Interview Questions for the CEO Survey

1. Are you concerned about the continued consolidation at the Distributor and Retailer level and the impact it will have on your ability to get your products to the end customer? Do you see Direct to Consumer (DTC) as a viable alternative?

2. What is the impact of the arrival of large acquisition minded institutions (pension funds, university endowments, family wealth groups) on the wine business?

3. Has the strength of the US Dollar affected your sales, either import competition or exports?

4. There seems to be an increasing bifurcation of the wine market for brands above and below $10. Do you see this trend continuing? How have you responded?

5. What do you think will be the hottest issues over the next five to ten years?
Question 1: Are you concerned about the continued consolidation at the Distributor and Retailer level and the impact it will have on your ability to get your products to the end customer? Do you see Direct to Consumer (DTC) as a viable alternative?

- 20 years ago we had Albertson’s, we had Lucky’s, we had Alpha Beta, we had Safeway, and we had Von’s. They were all separate entities. And if you missed an advertisement in Albertson’s and you could make it up in an Alpha Beta or a Lucky’s. If you miss an ad today with Safeway or Albertson’s you can’t make it up with any other business. So, the answer is yeah, we are concerned.

- It’s less to me about the consolidation as it is the attitude and business approaches that will come with whoever survives the consolidation. It’s about their approach to the business. We’ve approached the business for a long time — we being the collective industry — as a kind of a brand equity investment to build brands and relationships with consumers. And there are a couple of the reasonably strong players in the consolidation world that really treat the wine category like much more of a commodity than a branded business.
You know, often in a positive way. If we have a wine with one [distributor/retailer], then we tend to be in all locations. The retail consolidation can be very positive because many of them are very professional in how they operate their organizations and how they train their people. At the distributor level, you know we partner intentionally with the same distributor in every state. For us, if they continue to consolidate and bring on more markets that’s a good thing since we are intentionally and strategically aligned with them.

Even for companies that do our volume, we are being forced by distributors to pick our priorities. You just can’t have multiple brands anymore. On the retail side you are seeing stores consolidating, but the chain calls are decentralizing. So the decentralization of chain buying as an experiment is over for most people, now replaced by regional buying.

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- I am affected by it. I have some concern not so much about consolidation at the distributor level, but about consolidation at the retail level. And I’m concerned about the disappearance of the independent retailer. The chains are a more difficult place to build a luxury wine brand. We don’t sell much in chains and with the independent retailers going away, what do they leave? That’s my concern, is my only point of distribution going to be DTC? Or will I have to do some limited distribution to chains? Which ones? How do I judiciously select the chains that can help me build a luxury brand?

- I mean, Gallo and Constellation, they are not only the most important supplier to the wholesaler, but they have become very important category captains. And the power just makes it difficult for anybody smaller than that without sixty salespeople in the field to penetrate that.
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- It’s a very strange thing. You would almost question whether [retailers handing over category control to the big wineries] is legal, because you aren’t supposed to give anything to a retailer. And yet, you go to Kroger or Wal-Mart, the big suppliers probably have 10-20 people helping set. And it’s a way for a retailer to enhance margins by having someone else doing all the work. But it’s been out of control. And at some point, somebody and a smart group of wineries are going to get together and ask, “Wait a minute, is this really fair?

- I don’t think it has affected us negatively and I think in some ways there are some benefits to it when you are a large producer who has some leverage. I think most distributors look at the priority brands that pay the rent and I don’t necessarily think that’s a challenge for us. But when you look at most distributors, the number of brands they have continue to increase, and the number of suppliers continue to increase.
I’m seeing the development of a new tier of distributors, these small/mid tier distributors who I think are going to merge over time. I do see a continued consolidation at the top, but I also see a very grassroots, small, micro-retail wholesaling specialty distribution/retail sector opening up at the same time. This generation is willing to pay a premium for food and spirits. At these price points, you don’t have to do a lot of volume to be sustainable. The same thing with these mid-retailers. They work on sometimes 50% margins, so sometimes they don’t need the volume. So I see the consolidation continuing to get bigger, but I do see this niche thing growing.

