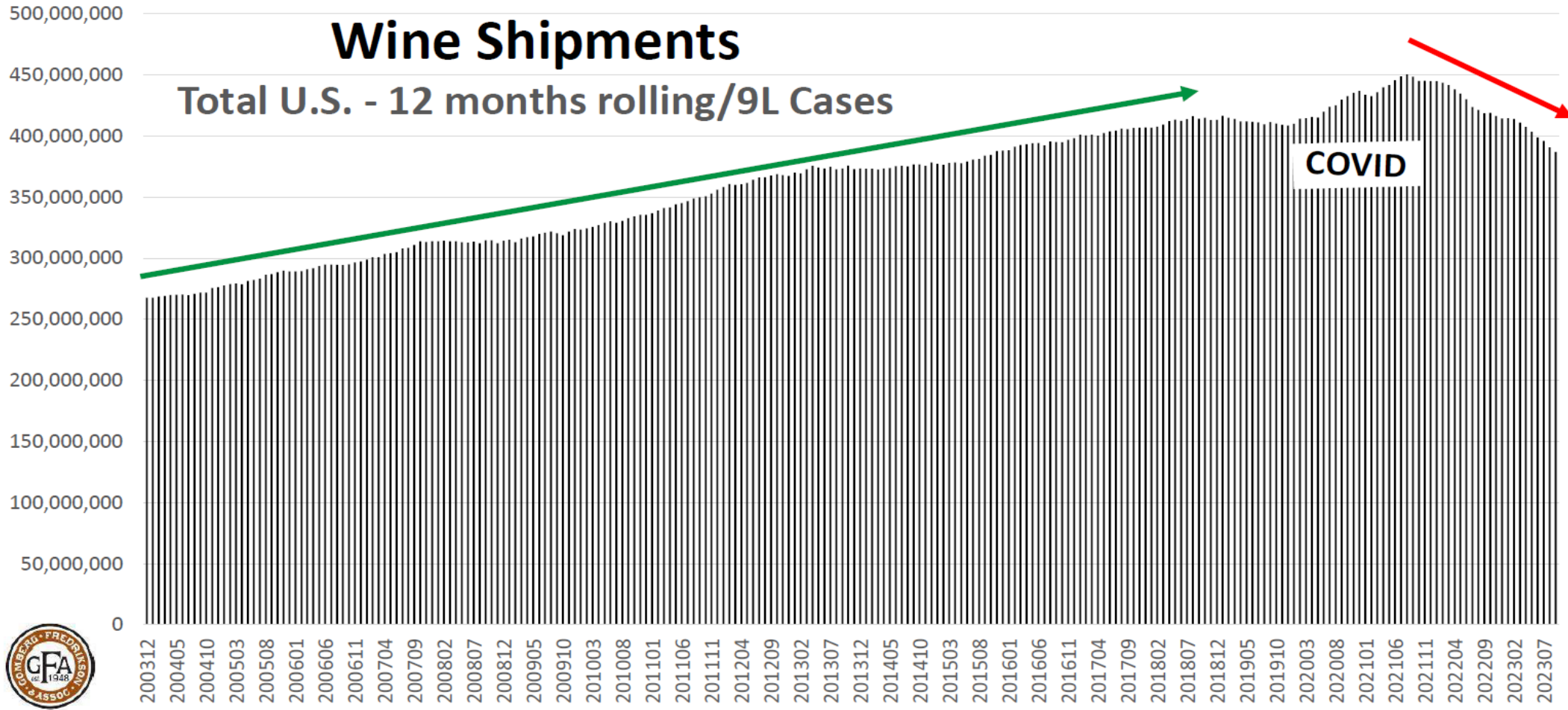
What's in Store?

- **Consumer Trends & Demand**
- **Current Supply and Discussing our "Reaction."**
- **Supply Forecasting and Equilibrium Scenarios**
- **Drilling down - what's all this mean for Napa?**
- **Final thoughts & strategies**



Wine Volume Over Time

Slide Source:
Danny Brager -
3-Tier & Azur



Data Source: Gomberg, Fredrikson & Associates



Wine Consumer Trends

- **Headwinds:**
 - ✓ **Economics:** Inflation, interest rates, "lack of" consumer confidence, etc.
 - ✓ **Changing American demographics** impact wine considerably, considering the growth of the industry was on the back of the baby-boomer.

Ever-changing Demographics

Slide Source:
Danny Brager -
3-Tier & Azur



Generation Z (21+)

- Exploring Beverage Alcohol and beyond
- Approaching Beverage Alcohol with **caution**
- Seeking “**better for you**” & “**we**” products incl non alcohol options



Ethnic / Racial Shifts

- America is more **diverse** and more **multiracial** than ever
- Led by younger LDA's
- **Hispanics** are the fastest growing population in the U.S.



Graying of America

- # of 65+ will surpass #21-34 around 2025 – with the highest net worth per household
- Living longer lives
- 27 Florida's by 2025 (65+ at least 20%)



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 - ✓ **Anti-alcohol/social moderation** behavior is on the rise.

Anti-Alcohol Messaging....

WINEENTHUSIAST

EuroCave Cellars! [Shop Now](#)

Culture > Non-Alcoholic

Shop

Ratings

Culture

Basics

The Best Wine Shops of 2023. [Read More](#)

Is Alcohol the New Tobacco?

BY JASON WILSON



Canada's new alcohol guidelines advise fewer drinks

WENCY LEUNG > HEALTH REPORTER
PUBLISHED JANUARY 17, 2023



The New York Times

Even a Little Alcohol Can Harm Your Health

Recent research makes it clear that any amount of drinking can be detrimental. Here's why you may want to cut down on your consumption beyond Dry January.

HOME INSIGHTS NEWS INTERVIEWS MARKETS EVENTS NEWSLETTER ABOUT US

MEININGER'S
ESSENTIAL READING FOR THE WINE AND DRINKS INDUSTRY
INTERNATIONAL

INSIGHTS

© 2023 Sep 19 / Comments

WHO Shifts Its Alcohol Narratives and the Wine Industry Faces New Challenges

The World Health Organisation has alcohol in its crosshairs. One industry expert tells Felicity Carter that the wine industry needs to pay attention.

Time: 4m 30s



Social Moderation

Slide Source:
Danny Brager -
3-Tier & Azur



52%
21-34 say that drinking – even in moderation – is bad for your health

vs **34%** in 2018

GALLUP

94%
of Non Alc buyers also purchase Alcohol (Beer, Wine or Spirits)

NIQ





Wine Consumer Trends

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 - ✓ **Anti-alcohol/social moderation behavior is on the rise.**
 - ✓ **Intense competition & threats – from both within and beyond beverage alcohol. Price plays key role here.**

Diversity/Choice

Slide Source:
Danny Brager -
3-Tier & Azur



Tetra

Box

Can

Varieties

Regions



Aluminum Bottle

NO/LO



Ready to Drink



CANNABIS

2/3 of consumers using cannabis cutting back on drinking (TD Cowen)



Beverages



Beverage Alcohol Price Comparison

Average Price per Serving

Slide Source:
Danny Brager -
3-Tier & Azur



\$3.00



\$3.00

5 oz serving



\$1.40



\$1.33

12 oz serving



\$1.17



\$1.35

1.5 oz serving



\$1.50



\$2.25

12 oz serving



Wine Consumer Trends

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 - ✓ **Anti-alcohol/social moderation** behavior is on the rise.
 - ✓ **Intense competition & threats** – from both within and beyond beverage alcohol. Price plays key role here.
 - ✓ **Premiumization** is still "a thing", but skews toward higher value (quality), less volume.

