

2011 Regional Wine Grape Marketing and Price Outlook

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Introduction

Wine grape producers in the Southeast benefited from a rapid increase in the number of wineries in the region during the 1990s and early 2000s. The steady winery growth indicates continued expansion and demand for winegrapes. This survey was conducted in early 2011 to better understand how business practices are developing among wineries in Kentucky and six contiguous states – Ohio, Indiana, Illinois, Tennessee, Virginia, and Missouri.

Table 1. Number of Wineries in the MidSouth and MidAtlantic States 1993-2011

State	1993	2003	2006	2011
KY	0	4	31	57
TN	7	15	21	37
AR	2	4	4	7
MO	10	22	56	111
IL	7	23	63	101
OH	7	26	76	124
VA	6	25	107	174
WV	1	2	4	14
PA	16	31	104	124
MD	5	5	12	41
NC	3	16	54	97
IN	5	17	30	57
Total	69	190	562	944

Source: 2006 Survey, State Departments of Agriculture and Wine Councils; Catchwine.com (2011)

This survey of wineries is the third in a series we have completed since 2003. Like past surveys, these results indicate that wine production in this region continues to increase. We explored expansion intentions. Of the wineries surveyed, 64% indicated that they would expand their winemaking capacity in 2012 with 42% indicating a greater than 5% expansion. However, the number of wineries planning capital expansion projects for 2011 was at 40%. This is much smaller than the 62% of respondents that indicated capital expansion in a similar survey in 2006, probably reflecting changes in the macroeconomy during the last five years.

Table 2. Expansion Intentions by Winery Size

Winemaking Capacity Expansion Intentions by Size 166 responding					Capital Improvements Intentions by Size 158 responding				
	Small	Percent	Large	Percent		Small	Percent	Large	Percent
None	40	22.3	19	10.6	No	69	43.7	28	17.7
Minor (<5%)	26	14.5	9	5.0					
Major (>5%)	51	28.5	21	28.5	Yes	42	26.6	21	13.3

Smaller wineries are those producing less than 3,000 cases per year. Additional wineries responded without indicating size of production.

The increase in wine production and capacity has stimulated interest in winegrape production in Kentucky and contiguous states during the last 15 years. Past survey reports have cautioned that significant grape plantings in the Midwest may create a market glut for some varieties. Variety and planting coordination becomes particularly challenging with high value perennial crops being developed in a rapidly changing market.

A continuous challenge for grape producers is finding grape price information. This survey asked wineries to report prices paid for grapes in 2010, as well as indicate business and production plans for 2011. The survey was mailed to 590 wineries in Illinois, Indiana, Kentucky, Missouri, Ohio, Tennessee and Virginia during January and February of 2011.

Winery Size

Wineries in this region are generally smaller when compared to the national scale. Winery size influences many of the business strategies related to integration and marketing. Wineries were grouped into approximately three size categories. Of the 165 wineries indicating the number of cases produced in 2010, 56 wineries produced less than 1,000 cases. There were 59 wineries producing between 1,000 and 2,999 cases. There were 50 wineries producing 3,000 or more cases.

Grape Purchasing and Sales

Nearly three-quarters (71%) of wineries indicated they had purchased grapes for winemaking in 2010. The percent of growers responding that they purchased 100% of their grapes from in-state growers (75 of 124, 60%) is higher than in previous surveys. It was noted that 52 of 115 small wineries responding to this question (<3000 cases) said they purchased 100% of grapes from in-state sources, while 20 of 50 large wineries said they purchased 100% of grapes from in-state sources. This range is consistent with results from 2006.

Wineries appear to be reaching for grapes across a wider geographic area. Purchases of grapes from in-state sources have declined as a percentage in comparison to past surveys. There are 93 wineries reporting 50% or more of grape purchases made from in-state sources. This is just over half of the 183 wineries responding. This supports the trend observed in past surveys, in 2003 and 2006, when 74% of growers were purchasing 50% or more of grapes from in-state sources but were expected to decrease purchases of in-state grapes.

