

The Success of Imported Wines in the US

Americas correspondent ROBERT M. NICHOLSON (International Wine Associates)

In this article I will first review US beverage consumption and recent trends in the wine market. I will then look at the share and position of imports and the importance of California wines and how there may be things for Australia to learn from developments with the Californian wine industry. Finally I will assess Australia's current position and future potential.

US beverage consumption

If we put wine consumption in perspective with other beverages, you can see that as an industry we have some strong competition in 'share of tummy' in the US. Americans drink about eight litres of wine per adult capita and about three litres of spirits per capita. Yet they drink a whopping 180 litres per year of coffee, tea, milk, and soft drinks. When US consumers want a drink they go to their refrigerator. Most of these beverages are consumed cold, with the exception of coffee and red wine. Most of the tea is iced.

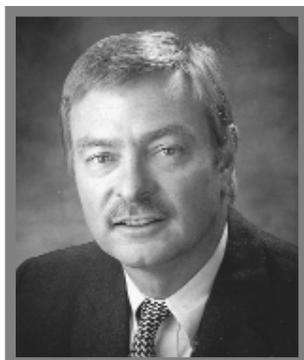
The Wine Market Council's recent consumer survey shows that just 16% of the population between the ages of 21 and 59 consume 88% of the table wine sold in the US. Consumption increased from seven litres in 1991, but the majority of that growth was from the same households increasing their consumption. A major opportunity exists to increase our consumer base through increased marketing and advertising and to broaden the appeal of wine in the US.

Positive news about the health benefits of wine consumption, a strong US stock market and economy, positive press endorsements for recent California vintages, a modest increase in wine advertising expenditures and many innovative product packages all contributed to wine consumption making a strong positive shift in 1996, with total shipments increasing by 6% to more than 208 million cases. This makes the US the fifth largest wine market in the world after France, Italy, Spain and Germany. National per capita consumption still remains low but with a population of 260 million the potential is enormous.

Combined shipments of domestic and imported table wine—the tax classification for still wine under 14% alcohol—increased by 8% to 175 million cases. Total imported wine increased by 28% to almost 40 million cases. California winery revenues to the trade increased to \$4.2 billion and US wine export volume increased by 22% to 11 million cases. In 1996 \$2.3 billion of table wines were sold through US grocery and drug stores. US supermarket revenues increased by 14 per cent, because of price increases from California wineries caused by short crops in 1995 and 1996 and other supply limitation factors, while sales volume to consumers increased by only 4%.

All cases quoted are standard nine litres. Dollar figures are in US dollars unless otherwise noted. Plantings are in hectares. Statistical sources are local industry institutions.

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One quarter of all wine consumed in the US was premium California varietal wine and total shipments increased by 9% to almost 58 million cases in 1996. Imported wines from Chile, France and Australia experienced double digit growth last year, ahead of domestic wine, with Chile growing to over five million cases, France to nine million cases and Australia to two million.

Looking at the US market by tax classification, Figure 1 shows that table wine dominates the market and since 1970 has been on an uptrend, most recently due to the growth of premium California and imported varietal wines. The dip from 1985 to 1990 is explained by the growth of wine coolers to a high of 70 million cases in 1987 that took share away largely from imported Lambrusco from Italy, a similar styled light refreshment cooler-type wine that is sweet and consumed chilled.

US wine market, % share by origin

California wine has always dominated the US market, with a varying share over the last 50 years of between 69% and 84%. Wine is now produced in most states of the US, with Washington State and New York being the most important after California. Imported wine has grown from a small base in 1940 and appears to be stabilising with a share of around 20% for the last 17 years.

US wine market, total table wine

In 1996 Americans consumed more table wine than ever before and the category increased by 8% to 175 million cases. Figure 2 shows that domestic wine sales grew to 143 million cases. Imported table wine exceeded 30 million cases. Imports had peaked in 1985 at 47 million cases, fuelled by the strong growth of low-priced Lambrusco. As already mentioned, when wine coolers took share in the late 1980s Lambrusco sales collapsed and by 1990 imported wines volume had slipped to 21 million cases. Since 1990 growth has been strong and has risen by more than 50% since the beginning of this decade. The trend had been a gradual increase up to last year when grape shortages in California and other states forced various major domestic producers to import bulk wine from France and Chile to meet supply shortfalls and resulted in a 24% increase in import table wine shipments. Italy and France continue their traditionally strong positions among the leading countries of origin with 36% and 27% share respectively, shipping 12 and 9 million cases.

