Silicon Valley Bank

2021 Direct-to-Consumer Wine Survey Report, Results and Benchmarks

May 2021

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Direct-to-Consumer Wine Benchmarks: 2021

How do you sell wine in a pandemic?

That was the question asked in middle-March 2020 as the industry, country, and world awoke to discover that we were living in circumstances that seemed more like a second-rate Hollywood movie.

Now, more than a year into the COVID-19 pandemic, we have answered many of those early questions, and along the way, we've discovered a few things about our ability to adapt, create, and even thrive in some cases in what I would call the most difficult business conditions for our industry since Prohibition.

How did your winery negotiate the pandemic relative to your peers? What can you learn from others who had more success? What strategies can you enhance and keep to drive growth?

The following charts and commentary are a starting point for self-reflection about our combined and individual successes and challenges in 2020. For those contributing to the survey, you will receive the complete set of anonymized data from which you can draw enhanced conclusions, and fully benchmark your winery against peers.

In the final analysis, the 2020 COVID-19 pandemic will go down in the US wine history as the single event that galvanized the business into action; taking the tasting room experience on the road, discovering we can sell digitally, finding the rudiments of omnichannel marketing and discovering that our path to the consumer can and needs to positively evolve for success tomorrow.

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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 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, both domestically and internationally, and you will find him extensively quoted in national, regional, and trade press.

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Digital Strategies

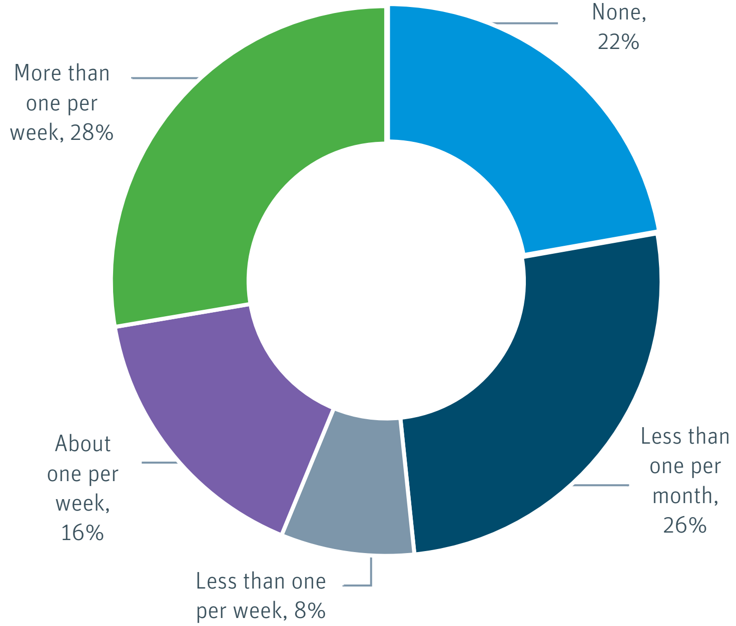
Virtual Tastings Took Flight in 2020

Zoom tastings became synonymous with digital tastings in 2020. Along with enhanced revenue and connection, about 20% of new club members came from digital.

The industry responded to shelter-in-place orders with 44% hosting digital tastings once a week or more, and only 22% not taking the leap.

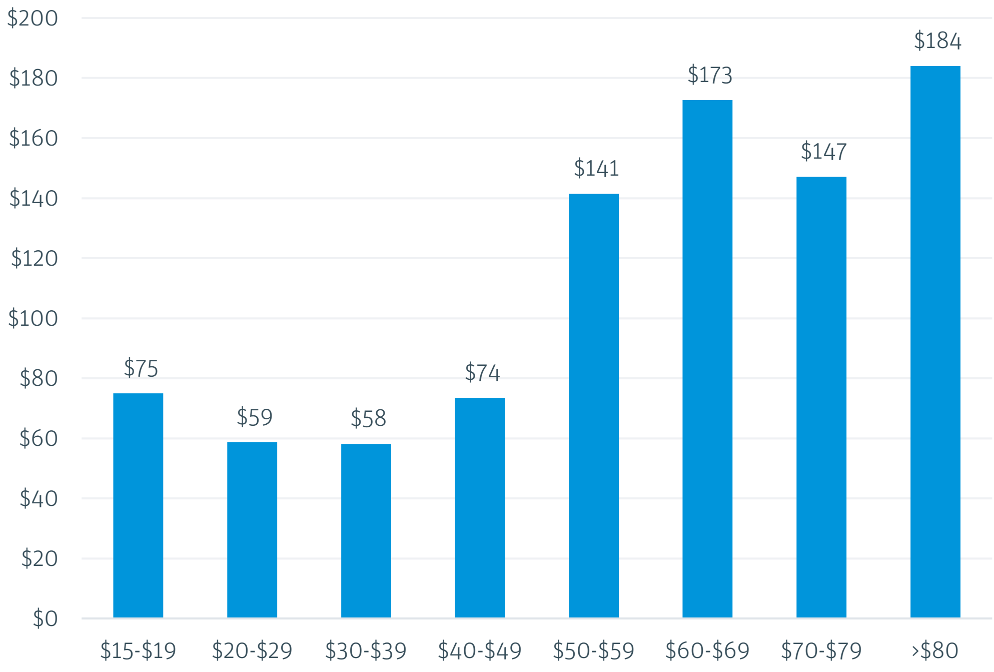
Determining tasting fees for digital tastings was challenging as there were a variety of offering types, including wine with food pairings and wine only.

How often did you run a digital tasting?



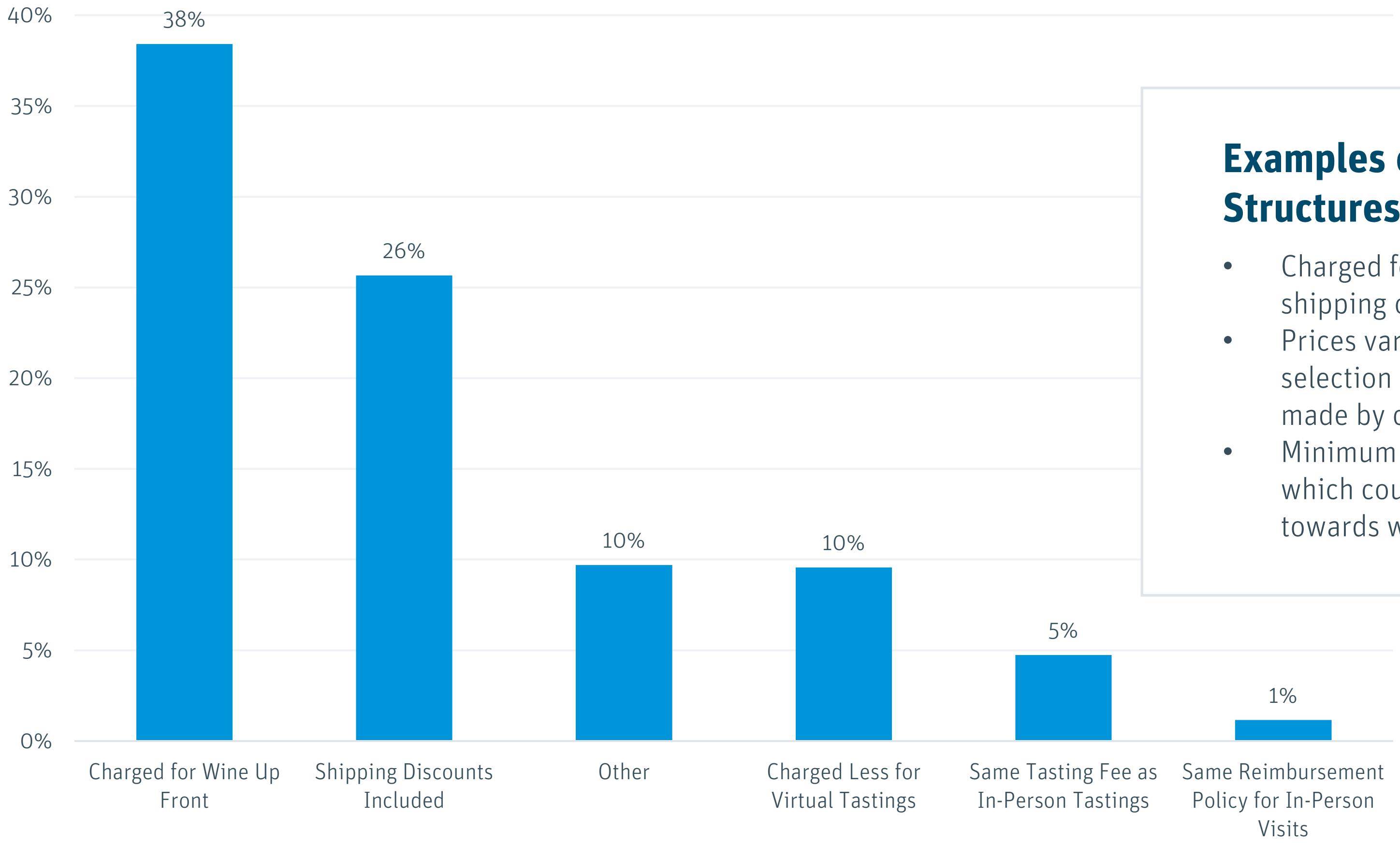
How much did you charge for a virtual tasting?

