

AMERICAN PIE

WINES' METEORIC GROWTH

No discussion of wine in the United States would be complete without considering the country's historical background. As a 'melting pot' of cultures, the wine market reflects the wine-consuming traditions of many of the individuals and groups who have moved here, observes Michael A. Schaefer.

As a collection of 50 states, and therefore 50 different wine markets, each with its own set of laws pertaining to distribution and sales, the United States can be viewed as both a monolithic national market as well as a diverse set of individual markets. Much of this is due to two amendments to the American Constitution, in the early 20th century: the first amendment, which ushered in the prohibition of alcohol in 1919, and the second amendment, which resulted in the repeal of that action 14 years later.

After this long absence, imported wines, almost exclusively European, were reintroduced into the market in 1933. In fact, with their immediate availability, they had certain advantages over domestic producers, who needed to replant and restart their production facilities. The import business, especially along the East Coast of the United States, allowed for exposure to the wines of France, Italy, Spain, and Germany, each of which still maintains a strong presence.

On the sales and distribution side, the state laws allowed for the creation of the distribution network, with distributors being charged with the responsibilities of bringing beer, wine and spirits into the state; delivering these products to on- and off-premise retail accounts; and paying appropriate taxes. Thus the 'three tier' system was born, which for many years effectively blocked many consumers from purchasing their wine directly from producers and bypassing the established system. For the past seven decades, the distributors have held sway, as it took a Supreme Court decision in 2005, *Granholm v. Heald*, to decide that many of the standards were illegal. Most of the states have loosened their restrictions, but others have rewritten their laws to reflect the court's ban on discriminatory enforcement.

Wine production and sales are now showing aggressive growth. Over \$162 billion is generated from the impact of wine, grapes, and grape products in the United States. This

includes wages paid, winery revenue, and wine, grape and grape product sales, as well as tourism and taxes. From 2000 through 2005, the number of bonded wineries in the United States grew from 2,904 to 4,929. Wine revenue totaled nearly \$24 billion in 2005, with more than 40% of that being generated by on- and off-premise trade. Exports of American wine, which have yet to become a truly major market concern,

accounted for 6% of production. Growth can be measure in double-digit percentages in both volume and dollars. In fact, the United States (along with Canada) represents one of the only markets where demand is growing for wines priced above \$5 per 750ml bottle, let alone in all other price ranges.

On the import side, sales have been on the rise over the past 10 years. Much of this is focused on the more 'cost-effective' bottlings, many of which are priced below \$10 per bottle. Imports represent 27% of the wine purchased in the United States, with 81 million 9-litre equivalent cases being brought in. Italy, which has traditionally been the wine-import leader, still maintains that position, but Australia has now surpassed France in the number two spot. Much of Australia's growth can be attributed to

a single brand: an astounding 36% of Australia's wine imports belong to Yellow Tail. Both New Zealand and South Africa are demonstrating very strong growth in percentage terms, but the total overall number of cases is still a small figure.

The astounding growth of Yellow Tail, which skyrocketed within five years to achieve \$621 million in the sales in the United States, has led the charge to an entire category of wine brands. Following Yellow Tail's bottles, with their brightly labeled kangaroo, the 'critter wine' phenomenon has resulted in a dizzying array of labels to draw customers' eyes. According to market research company AC Nielsen, more than 400 new wine labels were introduced into the United States market between mid-2003 and 2006. Nearly one in five of those labels featured an animal on the label, something to catch the eye and

1	Benchmark Data	www.us
Inhabitants:		301.2 million
GDP:	US\$12.98 trillion (€9.76 trillion)	
Currency:	US\$ (US\$1 = €0.75)	
Per adult capita wine consumption:		10.9 litres
Total wine consumption:		2,311 million litres
Legal drinking age:		21
Vineyard area:		415,000 hectares
Domestic production:		20.7 million hectolitres



MARKET WATCH

work on creating an emotional attachment. As long as the wine is quaffable and the pricing is sufficiently aggressive, terroir and typicity fell by the wayside.

Another legacy of the constitution is the three tier system of alcoholic beverages, which has, over the years, created roadblocks for consumers. Whether it is the individual state's interest to collect tax monies, or the political clout of the distributors in an effort to protect their turf, the consumer does not always fare well. Over the past several years, visitors to various wine regions would find that they were unable to ship wines purchased at the winery back home. The carrier companies would only deliver wines to what were known as the reciprocal states, those states who signed an agreement opening the way for delivery of wines between them. Other states wrote legislation which made it a misdemeanor, or even a felony, to receive out of state shipments of wine.

