Winescape

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This issue:

- *Sizes up wine sales for the first half of 2024 and gives an early glimpse into the new grape crop*
- *Reveals the root causes of declining sales in the lucrative direct-to-consumer (DtC) channel*
- *Provides general actions wineries can take to boost their DtC competitiveness*

IN THIS ISSUE

Sales Trends in the Spotlight

A lack of improvement in wine sales indicates more than post-pandemic normalization, while visitors hold the key to correcting the direct-to-consumer slump.

U.S. wine sales continued to contract in the second quarter, and there is little light at the end of the tunnel so far. But it is not getting any darker either. The pace of decline in three-tier sales remains steady, though the luxury segment has seen modest improvement thus far in 2024. On the other hand, the direct-to-consumer (DtC) slump appears to have deepened a bit.

The shift in consumer preferences toward white wines is still evident. Nonetheless, it is important to keep this trend in perspective. Sales of white wines are not actually growing in case terms, and not all white varietals are a part of the trend (meaning Chardonnay).

The U.S. economy has been flashing mixed signals, which suggests that higher interest rates are beginning to have the intended effect. While growth will likely slow in the second half of 2024, we still believe that a soft landing is probable, and we don't expect a pronounced slowdown in consumer spending (**see Page 6**).

The lack of improvement in wine sales suggests that the wine market's funk is not simply post-pandemic normalization. Rather, it is attributable to secular trends that are likely to be with us for some time. My outlook for wine sales remains unchanged. I expect to see some stabilization, but a return to outright growth still seems improbable.

The 2024 grape crop looks to be lighter than last year, though it is still too early to say anything definitive. Weak wine sales and an abundance of bulk wine continue to depress grape demand and prices, and there are likely to be unsold grapes again this year unless the crop is smaller than anticipated (**see Page 7**).

This issue's Trending Topic takes a deep dive into DtC sales trends. The recent slump is mostly attributable to declining tasting room and online revenues. In addition, wine club sizes appear to be shrinking, a major cause for concern given that club members generate the majority of DtC revenue (**see Page 12**).

Declining tasting room sales and, to a lesser extent, club sizes are due to shrinking visitor counts. The causes of declining visitation are varied, but I believe that it will eventually rebound, though probably not to pre-pandemic levels. This, in turn, should boost DtC sales.

Though every winery and region faces a unique situation, I offer general advice on how wineries might enhance their competitive position within the hypercompetitive DtC marketplace.

(Information about the data and sources behind the analysis in this report can be found in the Appendix on **Page 19**).

ABOUT THE AUTHOR

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Chris earned his Ph.D. in economic geography with a minor in agricultural and resource economics from the University of Arizona. His research has been published in a variety of national and international publications, including the Journal of Wine Economics, and he has delivered presentations at wine industry conferences around the globe.

Sideways, With Some Bright Spots

Wine sales should begin to stabilize in the next year, the grape market isn't totally quiet, and an economic soft landing is still doable.

Wine Sales Dashboard: Change in Sales Volume by Channel and Price Segment

For more on the dashboard, see the Appendix on Page 19.

	Year-Over-Year Change	Trend
Retail: Value Segment	↓	—
Retail: Premium Segment	↘	—
Retail: Luxury Segment	↓	↑
Direct-to-Consumer	↓	↓
Export	↑	↑

NO MATERIAL CHANGE, BUT A COUPLE OF POSITIVE NOTES

As we progress into the second half of the year, the U.S. wine market is still mired in a multiyear funk. There was relatively little change in the trajectory of the market overall during the first half: Three-tier and DtC sales volumes continued to decay, though they have held up better in dollar terms.

Three-Tier Channel

In the three-tier channel, my analysis of NIQ data indicates that second-quarter sales in retail outlets fell 5% by volume versus the same period in 2023 and are down 4% year to date (YTD). By value, they fell 4% and 2%, respectively.

Depletions continue to track behind retail sales. They slumped 8% in the second quarter and are down 9% YTD. This suggests that retailers are still destocking. Consequently, wholesale alcoholic beverage inventories have not improved in 2024 (see Chart). Another notable first-half development is that on-premise depletions are now contracting at a slightly faster rate than off-premise depletions.

Sales by Quality

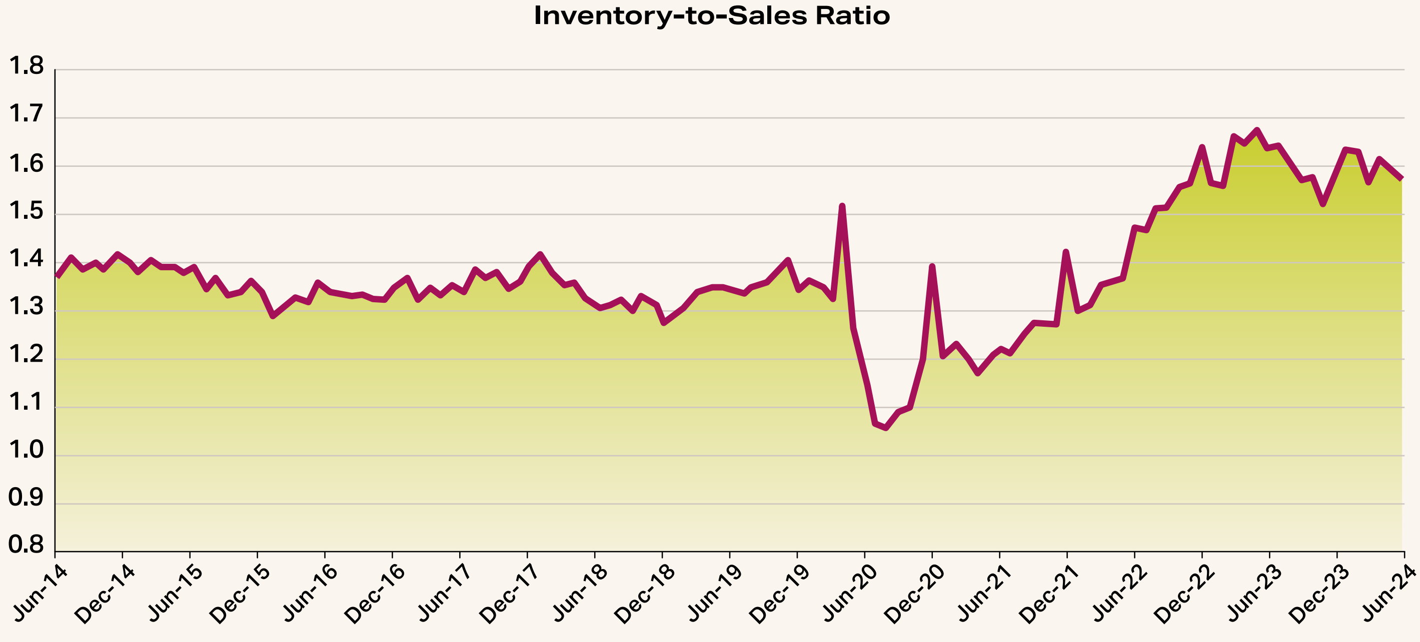
Value segment sales volume continues to diminish at a steady pace. The premium segment is still declining at a slower rate, but there hasn't been any improvement over the past six months. On a positive note, the rate of decline in the luxury segment does appear to be moderating.