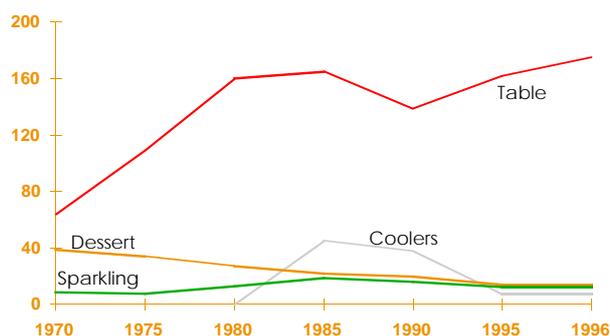


Figure 1. US wine trends, 1970 to 1996.

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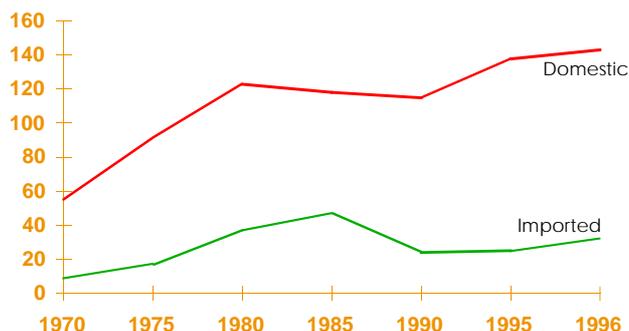


Figure 2. US table wines, 1970 to 1996.

Chile's share of US imported table wines has risen from 4% in 1990 to 17% last year and continues to gain importance and increase to share levels comparable to Italy and France. Australia's share is stable at 6%, up from 2% in 1990. Imported table wines have filled price points that can no longer be achieved by domestic producers. Domestic grape shortages have forced various California wineries to offer varietals from France and Chile to retain shelf space. Bulk imports amounted to several million cases last year and allowed domestic wineries to continue growth in a strong market without giving up share to overseas brands. Based on California supply this situation is expected to last several more years and may develop into an ongoing approach to the business. The impact on domestic grape prices and quality has yet to be felt but now that the genie is out of the bottle California grapegrowers will have to compete on price and quality with grapegrowers from Languedoc, the Maipo Valley and South Australia.

Value of US wine imports, 1985–1995

Looking at the FAS value of US wine imports by major producing country, Australia ranks second after France with a value of \$4.28 per litre. This confirms a solid premium positioning for Australia when compared to Chile or Italy, and bodes well for further growth in the premium US wine market. Statistics from the Australian Wine Export Council show that value per litre exported to the US was the highest of the major markets and a significant 49% ahead of the value per litre exported to the leading volume market, the UK.

California table wine shipments

When evaluating the US wine market and the potential for Australian wines, it is important to understand the market and grape supply trends of the California wine industry and that 80% of all wine sold in the US is from California. In 1996 shipments of California table wine increased to a record 136 million cases. Shipments of premium varietals, \$3 and above per 750 mL bottle at retail, increased by 9% to 58 million cases. Since the early 1980s varietal wine sales growth has continued at an annual compound growth rate of 15%. Last year California jug wines, our name for wines shipped in all sizes above the standard 750 mL bottle, increased by 3% to 79 million cases. Volume increases for jug wine is largely due to the fast growth of the 5 litre cask bag-in-box size. For example, supermarket sales of this size increased by 5% for the latest 52 week reporting period. The surge of the cask size has put pressure on margins but could be the beginning of expanding our consumer base in the US, similar to this package's impact in Australia 20 years ago.

California table wine revenues 1980–1996

In 1996 California winery revenues to the trade for all table wines increased by 13% and exceeded \$4.2 billion. Since

1987 revenues for premium wine have exceeded jug wines and last year they increased by 17% to almost \$3 billion. Last year jug wine revenues increased by 5% to \$1.3 billion.