I think there will still continue to be some consolidation at the distributor level, but what it’s doing is providing an opportunity for new distributors to open up and acquire the brands that these big distributors are putting less emphasis on. So it’s a major change we are going through but I definitely feel like it’s a new opportunity for wonderful, small state distributorships.
I do see that getting product to my end customers is going to be increasingly more the responsibility of the producers. I don’t believe distributors or retailers will build brands like they did in the old days. Now they play a role, but the market is changing their responsibilities.

I don't see DTC as a viable option for companies that are anything north of 100,000 cases. Personally, I don't think that it's significant enough business to offset the US trade business. And I think it’s all part of a general bifurcation that’s going in the industry, in that a bulk of the industry will settle into large players. And then you will have those traditional high-end small producers of sort of 1,800 cases to 15,000 cases possibly which can survive on direct to consumer either through brand prestige or location.
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- DTC is not a viable alternative for $10-12 under. For the folks with over $20 retail wine, everyone's doing that. I think most people are shooting for 40-50% DTC and I think they are having a hard time getting distributors to work on the $40-50 cabernet that sits on the top shelf of a grocery store.

- Some of these consolidated retailers are more interested in promoting private label brands. The other part of that question as relating to DTC -- I think we are going to see a brand-by-brand migration. I think there is going to be a division of brands that are more along the lines of DTC-type brands as in they’ll be more retail friendly. We see more and more consumers become comfortable purchasing wine on the net, but we’re fortunate to be in a position where our distributors have put our wines up to sale day to day. We see an ever-increasing piece of the business moving to DTC however.
At some point, if you want to grow to something more than a four or five thousand case winery, you are going to need the traditional three tier markets to help grow your brands.

I do see DTC as a viable alternative, especially for new wineries starting up and building their networks. We also focus on direct to customer at the winery level especially for our more luxury and limited wines.

It’s a good thing. For instance, with distributors that are multi-markets, a supplier can get greater attention because the distributors have a larger footprint and can take care of them. The larger the chains are, it ends up helping with total distribution. At the same time, great independents are necessary to nurture brands and I think they are stronger than before because they are really trying to do the very best on a personal basis for their customers.
Question 1: Summaries

- Continued concerns on the ongoing power shift towards the retailer as a result of chain consolidation.

- As a result, producers are finding there are fewer options to reach the shelves with all of their brands.

- This market makes it difficult for some wineries to build brands with the enhanced priorities placed on big suppliers and through their roles as category captains.

- DTC’s effect on mid to large wineries is limited but presents a growing opportunity for smaller producers to expand their brands.
Question 2: What is the impact of the arrival of large acquisition minded institutions (pension funds, university endowments, family wealth groups) on the wine business?

- Yeah I see the effects, especially out in the Central Coast between some of those big guys buying things. We’ve actually done deals in the past with some big institutional investors like that or they can buy a vineyard and you can lease it back.

- My biggest concern is sustainability: How long do they plan to stay in the business? Obviously the terms of buying vineyards in particular, prices are up particularly in Napa. Is that sustainable? And how long will they stay in based on returns? This kind of money comes in about every ten years and then they find this is a lot more difficult than it was on paper. It’s a classic cycle. Anytime the industry has outside investment it’s a good thing but I really question whether they will stick to it or not.
If you go to the American farmer, what’s the average age? 60 at least. Now, what’s going to happen to all that farmland? So consolidation is occurring in agriculture across the US, the vineyard business is no different. A lot of that has to do with the intergenerational change that is occurring. Not everyone wants to take over the family farm from the dad and run it the same way. And we are talking about very big capital dollars these days. Investors play a role in providing some liquidity. Most of them are hiring professional management; many of them are family farmers who have expanded their operations to include management so they can spread their cost among a greater number of acres. It’s happening in the almond business. The nut business. And it’s happening to the vineyard as well.

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- For me, I think it’s better than someone buying it as a hobby. They are buying it like they are buying a bond. They are buying it for the long-term land investment and the ultimate payoff and some return in between. And we’ve seen that for twenty years, you know David Freed was one of the first people who started doing that. I think it’s a good thing since there are people who are investing for the long term who have an understanding of land and the value of land and I think the wine business is a business that is very asset-heavy.