Direct-to-Consumer (DtC)

There are no signs of improvement in the DtC channel either. In fact, data from Wines Vines Analytics/Sovos ShipCompliant indicate that the pace of the decline quickened a bit during the first half of the year. DtC shipments fell 11% by volume and 5% by value versus the same period last year. (More on this in the Trending Topic section of this issue.)

Shipments dropped across all regions in the first half of the year. Large and midsize wineries (>50,000 cases)

Chart: **Wholesale Alcoholic Beverage Inventories Remain Elevated**



Sources: U.S. Census Bureau, Terrain

continue to experience the steepest losses, and the middle and upper price tiers ($20 and up) are still holding up better than the lower tiers.

Data from Community Benchmark paint a slightly brighter picture. They indicate that total DtC sales, including carryout and non-wine revenue, fell just 2% in the first half for the 400+ West Coast wineries they track.

Exports have been one of the few bright spots for the U.S. wine industry in 2024.

Exports

Exports have been one of the few bright spots for the U.S. wine industry in 2024. They grew 8% by volume and 5% by value during the first half on a year-over-year basis due mostly to a second-quarter surge. Nonetheless, they are still tracking well below 2022 levels. The improvement has mainly been driven by increasing bulk wine volumes, as bottled exports are still contracting, albeit at a slower pace than last year.

WHITE WINE CONTINUES TO SHINE — BUT ONLY IN RELATION TO RED

White wine sales continue to hold up better than red and rosé sales. This is an important trend, but it is also important to keep it in perspective. White sales volumes are not actually growing; they are just falling at a slower pace. And the differential in performance hasn't been that pronounced.

White wine sales continue to hold up better than red and rosé sales.

My examination of NIQ data indicates that white sales volumes fell 4% during the first half, which is only a positive result in relation to the 7% decline for reds. SipSource data paint a similar picture, though the declines are greater for both categories.

The outperformance is mostly due to solid Sauvignon Blanc sales.

There are a few additional nuances that should be appreciated. Within the white category, the outperformance is mostly due to solid Sauvignon Blanc sales, whose volumes increased slightly during the first half. Pinot Gris sales have also held up reasonably well, but the category's heavy hitter — Chardonnay — has not been invited to the party. First-half Chardonnay sales fell at about the same rate as the market overall.

The shift toward white wines has been more pronounced in the premium segment than in the value and luxury segments. Retail sales volumes of premium-priced white wines look to have held steady in the first half while premium red wine sales fell 5%.

Pinot Gris sales have also held up reasonably well, but the category's heavy hitter — Chardonnay — has not been invited to the party.

Within the red category, Cabernet Sauvignon sales are holding up a bit better than Pinot Noir and red blends. The secondary red varietals, including Merlot, Zinfandel and Syrah, continue to cede market share at a rapid pace.

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Based on shipment data from Wines Vines Analytics/ Sovos ShipCompliant, there doesn't appear to be much difference in the trajectory of red and white wine sales volumes overall. However, white wines have performed better than reds in the higher price tiers ($20 and up), where they constitute less than a quarter of total volume.

Sauvignon Blanc and white blends continue to lead the way, and shipment volumes increased for both during the first half. And like the three-tier dynamic, Chardonnay sales are contracting at the same rate as DtC sales overall. Within the red category, red blend sales have held up better than Cabernet Sauvignon and Pinot Noir.

In the end, I believe the shift toward white wines will have staying power.

In the end, I believe the shift toward white wines will have staying power. They, along with sparkling wines, look to be a good fit with evolving consumer preferences toward lighter, fresher styles and lower alcohol content. Nonetheless, it is important to avoid overreacting to this market signal given that white wine sales are not actually increasing.

THE ECONOMY IS FLASHING MIXED SIGNALS

Second-quarter economic results came in decidedly mixed. GDP growth was stronger than expected and accelerated from a weak first-quarter reading. Consumer spending grew at a solid pace, and inflation continued to abate following a scare earlier in the year.

The mixed metrics are a sign of an economy in transition.

Conversely, employment growth slowed, the unemployment rate ticked up, and consumer sentiment softened.

The mixed metrics are a sign of an economy in transition. High interest rates are starting to have the Federal Reserve's intended dampening effect. But consumers are generally still in good shape and have continued to spend, supported by rising wages and excess pandemic savings, though the latter are dwindling.

The economy is likely to continue to soften during the second half of the year. Indeed, the labor market weakened in July: Job growth slowed, and the unemployment rate rose to 4.3% — still low by historical standards but 80 basis points higher than a year earlier.

Key Economic Indicators

Indicator	Q2 2024	Q1 2024
Change in GDP (real)	2.8%	1.4%
Unemployment Rate	4.1%	3.8%
Change in Consumer Prices	2.8%	3.7%
Change in Consumer Spending (real)	2.3%	1.4%
Consumer Sentiment Index	68.2	77.2
Change in Employment	1.5%	2.0%
Change in Average Weekly Earnings	3.3%	3.5%
Credit Card Delinquency Rate	9.1%	8.9%

Sources: FRED, Terrain

Nonetheless, my Terrain colleagues and I still believe that the soft-landing thesis remains intact.

Nonetheless, my Terrain colleagues and I still believe that the soft-landing thesis remains intact. While economic growth will slow, the economy will avoid a severe slowdown or outright recession.

This is based on our expectation that inflation will continue to gradually abate and that the Fed will begin cutting interest rates in September. Lower interest rates will eventually stimulate the economy and set the stage for a resumption of modest economic growth in 2025.

Under this relatively benign scenario, consumer spending is likely to slow, but we see little danger of the bottom falling out.

Under this relatively benign scenario, consumer spending is likely to slow, but we see little danger of the bottom falling out. Overall, consumers still appear to be on a firm financial footing, though some signs of distress are emerging among those in the lower half of the income distribution. They have borne the brunt of higher inflation and interest rates and have gained less from surging asset values than their higher-income counterparts. Consequently, credit card and auto loan delinquency rates are rising.

On the other hand, consumers with higher incomes and educational attainment, who form the core of the wine consumer base, appear to be well positioned to drive consumer spending going forward.