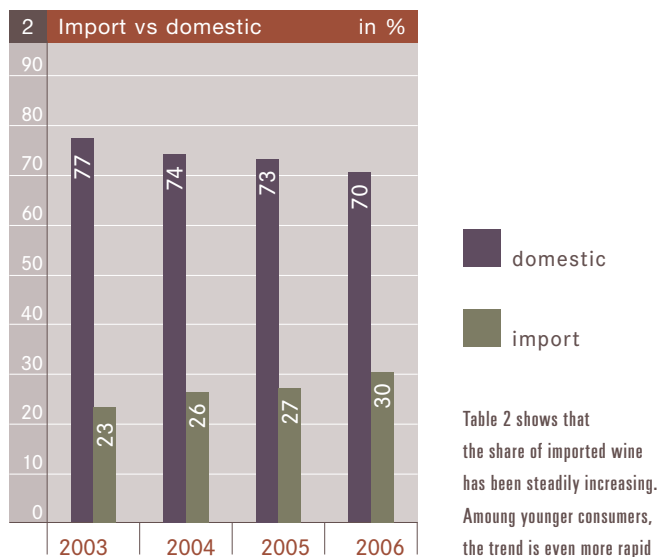
With the advent of the internet, and the ability to compare pricing and shop with the click of a mouse, the situation accelerated. The neo-prohibitionists led the charge with claims that underage drinkers could order wine and have it delivered to the home; without the need to go to a physical location and be turned away, lacking proper identification. The lack of logic, as if a teenager would order wines from across the country, rather than try to buy beer at the local merchant, emphasized the weakness of the argument. Much of this was fueled by the wholesale industry, which was looking to preserve its hold on the distribution system. Even though it is estimated that direct shipping accounts for only 2% of the wine sales in the United States, any erosion of the monopoly they hold was seen as potentially dangerous to them.

The ban on interstate shipping, and consumer resistance to it traveled through the legal system, until it finally reached the U.S. Supreme Court. In 2005, the court decided that legislation which banned interstate shipping, when it was written

to discriminate against out of state wineries, was unconstitutional. Many of the laws, then in place, allowed for in-state wineries to ship their goods within their own state, but barred out of state wineries from direct to consumer or retailer sales. In some states, this opened up shipping. Other states reacted by banning all shipments of wine. This is hurting many of the smaller wineries, who are generally too small for the wholesalers to add to their portfolio and thus rely on shipping their wines to customers, who cannot visit them regularly to purchase on site.

As overall revenues show solid growth, the increased costs of doing business have led to finding cost-effective means of obtaining and selling products. On the production side, many wineries are streamlining their information and marketing techniques. On the business side, many growers are not realizing the profits they once enjoyed, and much vineyard acreage is being converted to residential and industrial use. On the distributor side, the change is even more dramatic. From 1990 to 2000, the number of wine wholesalers and distributors dropped by more than half, and that trend is accelerating through continued acquisitions and mergers. It has reached the point where the top five distributors represented 43% of the wholesale wine and spirit trade in 2005.

Companies such as Southern Wine & Spirits, the largest distributor in the American market, currently operates in 27 of the 50 states, with a projected 2006 volume of over seven billion dollars in sales, and are leading the consolidation trend. Charmer Sunbelt, with over three billion dollars in sales, is another large enterprise, operating in 16 markets. The size of these companies allows for streamlined operations, in terms of supplier relations, and they certainly get the attention of their customers. There has yet to be a true national distribution network, as the current system of state control, which is not likely to dramatically change for some



Year	AP in m ¹⁾	litres ²⁾
1970	134	3.97
1975	147	6.74
1980	154	9.77
1985	164	8.67
1990	173	7.42
1995	184	8.25
2000	194	9.31
2006	212	10.90

Table 3 shows that both per capita consumption and population are growing.

¹⁾ Adult population in millions

²⁾ Litres of table wine per adult

Year	9-litre-cases in millions
1997	215.4
1998	217.5
1999	225.1
2000	232.1
2001	233.7
2002	245.5
2003	258.3
2004	268.1
2005	273.9

Table 4 shows that from 1997 to 2005, wine consumption in the United States increased by 27 percent.

time, still mandates that the companies maintain warehousing, delivery, and billing systems for each market.

