

FOOD AND BEVERAGE

# For first time in 45 years, spirits surpass wine in sales: report

February 14, 2024



*Last year marked the first time in nearly half a century that spirits garnered more sales than wine, though top-tier growth is changing the segment's outlook. Image credit: LVMH/Cloudy Bay*

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By EMILY IRIS DEGN

The U.S. wine industry concluded 2023 with mixed results, but the high-end sector saw some gains.

Silicon Valley Bank (SVB), a division of First Citizens Bank, revealed in the [2024 State of the U.S. Wine Industry Report](#) that, while full-category sales by volume are down for the third year in a row, premium businesses saw positive growth when it comes to sales by value. The assessment indicates that as consumer demands shift, companies that tailor messaging to the values of each age group will perform well, even amidst macroeconomic and sociopolitical factors.

"Now more than ever, changing market dynamics favor wineries that adapt to a changing demand environment," said Rob McMillan, founder of the wine division at SVB and author of the report, in a statement.

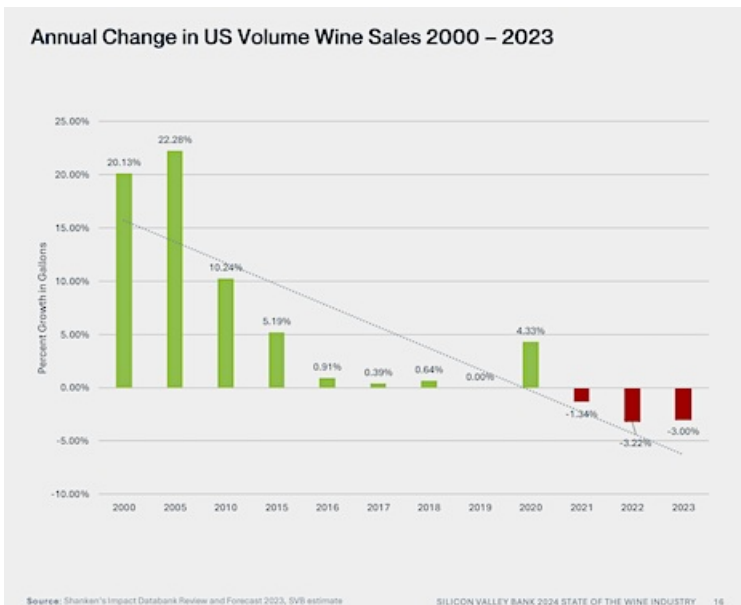
"Solutions to changing demand should include collaboration across the industry, but absent that, finding increased efficiencies in marketing and sales will become critical for success," Mr. McMillan said. "Future demand improvement will rely on the industry's ability to attract new and younger consumers, take market share from other beverage and cannabis producers, and counter overproduction that will likely lead to widespread discounting in out-of-favor brands and price points."

Now in its 23rd year, the report investigates the newest sales data, pricing, marketing strategies and consumption trends in the wine industry. The findings are based on proprietary research, third-party sources and answers gathered from surveys given to over 500 American wineries.

## **Wine woes**

SVB's wine division was founded in 1994, handling banking for premium wineries, vineyards and supporting industries.

With offices in California and Oregon, the organization serves clients located in regions that produce fine wine along the West Coast. Using in-house knowledge gathered through these affiliations and the data outlined above, SVB's annual report breaks down the current market conditions of the industry and predictions for the year ahead.



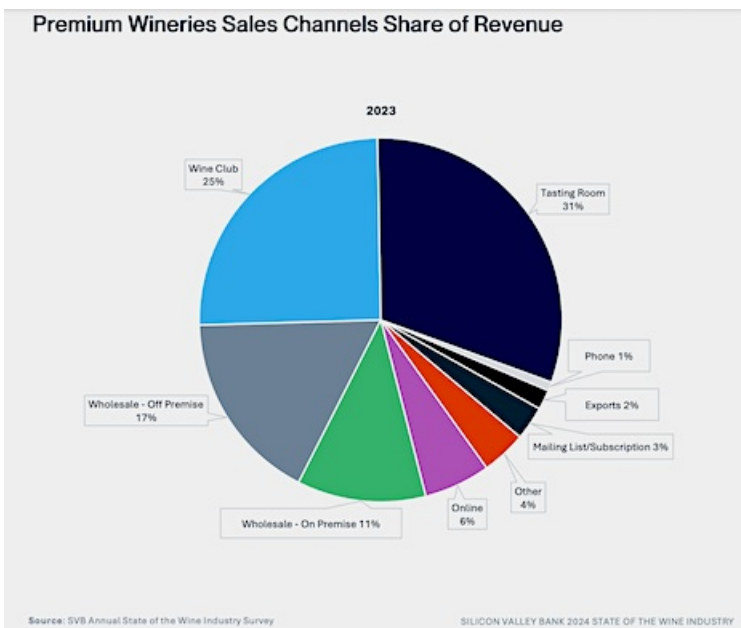
Wine sales by volume are dropping overall, but in 2023, the decrease was not as dramatic as the year before. Image credit: SVB

In 2023, top-end wineries had mixed success.

The value of their products continued to rise, but volume sales were down. This is in part due to 2020's turbulence, which led to a lighter selection of vintages.

However, in 2024, the report states that these luxury vineyards are going to have one of the highest-quality harvests in years. Inventory positions are also balanced, making the sector more resilient in the face of national economic conditions that are affecting companies with lower price points.

This year, tasting room visitation is predicted to improve as well, which was notably lower in the premium category last year.



Premium wineries make the majority of sales from tasting rooms, which have been seeing decreasing visitor numbers. Image credit: SVB

Direct-to-consumer (DTC) sales will likewise elevate, though modestly so. In 2023, these figures were slowed through October.