Virtual Tasting Fees by Suggested Retail Bottle Price



Source: Silicon Valley Bank 2021 Direct to Consumer Survey.

Virtual Tastings: Pricing and Discount Structure



Examples of Other Structures (10%):

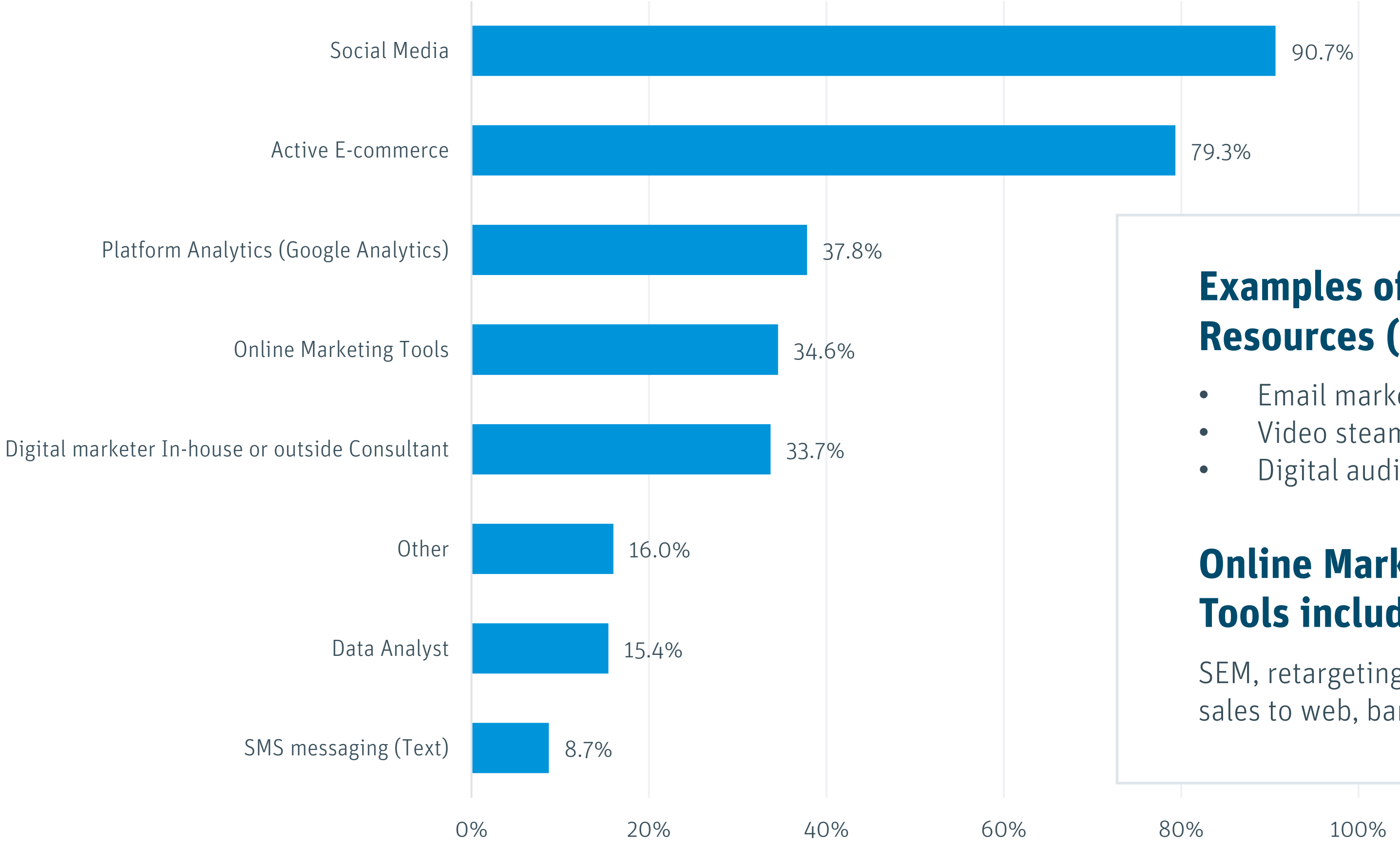
- Charged for wine and shipping only
- Prices varied by selection of wine made by customers
- Minimum ticket price which could be used towards wine

As wineries offered varied options with Zoom tastings, including charging for wine up front (38%), the question should be asked, what of the digital strategies could we employ to broaden our on-site tasting room offerings.

Perhaps we should consider charging for wine up front, too?

Source: S&P Capital IQ and SVB analysis.

What Digital Platforms Do You Employ?



Examples of Other Resources (16%):

- Email marketing campaigns
- Video steaming
- Digital audio (Over The Top)

Online Marketing Tools include:

SEM, retargeting, SEO, driving sales to web, banner ads, etc.

The use of digital is widespread but not deep, in the wine business. The majority use social media and active ecommerce. Yet, only one-third use platform analytics, which indicates the overall depth and use of active ecommerce is limited, and true ecommerce is something the industry needs to invest in and improve.

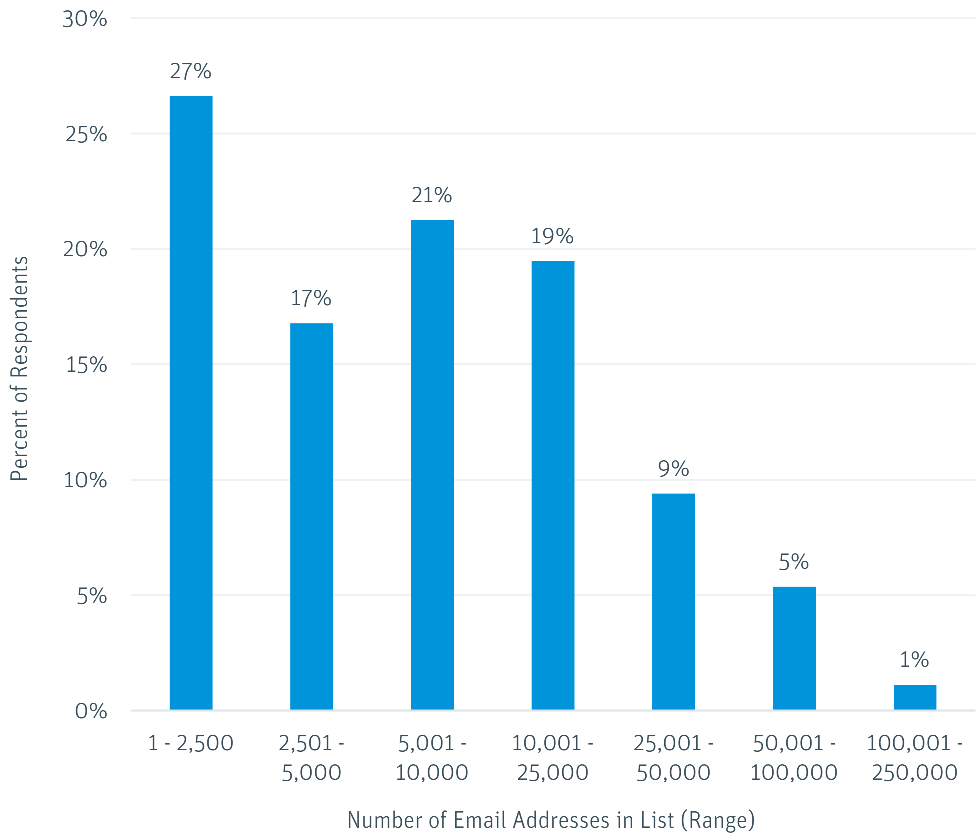
*Respondents selected all applicable options.

Use of Email Marketing

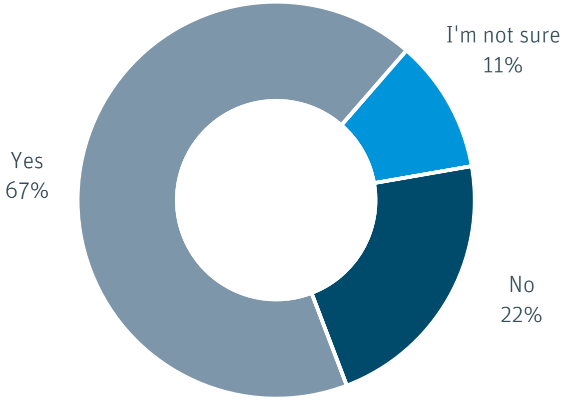
When we asked the question about list size a decade ago, the average email list was less than 5,000 names. Today that has ballooned to more than 15,000, with an average email contact to case production ratio of 1.8:1. How do you benchmark against that? Do you have 1.8 good contacts for every case you produce?

The hygiene of lists is improving, but 22% of respondents report they never clean their contacts lists, which can negatively impact success rates and potentially conflict with recent privacy statutes.

