

2025 Direct-to-Consumer Wine Report

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Forward

There is plenty of disappointing news to go around, but despite metrics to the contrary, I see something positive. What I'm referring to isn't misplaced hope or positioning the glass as 30% full. There is tangible evidence that we're moving forward through this cycle and taking active steps to improve business conditions. In addition, this report calls out the success smaller wineries are having negotiating change.

While there is progress and we discuss some instances of success within, we aren't done with this cycle just yet. But we are progressing through the stages needed to get there, accepting some harsh realities and implementing tactics to improve performance – all signs of real progress.

Early on, as SVB started to digest the data and acknowledge the signs pointing to oncoming difficulties, several fellow analysts and I noted that the disappointing news wasn't affecting all producers. About one-third of the wine industry was still growing and doing well, while two-thirds were not.

Looking at the current metrics, I think that narrative is shifting in a positive way. Roughly the same number of wineries are growing as wineries shrinking now, while an increasing percentage are showing flat sales growth, which for most is an improvement. I think these developments are driven by the wineries' actively evolving strategies.

Another piece of good news is the positive momentum of the Direct-to-Consumer (DtC) model, an option that is particularly important at this time given RNDC's decision to exit California. The DtC model has developed into the sales tool it is today because the wholesale channel became more selective with representing small clients. Today the average winery sells 70% of its production direct and does so with greater control over their brand and sales channel. Where would we be without DtC?



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Rob McMillan is one of the top wine-business analysts in the United States and the author of Silicon Valley Bank's highly regarded annual State of the Wine Industry Report, described by The New York Times as "probably the most influential analysis of its kind."

With Rob's decades of experience researching the industry and working with winery clients, his views are sought after and trusted by winery owners, journalists, entrepreneurs and investors.

He is a prominent speaker, domestically and internationally, and you will find him extensively quoted in the national, regional and trade press.

Introduction



Introduction



Starting in 2018, we began discussing this current market in the SVB State of the Wine Industry Report. Since most metrics then were improving, my cautionary comments were compared to what was observed at the time—improving industry sales. Some of our readers concluded that I was being overly pessimistic.

That's called recency bias. The belief that trees always grow to the sky when the sun shines. Of course, they don't grow to the sky, but the opposite is true as well. Roots don't grow to the center of the earth when there are clouds. Perhaps that's not the most fitting analogy, but I'm guessing you understand my point. Even if we don't see significant changes in metrics today, we must be willing to accommodate a positive surprise. And in a challenging market like today, we shouldn't lose perspective.

During the last decade, we have done our best to offer a balanced view of the facts, uncover threats and opportunities, provide support and a forward view. We aren't always right with our predictions. Sometimes our

predictions come to fruition a year later. Other times, an event like COVID throws all predictions out the window. Through it all, our goal is to provide prescient thought leadership that supports the industry.

Making predictions today has become more difficult as deviations from familiar patterns are developing in waves. For example:

- Artificial intelligence will likely produce one of the most impactful changes since the internet became widely available in the 90s.
- Global politics has become increasingly polarizing and unpredictable, creating uncertainty in world economies and equity markets.
- Aging populations across the U.S. and Asia pose challenges to retirement funding and labor availability and are causing core changes to demand across many retail segments.
- Neo-prohibitionists have done an excellent job gaining mindshare, particularly with the under-30-year-old consumer.
- Changes in immigration policy are affecting the farm labor supply while evolving trade policies are impacting the availability and price of materials.

In the wine industry, many of the changes above have resulted in diminishing sales growth across most primary channels. We are facing increased manufacturing costs, a tight labor market and a supply imbalance. However, all is not lost. Next up, we'll share some emerging business strategies that are showing some promise.

Success Guide and Strategies



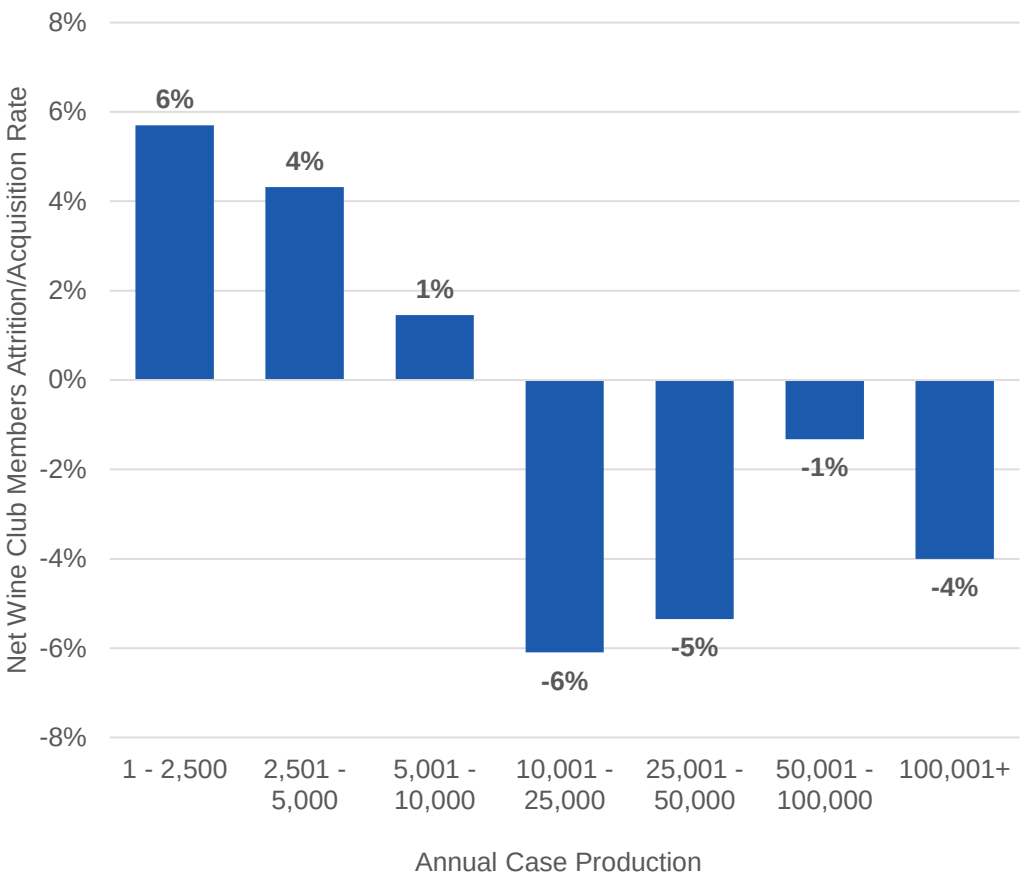
Success Guide and Strategies

This year’s SVB Direct-to-Consumer Survey included a few open-ended questions for wineries with more than 5% club growth. Our goal with these questions was to understand the strategies successful wineries are using to combat industry headwinds and attract the 30- to 46-year-old cohort. We collaborated with wine industry data analytics firm Enolytics to develop a Success Guide that will be offered exclusively to this year’s survey respondents. We will share a sample of the information here as we were rewarded with fascinating results.

While there is no question that total visitation rates are trending down in virtually all regions, the respondent group showed that an almost identical number of wineries increased their club membership as those who lost club members. There was a third group that fell between 5% growth and minus 5% club shrinkage. We hypothesized that the smaller wineries were performing better than larger ones, and that turned out to be accurate, as the nearby chart demonstrates.

Regrettably, no strategy stands out that explains the advantage smaller wineries have in club growth. Our best guess is that smaller wineries have a more intimate service model that emerging consumers may consider more authentic and appealing to their values. That may be a worthwhile clue for wineries with lower success rates that are looking for a path.

Net Wine Club Acquisition Rate



Winning with the 30– to 46-Year-Old Demographic

As the wine market continues to shift to younger and less affluent age groups, there are a few commonalities with the newer consumer demographics that should be considered; highlighted in several studies and reports, including the Bain-Altgamma Luxury Goods Worldwide Market Study:

- Younger consumers engage digitally more than previous generations, impacting their purchasing process and decisions.
- Younger consumer communities and online influencers have more impact than traditional wine reviews.
- The expected time between a digital purchase and delivery continues to shrink.
- The time required to make a purchase is also decreasing, with younger consumers making decisions much faster than their elders.
- This evolving consumer group expects brands to align with their values and passions.
- To engage this key demographic, data from the SVB DtC Survey shows that successful wineries prioritize:
 - Building communities and encouraging peer-to-peer communications versus top-down messaging.
 - Authentic and differentiated brand storytelling, i.e., daring to be untraditional.

- Offering personalized customer experiences driven by investments in data management and robust CRM systems.
- Creating shareable experiences for winery customers to connect with their own cohort. Instagram continues to be effective here.
- Demystifying wine and moving away from traditional educational approaches as the primary focus.



What's noteworthy is the emphasis on authenticity and community rather than digital tactics, standard operating metrics or value-driven messaging. To some extent, these strategic priorities could be seen as essential since successful wineries have embraced them.

However, several strategies found in the survey responses were not easily categorized within the standard classifications identified for analysis. Some wineries were using more innovative and unconventional approaches, so our approach with the data had to evolve.

So, how are these innovative wineries attracting people aged 30 to 46? It may sound simplistic, but they begin by emphasizing fun and are evolving tasting programs specifically for the 30–46-year-old demographic. The strategies that caught our attention include:

1. Gamifying tasting experiences rather than concentrating solely on winemaking techniques or the flavors consumers should encounter. Understanding that there is more to the experience than the wine itself.
2. If your permit allows, offering beverage options that pair well with wine. This may include beer, brewery-inspired selections, kombucha, non-alcoholic wine, seltzer and wine-based RTDs.



3. Participating in, and developing more fun and engaging events. Discovering where the age group is enjoying themselves and selling your products at those venues and occasions. Participate in their celebrations or bring these events to life on your own property.
4. Publishing provocative blogs: content that challenges traditional views, sparks debate and seeks to disrupt the status quo.
5. Adjusting pricing and wine offerings to appeal to more frugal, entry-level consumers.
6. Appreciating that this demographic travels in groups. Leverage the power of social circles by linking visitors coming together in your CRM. Consider encouraging small groups to return together by asking questions and planning tailored experiences based on their preferences and interests.
7. Expanding your marketing communications initiatives into new arenas. For example, respondents mentioned Substack as an engaging content platform and RedChirp® as an appealing tool for customer text communications.
8. Collaborating with groups like alumni associations as they have a higher participation rate from this demographic.
9. If you aren't already doing so, fully embracing data and analytics, especially concerning wine sales. Artificial intelligence is already having a significant impact on content creation and processes. It will reshape how we think and make decisions in the near future. Don't get caught falling behind with this rapidly emerging opportunity.
10. Using a streaming music service targeting the cohort: Attract the group you wish to draw in by playing music they would enjoy. For example, Hipster Cocktail radio on Pandora is a viable choice.

While not mentioned frequently enough to be a finding in this year's responses, I have consistently encouraged brand growth in cities and regions distant from the winery to avoid over-dependence on your wine country tasting room as the sole channel for club growth. That's not meant to imply that you should pursue dozens of markets. Start with one. For example:

- Becoming the best out-of-region winery in an area you personally enjoy visiting.
- Engaging with the community in a location with fewer direct competitors.
- Targeting places where shoppers and consumers flock for entertainment and dining.
- Ensuring your wine is showcased with local charities, and available in local restaurants and wine shops where you can promote bottle signings and develop a personal connection with business people and customers.



What Less Successful Wineries Focused On and Why Their Strategies Were Less Successful

Tools Over Relationships

Perhaps overly focused or distracted by their own market challenges, wineries with shrinking revenue and club numbers approached the same business headwinds in different ways. While less successful wineries demonstrated more of an inward focus, that may have been a case of circular reasoning.

A struggling winery will probably take the obvious path of cutting expenses. Of course, a well-run winery should watch the expense lines too, look at process improvement, watching over grape contracts, return on spending and efficiencies. But it's still critical to support the top line even when reducing expenses. Expense cutting has a limit with success. So, survey responses from this group of less-successful wineries indicated they focused on:

- Key performance indicators, or KPIs, based on operations and efficiency.
- KPIs that focused on expense control and time management, versus finding the best ROI with spending decisions. (Cutting expenses versus measuring spending impact.)
- Discounts and promotions. While a useful strategy if implemented with the right tactics, it should still focus on brand value creation.

The data shows that the less-successful wineries focused more on process improvements than on strategy that might enhance the customer experience or build customer relationships.



Direct-to-Consumer Channel

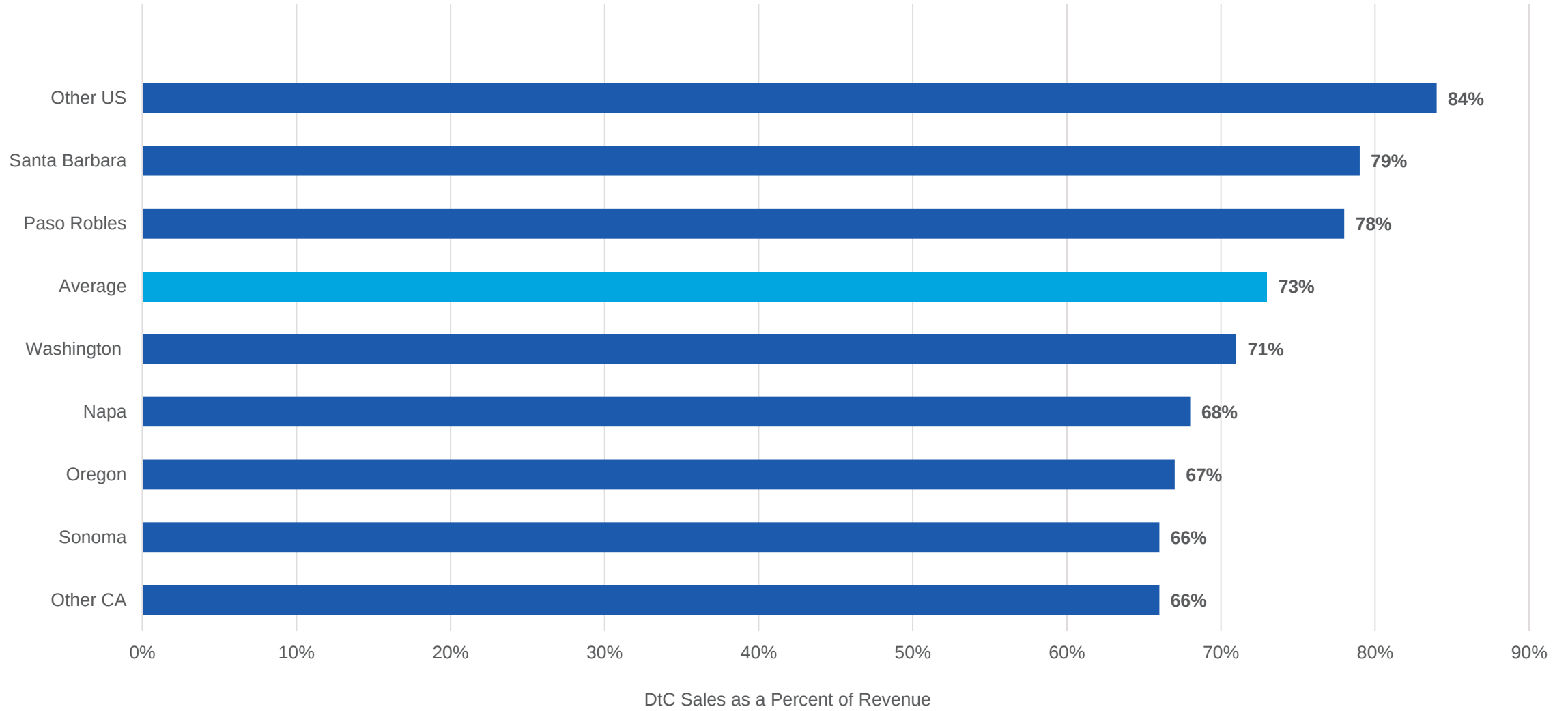


Direct-to-Consumer Channel

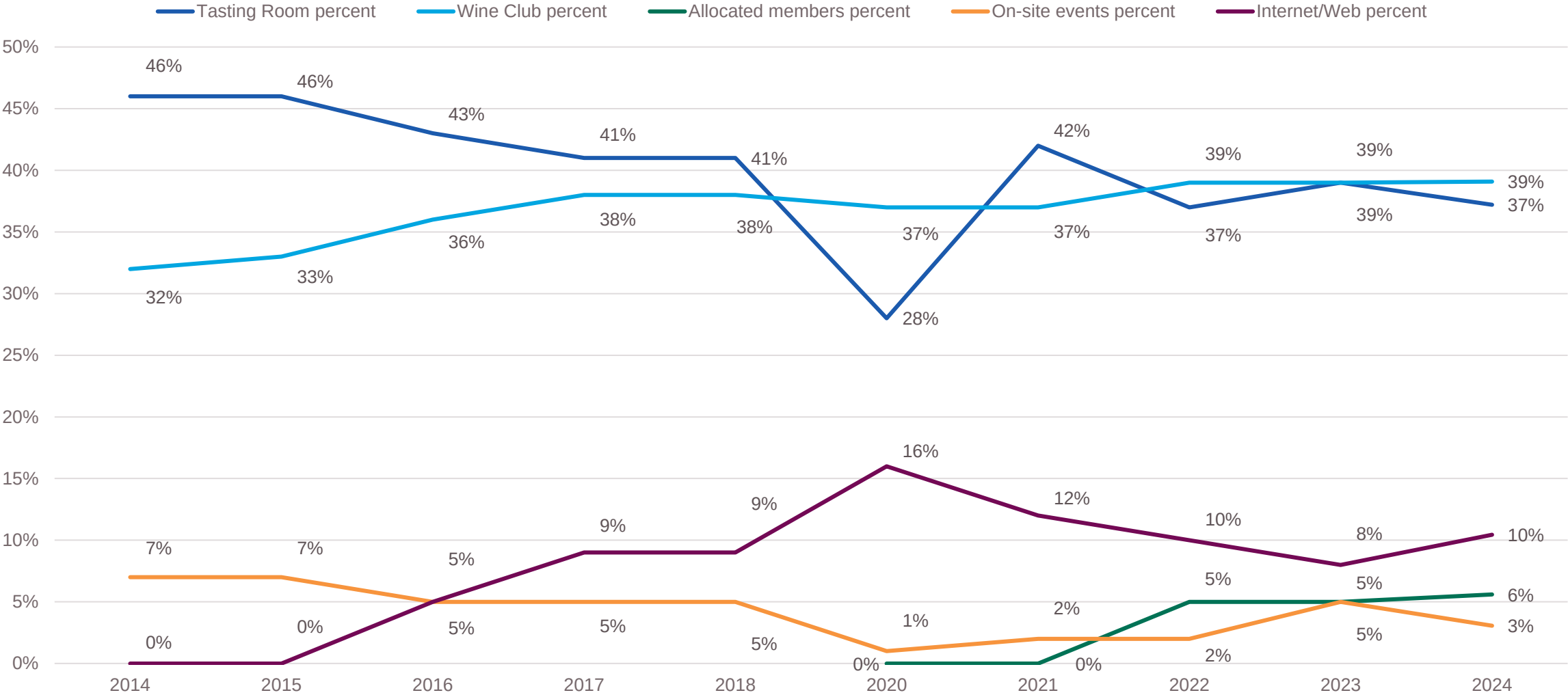
- Sonoma and Virginia were the two regions with the highest reported DtC sales growth rates.
- The wine industry has an advantage over other alcohol-beverage producers as the only alcoholic category with a constitutionally supported right to sell directly to consumers.
- The direct-to-consumer sales channel has evolved and continues to do so. In the early 2000s, the primary source of revenue in this channel was the tasting room. Since then, clubs have increased in significance and now occupy the most prominent position in the average winery's direct-to-consumer sales strategies.
- E-commerce has continued to lose traction post-COVID.
- DtC sales for small wineries are higher as a percentage of total revenue compared to large wineries.
- Higher nominal direct-to-consumer revenue is more often produced in larger wineries, many of which run multiple smaller wineries.
- Discounting to drive volume sales is common today through flash sites, but not in an obvious manner at the winery that is focusing on DtC. More often at the winery, incentives for direct sales are found using discounted shipping and shrinking the volumes produced of targeted direct-to-consumer SKUs. In a more general way, excess wine in the premium segment is being moved through private label to diffuse the brand impact.