Weak consumer sentiment is a concern, but it has been low for several years and has yet to dampen consumer spending overall. Consumer sentiment increasingly appears to be the product of higher prices and political dissatisfaction as opposed to actual financial stress.

However, a soft landing is far from a certainty, and there are downside risks.

Given the unprecedented pace at which the Fed raised interest rates, it will need to thread a tight needle as it reverses course. If it cuts too quickly, inflation could be reignited. If it cuts too slowly, the economic slowdown could be more pronounced.

Potential escalation of geopolitical conflict also poses a material risk to the economy. And a sharp reversal in the trajectory of asset prices could have a dampening effect on discretionary spending. The U.S. equity market swooned in early August but has since recovered most of the lost ground. A negative surprise in the economic data could potentially lead to a more severe and longer-lasting correction.

THE OUTLOOK FOR WINE SALES REMAINS DULL

Nothing in the first half of 2024 leads me to change my outlook for wine sales.

The economic backdrop hasn't been that bad, and the economy isn't likely to provide a boost in the near term. And with each passing quarter, it becomes harder to argue that the wine market's malaise is simply post-pandemic normalization. Thus, the slump increasingly appears to be driven by secular trends that are likely to be with us for some time.

That said, I expect to see some stabilization in wine sales over the next year as inflation abates and interest rates come down, though a return to outright growth looks improbable. I also expect the DtC channel to see the most improvement, as there is a stronger case that depressed sales are partly just a post-pandemic hangover.

Most signs suggest that the 2024 grape crop will be considerably smaller than last year.

Wineries should continue to focus on improving their competitive position in the marketplace and carefully monitor the evolving wine market and consumer in order to spot and quickly seize any opportunities that present themselves.

THE GRAPE CROP MAY NOT BE LIGHT ENOUGH

Although harvest has only just begun, most signs suggest that the 2024 grape crop will be considerably smaller than last year. This is attributable to lower yields and, to a lesser extent, a reduction in bearing acreage. Given feeble demand, there may be more fruit than needed again this year unless the crop turns out to be smaller than expected.

It is too early to say anything definitive about yields, though they are clearly coming in light for white varieties in the interior, where substantial picking has already occurred. Conversely, the North Coast crop looks to be closer to average.

Lower yields than last year are mostly attributable to an unprecedented summer heat wave. July was the hottest month ever in California, and its average temperature of 81.7 degrees was nearly 2 degrees warmer than the previous record. The heat caused some sunburn damage and resulted in smaller berries. The situation would have been worse if not for ample soil moisture levels from two consecutive wet winters.

The heat has also accelerated berry development. Ripening generally seems to be two to four weeks ahead of last year's glacial pace, depending on variety and region. Harvest will likely be compressed again this year because acid levels are falling quickly in some regions.

The grape market continues to see some activity, though this mostly looks to be contract re-signs.

Jeff Bitter of Allied Grape Growers estimates that 30,000 to 40,000 acres of wine grapes have been pulled across California this year, with the heaviest removal activity in the San Joaquin Valley. However, an additional 17,500 acres have come on line, so the net reduction in bearing acreage will be less substantial. Wineries have been more active in pulling vines than independent growers, which suggests they are not anticipating a quick turnaround in wine sales.

On the demand side, still-falling wine sales continue to dampen interest in uncontracted grapes. The situation is exacerbated by the high volume of bulk wine that is available at the lowest prices seen in years, so many buyers are opting for bulk over grapes.

That said, the grape market continues to see some activity, though this mostly looks to be contract re-signs. There are also some opportunistic buyers seeking to scoop up grapes at fire-sale prices.

Demand continues to be stronger for white varieties, including coastal Chardonnay and Sauvignon Blanc, though it is still sluggish at best. According to Ciatti, even the most sought-after reds, such as Napa Cabernet Sauvignon and Russian River Pinot Noir, are attracting little interest from buyers.

Given the weak demand backdrop, growers should continue to carefully consider every offer received.

Bulk wine remains plentiful, and falling prices have not stimulated as much activity as hoped for. Nonetheless, transactions are occurring here and there, and inventory is gradually being reduced. The structure of bulk demand mirrors that of the grape market: White varieties are generally commanding more interest than reds, and inventory levels are more modest. Turrentine Brokerage indicates that there are three gallons of red varieties available for every one gallon of white.

Given the weak demand backdrop, growers should continue to carefully consider every offer received and take a cautious and measured approach to custom crushing unsold fruit.

I expect that there will be some improvement in the supply-demand balance for grapes next year as vineyards continue to be pulled.

I expect that there will be some improvement in the supply-demand balance for grapes next year as vineyards continue to be pulled. Moreover, there should be a modest rebound in wine shipments once wholesale inventories come back into line, which should help firm up grape demand and prices a bit. Even so, it may be several years before the market is fully back in balance in the absence of stronger-than-expected wine sales.

Best Foot Forward

With visitor numbers falling and sales declining, wineries must enhance their competitive position in the direct-to-consumer marketplace.

As opportunities to sell through the three-tier distribution channel have diminished, the DtC channel has become the primary path to market for most small wineries. It has also become a more lucrative profit driver for many large and midsize wineries as well.

DtC sales surged during the pandemic but have since fallen back to earth.

Increasing reliance on DtC during the 2010s proved beneficial, as sales rose at a rapid pace, driven in part by fewer regulatory barriers to interstate shipping. But sales growth was already slowing prior to the pandemic, and the channel has been on a roller-coaster ride since the COVID-19 outbreak began in early 2020.

DtC sales surged during the pandemic but have since fallen back to earth. Sales volumes have been declining for several years, and revenues are also slipping now, albeit at a gradual rate.

The main cause of the DtC slump appears to be declining tasting room sales, though online sales are also still falling back after a pandemic-induced surge. Wine clubs are also beginning to shrink, which is another cause for concern given that club members generate the majority of DtC revenue.

Declining visitor counts are at the root of both problems, though lower club conversion rates are also contributing to shrinking clubs. I expect visitor counts to improve, but this will take time and they are unlikely to return to their pre-pandemic level anytime soon.

Thus, the DtC market is likely to remain challenging in the near term. In order to enhance their competitive position and increase their odds of success, wineries will need to focus on improving their tasting room draw and wine club value proposition and make the most of each tasting room visitor and club member. Finally, it is more important than ever to identify and exploit avenues to acquire customers outside of the tasting room.

The metrics presented in this section are derived from Community Benchmark data. See the Behind the Report section on **Page 21** for a description of this dataset.