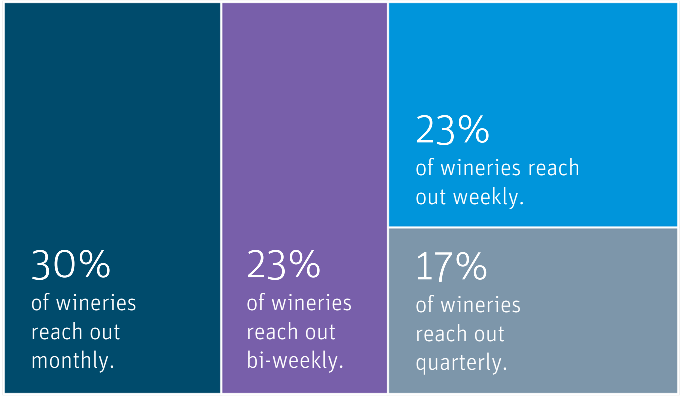
Size of Email List



Do you remove inactive emails from your email list annually or more often?

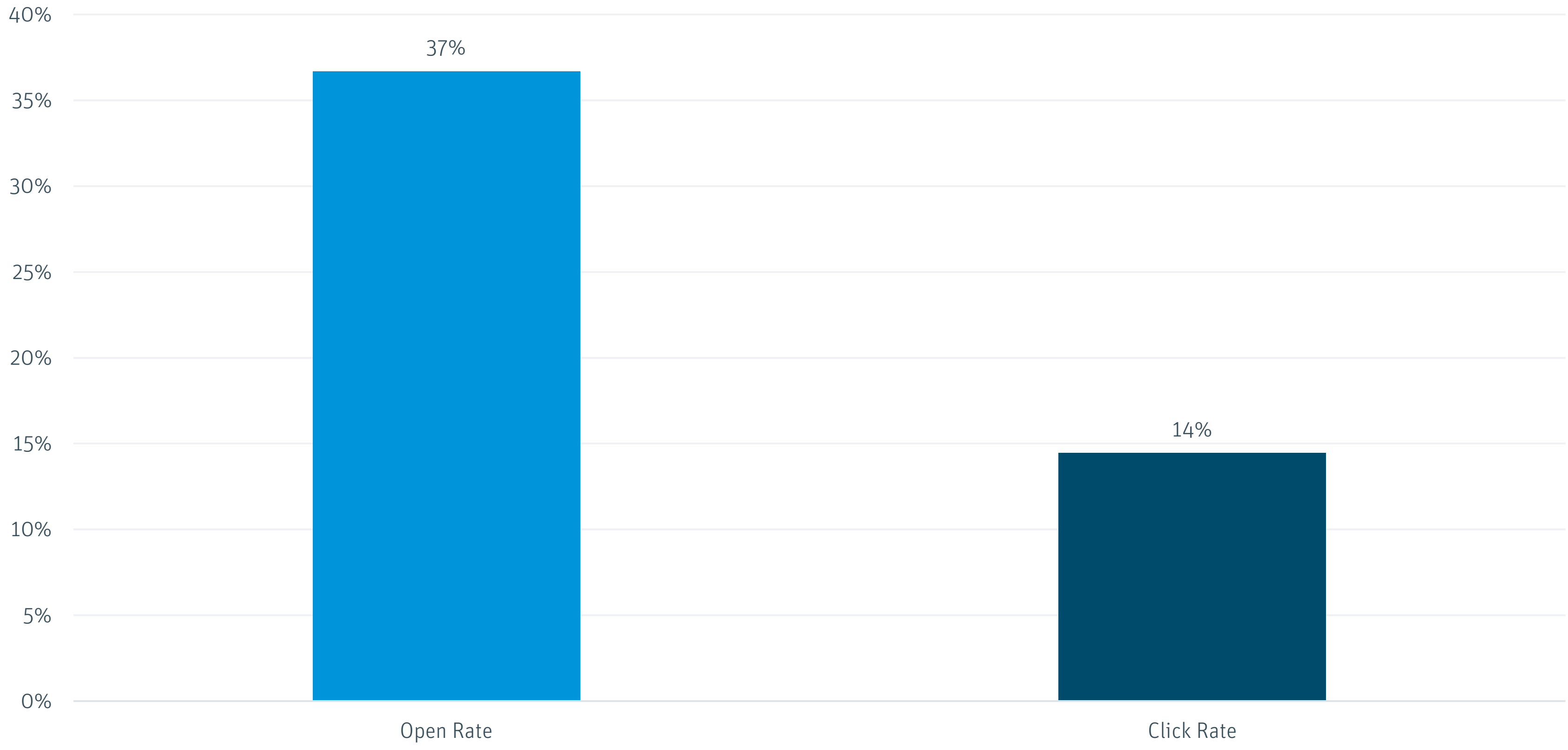


Frequency of Outreach

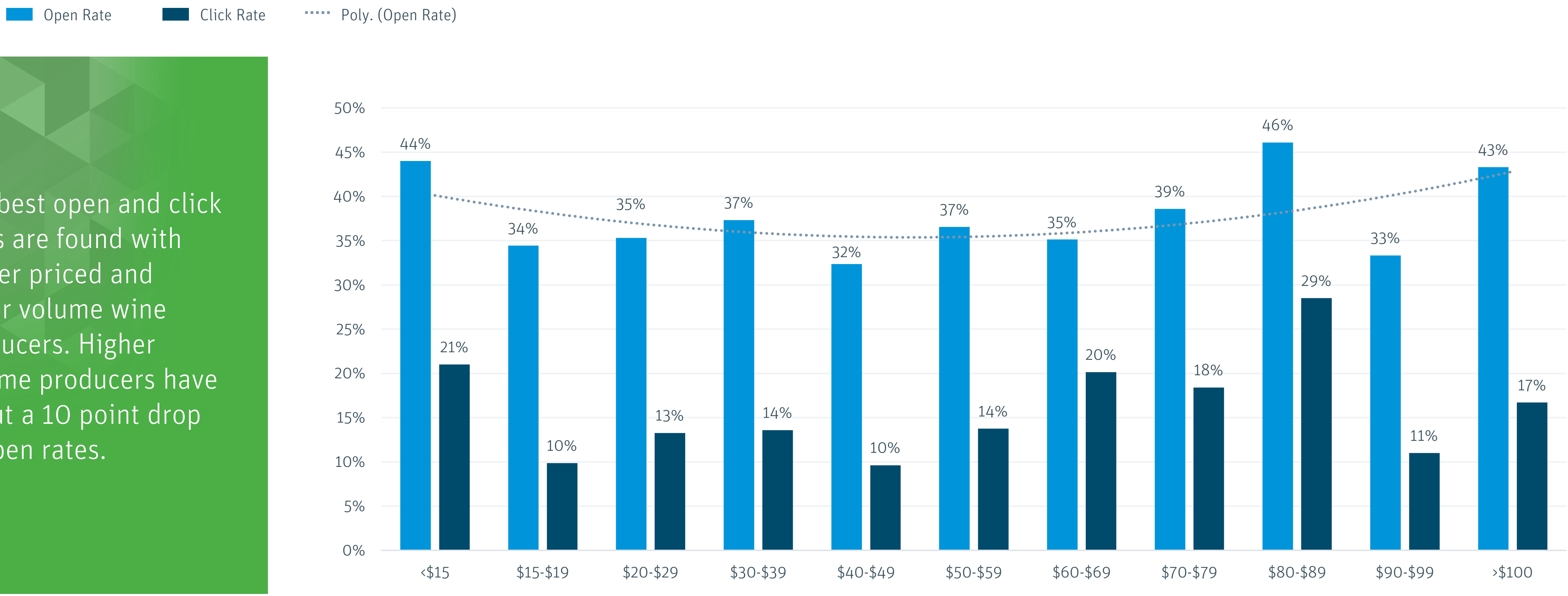


Less than quarterly 5% | Targeted daily 1% | I'm not sure 1%

Average Email Marketing Open and Click Rates

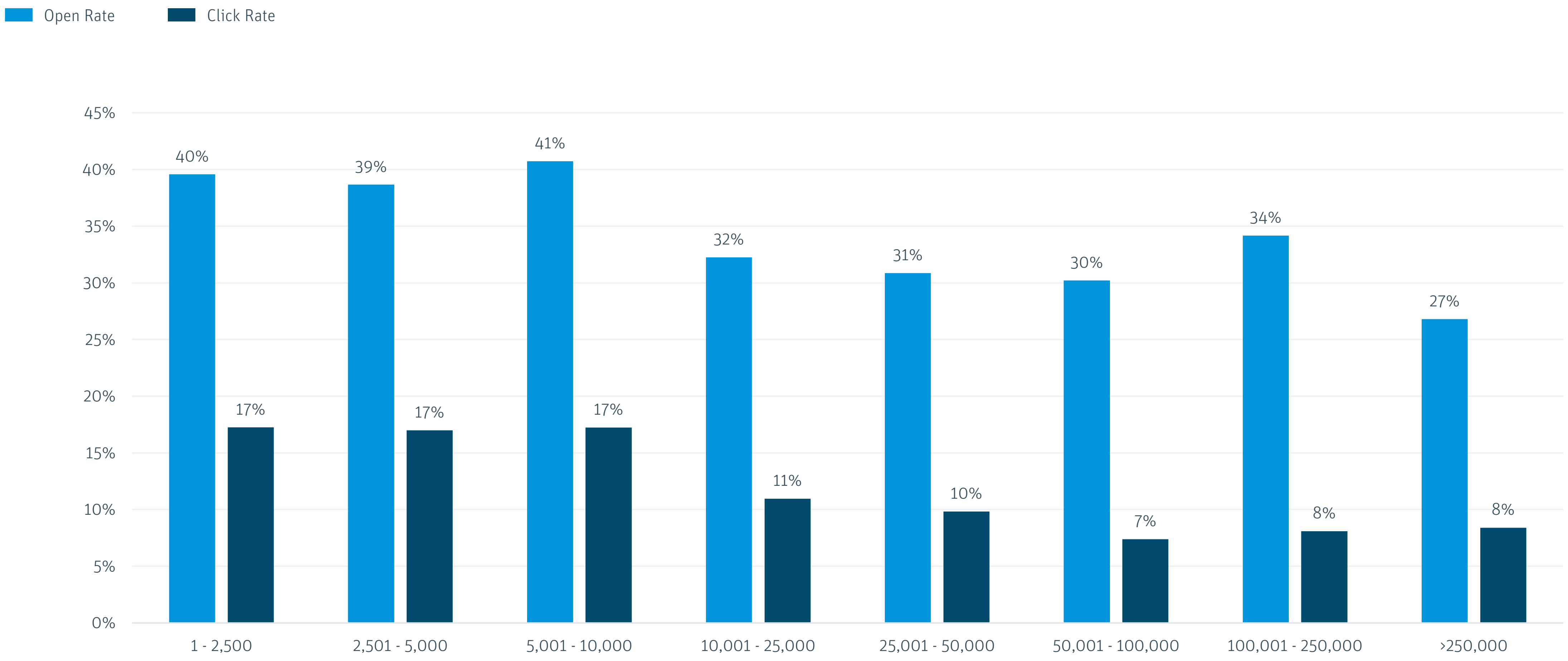


