

# 2011 Regional Winegrape 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<br>166 responding |       |         |       |         | Capital Improvements Intentions by Size<br>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   |
|----------------------|-------------------|------------|------------|--------------|---------------|-----------|
| <b>American</b>      |                   |            |            |              |               |           |
| 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  |
| <b>French Hybrid</b> |                   |            |            |              |               |           |
| 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  |
| <b>Vinifera</b>      |                   |            |            |              |               |           |
| 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.