

# Regional Winegrape Marketing and Price Outlook for 2006

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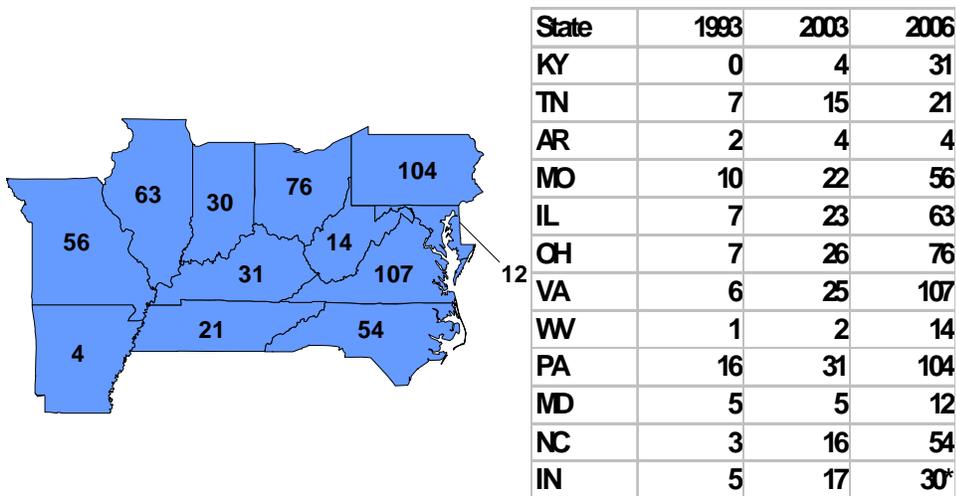
# REGIONAL WINEGRAPE MARKETING AND PRICE OUTLOOK FOR 2006

Tim Woods & Jim Mansfield

## Introduction

There has been a virtual explosion in the number of winery operations in the South East. Statistics from State Departments of Agriculture show a seven hundred and twenty-eight percent increase in wineries in the last thirteen years (Table 1). More wineries in operation mean more demand for wine grapes. This should be good news for wine grape producers in the South East. In order to better understand the business practices of the new and established wineries a survey was conducted in the spring of 2006.

**Number of Wineries 2006** Table 1



\* Source: weekendwinery.com

Source: State Departments of Agriculture

The survey of S.E. wineries, the second conducted by the University of Kentucky New Crop Opportunities Center, indicates that wine production capacity in these states will continue to increase, with 62% of the respondents indicating some degree of capital improvements planned for 2006 and 59% expecting to increase their wine production over 2005. This increase is uniformly noted among the wineries surveyed, regardless of location or winery size. The largest number of wineries reported an expectation to make major capital improvements to expand capacity.

**Table 2 Production Outlook**

Capital/Capacity Improvements					2006 Production Changes				
Small wineries		Larger wineries			Small wineries		Larger wineries		
	number	percent	number	percent		number	percent	number	percent
<b>None planned</b>	21	37.5%	8	36.4%	<b>Decrease</b>	2	3.6%	2	9.1%
<b>Minor (&lt;5%)</b>	13	23.2%	5	22.7%	<b>Same</b>	17	30.4%	7	31.8%
<b>Major (&gt;5%)</b>	22	39.3%	9	40.9%	<b>Increase</b>	37	66.1%	13	59.1%

Note: Smaller wineries were those producing less than 3000 cases. Seven additional wineries responded but did not report volume.

While this increase in capacity and production could create market opportunities for grape growers in the region, the survey report cautions that significant grape plantings in the Midwest could create a future market glut for some wine grape varieties. Wine grape acreage in Kentucky has expanded significantly since 2000 and is currently estimated at 505 acres. Approximately 410 acres of wine grapes are expected to be harvested in Kentucky in 2006. .