CLUB MEMBERS: THE LIFEBLOOD OF THE DTC CHANNEL

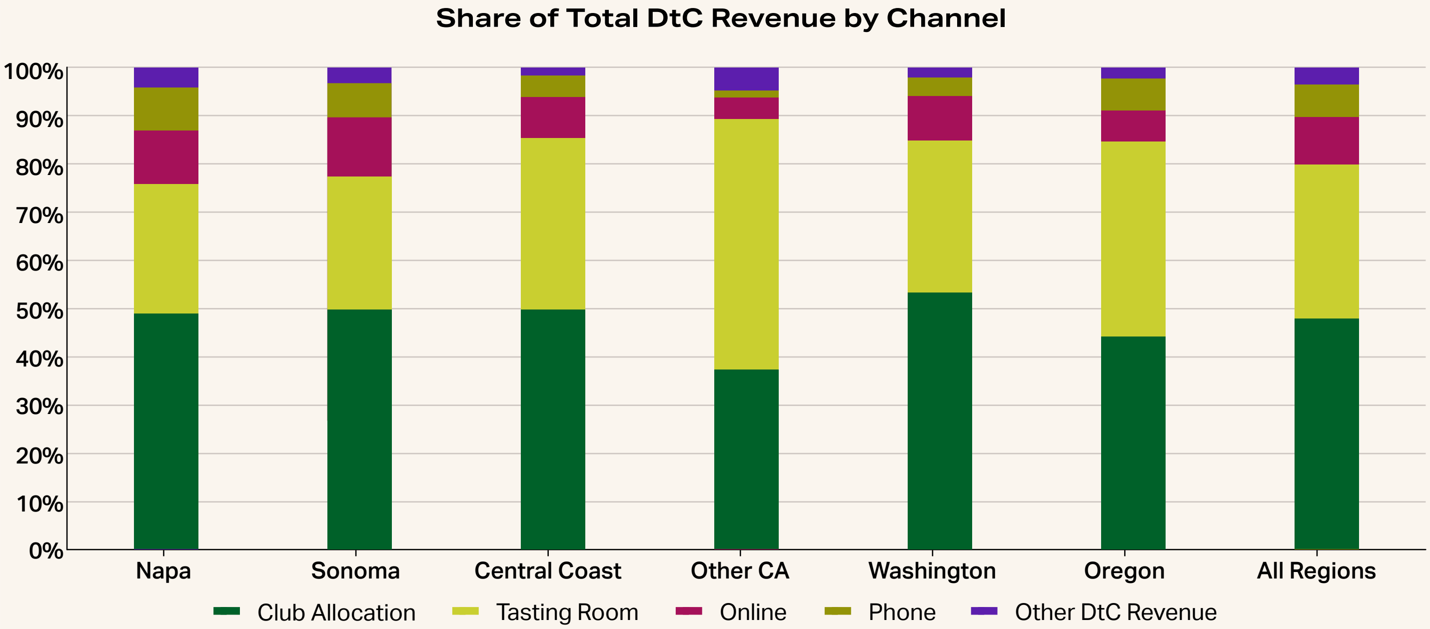
The DtC channel has evolved over time, so it's important to first identify the main sources of revenue within the channel.

Community Benchmark data for more than 400 West Coast wineries indicate that wine club allocations are the largest component of DtC sales. They account for nearly half of all revenue, as shown in Chart 1. Tasting room sales continue to be an important revenue generator, representing one-third of the total.

Online and phone sales account for most of the remainder. (Note that the phone category also includes revenues generated through emails and texts.) Other revenue sources, including on-site and off-site events, are significant contributors for some wineries but form just 3% of the overall total.

The composition of DtC sales varies by region. For example, online and phone sales account for a higher-than-average share of revenue in Napa and Sonoma. And tasting room sales are the leading source of revenue in more locally oriented regions like Temecula, Lodi and the Sierra Foothills (included in the Other CA region in Chart 1), where they represent nearly half of total sales.

Chart 1: **Club Shipments Are the Top DtC Revenue Generator**



Sources: Community Benchmark, Terrain

In total, club members generate nearly two-thirds of DtC dollars.

Nonetheless, wine clubs are the lifeblood of the DtC channel in all regions. In addition to their allocation purchases, club members account for a substantial share of sales that occur in the other sub-channels.

In fact, "beyond allocation" purchases by club members were responsible for 17% of all DtC revenue. Thus, in total, club members generate nearly two-thirds of DtC dollars. The "total" club share is at least 60% in all regions and more than 70% in the Central Coast and Washington regions.

Even so, the importance of the tasting room cannot be understated. According to a recent Wine Market Council survey, nearly 90% of all club sign-ups took place in the tasting room or online following a tasting room visit. The tasting room is clearly still the heart or focal point of most DtC operations.

ONLINE AND TASTING ROOM SALES ARE KEY POINTS OF WEAKNESS

DtC sales revenues for Community Benchmark wineries fell by just over 1% over the past year. Sales are down or flat in all regions except for Washington, where they are up marginally.

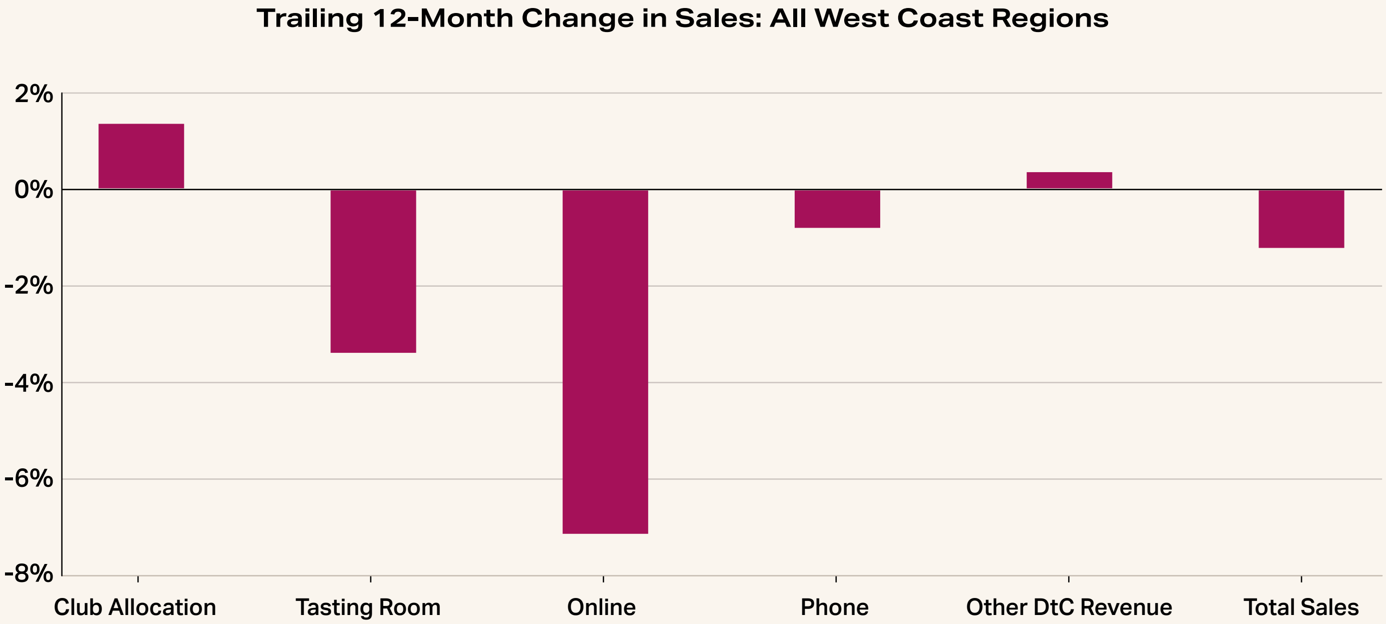
Given the rise in average bottle prices, the decline in DtC sales volumes has been more substantial.