California premium table wine pyramid 1996

Shipment volume of premium California wine increased by five million cases to a total volume of 57.5 million cases last year. Looking at how the California premium market is segmented by retail price, the popular premium sub-category grew to 41.4 million cases, the super-premium to 12.7 million and the ultra-premium to 3.4 million. Premium California table wines represented one third of all US table wines. Varietal wines are now part of mainstream wine consumption in the US and this indicates a major opportunity for growth in the future for suppliers from all countries, including Australia.

California varietal shipments 1996

Last year Chardonnay continued to be the favourite wine of US consumers growing 10% to 22.6 million cases, representing 40% of all premium California varietal sales. Cabernet Sauvignon shipments increased by 10% to 11 million cases and Merlot is still on fire, increasing over 26% to almost five million cases sold. Red Zinfandel and Pinot Noir also turned in impressive performances. As strong as these growth rates are by each varietal, supply shortages and the resulting price increases held back growth last year. These forces have conspired to flatten retail sales volume for total domestic varieties for the latest 52-week reporting period through 25 May, while revenues increased by 13%.

California Chardonnay shipments 1988–1996

Varietal sales in the US since 1988 have seen extraordinary growth. The California Chardonnay train is still gaining momentum and shipments increased by over 400% in the last nine years from 4.2 million cases to 22.6 million cases.

California vineyard plantings 1988–1996

Total winegrape plantings are 140,000 hectares in California, or approximately three times the Australian plantings. In reaction to the supply-demand imbalance created by market factors already mentioned, growers have shifted new plantings to Chardonnay and Cabernet Sauvignon, and to a lesser extent, Merlot, in recent years. In 1996 the total winegrape crush was 2.2 million non-metric tons. One estimate for the 1997 harvest has Chardonnay-bearing acreage increasing to 27,000 hectares, or 40% more than in 1993, Cabernet acreage increasing to 14,000 hectares, only 22% ahead of 1993 and Merlot at 9,000 hectares or 180% ahead.

California supply will be replenished in the next few years as current plantings come into full production. Some unofficial projections are that California will have over 170,000 hectares in production by the year 2000. The supply of Cabernet is expected to increase by 73% by the harvest of 2000, Chardonnay is projected to be up by 94% and Merlot by 208%. Most new varietal plantings are in warmer areas and it is possible that a glut in California will cause a major problem for lower priced imported products.

'New World' exporters 1990 and 1996

How did wine sales from the US, Chile and Australia compare on the international market in 1990? (California is over 95% of US wine exports, therefore when I refer to US exports I mean California.) In value California exported 150% more than Chile and 43% more than Australia in 1990. California also led the way with volume, with almost three times as much wine sold as Australia and more than double Chile.

However, on a per litre basis, Australia was establishing a better image by exporting quality wine at a higher price, of over \$2 a litre, while Chile was gaining a reputation at lower price, with a value image that they have since exploited so successfully in major world markets.

By 1996 the situation had changed dramatically. Australia led the way in value, over 30% ahead of California and 50% ahead of Chile, with a gain of over 380% since 1990 and almost half a billion dollars in export revenue. Chilean revenues had increased by over 400% to over \$250 million, with a per litre price not much below California. Chilean volume was ahead of Australia and level with California at 175 million litres. All had substantially increased volume since 1990. Australia has continued to develop a premium image with the highest per litre export price of the three exporters.

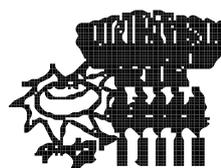
US 1996 major markets

Between 1990 and 1996 California wine exports increased from 100 to 177 million litres. The most dramatic development in recent years has been the surge in sales to the UK. That is now the largest market for California, with a 25% share of the state's export revenues and volume.

The challenge for California will be to keep the commitment to the export market during the current period of strong domestic market growth and wine shortages. For exports to achieve their potential in the next five years the international market needs assurance that California producers are serious this time about building a viable export business. With total annual wine sales in the US of 200 million cases there has been a history of start and stop in California wine exports based on how the US market performs.

Australian wine exports to the US 1992–1996

Since 1992 Australian exports to the US have more than doubled from 8 to 18 million litres in 1996 for a value of A\$97 million (Figure 3). This growth has been ahead of the



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market and indicates that Australian wine is now becoming more mainstream in the US. Numerous articles about Australia, strong press endorsement for Grange and other flagship wines, and a strong acceptance at the trade level that Australia offers excellent quality for value has positioned Australia well for future growth. Lindemans, with 1996 published depletions of 700,000 cases, has a 35% category share and a 41% growth rate since 1993.