- In Washington we are seeing tremendous investment really for the first time. We’re seeing big tranches of land being sold off to plant. And frankly we’re happy. I think in California there hasn't been the rush to plant vineyards as much recently as in the past. There’s definitely no shortage of business in the north coast.
Question 2: What is the impact of the arrival of large acquisition minded institutions (pension funds, university endowments, family wealth groups) on the wine business?

- None really, but we’ve seen a lot of Chinese investors come in to buy more winery properties. But I actually think it doesn't really affect me for what we are and what we are doing. I think it's more of an opportunity for those first-gen, second-gen investors that are only going to be in it for four or five generations — it gives them a way to get out in time.

- It just simply creates a bubble and makes assets impossible to purchase. There's a real bubble out there on vineyard pricing. I don't see the prices coming down.

- I think more are coming. I think the industry and the communities need to understand it and need to work with them. A good outside investor will reinvest with the community if they are smart. I think it shows the health of the overall industry.
Question 2: Summaries

- The American farm is seeing institutional investment in all agriculture from wine to almonds. How the small US farmer will evolve from this remains to be seen.

- Outside investment poses a strong indicator of the wine industry’s financial strength, part of a valuation cycle many have seen before.

- Yet, how long do these players plan to stay invested? And do they plan to invest in the communities?

- Is it sustainable? Or is there a bubble on vineyard pricing?
Question 3: Has the strength of the US Dollar affected your sales, either import competition or exports?

- Yeah, I think we saw that first in Western Europe where we distribute our wines pretty strongly. There was a little pushback on the value of California wine there. Of course, the first guys to get pinched were the agents and the distributors there. It was difficult for us to maintain pricing in that area so we were forced to take prices up a little bit in the local currency. The other thing of course as you start to talk about dollars, is the port strike which hurt us last year. If you look at the dollar, we haven't seen an increase in the amount of imported wine here yet over categories that were already hot.

- The port strike hurt us as both exporters and importers. We couldn't get wine out for our customers and we also had a problem getting dry good in. We also had problems getting in some of our wines that were bottled offshore.
Question 3: Has the strength of the US Dollar affected your sales, either import competition or exports?

- It has a huge impact on my cost of goods with barrels alone. If I figure to save 20% on my barrel purchase, that’s getting to almost $1M of savings. From that standpoint it has been really helpful. It’s early to tell what’s going to happen to us on the international market. So far our markets have held pretty well but international sales are not nearly as important to us as our cost of goods. So if I had to take one or the other I’d take cost of goods.

- I think the area where we saw it more pronounced was in Canada where we sold quite a lot. It’s already difficult to get to the right prices in Canada. To put it another way, you generally have to accept their margins in building business in Canada. I think that coupled with a strong dollar made the last year quite difficult.
Question 3: Has the strength of the US Dollar affected your sales, either import competition or exports?

- It definitely has affected us in our imports. We import quite a bit of wines and it has helped us, but it’s a major factor. A net positive, since we import more than we export.

- When you start thinking of the exchange rate going from 1.3 to 1.05 for the Euro, yeah that’s a big deal. So we’ve actually had to discount to maintain our momentum in a lot of countries. And we don’t import enough to offset that. I’m actually concerned about too many imports. In America we are a very heavily regulated business — higher costs, higher taxes. Imported brands, if anything, have government subsidies, and we let them into America almost for free. Well I’m in the American wine business in the big picture and we’re the California grape grower. So, that would concern anybody out there. However, in short years we offset the supply by bringing in imports. Not at the high end, only at the low end. So I’m concerned about too many imports getting too strong in America.
Question 3: Has the strength of the US Dollar affected your sales, either import competition or exports?

- Looking at imports, in the bulk world if we had not had three huge crops in a row I think we would probably see more bulk imports than we have. Cased goods being brought into the US are going to continue to grow and the strength of the dollar is one of the major factors. But I think you are also going to see a fair amount of European wines that come in and are also going to market that above $10 tier segment. I think you are going to see some guys start to bring in more French, Italian and Spanish reds to hit the price points that are going to be above that value.