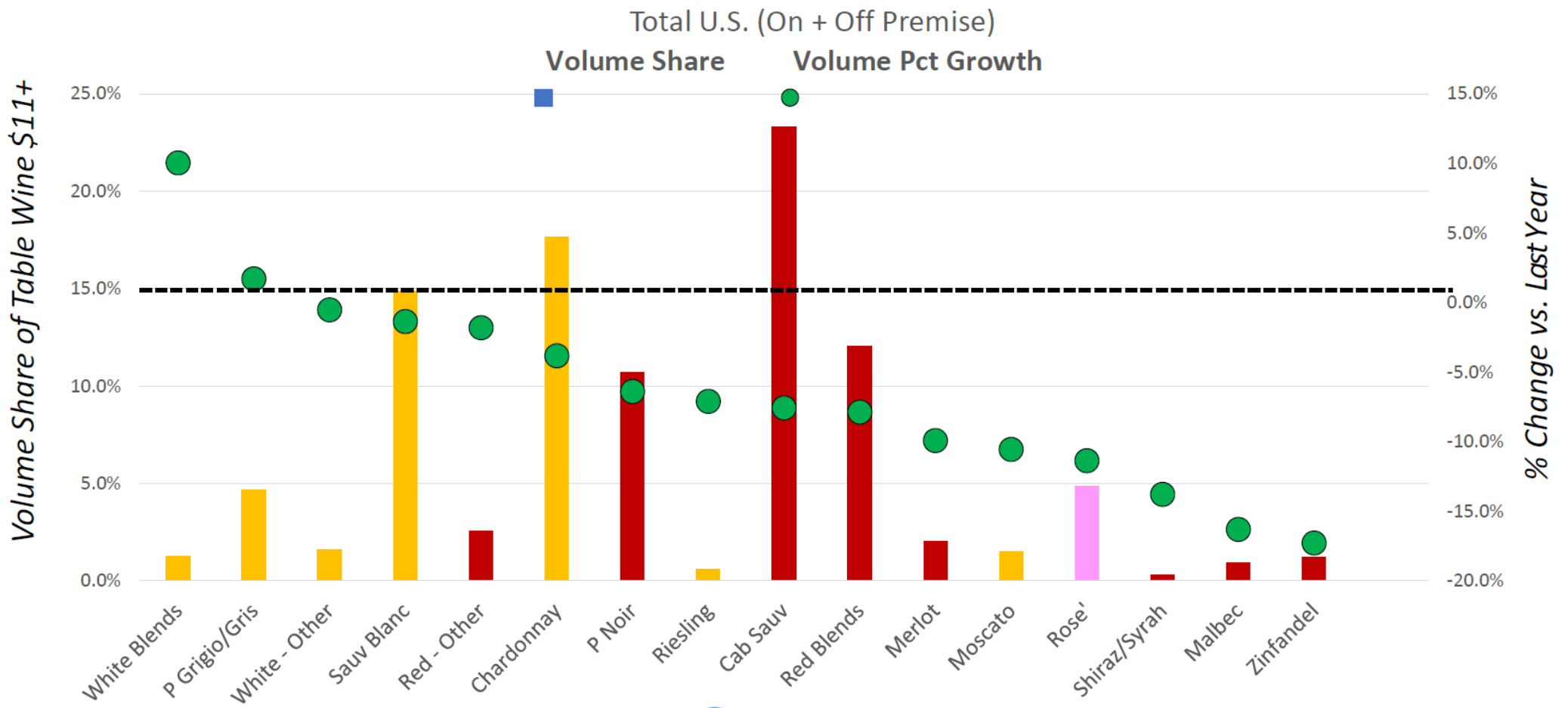


Varieties/Blends - Annual (2023)

Volume and percent change vs. year ago

Table Wines \$11+ (3 Tier) - Sorted by Pct Change vs Year Ago

Slide Source:
Danny Brager -
3-Tier & Azur



Data Source: SipSource

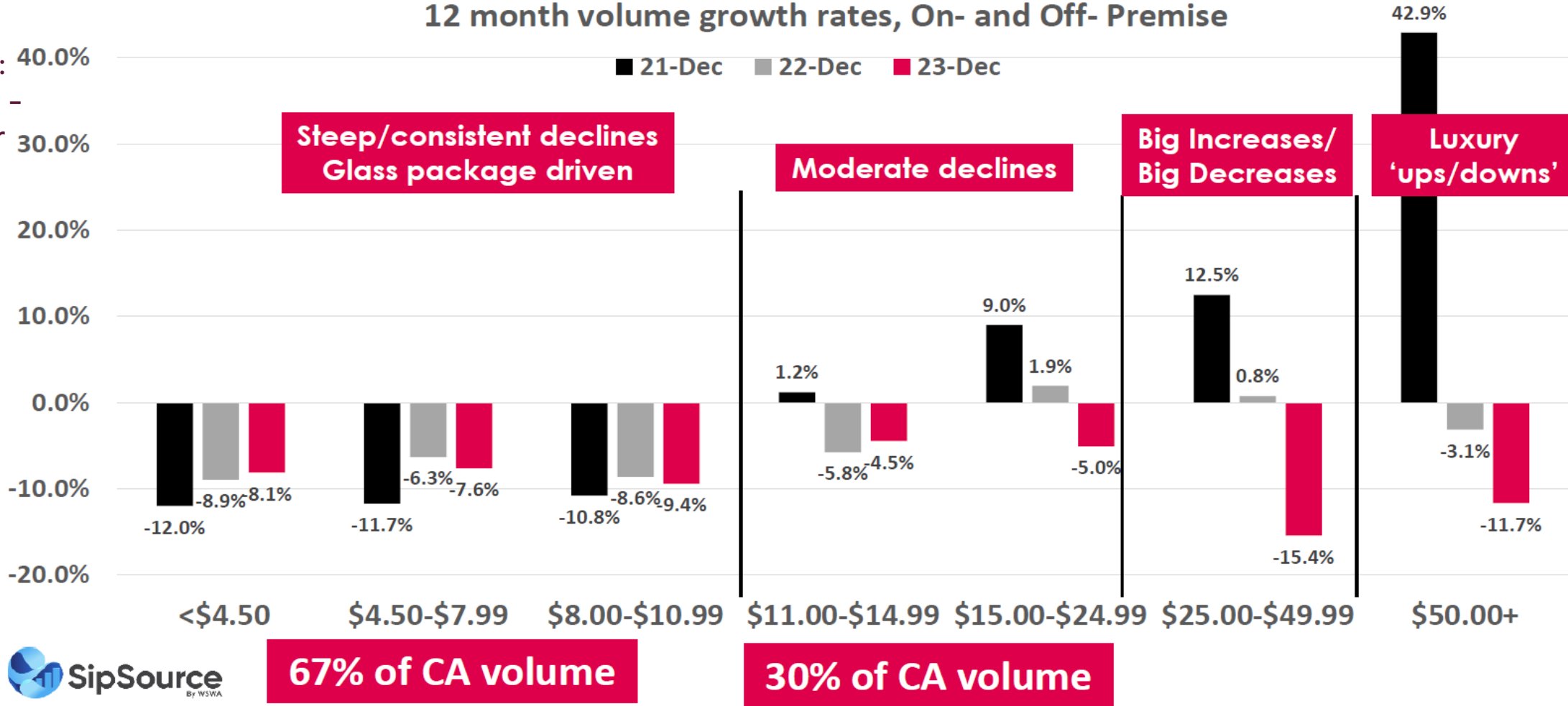
12 months end December 2023



Price Categories - Volume Percent Change

Table Wine (through 3-tier distribution)
12 month volume growth rates, On- and Off- Premise