Proportion of Regional DtC Sales

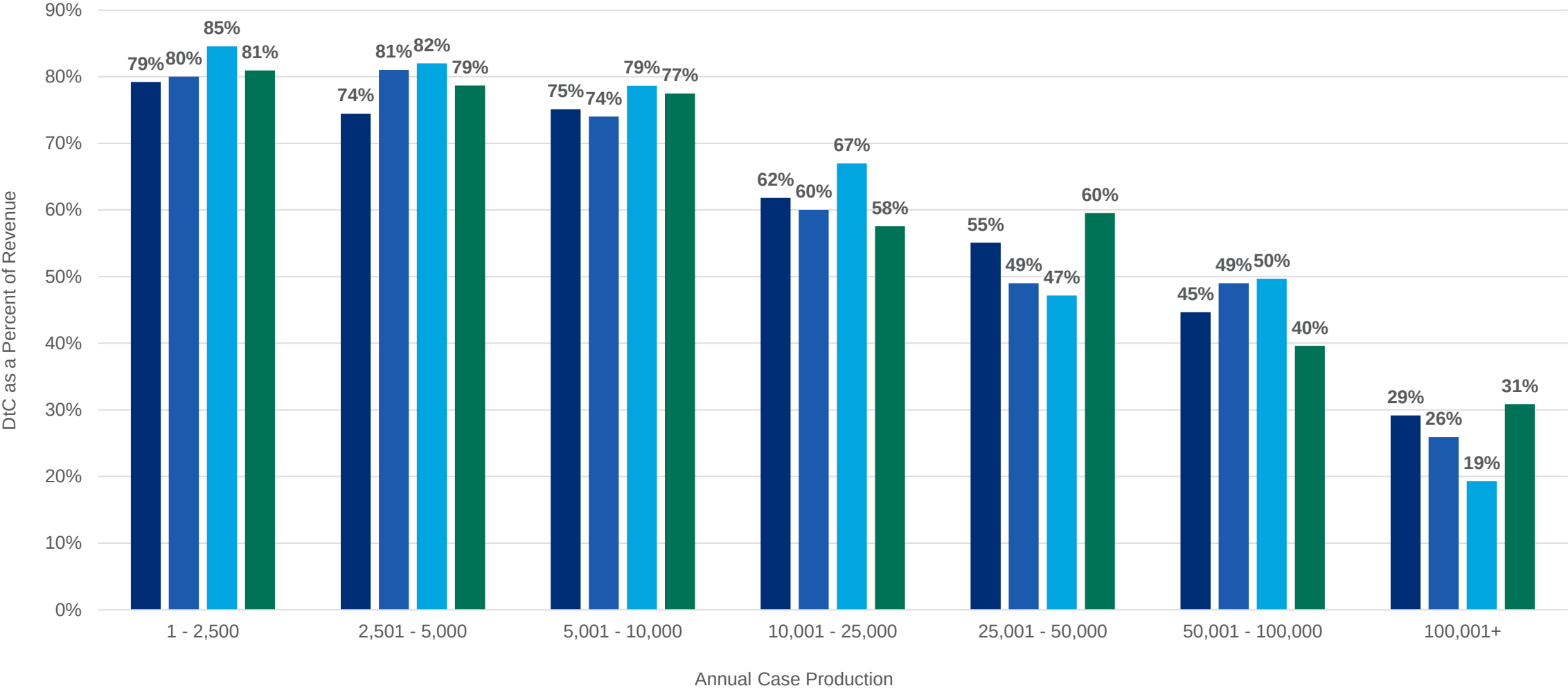


Change in Share of DtC Sales Channels

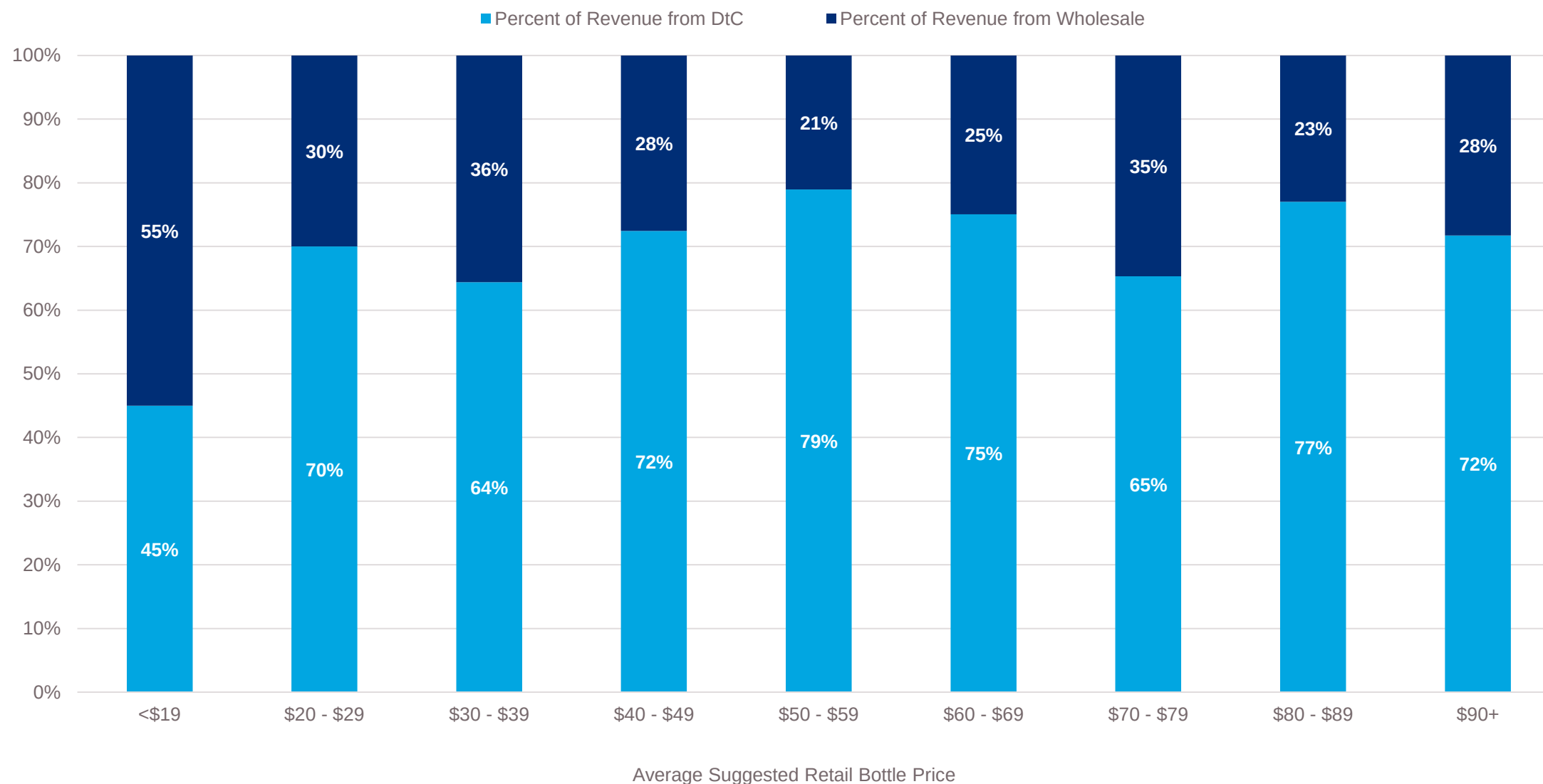


Annual DtC Share in Case Production

■ 2021 ■ 2022 ■ 2023 ■ 2024



Wholesale vs Direct Share by SRP



Increasing focus has been placed on wine clubs versus pure tasting room sales over the past decade. The SVB DtC report, starting in 2011, provided metrics for the industry when few benchmarks existed. This data has helped shape the industry's direction by giving owners tools to make more informed decisions.

In 2020, due to COVID closures, many wineries found that their saving grace was with their wine clubs. With COVID still looming, 2022 was the first year that wine club sales surpassed tasting room sales. At the time, there was every reason to anticipate this trend would continue, but COVID proved challenging for analysts, and events did not unfold as expected.

Internet sales exploded during the COVID lockdowns, and according to some, the size of the online growth was expected to cut five to ten years from the prior rate of mobile adoption. Interestingly, internet sales in the wine industry became a significant component of DtC sales during COVID, but as social activities normalized, internet sales moved closer to pre-COVID levels. Between internet sales and direct sales from the tasting room, which has the lower delivery cost?

As the industry growth rate slows today, it's disheartening to see that a promising channel like e-commerce is not getting the attention it deserves.



DtC and Tasting Room Observations and Strategy



DtC and Tasting Room Observations and Strategy

Direct-to-consumer shipping would never be what it is today without the *Granholm Decision*, which in 2005 provided the basis for the state-to-state legalization of direct sales. But it wasn't until the early 2010s that today's tasting room model began to take its current form.

Memories fade. Recalling what it was like to change the sales model from 15 years ago is difficult. During that period, we were more binary in our thinking: The distributor's job was to sell wine, and the winery's job was to make wine.

We lacked so many skills. Those days are memorialized in a popular posting on 'SVB on Wine' from March 2013 titled [What's the One Job Wineries Can't Fill?](#) The post addressed a severe shortage of resident talent available in the industry. We lacked sufficient personnel with the diverse skills necessary to lead the transition to a direct-to-consumer model.

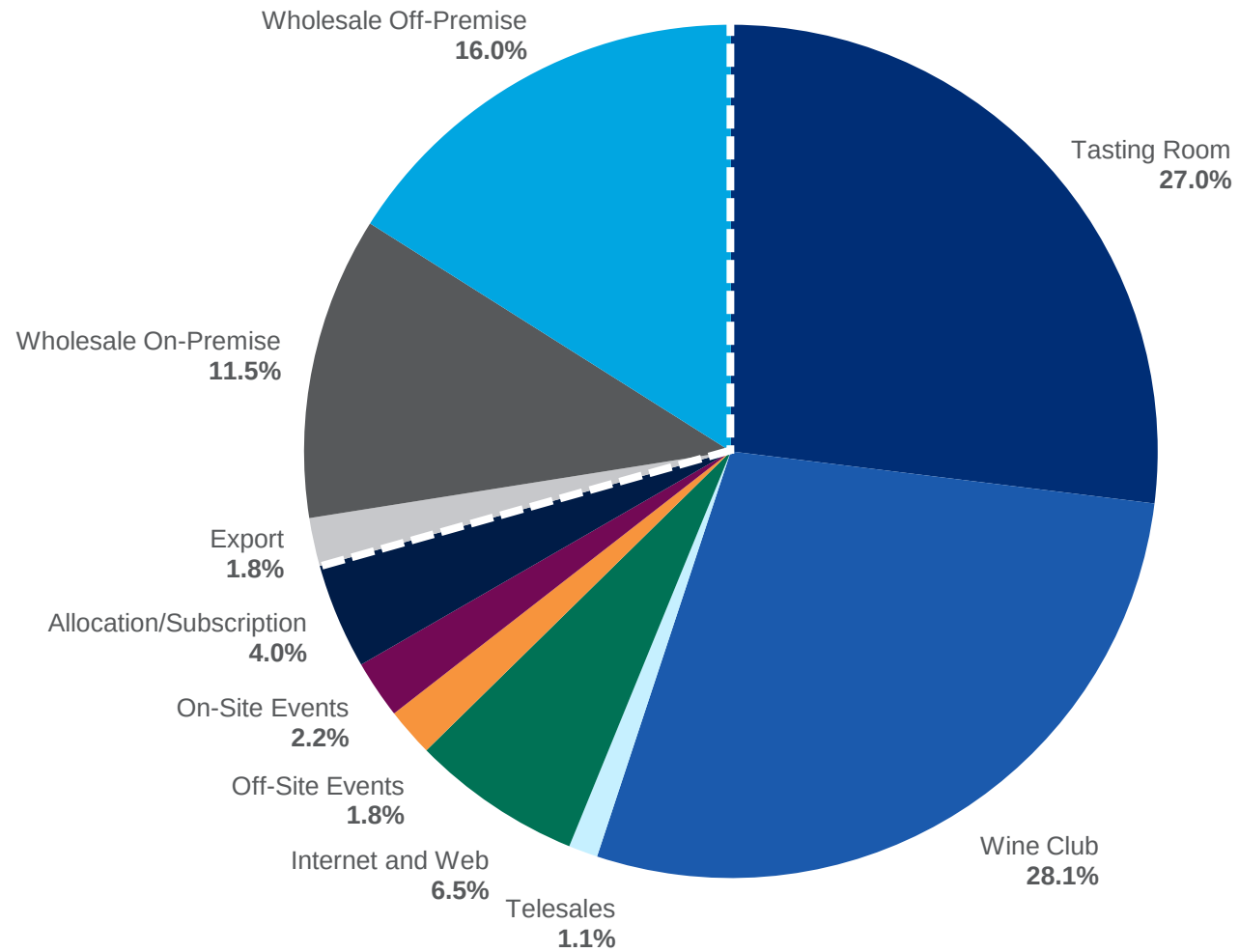
We are at a change point again and need to adapt. We have a roadmap. There is a change model to follow. The DtC evolution wasn't cooked up in a boardroom. Decision-makers didn't know exactly where they were headed with DtC sales tactics, but they made a directional change, evaluated, adjusted, and, perhaps most importantly, collaborated.

The constitutional carve-out of the DtC model in the wine industry is the envy of the entire alcoholic beverage category, which all share in the challenges posed by evolving consumer tastes. We did make the complete change to DtC in the last decade and today, the average winery derives 70% of its revenue from DtC sales.

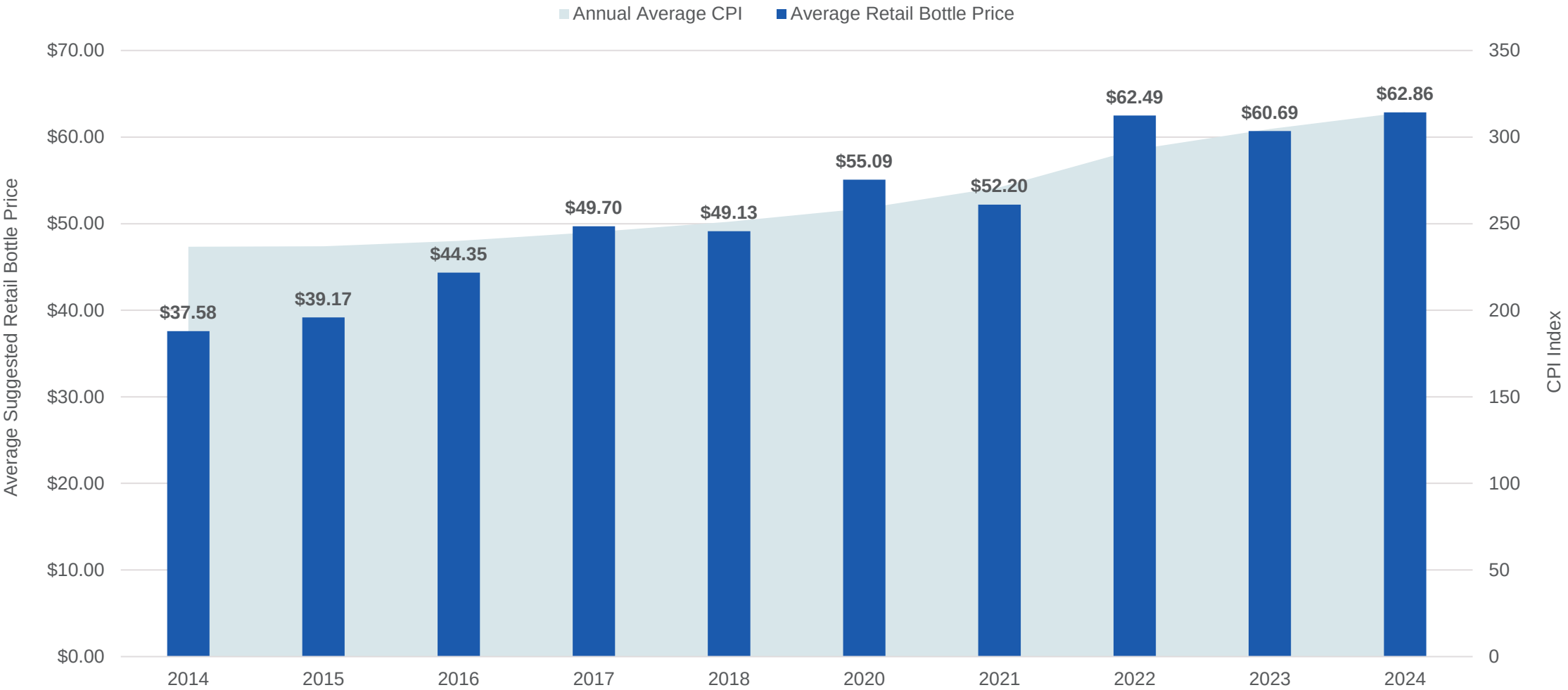
Today, we've been through a change cycle and we possess the resident experience to tackle another period of change. The laws that support DtC are established, giving wine an advantage over the other alcohol beverage categories. Now, all we need to do is take advantage of our built-in advantages and collaborate, and I'm convinced we'll find success.



Sales Channels in 2024



Average Bottle Price vs CPI Inflation Rate



In the early 2020s, the price of wine spiked for two reasons. The onset of COVID closed tasting rooms, impairing in-person sales opportunities. Additionally, it was a short vintage due to the smoke damage from fires throughout the West Coast. So, the late 2010s and early 2020s wines were rationed, and prices across vintages were taken higher to compensate for the lost sales volume. COVID then exploded the supply chain, driving material costs higher. Bottle price increases in smaller wineries taken in early 2021 helped replace the gross profit lost due to volume reductions and cost increases.

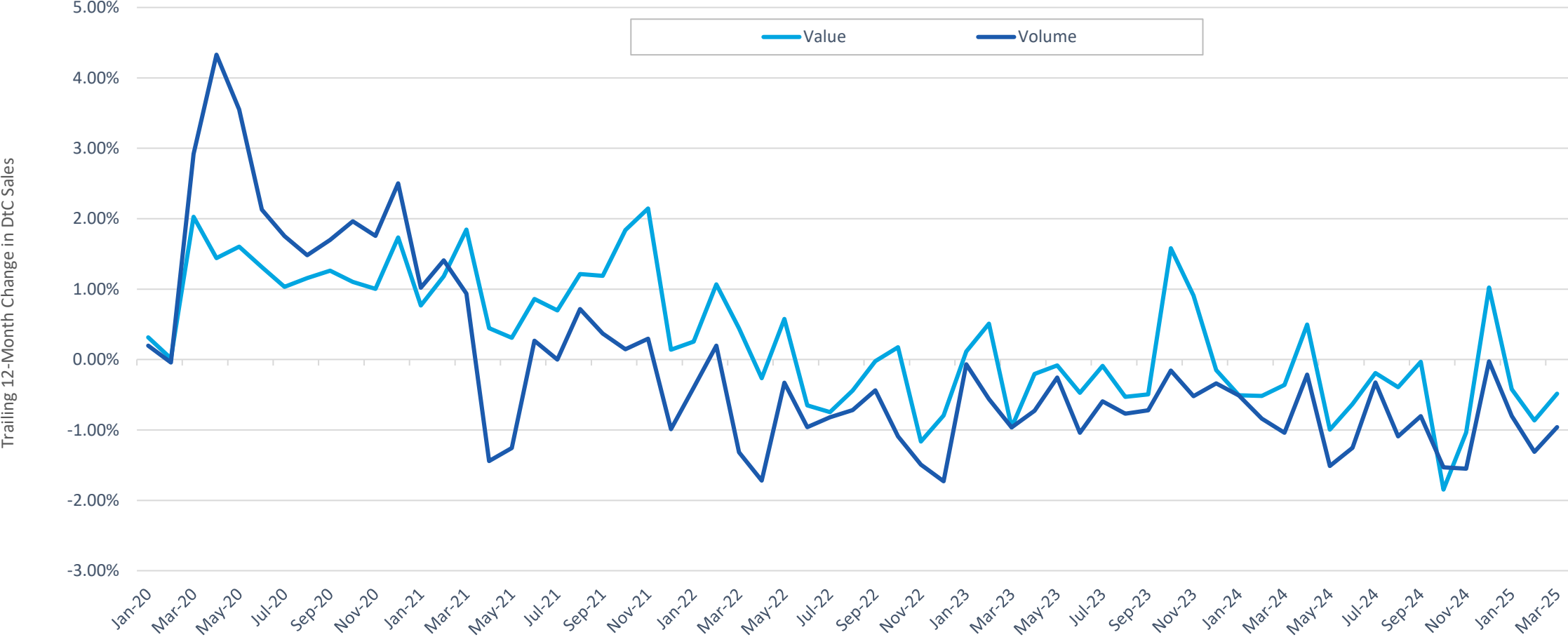
Since early 2021, value has shown better sales growth than volume in most channels. While inflation is continuing at a modest pace today, the opportunity to recapture lost income with price increases is now more difficult—especially when discounting is increasingly being used to help spur sales.

Rapidly changing US trade policy and reciprocal actions taken by foreign countries should lead to another round of inflated costs of materials in 2025. Wine imports stand to see the impact of tariffs magnified on their goods as each component in the import chain – importer, distributor, and retailer – will mark up and pass on the higher costs to consumers.

The real question will become, can wineries continue to successfully offset increasing costs of doing business by charging higher bottle prices and tasting room fees? While successful with this strategy to the present, charging more in an era where the incidence of discounting is becoming increasingly common, intuitively seems a strategy less likely to succeed past 2025. New approaches need to be considered and developed that will increase volume sales while stabilizing bottle prices.



Trailing 12-Month Change in Total DtC Sales



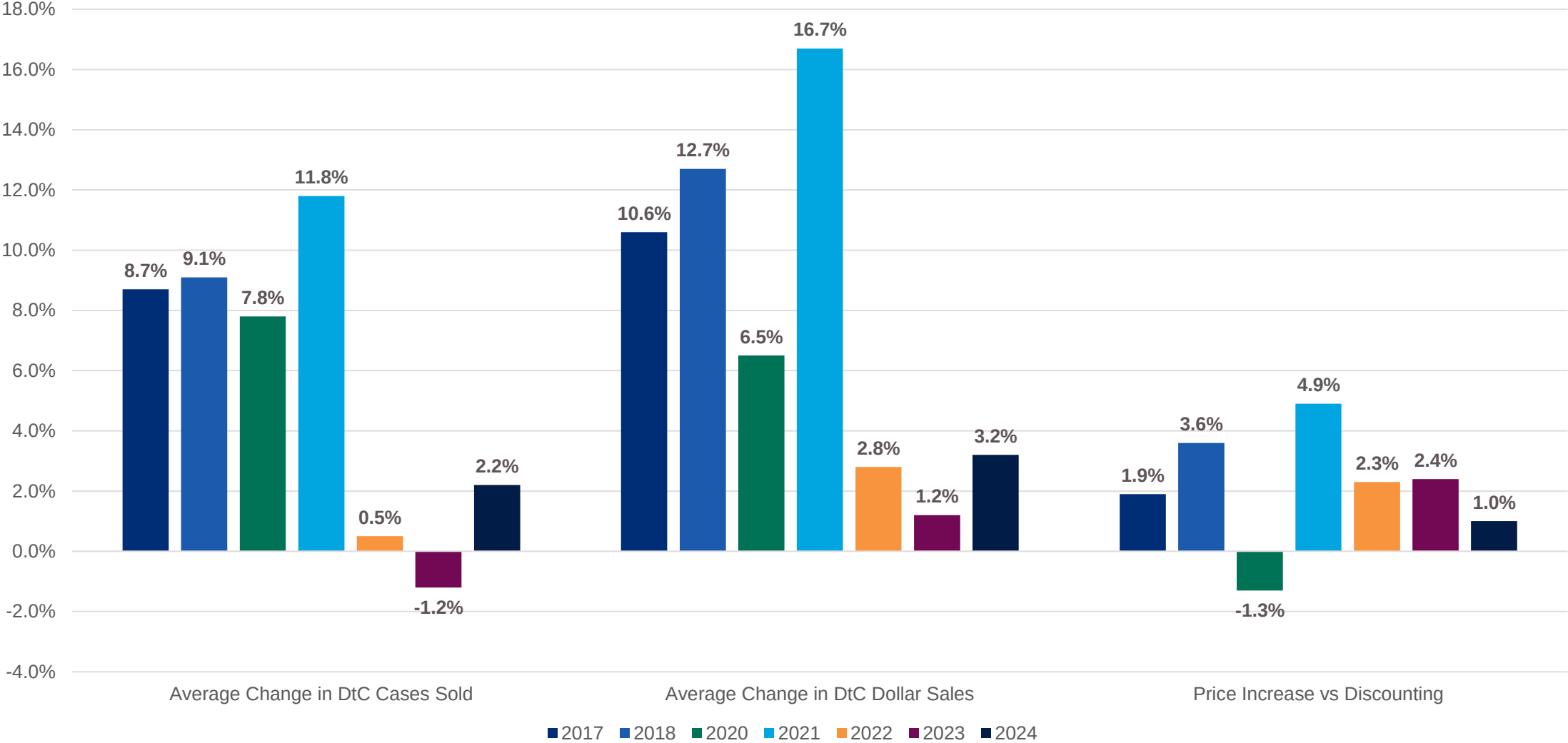
Tasting room visitation continues to be a concern as depicted in the chart on page 28. Lower visitation has a deflating impact on both tasting room fees, and the average club size over time. Lower club membership will convert to reduced club revenue at some point.