- We are seeing an impact. It’s just the beginning. If you look at Italian imports which we are quite close to, you really see a decline in the value even though the volume is growing. It appears to us that we are seeing discounting by Italian producers and that they are taking the exchange rate savings and plowing them back into lower prices. I don’t know why they would do it, but I think that they are taking advantage of the strength of the dollar and then discounting their product.
Question 3: Has the strength of the US Dollar affected your sales, either import competition or exports?

- Really on the export side it has been affected quite a bit. We do a fair amount of bulk wine exports and so the competitive nature of that has gotten tough with other currencies being so weak and ours being so strong. So that’s had an impact. It’s forced us to really push on quality and to kind of dig our heels in and say, “Look, while it’s a commodity we aren’t going to be a cheap, cheap commodity.” On the import side, it has affected us a lot less because it’s made really hard for folks to come here and compete too.

- About 30% of our total volume is export, so we do see a little bit of that impact in the last couple years. In Canada, even though we’ve had double digit growth, the Canadian dollar versus the USD has hurt our margins a bit. But I think that the port closing have been a big problem on the export side, just getting wine shipped out of there.
Question 3: Has the strength of the US Dollar affected your sales, either import competition or exports?

- It's hurting exports pretty substantially. The currency is brutal. Volumes are still decent, but the currency exchange is brutal. I don't see anybody lowering prices at all.

- It has had virtually no impact on our business. We saw on the imports side that imports would be a better value — we haven't really seen that yet. On the exports side, we as a company took the position that those clients are really terrible. A, they are fickle. B, they pay slowly. And we have a strong domestic market here. We really shifted our gears where we are about 95% domestic because we still think this is the best market in the world to sell wine. As long as we have domestic margins that outperform imports, it's just a question of allocating resources.
Question 3: Summaries

- Producers still feel the effects of the west coast port strike; labor concerns persist in importing/exporting for many winery owners.

- For some, the savings gains from barrels and other cost of goods can offset most international sales drops.

- As the strength of the dollar rises, cased goods and imports will only increase domestic competition.

- Exporters feel the impact as international price competition has continued to rise in Europe, Asia, and North America. Weakness in the Canadian dollar has had a key impact on many US wines.
**Question 4:** There seems to be an increasing bifurcation of the wine market for brands above and below $10. Do you see this trend continuing? How have you responded?

- Absolutely. The market’s moving upwards, it’s enormous. Growing very fast. We think the same thing of say $12, $15, 20 dollars in the next five years will be enormous growth. Below that there’s not going to be any growth.

- We have a very strong foothold in the under $10 economy section, especially at the lower end. But the future is definitely above that, so we are trying to get more balance into our portfolio. Diversifying that whole portfolio and realizing that while we are strong under $5, the $5 to $10 isn’t that strong so I’m not too anxious to invest because I don’t see it as very strong. So we’ll try to really diversify and balance our portfolio by looking in the $10+ category.

- It’s not just in the wine business. It’s in the spirits business. People are trading up for more premiums and people want better, whatever that means. And they continue to explore merchandize that may be more expensive because they are more knowledgeable.
Question 4: There seems to be an increasing bifurcation of the wine market for brands above and below $10. Do you see this trend continuing? How have you responded?

- In 2007 we looked at the landscape and Gallo Constellation and Wine Group owned that space. There is nobody that can come into that market and take those guys’ volume. We just said we couldn’t be in that space anyways. So we built our entire infrastructure around the $10-15 range. So fortunately the bites we are taking are relatively small, but they are significant for us. The margins are so much enhanced above $10 than they are below $10.

- I think that all of the action has been north of $12 and some of the fastest growing categories are up around $20. We see the consumer shifting in some direction there. I think a lot of it relates to baby boomers and who is consuming wine. I think it really is on us to try to diversify the portfolio to make sure we have what people want.
Question 4: There seems to be an increasing bifurcation of the wine market for brands above and below $10. Do you see this trend continuing? How have you responded?