Email Marketing Open and Click Rates by Suggested Retail Bottle Price



The best open and click rates are found with higher priced and lower volume wine producers. Higher volume producers have about a 10 point drop in open rates.

Open and Click Rates by Production Size of Winery

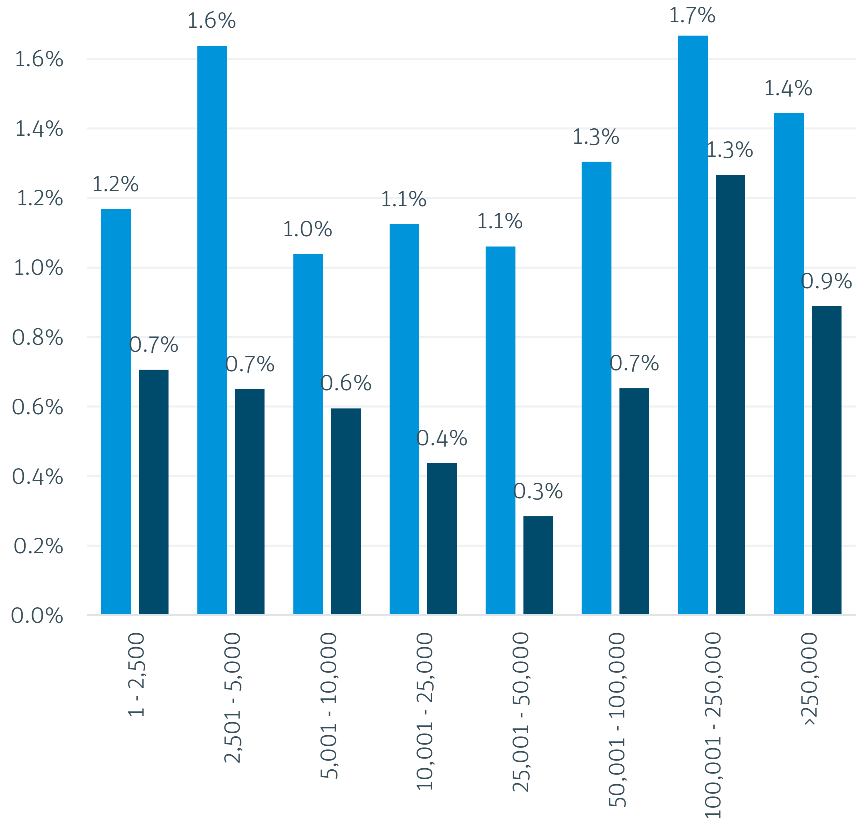


Annual Spend on Social Media & Search Engine Marketing

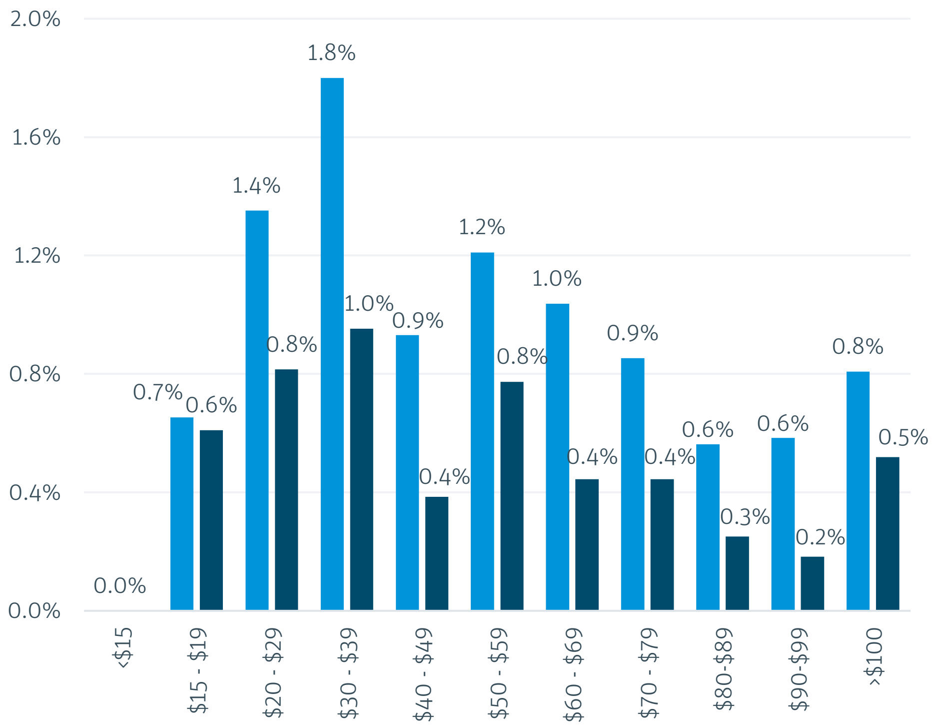
(As a Percent of Total Sales)