During 2021, wineries were one of the few communal activities available. So, many consumers, tired of being locked up, decided to escape and visit winery tasting rooms. When travel opened up more broadly, many of those visitors got in cars and planes instead of returning to tasting rooms, a behavior described by some as revenge travel.

While revenge travel may have played a role in lower visitation patterns in 2022 and 2023, the trend continued into 2024 and 2025. Given the continuing trend lower, it became clear other factors had to be considered and we do that starting on page 27.



Annual Case Sales, Dollar Sales and Net Change



Another enduring pandemic-related trend is the change in travel patterns of older consumers. Post lockdown, those over 60 continued to spend on luxury goods and wine but have remained slightly more cautious with travel. When they do travel, they're more likely to travel domestically to see family, according to a June 2024 McKinsey & Company study.

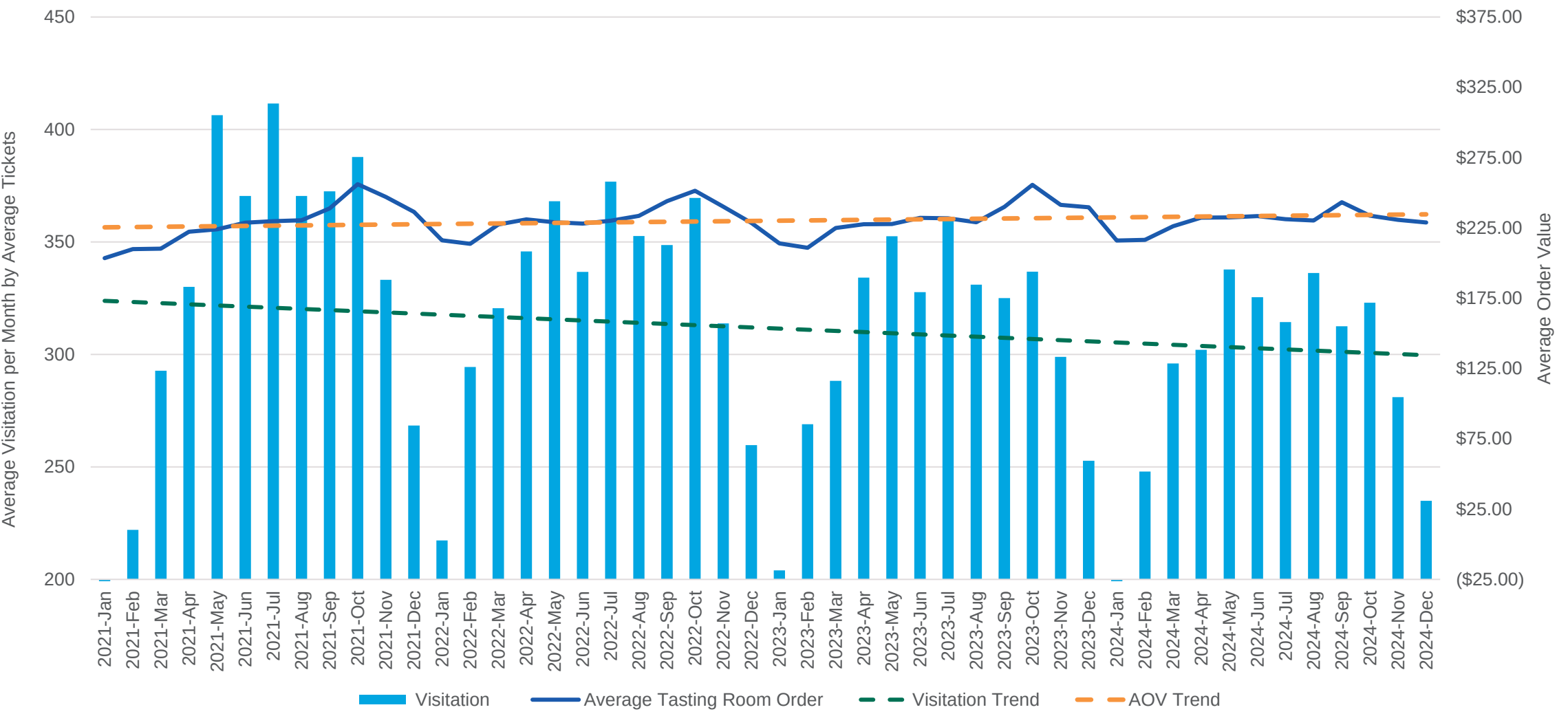
In contrast, younger travelers emerged from the COVID experience with a heightened sense of loss regarding missed opportunities, such as dating and socializing, as well as significant events like graduations and weddings. This group emerged from the pandemic less cautious than their parent. Recognizing that time on earth is limited, they prioritize 'fun' on their list of personal values. With that realization, greater importance is placed on new experiences.

It's important to apply that philosophy to the tasting room as you review your tasting programs. Include fun and change up the experience as part of your menu, converting more younger, one-time visitors into repeat visitors.

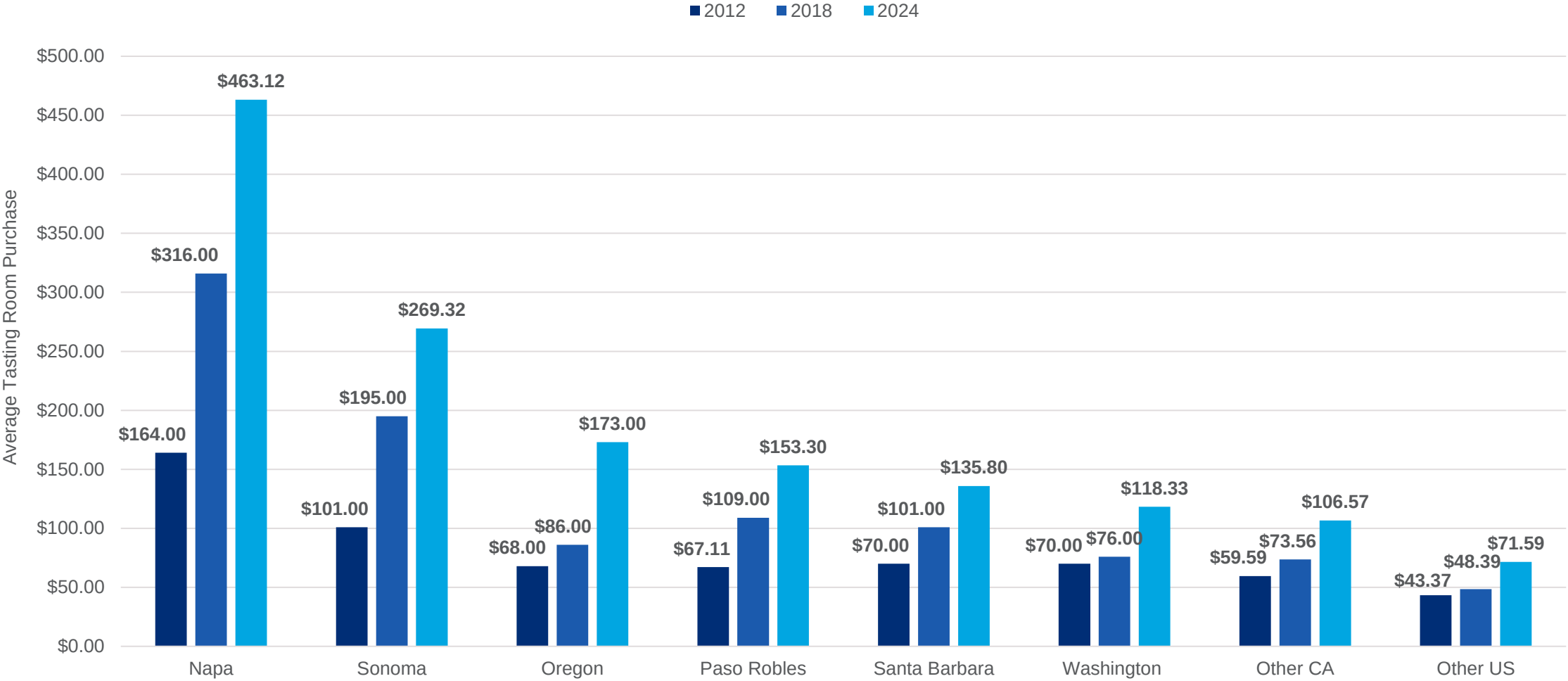
While it remains an open question for tasting room sales, offering higher-priced premium wine in a 375ml format through wholesale or through DtC may be one way to appeal to younger, frugal and aspirationally affluent consumers. This practice is gaining traction in off-premise accounts. Additionally, it may be effective for sales to older or younger single-occupant households, which, according to the Census Bureau is a growing trend representing 28% of all households today.



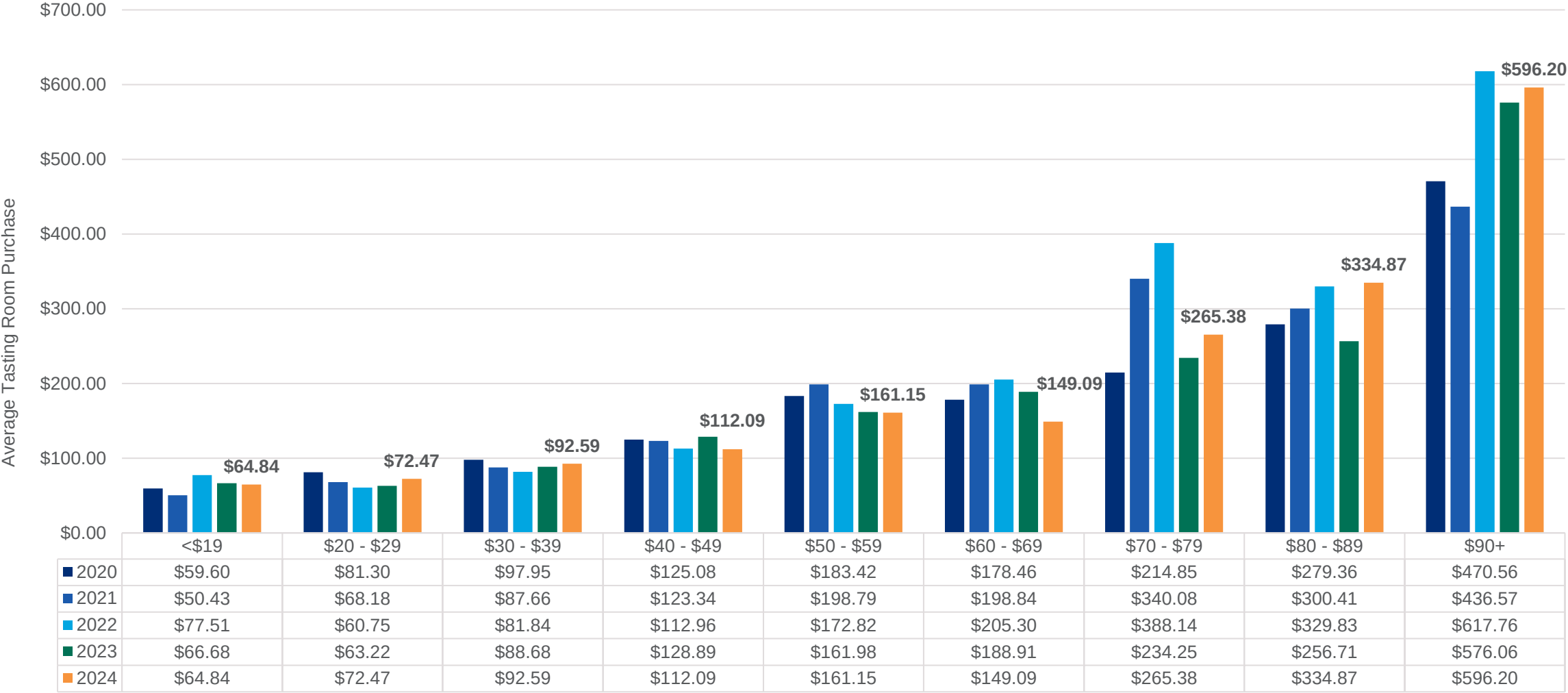
Average Visitation vs Average Order Value



Average Tasting Room Purchase: 2012, 2018 and 2024

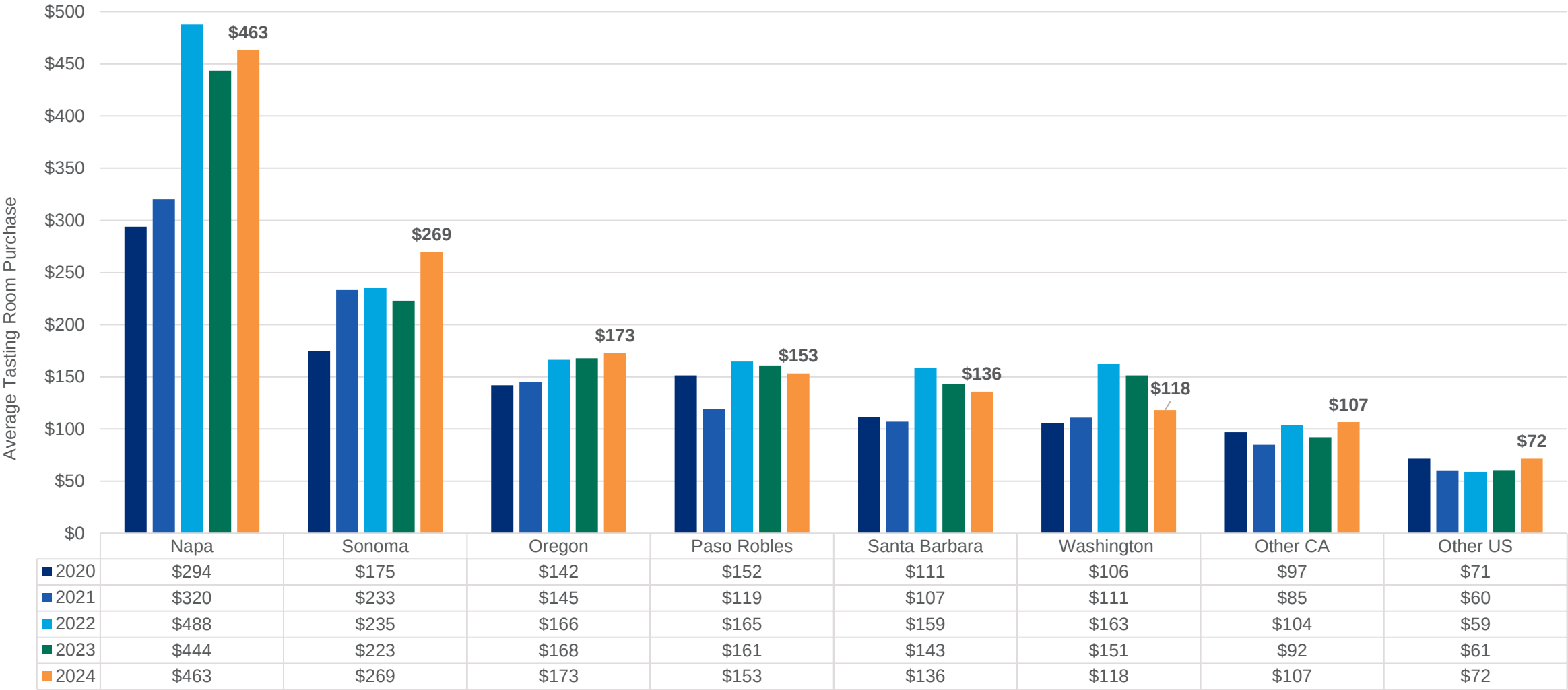


Average Tasting Room Purchase vs Average SRP



Average Suggested Retail Bottle Price

Regional Tasting Room Purchase



Walk-in vs Reservations: Rural vs Urban



Walk-in vs Reservations: Rural vs Urban

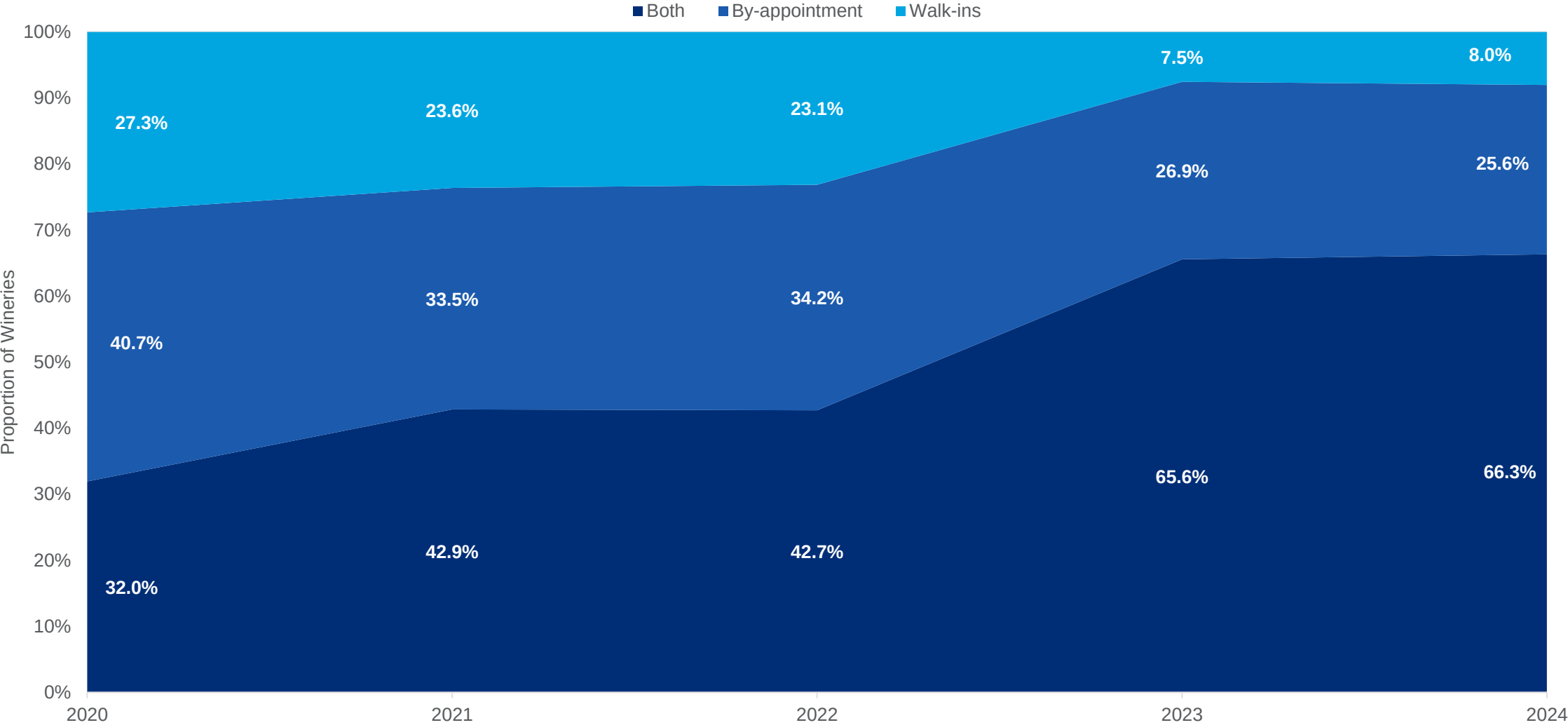
The most meaningful change in tasting room service styles during the 2010s was moving from walk-in standing bars to seated by-reservation tastings. The change lessened visitation numbers but increased the average order value. The question today is whether the 'experience arms race' has reached its peak. Let's look at the current data:

- Only 26% of wineries exclusively offer by-appointment tastings, while 8% are exclusively walk-in.
- With declining visitation, the largest group of wineries, 66%, is opting for greater flexibility and offering both service styles.
- Wineries with average retail pricing above \$70 are exclusive to the reservation model and have no examples of walk-in-only tastings in this survey.
- The urban tasting room has hit its stride as a stand-alone arm supporting brand building. Several advantages over winery tasting rooms are evident, including lower lease costs, a casual atmosphere that can make engagement less daunting for novice consumers, added convenience for tourists staying in town and lower tasting fees that encourages increased consumer trial.
- Average tasting room purchases in urban locations are up 85% in six years.