As Chart 2 highlights, the recent slump is primarily due to shrinking online and tasting room sales.

Online sales surged when the pandemic hit in 2020, as many tasting rooms were closed to visitors, and wineries offered discounts to drive online sales. These sales have been normalizing ever since but still appear to be ahead of pre-pandemic levels. The decline in online sales would not necessarily be problematic if the sales were being offset by increasing tasting room sales, but this is not the case.

Tasting room revenues plummeted during the first year of the pandemic but rebounded sharply in 2021

Chart 2: **Tasting Room and Online Sales Are the Primary Source of Weakness**



Sources: Community Benchmark, Terrain

and early 2022 as visitors returned in droves. However, the resurgence proved to be short-lived. Tasting room sales industrywide have fallen steadily over the past two years. For the 12-month period ending in June 2024, they were down 3% versus a year earlier and 10% versus two years ago.

Tasting room sales industrywide have fallen steadily over the past two years.

Given that tasting room revenues represent about a third of total DtC sales, this is a major cause for concern. And the slump in tasting room sales is broad-based: Wineries in all six regions have reported substantial declines over the past two years.

Club allocation sales have been steadier and have helped to buttress the loss in tasting room revenue. They are the only major DtC revenue channel that has grown over the past year. Nonetheless, the increase has been modest, and the rate of growth has decelerated.

FALLING VISITOR COUNTS ARE THE MAIN PROBLEM IN THE TASTING ROOM

Table 1 shows how wineries have performed on key tasting room metrics across the six West Coast regions. They indicate that declining visitor counts have been the main driver of the tasting room sales slump.

On the positive side, wineries in the Central Coast and Washington state have been able to squeeze more dollars from each visitor.

The data suggest that although visitor counts rebounded sharply in 2021, they do not look to have fully recovered to pre-pandemic levels. Visitor counts began to decline

Table 1: **Tasting Room Visitor Counts Are Down Across the Board**

Trailing 12-Month Change in Key Tasting Room Metrics

	Napa	Sonoma	Central Coast	Other CA	Washington	Oregon
Total Revenue	-4%	-2%	-1%	-5%	-1%	-6%
Visitor Count	-5%	-1%	-11%	-4%	-10%	-7%
Purchase Conversion Rate	1%	-2%	1%	14%	5%	-2%
Average Order Value	-1%	1%	10%	-13%	4%	3%
Revenue per Visitor	1%	-1%	11%	-2%	9%	1%

Sources: Community Benchmark, Terrain

again in 2022 and have now fallen for two consecutive years in all regions. For West Coast wineries as a whole, the trailing 12-month total is down 6% versus a year earlier and 15% compared with two years ago.

On the positive side, wineries in the Central Coast and Washington state have been able to squeeze more dollars from each visitor, which has mostly offset the steep declines in visitor counts in these regions. Revenue per visitor has been relatively flat in the remaining four regions.

Club sizes have shrunk across all regions over the past 12 months.

Growth in revenue per visitor can be achieved by either higher purchase conversion rates or increasing average order values. There is no clear trend in these metrics, as four regions saw gains in one area and losses in the other.

WINE CLUBS ARE SHRINKING...

The key development in the wine club space is that member numbers have begun to shrink. This is a cause for apprehension given that wine club members account for the majority of DtC revenue in all West Coast regions.

The Community Benchmark data suggest that clubs were generally able to hold on to their members in 2020. Wine clubs grew substantially in 2021 and at a slower rate in 2022, but member counts began to contract in 2023. Club sizes have shrunk across all regions over the past 12 months, as shown in Table 2.

Total wine club revenue (including allocation and beyond allocation sales) has been steadied by increasing revenue per member, which has risen across the West Coast over the last year. However, in three California regions, the gains have not been enough to offset the decline in member counts.

It is also worth noting that allocation spending has held up better or increased more than beyond allocation spending in every region. This suggests that club members are compensating for higher allocation costs by buying less outside of their normal shipment.

Declining acquisition rates of new members are the primary cause of the reduction in club sizes in most regions.

Table 2: **Clubs Have Shrunk but Revenue per Member Is Up**

Trailing 12-Month Change in Key Wine Club Metrics

	Napa	Sonoma	Central Coast	Other CA	Washington	Oregon
Total Revenue	1%	-3%	-1%	-3%	3%	0%
Allocation Revenue	2%	-1%	1%	-2%	4%	3%
Beyond Allocation Revenue	-2%	-6%	-5%	-6%	3%	-6%
Change in Active Members	-2%	-5%	-4%	-4%	-3%	-6%
Revenue per Member	3%	3%	3%	1%	7%	6%

