California Report

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Ciatti Global Wine & Grape Brokers
201 Alameda del Prado, Suite 101
Novato, CA 94949
Phone (415) 458-5150
Our world has changed in so many ways in just four weeks, as we all address the Coronavirus (COVID-19) challenge that has affected everyone throughout the world. We hope all our friends, clients, business associates and their families are safe – we are thinking of each and every one of you during this time. It is difficult discussing the wine market given that it can seem insignificant compared to all that is going on around us. But as we work through the challenge at hand, we feel the need to develop a new sense of normalcy – so with that intent we wish to share with you what we are currently seeing in the marketplace. We are working and available should you have any questions or needs, and we are continuing to pick up and deliver samples within the context of the current environment.

Nielsen numbers show that wine sales in the US off-premise channel were up 66% in the week ending March 21 and 27% in the week ending March 28 as consumers stocked up on groceries in anticipation of Shelter In Place (SIP) orders rolling out across much of the country. As a consequence, activity on California’s bulk wine market has ramped up over the past month, with a number of buyers that have been out of the market coming back in to look for supply.

There will be winners and losers in the marketplace. Those who supply brands that possess good distribution across the country’s off-premise channel (which remains open), and those who supply brands at the value end of the market and/or retailers’ private label brands will be big beneficiaries. Those that mainly supply the on-premise channel (currently shutdown) will be suffering. We do not yet know how the market will develop over the coming weeks and months but if things continue as they are there is likely to a notable bifurcation of the marketplace which will have longer-term ramifications.

With a significant increase in bulk wine activity, we are putting the call out for samples: If you have wine for sale, please contact us so that we can determine how to collect your samples or get them delivered. We have been deploying workarounds to keep the supply line of samples flowing. The world’s still turning, consumers are buying wine, wine is getting bottled and wine is shipping, so get in touch so that we can help you get your samples to where they need to be.

The current situation is yet to greatly impact California’s grape market – though read on to discover where there has been activity – as the immediate need is for wine to resupply the off-premise channel. If the demand for bulk wine seen at the end of March continues over the coming weeks/months, however, it will eventually feed through to the grape market.

Read on for more on the bulk wine and grape markets, as well as an update on how things are going in the vineyards. Don’t hesitate to get in touch with us if you any questions or concerns – and stay safe.

Robert Selby
The Bulk Wine Market

As mentioned in our introduction, the surge in wine sales experienced since mid-March in off-premise retailers, as well as via online wine retailers and wine clubs, has boosted activity on the bulk market, with buyers – including some bigger wineries – who have been sitting things out now actively buying again. Some wineries that have been sellers in the past couple of years have now taken some of their wine off the market to use internally for themselves and some are also hungry for samples. This may be temporary, it may not: long-term market visibility is currently extremely limited.

Here’s a few interesting wine sales statistics that have been reported in the media:

• Nielsen numbers show that off-premise wine sales in the US were up significantly in March as follows: the week to 7 March (+2%), the week to 14 March (+28%), the week to 21 March (+66%) and the week to 28 March (+27%). This suggests a surge mid-month as consumers carried out “pantry-stocking”, with sales falling back by month-end as consumers began working through their purchases.

• Sales of canned wine saw 100% growth in the weeks ended March 14 and March 21.

• Sales of three-liter boxes saw 60% sales growth in the week ended March 14, nearly 140% growth in the week ended March 21, and 80% growth in the week ended 28 March. Sales of five-liter boxes were up more than 60% in the week ended March 21.

• According to Nielsen’s senior vice-president, Danny Brager, the largest wine brands have benefited the most, with the top 10 retail brands increasing their market share by about a percentage point to 24.5% in the week ended March 21: “Everything else is up, but share-wise they’re benefiting even more.” By the week ending March 28, the single biggest share jump from within that top 10 was by Bota Box.

• In the bottled segment, the $11-25/bottle price tier experienced bigger growth that the $8-11 tier, which in turn grew bigger than the sub-$8 tier. All tiers, however, experienced double-digit growth.

• Online wine sales were up 224% in the week ending March 21. This figure does not include sales from wine clubs but does include sales from online wine retailers such as Vivino (+162% in sales) and Drizly (+300%).

• Winc, a direct-to-consumer wine club, saw a 578% increase in new member sign ups during the week ending 21 March, with sales up 49.6%. WineDirect reported that the volume of its non-club shipments increased in the week of March 16-20 by 62% week over week and 176% year over year.

The speed and size of the upswing in activity on the bulk market has, we believe, been accentuated by the market’s sluggishness in the months prior to it (although we had been seeing a pre-existing, modest uptick in activity since January). Buyers had been holding limited inventory in their storage facilities as casegood sales were slow and carryover supply was plentiful. As a result, in response to the sudden upsurge in retail sales, bulk wine buyers have needed to come onto the market to replenish their inventory almost immediately and to cover what they – may – need over

See next page for more.
the next few months. This is particularly true for the large, leading brands with nationwide distribution, but others are also experiencing increased sales in retail.

Much of the activity on the bulk market is what can be described as “hand to mouth” – buyers seeking to cover immediate needs, bottle quickly and get the wine into retail as soon as possible. We have seen some buyers consider the longer term, but to this point most of the market is responding to the increased demand of the past few weeks and is hesitant to take too much risk on the future, at least until there is more information available regarding the potential longevity of this sales upswing and, within that upswing, the trend towards the value end of the market.