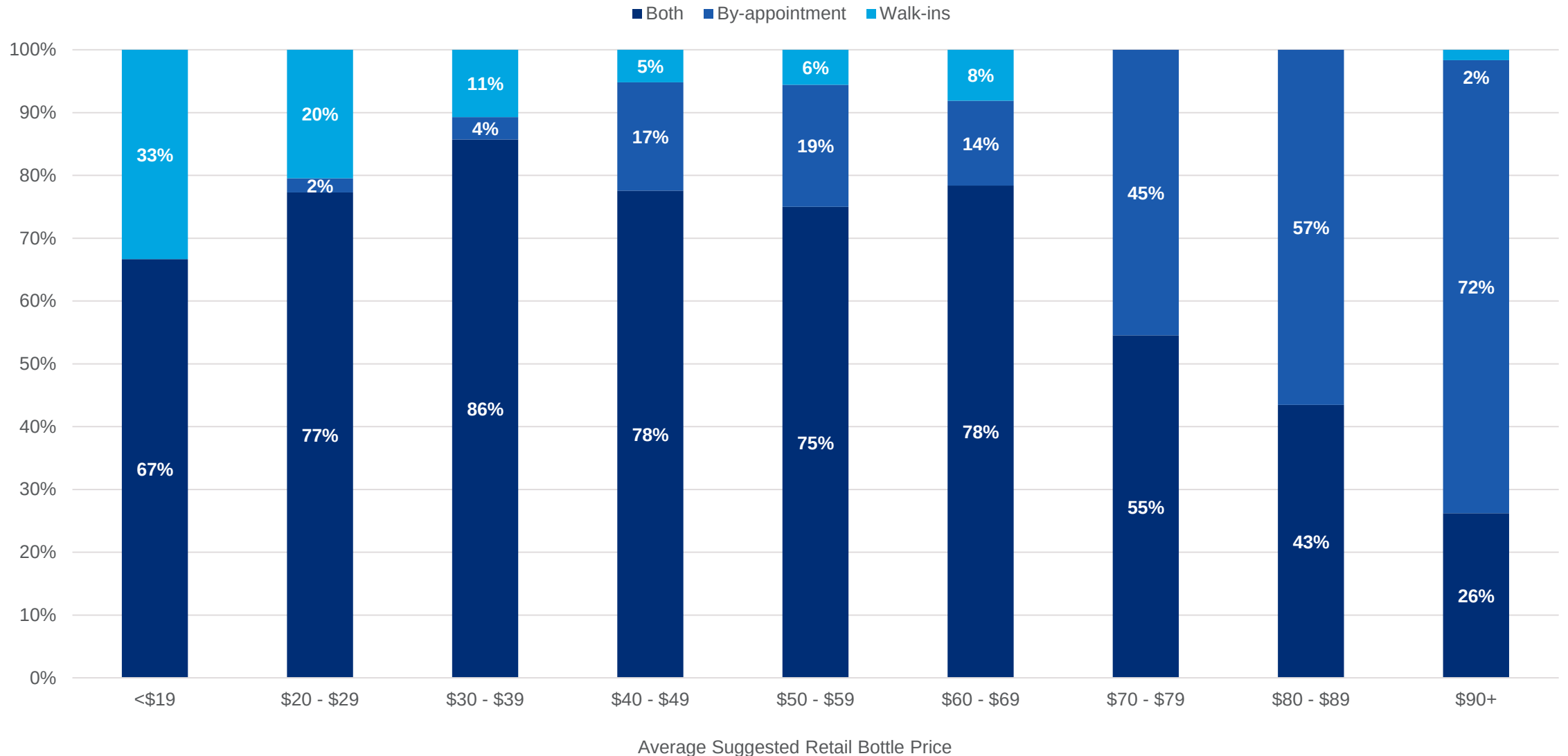
- The growth rate in purchases since 2017 is 18% for urban versus 31% for tasting at the winery.
- Winery tasting rooms generate between 20% to 56% more revenue than urban tasting rooms.



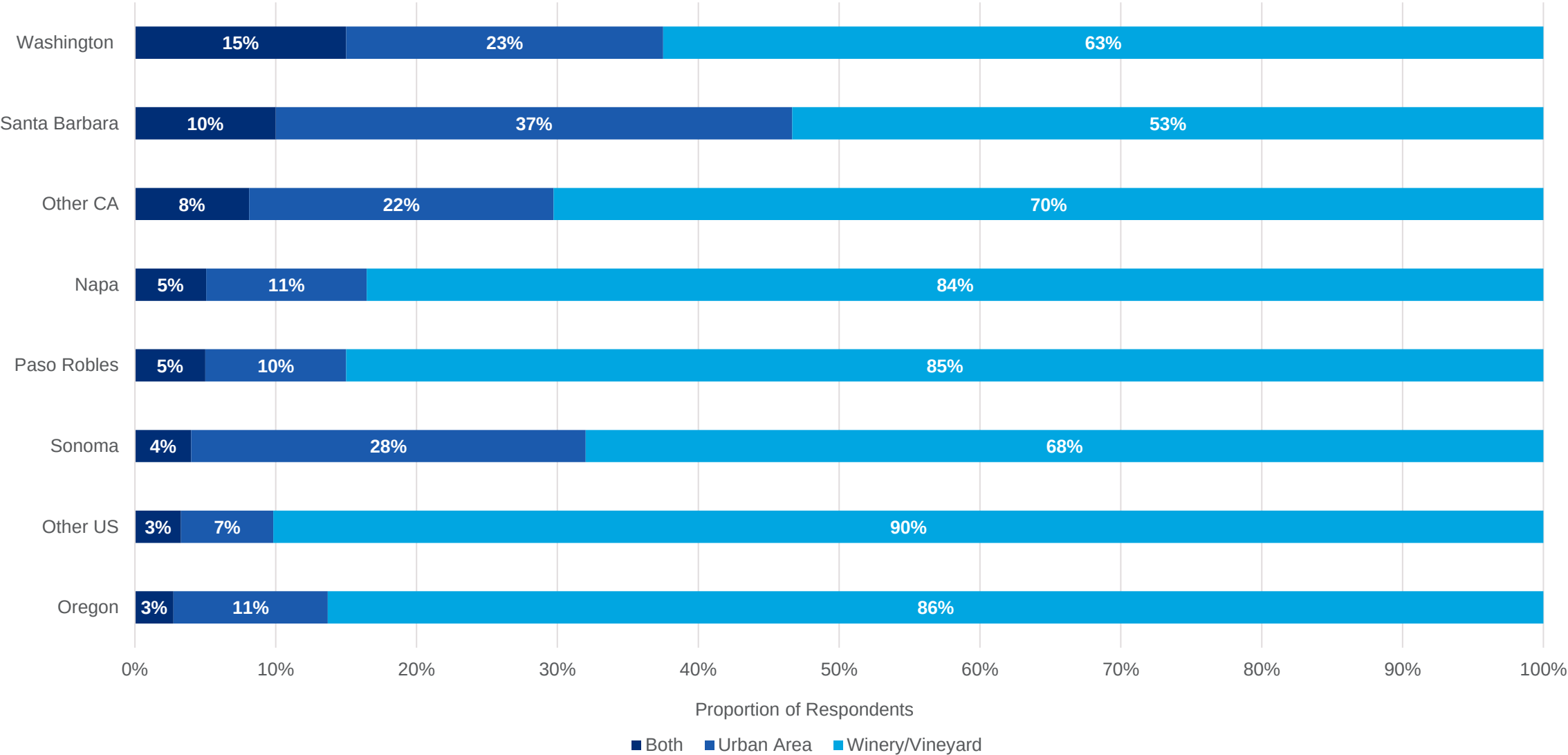
Annual Changes in By-Appointment vs Walk-In Models



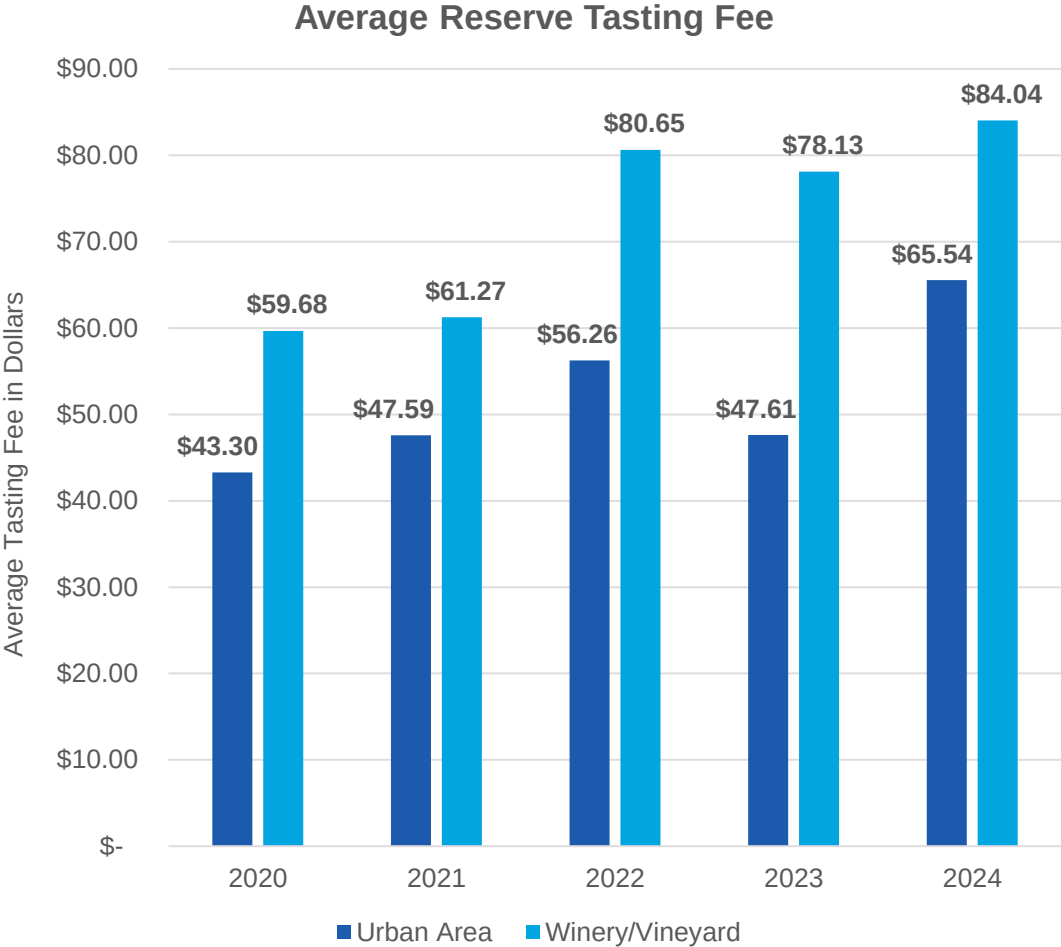
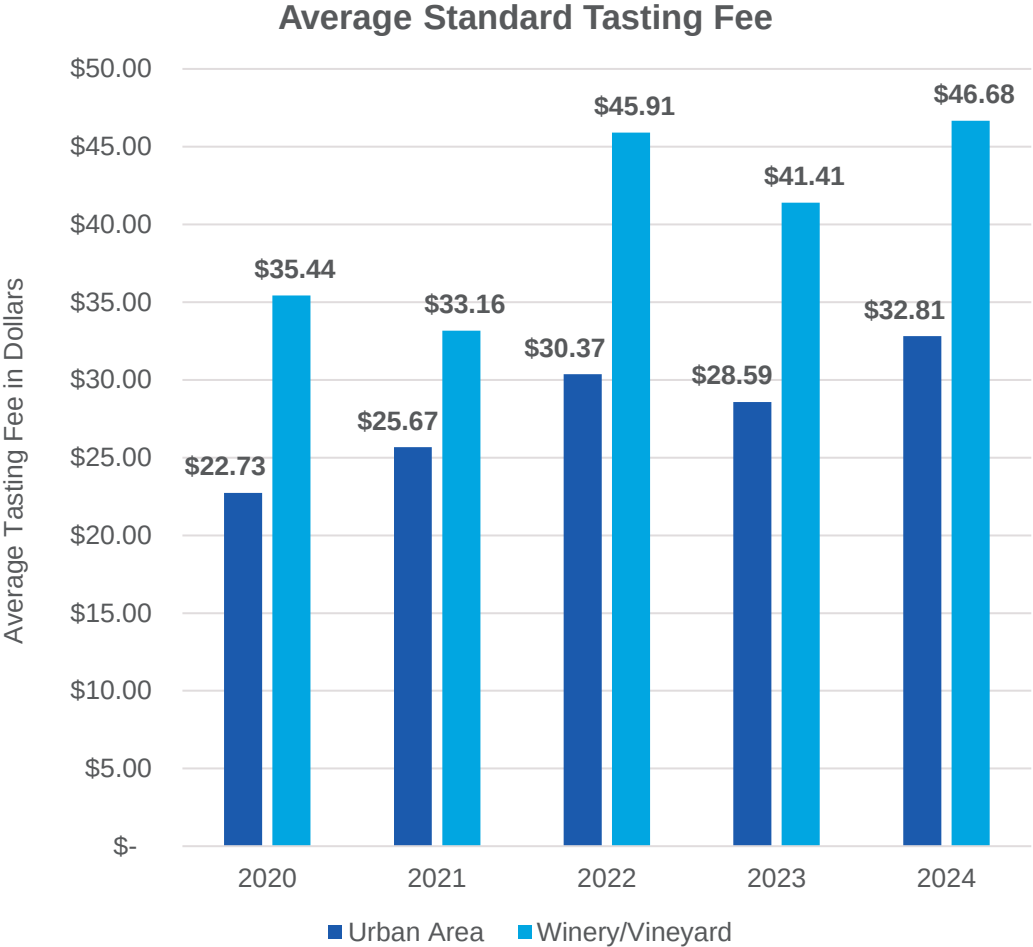
By-Appointment vs Walk-in By Average SRP



Regional Share of Urban Wineries



Annual Change in Average Tasting Fees by Location



Tasting Fees



Tasting Fees

It's been interesting to witness the changes in tasting room strategies over the years.

From the 1980s up to the early 90s, the metric to brag about was visitor counts. Then wine country got crowded, and the tasting bar became more raucous with occasional boorish behavior. The solution? Charge a tasting fee and shoo away the lingerers. At the time, it was hard for many to accept that more visitors didn't equate to more money.

Then, around the turn of the century, wholesalers accelerated their industry consolidation efforts. As their model evolved, they determined that smaller accounts did not provide an economic return and began a long-term pattern of reducing the size of their books, forcing smaller wineries to seek other ways of making a living. The solution for the small winery? Change the tasting room focus from sampling all wines sold in distribution (the tasting room model at the time) to selling wine over the tasting bar.

Years later, the debate began over seated versus standing models. Our research in 2013 indicated a higher conversion rate and average check with seated tastings. The industry quickly adopted this approach, but early mistakes were expected. Table turns became a metric in some wineries. That was short-lived and the industry corrected and found success focusing on metrics centered around the delivery of hospitality.

The more recent debate is walk-in versus by-appointment models, with the latter entering a final phase of adaptation today. We've been proponents of the by-appointment model, and gradually, the industry has moved in that direction. COVID was the final nail that rendered walk-in bars a poor use of space.

With falling visitation rates, even the solution combining both styles isn't entirely reflective of evolving visitor preferences when visiting wine country today.

Wineries with full by-appointment models as 'policy' are more than willing to schedule an appointment for customers as they walk in the door, space permitting. That seems like a natural compromise given today's headwinds, but the process leaves the consumer lacking clarity when scheduling their visit.

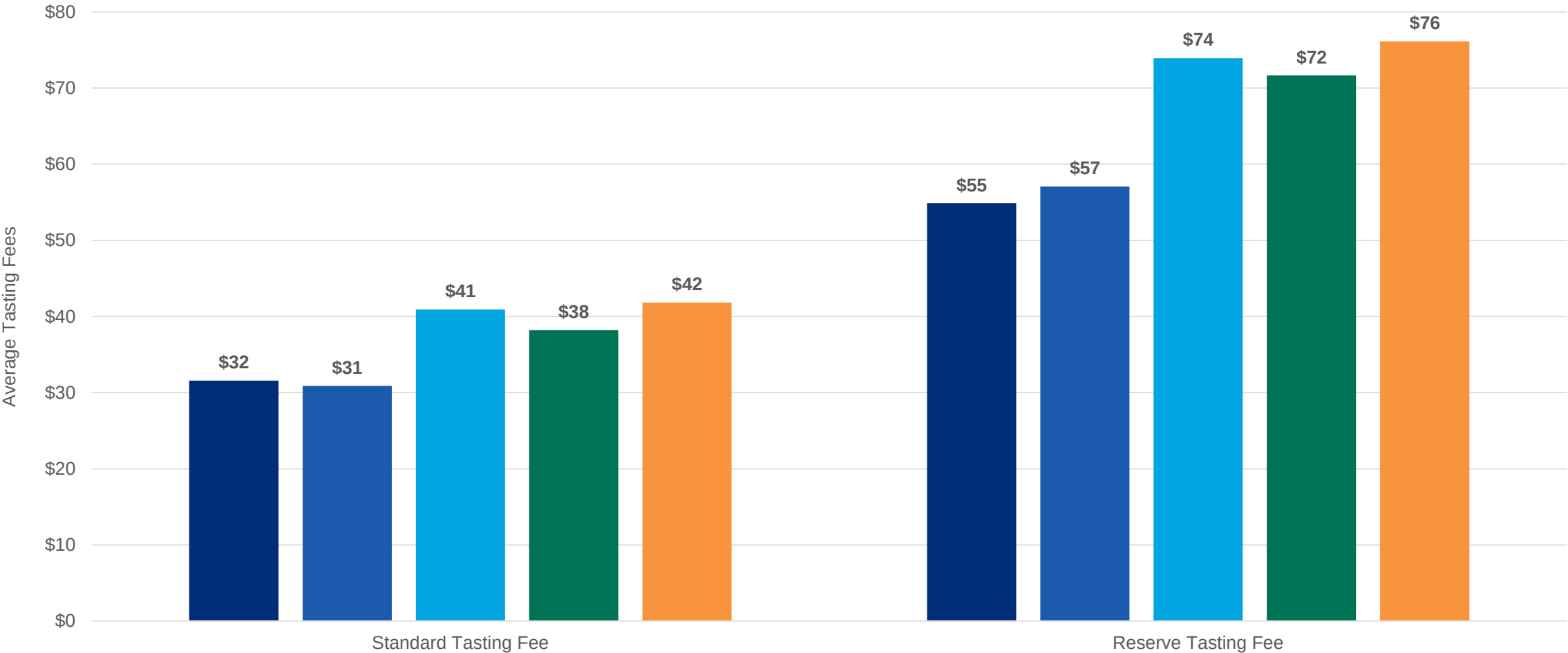
A review of survey data augmented by a quick look at a few winery websites tells a more nuanced story. Some wineries specifically say they won't turn away visitors, while others say reservations are required. Some accept walk-ins but encourage appointments, particularly for large groups. Still, others require appointments for specialized tasting programs, but walk-ins are allowed. Some have mixed messages, encouraging weekend appointments but relaxing that policy to allow walk-ins during the week.

I have advocated for variable pricing during off-peak hours, with tasting programs and fees supporting emerging and entry-level consumers during times when visitation patterns are consistently low. We are seeing some wineries adopting this tactic.

What is clear is that the vast majority of wineries going forward will be open to either option and be more flexible. The delivery of that message to the consumer requires constant reevaluation for effectiveness. Individual operators must continue to develop policies that combine the features of their facilities and the size of their permits with pricing and programs that will attract new visitors as well as retain existing club members.

Average Tasting Fees by Year

2020 2021 2022 2023 2024



Tasting fees were first levied to discourage tasters who treated wineries like their local pub. Charging tasting fees proved effective in discouraging those who were taking advantage of the winery's generosity and diminishing the experience for others.

The idea of charging tasting fees has worked so well that fees have continued to increase for more than 20 years, as shown in the charts on page 42. But with softer visitation today, it's time to reexamine those practices.

As summarized earlier in this report, we suggest that wineries consider moving away from a fixed-fee pricing approach and instead adopt pricing strategies based on their traffic patterns, charging lower fees during predictably slow periods to attract consumers and charging higher fees during busy times.