Luxury DTC purchases decreased in volume by the end of the annual period for the sector. Thanks to a strong fourth quarter, high-end wine sales by value grew by 1 percent to 4 percent during the year; this is expected to improve in 2024.

In the United States, full-category sales declined and will continue to do so this year.

Even in the industry's cautious mood, premium wine businesses are self-reporting stable financial health. SVB's data shows that this sentiment is accurate since dollar-based sales were higher in 2023 on a trailing 12-month basis.

Nearly 3,000 people attended SVB's virtual event

Small wineries are especially increasing DTC sales, a fact many investors seem to be privy to (see story).

### Sips are shifting

Despite the premium sector's ability to outperform the overall industry's figures, wine in general is seeing subdued enthusiasm from customers.

Young people, notably, have been less likely to consume alcohol in recent years (see story), especially outside of special occasions. Wellness seems to be one of the biggest drivers of this stepback (see story).

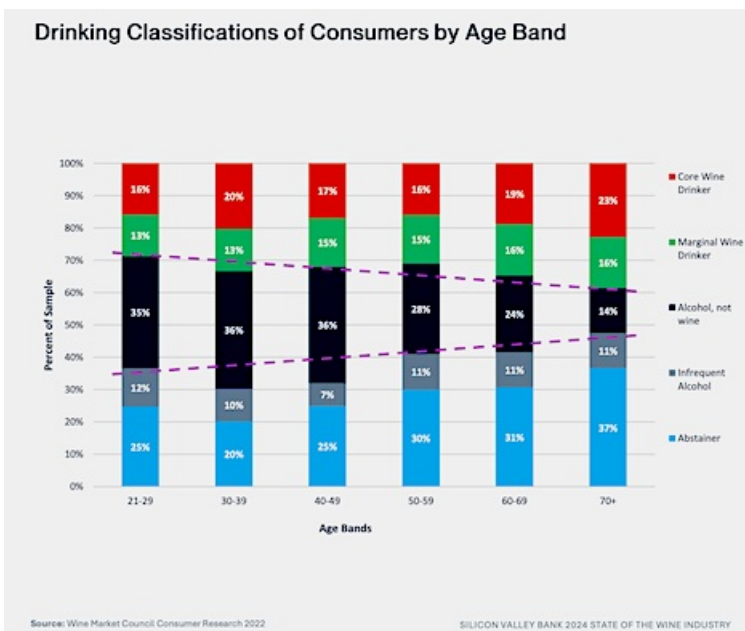


Young people's belief that cannabis is healthier than alcohol and their preference for spirits over wine is causing disruptions in the industry. Image credit: LVMH/Clos19

In the 2022 Wine Market Council's Benchmark Segmentation Study, 26.5 percent of consumers stated that they are drinking less wine specifically because of health concerns.

Data from the report shows that 84 percent of adults cite alcohol as a harmful substance, a figure higher than the 60 percent that deems cannabis as such.

Perhaps it is for this reason that between 2012 and 2022, monthly cannabis use increased from 16.6 percent to 28.8 percent among those aged 19 to 30. Meanwhile, alcohol use among the group declined from 68.4 percent to 67.5 percent.



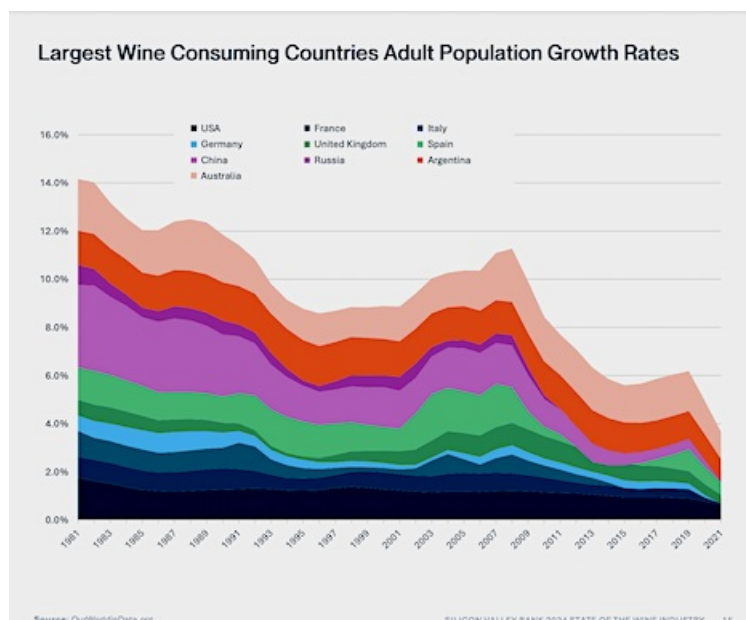
Older customers appear to be the most loyal wine drinkers. Image credit: SVB

A shift in beverage preference is also fueling the softening figures, with 41.7 percent of consumers naming a reason related to this when asked why they are not partaking in as much wine as before. Last year marked the first time in 45 years that spirits surpassed wine in sales.

That said, 58 percent of those over the age of 65 favor wine over other alcoholic beverages.

Due to these mixed outlooks, the SVB suggests that companies need to tailor their marketing strategies to different age groups. While senior customers may warrant traditional tactics, the younger crowd will need some modern switch-ups.

Releasing organic or health-conscious wines or embracing nonalcoholic options could appease this customer base.



Even traditional wine-drinking countries are seeing dropping numbers in adults who partake. Image credit: SVB

Reflecting the group's value of sustainability, such as buying carbon offsets for every order, implementing regenerative agriculture practices in vineyards or other green business moves, could also prove successful.

Engaging with more popular industries could also provide a lift. The report states that collaborations with cannabis players could do so.

Finally, expanding the number of annual, celebratory occasions when wine is being consumed might be an additional boost for all.