Strategy 2025 export projections

Strategy 2025 has export revenues to all markets increasing to A\$2.5 billion by the year 2025, thereby moving Australia's share of the value of world wine production to 6.5%. Export volume for the same period grows from 125 to 600 million litres by 2025. I understand that plantings will increase by 40,000 hectares and that the industry will require about A\$5 billion to achieve its objectives. My crystal ball is no clearer than others and having worked on many strategic planning projects in the wine industry over the years, I recognise that these projections are ambitious and may not be what the Australian industry ultimately achieves. However, that is not the point. The very fact that the Australian industry has been able to effectively come together and complete this process should generate some considerable interest in the investment community about how Australia probably has the most forward thinking wine industry in the world and one that is able to come to terms with and agree on such a plan.

The 1996 Strategy 2025 projection for the US market has already been surpassed—by two million litres or 12%! The next four years look achievable based on continued growth in the US wine market (Figure 4).

The longer term projections for the US market has Australia growing to France's 1996 volume level by the year

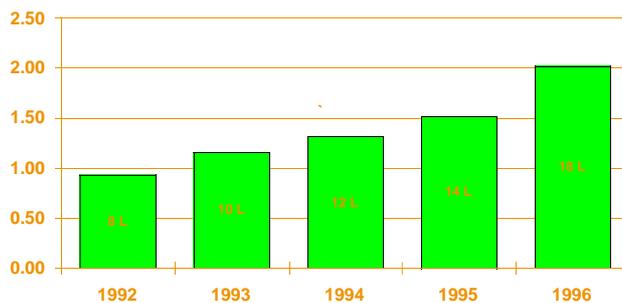


Figure 3. Australia's wine exports to the US (1992-1996) (Millions of nine litre cases).



Figure 4. Australia's 2025 Strategy Export sales projections to the US (1996-2000) (Millions of US\$ and litres).

2025. Providing the industry refines the strategy that has been effectively put into place over the last 15 years, by fundamentally continuing as an efficient low-cost producer of better quality wines than competition, I believe these goals can be achieved. Australia has the climate and the soils, the technical skills and the industry infrastructure.

The industry requires the on-going support of government to assist in making the industry an attractive and viable, long-term investment for domestic and overseas sources of capital, to fund industry development. Australia already produces a full range of products, from standard to premium to ultra premium, from Jacob's Creek to Grange, broader in quality and image than most of the major competitors.

Australia is still relatively cost competitive and it is important that this continues. However, you must expect lower cost producers to come into the market and capture an increasing share at the lower price points. As the business grows in the premium categories, Australian prices can always be adjusted to balance inventories when necessary.

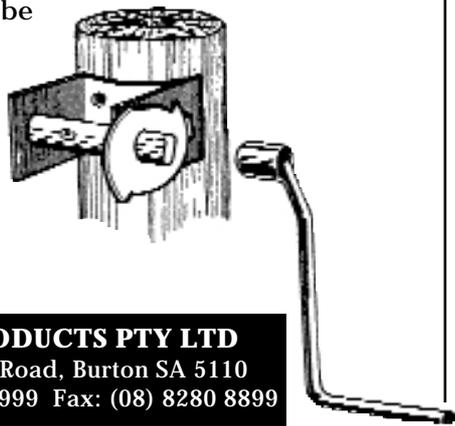
There may be Australian winemakers showing Europeans and others in obscure parts of the world how to correct generations of inflexibility in how wine is made, and, yes, they are beginning to produce wines in the so called 'Australian' or 'New World' style. But none of them will ever make a drop of Australian wine. Branding Australia as a quality wine-producing country is what needs to be done and what has to be sold most aggressively throughout the world.

And finally, none of Australia's competitors in the world have yet done this much homework and planned this far out. The Strategy 2025 planning process alone should send a very strong message to those in the world financial community and says a lot about the current infrastructure and strength of the Australian wine industry.

Remain Australian! That's what the wine world loves Australia for being and the reason why Australian wines taste the way they do. Never be complacent, stay ahead of the technical curve, refine and redefine the formulas and I believe the industry can achieve the US market goals and much more in the fast developing global environment of our business. □

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