- I see the trend continuing and yes I do feel it very strongly. I see we’ve been trying to raise prices and to push into the $15 and $30 price segments and we play it fairly strong there. We are trying to get out of any $10 and under branding for wine labels. For us, given where our grapes are grown, we just can’t compete down there at the margins that we like to enjoy. I think that it caused us to really evaluate our portfolio and where the opportunities are — and we think the opportunities are $15 and above.

- It will continue. It will impact the wines below $10, a lot of that market is dying out. Most people are focusing on that $15 price point which seems to be the new version of that $12 point. The issue there lies in that the cost of goods are so high for wines over $15 that it’s going to be difficult for people to scale a brand of that size and to buy the grapes. You really have to own the vineyards in order to scale a brand in that range.
Question 4: There seems to be an increasing bifurcation of the wine market for brands above and below $10. Do you see this trend continuing? How have you responded?

- So the fact that these other guys want to go into our business, it just shows you that the American consumer is willing to trade up. It shows they are an aspirational consumer. So, yeah, it concerns me a little bit when Gallo is now in my backyard.

- I think that a lot of people talking about premiumization in this industry, I think that’s still not played out properly because all I think that’s going on now is people are trying to shift the same product up the ladder. I don't think the consumer is going to be fooled by that, and ultimately you have to premiumize through pure investment.

- I firmly believe that the wine industry is as well posed as any in the world to play the trade up game. Most happy consumers love to try the next best thing. I think it’s just human nature. If they try a $5 wine, they just want to know what a $10 wine tastes like. And then a $15 bottle. Nobody trades down unless they have to.
We have talked about this over many years and there’s no question that we are seeing this growth in the high end. Growth mainly coming in wines coming across in the $11-20 retail price segment. And we are experiencing double digit growth there so we are pretty happy with the premiumization category.

A little, but it has had no effect. Every time the big competitor tries to jump into my category or buy someone within my category, they destroy the brand they bought. So those brands are no longer my competitors. When corporations come in and buy upscale brands, they tend to devalue them. Look at Chalone. Chalone wine company used to be one of the most prestigious wine companies in America. It was a really important brand, and now you go into Safeway and you seen Chalone Chardonnay being sold for under $10 a bottle. It’s just not a competitor anymore. Beringer now has Chardonnay and it sells for $4.99 on sale. It just changes the brand so it doesn’t compete with me now on the top where I do most of my volume.

**Question 4:** There seems to be an increasing bifurcation of the wine market for brands above and below $10. Do you see this trend continuing? How have you responded?
Question 4: Summaries

- Nearly all polled see this ‘premiumization’ trend continuing, though not all are affected by this segment.

- Aspirational US consumers are more and more willing to trade up and to invest more in quality brands.

- Consumers are also more knowledgeable and discerning as they increase investment in their consumption.

- Thus, competing wineries must invest in their quality and branding more than ever. Yet grapes and land have never been more expensive.
Question 5: What do you think will be the hottest issues over the next five to ten years?

- The big issue is going to be, in my opinion, the grape wars south of Modesto, south of Lodi that are going to have alternative crops that they want more than growing grapes. So you are going to see a gradual, fairly rapid to medium transformation from grapes to other crops, big crops. That’s going to mean, to get quality wine that you need at that price point, they’ll have to go down to South America to import it.

- In North America today, there are more imported products authorized in America than there are American products. So the avalanche of new products and the avalanche of imported products continue to dilute this marketplace. So maintaining brand equity and brand strength is a concern with so many new products in the marketplace.
Question 5: What do you think will be the hottest issues over the next five to ten years?

- I think in the north coast you are going to continue to see an anti-development, a difficult environment to do business. I think we are by no means certain that our water woes are going to go away but we have El Nino this year. So I think the whole western United States struggling with water, and just struggling with the general political environment that climate centers on is going to be huge.

- Winery footprints – the impacts on water, traffic, and the overall community. As people try to get bigger or try to add, I think there is going to be more pushback just to try and figure out the impacts of water, traffic, and your neighbors. And then the evolution of DTC – I don't know what it’s going to be but it’s going to evolve from where it is today. I think it’s the smaller guys relying on the system even more because they won’t have another place as an outlet for their wines. And as the customer evolves, they’ll get used to that as well. it will just be another way to buy wine. For anyone that is making 5,000 cases or less, it is difficult.
Question 5: What do you think will be the hottest issues over the next five to ten years?

