

Ithaca 2018 Abstract Submission

Title

The Wine Industry in Twenty Years: Will Blenders Be King?

I want to submit an abstract for:

Conference Presentation

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Keywords

Wine Futures, Bulk wine, box wines, blended wines

Research Question

What will the global wine industry look like in 20 years?

Methods

Analysis of trends and projections therefrom.

Results

Conclusions on important parts of the global wine industry in 20 years.

Abstract

The Wine Industry in Twenty Years: Will Blenders Be King?

by Elliott R. Morss

Starting Points

1. Research has shown no correlation between price and the wines people like. In blind tastings, "expert" and "amateur" drinkers are just as likely to prefer low priced wines to expensive ones.
2. But drinkers do have different basic taste preferences: in blind tastings with "experts," the scorings showed little correlation. The same is true for "regular" wine drinkers: little association between wines different tasters liked.
3. I hypothesize that most wine drinkers have preferences in color (red, white) and weight (light, heavy). Beyond that, we have very little more to go on than that tastes differ and Richard Quandt's BS paper.
4. As with perfumes, men's watches, and investment advice, wine preferences are heavily influenced by marketing: brand names, ratings, vineyards, grapes, price, and one's favorite wine merchant.
5. But while marketing will continue to play a major role, wine drinkers overall are becoming more knowledgeable.

I will proceed from these five points and offer future scenarios for the wine industry. I will use other developments taking place in the wine industry to buttress my findings.

The Downgrading of Current Wine Descriptors

In addition to color and weight, vineyards and varietals are used to market wines. First it was vineyards – and the success of certain French vineyards is a testament to just how successful using vineyards as a marketing tool can be. Next, varietals become the primary descriptor. Many like Chardonnays and Cabs while the movie “Sideways” contributed to the popularity of Pinot Noirs.

Bulk Wines

As part of the technical conferences of the 9th Bulk Wine Exhibition, which were placed under the patronage of the OIV, Yann Juban, Assistant to the Director General of the OIV, presented the latest world statistical data with a focus on bulk wines – which, with a volume of over 38 million hectolitres, represent 38% of exported wines at the global level (in 2016).

<http://www.oiv.int/en/oiv-life/bulk-wines-moving-towards-a-better-understanding-of-markets>

Smart marketers and producers are always looking for a new and better way to make money. They note that growing grapes is weather-dependent: some years will be better than others. They conclude their wine production should not be limited to the grapes they grow. Frank Franzia was one of the first to recognize this. He produces his own grapes but also buys and sells other grapes. He once said “I never sell a bottle produced with only my grapes.” The Casella family owns Yellow Tail wines. For this brand, he does not grow any grapes. The Casellas buy almost all their grapes from others. Today, many have copied the Casellas. For example, Barefoot, the largest selling wine brand in the world. They buy all their grapes.

For “urban wine production” to grow dramatically as it has, there must be large supplies of “bulk” wine available. There are. Globally, there has been a significant jump in bulk wines traded across national borders and domestically. UN Comtrade reports that global bulk export volumes have increased 83% since 2000 while bulk export values are up 171%. There is also a large domestic trade in bulk wines. As an example of the US bulk wine market, consider Turrentine, one of several US bulk wine brokers. In December 2017, it had 583,000 hectoliters of wine for sale on its web site. Figure that with 5 brokers of similar size, there are probably 3.5 million hectoliters of bulk wines available for sale at in the US any time.

As an aside, it is perhaps notable that France is the second largest importer of bulk wines, just behind Germany with almost 80% of it coming from Spain. One might wonder whether any of this bulk gets “blended” into any of its vaunted vineyard wines.

In short, bulk wine growth means it is a lot easier than ever before to be a wine producer without growing a single grape.

Blends

With so much bulk around, one need not be limited to just producing varietals. And the popularity of varietals is growing rapidly. According to data from Nielsen Surveys, off-premise US sales of “blended” wines have increased 73% since 2012. And on this topic, consider the above-referenced Barefoot, the largest wine brand in the world. It offers 36 different wines of which 14 are blends.

The Blenders

In 2013, I attended the American Association of Wine Economists in Stellenbosch. While visiting vineyards, I saw a glassed-in room where two people were drinking from various small glasses of wine. I asked a staffer of the vineyard what they were doing. It turns out that it was the vineyard owner tasting wines with her “blender expert.” With all the bulk around, the importance blender professionals will grow. And so far, the blenders appear to be doing a good job. In the US, off-premise sales are up 73% since 2012.

The Implications of Growing Wine Knowledge

Wine knowledge is growing. That means more wine drinkers are coming to understand that price is not a good predictor what wines people will like. This explains in part the growth of high quality box wines, up 107% since 2012.

Further Speculations