Sources: Community Benchmark, Terrain

...AND FALLING ACQUISITION RATES ARE THE MAIN CULPRIT

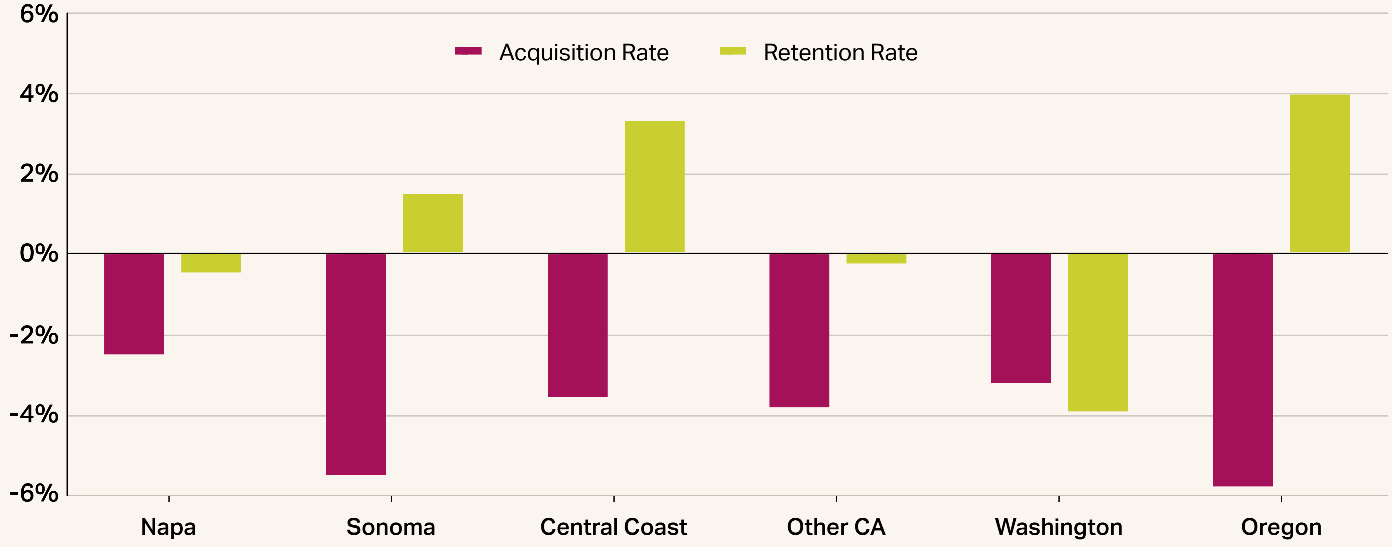
As Chart 3 demonstrates, declining acquisition rates of new members are the primary cause of the reduction in club sizes in most regions. Conversely, retention rates have risen or held steady in every region except for Washington state.

Acquisition rates now appear to be well below pre-pandemic levels. Retention rates fell in both 2022 and 2023 but have improved during the first half of 2024. They now look to be on par with pre-pandemic levels.

Lower acquisition rates are the product of both shrinking visitor counts and depressed club conversion rates.

Chart 3: **Club Acquisition Rates Have Fallen Across the West Coast**

Trailing 12-Month Change in Acquisition and Retention Rates (Percentage Points)



Sources: Community Benchmark, Terrain

Shrinking tasting room visitor counts translate to fewer opportunities to sign up new club members. But wineries in all regions are also signing up a smaller share of visitors to their wine clubs.

DECLINING VISITATION IS AT THE HEART OF THE DTC SLUMP

The Community Benchmark data indicate that the DtC channel is facing two critical challenges: declining tasting room sales and shrinking wine clubs. Both can be traced back to diminishing tasting room visitor counts.

Visitor counts will play a definitive role in shaping the near-term trajectory of DtC sales.

West Coast wineries have done a reasonable job of maintaining or increasing revenue from each tasting room visitor and club member. But this hasn't been enough to offset the impact of declining visitor counts. Thus, visitor counts will play a definitive role in shaping the near-term trajectory of DtC sales.

WHAT IS BEHIND THE SLUMP IN VISITOR COUNTS?

Visitor counts rebounded from their pandemic-induced collapse in 2020 but do not appear to have fully recovered. They have fallen steadily over the past two years in all regions and look to be tracking well below pre-pandemic levels.

I'm optimistic that visitor counts will rebound, though perhaps not to pre-pandemic levels.

Local economic factors have played a role in some areas. For instance, the slump in San Francisco Bay Area tourism has almost certainly hurt visitor counts in Napa and Sonoma. Nonetheless, the fact that tasting room visitor numbers are down throughout the West Coast suggests that there are broader forces at work.

The decline in tasting room visitor numbers could be related to the well-publicized softening in U.S. wine consumption. However, there are several idiosyncratic factors in play as well. These are likely to unwind going forward, so I'm optimistic that visitor counts will rebound, though perhaps not to pre-pandemic levels.

Four Reasons for Lower Visitor Counts

1 More Tasting Rooms Vying for a Slice of the Pie

While there are no hard data available on how many tasting rooms there are, the number of U.S. wineries grew by more than 10% between the end of 2019 and 2023, according to data from Wine Business Analytics. It is almost certain that the number of tasting rooms has expanded at an even faster rate, as many wineries have established satellite tasting rooms in urban locations.

The visitor pie is being split between more wineries and tasting rooms, which means a smaller slice for each.

Thus, the visitor pie is being split between more wineries and tasting rooms, which means a smaller slice for each. While there may not be a one-for-one relationship between tasting room and visitor counts because urban tasting rooms may be attracting some visitors that would not otherwise have engaged in wine tasting, it is almost certain that they have siphoned visits away from wine country tasting rooms as well.

This source of dilution in visitor counts looks to be coming to an end, at least temporarily, as the U.S. winery count slipped by 1% in 2023. Given the challenges that wineries are facing today, the winery count is not likely to rebound in the near term, though existing wineries may continue to seek additional tasting room locations in order to bolster their DtC sales.

2 Winery Visits Are Lengthier

The rise of seated tastings, which typically take an hour or two depending on the degree of formality, combined with an intensifying focus on ancillary experiences has almost certainly reduced the number of wineries that wine country visitors are visiting per day. This means that the same number of wine country visitors will generate fewer tasting room visits.

The increasing prevalence of advanced reservation requirements, which was a necessity for many wineries during the pandemic, has exacerbated the situation. Appointments must be spaced conservatively due to uncertainty regarding how much time will be needed at each stop.

Rising costs have almost certainly deterred some consumers from visiting tasting rooms.

While seated tastings have clear advantages and experiences are here to stay, more wineries are again accepting walk-in visitors and offering standing bar options, which are less time-consuming. So, lengthier winery visits should become less of a headwind going forward.

3 Wine Tasting Costs Are Rising

Wine tasting has become much more expensive in recent years as DtC bottle prices have risen and tasting fees have surged. In addition, many wineries are now charging for experiences that were formerly free. U.S. consumers have become increasingly sensitive to price increases due to inflation and economic uncertainty. Although DtC wine buyers skew toward higher-income individuals, rising costs have almost certainly deterred some consumers from visiting tasting rooms.

Tasting fees look to have roughly doubled since 2019, according to survey data from Silicon Valley Bank, though the increase varies by region. According to Wine Business Analytics, the median fee for a standard tasting in Napa is now $60 and an elevated tasting runs $125. Even in the less prominent interior regions of California, the typical fee has risen to $20 for a standard tasting and $35 for an elevated tasting. Based on DtC shipment data, average bottle prices have risen by 25% since 2019, which exceeds the rate of general price inflation.

Rising bottle prices and tasting fees are a natural consequence of rising wine production costs and costs to operate tasting rooms. While wine production costs are not likely to fall anytime soon, the rate of increase should slow.

Wineries have more control over tasting fees, and I suspect that these will begin to come down. Some of the decrease in fees may come in the form of "congestion" pricing, where wineries lower fees during off-peak times. So, there is likely to be some relief on the cost front for consumers, which should stimulate renewed interest in wine tasting and visitor counts.