- We're going to be scrambling for water. We are going to be scrambling for grape supply. The cost of growing grapes in California, as well as the competitive crops such as almonds, are going to make fruit real tight in the Central Valley. Most of that is going to be imported. Regulation is also approaching out of control. You have air credits now and they don't even want to honor the air credits from when you settled in the last time.

- Private label. Private label is probably one of the hottest, most daunting challenges we have in the wine business. We grew up in an age where we worried that the manufacturers had monopoly power. Today, monopoly power is at the retailer. Now they are doing private labels that are disenfranchising our national brands. So, that to me is one of the greatest challenges.
Question 5: What do you think will be the hottest issues over the next five to ten years?

- I see continue trending towards private label, but at the same time I also think there is going to be the need for authenticity and transparency. So when you look at the use of social media to find out about wines and their authenticity, I think that’s going to increase. And therefore, private labels will have a harder time. So when someone walks into a big store where all the staff is incentivized to move to the store brand, someone will look at their smartphone and say, “what is this brand?” and find out their producer and if it’s an imposter. While retailers are going to make more store brands, I think there is going to be a counter impact through social media which will slow the growth.

- I still feel like there’s a – with the consolidation – with retailers and category managers by some of these larger suppliers, it’s just going to worsen our opportunity to get wine on the shelf. They completely control the shelves and it sounds like the TTB or somebody has to step in and say there is a restriction of trade going on. That’s the hottest issue for me: the ability to get on the shelf because of control by the major companies.
Question 5: What do you think will be the hottest issues over the next five to ten years?

- One thing that keeps me up at night is the private label business. Total Wine's influence on the industry is all about control and about selling people into their store on name brands, but trying to direct them to private labels once they are in the store.

- I see that you’ve got a lot of loyal clientele developing, so I don't think there’s any indication that the millennials are going to be as brand-loyal as baby boomers and to a lesser extent Gen-X’ers were. I also see that you get a quickening of trends and I think that brands can be hurt by trends going in different directions. I think that is going to keep speeding up and you better be willing to move as fast as other parties, and I think that’s going to be a challenge for wine. There’s going to be that focus on, how do we tell our story as the ultimate craft product?
As the population gets older, we are going to see continued growth in wine consumption. It’s interesting too, since everyone has done a lot of study on millennials. First off we see pretty clearly that they are somewhat fickle consumers, jumping from one thing to another. But that’s good, because Baby Boomers 25 years ago weren’t drinking wine. Now, based on a certain occasion, we are seeing good wine consumption now, even at higher prices. So I think that’s positive, and then as they mature they will select wine more frequently. I think they are comfortable with it, for one thing. You remember 30 years ago, the biggest topic was how do you try to mainstream wine when it’s seen as an elitist beverage only for wine snobs. And I think there was one winery that was running all this advertising that wine is not for wine snobs, which actually becomes a reverse problem. I think today, and to some extent thanks to Starbucks where people order complicated drinks, simply asking for a glass of Chardonnay or Pinot Grigio is a common task where it wasn’t for people 30 years ago.

Question 5: What do you think will be the hottest issues over the next five to ten years?
Declining consumption. And all of these models on increasing consumption – I lived through the 80s where I saw declining consumption for a decade. And then, I keep wondering, what is to say we are not at the high? Rather than in a cycle. I think we need to make wine exciting again. With millennials, the come-up of craft beer and craft cocktails, and this whole fusion of food to wine. Now we talk about beer in wine/bourbon barrels. It’s very analogous to the wine business now, where if you are a salesman of beer – it used to be where you had the wine guy who was the “sophisticated” guy, and then you had the spirits guy who was the “Vegas” sales guy, and then you had the beer guy who was the “football” guy. Well those days are gone. These guys, these are sophisticated sales now at all three levels. And I think that puts us really in direct competition with beer and spirits in a way that we as an industry haven’t been in before. We’ve got to look at that.
Question 5: What do you think will be the hottest issues over the next five to ten years?