Wineries are also engaging in the sale of grapes to other vintners. About one-fourth of wineries sold grapes to others; small and large wineries were equally as likely to grow grapes for sale to other wineries. Small wineries selling grapes were more likely to sell a larger percentage of their grape production to

other wineries. Among wineries selling grapes, 6.5% of large wineries sold 10% or more to other wineries while 13.7% of small wineries sold 10% or more to other wineries.

Newer wineries responding to this survey are much more likely to use all their grapes in their own winemaking. There were 48 of the 57 wineries under 5 years old (84%) growing 100% of their own grapes. Among the 108 wineries five or more years old, 62% said they used all their grapes in their own winemaking. Older wineries are apparently selling their excess capacity.

Table 3. Winery and Grower Business Relations

Business Function	Number of Wineries Responding		
	Never	Sometimes	Often
Share viticultural expertise	17	57	68
Internet or e-mail exchange	15	58	66
Share retail demand information	29	62	44
Formal discussions about wine industry trends	25	74	37
Assist with varietal selection	49	56	31
Assist with site selection	72	46	15
Assist with operating loans	123	5	2
Assist with financing long term capital improvements	120	8	2

Wineries appeared more likely to relate with grape growers through various forms of information exchange, rather than financial participation. Almost no wineries reported assisting with operating loans or long term capital improvements. Wineries are much less likely to assist growers with site selection than with varietal selection. However, sharing of information and expertise—including retail demand information and discussions about wine industry trends—are more likely to occur.

Table 4. Winery Marketing Approaches

Marketing Functions	Number of Wineries Responding		
	Never	Sometimes	Often
Tasting Room	6	14	153
On-premise retail sales	5	16	148
Wholesale	22	72	73
Wine Trails (or other means of cooperative tourism)	31	62	73
Off-premise retail sales	32	69	52
Enter wines in regional/national tasting contests	28	95	39
Sponsored dinner functions	34	87	35
Direct mailing promotions	80	47	29

Nearly all wineries use a tasting room or on-premise retail sales. Responses to this survey suggest alternative marketing practices for off-premise selling may be more common than in past years. Specifically, there is an increased incidence of “often” for wholesale sales relative to past surveys. This indicates wineries in this region are widening the scope of their marketing efforts beyond more traditional direct marketing and retail sales.

Grape Price Report

While wineries expect most grape prices to remain steady at 2010 levels during the 2011 season, prices for several varieties were expected to at least “increase some” by more than 20% of wineries responding. These varieties included Concord, Norton/Cynthiana, Vignoles, Cabernet Franc and Merlot.

In addition to the varieties reported in the table, the survey gathered information on prices for many other varieties. Common price ranges for varieties reported purchased by 5-15 wineries included:

Petit Manseng \$1800-\$2200
 Petit Verdot \$1500-\$2200
 Pinot Noir \$1400-\$2100
 Riesling \$850-\$2000

Table 5. Grape Prices Paid in 2010

	Number Responding	Min. Price	Max. Price	Median Price	Average Price	Per Ton
American						
Concord	26	275	1100	575	577	300-750
Niagara	17	225	1100	550	594	340-800
Norton or Cynthiana	37	300	1500	1000	1001	650-1200
French Hybrid						
Cayuga White	24	450	1300	820	838	600-1000
Chambourcin	63	650	1700	1000	1011	700-1300
Chardonel	24	600	1300	1000	952	600-1300
Foch	18	400	1300	1000	911	900-1200
Traminette	46	690	1500	1000	1014	800-1300
Seyval	27	500	1400	900	906	700-1100
Vidal Blanc	61	600	1400	900	910	700-1200
Vignoles	21	700	1600	1200	1120	950-1300
Vinifera						
Cabernet Franc	63	700	2500	1500	1536	1100-2100
Cabernet Sauvignon	52	700	3200	1600	1617	1000-2000
Chardonnay	42	850	3000	1500	1534	1200-2000
Merlot	25	800	1900	1600	1527	1200-1800
Shiraz	17	850	3500	1800	1873	1200-2400

Price Ranges by State

All states, except Missouri, report wide price ranges for vinifera grapes. The range is less for American and French Hybrid varieties. These varieties tend to be clustered nearer the 1000/ton mark. The range for vinifera grapes expands considerably. The overall average prices of 1500-1875/ton for the three vinifera varieties can help to interpret the wide range reported. Prices for the major varieties are reported in Table 6.