Spend on Social Media Marketing   Spend on Search Engine Marketing

Spend by Case Production

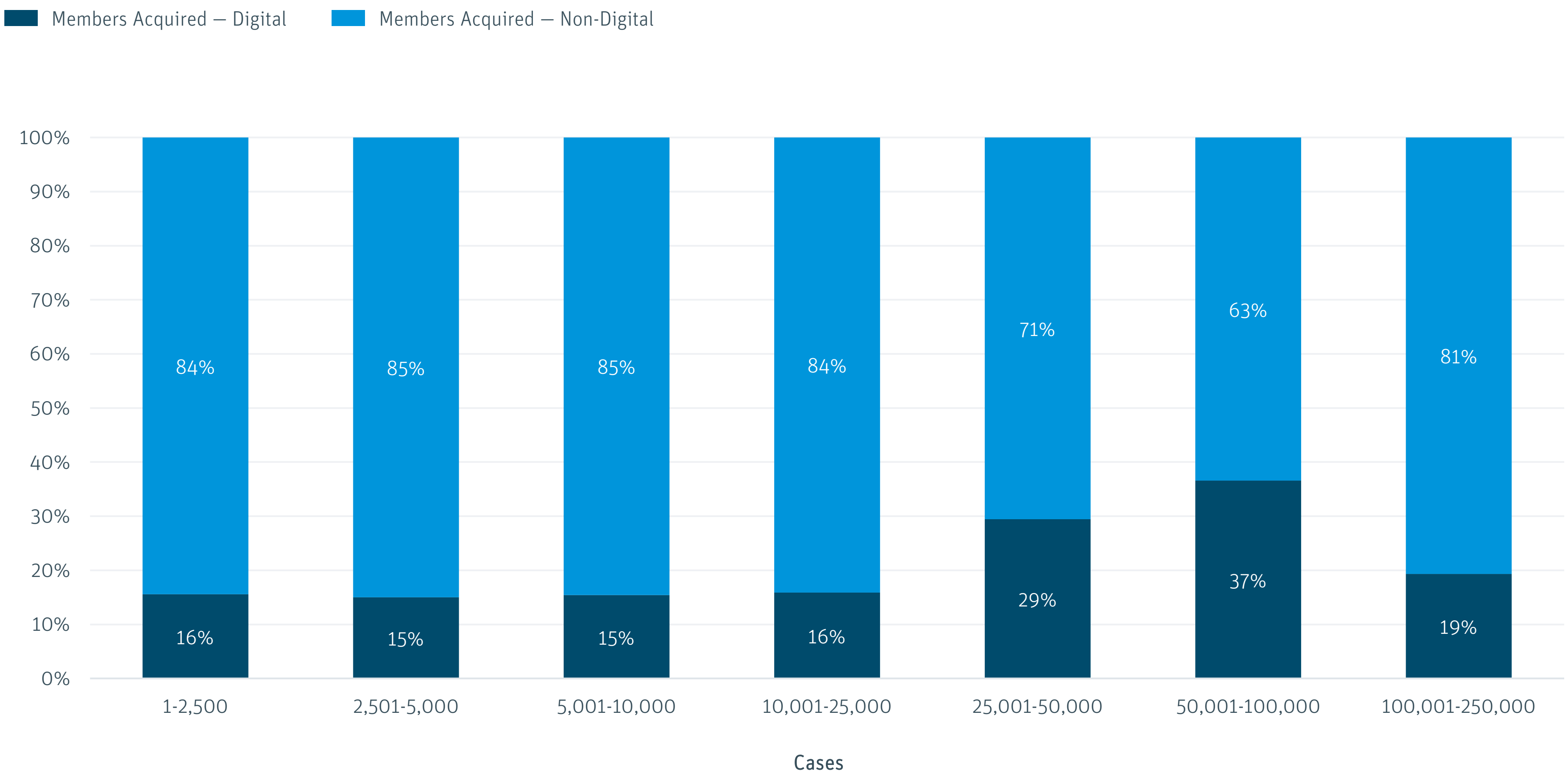


Spend by Suggested Retail Bottle Price



While 80%-90% of the industry report active social and ecommerce programs, the spend in digital marketing averages between 1% and 1.5% of sales. Larger wineries with lower priced wines spend slightly more than smaller counterparts.

Club Memberships Generated through Digital Media by Case Production



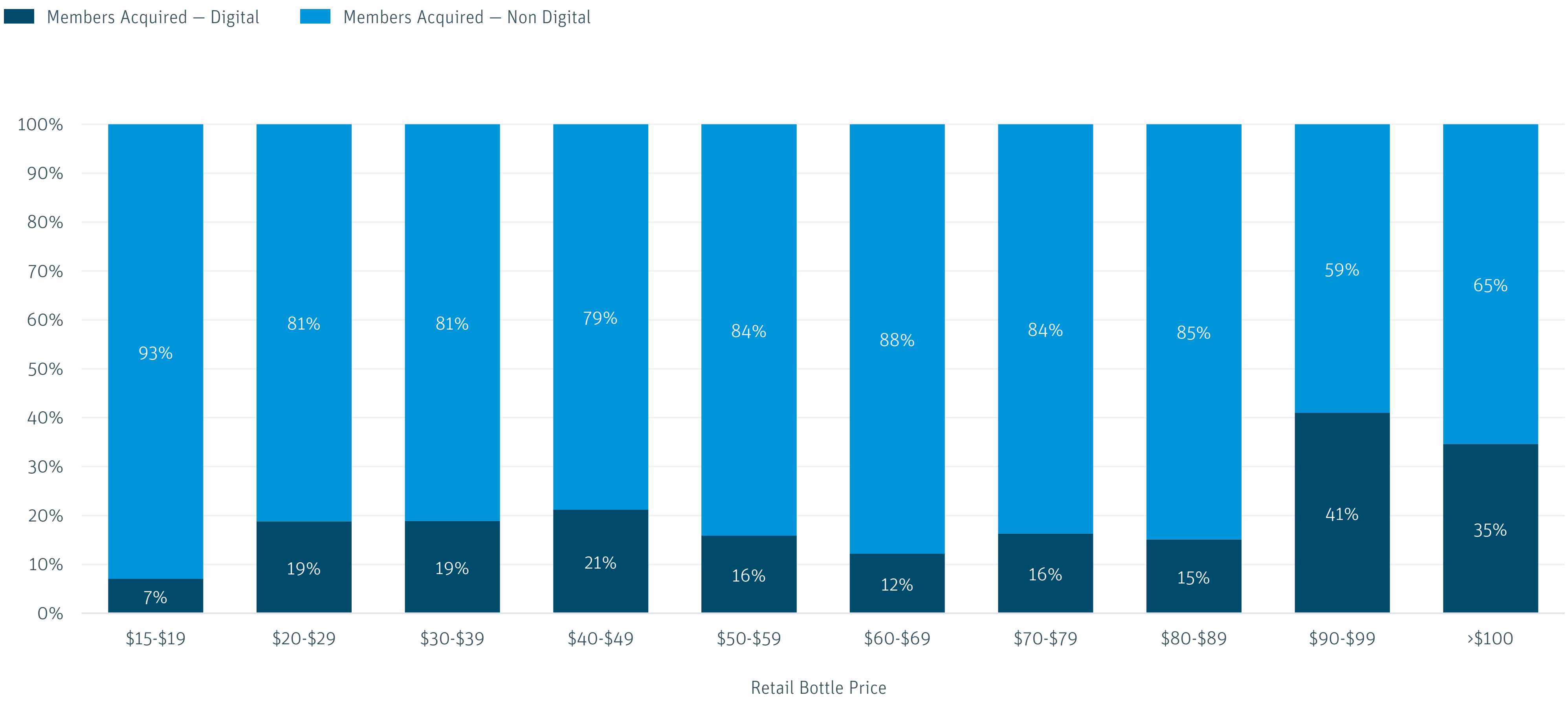
As COVID-19 forced tasting rooms to close in 2020, owners worried about the sustainability of club income without refreshing member numbers. Prior to 2020, attracting new club members was always a key role of the tasting room.

The industry discovered how to gain memberships via digital marketing, with 20% of new members joining via digital channels.

Moving forward, tracking and driving growth in club memberships outside of the tasting room should be a goal of all wineries with clubs.

*Over >250,000 cases produced excluded due to limited response rate.

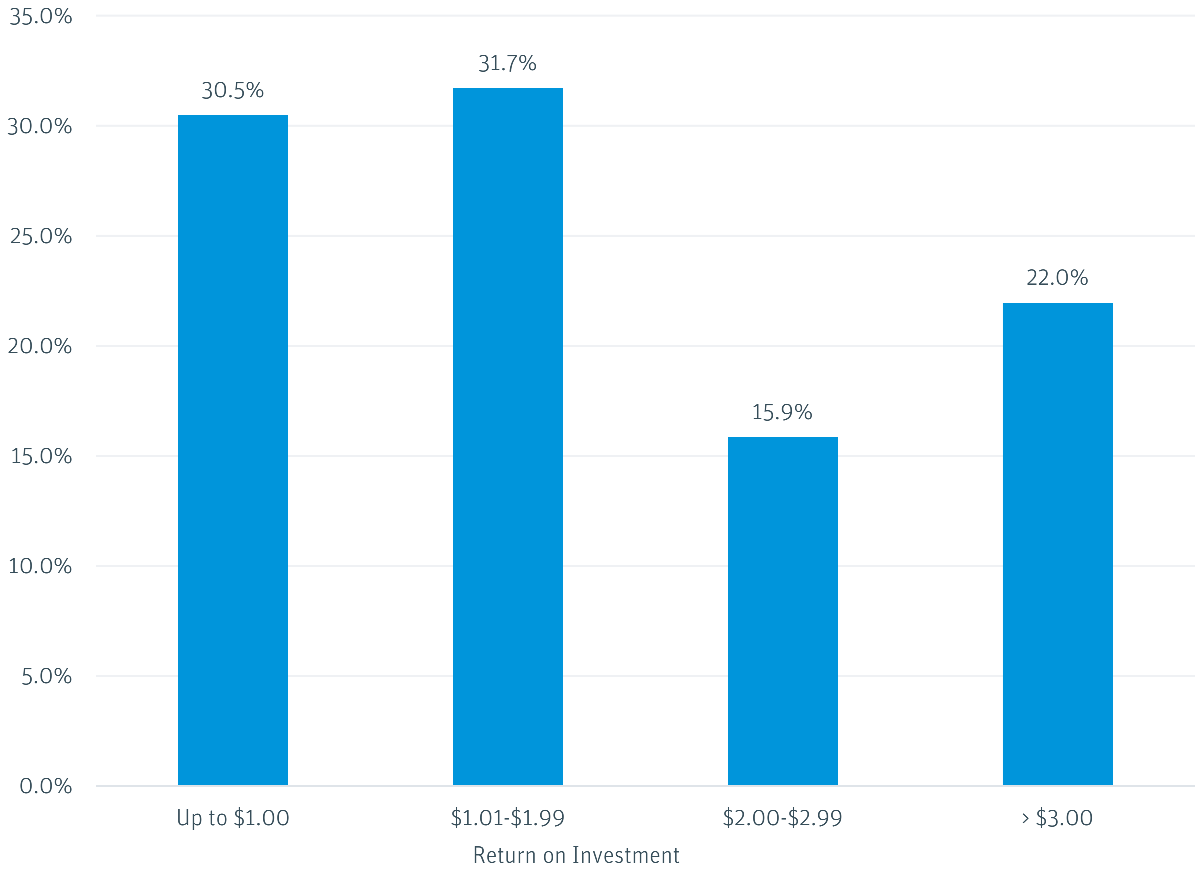
Club Memberships Generated through Digital Channels by Suggested Retail Bottle Price



Per-Dollar Return on Digital Marketing

Moving into true digital marketing has been slow for the industry. Measuring return on investment for digital marketing can be difficult to calculate, but is needed.