As a culture not brought up on wine, much of the American market is driven by publications. Opinions, and more importantly scores for wines, drive much of the demand. Using the 100 point scoring system, which reflects how grades are assigned in school, a sense of the wine's quality can be perceived. Of course, with any subjectively graded product, one person's or group's perception may not match that of another. Robert Parker, Jr., who has been labeled as one of the most influential critics in any era, has been publishing his Wine Advocate newsletter for decades. The reputations of many wineries, good or bad, have been determined by his opinion. A stellar review of a wine can create a frenzy of demand, and an escalation of price. A poor review can leave a reputation in shambles, and inventory that does not sell. Another magazine, the Wine Spectator, which relies on many lifestyle articles as well, is the most influential mainstream publication. Where the Advocate is filled with reviews and not a single advertisement, the Wine Spectator displays ads for everything from watches, cars, holiday resorts, and cigars, in addition to many of the wines featured within its covers. Many retailers use the scores and descriptions from such reviews to print "shelf talkers", which are small sheets attached to the shelves in the wine display to catch the consumer's eye and validate the salesperson's recommendation.

Without the tradition of wine consumption throughout Europe, there is, for the most part, a lack of comfort in choosing appellation labeled wines. In a culture more driven to know what grape variety is in the bottle, the communes of Burgundy, or the plethora of DOCs from Italy confuse the average consumer. As popular as the wines from Italy may be, very few of the customers picking up a bottle of Chianti could tell you, or really care to know, about where it's

COMMENT

>> The internet is changing the way wine is marketed and sold. <<

Dr. Laurent Guinand



Although America is becoming the world largest wine market, it is also one of the most complicated in terms of regulations and logistics. However, the most exciting aspect today is what has been called wine 2.0. The growing influence of blogs, online affinity groups, RSS feeds, content aggregation, online advertising and email marketing is empowering the consumer, who is now at the heart of transmitting the marketing message. There is no doubt that wine marketing strategies and campaign efficiencies will be profoundly changed in the years to come.

Dr. Laurent Guinand is the president of GiraMondo Wine Ventures, a company specializing in business development, marketing strategies and acquisitions.

located or the makeup of the wine. Hence the growth of a Yellow Tail, or any other brand that features the type of grapes used, as opposed to the location of the vineyard.

The need for that level of comfort applies to both on and off premise. No wonder Kendall-Jackson, which is produced in a not completely dry, consumer friendly style, is one of most popular wines in restaurants, as well as being the best selling chardonnay in the off premise channel. Other wines such as Beringer White Zinfandel, Cavit Pinot Grigio and nearly every wine driven by pricing considerations for by the glass pours belong to companies with the monies

5 Wine drinking frequency		
Core wine drinkers	2000	2006
daily	7	11
more than once a week	22	24
once a week	17	16
Marginal wine drinkers	2000	2006
2 or 3 times a month	28	20
once a month	16	13
once every 2 or 3 months	10	16

Table 5 shows compares wine drinking frequency in 2000 with 2006. Of an estimated 70 million total wine drinkers, 51 percent (36.7 million) are considered core wine drinkers, described as drinking at least once a week. 49 percent (34.3 million) are marginal drinkers.

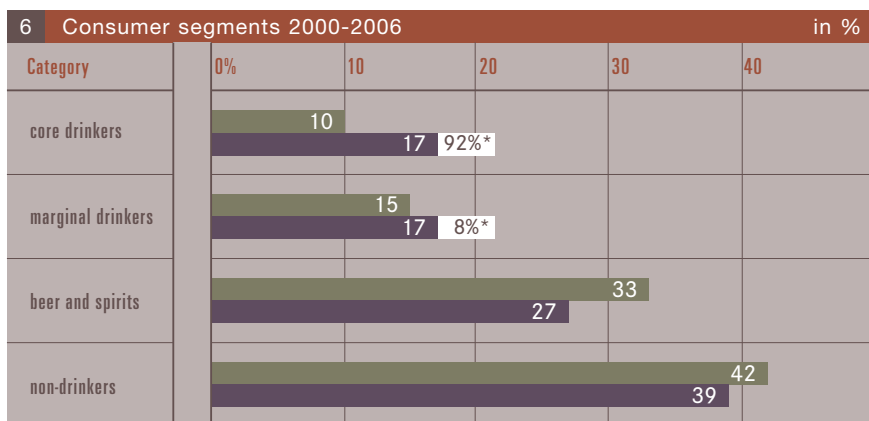


Table 6 shows that while the number of pure beer and spirits drinkers is decreasing, the number of wine consumer is on the rise, especially among core drinkers. *Although core wine drinkers represent only 17 percent of all adults, they consume 92 percent of all wine.