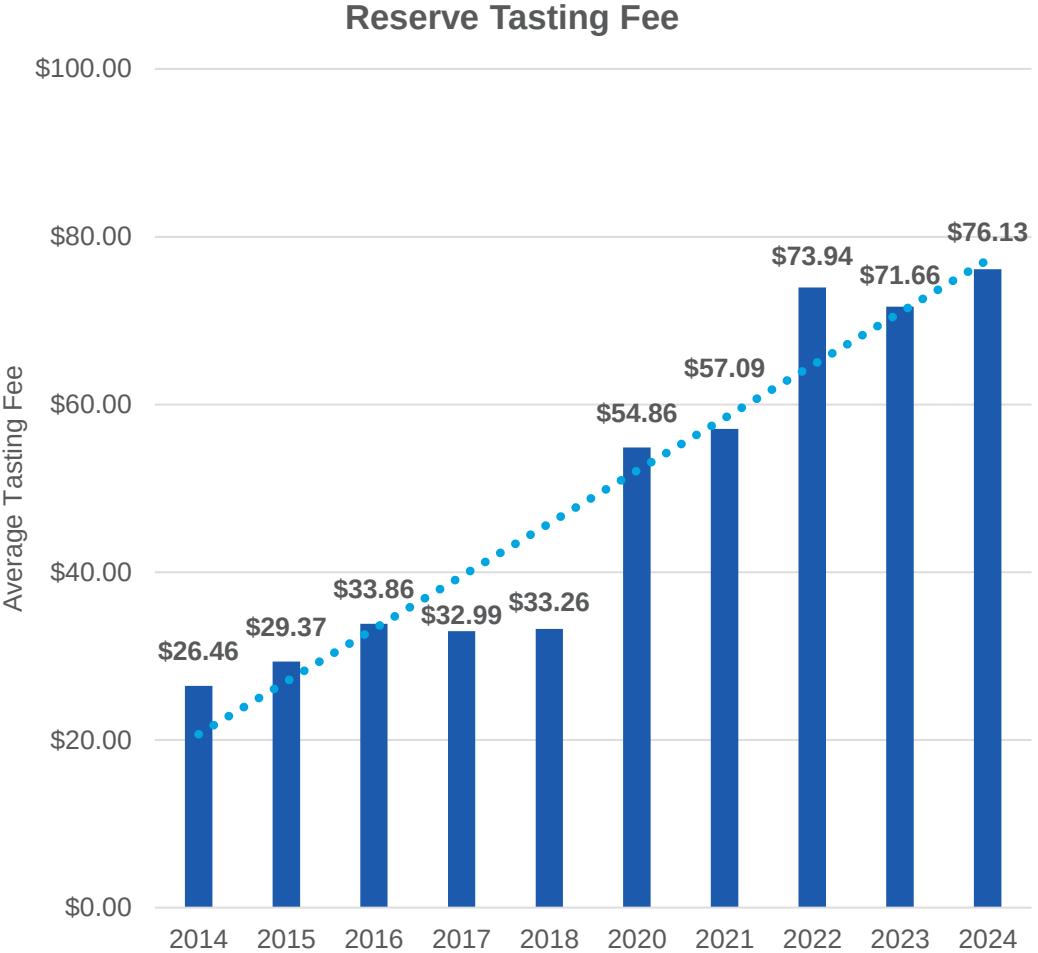
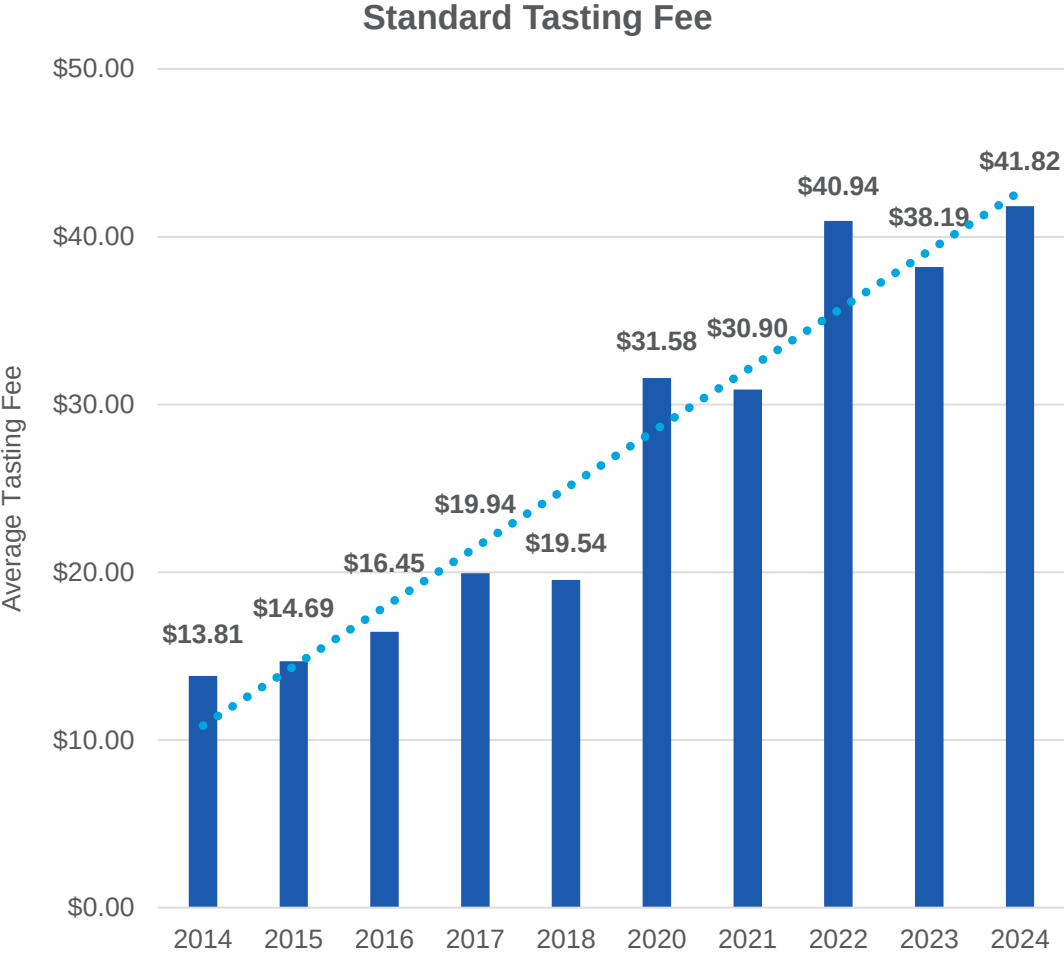
For example, if 3:00 p.m. on Tuesday is a consistently slow period, create an experience for younger, wine-interested and aspirationally affluent consumers

built around a targeted marketing campaign. Consider offering add-on tastings of fun white wine cocktails made at the tasting bar, if permits allow. Include live music curated for your targeted consumer, or gamify a curated playlist where the song selection could be the prize for winning a game, and the music selected by the winning guest. What type of food pairing options could you include? There are endless possibilities.

- Standard tasting fees in 2024 increased 12.7% from the prior year for winery/vineyard locations, and 14.8% in urban areas.
- Reserve tasting fees in 2024 increased 7.6% over the prior year for winery/vineyard locations, and 37.7% in urban areas.
- The average standard tasting fee in the sample set is now \$42.
- The average reserve tasting fee is now \$76. Compared to 2012, the 2024 average tasting room purchase is up over 200%, with a regional range increase of 133% to 271% over that 12-year period.



Annual Change in Average Tasting Fees



How does a winery owner determine how much to charge for a tasting? To a large extent, they take note of what their neighbors are charging as well as their own costs of providing tastings and experiences.

Originally intended to offset the cost of wine poured, tasting fees today have evolved due to a frothy consumer market and the addition of more diverse and extravagant experiences. Tasting fees are now an essential part of the small premium winery's revenue model.

With this sample, the average standard tasting fee is \$42, and the reserve tasting fee is now \$76, which means a group of four could end up paying over \$350. In 2014 that amount was \$104 for a group of four.

Will new consumers be willing to pay such fees in the future? A few wineries have experimented with eliminating fees altogether. While some abhor the idea, it's worthwhile to experiment and reevaluate after reviewing the data.

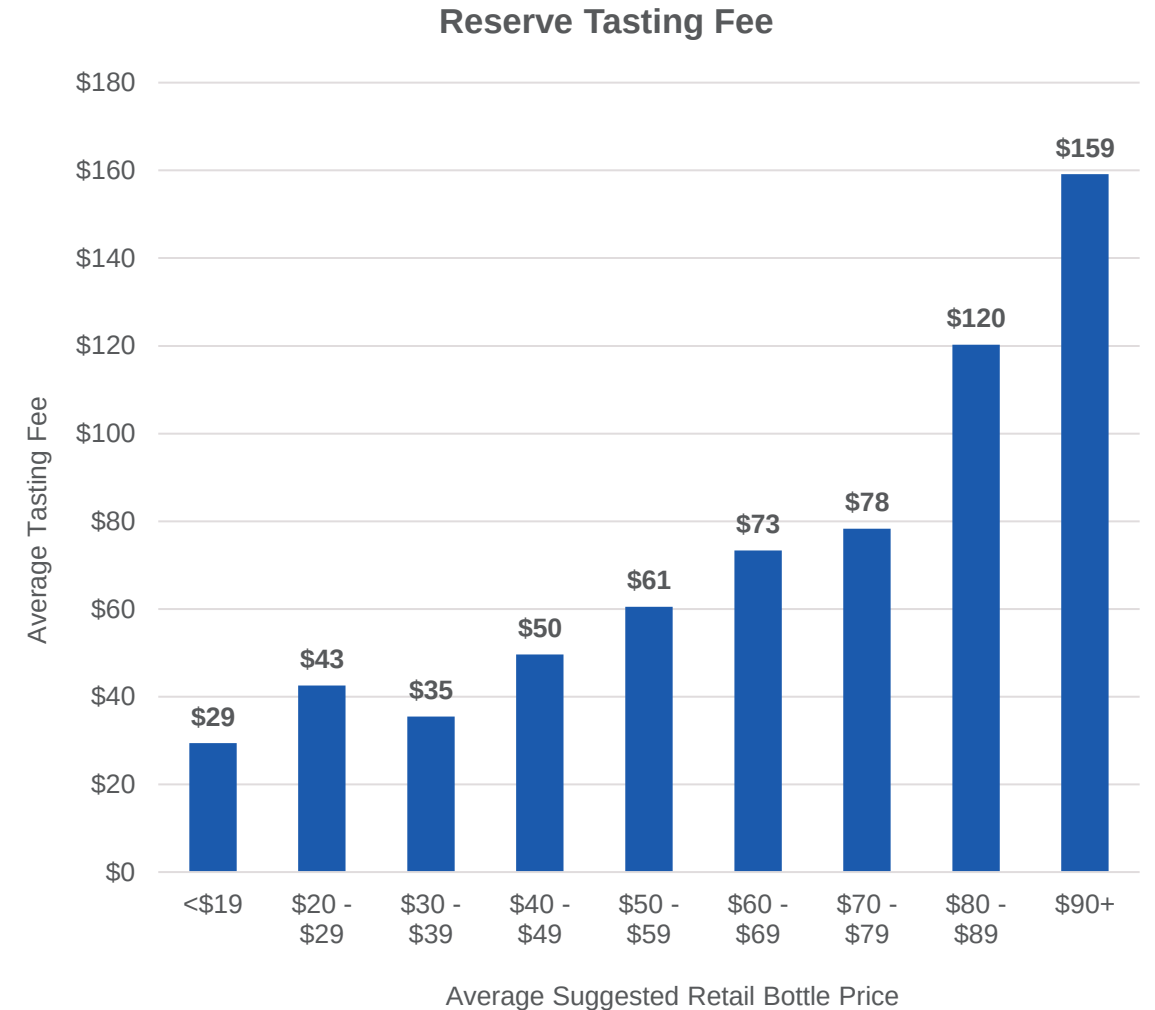
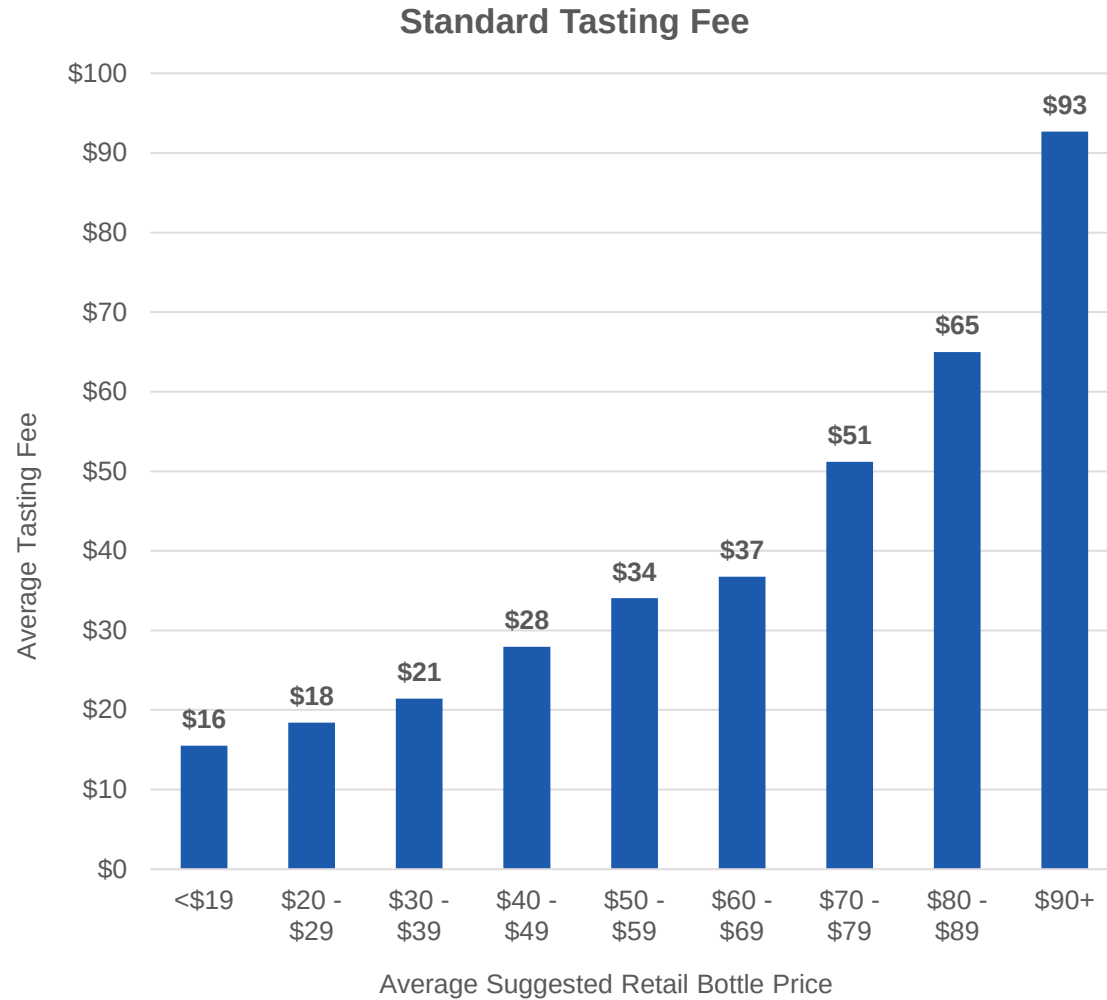
It's easy to say that charging no fee will result in setting up the same bad behavior experienced when tasting fees weren't charged, but what if the fee structure is tied to marketing to the critical 30-to-46-year-old age group? What if it lowers the average tasting room purchase but improves visitation? Attracting more wine-curious visitors increases the opportunity to improve sales.

This year, we asked respondents under what circumstances they would waive tasting fees (page 46). There are certain circumstances, such as making a purchase or joining the wine club, that many believe are justified as part of a broader sales tactic.

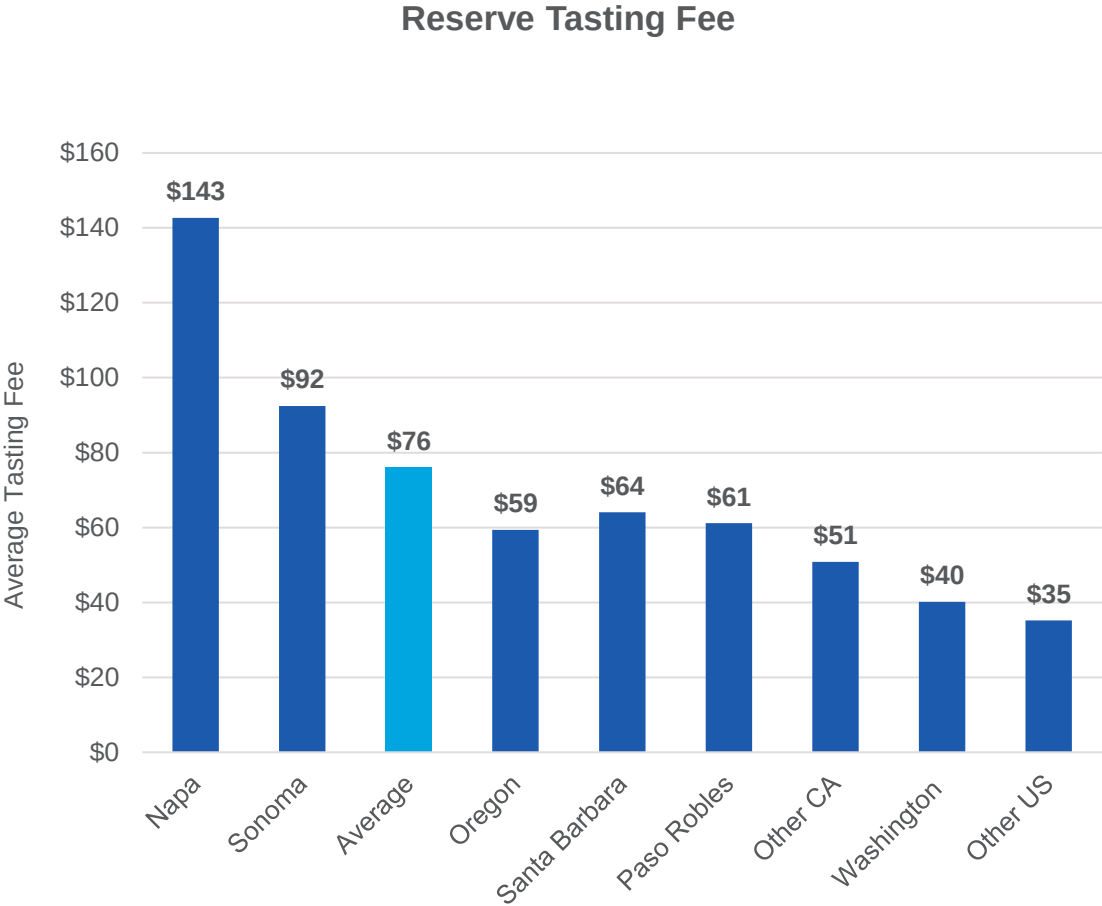
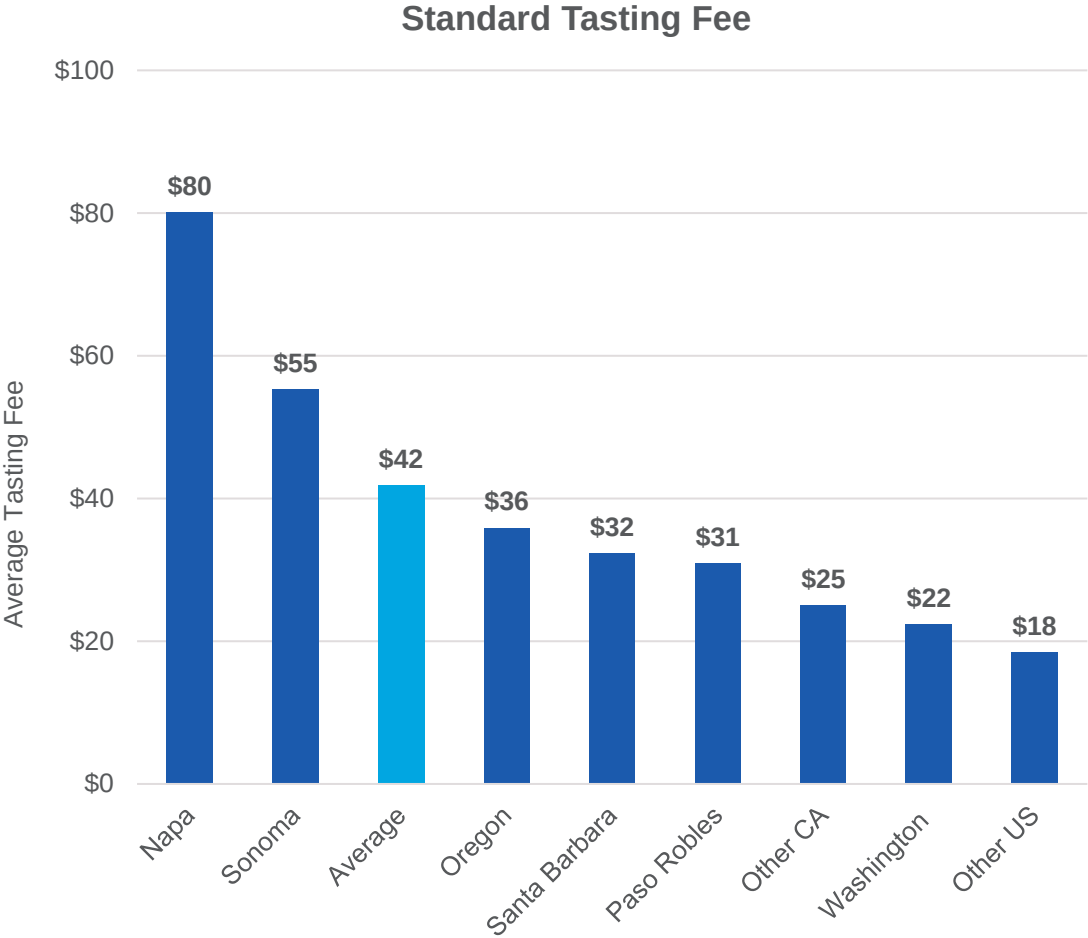
We also asked if anyone had experimented with lowering tasting fees to boost visitation, and a small percentage responded positively (page 48). While it's still early in the trial, 35% indicated that lowering fees improved visitation, while 29% and 32% respectively stated that there was no improvement or that it was too soon to evaluate the experiment. Overall, the results of this trial are promising. We will watch with interest as these experiments react to new to data.



