

Merlot Madness

Americas correspondent ROBERT NICHOLSON



AMERICAS PERSPECTIVE

With this issue of the Journal, we introduce Americas Perspective by Robert Nicholson. Robert is a wine industry consultant based in California with extensive experience in Europe, the United States and Latin America. He is a frequent visitor to Australia, most recently at Wine Australia as a panel member for the Strategy 2025 seminar and as a speaker at the 1995 Outlook Conference. In the column Robert will report on those issues in the United States and Latin America, particularly Chile, that are of interest to the Australian wine industry.

The best way to fully appreciate the recent surge in demand for Merlot in the United States is to evaluate supermarket sales to consumers against Chardonnay and Cabernet Sauvignon. INFOSCAN tracks wine sales in US grocery stores with more than \$2 million in annual sales and projects data from 6,800 outlets. For the 12 months ending 26 May 1996 dollar sales of US-produced Merlot grew by 42% to \$138 million, for a 6% share of total supermarket table wine revenues. The volume of sales to consumers increased by 40% to 2.0 million cases for a 3.6% share of total. This can be compared to Cabernet Sauvignon revenues which grew by 19%, with an 11.6% share and a volume share of 7%, or Chardonnay sales which grew by 17%, with a 21% share and a volume share of 13%. (Note: all figures are US dollars and measurements.)

Since 1992 total California winery shipments of Merlot to the trade have exploded from 1.4 million cases to 3.8 million cases last year. Excluding blush wines that sell at lower retail price points, 1995 California winery shipments of Merlot ranked third after Chardonnay (20.6 million cases) and Cabernet Sauvignon (9.8 million cases).

Merlot has a quality image with consumers and a larger share of sales at premium retail price points. This will change in the future as increasing quantities of lower priced Merlot grapes become available and more consumers become familiar with the varietal's soft, approachable style.

Just as retail sales for Merlot are skyrocketing so are new plantings in California as the industry tries to keep pace with demand. In 1995 alone, new acreage totaled almost 6,000, growing to almost 24,000 acres, bearing and non-bearing. This represents an 855% growth rate over the last decade (Figure 1). Many are now predicting that Merlot will overtake Cabernet (with 37,000 bearing and non-bearing acres) in acreage and consumer demand in the near future. Currently over 53% of the planted acres of Merlot are not yet in production, so demand must continue to grow at impressive rates to handle the new tonnage. However, there is some consensus on future increases in consumption because plantings in 1996 are thought to be higher than last year and it is now estimated that about 30,000 acres of Merlot are planted, of which over 15,000 acres are non-bearing.

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Based on these new plantings Merlot supply in California may balance with the market demand in the next few years, which may explain the modest softening in the bulk market in recent months; however, currently there is still some dif-

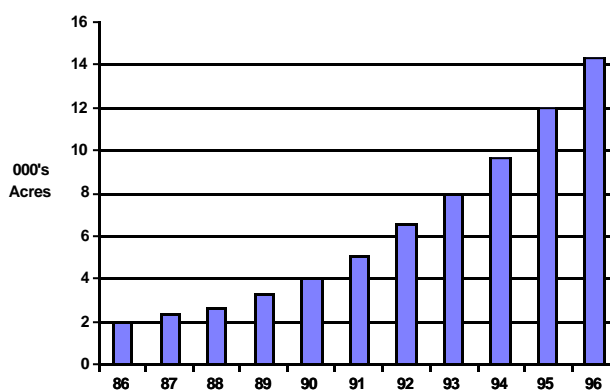


Figure 1. California Merlot-bearing acres, 1986-1996.

