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Wine Business Strategies for a Global Industry

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Interview Questions for the CEO Survey

1. Has the current economic downturn affected your business and if so, how?
2. Has distributor and/or winery consolidation affected your organization?
3. "Going green"-what are you doing to address it and are you telling the consumer about it?
4. Are you concerned about long-term domestic grape supply?
5. What will we be talking about in 5-10 years that we're not discussing now-what's on the horizon?

Interview Excerpts - Has the current economic downturn affected your business and if so, how?

- I think what has affected us the most revolves around economic conditions-the price of oil. That affects our development costs and production costs and everything from gas and diesel to fertilizer to sulfur and pest control, rodent control, all that. The economy has definitely had an impact on us and I think it's not going to turn around any time soon.

Interview Excerpts - How has the economic downturn affected your business?

- Consumers are trading their dining out dollars for gasoline dollars.
- With gas prices going up, dining out is one of the first areas of discretionary spending people cut back on.
- At the higher end of the spectrum we're seeing softening in the more exclusive restaurants, the very high end. I think that is related to expense account money beginning to dry up.

Interview Excerpts - How has the economic downturn affected your business?

- There is some trading down at retail though we still see people buying premium on-premise. We definitely see the impact on dining, especially in the casual sector like Applebee's or Friday's, where the average American is going out with their family. The commodity prices -gas and everything else- have really taken a bite out of that.
- I think if you walked into a grocery store what you would see on the floor is wine priced at \$9.99, \$10.99 or \$16.99. I think retailers, at least in the last 6 to 8 months or so, have been putting their display towards cheaper-priced wines.

Interview Excerpts - How has the current economic downturn affected your business?

- The retailers and distributors have cut back on inventory, they're being much more cautious. I think it's taken 30 days inventory out of the system.
- If we thought that distributors managed inventory before, they are micromanaging inventory now. People are feeling that they should be scared even if their business looks OK. They're being more cautious so it's having an impact-our distributors thought the retailers were pushing back on them and therefore they're pushing back on their suppliers.

Interview Excerpts - How has the economic downturn affected your business?

- We continue to see "premiumization" trends that have been true for the last three or four years, and we're seeing channel expansion- more and more retailers are getting into wine in a material way, all of which is helping sustain the growth trend.
- From our perspective the wine industry is out-performing the economy, and we've gone back and looked at the last recessions and we've always outperformed the economy as a whole. The off-premise business will also outperform the on-premise business going back historically.

Conclusions

The cost of inputs (gas, electricity, supplies, transportation) has risen significantly and is affecting business costs as well as revenues, as consumers spend discretionary income on gas and food instead of wine and fine dining. Most have seen the consumer trading down in price point at both on- and off-premise venues, while on-premise sales, especially at the "casual dining" and "very high end dining" levels are suffering. Though some are pessimistic, a majority of executives believe the wine industry will survive the current downturn, with off-premise sales, \$10-\$14 wines and the Millennial generation's love of wine contributing to its strength.