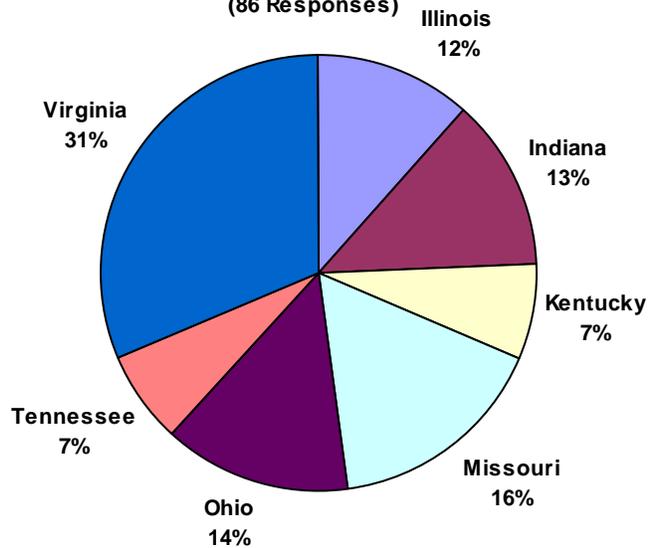
One of the challenges grape producers face is finding price information for their crop. To determine regional prices for wine grapes, a survey was mailed to 331 wineries in Illinois, Indiana, Kentucky, Missouri, Ohio, Tennessee, and Virginia during the summer of 2006. The survey included questions concerning business practices, production plans and prices paid for wine grapes in 2005.

**Survey Procedure & Demographics**

Winery addresses were obtained from state winery association lists and surveys were mailed to 331 wineries in June, 2006. A second mailing followed three weeks later in early July. Eighty-six usable surveys were returned for a 26% response rate. The proportion of survey respondents by state are shown in figure 1.

**Winery Size:** The size of the wineries surveyed was well distributed but with slightly more mid-size wineries responding. Twenty-seven percent of the wineries surveyed produced less than 1,000 cases of wine in 2005 (21), forty-four percent produced between 1,000-2,999 cases of wine (35), and twenty-nine percent of the wineries produced 3,000 or more cases of wine (30).

**Figure 1. Survey Respondents, by State (86 Responses)**



**Grape Purchasing:** Almost three-quarters (71%) of respondents indicated that they purchased wine grapes in 2005. Less than half (44%) of the wineries said that they made 100% of their grape purchases from in-state growers. This is a somewhat lower result than found in the 2003 survey where over half (51%) of the wineries purchased 100% in-state grapes. However both the 2003 and 2006 surveys found 74% of the wineries purchased 50% or more of their grapes from in-state growers. The conclusion indicates wineries are purchasing more grapes from out of state sources while still purchasing the majority of their grapes from in-state sources. This may be an indication the wine grape market is getting more competitive both in terms of price and availability.

**Winery and Grower Business Relations**

Winery owners tend to work closely with their growers, particularly in sharing viticulture expertise and assisting with varietal selection. General sharing of industry information, marketing and production information is also fairly common. There is less direct involvement in the capital and business aspects of the grower’s business. Such close interactions are characteristic of the wine industry, reflecting the high level of investment, the long term nature of the business, and the sensitivity to quality by all involved. A summary of winery and grower business interaction is summarized in Table 3.

**Table 3<sup>1</sup>. Winery and Grower Business Interactions**

<b>Business Activity</b>	<b>Not Practical</b>	<b>Sometimes</b>	<b>Often</b>
<b>Share viticulture expertise</b>	<b>21.1%</b>	<b>31.0%</b>	<b>47.9%</b>
<b>Assist with varietal selection</b>	<b>37.1%</b>	<b>31.4%</b>	<b>31.4%</b>
<b>Internet or e-mail exchange</b>	<b>25.7%</b>	<b>47.1%</b>	<b>27.1%</b>
<b>Formal discussions about wine industry trends</b>	<b>34.3%</b>	<b>42.9%</b>	<b>22.9%</b>
<b>Share retail demand information</b>	<b>42.3%</b>	<b>34.8%</b>	<b>21.7%</b>
<b>Assist with site selection</b>	<b>54.9%</b>	<b>33.8%</b>	<b>11.3%</b>
<b>Assist with operating loans</b>	<b>90.1%</b>	<b>5.6%</b>	<b>4.2%</b>
<b>Assist with financing long term capital improvements</b>	<b>91.4%</b>	<b>5.7%</b>	<b>2.9%</b>

