

WINES AND SPIRITS

## US luxury wine industry: How the COVID-19 pandemic differs from the Great Recession

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*Wineries will have to personalize their interactions with their distribution channel as well as restaurants*

By [Adam Coremin](#)

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Over the past four months, the wine industry, across all price segments, has seen a seismic shift in consumer purchasing patterns and behavior.

Since March, total U.S. wine sales in Nielsen reporting retail accounts are up more than 30 percent, a meteoric rise over the last several years where many wineries were in a dog fight to yield single-digit growth.

Though this may illicit visions of Champagne corks popping from Napa to Bordeaux, there is a stark contrast between the brands driving this growth and those left on the sidelines.

### Smell test

For many luxury and premium brands, this may feel eerily like 2008-10 where sales plummeted as the economy tumbled into a recession, but this economic event is vastly different.

The drivers behind the 2008-10 recession were systemic, and high-end wineries saw losses across all channels of sales as more than half of Americans lost 25 percent of their wealth.

The greatest impact for luxury brands was felt in restaurant sales as traffic declined and consumers traded down.

Over the course of this period, inventories grew, depletions slowed, and tasting room and direct-to-consumer traffic dried up. This forced many wineries to engage in discounting and selling allocations, once reserved for the best restaurants, to retail.

Iconic wines were being sold at retail at prices never before seen. Hard-to-find wines were poured by the glass at a fraction of previous vintage-release prices. The impact was real on this segment of business for wineries that built a strong network of distribution in restaurants.

With the United States now into the fourth month of COVID-19 and the commensurate impacts being felt across businesses large and small, wineries are being challenged in similar ways to the Great Recession.

Consumer confidence is shaky, unemployment is up and the market is volatile, which impacts discretionary

spending for luxury wines today just as it did more than a decade ago. But the similarities end there when looking deeper at the challenges that luxury wineries currently face.

So how is COVID-19 different from the Great Recession?

Dine breed?

In 2008, restaurants did not have customers. Today, customers do not have restaurants.

For four months now, and with no true return-to-normal state for the restaurant community in sight, winery sales to restaurants are down staggering rates.

Consumers were still dining out in 2008, consuming fine wine to celebrate birthdays and anniversaries, but today, many of those occasions are being celebrated at home, often with smaller groups and with less fine wine consumed.

Even as restaurants open over the next several months, they will be operating with limited menus, limited capacity and limited opportunities for consumers to purchase and consume wines in the three- to four-digit price range.

If luxury wine brands felt the impact in 2008 when restaurant sales dipped 30 percent to 40 percent, today's losses of 80 percent to 90 percent are cataclysmic.

The wineries and brands best positioned to survive and thrive in the current and post-COVID-19 environment will be those that have prioritized a healthy channel balance between retail, restaurant and tasting room sales as opposed to a restaurant-heavy focus.

While shifting the mix may seem the easy solution, there is plenty of wine in the pipeline, and only those wines with the strongest pedigree are an automatic sale.

The ripple effects are already being felt in the Bordeaux En Primeur market, with the 2019 release price of one sought-after Chateau down 30 percent from the prices seen with the 2018 vintage release.

While the drivers behind this crisis are different, so too are the opportunities to engage with decision makers across the supply chain.

Own it

While many retailers have promoted luxury brands at competitive, and sometimes downright low, prices, there are many fine wine retailers in the U.S. that are focused on craft and storytelling. These retailers have continued to do well in most states through COVID-19, as they provide a level of customer service not found in the grocery or Big Box channel.

Speak with some of these store owners, and you will hear decades-old stories of visits from winery owners or winemakers now considered royalty in the industry.

This store-by-store, cork-by-cork approach for new partners may be temporarily on hold, but there are certainly opportunities within an existing account base to educate and excite about the wines currently on the shelf.

Helping to drive pull where there is existing distribution can help to offset other losses.

While helping current retail customers sell through inventory is hyper important, now is not the time to walk away from longstanding restaurant customers.

With the challenges in this channel so pervasive, there need to be creative solutions implemented beyond a bottle of wine with a takeout order.

Reaching outside

Luxury wineries and brands need to employ a level of empathy and listening unlike ever before, as every restaurant is experiencing something unique.

Some are having trouble staffing, some have made the transition to take out smoothly and are seeing sustainable, albeit not ideal, cash flow, some have to expand their patios to meet demand, and some are barely hanging on.

Identifying the most important restaurants to the business and asking the simple question "How can we help" will provide the nuanced ways in which to navigate this segment of business.

With tasting rooms closed or operating at limited capacity, wineries need to find ways to recreate their unique experience to engage and excite consumers to drive consumption, not just collection.

Wineries across all price points are jumping into the online space, hosting virtual tastings to help educate and create touch points with the brand, but few are coordinating the opportunity for consumers to taste alongside the winemaker, which can help to drive sales.

Reaching out to collectors, finding groups of consumers that still have certain library wines, and hosting smaller, intimate tastings with winemakers or owners helps to personalize and heighten the in-home tasting experience.

While this requires more frequent online events by the winery, it drives wine being consumed in an experiential manner and provides the opportunity for incremental, high-profit sales.

BRAND, QUALITY, storytelling and creating value beyond price are as important today as ever, but listening to the needs of the customer still reigns supreme.

The more personalized the engagement is with the consumer or account, the greater the differentiation is from those wineries offering free shipping or 10 percent off as their sales drivers.



*Adam Coremin*

*Adam Coremin is Charlotte, NC-based vice president of sales for Union Wine Company, Tualatin, OR. Reach him at [adam.coremin@gmail.com](mailto:adam.coremin@gmail.com).*

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