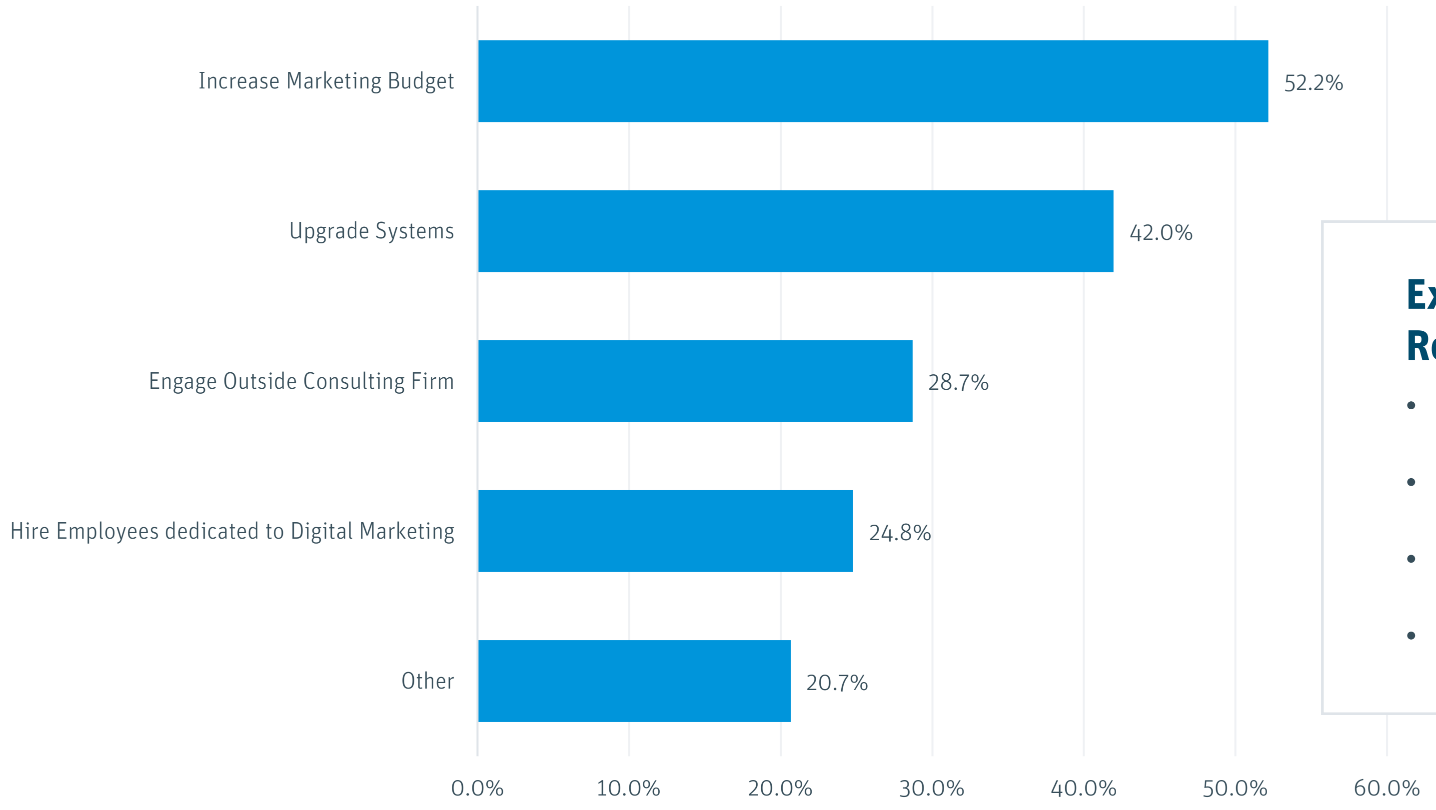
Those who did track their ROI reported significant returns per dollar invested.



82%

of wineries surveyed reported that they were unsure of their ROI for digital marketing spend

Planned Digital Marketing Investments for 2021*



Examples of Other Responses (21%):

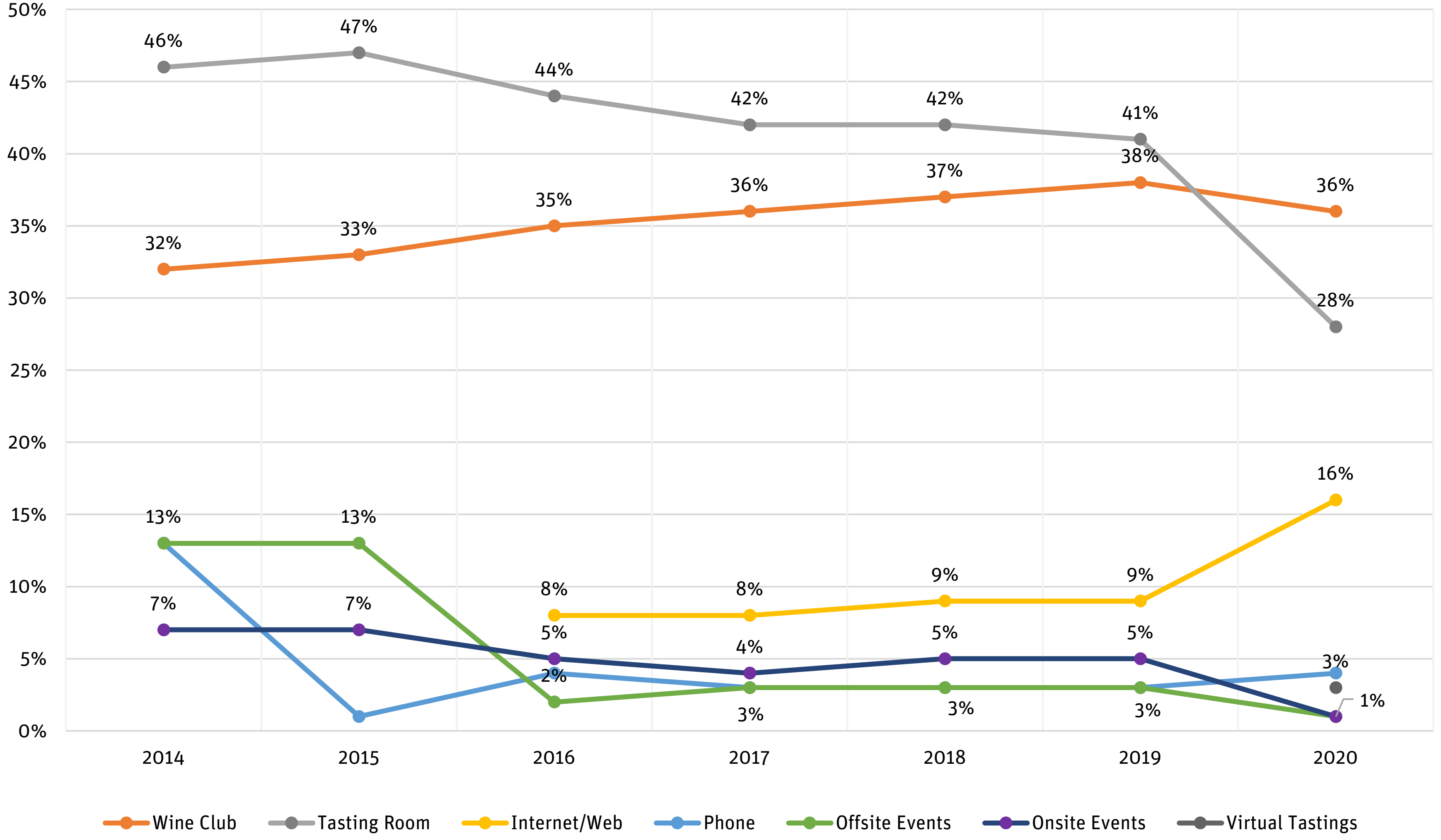
- Focus more time on digital, continue learning and research
- More personal outreach by owners
- No additional marketing investments
- No changes planned

*Respondents selected all applicable options.

