



5 TRENDS IMPACTING THE WINE & SPIRITS INDUSTRY IN 2023

WHITE PAPER



**PRODUCTION
PRICES ARE RISING**



DIRECT-TO-CONSUMER CHANNEL



**RESTAURANTS ARE STILL
RECOVERING FROM
PANDEMIC CLOSURES**

INTRODUCTION

The last several years have been a roller coaster for many industries, including wine and spirits. And as we head into 2023, that roller coaster will continue. The challenges that the industry is facing include:

- ❑ Production prices are rising
- ❑ Direct-to-consumer channels are becoming more important for revenue
- ❑ Restaurants are still recovering from pandemic closures

In addition, the wine and spirits industry needs to find a way to tap into the buying power of millennials. In order to do so, the industry will have to rely on showcasing its values, augmented reality, and of course, a high-quality product.

As we look ahead to 2023, expect companies to invest in technology, analyze how to reduce production and transportation costs, and invest in partnerships and marketing strategies to capture larger millennial customers as well as direct-to-consumer subscribers.

Let's take a deeper look at the trends impacting the industry in 2023.



AS WE LOOK AHEAD TO 2023, EXPECT COMPANIES TO INVEST IN TECHNOLOGY, ANALYZE HOW TO REDUCE PRODUCTION AND TRANSPORTATION COSTS, AND INVEST IN PARTNERSHIPS AND MARKETING STRATEGIES TO CAPTURE LARGER MILLENNIAL CUSTOMERS AS WELL AS DIRECT-TO-CONSUMER SUBSCRIBERS.

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LIKE EVERYTHING ELSE, THE COST OF WINE IS GOING UP

In the 2022 holiday season, you spent more on your Thanksgiving turkey, more on the vegetables, and even more on the wine. As a result, inflation has hit your local [liquor store](#).

The wine industry saw a [30% increase](#) in costs in 2022, and multiple factors are to blame. The COVID-19 pandemic didn't help; shuttering restaurants and wineries drove up prices per bottle.

[Increased](#) gas prices and inflation have made it challenging to distribute wine at the same costs.

Globally, wine lovers are also suffering from price hikes. Suntory Holdings Ltd. announced in July that the price of Beaujolais Nouveau increased [by 40% in Japan this year](#). The company blamed rising transportation costs. Japan consumes the most of the notable French wine, with the United States consuming the second largest amount.

In 2021, U.S. consumers struggled to find bottles of [Beaujolais Nouveau](#) because of a dramatically reduced and delayed harvest. The company has yet to announce if drinkers in the United States will also need to pay more.

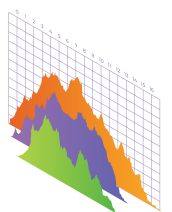
Every business and industry is dealing with inflation and the rising costs of materials, transportation, and labor. Raising the price of your product is one way to make up for the cost increase.

However, some customers, especially cash-strapped millennials, may stop paying up.

Companies will need to employ multiple strategies, such as exploring alternative packaging, such as cans or recyclable materials like boxed wine, to drive down costs compared to glass.



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The data can make a difference as well. Companies can look at transportation routes, the costs, and analyze how many bottles were sold last year to help decide what needs to go to each [destination](#). Even ensuring the trucks are fully packed by partnering with other wineries or distributors can help reduce the cost. Data can help distributors and wineries see where the most wine is being sold and analyze trucking routes to those stores in order to minimize transportation costs.

The alternative strategy is to lean into premium channels.

Despite the turbulent stock market and an unsteady economy, one thing that has remained stable is [baby boomers'](#) love for premium wine.

[Sales of bottles of wine priced at \\$100](#) or more were up 34.2% in value and 36.1% in volume in the second quarter of 2022. In contrast, sales of wine at \$30 or less were down 9.4% in volume and 8% in value.

"Affluent consumers drive demand for super-premium brands and may be more recession-resistant under some circumstances, but a look at the results during the global financial crisis suggests that even these consumers are not recession-proof," Rabobank's global strategist for beverages Stephen Rannekleiv told [The Drinks Business](#).

For brands looking to focus on premium wine, consider which wines have the best showing and consolidate. Many brands are offloading [wines under \\$11 a bottle](#), such as Constellation Brands, which sold E&J Gallo Winery to focus on its premium offerings.



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THE WINE MARKET IS FINALLY GROWING

The Global [Wine Market](#) accounted for \$489.3 billion in 2021 and is estimated to grow to a market size of \$825.5 billion by 2030, growing at a compound annual growth rate (CAGR) of 6.1% through 2030.

This industry should receive this projection as encouraging news after a few years of pandemic stress and millennials not buying into the wine industry as their boomer predecessors have.

Fueling the growth is the growing urban inclination for exotic wine, surging demand for alcoholic beverages, and rising consumer socialization with liquors.