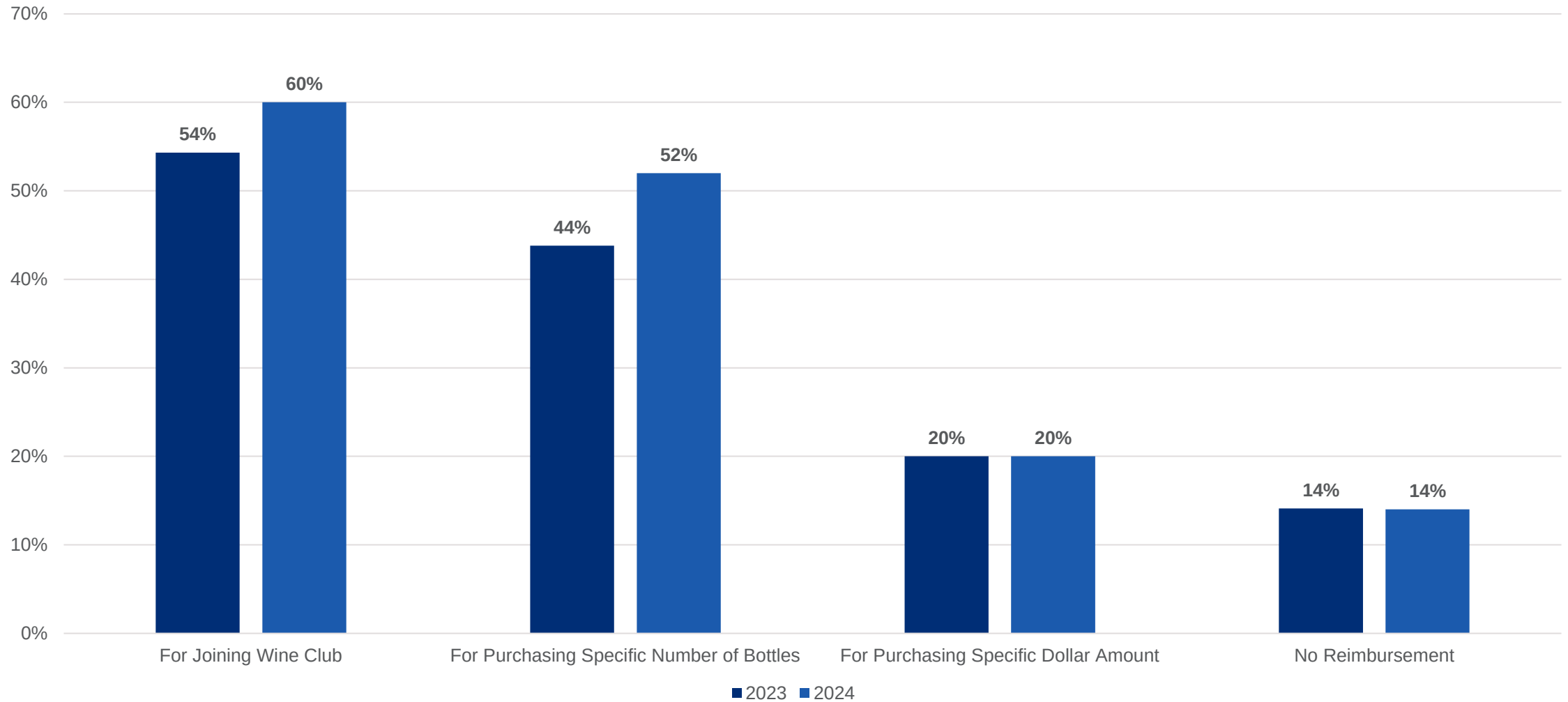
Tasting Fees by SRP



Average Tasting Fee by Region

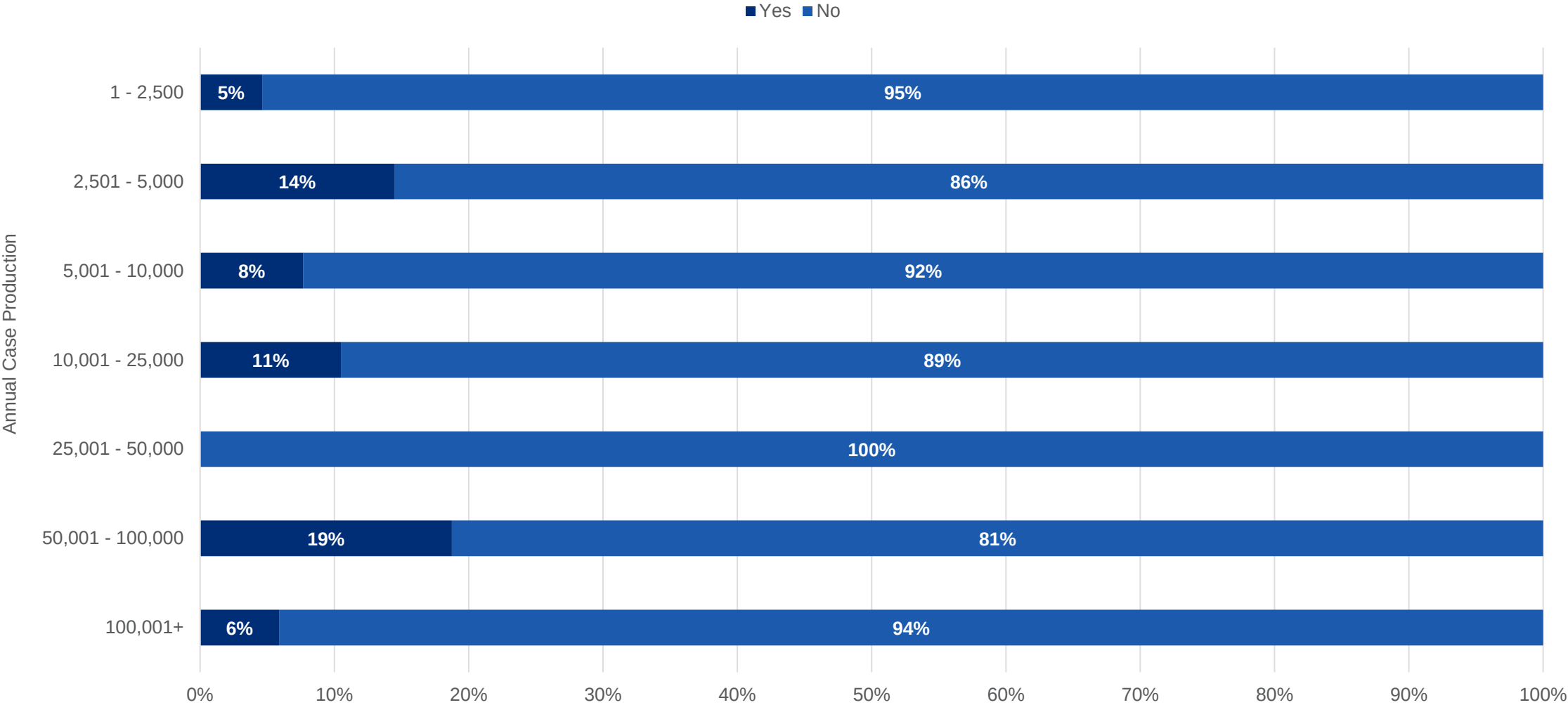


In What Circumstances Do You Waive Tasting Fees?



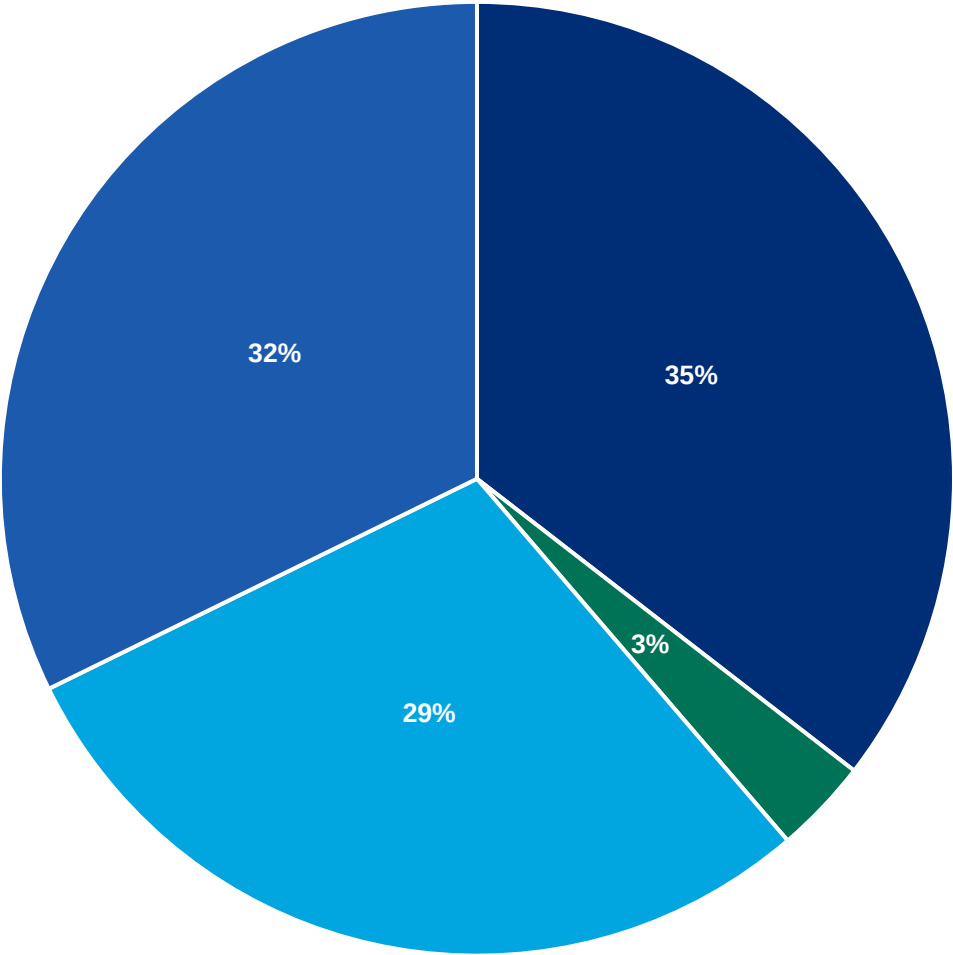
Note: Respondents may select more than one option.

Has Your Winery Reduced Tasting Room Fees to Improve Visitation?



If Your Winery Lowered Tasting Room Fees, Has it Improved Visitation?

■ Visitation Improved ■ Visitation Stabilized ■ No Improvement ■ Inconclusive



Average Tasting Room Wine Purchase by Region



DtC in the Context of Industry Evolution



DtC in the Context of Industry Evolution

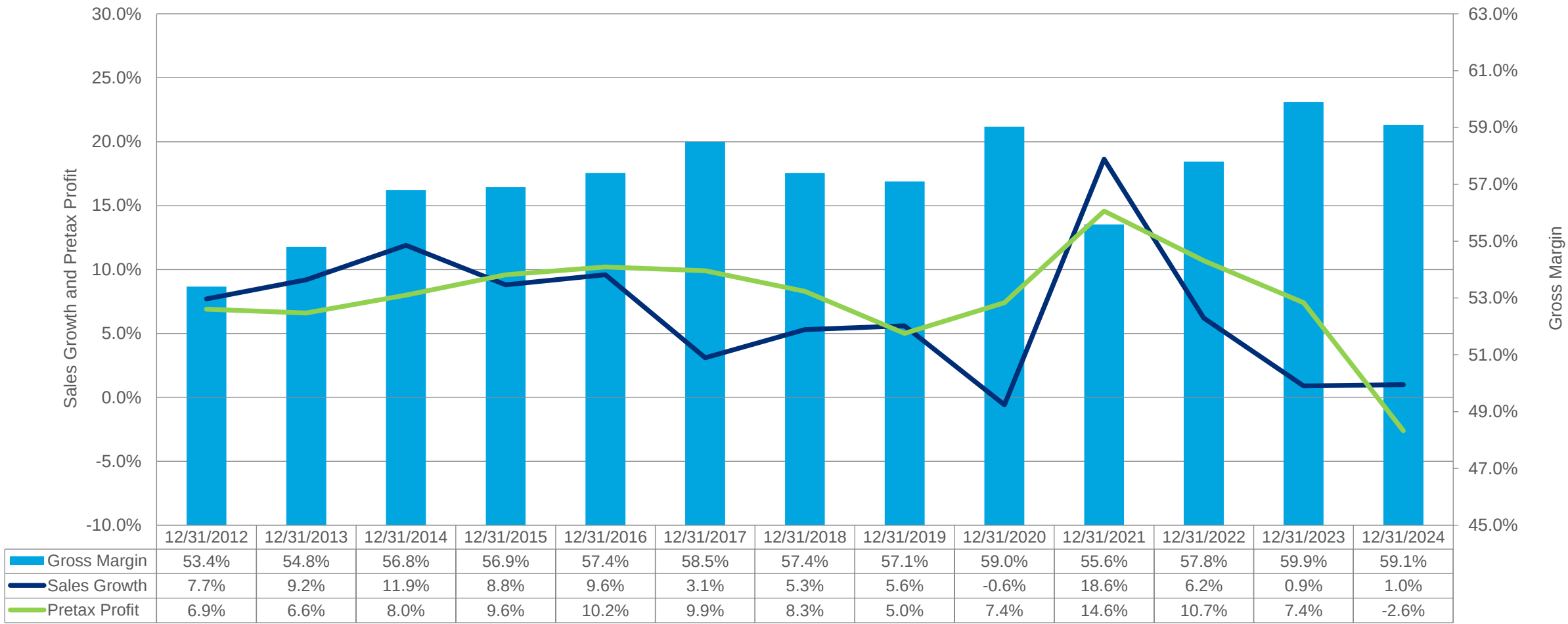
Premium wineries with higher DtC sales show more sales growth than wineries focused on wholesale. Using our proprietary Peer Group Analysis Database that produces financial benchmarks (PGA), we can see that 70% of wineries experiencing revenue growth also increased case volume in 2024.

- The industry is progressing through the stages of emotions resulting from today’s challenges, but not everyone is feeling the impact of the demand correction to the same degree. Roughly 40% of the premium industry is still seeing growth—either in their club sales, total sales or in both metrics.
- Volume sales trended into negative growth territory for the fourth year running for the wine industry as a whole.
- Using survey data, average bottle prices for premium wineries continued to increase in line with the inflation rate providing some lift (page 22).
- Referencing the PGA database, in 2024 premium wineries showed resilience with a gross margin roughly flat compared to the prior year against a 2.6% decline in pretax profit that was partially offset by 1% average sales growth (page 52).
- The US alcohol beverage industry is currently overproducing. As prices for a range of assets adjust downward to rebalance demand, interested investors on the sidelines will sense opportunity and begin to wade in.
- The small-lot premium wineries continue to perform better compared with the heavy production wineries.

- The alcohol beverage category is being squeezed by aggressive and unbalanced messaging from the anti-alcohol movement, led by the World Health Organization. The impact is seen most acutely with consumption and abstinence measures for 21-to-29-year-old consumers.
- Most of the category’s underperformance comes from wines selling below the \$12 price point per bottle.
- Boomers index higher as wine consumers versus those younger than 60 who drink more evenly across categories. The change in the mix of consumers explains much of the pain as well as the areas of focus to take advantage of emerging opportunities.
- The better performing wineries today sell proportionally more direct-to-consumer compared to producers with a heavier focus on the three-tier sales. Wineries that sell more than 70% of case volume DtC demonstrated average value growth of 6.1% and volume growth of 4%.

Percentage of case volume sales generated through DtC	Revenue growth	Volume growth
Under 40%	-6.1%	-15%
40-70%	3.9%	8%
Over 70%	6.1%	4%

Financial Performance of Premium Wineries



The following financial analysis is derived from Silicon Valley Bank's PGA database which focuses on premium wine producers. The platform aggregates company financial statements into anonymous production bands and creates financial metrics that can be used to create benchmarks. This sample comprises the year-end CPA prepared financial statements of 86 premium West Coast wineries with a range of business models. The average sample winery produced roughly 15,000 cases in 2024 and sold 11,000 cases.

Sales

- The rate of sales decline is moderating off the 2021 highs in the premium and luxury tiers. It's too soon to say what the impact of volatile shifts in trade policies might have on sales in 2025.
- Revenue growth is split among winery segments, with the top quartile of samples showing an average growth rate of 21%. This segment generates 64% of its sales through DtC channels, compared to the bottom quartile, which experienced a 12% revenue decline and 40% of sales through wholesale channels.
- A small but meaningful portion of the 2024 premium industry sales were from the 2020 smoke-impacted vintage that was both smaller in size and perceived of lower quality compared to the 2021 wines, also in release in 2024.

Gross Profit Margin

- Premium wineries are experiencing some margin compression from inflated input costs in labor, employee-related expenses, insurance, power, rent and marketing expenses.

- Gross margin declines could continue in FY 2025 unless the consumer will accept higher bottle pricing, as the cumulative impacts of inflation in the 2022-2023 vintage flow through income statements.
- The current discounting environment and cash generation strategies employed to move aging inventory may add to the gross margin pressure.
- Wineries that purchase grapes today outperform the estate producers due to the favorable impact of declining market pricing for contracted and purchased grapes and juice. 33% of PGA samples fell into this category.
- Wholesale-focused brands, in general, experienced a 5.6% decline in revenue in 2024, with 35% of samples falling into this category.

Operating Expenses

- Operating expenses were up 7% year-over-year, primarily driven by general inflationary pressures across the expense categories.
- Wineries have bolstered their sales staff and spent more on events and travel in search of revenue.

Profitability

- Half of the wineries in this sample were profitable in FY 2024, but 71% of the sample experienced declining profitability. This compares to 76% of wineries that were profitable in FY 2021. The combination of lower volume over higher fixed costs has pressured all wineries, regardless of size.

Inventory

- Inventory value on the balance sheet has increased 10% year-over-year, with 84% of the sample wineries growing their inventory balance, leading to a 1.3x production-to-sales ratio in 2024 and 2023. In a balanced supply period, a production-to-sales ratio in a flat sales market should aim for a 1.0x benchmark.
- The increase in inventory value is due to modest declines in grape costs, offset by higher volumes off the 2020 low.
- With increasing levels of inventory and declining sales, wineries have seen an 8% increase in Inventory Days Sales, up from 32 months at FYE 2023 to 35 months at FYE 2024.

Working Capital

- Excess balance sheet cash has been converted to inventory or used to support higher expenses. Higher working capital loan balances are producing tighter working capital.

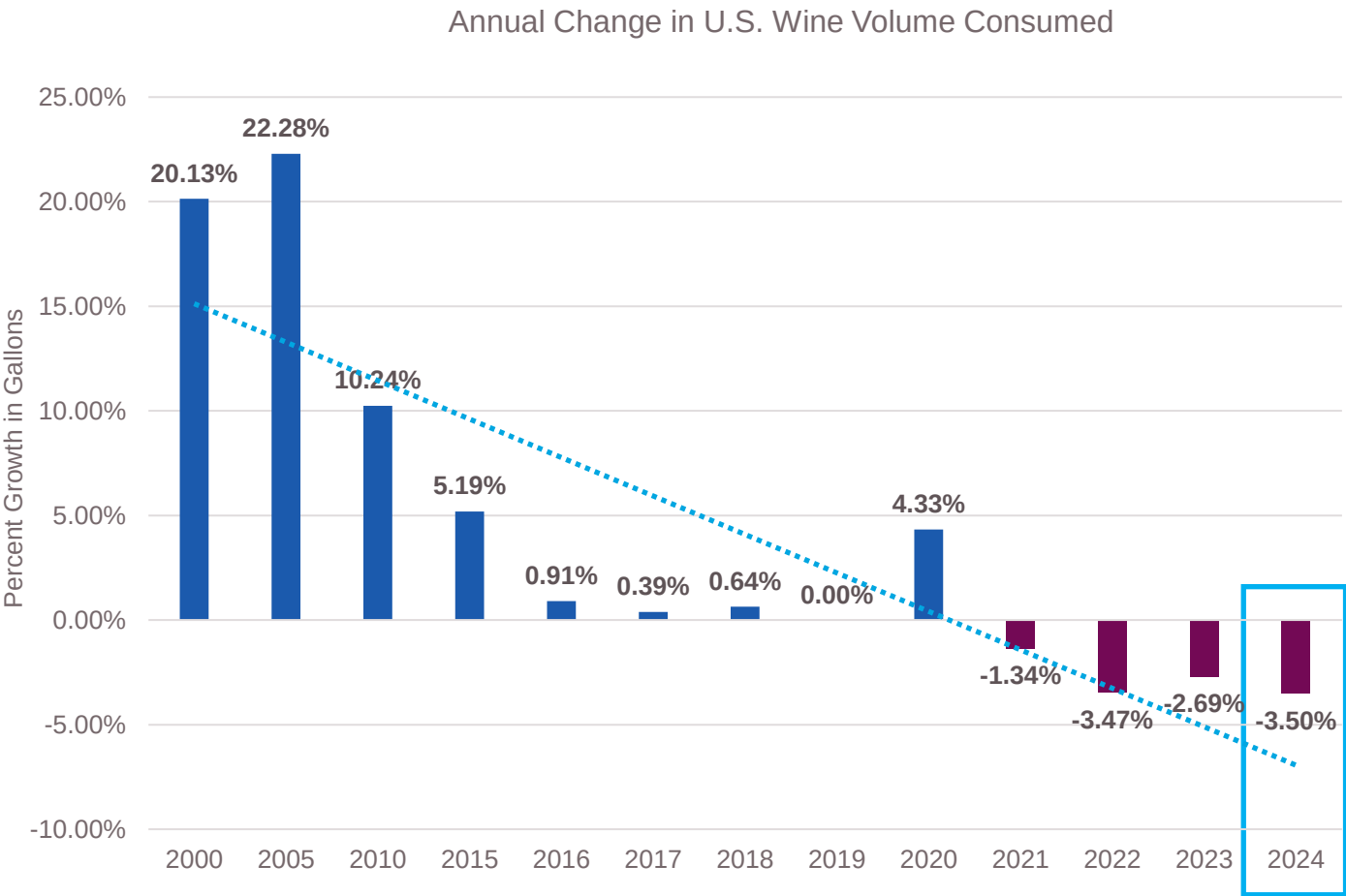


Getting an accurate picture of total wine industry sales is problematic as analysts have to string together disparate information from unrelated data sources, remove double counting and then fill in the blanks with assumptions. Current estimates can be billions of dollars apart, particularly on value estimates. Shanken's Impact Databank is one source of consistent total industry data and is shown nearby.

With the current business correction, we are looking for a bottom expressed as a change in the constant downslope of the trend. More simply, we want the decline to flatten out. We are getting closer as we move through 2025.

Growth of Total US Wine Volume Consumed 2000-2024

2025 will mark the 5th year running with total category volume declines



The nearby chart from SipSource shows how wholesale wine sales had significant declines during COVID in 2020, while the spirits category grew due to a post-COVID bubble created from restocking as restaurants pared back wine lists. The rate of decline flattened out in 2022 for wine but continued for spirits.

