



Vinexpo New York – March 4, 2019
Wine Spectator Presents: Trends in the U.S. Wine Market

Moderator:

Thomas Matthews, Executive Editor, Wine Spectator

Panelists:

Chris Adams, CEO, Sherry-Lehmann Wine and Spirits

Steve Slater, Executive Vice President, General Manager, Wine Division, Southern Glazer's Wine & Spirits

Bill Terlato, CEO, Terlato Wine Group

Rick Tigner, Chief Executive Officer, Jackson Family Wines

Jackson Family Wines outlook

Tigner reported that 2018 was a good year, if not great, for Jackson Family Wines. Its classic brands (example: Cambria) grew around 3%, estate brands (example: Stonestreet) 9-10%, and artisan brands (example: Lokoya) 15-20%. The estate brand portfolio is a big focus for the company. The challenge today is how to move the mix, with costs of land, labor and transport all rising.

Jackson Family Wines is working on a multi-channel approach to sales and Tigner noted that e-commerce is a new channel for everyone. With the advent of Instacart and other digital platforms, fewer consumers are walking into stores to buy wine. There are fewer impulse purchases. In response, Jackson Family Wines is investing in education, from its website to distribution partners to consumers. Having a great story matters to the consumer, he said. A lot of companies are growing by virtual brands

but Tigner believes there's no "there" there. He predicted that e-commerce and authentic stories will play to Jackson Family Wines' advantage.

Tigner cited water issues and regulation as challenges the California-based company faces. In addition, competition is at an all-time high. Another challenge is the wine industry's share of consumers' disposable income with, for example, the introduction of legalized cannabis.

Terlato Wine Group outlook

Terlato Wine Group business increased 12% last year, which Terlato attributed to the company's focus on premium wines, averaging \$20 per bottle and at the high end several thousand dollars a bottle. More than 50% of its business is with restaurants, compared to the industry average of 19% restaurant business. Terlato sees polarization taking place in the industry. He also noted that wine culture is driven by food culture, which today is all about sourcing. If you can't show where your wine came from it's commoditized. People want to know the location of the vineyard and who the winemaker is. Many brands can't answer that. Terlato continues to expand its vineyard holdings and has brands in two hot categories—rosé and Prosecco. These are trends, not fads—while their growth rate is slowing, they are still growing. Terlato noted that things built over a long period are more sustainable in the long run. Whether his company produces a wine or markets an acclaimed vineyard's wine, he looks for something where success can be measured in decades.

Southern Glazer's Wine & Spirits outlook

Clear strategies brought Southern to where it is today, Slater said. The company doesn't chase the control label and private label business because the first responsibility of a wine is to taste like someplace, not something. In the mobile age, when consumers want information, they can get the story behind anything. That won't happen with a control label. Slater also pointed to the diversity of the industry right now—from canned wine to alcoholic seltzer, and the fast pace of change. Direct to consumer hardly existed a few years ago and is now at 10%. Blue Apron, which delivers 17 million meal kits a month, offers control label wine pairings. Cannabis is another distraction. And throughout the country, small wineries are consolidating.

Southern is moving forward with digital in a big way because shoppers are making their decisions online. He observed that groceries are moving to online ordering—digital robots are already packing Instacart orders. To that end, Southern has 15 master sommeliers on staff for educational purposes and is weaponizing its sales force so they know everything about an account before they walk in.

Sherry Lehmann Wine & Spirits outlook

When Sherry Lehmann was founded 85 years ago, the business was 92% spirits. Now that has flipped, but spirits are more important again than they have been in 50 years. Adams cited the influence of the farm-to-table food trend on the wine industry and that businesses need to be able to tell a story with integrity to compel the consumer to choose their store or mobile platform. For Sherry Lehmann the story is the integrity of the supply chain. To educate the consumer about why that's important and reach them online with that story requires being active on a variety of platforms.

While 2019 is off to a fine start, Adams reports the past two years have seen more competition and uncertainty in the market than ever before—a trend he sees continuing along with reduced access to real goods and provenance. Adams has donated the library of Sherry Lehmann’s catalogs to the University of California, Davis, because economists have been very interested in what might be the only record of retail pricing over several decades, and this donation makes that information available now to everyone.

The rose and sparkling trend

Terlato attributes the rise in rosé to the trend to lighter, healthier and fresher dining. He believes rosé and sparkling wines, which have been driving the market for two years, are here to stay. Stigner, too, believes rosé is here for the long-term and says consumers are trading up. The \$20-30 category is growing at a rapid rate. Over time, that rate will slow but the category is getting bigger. People are drinking rosé through fall and into winter now. And it’s no longer just for female consumption. Sparkling wine, likewise, has become an everyday lifestyle versus special occasion product.