Slide Source: 40.0%
Danny Brager -
3-Tier & Azur 30.0%



Data Source: SipSource

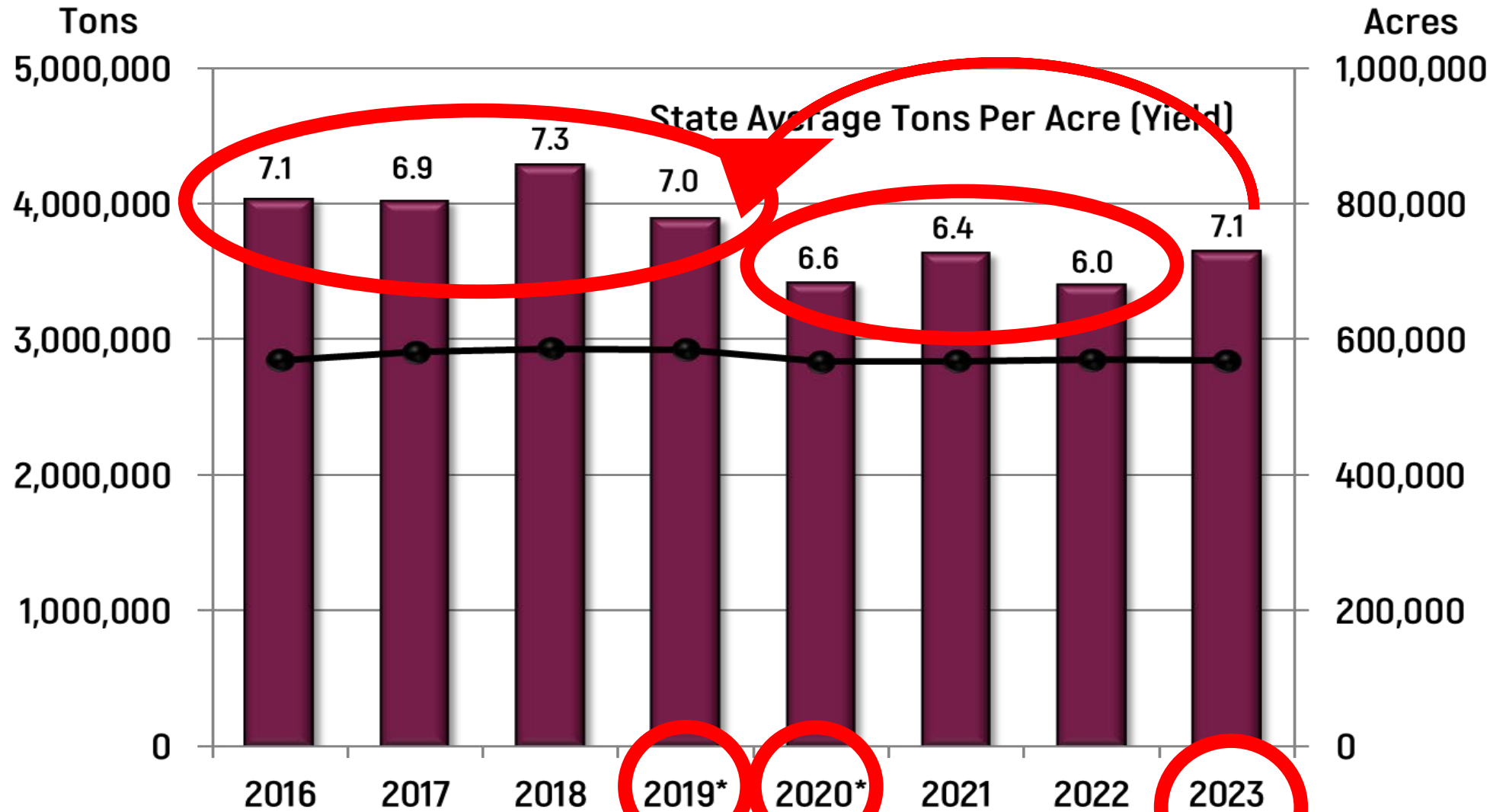




A Look at Supply vs. Demand....

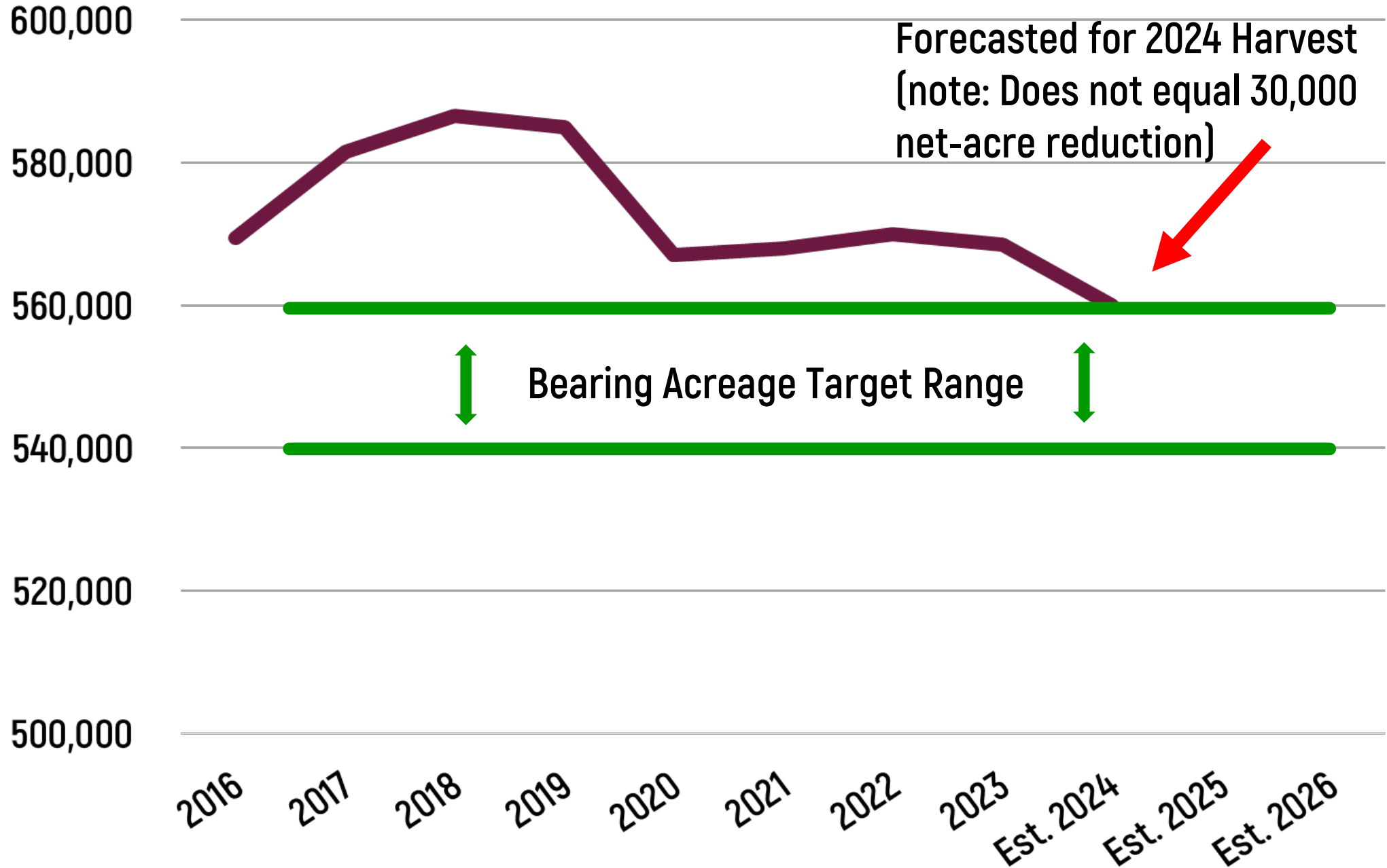
California Winegrape Crush, Yield & Acreage

