Premiumization and the Battle of Land versus Brand

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Outline of Today’s Talk

Follow the Money

Premiumization in Context

The Battle of Land versus Brand

Implications for Washington Wine?

But first ... a flashback to 2012

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2012 Flashback: The Millionaire

Television’s *The Millionaire*

Ted Baseler, SMWE

Elson Floyd, WSU

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## Follow the Money: Tale of Two Markets

<table>
<thead>
<tr>
<th>Segment</th>
<th>Value</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-$2.99</td>
<td>$768 million</td>
<td>- 3.0%</td>
</tr>
<tr>
<td>$3.00 - $5.99</td>
<td>$4,178 million</td>
<td>- 0.4%</td>
</tr>
<tr>
<td>$6.00 - $8.99</td>
<td>$1,519 million</td>
<td>- 4.8%</td>
</tr>
<tr>
<td>$9.00 - $11.99</td>
<td>$3,302 million</td>
<td>+ 3.2%</td>
</tr>
<tr>
<td>$12.00 - $14.99</td>
<td>$1,947 million</td>
<td>+ 5.5%</td>
</tr>
<tr>
<td>$15.00 - $19.99</td>
<td>$1,300 million</td>
<td>+ 9.7%</td>
</tr>
<tr>
<td>$20.00 and up</td>
<td>$1,080 million</td>
<td>+ 8.9%</td>
</tr>
<tr>
<td><strong>All wines</strong></td>
<td><strong>$14,106 million</strong></td>
<td><strong>+ 2.2%</strong></td>
</tr>
</tbody>
</table>

Source: Nielsen Company: off-premises, major retail sales vectors. 52 weeks ending November 4, 2017 as reported in February 2018 Wine Business Monthly
Premiumization Not (Just) Higher Prices

Actual Price Increases Through To Consumer Are Rare In The Mid-price Range

*in a Wine world of broad choice, ultra competitiveness, and lower brand loyalty, price increases can be dangerous*

Top 100 Items per price tier; rolling 52 weeks price index – vs 2 years ago = 100

**Table Wine Consumer Price Index**

Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Pubs + Conv + Military); period ending 12-2-2017; price per Eq 750 ML
(Mis)understanding Premiumization

Premiumization caught most of us by surprise, so it is easy to misinterpret its causes and effects.

The up-market movement may best be viewed as part of a long-term pattern in the U.S. wine market.

If so, what makes premiumization today different?
Back in the Day: Thunderbird

Wine brands like Gallo’s Thunderbird drove the early expansion of the U.S. wine industry

Sweet + strong + heavy marketing of the brand

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Best-Selling Imported Brands

Imports backed by strong marketing & distribution raised the bar

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Stepping Up to Generic Table Wine

Generic brands of “Burgundy,” “Chablis,” “Rhine Wine” table wines that had no connection with their European counterparts.

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Generic wine brands persisted, but momentum shifted to wines identified by maker, grape variety, and origin.

The first question many Americans ask about a wine today is “what grape?”

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Premium Varietal Wines

Upscale movement to wines that are more closely associated with place as well as grape variety.

Premiumization, Terroir and the “authenticity” hypothesis

Not by wine alone ...
The Quest for Authenticity

100% AUTHENTIC

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Return of the Brand

Some of the hottest wines in the U.S. market are not exactly “authentic”

Blends vs Varietal wines
Relatively generic origins

Build the Brand
Scale the Brand
Sell the Brand?

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Cooper’s Hawk Winery & Restaurant

Fast growing chain of 30 winery-themed restaurants / 4.4 million guests per year

Wine Club = nearly 300,000 members and growing 25% per year

Monthly wine pick up at local restaurant

Woodridge, IL winery produces 5 million bottles / year

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The Rise of Identity Wine

Wine brands created to appeal to particular demographics

TWE’s 19 Crimes (Australian red wine $12-$15)

1.2 million cases 2017

Target market: “outlaw” male millennials

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Implications for Washington Wine

Competitive market environment

Land and Brand (Terroir and Identity) are both powerful

Washington is well-positioned for success

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