SOURCE: WINE MARKET REPORT, 2006

needed for aggressive marketing campaigns as well as funds for printing costs and distributor support. Companies such as Constellation, Gallo, Foster's, and The Wine Group dominate the on-premise landscape.

The trend also continues in the retail segment of the United States market. Even though more than one-quarter of the states prohibit the sale of wine in food markets, many larger outlets dominate the off-premise trade (one state, New York, allows beer, but nothing stronger). Their strength in numbers, and desire to provide wines at the most competitive prices, creates pricing pressure on the wholesale segment and up the chain to the producers. This process is paralleled in the on-premise segment, where many of the hotel and restaurant 'brands' fall under a much smaller number of large corporate umbrellas. Darden Restaurants, which operates businesses under the Red Lobster, Olive Garden, Bahama Breeze, Smokey Bones Barbeque & Grill and Seasons 52 brand names, has nearly 1,400 locations in North America, and employs more than 150,000 people. That type of economic muscle and market penetration captures the attention of any producer, but it is only the larger wineries that can provide the training and support monies for printing, as well as other services who can work with an operation of this size.

Some of the largest wineries in the United States are also world leaders in production and sales. The latest figures show the following wineries occupying the top 10 positions, with the number of cases sold in 2005.

This growth is due to several factors, which allow for potential continued growth over both the short and long term. In the 10 years from 1996 to 2006, total United States wine consumption grew from 177 million cases to nearly 260 million cases. During that time annual growth was consistent, with rates between 1.3% to 7.2%. Per capita consumption has increased from a little more than two gallons per year to nearly three gallons. That puts the United States

in sixth place, on a per capita basis, but population size makes the United States the third-largest consumer of wine, and the growth rate projects it will become the world's wine consumption leader at some point in this decade.

Top ten American producers in 2005

Range	Wineries	Cases sold
1	E&J Gallo Winery	75,000,000
2	Constellation Brands	54,000,000
3	The Wine Group	42,000,000
4	Bronco Wine Company	20,000,000
5	Foster's Wine Estates	17,000,000
6	Trincher Family Estates	9,300,000
7	Brown-Forman Wines	6,400,000
8	Diageo Chateau & Estate Wines	5,000,000
9	Kendall-Jackson	5,000,000
10	Ste. Michelle Wine Estates	4,000,000

There has been a shift from the majority of wine drinkers being described as 'marginal' - drinking wine anywhere from once a week to once every three months or so - to 'core' wine drinkers, enjoying wine at least once a week. This is the first time since Prohibition that United States wine consumption has shown this trend of greater frequency taking the lead.

Potential for even greater growth has a powerful ally. The Baby Boomer generation of 77 million Americans between 43 and 61 years of age has been the driving force behind this growth pattern. However, their offspring, the 'Millennial'

7 USA, market shares: top retailers 2007

Company	2000		2006		2010	
	GRBS (USD mn) ²⁾	MS (%) ³⁾	GRBS (USD mn) ¹⁾	MS (%) ²⁾	GRBS (USD mn) ¹⁾	MS (%) ²⁾
1 Wal-Mart	57,562	7.0	124,837	11.2	178,973	12.7
6 Kroger	36,123	4.4	45,596	4.1	52,682	3.7
4 Costco	16,519	2.0	31,435	2.8	50,823	3.6
8 Ahold	21,514	2.6	36,118	3.2	42,980	3.0
9 SuperValu	9,869	1.2	20,769	1.9	33,893	2.4
2 Target	8,835	1.1	18,714	1.7	30,331	2.1
3 Walgreens	9,550	1.2	17,731	1.6	30,129	2.1
10 Safeway	22,569	2.7	26,915	2.4	28,704	2.0
12 Publix	12,287	1.5	18,718	1.7	23,813	1.7
7 CVS	7,883	1.0	13,828	1.2	20,380	1.4
13 Delhaize Group	10,203	1.2	13,554	1.2	17,020	1.2
15 Whole Foods Market	1,740	0.2	5,196	0.5	15,363	1.1
Total MGD Sales	822,078	100.0	1,116,774	100.0	1,413,534	100.0

Table 7: Although most Americans buy their wines in supermarkets, there is not the consolidation in that industry that you see in countries such as England, where the top five chains account for 80% of all wine sales. The top dozen grocery retailers in the United States muster only a 33.5% market share. In fact, the 85 biggest grocery retailers together do not even reach half the market, accounting for merely 48 percent of total grocery sales.