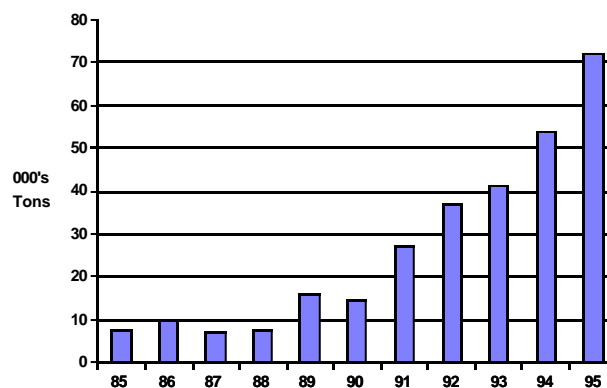


Figure 2. California Merlot, tons crushed, 1985-1995.

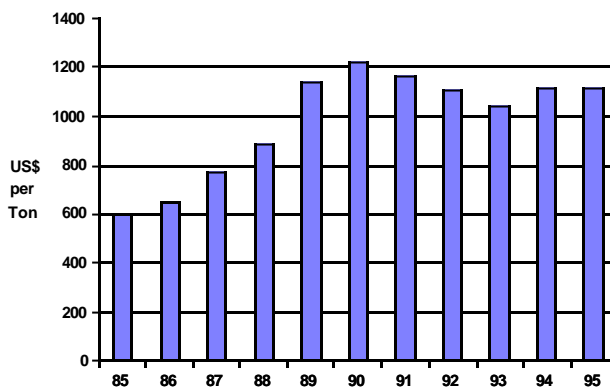


Figure 3. California Merlot, price per ton, 1985-1995.

ference. In 1993 grape production for the varietal grew by only 10% on the previous year while total sales to the market were a staggering 46% ahead. In 1994 grape production increased by 29%, but the market again grew by 42%. Last year grape production increased substantially by 33% and market demand was 40% ahead of 1994. This year California will have 14,300 bearing acres of Merlot and conservative crop estimates are for a total of 90,000 tons, or 22% ahead of last year. New plantings coming into production in the next few years should keep pace with consumer demand, with a possible doubling of tonnage within the next three to four years.

The major plantings of Merlot in California are in Napa (3,528 acres), Sonoma (3,232 acres) and Lodi, in the northern Central Valley (3,083 acres).

Since 1990 Merlot has sold for the highest per ton price of all wine grapes in California and last year's average price for the varietal was \$1,110/ton (Figure 3). The total Merlot crop value has increased from \$6.4 million in 1986 to \$79.8 million in 1995. Last year the average yield per acre was 6.0 tons for an average revenue per acre of \$6,660.

Bulk market prices still remain high with recent transactions in the \$2.60-3.20/litre range for basic California appellation Merlot, down a little from last year. Coastal Merlot has sold in the \$4.50-5.30/litre range, with Napa and Sonoma trading at \$5.30-6.70/litre. The tightness of the market and high prices generally have forced some major California wineries, notably Robert Mondavi Winery for their Vichon label, to source the major varietals off-shore in recent months, and increasingly consumers will see familiar California wine brands on retail shelves with Merlot from France, Chile and other overseas sources.

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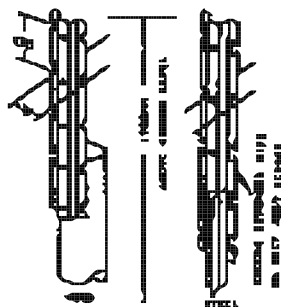
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In the United States we are all watching the INFOSCAN numbers to tell us if consumers are still as mad about Merlot as we think they are! □

References

California Dept. of Food and Agriculture, California Grape Acreage, Final Grape Crush Report 1995, Crop Gomberg, Fredrickson Report, INFOSCAN

Canopy Management Systems using Vocol Trellis Kits

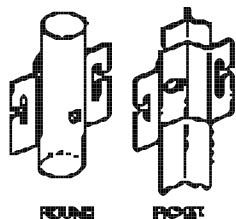


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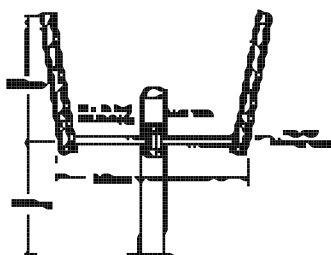
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