### **Winery Marketing Approaches**

Most of the wineries in the region use a tasting room and have on-premise retail sales. While the list of marketing approaches is by no means a comprehensive list of marketing strategies, the responses to alternative strategies suggests that wholesaling and off-premise selling is much less common (Table 4). Most of the marketing focus is on direct sales. Few of the wineries are of adequate size to be significantly focused on wholesale markets or extensive distribution. Still, based on the widespread indication that they will be expanding facilities, capacity, and production, the wineries generally seem to be enjoying profitable and growing opportunities in the markets they are targeting.

**Table 4. Marketing Approaches in Wineries**

<b>Marketing Activity</b>	<b>Not Practical</b>	<b>Sometimes</b>	<b>Often</b>
<b>Tasting room</b>	<b>7.3%</b>	<b>6.1%</b>	<b>86.6%</b>
<b>On-premise retail</b>	<b>4.9%</b>	<b>15.9%</b>	<b>79.3%</b>
<b>Wholesale</b>	<b>15.9%</b>	<b>51.2%</b>	<b>32.9%</b>
<b>Enter wines in regional/national wine tasting contests</b>	<b>17.1%</b>	<b>52.4%</b>	<b>30.5%</b>
<b>Direct mail promotions</b>	<b>37.3%</b>	<b>34.7%</b>	<b>28.0%</b>
<b>Off-premise retail</b>	<b>25.6%</b>	<b>47.4%</b>	<b>26.9%</b>
<b>Sponsored dinner functions</b>	<b>27.2%</b>	<b>49.4%</b>	<b>23.5%</b>

### **Price Report**

Grape price ranges, as well as median and average prices paid, are reported in Table 5. The most frequent price range reported for each variety is also noted where applicable. Wineries surveyed expect most grape prices to remain steady at 2005 price levels during the 2006 season.

Price increases for Cabernet Sauvignon, Merlot, and Riesling were expected by more than 20% of wineries purchasing these varieties. The most common varieties purchased by the wineries responding to this survey were Chambourcin and Vidal Blanc. There was a strong overall demand reported for vinifera varieties in all states except Missouri.

<sup>1</sup> Winery operators were asked to indicate “How do you relate to your primary grower suppliers? Each function could involve a reply of “not practical”, “sometimes”, or “often”.

**Table 5. Price Paid Per Ton in 2005** (By variety, 86 wineries surveyed in IL, IN, KY, OH, MO, TN, VA)

	Number Responding	Min. Price	Max. Price	Median Price	Average Price	Most Frequent Range Reported Per Pound	Range Reported Per Ton
<i>American</i>							
Concord	23	215	800	<b>425</b>	<b>462</b>	\$0.15-\$0.30	\$300-\$600
Niagara	14	235	1000	<b>480</b>	<b>523</b>	\$0.18-\$0.40	\$350-\$800
Norton/Cynthiana	19	300	1500	<b>1000</b>	<b>1024</b>	\$0.45-\$0.50	\$900-\$1000
<i>Hybrid</i>							
Cayuga White	20	450	1000	<b>650</b>	<b>709</b>	\$0.30-\$0.45	\$600-\$900
Chambourcin	31	450	1300	<b>900</b>	<b>898</b>	\$0.40-\$0.50	\$800-\$1000
Chardonel	19	600	1200	<b>925</b>	<b>901</b>	\$0.40-\$0.50	\$800-\$1000
Traminette	21	700	1300	<b>1000</b>	<b>1040</b>	\$0.45-\$0.60	\$900-\$1200
Seyval	18	450	1200	<b>850</b>	<b>808</b>	\$0.30-\$0.45	\$600-\$900
Vidal blanc	34	475	1200	<b>900</b>	<b>866</b>	\$0.30-\$0.50	\$600-\$1000
Vignoles	14	610	1500	<b>1025</b>	<b>1027</b>	\$0.45-\$0.60	\$900-\$1200
<i>Vinifera</i>							
Cabernet Franc	28	875	2500	<b>1475</b>	<b>1509</b>	\$0.65-\$0.90	\$1300-\$1800
Cabernet Sauvignon	29	850	2500	<b>1500</b>	<b>1541</b>	\$0.65-\$0.90	\$1300-\$1800
Chardonnay	30	780	2200	<b>1425</b>	<b>1439</b>	\$0.65-\$0.90	\$1300-\$1800
<i>Prices for Varieties Reported by 10 or Fewer Wineries (Price range per ton and comments)</i>							
Catawba		\$400 - \$700; most \$500-\$600					
Merlot		\$1000-\$2100; no price trend identified, median = \$1500					
Riesling		\$1100-\$1700; no price trend identified, median = \$1300					
Viognier		\$1400-\$2000, most \$1800					
Foch		\$375-\$1200, most \$575 - \$750					