Although perhaps confusing, the rank number is their respective total retail banner sales. Some large companies like Target, though, do less grocery retail.

¹⁾ Rank in total retail banner sales

²⁾ Grocery retail banner sales in million US\$

³⁾ Market share in %

MARKET WATCH

8 Wine consumption by type and origin				
Type and origin	1990	1995	2000	2005
Table wine	137,1	158,5	194,5	245,1
Domestic	116,4	133,2	152,6	176,0
Imported ¹⁾	20,7	25,3	41,9	69,2
Sparkling	14,4	12,8	12,0	12,6
Domestic	9,8	9,3	8,3	8,2
Imported	4,6	3,6	3,7	4,4
Speciality	15,0	11,3	8,8	8,6
Domestic ²⁾	14,3	10,8	8,2	7,9
Imported ³⁾	0,7	0,6	0,6	0,8
Others	9,9	7,4	13,4	12,6
Total domestic	148,6	158,9	180,6	202,7
Total imported	27,7	31,1	48,0	76,2
Total wine	176,3	190,0	228,6	278,9

Table 8: Wine consumption in millions of 9-litre-cases

¹⁾Includes bulk wine imported and bottled predominately in CA to cover shortages created by poor 1995 and 1996 harvests.

²⁾Domestic specialties include sake and other specialty wines such as Richards Wild Irish Rose.

³⁾Imported specialty wines include sangria, sake, rice wine and fruit flavored wines.

SOURCE: IMPACT DATABANK; IMPACT THE U.S. WINE MARKET

9 Wine imports into the US by country				
Country	1990	1995	2000	2005
Italy	12.037	12.502	18.444	24.626
Australia	491	1.516	6.271	22.329
France	7.554	7.857	11.988	10.871
Chile	921	2.621	5.863	6.219
Spain	2.451	2.030	2.261	4.490
Argentina	122	150	1.250	3.082
Germany	1.716	1.127	1.473	2.703
Portugal	923	696	910	1.137
Other	2.031	2.238	2.023	3.790
Total	28.245	30.734	50.482	79.247

Table 9: Given the dynamics of the market, it comes as no surprise that almost all countries have fared well in America over the past 15 years. Nonetheless, the recent meteoric rise of Australia, Chile and Argentina has changed the rules of the game. Where Italy has fared well, France is beginning to suffer.

Imports by country of origin *000 9-litre case.

SOURCE: IMPACT DATABANK; IMPACT THE U.S. WINE MARKET

10 Wine retail sales in millions of US\$			
Type and origin	2003	2004	2005
Table wine	16,283	17,267	18,155
Domestic	10,890	11,513	11,916
Imported	5,394	5,753	6,239
Sparkling	1,616	1,602	1,666
Domestic	707	683	700
Imported	909	919	966
Speciality	314	316	316
Domestic	266	266	263
Imported	49	50	54
Others	707	662	682
Total Domestic	12,371	12,928	13,350
Total Imported	6,549	6,918	7,469
Total Wine market	18,920	19,846	20,819

Table 10: Not only have volume sales of wine been growing quickly in United States, the average spend per bottle is far higher than in maturer European markets. The table slightly understates total expenditures because on-premise sales are estimated at retail level.

SOURCE: IMPACT DATABANK; IMPACT THE U.S. WINE MARKET

generation, have taken to wine drinking like fish to water. This group, numbering 70 million, is already contributing to greater wine consumption. The news gets even better. This growth is due to a generation that ranges in age from 13 to 30 years of age. In other words, the youngest of this group have eight years to go before they can emulate their elders and join the fold. And these are people who revel in the self-discovery of wine and its pleasures. Rather than sit down to a meal, working to pair each course appropriately, they are content to bring a large number of different types of wines and dishes to eat.

From a gender perspective, the market is almost evenly split. There is a slightly larger number of males, 53% to 47% who are characterized as core consumers, with women leading the marginal category 57% to 43%. Both genders are demonstrating growth, with 18% of men and 14% of women telling polls that they are drinking more wine than they were a year or two ago. With wine drinkers making up just over 34% of the population, they have now eclipsed the beer and spirits combined segment, which comprises nearly 27% of the population. Interestingly, both still fall behind the nearly 39% of people who characterize themselves as non-drinkers.