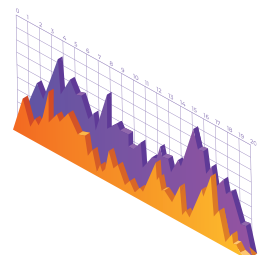
Online alcohol sales rose 167% in 2020, leading to more acceptance of liquor consumption socially. In addition, consumers' desire to travel has increased, and they are seeking activities that serve alcoholic beverages while vacationing. Consumers are also seeking out low-calorie drink options, giving the wine market an avenue to shine.

On the industry side, significant players are leaning into new product launches, and partnerships, which the report predicts will increase the wine market's growth.

In order to achieve this predicted high growth, the industry will need to watch for its constraints, which include a gradual shift of consumers picking other alcoholic drinks, such as Ready-to-Drink cocktails and specialty beers, as well as dealing with the high prices of wines due to high manufacturing costs.



CONSUMERS ARE ALSO SEEKING OUT LOW-CALORIE DRINK OPTIONS, GIVING THE WINE MARKET AN AVENUE TO SHINE.



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IT'S NOT THE WINE: YOUR BOTTLES REALLY ARE INTERACTING WITH EACH OTHER

During the height of the COVID-19 pandemic, most customers used their phones to scan [QR codes](#) and read menus. But now wine labels are using that habit to provide extra entertainment and help your glass of wine come to life.

Some wine brands want you to drink wine in the real world while exploring the world of augmented reality at the same time.

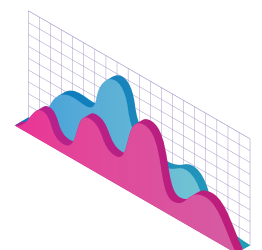
Emerging wine brand [19 Crimes](#) transports its customers to a historical mystery based on British prisoners sent to Australia for committing one of 19 crimes. Every bottle tells the story of a different prisoner, which you can unlock through [augmented reality](#) and your phone. The brand calls these “living wine labels.”

To fully unlock the experience, customers need to download an app that helps unlock the stories. The experience has been compared to Pokemon Go. In 19 Crimes’ case, the prisoner comes to life and tells you their story in their own words, providing some extra entertainment while you sip.

The inspiration for the crimes started with the British prisoners, but this year the brand released collaborations with Snoop Dog and Martha Stewart, whose Chardonnay received 91 points by Wine Enthusiast.



SOME WINE BRANDS WANT YOU TO DRINK WINE IN THE REAL WORLD WHILE EXPLORING THE WORLD OF AUGMENTED REALITY AT THE SAME TIME.



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This may sound like a fancy gimmick, but wine labels and producers need new tactics to increase millennial wine consumption.

Millennials are consuming far less wine than their baby boomer predecessors. And unfortunately, the news gets even worse—millennials are less loyal to brands, with only [24% knowing what they were going to buy](#) before walking into the store.

However, they also want a brand that matches their values. This makes the label that much more critical and a way to convey what the brand stands for.

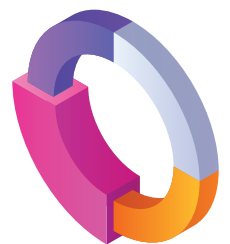
Millennial wine drinkers are looking for brands with a unique story or narrative, and that's precisely what [19 Crimes](#) provides.

"19 Crimes defies convention. This is a wine brand that tells a rich and authentic story and has proven to have strong appeal to millennial consumers," said Michelle Terry, chief marketing officer in the Americas for Treasury Wine Estates. "It is, without doubt, one of our most successful innovations."

For brands looking for a new way to capture the fickle millennial market, it will take some innovation and money to create this augmented world and bring it to life. According to [the ITRex group](#), a typical augmented reality app will cost between \$25,000 and \$35,000, taking two or three months to develop. While augmented reality may require an upfront investment, it could end up paying dividends for an organization.



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WINE SALES IN RESTAURANTS ARE ALMOST RECOVERED FROM THE PANDEMIC

Where people bought their wine drastically changed during the pandemic. Instead of getting a glass of wine at a bar, consumers bought bottles at the grocery store.

In 2019, U.S. restaurant wine sales totaled \$864.3 billion. In 2020, it plummeted to \$659 billion. In 2021, sales recovered to \$789 billion. However, the 2021 figures are still down [8.7% from 2019](#).

While it's encouraging to see the rebound, the tension point is if restaurant wine sales continue to grow rests in the price per glass. The cost of wine bottles in grocery stores remains the same, but the price of a glass or bottle of wine continues to increase when dining at a restaurant. Consumers have noticed that widening gap, and many have decided they don't want to pay the markup.

According to Nielsen calculations, the restaurant industry's average cost for alcohol is about \$1.02 for a 12-ounce serving of beer, \$0.88 for a 1.45-ounce serving of spirits, and \$1.51 for a 5-ounce pour of wine. That makes the cost of wine 72% more expensive compared to spirits at a restaurant.

Silicon Valley Bank's annual State of The Wine Industry report projected, "Restaurants may find that wine is not in demand at the prices charged and that the cost to maintain deep stocks of wine is becoming senseless."