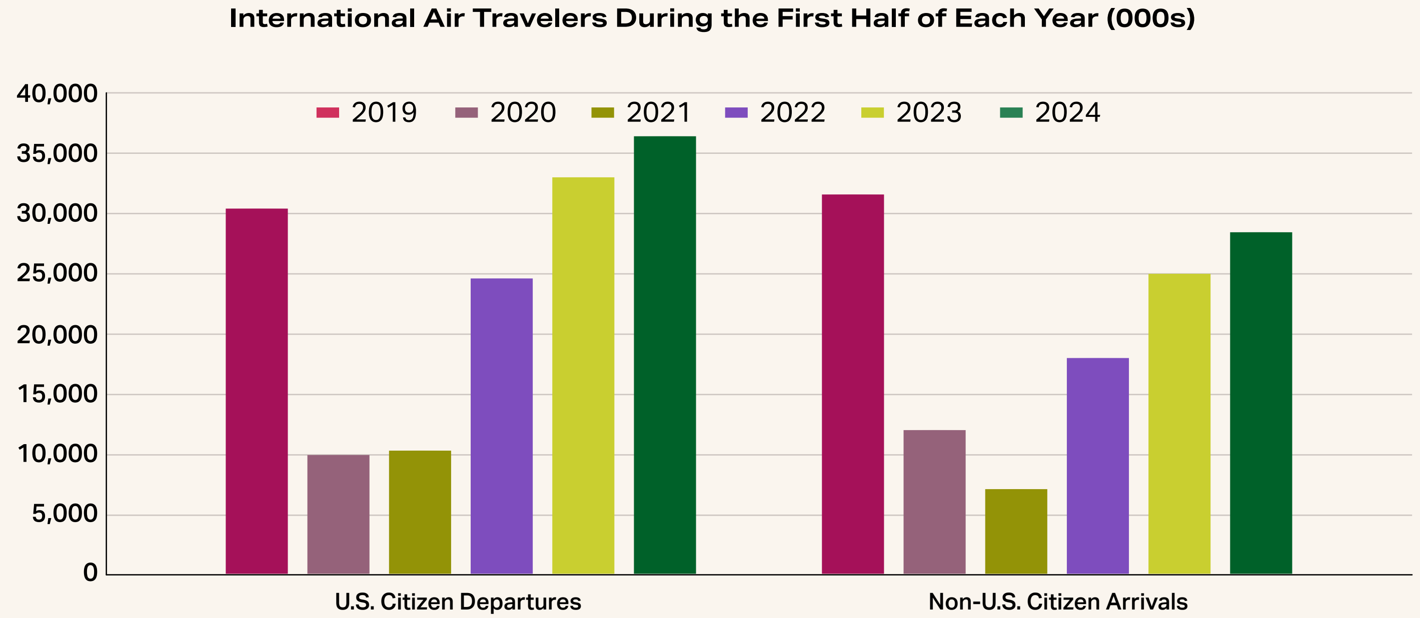
4 Americans Are Traveling Abroad

During the pandemic and its immediate aftermath, travel to most foreign destinations was rendered impossible. Consequently, the number of U.S. citizens traveling abroad plummeted in 2020 and 2021. This can be seen in Chart 4, which shows the number of U.S. citizen international departures, including both business and leisure travelers.

However, pent-up demand and a rising dollar have stimulated foreign travel in recent years at the expense of domestic travel. International departures recovered to pre-pandemic levels in the second half of 2022 and have accelerated over the past two years. In fact, 20% more U.S. citizens departed on foreign trips during the first six months of 2024 than during the first half of 2019.

The rise in foreign travel has undoubtedly curbed travel to wine country destinations and tasting room visitor counts.

Chart 4: **U.S. Citizens Are Traveling Abroad**



Sources: International Trade Administration, Terrain

Similar to DtC wine buyers, foreign travelers tend to have higher levels of income and educational attainment. Therefore, the rise in foreign travel has undoubtedly curbed travel to wine country destinations and tasting room visitor counts.

Compounding the situation, the number of international visitors to the U.S. remains depressed. Non-U.S. citizen international arrivals are still tracking 9% below their 2019 level, which means there is a smaller pool of foreign travelers available to visit U.S. tasting rooms.

This dynamic will eventually normalize as pent-up demand for foreign travel is satisfied, and domestic travel and wine country visitation should benefit in the years ahead. A weakening dollar would hasten this process.

WHAT CAN YOU DO?

Visitor counts are likely to improve going forward, and I expect to see DtC sales begin to rise again. Even so, a return to pre-pandemic growth rates does not seem likely and the DtC channel will continue to be highly competitive.

It is more critical than ever for wineries to reevaluate their marketing strategy in order to improve their competitive position in the marketplace. There is no one-size-fits-all solution, as each winery and region faces unique circumstances. It is important to be creative and think outside the box.

That said, there are five general actions most wineries can take.

1 Improve Your Tasting Room Draw

Tasting room visitors are the essence of the DtC channel. The more visitors you can get through the door, the more opportunities you have to sell wine and acquire club members. With so many options available today, it is imperative to provide a compelling reason for someone to choose your tasting room.

In order to increase your draw, it is crucial to identify your competitive advantages and differentiate your product.

Making quality wine is important but may not be enough because so many wineries are producing high-quality wine today. However, there are many other factors that influence drawing power.

In order to increase your draw, it is crucial to identify your competitive advantages and differentiate your product. Then play to your strengths, whether that be the quality of your wine, the beauty of your facility, stunning views, a distinctive theme or engaging experiences.

Offering a range of tasting options to accommodate diverse preferences and budgets will also broaden your appeal.

2 Make the Most of Each Visitor

In a time of lower visitor counts, each visitor represents a precious opportunity. And it is crucial that you capitalize on these opportunities. If you are seeing fewer visitors, you must sell more to each to maintain sales revenue.

A friendly and hospitable staff was cited as the most important feature when choosing a winery to visit in a recent Wine Market Council study.

This begins with having the right staff in place. A friendly and hospitable staff was cited as the most important feature when choosing a winery to visit in a recent Wine Market Council study.

Your staff must be engaging and able to articulate the story behind your wines and winery. A diverse staff may also be an advantage given the diversity of the younger generations. But your staff also needs to be able to sell. Selling is a skill that isn't innate to all, but it can be developed. Investing in sales training can pay dividends.

One of the main selling points of a club is the special treatment that members receive. Most importantly, that means discounts.

Finally, it is crucial to capture contact information so that you can continue the conversation with your visitors after they leave, which can lead to additional sales, club sign-ups and return visits.