The reported health benefits of wine may be contributing to this trend, as in 2000 the numbers were 25% wine, 33% beer and spirits, and 42% non-drinkers. The imbalance of core versus marginal drinkers is brought into dramatic relief when overall numbers reveal that 17.4% of the core members are consuming 92% of the wine. This may be due in part to the consumption pattern of each group, with 32% of core drinkers stating they are drinking more wine than in the past year or two, and a slight decline in the marginal sector, with a just under 1% decrease of drinkers stating this. Factoring age again, 13% of Baby Boomers claimed they were drinking more wine, and this number climbs to 20% for Generation X members. But as mentioned before, it is the Millennials who may hold the key to continued growth. A whopping 40% of them claimed to be drinking more wine now than a year or two ago.

Finding reasons for the increase in sales can be attributed to a few factors. The French Paradox and more recent reports have led an overwhelming majority of wine drinkers to believe that moderate wine drinking is potentially good for one's health. Nearly as many people find that wine makes a good gift, and that the current market conditions can allow one to buy a good wine without spending a lot.

What could end up being one of the most comprehensive studies of wine consumers and how to market to them was conducted by the United States wine conglomerate Constellation, the number two wine company by case sales and the top company by overall dollar value. Constellation created Project Genome, which refers to its desire to go straight to the 'DNA' of wine consumers, to better understand them and address their concerns and desires. More than 3,500 consumers were surveyed, with each being asked more than 100 questions. After this exhaustive work,

COMMENT

»» Younger consumers have a huge thirst for knowledge...and new ways to find it. ««

Joel Peterson, Ravenswood



While the wine business has been in flux since I began 30 years ago, the importance of this change to the economic health of the distribution system is occurring with more intensity than I had seen before. There is consolidation taking place that has given organizations like Southern Wine and Spirits a profound influence on the national market. This, works well enough for Constellation and Diageo, but it has produced very little benefit for smaller, independent wineries and has, perhaps, been most difficult for mid-size operations. What seems to be emerging now is another route to market that addresses the needs of these smaller entities, which tend to be neglected in consolidated portfolios.

This counter network is a patchwork of different routes to market that include smaller distributors and brokers, the internet, with winery blogs and direct sales schemes, as well as full service direct shipment. Ultimately, fine wine may be almost exclusively sold through this mechanism, which will be refined over time. Commodity, high-volume wines will then become the exclusive domain of large distributors who work with national on- and off-premise accounts. This, of course, will last only as long as the three tier system reigns. With challenges to the that system by companies like CostCo, the future may bring opportunities for direct sales to even these large chains, which will once again change the complexion of the system, especially for the large distributors. There is no doubt that the complication and difficulties in the market created by the repeal of prohibition will not be going away any time soon. As long as every state has the right to create its own set of laws, tariffs and bureaucratic organizations associated with the import of alcohol, the complexities will necessitate change that moves glacially but inexorably. With the advent of younger wine buyers coming into the market, combined with a world wine over-supply, we are seeing a surge in sales of good flavored wines at sub-\$10 price points. These are wines that have creative labels and are less reverential than wine was even a decade ago. It is likely that these younger consumers will move to higher price points in the future. There is a huge thirst for knowledge about wine associated with this group. With knowledge comes desire; with desire comes the need for sophistication and something better than average. So my guess is that there will be some strength in the future for the non-consolidated fine wine market that is in the infancy of its development.

Joel Peterson was one of the first to see the potential of Zinfandel and has guided Ravenswood to its current status.

MARKET WATCH

Constellation decided that marketing to a 'typical' wine consumer was counterproductive and decided to take a more differentiated approach to marketing and sales.

The results demonstrated that there are at least six different wine consumers in the United States. There is of course the 'Enthusiast', representing 12% of market share, which is, surprisingly, 60% female, with three-quarters of overall group or of women within it having graduated from college, as well as having the highest median income of the different groups. They are the group most wine traditionalists would identify with, as they consume slightly more than five glasses a week, consider themselves knowledgeable about wine, and pay attention to reviews, ratings, and the source of the wine. While willing to spend more than the average American on wine, and demonstrating the leanings of the United States market, nearly half of them have not spent more than \$15 on a bottle within the past six months.