The report went on to predict, "The percentage of an average winery's sales dedicated to the restaurant channel in 2021 is probably unsustainably high, given that the restocking at restaurants during reopening was a one-time event, that wine is continuing to lose market share to spirits and that same-store sales have already exceeded pre-COVID sales."

If restaurants continue the markup, wineries will need to rely more on tasting rooms, off-premise sales, and DTC channels.



ACCORDING TO NIELSEN CALCULATIONS, THE RESTAURANT INDUSTRY'S AVERAGE COST FOR ALCOHOL IS ABOUT \$1.02 FOR A 12-OUNCE SERVING OF BEER, \$0.88 FOR A 1.45-OUNCE SERVING OF SPIRITS, AND \$1.51 FOR A 5-OUNCE POUR OF WINE. THAT MAKES THE COST OF WINE 72% MORE EXPENSIVE COMPARED TO SPIRITS AT A RESTAURANT.

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DTC ON THE RISE

[Direct to Consumer](#) (DTC) wine sales became an integral part of wineries' ability to survive during the pandemic. However, once tastings rooms reopened, Silicon Valley Bank's annual State of The Wine Industry report predicted DTC prices to remain stable and the share of total sales to either stay steady or perhaps decrease.

However, sales stayed strong and prices actually increased.

Today, [DTC sales](#) represent about 10% of total wine industry sales in the U.S. and about 65% of the average winery's total revenue in 2021. DTC sales have continued strong, with 2021 sales exceeding every monthly benchmark compared to 2020.

A recent [ShipCompliant](#) report stated the value of the winery DTC sales channel totaled \$4.2 billion, driven by an 11.8% increase in average price per bottle on 8.5 million cases shipped from American wineries.

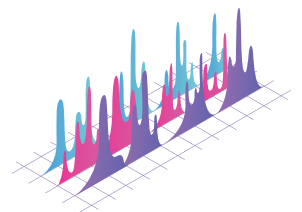
"We projected a significant decline in 2021, but online sales continue to hold strong, and we now have a team member dedicated to this channel," Aileen Sevier, the VP of strategy and marketing for Virginia's [Early Mountain Vineyards](#), told SevenFiftyDaily.

The success shows DTC is more than a trend and is becoming a mainstay in total revenue for wineries in the United States.

"We are currently 60% DTC, and we want to move that to 90%," Trey Busch, a cofounder of [Sleight of Hand Cellars](#) in Walla Walla, Washington, told SevenFiftyDaily.



TODAY, [DTC SALES](#) REPRESENT ABOUT 10% OF TOTAL WINE INDUSTRY SALES IN THE U.S. AND ABOUT 65% OF THE AVERAGE WINERY'S TOTAL REVENUE IN 2021. DTC SALES HAVE CONTINUED STRONG, WITH 2021 SALES EXCEEDING EVERY MONTHLY BENCHMARK COMPARED TO 2020.



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Busch implemented targeted strategies to increase her DTC channel, which included:

- ❑ Opening a second tasting room in Seattle, a city with high traffic
- ❑ Holding audience-participation events at both tasting rooms
- ❑ Offering four different tasting clubs in order to provide something for everyone

"You have to start with great wine, or you'll get nowhere," Busch said, "but your tasting room has to be a fun place."

DTC growth is somewhat tempered by local state laws that ban DTC shipping. However, states such as [Delaware](#) are looking to end this ban soon. If they end the ban, Mississippi and Utah will be the only remaining states completely outlawing DTC alcohol shipping. Arkansas, Delaware, and Rhode Island allow on-site shipments but not off-site shipments.

In order to sell DTC, the winery must:

- ❑ Use a common carrier (FedEx or UPS) for delivery
- ❑ Have the appropriate state's direct-shipping license
- ❑ Pay tax in the destination state
- ❑ Build in an age-verification process to ensure a 21-year-old is signing for the package

Despite these hurdles, wineries want to invest in the channel in order to diversify revenue streams. Silicon Valley Bank predicts online sales will continue to grow as an essential part of DTC efforts and expand past its current share of 9% of wine industry sales.



YOU HAVE TO START WITH GREAT WINE, OR YOU'LL GET NOWHERE, BUT YOUR TASTING ROOM ALSO HAS TO BE A FUN PLACE.

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CONCLUSION

Wineries and distributors have an exciting year ahead to showcase what they do best, which is to make and sell good wine.

However, each segment of the industry has to reconcile with rising costs, whether that's the rising cost of a glass at a restaurant or production costs.

To have a successful 2023, brands and distributors must focus on:

- ❑ Using data to ensure trucks are full when they ship wine
- ❑ Investing in strategies to gain millennial customer loyalty, such as augmented reality or experience-based events at tasting rooms
- ❑ Continuing to cultivate alternative revenue streams, such as direct-to-consumer channels

2022 brought lots of promising news and growth for the wine industry, setting the industry up for a strong 2023 as long as they adapt based on the story the data is telling them.



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CONTACT:

60 Mall Road
Burlington, MA 01803
t: 781.229.9111
www.dimins.com

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