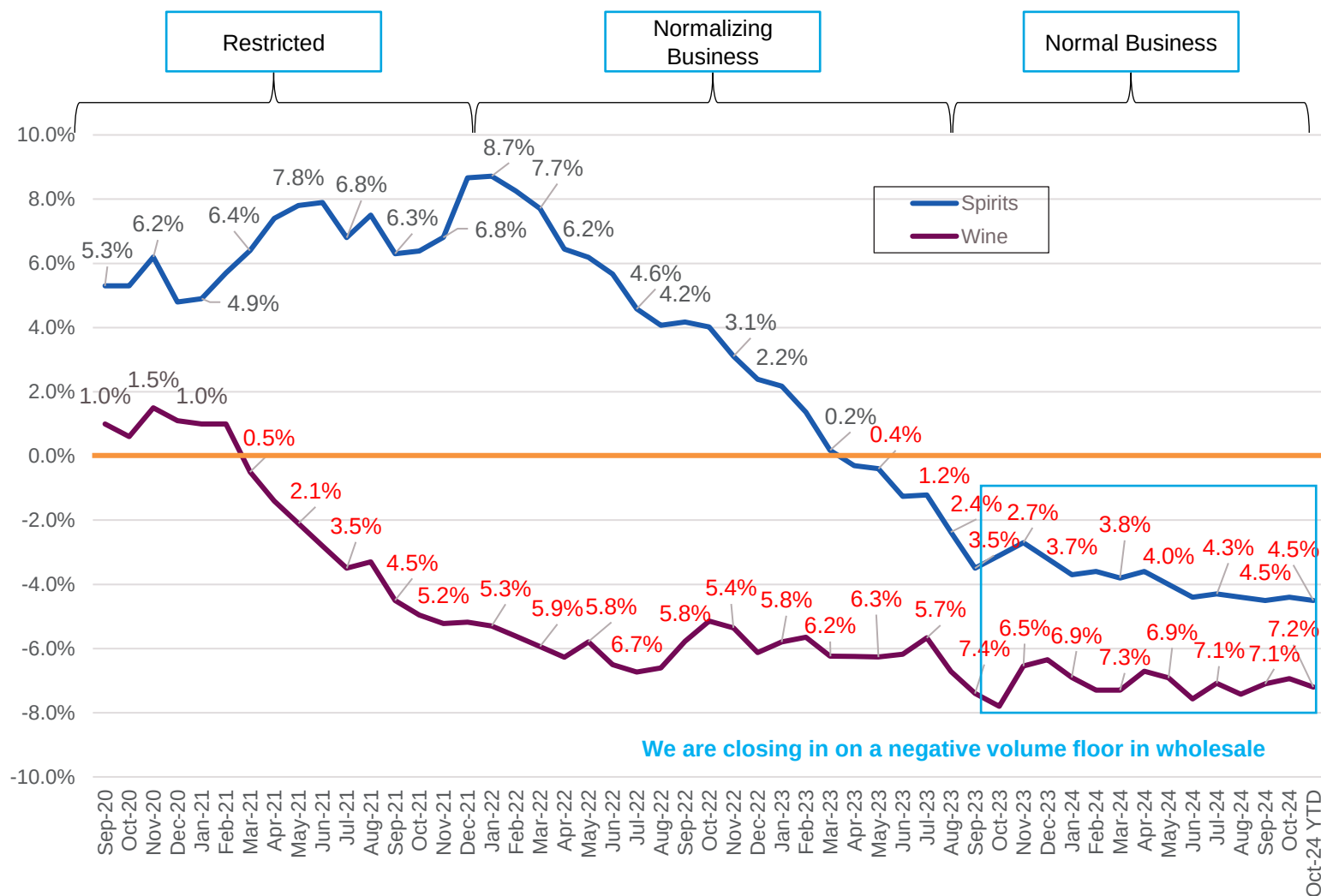
Wholesale depletion volumes have been negative on- and off-premise. With the recent supply-chain issues and subsequent stubborn inflation, it has been common to see more significant declines in volume than dollars as price increases counteracted higher costs. That trend appears to be nearing an end, and the reverse is likely to occur, with value falling below volume in many channels.

As of this writing, retail wine sales are beginning to trend in concert with wholesale inventories. Both volume and value are still in negative growth territory, but the value trend is closing on the volume trend. That should become more pronounced as we move closer to a time when discounting will be the predominant tool to reduce wholesale supply.

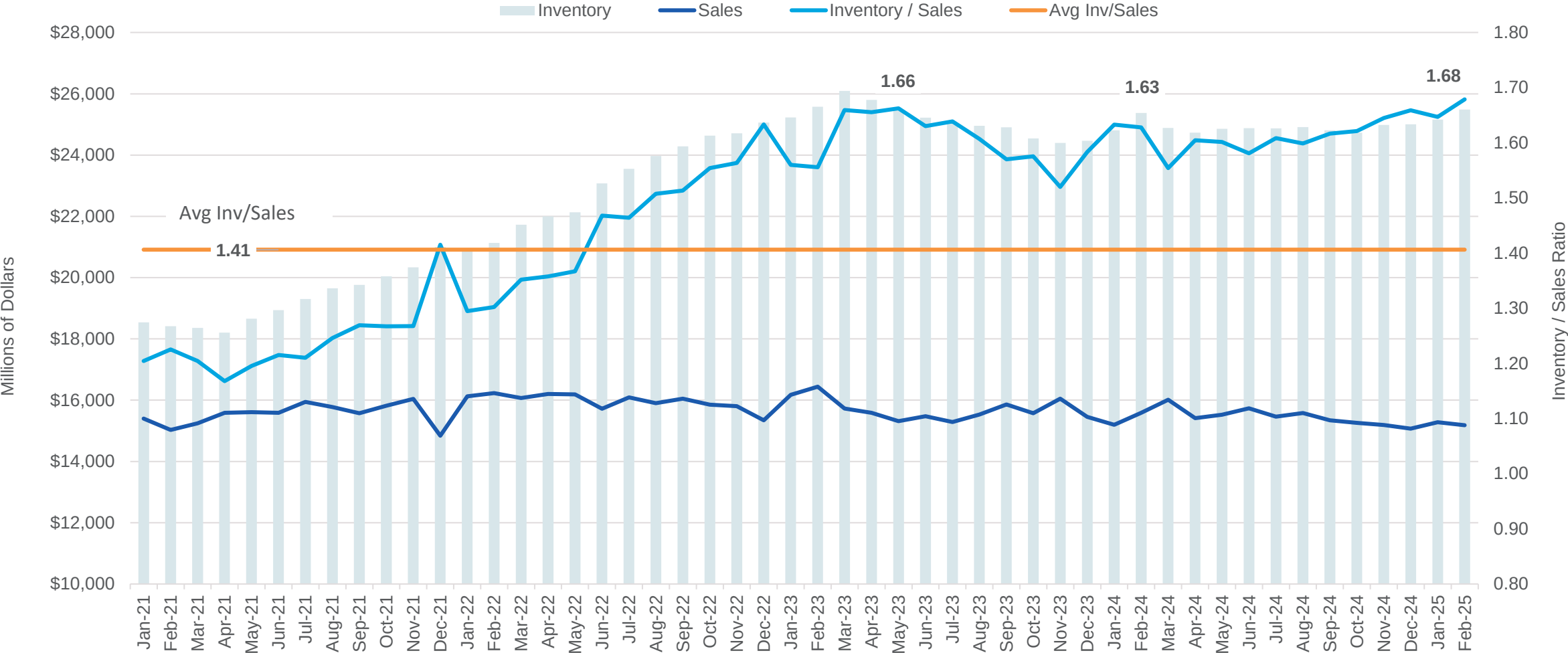
The good news is that we are nearing the secondary phase of the cycle and a more obvious clearing of inventory, leading to improving non-negative growth in depletions within the next year or two.

Post-COVID Growth in Wholesale Depletions of Wine & Spirits by Volume, 2021 to 2024

A bottom may be forming - The rate of decline is becoming more consistent



Monthly Changes in Wholesaler Inventories and Sales



Wholesale Alcohol Inventory Measures Continue Heavy

In March 2020, during the early phases of COVID, worried consumers raced to the store and filled their pantries. Retailers rapidly drew down supply. By August 2020, the inventory-to-sales ratio dropped to 1.05x—meaning one dollar and five cents of inventory was available to cover a dollar of sales. Wholesalers ordered more from producers, who drew down the excess stocks of bulk wine.

However, wholesalers, who were working under guaranteed purchase order agreements, found themselves in a difficult spot when business recovery started, sales slowed and inventory kept getting delivered to warehouses.

Finally, in March 2023, inventories stopped growing and rested at 1.60x sales before dropping slowly. A ratio around 1.30x to 1.40x is closer to what's typical in a growth environment. In an environment with declining sales, the ratio should be lower. The recent reading for February 2025 shows that after a year and a half, inventories have moved back to record highs. There is a lot of work left in the wholesale channel.

Just prior to publishing this document, Republic National Distributing Company (RNDC) announced plans to stop doing business in California. That decision couldn't have been taken lightly, but it might have been inevitable given the reduction in sales of wine produced under \$12 bottle price. Something had to give. But the result is winery accounts are now looking for representation, and not every SKU will find a home. While it might hasten the recovery of the wine business, it is still one more hurdle to overcome until that day.



While some analysts in 2024 predicted wholesale inventory-to-sales measures would return to expected norms, that's not been the case, and as of this writing, we are near-record inventory levels. The overage could clear in a matter of months—with improving demand. However, until we see some movement in volume sales of retail inventories, it will be challenging to get back to acceptable inventory levels.

Despite the COVID shocks that made it more challenging to get an accurate read on demand over the last five years, we are already through a period of decelerating growth in consumption. We are at or near a flattening part of this cycle. That's Phase One of the correction and being partially through that stage is a positive.

At the wholesale level, the departure of RNDC from California might have a positive impact by eliminating some brands that were already on life support, clearing the way for better brands to take up that space. It will be an interesting next two years.

Retail Sales Results - Jan 2023 to Feb 2025

Retail sales have to return to positive growth before wholesalers start to purchase more.

Date	<=\$2.99	\$3 - \$5.99	\$6 - \$8.99	\$9 - \$11.99	\$12 - \$14.99	\$15 - \$19.99	\$20 - \$29.99	\$30 - \$49.99
Jan-23	(2.9)%	(3.7)%	(4.2)%	(6.8)%	(1.3)%	0.4%	0.0%	(4.7)%
Feb-23	(2.4)%	(3.2)%	(3.9)%	(6.7)%	(1.3)%	0.3%	(0.5)%	(5.5)%
Mar-23	(2.0)%	(2.8)%	(3.6)%	(6.5)%	(1.0)%	0.4%	(0.4)%	(5.7)%
Apr-23	(1.7)%	(2.6)%	(3.4)%	(6.4)%	(0.9)%	0.3%	(0.7)%	(6.4)%
May-23	(1.6)%	(2.4)%	(3.1)%	(6.2)%	(0.6)%	0.6%	(0.5)%	(6.4)%
Jun-23	(1.6)%	(2.3)%	(3.1)%	(6.1)%	(0.2)%	0.7%	(0.6)%	(5.8)%
Jul-23	(1.7)%	(2.2)%	(3.0)%	(5.9)%	(0.0)%	0.8%	(0.9)%	(5.5)%
Aug-23	(2.1)%	(2.3)%	(3.2)%	(5.9)%	0.0%	0.7%	(1.4)%	(5.5)%
Sep-23	(2.2)%	(2.3)%	(3.2)%	(6.0)%	(0.1)%	0.5%	(1.7)%	(5.7)%
Oct-23	(2.4)%	(2.4)%	(3.4)%	(6.2)%	(0.2)%	0.2%	(1.8)%	(5.7)%
Nov-23	(2.6)%	(2.5)%	(3.6)%	(6.3)%	(0.3)%	(0.2)%	(1.8)%	(6.2)%
Dec-23	(2.8)%	(2.6)%	(3.6)%	(6.4)%	(0.4)%	(0.5)%	(1.6)%	(5.7)%
Dec-23	(3.3)%	(3.0)%	(3.9)%	(6.8)%	(0.9)%	(1.2)%	(1.9)%	(5.7)%
Jan-24	(3.2)%	(2.7)%	(3.8)%	(6.6)%	(0.6)%	(1.0)%	(1.5)%	(5.1)%
Feb-24	(3.2)%	(2.7)%	(3.8)%	(6.5)%	(0.6)%	(1.0)%	(1.2)%	(4.6)%
Mar-24	(3.4)%	(2.8)%	(4.0)%	(6.6)%	(0.8)%	(1.1)%	(1.1)%	(4.6)%
Apr-24	(3.7)%	(2.9)%	(4.0)%	(6.6)%	(1.0)%	(1.2)%	(0.9)%	(4.1)%
May-24	(3.6)%	(2.9)%	(4.1)%	(6.6)%	(1.1)%	(1.3)%	(0.8)%	(3.9)%
Jun-24	(3.7)%	(3.0)%	(4.2)%	(6.8)%	(1.4)%	(1.5)%	(0.6)%	(4.3)%
Jul-24	(3.7)%	(3.2)%	(4.3)%	(7.2)%	(1.6)%	(1.6)%	(0.5)%	(4.4)%
Aug-24	(3.5)%	(3.2)%	(4.4)%	(7.5)%	(1.6)%	(1.5)%	(0.0)%	(4.2)%
Sep-24	(3.6)%	(3.3)%	(4.6)%	(7.5)%	(1.7)%	(1.4)%	0.2%	(3.9)%
Oct-24	(3.6)%	(3.4)%	(4.7)%	(7.6)%	(1.7)%	(1.4)%	0.1%	(3.7)%
Nov-24	(3.7)%	(3.5)%	(4.8)%	(7.8)%	(1.7)%	(1.2)%	0.2%	(3.1)%
Dec-24	(3.6)%	(3.7)%	(5.2)%	(8.2)%	(2.2)%	(1.3)%	(0.1)%	(3.6)%
Jan-25	(3.8)%	(4.0)%	(5.5)%	(8.4)%	(2.3)%	(1.3)%	0.3%	(3.2)%
Feb-25	(4.0)%	(4.2)%	(5.7)%	(8.7)%	(2.6)%	(1.4)%	0.3%	(3.5)%
							Trailing 52-week basis	

Wine Club Structure, Conversion and Growth



Wine Club Structure, Conversion and Growth

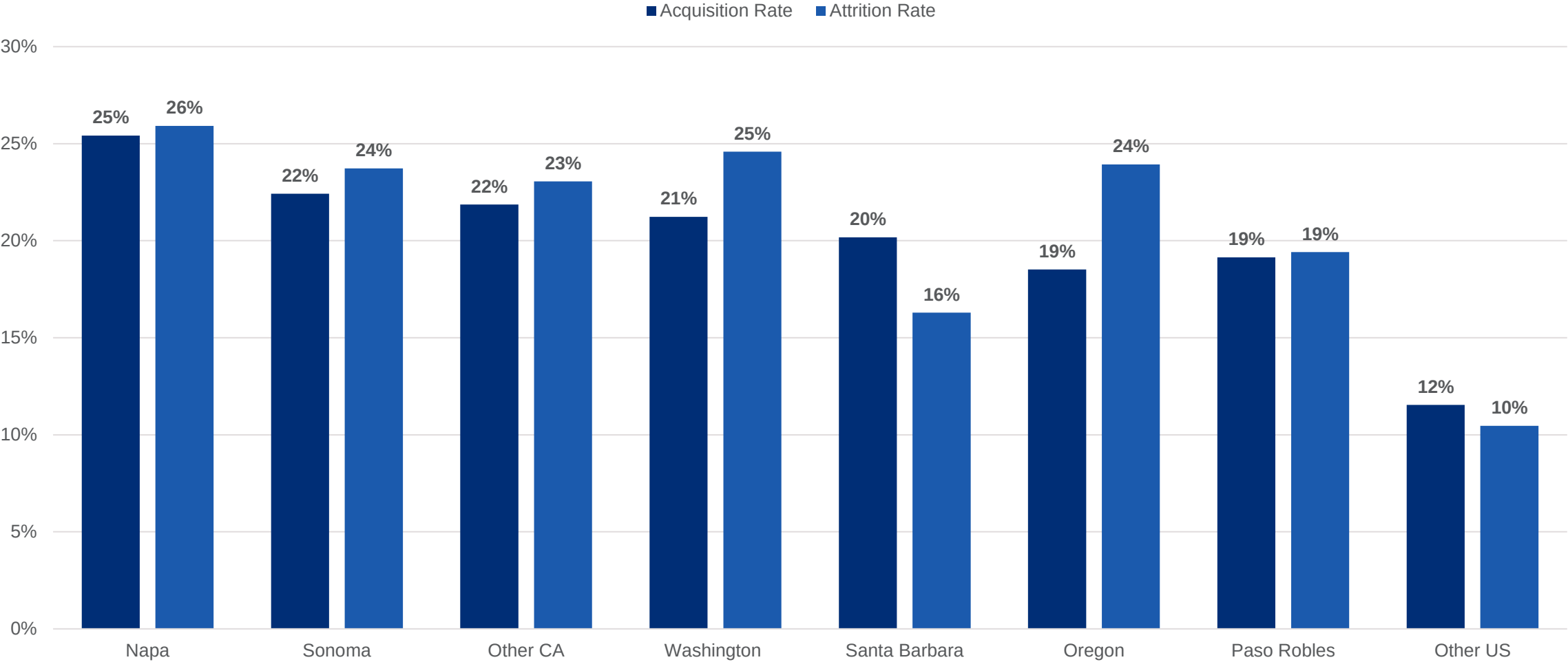
- The average club growth rate in total members has been declining for several years and now sits at a modest growth of 2%, but given visitation declines, this is a win.
- Traditionally, wine club members receive discounts on incremental wine purchases. Between regions, the average discount in 2024 was one percentage point higher than in 2023 at 18%.
- Free shipping is dropping as a discount mechanism and being replaced by discounted shipping.
- While 75% of wineries source club members from the tasting room, wineries are increasingly looking for different ways to source members.
- About 20% of wineries are now in active programs to cross-refer customers, and the same percentage are using digital marketing tactics other than social media to grow the club.
- Club conversion rates typically fall within a narrow band of 8-10%.
- Conversion rates in rural wineries are now up to one in four visitors.

It's not surprising that the growth rate in cases sold is less compared to dollar sales in almost every region. Over the past several years, the industry had light yields. Wineries had to make adjustments to release dates to stretch out case sales. Premium wineries can only sell what they have vinified.

Inflation, with its higher input costs, would usually influence a producer to raise prices to cover costs. That has been the case until today. The premium industry has been successful with modest price increases through 2024. However, we are probably nearing a peak in the ability to raise bottle prices.



Club Member Acquisition and Attrition Rates by Region



Acquisition Rate = New club members acquired in given year divided by base membership level at the beginning of that year.
Attrition Rate = Club members lost in given year divided by base membership level at the beginning of that year.
Excludes wineries with less than five years of experience.

It's helpful to look at the growth in new club members along with attrition rather than just net growth. It's far more profitable to grow a club by 5% along with 5% attrition compared to growing a club by 20% with 20% attrition.

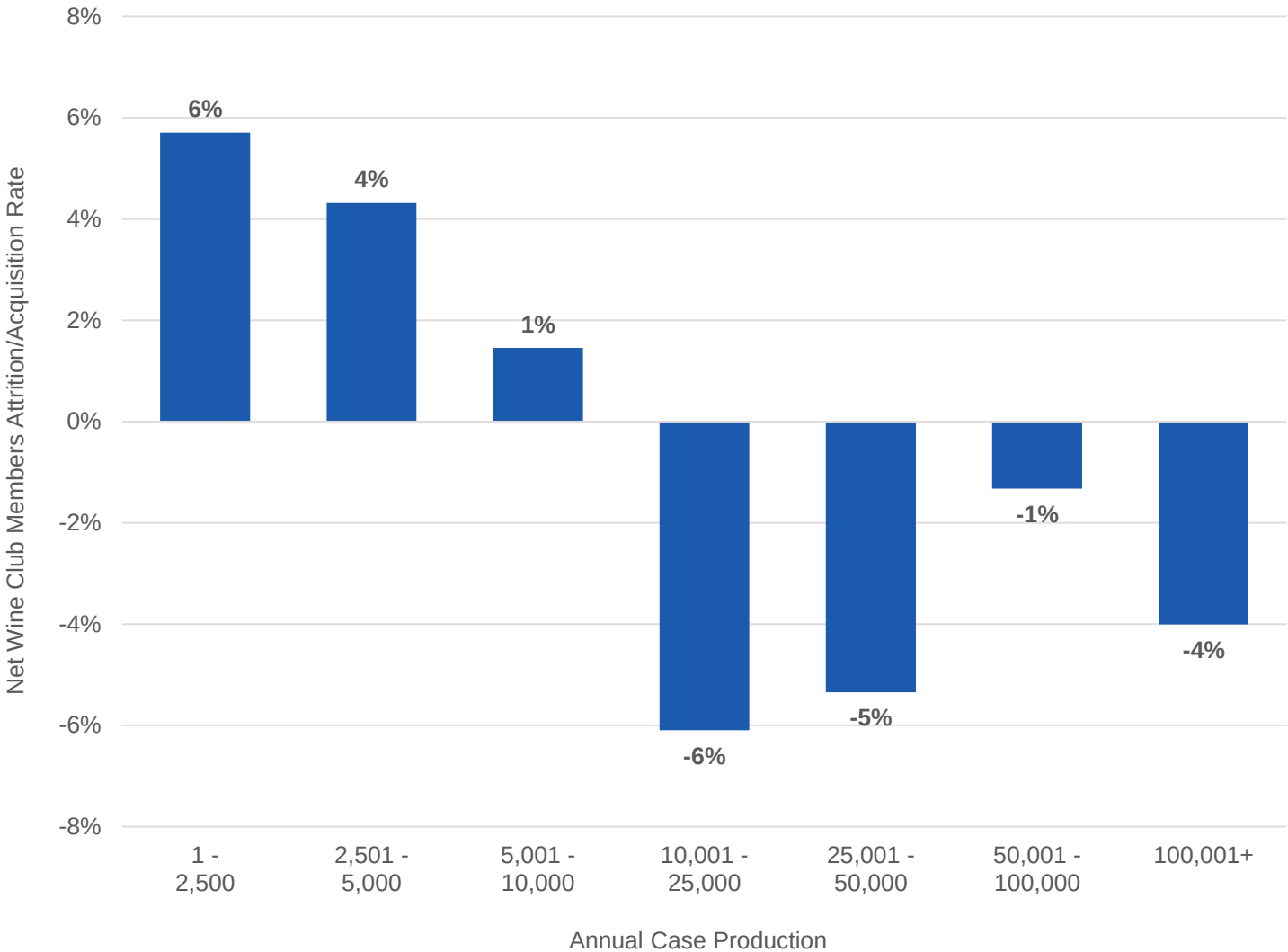
The latter instance has too much churn, requiring more overhead spending. While wineries in all regions are adding new club members more quickly than they are losing them, the rate of churn is uncomfortably high. The average attrition is 1% higher this year than last.