■ California Winegrape Crush ● Estimated California Bearing Winegrape Acres

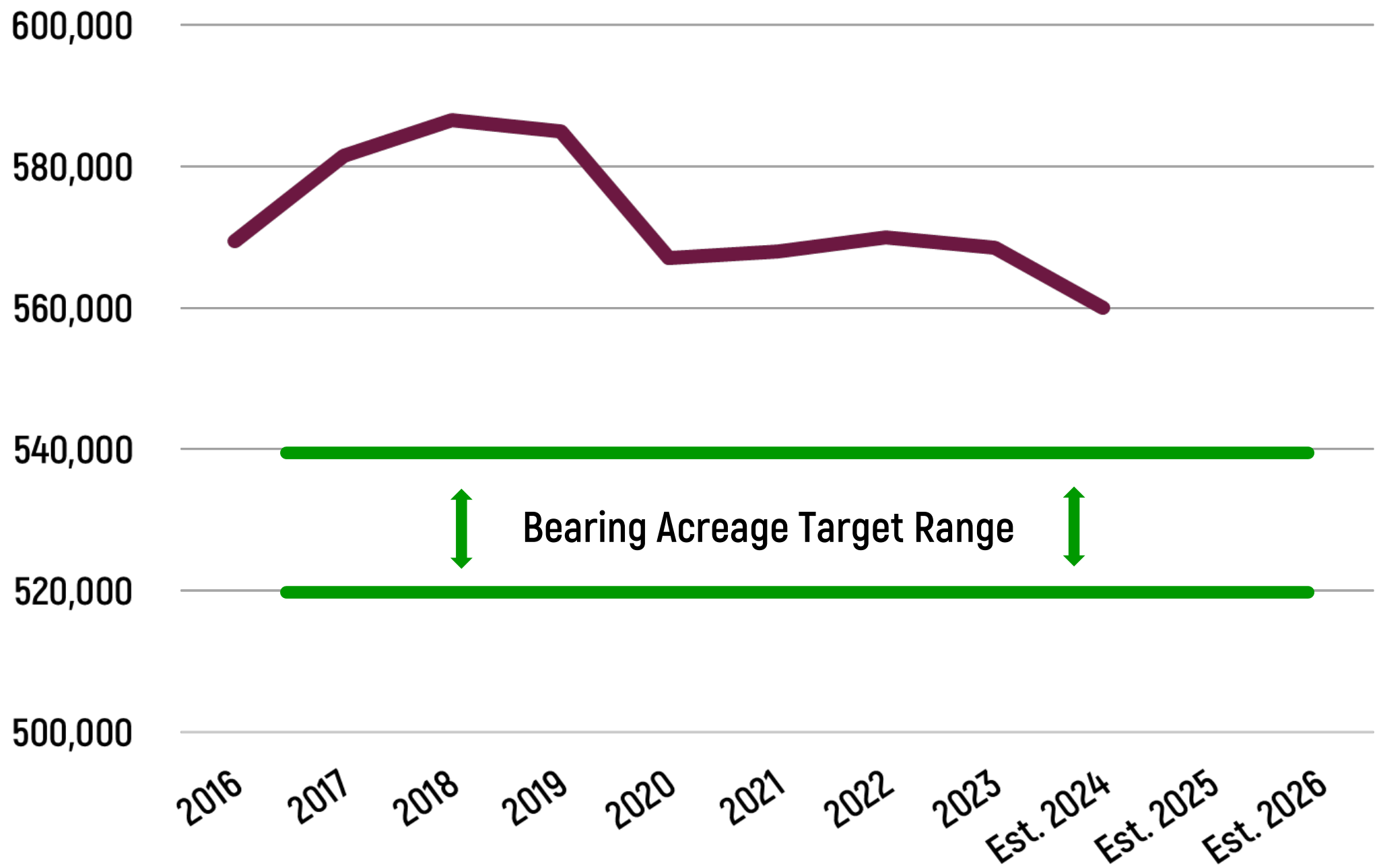


*For crop years 2019, 2020 and 2023, yield was estimated due to material amounts of unharvested grapes.

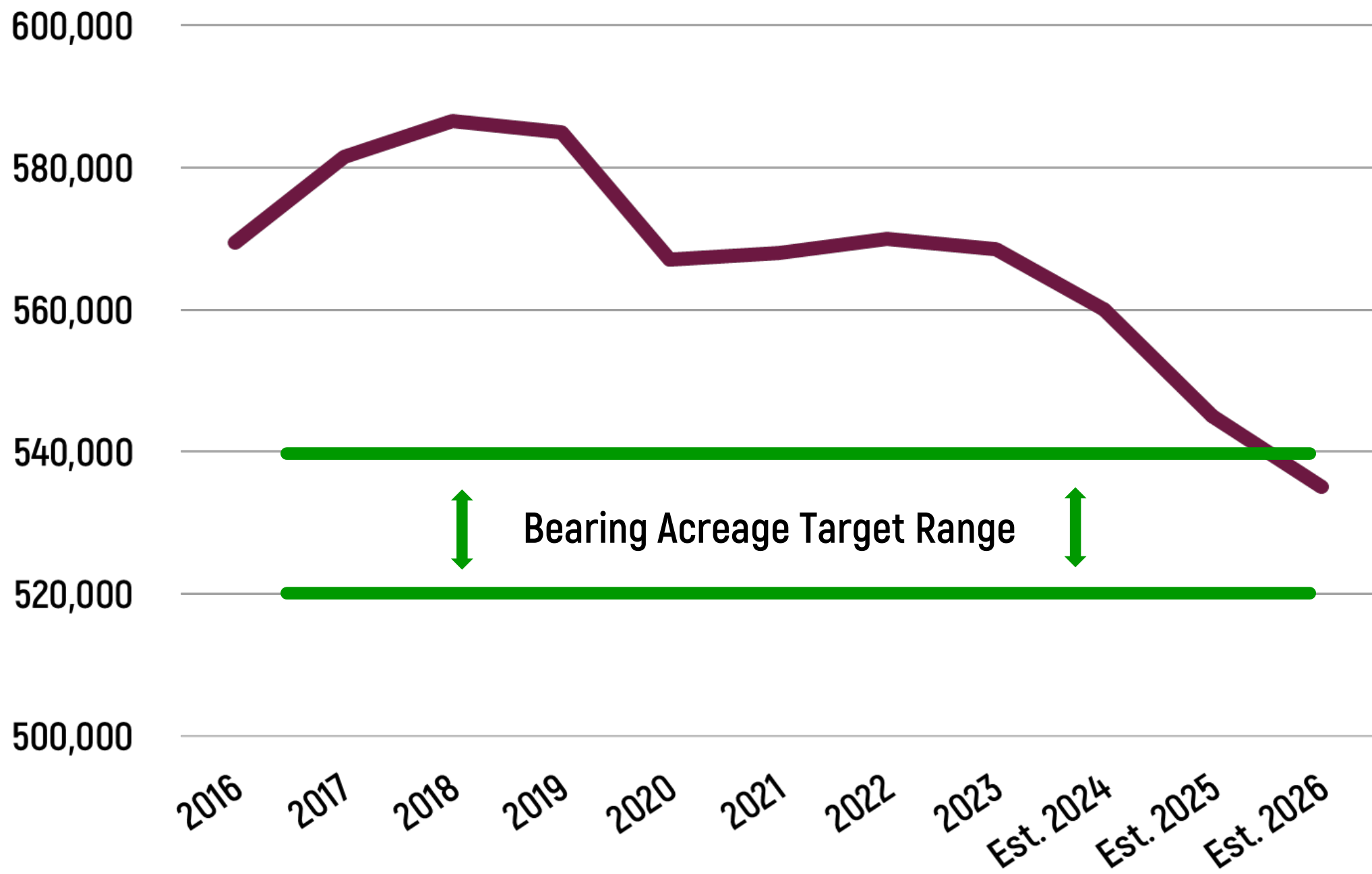
Estimated California Bearing Winegrape Acres



Estimated California Bearing Winegrape Acres



Estimated California Bearing Winegrape Acres



We are where we are because of..... reaction....

» **Reaction to what?.....**

The reality of our situation, which includes:

» **Waning demand**

» **Average-plus crop in 2023**

» **Unwanted production**

» **Undesired Inventory**

» **Carrying cost of inventory (interest rates)**

TWO Parts...