- More engineered wines versus naturally made wine. Where is that fine line where people are sort of manufacturing for taste profile instead of naturally getting towards a taste profile? I think people are going to say that there is real value in engineering these certain taste profiles, and they might get the right profiles and it may not matter how they got there at a certain price point.

- We are going to see a beverage alcohol business with more of these cross-marketing and mixing of different flavors. You can even go back to where you have beer now being put in wine barrels or bourbon barrels and being marketed together as a product. I think you can see some of these ciders as well. How is wine going to play in that? We are going to have to continue to cross market. I think the wine industry has got to continue to look to different alternative packages. Maybe some smaller single serves, wine in cans, etc.
Question 5: What do you think will be the hottest issues over the next five to ten years?

- As more young people travel around the world, they are being exposed to wine and seem to be experimenting in trying. I think that trend is going to continue. I am very excited.

- I think young people are truly getting into sparkling and bubbly wine more and more. They enjoy it, it’s refreshing, and once they get into it they will continue to trade up. And of course they will be moving more towards champagne. And the fine wine business, the super-premium levels — people are constantly craving to drink better as long as our economy can afford it.

- I would say one of the biggest threats that the California cabernet probably has is from Washington. I don’t think it takes the American consumer much to translate from California to Washington. As cost of goods rise here — either through water or land scarcity — we will struggle to keep our prices down and eventually they will calibrate through supply and demand.
Question 5: Summaries

- Water and winery footprints will continue to force producers to look to other sources for grapes and land.

- Private label and consolidation will continue to put threaten brands at the retailer level. Many expect DTC to grow.

- Consumers, while increasingly fickle, will become more knowledgeable as we continue to see them trading up in price and quality.

- Shifting consumer tastes and the continued rise of craft spirits and beer will perhaps force wineries to shift in production and branding.

- For California wineries, will stronger international and non-California domestic competitors detract from increased consumption rates?
2015 Wine Industry Financial Symposium Industry Trends Survey

Compiled by the Wine Industry Financial Symposium Group® and the UC Davis Graduate School of Management
Grower & Producer: 56%
Winery: 13%
Professional/Cons: 10%
Finance: 9%
Lender: 3%
Legal: 2%
Grower only: 7%
Professional/Cons: 10%
Respondent Types (187 total)
2015 - Respondent Locations

- Napa: 39%
- Sonoma: 25%
- Central Coast: 10%
- North Coast: 10%
- Central Valley: 6%
- Northern Interior: 6%
- Foothills: 3%
- South Coast: 1%
- Northern Interior: 6%
- Foothills: 3%
- South Coast: 1%
2015 - How Respondents Think the Consumer Has Changed in the Past Two Years

- 48.0%
- 35.2%
- 34.6%
- 33.0%
- 32.4%

Wants unique experiences
Trading up
Trying new varietals/tastes
Looking for authenticity
Less by
2015 What Respondents Think About the Strength of Red Varietals Over the Next Two Years (Scale of 1 to 5)

- **Cabernet Sauvignon**: 4.41
- **Pinot Noir**: 4.1
- **Red Blends**: 4
- **Red Zinfandel**: 2.86
- **Merlot**: 2.55
- **Syrah**: 2.28
What Respondents Think About the Strength of White Varietals Over the Next Few Years (Scale of 1 to 5)

- Chardonnay: 3.55
- Sauvignon Blanc: 3.51
- Pinot Grigio: 3.2
- Muscat: 2.32
- White Zinfandel: 1.77
Which Price Segments Will Have the Strongest Sales According to Respondents? (Scale of 1 to 5)
Focusing on higher quality, higher profit wines - 83.5%

More consumer direct - 76.5%

Reducing cost of operations - 70.9%

Investing in more wine making or vineyard technology - 68.7%

Investing in more water saving technology - 68.7%

More consumer direct

Reducing cost of operations
Led by world-class faculty, the UC Davis Wine Executive Program focuses on the skills critical to success in the industry.
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www.wineexecutiveprogram.com
WHAT WINE INDUSTRY LEADERS THINK IS IMPORTANT FOR THE FUTURE

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