Direct-to-Consumer Channel

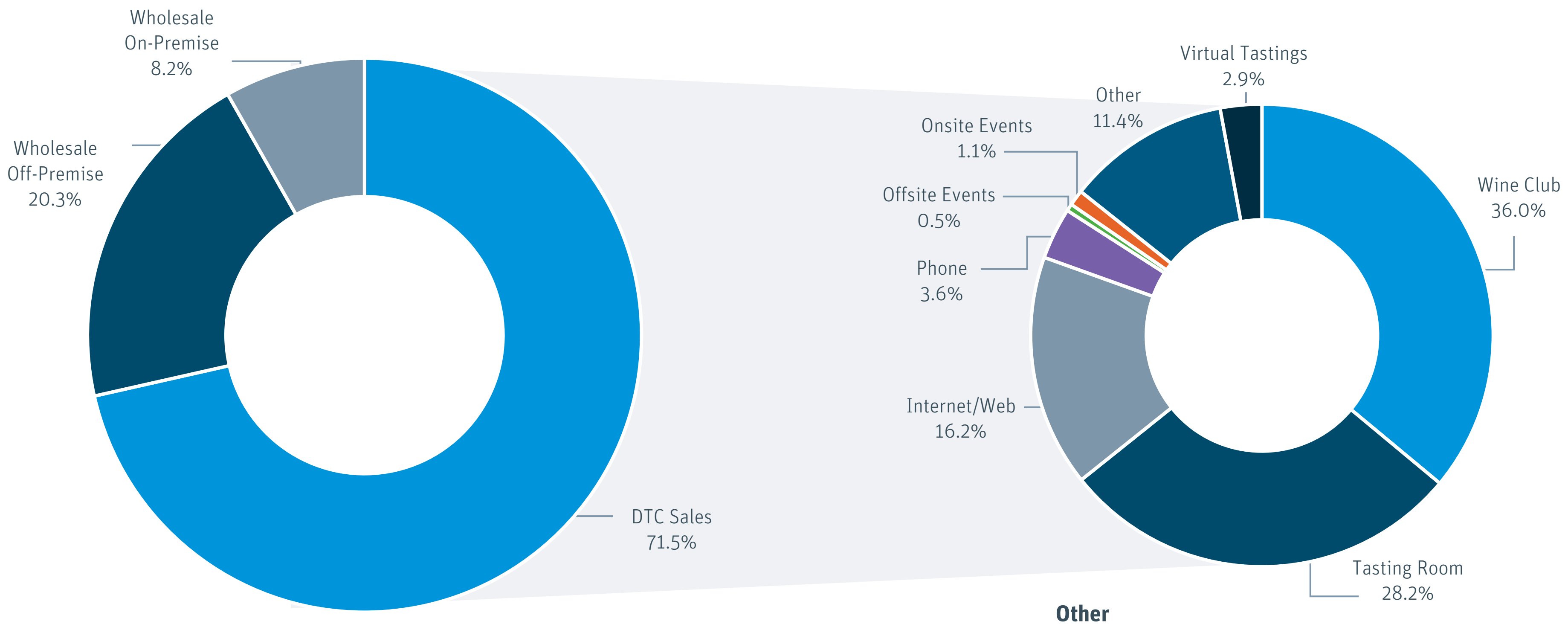
Trended Composition of DtC Sales

Club and Digital Sales Moving up in Importance



Source: Pix.Wine & Silicon Valley Bank

2021 Channel Breakout of Direct Sales for the Average Winery

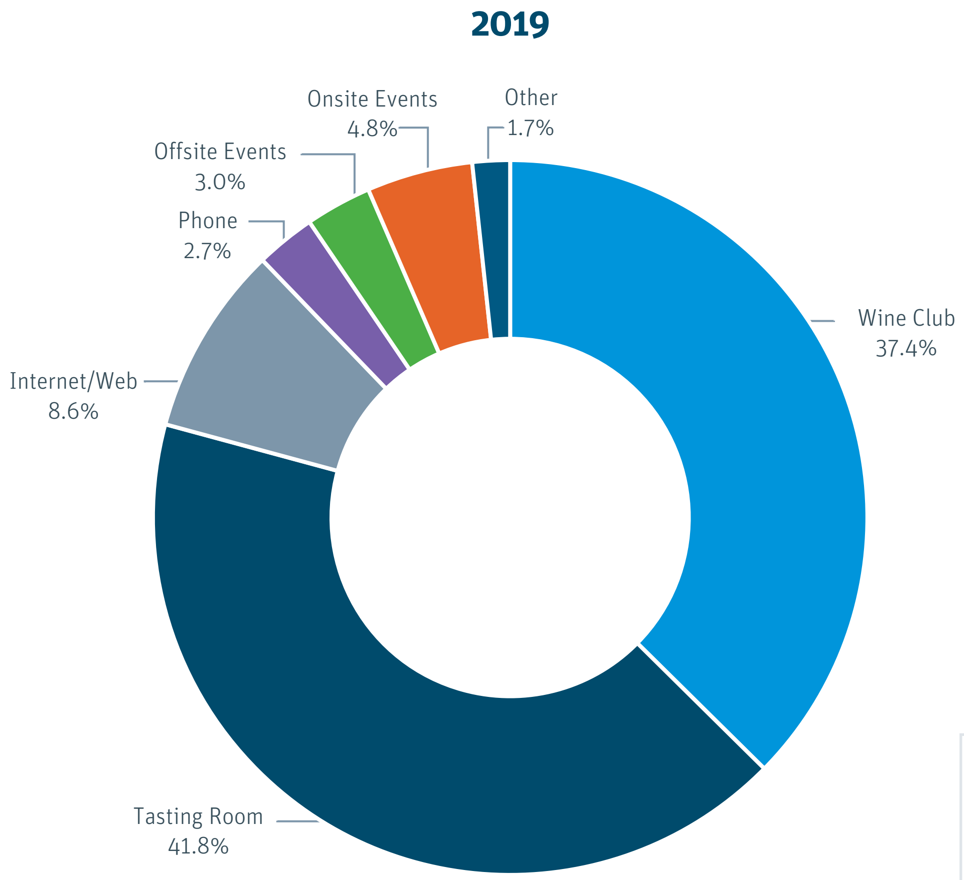


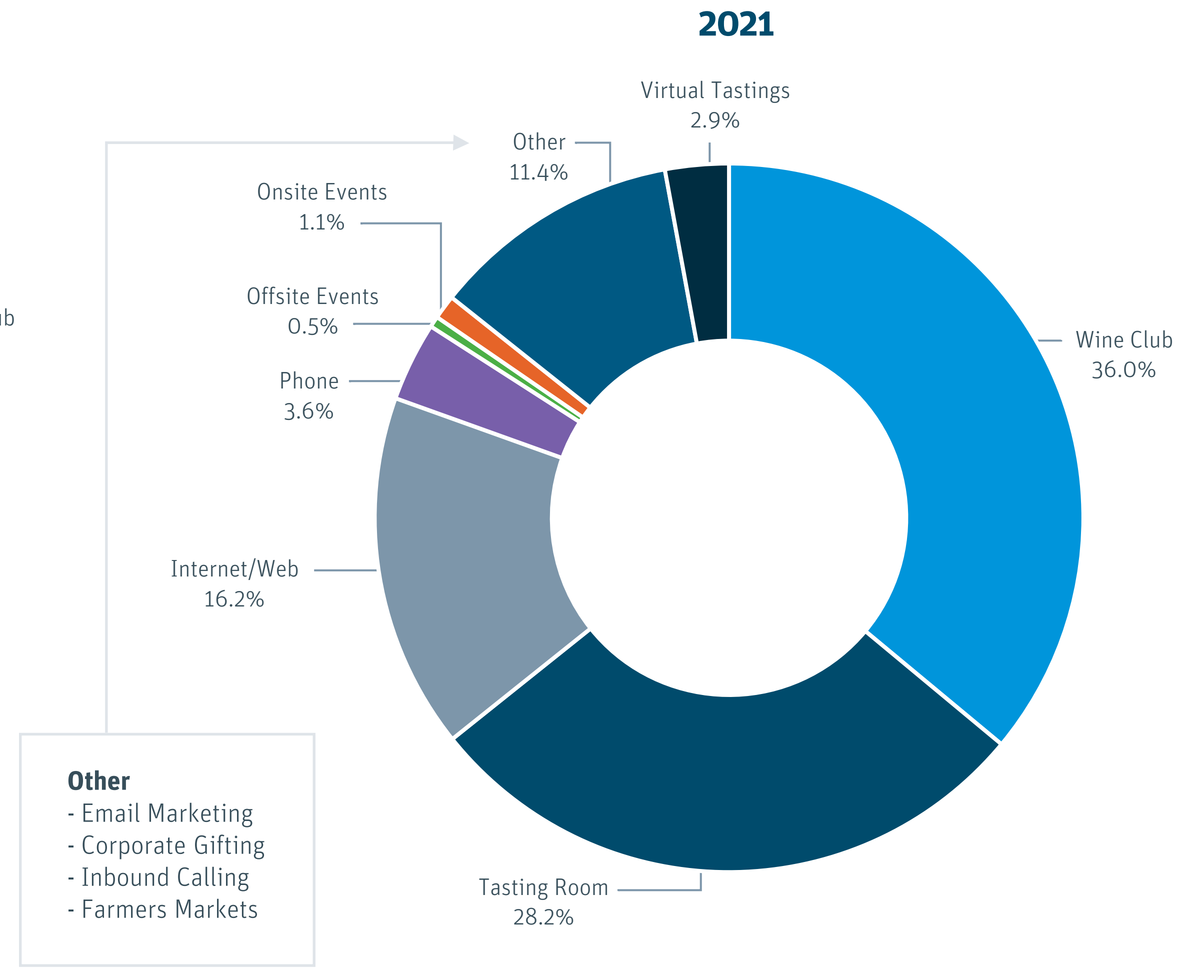
Other
- Email Marketing
- Corporate Gifting
- Inbound Calling
- Farmers Markets

With tasting rooms restricted during the year, events and tasting room sales were hurt. Restaurant closings also hurt on-premise sales, while grocery sales, for those with wholesale, did well.

