

Prepared by the New Zealand Embassy in Washington

Summary

- The coronavirus pandemic has changed drinking behaviour in the US and is forcing New Zealand wine exporters to adapt their approach to the US wine market.
- With bars and restaurants closed or under tight restrictions, consumers have turned to online retail platforms for at-home consumption.
- Such platforms tend to favour well-known brands and wine varieties from trusted regions but limit opportunities for smaller winegrowers to enter the market.
- Protracted US tariffs on European wines are adversely impacting imports from countries including France and Spain increasing the appeal of some New Zealand varieties, notably Pinot Noir.
- US wine production has experienced disruption throughout this year with COVID-19 related supply chain disruptions and the Californian wildfires, but this provides limited opportunities for New Zealand exporters given our varietal mix.

Report

There have been notable changes of consumer behaviour and market competition in the United States wine market, New Zealand's largest by export value (NZ\$620 million for the year ended June 2020 and accounting for 30 percent of New Zealand's total wine exports.

Americans drinking more and at home

2 The COVID-19 pandemic has caused a dramatic decline in the volume of wine purchased on-premise as many bars and restaurants were forced to shut as stay-at-home orders came into force across the US. This was offset somewhat by a spike in national retail sales of alcohol.

3 States, including New York, Florida and Texas, helped boost these sales by relaxing regulatory regimes during the early days of the pandemic to allow for expanded alcohol delivery. Nielsen reported a 54 percent increase in retail alcohol sales for the week ending 21 March with online sales of alcohol grew by 240 percent. Even as mid-May saw a reopening of bars and restaurants, many consumers didn't return to normal drinking habits with Nielsen reporting 16.6 percent growth in off-premise wine sales this year compared to 2019.

4 A JAMA Network Journal report "Changes in Adult Alcohol Use and Consequences during the COVID-19 Pandemic in the US" found that Americans over 30 are drinking 14 percent more often. The frequency of drinking for women has been more pronounced with an increase of 17 percent compared to last year.

5 But at home consumption has resulted in Americans spending differently. The Wine Intelligence US COVID-19 Impact Report noted that while more involved and committed wine drinkers, who mainly spend between \$15 and \$20 per bottle pre-pandemic, tended to spend more, less frequent wine drinkers tended to spend less. Nielsen's Beverage Alcohol Senior Vice President Danny Brager said "consumers are shifting the dollars they would have spent on alcohol in a restaurant, bar, or tasting room to alcoholic beverages they can buy at a lower mark-up from retailers, online merchants and even directly from the supplier in the instances where it is legalized to do so."

Buying online is the new norm

6 The pandemic has encouraged wine consumers to adopt contactless retail experiences. Delivery services, like Drizly, online marketplaces, like wine.com, as well as click and collect from outside the brick-and-mortar stores have become the new norm as consumers look to limit person-to-person contact wherever possible.

7 In this environment, stores in residential areas with deep community ties are doing well but retailers with a strong online presence are thriving. ShopKeep, an e-commerce and point of sale assistant for small businesses, reported that their wine and spirit store clients saw in-store traffic decline by 18 percent, but online sales increase by 10,000 percent between March and May, with a surge of 45 percent in the average purchase, resulting in an overall increase compared to last year. As at 30 June 2020, the largest online retailer, wine.com, saw revenue growth of 283 percent compared to the previous year.

Online channel favours established brands

8 Online wine platforms tend to favour well-known retail brands with established distribution networks. According to NZTE, 20 percent of wineries account for 90 percent of e-commerce sales. Gallo, Constellation, the Wine Group and other mega-conglomerates have the infrastructure to quickly adjust sales strategies, as do the handful of distributors that control much of the market. The apps themselves can further embed consumer preferences as initial purchases hone future recommendations. The Drizly app, for example, is regarded as the “Amazon for Alcohol” because it promotes well-known brands, wine varieties, and regions. New Zealand Sauvignon Blanc and Napa Valley Cabernet Sauvignon are regularly promoted on the app.