Table 6. Price Ranges by State

	IN/IL	KY/TN	Ohio	Missouri	Virginia
Norton/Cynthiana	1000-1200	300-1500	1000*	650-1350	1000-1300
Chambourcin	850-1200	1200-1300	700-1000	900-1100	850-1300
Traminette	950-1200	700-1500	800-1000	800-1100	850-1400
Vidal Blanc	850-1100	700-1300	600-1000	700-900	750-1400
Cabernet Franc	750-2500	975-2400	1200-2100	1500*	850-2000
Cabernet Sauvignon	1000-3000	1125-2400	1200-2100	1000-1500	1200-3200
Chardonnay	900-3000	1050-2400	1200-1750	1200*	850-2000

*only one price reported

Grape Variety Utilization and Purchasing Preferences

Some summary observations can be made regarding use and demand within the region across these varieties.

American Varieties

- Most likely to use Concord and contract; least likely to grow Concord
- Most likely to grow Norton/Cynthiana in own vineyard (few spot purchases)

French Hybrids

- Much less likely for purchase on spot market
- Foch is most common grown in own vineyard and least likely to contract
- Similar demand for all varieties except Foch for contracting
- Much less likely to be purchased on spot market than Concord and Niagara

Vinifera

- Cabernet Franc most likely to be grown in own vineyard, followed by Chardonnay and Merlot
- Relatively higher level of contracting; contracts most likely for Cabernet Sauvignon and Shiraz
- Spot market purchases most likely for Shiraz

Small wineries grew, on average, 64% of the grapes used in their winemaking while large wineries grew 45%. Large wineries are more likely to contract with other growers, contracting on average 41.5% of

total grapes used compared to 29% among small wineries. Large wineries are also purchasing more grapes, on average, on the spot market.

Table 7. Average Percent of Total Grapes Used For Winemaking, by Winery Size

	% Grown in own vineyards	% contracted with other growers	% purchased on spot market
Small (<3000 cases)	64.1	29.0	6.2
Large (3000 or more cases)	45.4	41.5	11.9

Table 8. Contracting by Varieties

	Average % of wine made	Average % Grown in own vineyard	Average % contracted	Average % spot market	
Concord	22.4	33.0	42.9	25.9	
Niagara	15.9	39.1	36.6	28.1	
Norton/Cynthiana	16.9	56.2	35.4	8.0	
Cayuga White	11.6	45.5	46.5	11.9	
Chambourcin	16.2	50.6	43.4	6.9	
Chardonel	11.0	50.5	36.7	12.1	
Foch	13.8	65.4	22.9	13.7	
Traminette	10.3	51.0	45.6	6.1	
Seyval	11.6	47.7	40.7	14.9	
Vidal Blanc	15.8	53.2	37.8	9.8	
Vignoles	11.3	53.3	37.5	9.2	
Cabernet Franc	16.5	57.7	37.3	8.7	
Cabernet Sauvignon	10.2	34.9	54.4	17.1	
Chardonnay	14.9	49.4	45.5	8.0	
Shiraz	10.5	26.4	49.0	30.6	
Merlot	19.3	46.2	44.3	11.9	

Conclusions

Wineries in the MidAtlantic and MidSouth are facing dynamic markets. Growth in winery numbers has continued in recent years, although the pace of growth in winemaking capacity has slowed a little. Wineries are looking for grapes across a wider area and they are looking more to contracting and the spot market – especially larger firms. Grape prices have remained firm and are expected to at least hold steady for the 2011 market season for most varieties; but, as contracting becomes more prevalent, increases in incentives for quality may be expected.