**Prices By State**

The price ranges for varieties reported by 14 or more wineries are listed by state in Table 6. These varieties are also those most frequently reported as being purchased in Kentucky (except for Cabernet Franc with only 1 reported KY purchase). The prices reported by the wineries in this survey suggest that Kentucky and Tennessee wine grape prices are within the range of wine grape prices in the surrounding states. If any thing Kentucky / TN prices are on the high end of the price ranges. Kentucky and Tennessee are grouped together because there climate and terrain are similar, and there are fewer wineries in these states.

**Table 6. Price Range Paid (\$/Ton) by State For 7 Most Frequently Reported Wine Grape Varieties in 2005** (By variety, 86 wineries surveyed in IL, IN, KY, OH, MO, TN, VA)

	Illinois	Indiana	Kentucky/ Tennessee	Missouri	Ohio	Virginia
Concord	290-600	300-800	300-750	360-455	215-650	600-700
Chambourcin	800-1200	650-950	950-1250	600-1050	450-900	700-1300
Cayuga White	600-900	500-850	500-1000	600-1000	450-690	---
Vidal Blanc	800-900	550-900	719-1000	700-1000	475-720	750-1200
Cabernet Franc	1300	1700	1400-1900	1400	875-1890	900-2500
Cabernet Sauvignon	900-950	850-2100	1200-2000	1400	1400-2000	900-2500
Chardonnay	1000-1800	1000-2000	1200-1800	2000	780-1800	1000-2200
Chardonel	600-1200	800-1000	1000	800-1000	690	---

**In-State vs Out of State Purchases:** Unlike the 2004 survey where no significant differences were found between purchasers who bought 50% or more of their grapes from in-state sources versus wineries that purchased less than 50% of their grapes in-state, the 2006 survey found significant differences in some varieties. The 58 wineries that purchased 50% or more of their grapes in-state on average paid 62% more for Concord and 90% more for Niagara than the 19 wineries that purchased 50% or more of their grapes out-of-state. One potential explanation for these differences is the smaller wineries are willing to pay more for local in-state grapes due to constraints of smaller amounts needed and therefore less bargaining power and higher transportation costs. Another explanation is this could indicate American wine grape varieties being available much cheaper from large out-of state production areas such as the grape growing regions around the Great Lakes.

## **Conclusion**

This price survey supplies grape growers and buyers in the region with a sample of common prices paid for wine grapes. The results indicate that wine grape prices will hold steady from 2005 levels while wine production in the states surveyed (IL, IN, KY, MO, OH, TN, VA) will increase in 2006. Prices are predicted to remain stable for Kentucky grown wine grapes based on several factors including, a fairly modest in-state acreage in vineyards, a rapid increase in the number of wineries in Kentucky, and this survey's results showing winery expansion plans and evidence that competitive prices are being paid for Kentucky and Tennessee grown grapes.

For further information see: Timothy Woods, "2006 Regional Winegrape Price Survey", Wine East, pp. 26-30 September-October, 2006

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