**Initial Response
(Defensive)**

**Eventual Action
(Offensive)**

**How do we process
the issue?**

**What do we do
about it?**

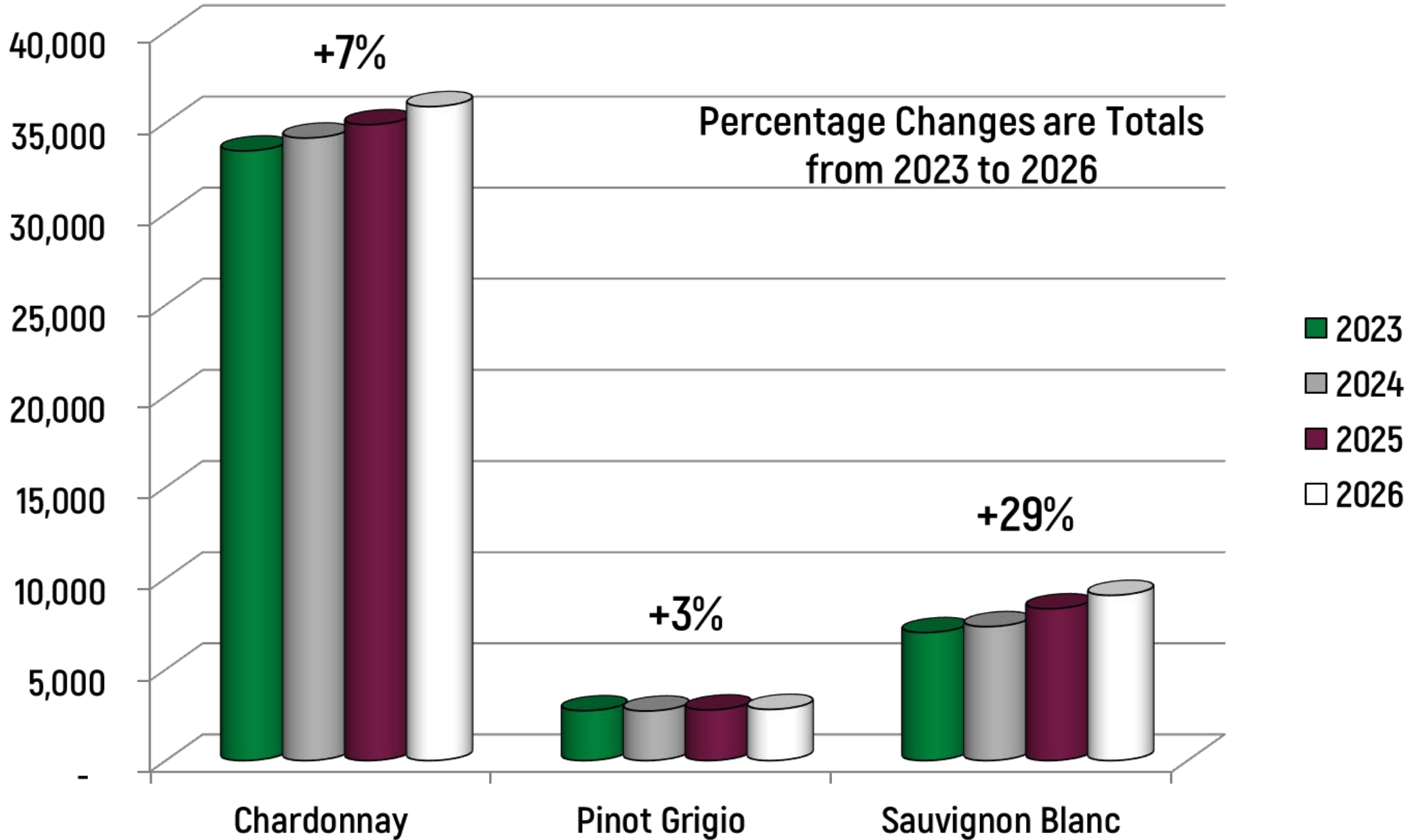


Vine Sales and Planting
2023

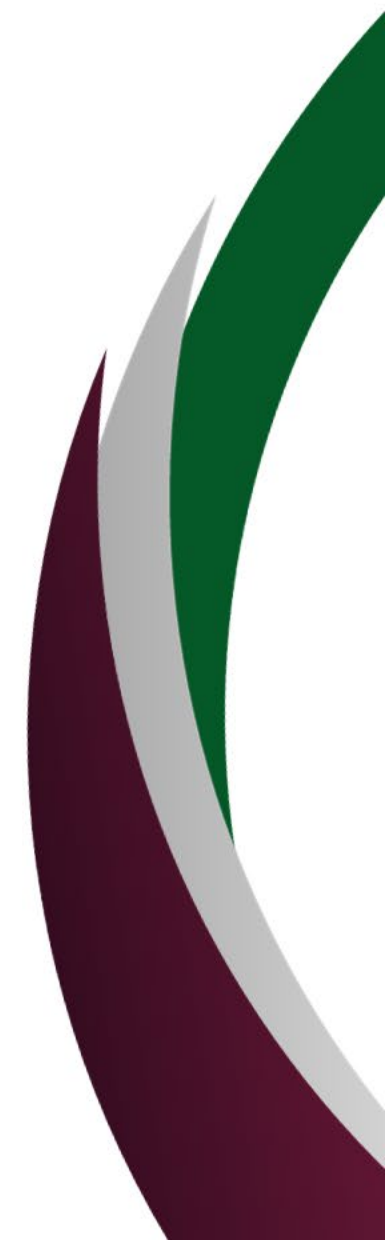
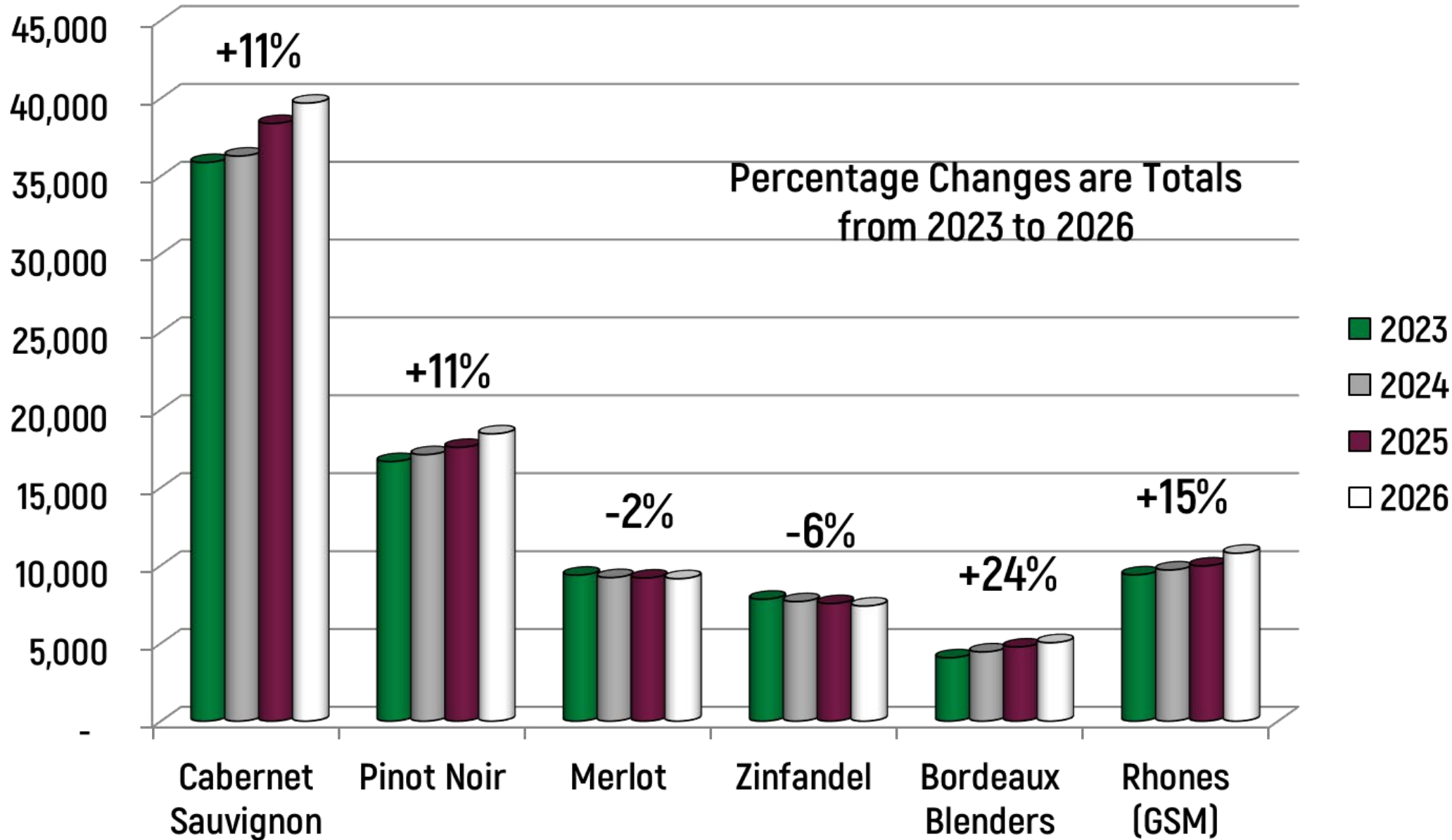
AGG Nursery Survey Participants



Estimated California White Winegrape Bearing Acreage (for regions likely producing wines \$11-25/bottle)



Estimated California Red Winegrape Bearing Acreage (for regions likely producing wines \$11-25/bottle)