The next consumer to consider is the 'Image Seeker', comprising 20% of consumers. They are nearly two-thirds male, and on the average a decade younger; and are the second-highest income group. They consume a little bit more than three glasses a week, and walk a tightrope between their interest in wine and their perceived lack of knowledge about it. They feel as if their choice of wine speaks to their level of sophistication, experience, and knowledge. Not surprisingly, they are often willing to spend more on a bottle of wine.

Fifteen percent of the respondents fell into the 'Savvy Shopper' category. They are nearly 60% female, and on average are almost 15 years older than the 'Image Seeker'. Their median income level is about 10% lower, but their education level is nearly identical. They drink three and a half glasses a week, and enjoy both shopping for and drinking wine. Value is important, but they are not necessarily driven to only buy wines on sale, as they also tend to have some labels to which they are loyal. The

QUOTE UNQUOTE

>> **The US does not compromise on quality. We don't either. That's our secret.** <<

Massimiliano Giacomini, Cavit's Export Manager

CAVIT has been on the American market for three decades and is now the undisputed number one in the wine import statistics with 125 million Euros turnover. It all began with the export of Pinot Grigio, which is still the best seller and has opened the door for Merlot, Cabernet, Chardonnay, Teroldego and many other Italian varieties.



'Traditionalists', representing 16% of the respondents, are 68% female with a median age of 50. Their main concern is to maintain a comfort level with the wine they've been enjoying for some time. New brands do not influence them, and as they feel that wine adds a sense of formality, they are not drawn to 'critter wines', and humorous or brightly labeled bottles are lost on them. They seek stability and find it in repeat purchases of brands that they trust.

At 14%, the 'Satisfied Sipper' is three-quarters female and has an average age of 52, with nearly four in ten holding a college degree. Even though they drink a bit more than two glasses of wine a week, they don't put a priority on it, in terms of their socializing. They also tend to be fiercely brand-loyal, and are the driving force behind the continued popularity of the White Zinfandel category. Even though they tend not to be knowledgeable about wine, they tend to resist outside influences such as recommendations, or reviews and ratings.

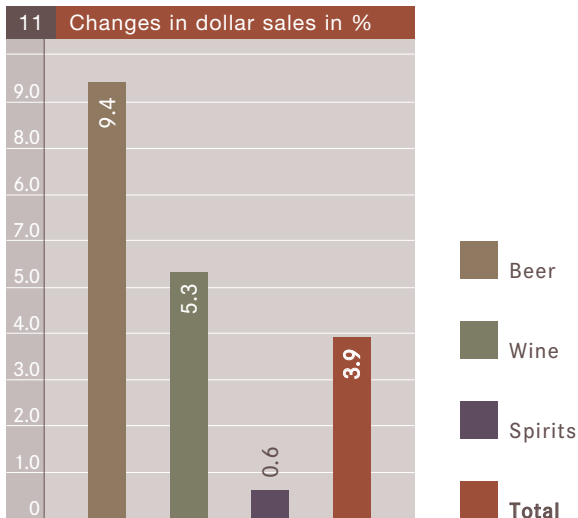


Table 11 shows changes in dollar sales in 2006 compared to 2005.

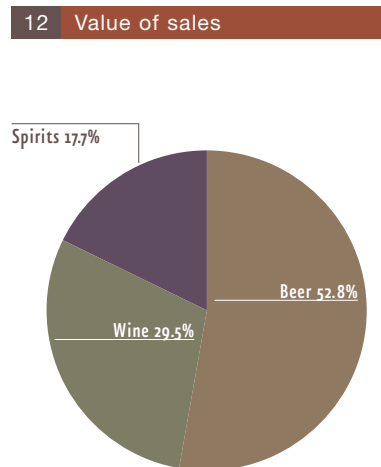


Table 12 shows dollar share of total alcoholic beverage category in 2005.

SOURCE: IRI, 2006

However, the largest and last group may be the most important of all. With nearly one-quarter of all respondents falling into the 'Overwhelmed' category, the wine industry's mission is clear. Seventy percent of them are female, with almost half of them having earned college degrees. Yet they feel as if the process involved in selecting a wine to be cumbersome and confusing. They only consume 1.7 glasses of wine a week, but they are open to suggestion. The dizzying array of appellations and varieties complicates the matter, as does the mystery, to them, of matching food and wine. The focus then becomes on how best to reach out to this group, such as easy-to-follow advice on the retail shelf, giving clues as to what foods will pair well with a particular wine, or competent waitstaff training, so that restaurant personnel can make suggestions that would meet minimum or no resistance. The introduction of wine lists, broken into categories, such as 'light and fruity whites' or 'full-bodied reds', can also create a sense of comfort for this group, while still appealing to the 'Enthusiast' and 'Image Seeker' sectors.

