

POTHOLES, PITFALLS, & OPPORTUNITIES

*What is
the New
Normal?*

What is the New Normal?

**What is
the New
Normal?**

Tony Benedetti
Chief Financial Officer
Honig Vineyard & Winery
June 2, 2009

Where Did the Wine Sales Go?

In 2007

- In 2007, times were good. Generally, wineries were experiencing record sales
- American consumption of wine reached record levels on a per capita basis.
- **Was this the Old Normal?**



- But in December 2007, the recession officially begins, though of course, no one knew it.

In 2008

- Wine sales for the first three quarters of 2008 was like driving a Ford Pinto – you stepped on the gas and just didn't go anywhere.
- **Normal seemed to be Flat.**
- However, in the fourth quarter of 2008, sales seemed like they fell off a cliff.



In 2009

- January 2009 – Just how high was that cliff because sales just kept falling after a terrible OND 2008?
- 2009 Year To Date – Sales are well below 2007 and 2008 levels. I have heard of 10% to 40% declines in sales.

- Is this the **New Normal**?



- Have we hit bottom yet? Recent economic reports say the recession may be over at the end of 2009, but economic growth is predicted to be slow.

What Are Wineries Experiencing Today?

- Beginning in late 2008, “premium” brands experienced declining sales and the decline continues today.
- “Value” brands are faring better than premium brands and the under \$10 brands seem to be doing just fine.
- Wineries are working harder to limit declining sales by making more phone calls to distributors and spending more time in the markets.

- Distributors reduced their inventory levels in 2008. Reducing floor inventory equates to a corresponding one time drop in winery sales.
- Distributors are concentrating on brands with “pull through”.
- Distributors are dropping brands that are not selling well.
- Distributors are not taking on new brands!!!!!!!

But wait.....

The price of Napa Cabernet grapes increased by 13.2% from 2007 to 2008 based on California Grape Crush Report Table 10.



How did grapes prices increase when wineries **cannot** raise their wine prices, or are discounting in this economy. Is this sustainable?

Is it the Economy.....?

A few points from a recent article in Bloomberg:

- Unemployment may settle at a level greater than 8%.
- The economy will grow at an annual rate of less than 2% in 2009.
- The last time the economy grew at an annual rate of less than 2% was in the decade of the 1930s when it expanded at an annual rate of 1.3%. In the 30 years prior to this recession, it was 2.9% and in the last 15 years it was 3%.

- For the 6 months ending in the first quarter of 2009, the economy shrank 6.1%, the worse since 1957-1958.
- “This is going to be a new era of frugality ...This is a (material) change in household attitudes.”
- “In the era of the Cleavers, Americans were not up to their eyeballs in debt, and they weren’t a three car family with 5,000 square foot McMansions?”

What is the New Normal?

Is the wine consuming public going *to make a long term or a permanent shift downward* in its buying price points (to less expensive wines or imports)? **Is this the New Normal?**

Or

Will the wine consuming public return to old buying habits and pay pre recession prices for their favorite wines?





"The hell with the past—I'd like to put the future behind us."

What are Wineries Doing If this is the New Normal?

- The standard line for wineries is “We are working harder”.
- Wineries need to focus on everything they can do to increase wine sales. More marketing, more market visits, improved relationships with distributors.
- Wineries must adapt and they must be flexible.

- Inventory management is paramount. Wineries must keep production in line with sales.
 - Reduce grape purchases (cancelling grape contracts if terms allow).
 - Sell grapes instead of making wine (protects grower relationships).
 - Sell bulk wine.
 - Or the most preferable, sell more cases.
- Sustainability: A winery must execute these strategies and remain profitable (or at least limit losses) to stay in business.

The Winery Grower Relationship

- For large wineries, the grower-winery relationship is largely based on supply and demand in the grape market.
- For smaller wineries, it will be important how the grower- winery relationship is handled during this recession. What concessions are made and will those be remembered in good times?
- Wineries cannot pay more for grapes at a time when they cannot raise wine prices or they are discounting. There needs to be communication between the grower and the winery.
- Are growers selling grapes to wineries that make wine that can be sold in difficult times? Do I know who I am doing business with?
- In these times, wineries and growers need to share the pain in the form of reduced margins.

Long Term.....

- Wineries need a continuous source of high quality grapes at a price they can afford.
- Grape growers want financially strong, stable wineries that will buy, and pay, for their grapes year in year out.



The Inter Dependent Relationship Between Growers and Wineries



Points to Ponder



- Are we experiencing a **NEW NORMAL** and how long will it last?
 - A **NEW NORMAL** will depend on whether wine consumers permanently change their buying habits to “value” wines or return to their previous buying habits?
- If there is a **NEW NORMAL**, wineries and growers will have to adjust and be flexible. A price/quality equilibrium must be found?
- In a **New Normal**, is my product a value (price/quality) product? Can my customers afford it? Do I care?

- In a **NEW NORMAL**, am I following a financially sustainable model that will ensure the long term success of my business?



A quote:

**“These are the best of times,
for those who can see beyond them.
These are the worst of times,
for those who are mired in them.”**

One Last Point



MICHAEL HONIG
- ON -
SUSTAINABLE
FARMING AND
SOLAR POWER

Rolling Stone

HONIG ROCKS!

HOT NEW RELEASE
2007 SAUVIGNON BLANC
BY KRISTIN BELAIR



MADE IN AMERICA