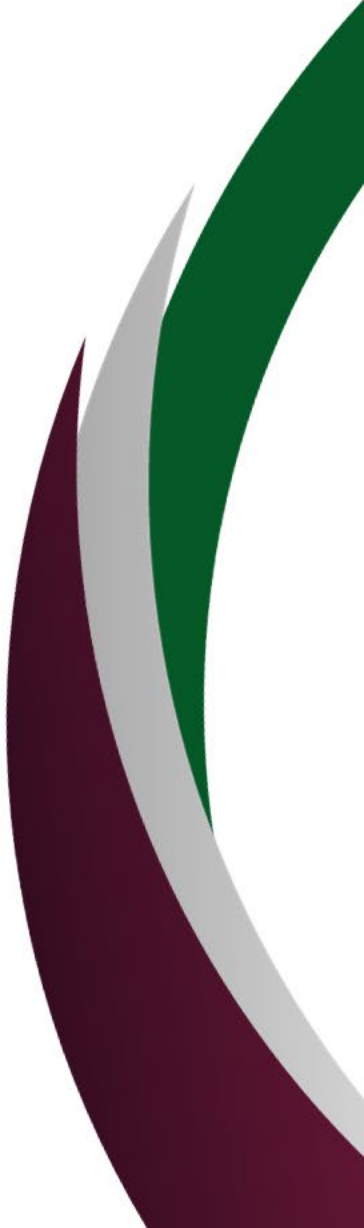
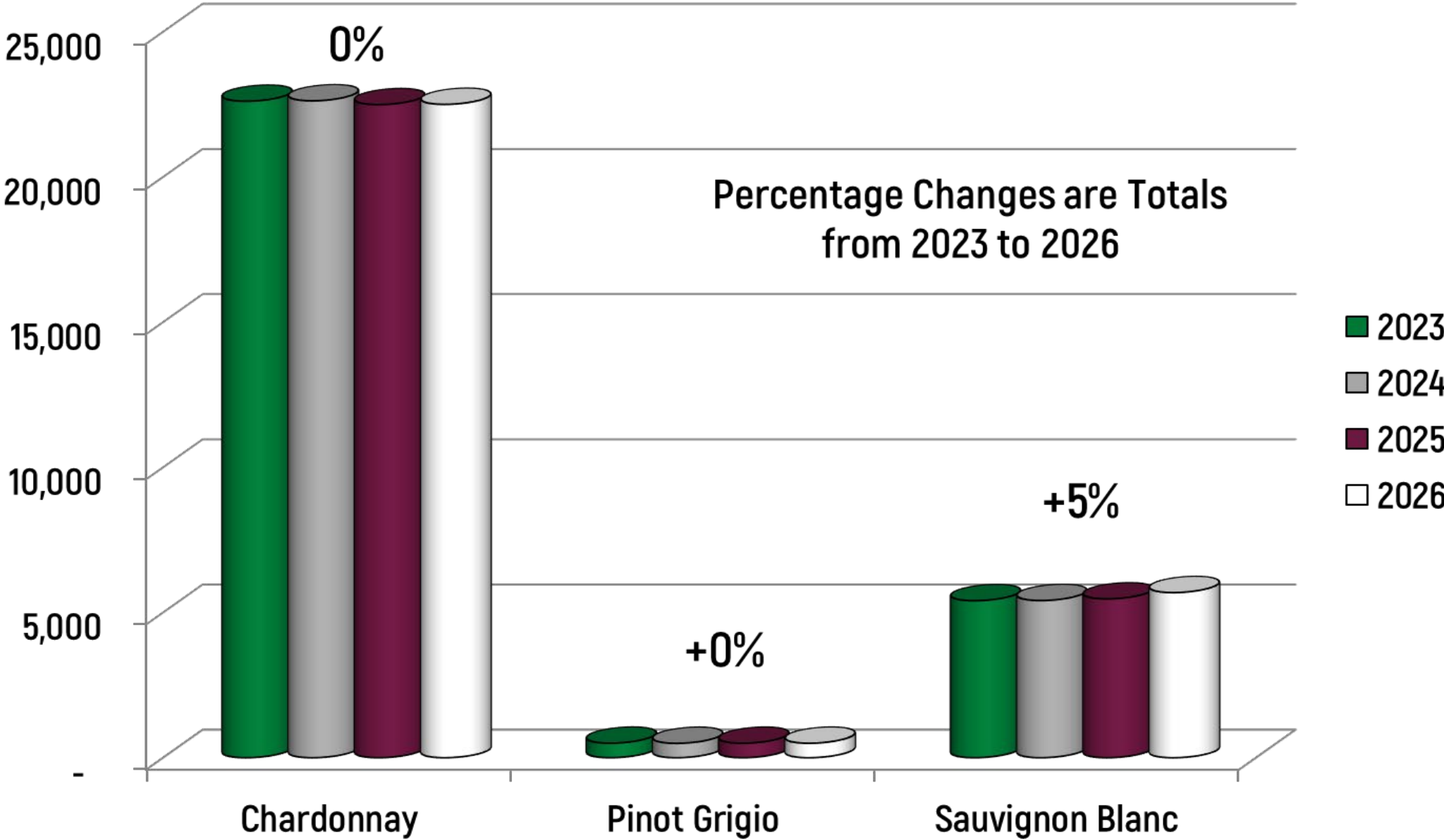




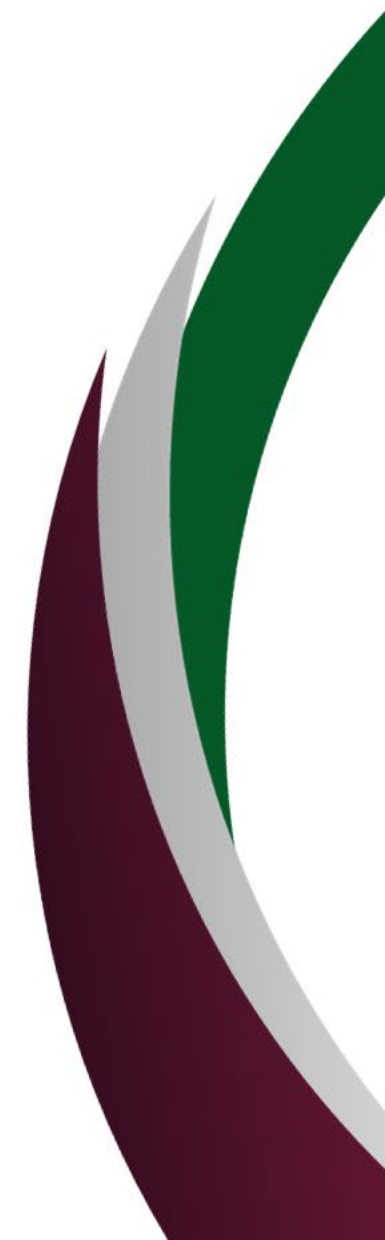
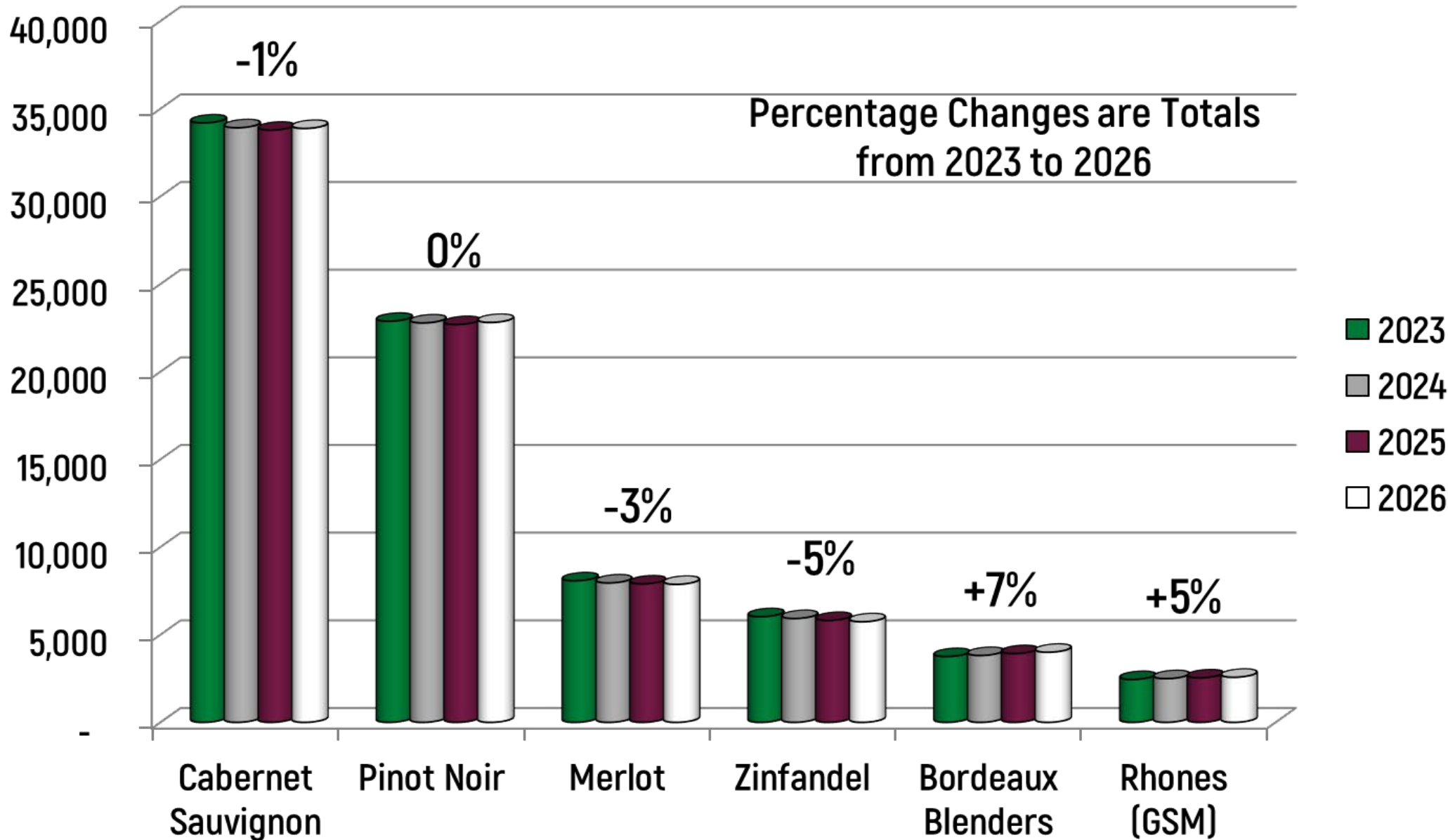
Evaluating Segment \$11-25/Bottle (Coastal Regions Excluding Napa/Sonoma)