Another interesting read in the chart to the right, and repeated from growth measurements from our PGA Financial Database is the smaller wineries are out maneuvering larger wineries.

One might suppose that is because a new winery is expected to grow. If you sold a bottle last year, and 3 bottles in the following year, that's 300% growth. To limit the impact of growth off a small base, we removed all wineries that weren't at least 5 years old.

As mentioned earlier, we don't see a researched reason for this pattern, but we can speculate that smaller wineries are more nimble and may have a better ability to be quicker to make decisions and implement changes.

Net Wine Club Attrition/Acquisition Rate



Excludes wineries with less than five years of experience

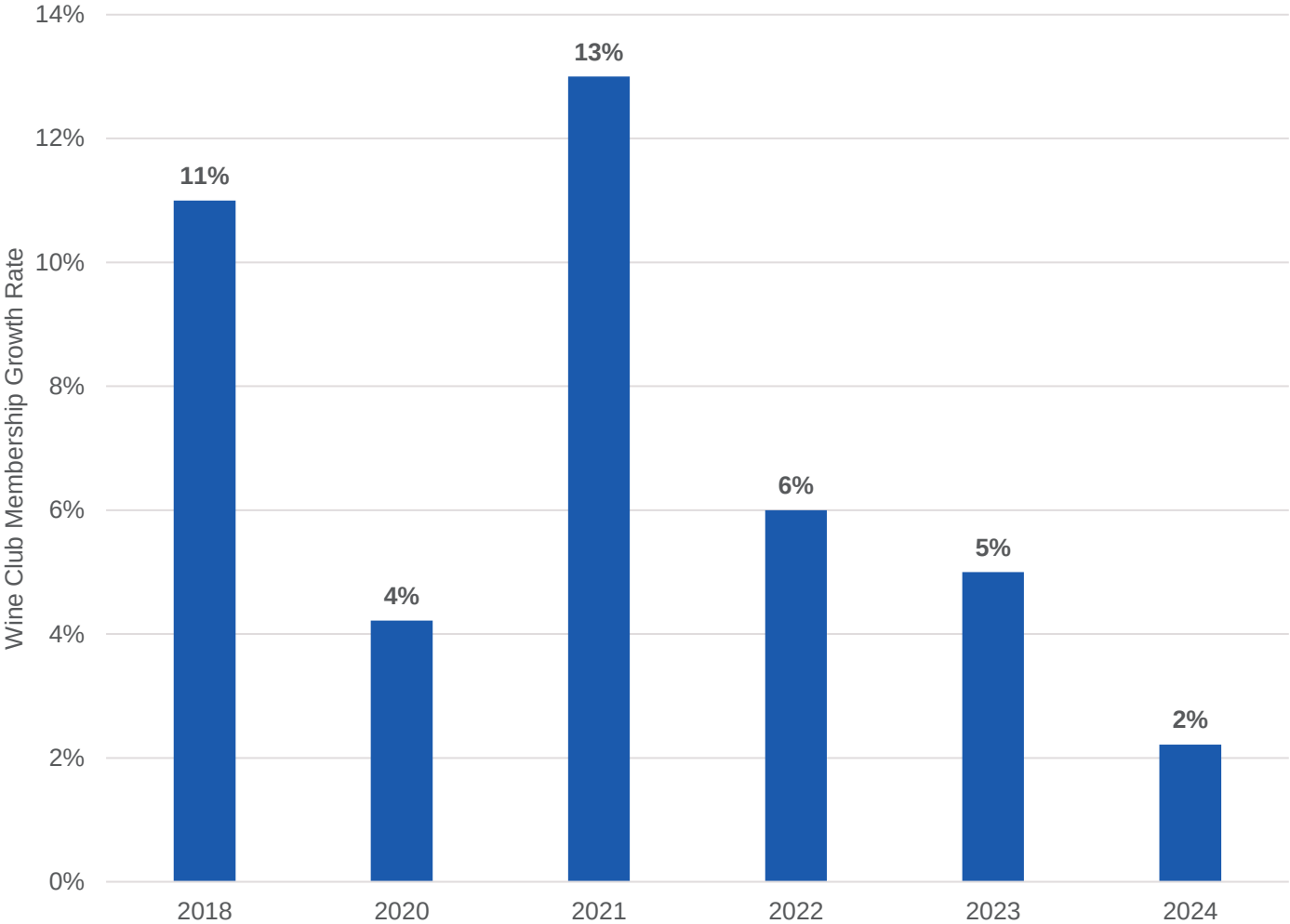
Wine club sales were successful during the COVID-19 period, particularly during the lockdown. While attrition was slightly higher in the spring of 2020 during the onset of lockdowns, net membership ended the year higher. However, there was a lower growth rate than in prior years.

Growth in club memberships was spectacular in 2021, due in part to tasting room reopenings, but also due to the growth in digital club member acquisition. Though lower in 2022, it wasn't reasonable to expect the 2021 growth rate to continue.

This pattern is less about growth rates and more about attrition rates. We believe that older club members are more loyal than younger consumers who are more likely to join and quit the club within the first year. That observations stands up against other research.

What do you do about it? Prioritize follow-up sales calls to the younger cohort soon after a signup, and be ready with an experience different from the one they enjoyed. Get them to come back to your winery before they find another suitor. That is just scratching the surface of possible opportunities.

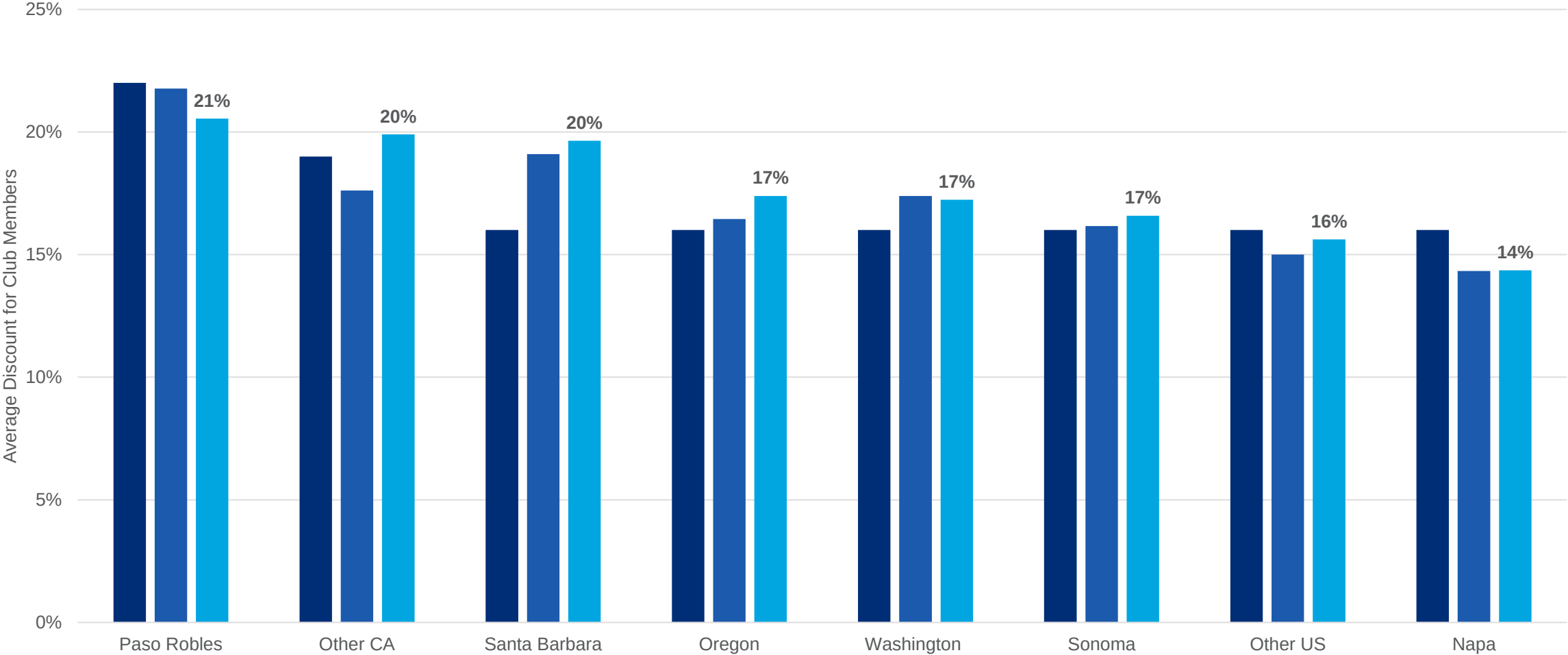
Annual Wine Club Growth Rate in Members



Net Wine Club Growth Rate = New club members acquired in given year, less lost club members in that year, divided by base membership level at the beginning off that year. Excludes wineries with less than five years of experience

Average Discount for Club Members by Region

■ 2022 ■ 2023 ■ 2024



During the 2020 COVID lockdown, we had two distinct industry segments. Those selling in grocery stores raised their prices, while those selling through shuttered tasting rooms struggled to entice consumers to purchase, particularly early on.

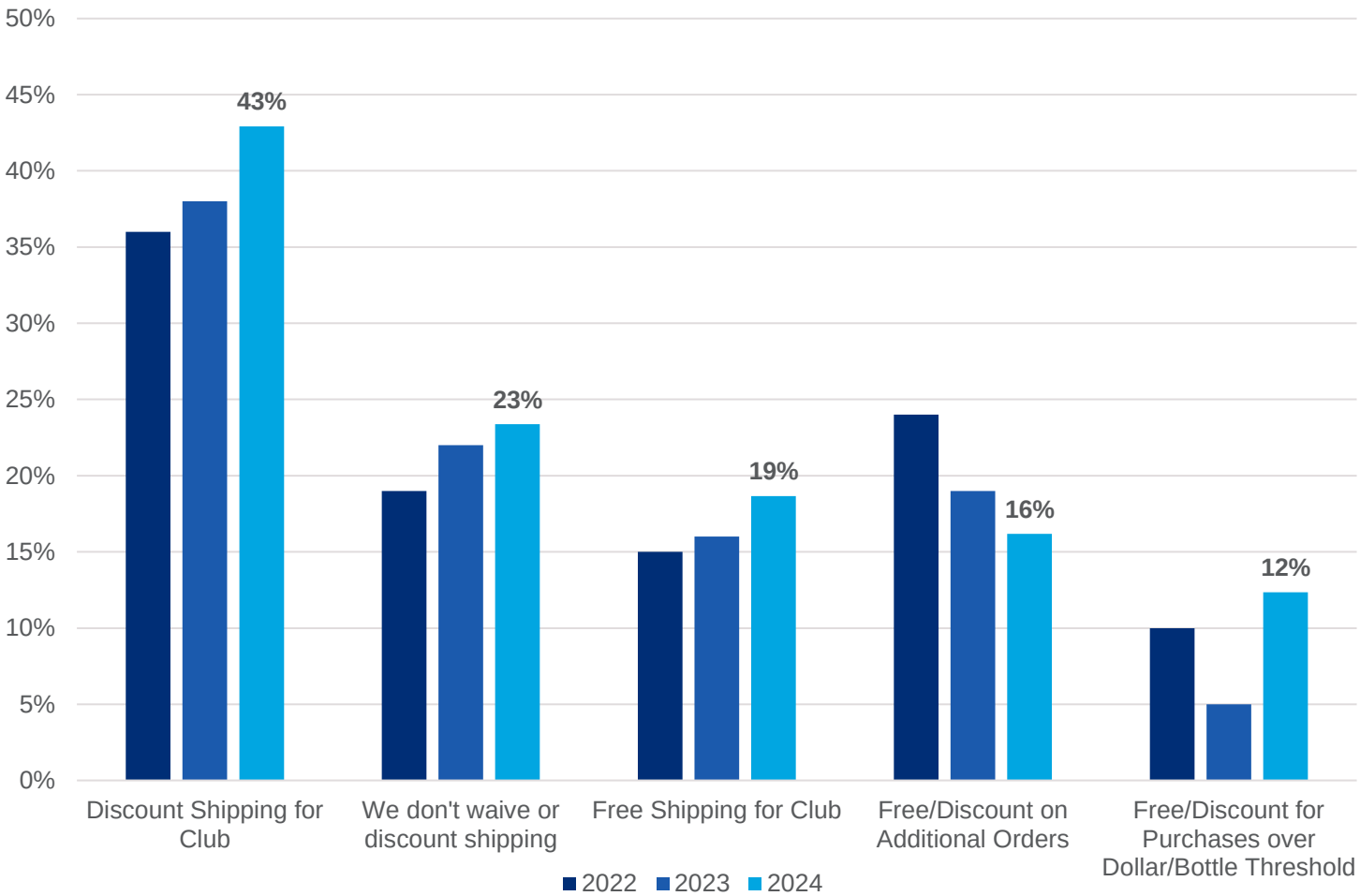
Many premium wineries also added free shipping as a sales incentive. Since reopening began, that gradually reversed, but consumers remain accustomed to free shipping.

As we enter a phase where discounting bottle prices is becoming more common, questions remain regarding how shipping costs should be integrated into the sales equation. My sense is that shipping fees stand out at checkout, both in-person and online.

Many solutions can be tried. One solution worth trying is instead of talking about the shipping costs at the end of a sale, add an earlier discussion about a current incentive to receive discounted shipping when buying a case.

Every solution has to be measured, refined or rejected after looking at the data.

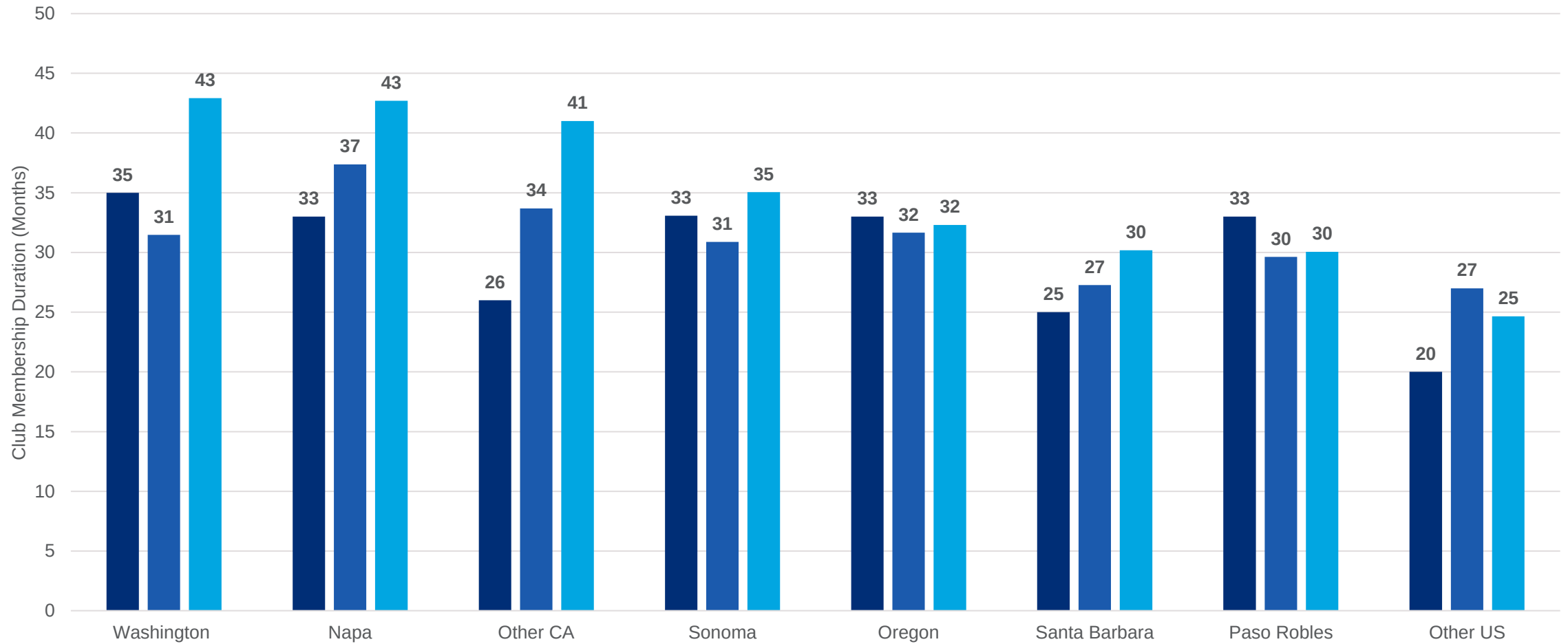
Wineries Use of Discounted Shipping for Club Shipments



Respondents may select more than one answer. Shipping discounts often vary depending on club tier.

Average Length of Club Member Tenure by Region

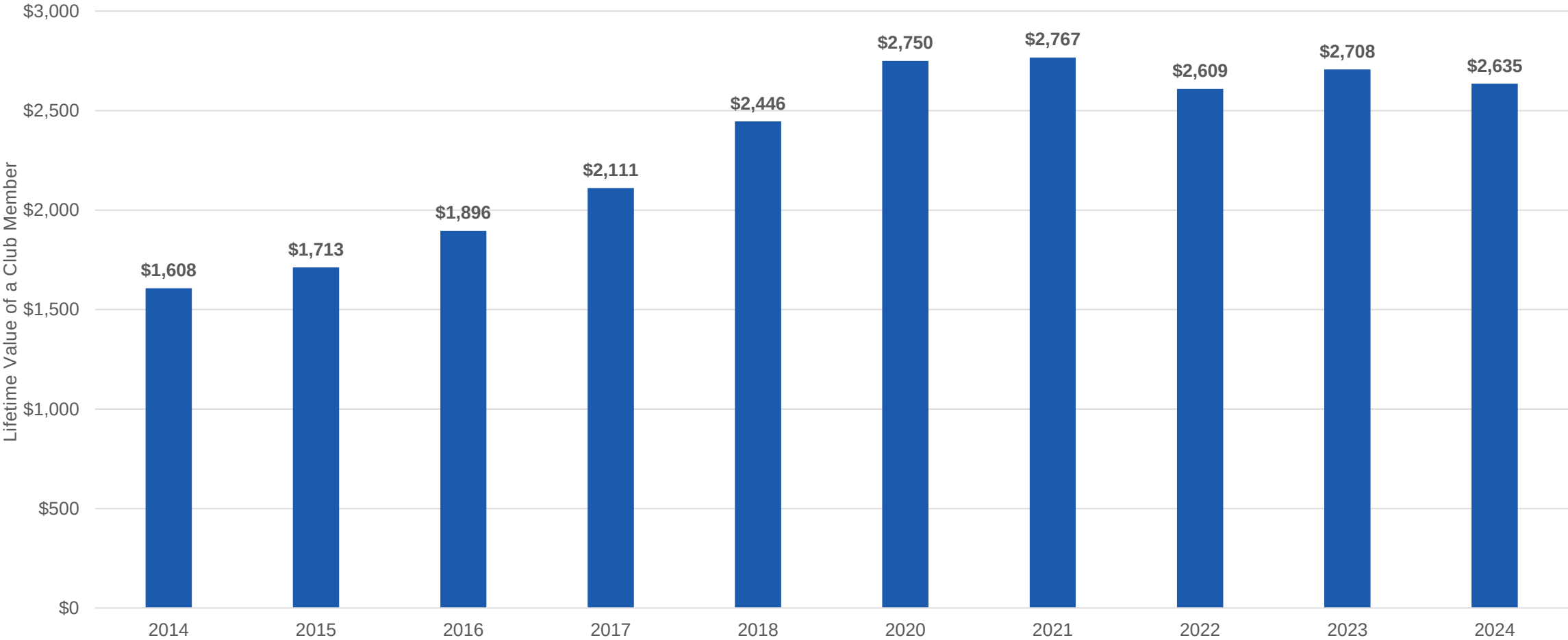
■ 2022 ■ 2023 ■ 2024



Respondents may select more than one answer. Shipping discounts often vary depending on club tier.

Lifetime Value of a Club Member

The average lifetime value is stabilizing as volume drops while member growth and average club member sales are up only modestly.





About the Silicon Valley Bank Wine Division

Silicon Valley Bank, a Division of First Citizens Bank, is the premier commercial bank for emerging, growth and mature companies in the technology, life science, venture capital, private equity and premium wine industries. Its Wine Division specializes in commercial banking for premium wineries and vineyards.

SVB boasts the most experienced team of commercial bankers dedicated to the wine industry of any bank nationwide. Established in 1994, SVB's Wine Division has offices strategically located in Napa, Sonoma and Oregon. It caters to clients in the fine-wine-producing regions of California, Oregon and Washington.

By virtue of its dedication to the wine industry, Silicon Valley Bank is able to support its clients consistently through economic and growth cycles, and offer guidance on many aspects of their business beyond traditional banking services. Silicon Valley Bank, a division of First Citizens Bank, is a member of the FDIC. More information on the company can be found at [svb.com](https://www.svb.com).





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Silicon Valley Bank provides banking and financial services, along with industry insights to vineyards and wineries.

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