9 Smaller winegrowers are finding it more difficult. Without the ability to try a glass of wine or seek the advice of sommeliers or shop assistants, online recommendations are more significant than ever. But due to an influx of demand, platforms like wine.com have stopped accepting new wineries onto their site. Lesser known brands that were listed saw only marginal growth as a result due to the lack of promotion by the platform itself and competition from well-known brands or wine varietals currently being promoted by the platform

10 However, there is hope for smaller wineries. After months of restrictions, consumers are starting to get bored of their tried and true wines. New online services have emerged that provide guidance to less experienced wine consumers. Sipd uses AI to rank a customer’s affinity to various wines. It is capable, it claims, of “surpassing the accuracy of wine critic scores and community reviews”, all while staying within a consumer’s budget.

11 With sales staff unable to travel and most industry events cancelled or offered virtually, New Zealand companies have needed to overhaul their marketing strategies towards digital and social channels. The biggest North American event for New Zealand wine, normally held in Vancouver in June, was cancelled and in-person events aren’t being planned until January 2021 at the earliest. In lieu of these events, New Zealand Wine adopted an “online first” approach, including “The New Zealand Wine Diaries” webinar series aimed at US Master Sommeliers.

12 During the US summer NZTE ran a promotional campaign to drive awareness of New Zealand wines, particularly Sauvignon Blanc, Chardonnay, and Pinot Noir, on wine.com. The value of sales, the number of bottles, and the number of customers all saw significant growth on the platform during this period; over 300 percent for each metric. This was largely driven by Sauvignon Blanc from well-known New Zealand brands. Pennsylvania saw the most sales through the promotion, due in part to liquor store closures across the state during this period.

13 In October, NZTE launched the “Made with Care” global campaign to grow awareness, preference, and demand for New Zealand food and beverage products in key export markets, including the US. The campaign has been activated through a range of digital and social channels, including influencer marketing. Babich Wines welcomed the launch with CEO David Babich noting “Export success is vital for New Zealand wine... Campaigns like “Made with Care” are immensely valuable for lifting the profile of New Zealand, the wine industry, and the whole food and beverage sector, which benefits all of us.”

Tariffs add to cost of European wines

14 New Zealand’s competitors are facing other headwinds in the US which are impacting market conditions. New Zealand is the US’ third largest importer after France and Italy, accounting for over 7 percent of America’s wine imports. In 2019/2020, New Zealand saw the highest year over year growth compared to its European competitors. US tariffs on

European wines, part of the US retaliation for EU subsidies paid to Airbus, are impacting wine imports from tariffed countries including Spain, France and Germany with alcohol content of 14 percent or less.

15 According to France’s wine and spirits export body, FEVS, American imports of French wines fell by 35 percent in the first eight months of the tariffs which started in October 2019. Confederation of Burgundy Appellations and Winemakers President Thiébault Huber said “it’s a catastrophe for us. The US is the biggest market in the world for Bourgogne wines.”

16 A coalition of 20 trade associations representing the US, EU and UK wine and spirits industries, including the Wine Institute, are calling for the end of the “excessive and unwanted tariffs”, warning they will only further damage the transatlantic alcohol trade. But it is unlikely the US and the EU will reach a negotiated settlement in the next few months. Indeed, US Trade Representative Robert Lighthizer is not ruling out responding to the EU’s recent decision to increase tariffs on US exports into the EU on targeted US wine and spirits by 25 percent.

17 There are opportunities for New Zealand exporters to secure greater market share in areas where there is direct competition, notably Pinot Noir and Burgundian-style Chardonnay (light to no oak). Seizing on this opportunity would require a sustained marketing campaign or strategic commercial relationships in specific underserved parts of the US market to raise awareness of New Zealand brands and varietal attributes. However, NZTE is currently not seeing much interest from industry bodies in support of anything other than Sauvignon Blanc.

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