- *Considerations:*
 - ✓ High concentration of new plantings in this segment in recent years.
 - ✓ Anticipate growth, but older vineyards need to be removed.
- *Planning for equilibrium:*
 - ✓ Removal of +/-15,000 acres recommended in this region, as follows:
 - 1) Cabernet Sauvignon (+/-5k acres) – 75% from Central Coast
 - 2) Pinot Noir from Monterey and Santa Barbara (3-4k acres)
 - 3) Other reds, including aged Merlot and Syrah (+/-3k acres)
 - 4) Aged Chardonnay in Mendo, Monterey and SB (+/-2k acres)
 - 5) Zinfandel, concentrated in Mendocino and Paso (+/-1k acres)
 - 6) Other whites – Riesling, Gewurztraminer, aged SB (+/-1k acres)

Estimated California White Winegrape Bearing Acreage (for regions likely producing wines >\$25/bottle)



Estimated California Red Winegrape Bearing Acreage (for regions likely producing wines >\$25/bottle)





Evaluating Segment >\$25/Bottle (Napa/Sonoma)

- *Considerations:*
 - ✓ Expansion is limited by resources (land) and cost (money).
 - ✓ Market is driven more by “players” than by supply swings.
 - ✓ Motivation here is whether opportunity exists in high-end market
- *Planning for equilibrium:*
 - ✓ Removal of $\leq 5,000$ acres recommended in this region, as follows:
 - 1) Sonoma Cabernet Sauvignon (+/-2k acres)
 - 2) Zinfandel in Sonoma County (<1k acres)
 - 3) Aged and “old clone” Pinot Noir (+/-1k acres)
 - 4) Aged Sonoma vineyards of any variety (+/-1k acres)



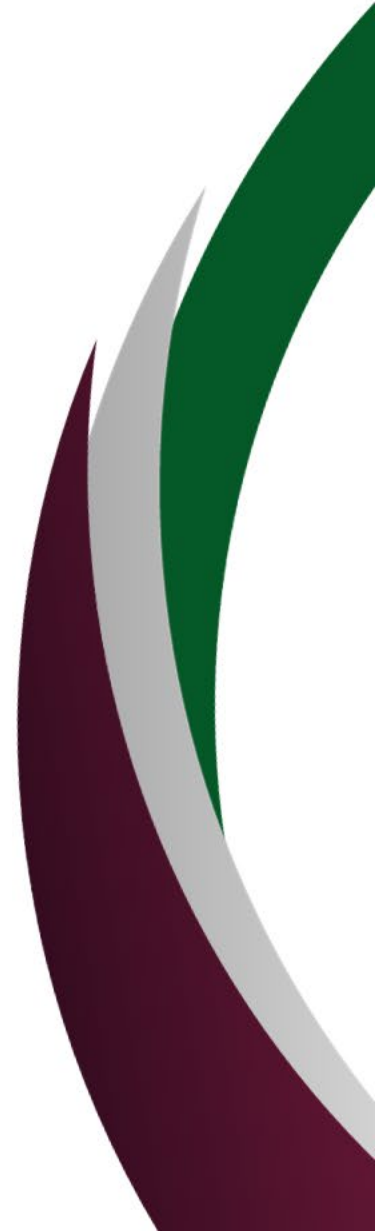
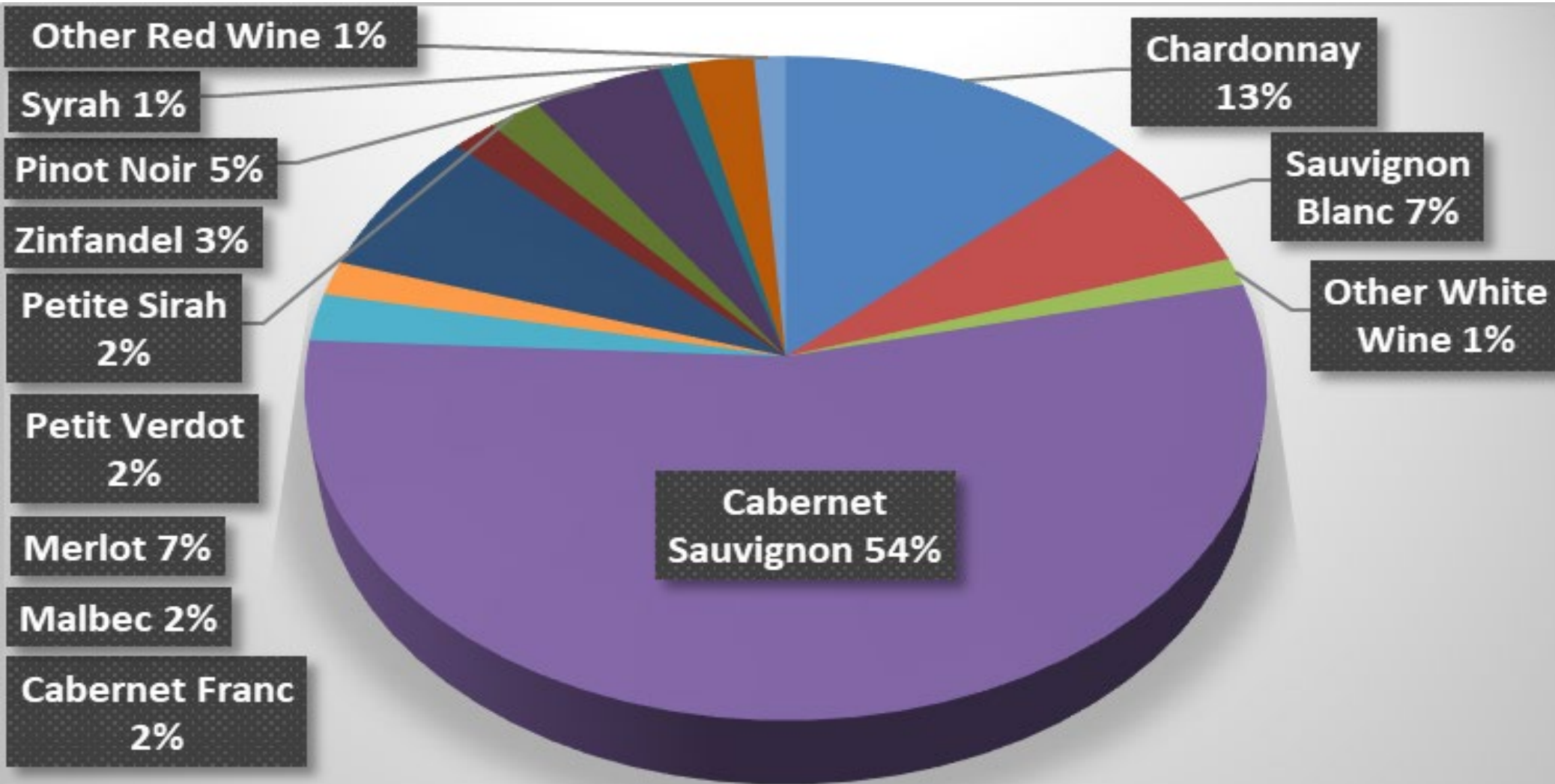
Drilling Down....