Many people have commented that the 'Golden Age' of American wine is the present, with the outlook for the future quite bright and positive. Attention to detail in the vineyard, with more careful matching of varieties to location and environment, as well as innovations and better tools in the winery, have led to a quantum leap in wine quality. With the first half of the equation in place, it's now the responsibility of the distribution chain to provide the tools, from marketing to public relations to education, to get wine into the hands, habits and palates of consumers. While some analysts believe that this will not happen until the remnants of Prohibition are removed and chains allowed to operate nationally, as they are in mature markets in Europe, other are more sanguine. The unprecedented supply of high-quality wine has given the consumer, and the retailer who supplies them, a windfall of excellent products and stories to tell about them. ■

ON PROHIBITION

The movement towards Prohibition began in the mid-19th century, led by various strict religious groups. Many of these 'temperance' groups attempted to convince the lawmakers that the only way to prevent drunkenness was to control the consumption of alcohol. While their movement began by advocating the temperate use of alcohol, it began to shed its moderate viewpoint in favor of the belief that no one should be permitted to drink alcohol at all.

Prohibition of alcohol by law became a major issue in nearly every political campaign. After the American Civil War, Kansas became the first state to outlaw alcoholic beverages in 1881. Anti-German sentiment accelerated this process during the First World War. The ratification of the Eighteenth Amendment to the United States Constitution, on January 16, 1920, introduced a nationwide ban on the production and sale of alcohol. It took nearly 14 years, until the ratification of the Twenty-first Amendment, on December 5, 1933.

However, the Twenty-first Amendment, which repealed Prohibition, has been interpreted to give the states the right to legislate, restrict, or ban the distribution of alcohol. This has led to a patchwork of laws, with each state establishing its own regulatory body to enforce them. This has even been extended to the local level, where alcohol may be legally sold in some but not all towns or counties within a particular state.

Wineries that had been thriving for generations until 1920 either shut their doors, sold their grapes to home winemakers, made what small amount of wine they were allowed to make for religious use, or kept some inventory without the knowledge of the authorities. This led to a slow rebirth of the domestic wine industry, which, for the most part, focused on sweet and fortified wines. It took more than three decades for dry wines to prevail in the market. ■

13 Top 10 wine brands off-trade			
Rank	Brand	Sales ¹⁾	Origin
1	Yellow Tail	182,408	AUSTRALIA
2	Franzia	160,136	CALIFORNIA
3	Sutter Home	153,455	CALIFORNIA
4	Woodbridge	140,152	CALIFORNIA
5	K-J Vintners Reserve	135,182	CALIFORNIA
6	Beringer	107,200	CALIFORNIA
7	Carlo Rossi	106,717	CALIFORNIA
8	Livingston Cellars	103,878	CALIFORNIA
9	EJ Gallo Twin Valley	85,362	CALIFORNIA
10	Almaden	81,265	CALIFORNIA

Table 13: Although America has become an enormous importer of wine, brands from California still control the volume. Yellow Tail, that only first came onto the market in 2001, is the notable exception.

¹⁾ in '000 US\$

14 Top 10 wine brands on-trade				
Rank	Brand	Origin	Owner or Importer	sales ¹⁾
1	Beringer Vineyards	USA	Foster's Wine Estates America	1,520
2	Franzia Winetaps	USA	The Wine Group	1,400
3	Kendall-Jackson	USA	Kendall-Jackson Wine Estates	1,155
4	Yellow Tail	Australia	W.J. Deutsch & Sons, Ltd.	1,125
5	Ingleneek	USA	Centerra Wine Co. (Constellation)	1,100
6	Copperidge	USA	E. & J. Gallo Winery	1,090
7	Sutter Home	USA	Trincherio Family Estates	1,000
8	Woodbridge	USA	Centerra Wine Co. (Constellation)	865
9	Cavit	Italy	Palm Bay Imports	700
10	Foxhorn Vineyards	USA	The Wine Group	460

Table 14: Although the distinction between on- and off-trade sales is not so profound as in other markets, some brands have focused on restaurant exposure. Given the rise in the number of Italian establishments, it is not surprising that one Italian brand is on these charts.

¹⁾ On-trade sales in 2005 in '000 of 9-litre-cases.