Slater, whose Southern Glazer’s Wine & Spirits represents the largest producers of Provence rosé and sparkling wines, remarked on the premiumization of rosé. He credited Prosecco with bringing the American consumer to sparkling wine as a daily event. Sauvignon blanc is also trending, putting pressure on American producers to be more relevant in the marketplace.

For Sherry Lehmann, the job is to stay focused on the rosé brands that work and have integrity, offering different price points so everyone can participate. Adams added that what happened with Prosecco is one of the great stories of sparkling wine in America. He predicted there won’t be a race to the bottom in rosé or sparkling because they are mature brands—it’s just that Americans have only recently discovered them.

Technology

Terlato said technology is changing the entire landscape. Customers used to comparison shop within a few miles of their location but can now do so anywhere in the world. With people shopping online, everyone in the equation has to add value or they don’t have a business. Quality is what will endure. If one is selling based on quality, someone else has to beat that quality to take business away. If one sells based on price, they only have to beat that price. Terlato only works with family businesses and even then, wants to see that there’s a next-generation family member who’s interested, capable and engaged in the business. Those are the brands he believes will endure.

The Supreme Court and Tennessee’s Residency Law

The group discussed the potential outcome of the Supreme Court’s review of Tennessee’s 12-year residency requirement. A decision against the law will expand direct to consumer sales from out-of-state retailers. Slater said that while it’s hard to predict how the Supreme Court will rule, if it does drop the walls, every state will follow suit. Terlato said that ultimately what matters is what’s best for the consumer. He believes a deregulated wine and spirits business won’t look that different and compares it to the food business. People who add value to the equation will continue to have a business model.

Adams said that Sherry Lehmann is an advocate of the three-tier system, but that the liberalization of these laws is a healthy thing for the market, and for consumers as they mature and grow more sophisticated across the country. Stigner agreed that what matters ultimately is making high quality

products. He believes in the three-tiered system and appreciates the role of distributors but noted the world is moving at a rapid rate.

Bringing the formal discussion to a close, Matthews summarized that the industry is facing another period of uncertainty, change and opportunity, risk and growth and that the panelists will continue to lead as they have in the past.

An audience member posed a question about the existential threat of climate change to the industry. Tigner responded with news that Jackson Family Wines has just announced a partnership with Spain's Familia Torres to create International Wineries for Climate Action. Slater mentioned that his takeaway from an earlier conference at Vinexpo New York that day, led by climate change expert John P. Holdren, was Holdren's statement that climate change needs to become a bigger, more political issue on the scale of gun control and abortion. Adams added that as a retailer he finds himself more acutely aware of the way wine is packaged and the impact of heavier bottles on the impact of transport on the environment.

To a question on diversity, Tigner responded that Jackson Family Farms makes diversity a priority in new hires, challenging his team to actively seek candidates from diverse backgrounds. According to Slater, Southern has made a big effort over the past 20 years to diversify. It was founding sponsor of Women of Wine and Spirits, where before there was nowhere for women in the industry to meet. On the retail side Adams put the onus for diversity on the store owner and said that while the team at Sherry Lehman considers diversity constantly and has made progress in that area, more needs to be done.

Adams responded to a question about stores building their own apps and how digital is changing the business, saying that anyone who sells a bottle of wine is a competitor. The job of Sherry Lehman is to separate the brand by telling its story. Tigner added that digital marketing requires a significant, ever-changing investment. Jackson Family Wines now has teams of people who are watching consumers through social media, digital media, and content. It's new, challenging and moving fast.

Terlato stressed that there's a big difference between social and digital. Digital will be more important and to succeed at it will require an educational component. He said that everything Terlato Wine Group is doing goes back to educating people more about why the product is distinctive, where they can get it, and so on.

Matthews asked about the impact of potential federal marijuana legalization on the wine industry. Stigner and Terlato expressed concern about the lack of scientific measurement of cannabis intoxication. Terlato and Slater added that it's highly unlikely that THC will be combined with alcoholic products, but perhaps CBD will. Panelists also described cannabis as an antisocial product in contrast to wine. Slater pointed out that Southern is in the cannabis business in Canada but that it's too early to measure its impact on wine consumption. Adams bets on the inevitability of cannabis legalization in New York State. He's interested in how retail distribution would be managed in a place like New York City. He could see Sherry Lehman entering the market and pursuing a retail license—something he wouldn't say no to.

Matthews suggested that "don't say no" is a good lesson to end the discussion on and encouraged the audience to "explore, take risks and go to work."