3 Increase Your Club Appeal

If you have fewer visitors coming through the door, you must also sign up a higher share to maintain the size of your club. Consumers have a plethora of wine club choices, so it is crucial that you offer a compelling wine club that demonstrates a clear value proposition.

One of the main selling points of a club is the special treatment that members receive. Most importantly, that means discounts. The Wine Market Council survey found that wine discounts were very important to 74% of club members and the top reason to join a wine club. Thus, it is very important to evaluate your discount structure to ensure that it is competitive. Special tastings, club-exclusive wines, and club-only areas and events can also enhance the allure of your club.

Once you've acquired a club member, it is vital to establish a personal connection with them.

Providing options and flexibility will also broaden your club's appeal. This includes offering a range of options in terms of number of bottles, shipment frequency and price points to fit a range of preferences and budgets.

In terms of flexibility, the ability to customize shipments was found to be important to 96% of club members in the Wine Market Council survey. This is a must for most wineries.

4 Make the Most of Each Club Member

If your wine club is no longer growing, it is more important than ever to make the most of your existing club members. This means selling more to members beyond their allocation, but perhaps more importantly, retaining them for as long as possible to maximize their lifetime value. This all starts with understanding what your club members want.

Having an appealing club offering is just the beginning. Once you've acquired a club member, it is vital to establish a personal connection with them. This begins with in-person contact in the tasting room but should be maintained by reaching out at appropriate intervals and by preferred methods, whether that be emails, texts or phone calls. Give your club members reasons to buy more wine and come back to the tasting room to enhance beyond allocation sales.

It is more important than ever to find ways to acquire customers and club members outside of the tasting room.

Analytics platforms can also help you identify your most valuable club members and their preferences so that you can offer targeted recommendations. Moreover, they can help to identify those who might be at risk of leaving so that you can offer incentives to stay.

5 Take Your Show on the Road

Finally, it is more important than ever to find ways to acquire customers and club members outside of the tasting room. In other words, bring your product to the customer rather than requiring the customer to find and come to you.

Providing trial opportunities is the key. They can boost sales, stimulate visitation and generate wine club sign-ups. Indeed, the Wine Market Council survey found that most club sign-ups that were not motivated by a tasting room visit were driven by an opportunity to taste the wine at another location first.

Some options include holding off-site tastings or winemaker dinners. Distributing wines in strategic retail and restaurant locations can also complement your tasting room sales efforts.

I'm optimistic that sales will rebound in the years ahead, as the tasting experience should appeal to the younger generations.

Analytics can help you identify areas where concentrations of potential customers reside and enable you to be more targeted in your efforts to achieve the highest return on your investment.

Despite today's challenging market environment, there will continue to be opportunities for wineries that are willing to adapt to the evolving marketplace to grow their DtC sales. I'm optimistic that sales will rebound in the years ahead, as the tasting experience should appeal to the younger generations. In turn, this will eventually bolster grape demand in regions where a substantial share of fruit is destined for DtC programs.

Appendix

Data and Methods

INFORMATION SOURCES

There is no single, comprehensive source of information on the U.S. wine and grape markets. Rather, there are many different sources that capture specific slices of these markets. The analysis in this report represents a synthesis based on the review of multiple points of data and information.

These include statistical data from private data vendors, reports from industry service providers, U.S. government data, and internal data collected by American AgCredit's appraisal and underwriting teams. I assess the relevance and reliability of each source and weight it accordingly in the analysis.

The report also incorporates anecdotal information gleaned from conversations with market participants, including wineries, growers and various market intermediaries.

This approach enables "Winescape" to deliver a relevant and nuanced perspective on wine and grape market trends as well as an informed outlook.

THE WINE SALES DASHBOARD

The dashboard provides a directional view of trends in wine sales by volume, reflecting the fact that none of the market segments and sales channels are measured with precision.

The year-over-year change column is a directional indicator of the percentage change in wine sales for the most recent six-month period relative to the same period a year earlier. I focus on the six-month period because the quarterly data can be volatile.

Year-Over-Year Change	
	↑ Substantial increase
	↗ Modest increase
	→ Little to no change
	↘ Modest decline
	↓ Substantial decline

The trend column provides an indication of whether the rate of change in sales volume has improved or deteriorated over the past 12 months. For example, if sales in the value segment are falling on a year-over-year basis, but at a slower rate than in the past, the trend is improving and an up arrow is assigned.

Trend	↑	—	↓
	Improving	Stable	Deteriorating

The retail price segments are defined as follows:

Retail Price Segments			
	$	Value	Less than $11
	$$	Premium	$11 to $29.99
	$$$	Luxury	$30 and up

COMMUNITY BENCHMARK DATA DESCRIPTION

The analysis relies on data from Community Benchmark, which tracks DtC metrics for more than 400 participating West Coast wineries for benchmarking purposes. The data pertain to the period ending June 30, 2024, unless otherwise specified.

Community Benchmark participants represent a small proportion of all West Coast wineries and are not a random sample. Nonetheless, the winery count should be sufficient to produce relevant insights into broader trends occurring in the DtC channel.

These data have several advantages over survey-based results. For one, they include careful controls to ensure that wineries are reporting metrics in a consistent manner. They also allow comparisons between the same set of wineries over time, which eliminates noise stemming from changes in the composition of respondents from year to year.

Metric Definitions:

Club Allocation Revenue
Total wine revenue (case goods only) for shipments and pickups only.

Club Beyond Allocation Revenue
Total revenue from wine club members outside of their allotted club run order.

Tasting Room Revenue
The total amount of in-person tasting room revenue after discount — that is, what the customer actually paid, from all customer types (wine club, employee, industry, etc.).

Phone Revenue
Total revenue via phone, email or text, whether inbound or outbound.

Online Revenue
Total revenue via the winery's website(s), including remote (off-site) buyers and those who use winery kiosks/computers (on-site).

Other DtC Revenue
All other revenue sources, including on-site and off-site events, that do not fit into any of the other categories.

Visitor Count
The total number of drinking-age adults who walked through tasting room doors, excluding tour drivers and guides but including trade visits and wine club members. Some wineries may only count tastings.

Purchase Conversion Rate
Calculated as the number of purchases divided by the number of visitors.

Tasting Room AOV
Tasting room revenue divided by the number of purchases.

Club Conversion Rate
Calculated as the number of club sign-ups divided by the number of visitors.

Attrition Rate
Calculated as (total active club members at the end of the prior year plus YTD wine club sign-ups minus current active members) divided by active members at the beginning of the year.

Acquisition Rate
Calculated as the number of club sign-ups divided by the number of active wine club members at the end of the prior year.

Number of Active Club Members
The total number of active wine club members on the last day of the month. Active is defined as receiving a shipment in the last six months.

Revenue per Member
Calculated as wine club revenue divided by the number of wine club members.