The million-dollar question right now is: Have consumers simply been “pantry-stocking” wine (and other groceries) in anticipation of shortages at retailers and potentially further restrictions on movement, or will they really be drinking more wine – while they shelter in place at home – than before for a prolonged period, as the Coronavirus situation continues over the coming weeks and potentially months?

In addition, will the trend toward the more value-end wines that we have seen be prolonged, as in recessionary times, or is it a symptom of short-term stockpiling? The signs are that the surge in off-premise wine sales has mostly come at the value/commercial/private label end, with wine in alternative packaging proving particularly popular as outlined above.

Of course, while off-premise/online/wine club sales have boomed, we have seen on-premise and tasting room purchases contract dramatically as consumers stay at home and/or many of these businesses are forced to close. Such wine businesses now must rely on delivery, pick-up, and online to keep going. In addition, some are investigating how to sell into the off-premise channel.

What about pricing? It continues to be lower than we have seen historically, but there have been a few areas where prices have started to show some firming. To reiterate – firming, not escalating, as there is a ceiling as to what buyers can pay in the current market. Even premium wines must for the moment find their route to market via the off-premise multiple, a channel in which margin is limited. There has been particular firming-up on Russian River Valley Pinot Noir and Napa Valley Cabernet thanks to the surge in consumer demand coming on top of good, pre-existing transaction velocity on those wines. We have seen more Cabernet buyers in the market creating solid demand over the last few weeks. California’s overall inventory, although still plentiful, feels a little tighter than it was a few weeks ago.

Another question mark is over imports of wine into the US. If supply of these imports is being complicated by lockdowns in various parts of the world, including in all major wine-producing countries, could that open up opportunities for domestic suppliers to fill the breach? We shall see.

In the meantime, we appreciate that organizing samples may not be top of everyone’s minds at the moment but – as outlined on page one – consumers are buying wine, wine is getting bottled and wine is shipping. If you have wine to sell, please get in touch and we can discuss how to get your samples where they need to be.

Finally, we have also seen activity on GNS (grape neutral spirit) and grape alcohol as start-up hand sanitizer companies seek supply. GNS/grape alcohol suppliers have thus raised their prices to meet demand and, with supply getting short, they are prioritizing their traditional customers, leaving the sanitizer start-ups struggling to find supply. With the bulk wine market as active as it now is, wine suppliers are now reluctant to sell at distillery prices where six months ago they may have considered doing so.

The Grape Market

The increased activity on the bulk market did not quickly translate into grape market activity, but in the past few days we have seen a few wineries in the Central Valley contact growers about potentially buying some grapes. Grapes – until this point – have been of secondary importance, with the focus on supplying bulk wine to retailers as soon as possible.

See next page for more.
but could the recent activity in the Valley suggest this is about to change?

The long-term picture on the retail sales side, and thus the need for grapes, is currently very cloudy. The 2020 crop situation will remain unclear until bloom in May and around June when the frost risk will have passed. By then, too, hopefully we’ll also have a better handle on the Coronavirus situation, its impact, and how everyone can interact with each other moving forward. Some big companies which – in the past two years – were putting wine onto the bulk market are now using that wine internally instead, so we expect grape activity must follow at some stage.

If we see a real bifurcation of the wine retail market set in – in which cheaper wine is dominating sales while the higher-end struggle – it could lead to a varying grape sales picture across the state: Demand for value grapes in the Central Valley and in some areas of the Coast, and sluggish activity on the high-end Coastal appellations.

To get your grapes listed, contact Molly at +1 415 630 2416 or molly@ciatti.com.

Vineyard Updates

Sierra Nevada snowpack levels started April at only 66% of the average, but the first few days of the month brought some late rain in some areas, with snowfall in the mountains. This came after a mild February that led to vine development being a little more advanced than normal. This potentially raises the prospect of frost during bloom and set, and there has definitely been more frost pressure this year than in the past few years. However, the growers we have spoken to have not yet seen any frost damage. There have been a number of frosty mornings in which they have had to go out and protect their vines, but it is too early to tell if frost has taken any toll.

In the Central Valley, there has been a little frost in some pockets that experience it every year, but nothing cold enough to be widespread. It has remained dry in the Valley, with growers already running sprinklers and drip systems. Early budbreak occurred, but there have been no frost or mildew issues reported.

Across the state there is understandable hesitancy about carrying out crew work in the vineyards due to social-distancing precautions. Handwork is being limited to reduce exposure between people, and in some vineyards the workers are being spaced out in every other row, with no two workers in one row. Measuring sticks are being deployed to ensure six-foot distancing is maintained.

In those Coastal areas where pre-contracting has become limited, growers are having to carefully assess what vineyard work they can afford to spend their money on: Do they invest money in the hope that their uncontracted grapes will in fact now be needed, or do they limit their investment because they do not have a buyer? Again, and rather unhelpfully, this is something that may only become clear in the next few weeks.

Washington Update

Washington State’s annual grape production report was published in March and showed a 2019 crop of 201,000 tons, down 23% on 2018’s 261,000 tons due to a combination of grapes being left on the vine and a frosty October taking its toll on the late-season varietals. The latter helps explain a 28% decline in the production of leading varietal Cabernet (from 74,400 tons to 53,740) and a 39% decline in Riesling (from 38,300 tons to 23,325). Chardonnay production also slipped, by 19% to 33,540 tons. Growers received an average of $1,315 per ton, up by $102/ton from 2018.