What's all this mean for Napa?

Napa County in Context



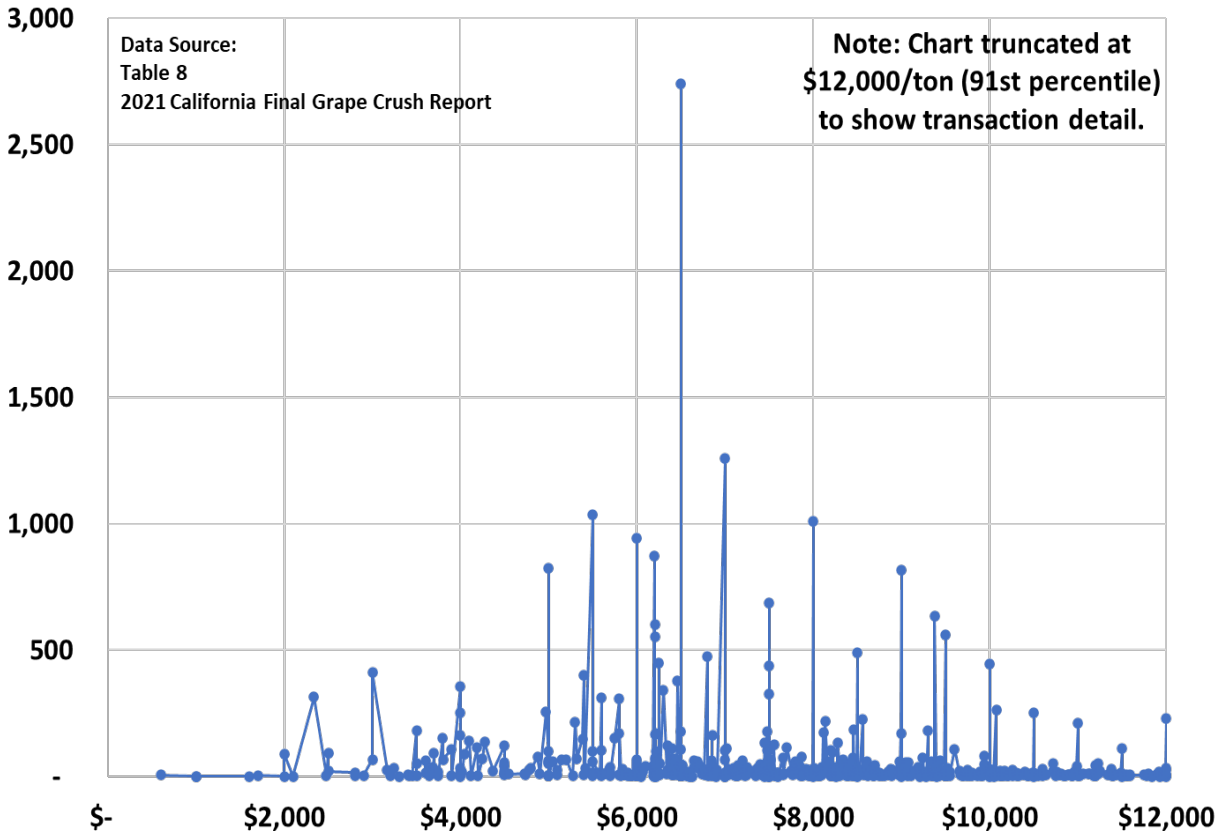
(2023 Crush Breakdown - 170,814 total tons)





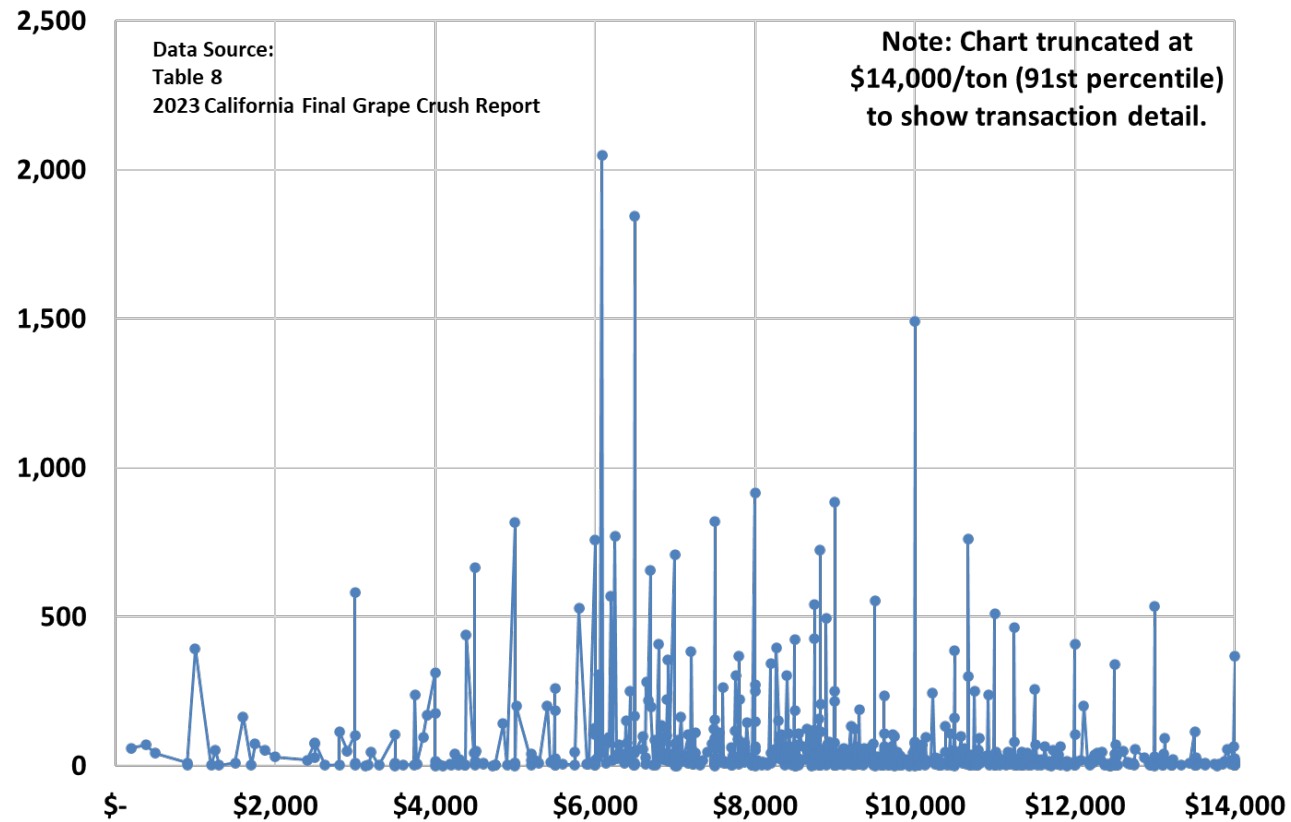
2021 Table 8 average = \$8,082

Tons
2021 Napa Cabernet Sauvignon Distribution
(tons purchased at each price point per ton)



2023 Table 8 average = \$9,235

Tons
2023 Napa Cabernet Sauvignon Distribution
(tons purchased at each price point per ton)



"Napa" Thoughts

- Napa IS NOT immune from broader grape market forces.
- However, Napa's market IS distinctly different.
 - "Different" consumer base – generally much narrower
 - Correlated with economic health/confidence of the wealthy
- For growers – grape contract term is priority right now.
- For buyers – inventory management (and cost) is everything.
- Evaluating the solvency of grape buyers is a crucial element of successful grape marketing in times such as now.
 - What signals are being given by your buyer? Communicate.
- Current common contract activity:
 - Evergreen terminations, reluctance to re-sign, requests to "take a year off", renegotiation of price (and term), etc.

Strategies

In light of today

- Focus on risk mitigation
- Understanding buyer needs
- Evaluate vineyard life & sustainability
- Overall - Play conservative

In light of the future

- Focus on opportunity/growth
- Communicating your needs
- Consider alternatives & make plans for longevity
- Overall - Play aggressive



Thank you!

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