Club, phone and several new outreach efforts did well in 2020 while internet sales exploded.
Each offers marginal growth opportunities in the future for wineries investing in those sales channels.

Changes in Direct-to-Consumer Sales
(Wholesale not included)





Note: 2019 and 2021 refers to the year the survey took place.
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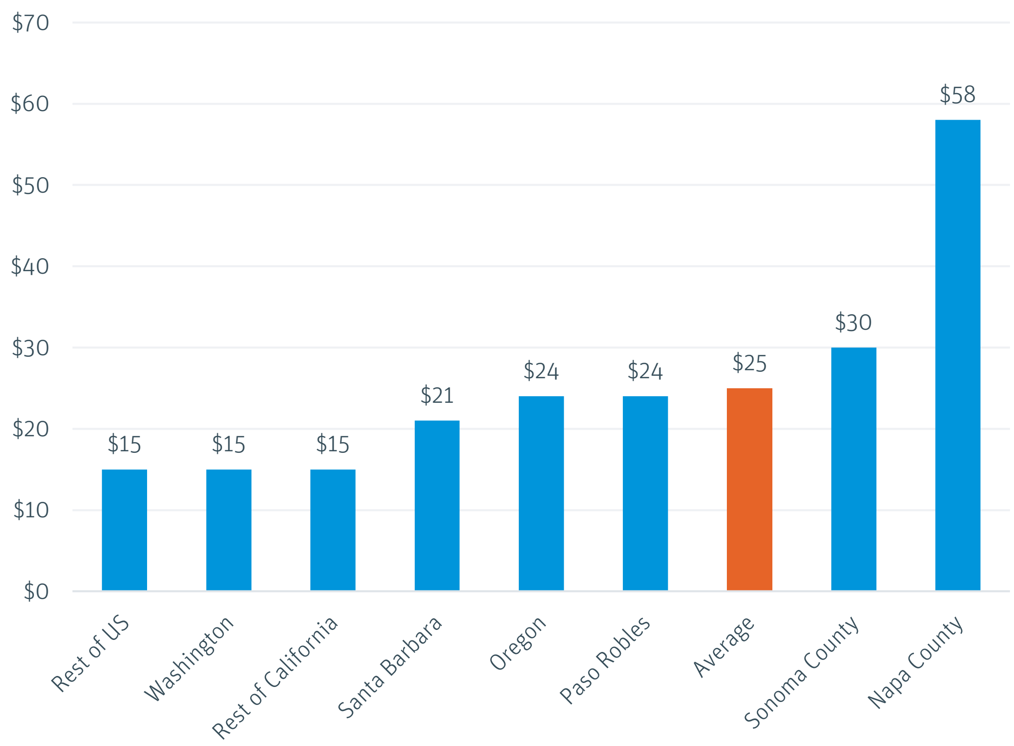
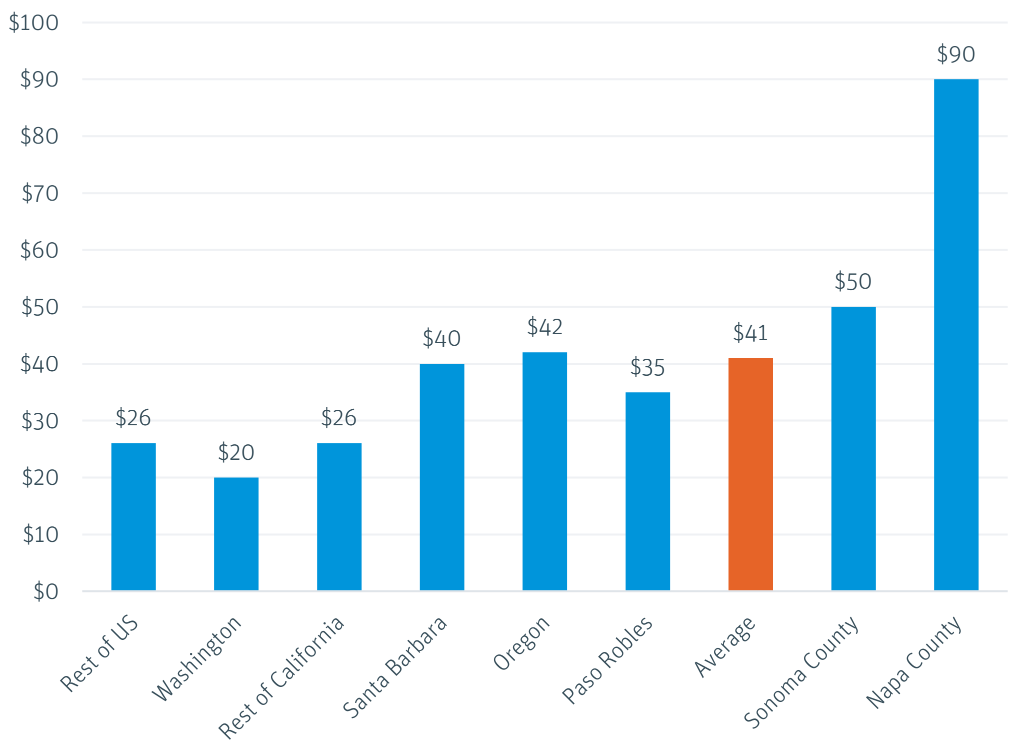
Tasting Room and Visitation Model

Tasting Fee by Region

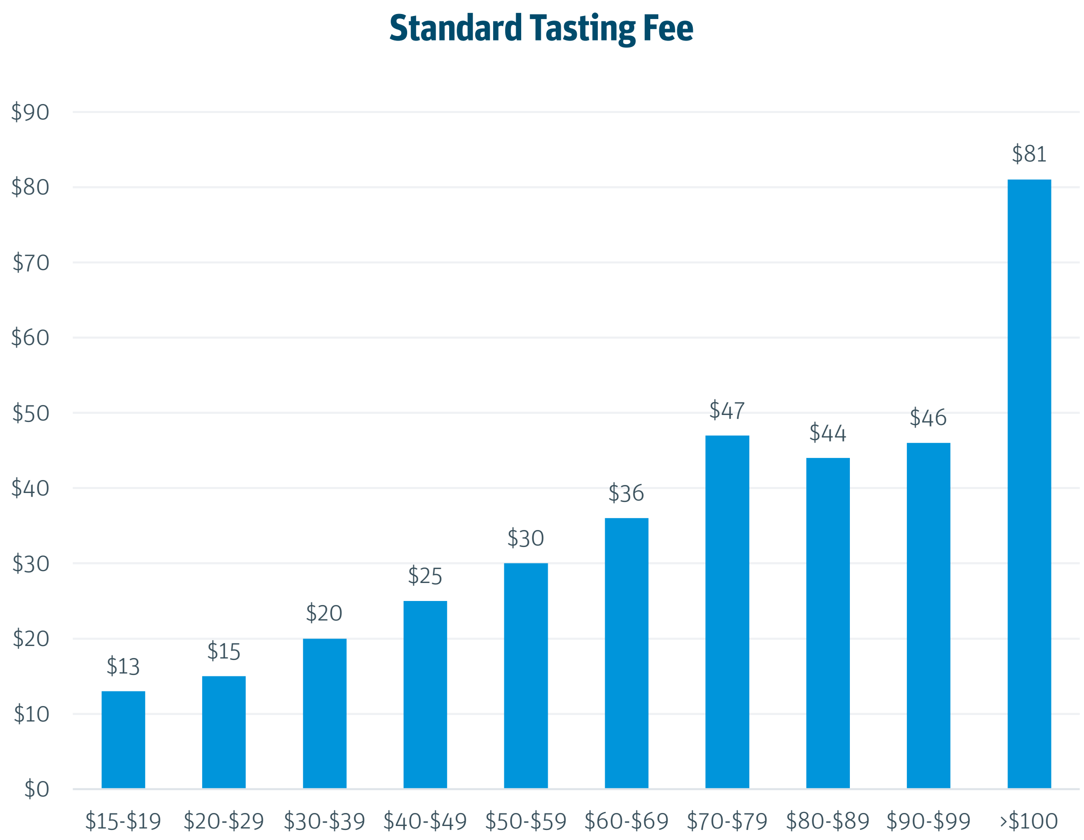
Standard Tasting Fee



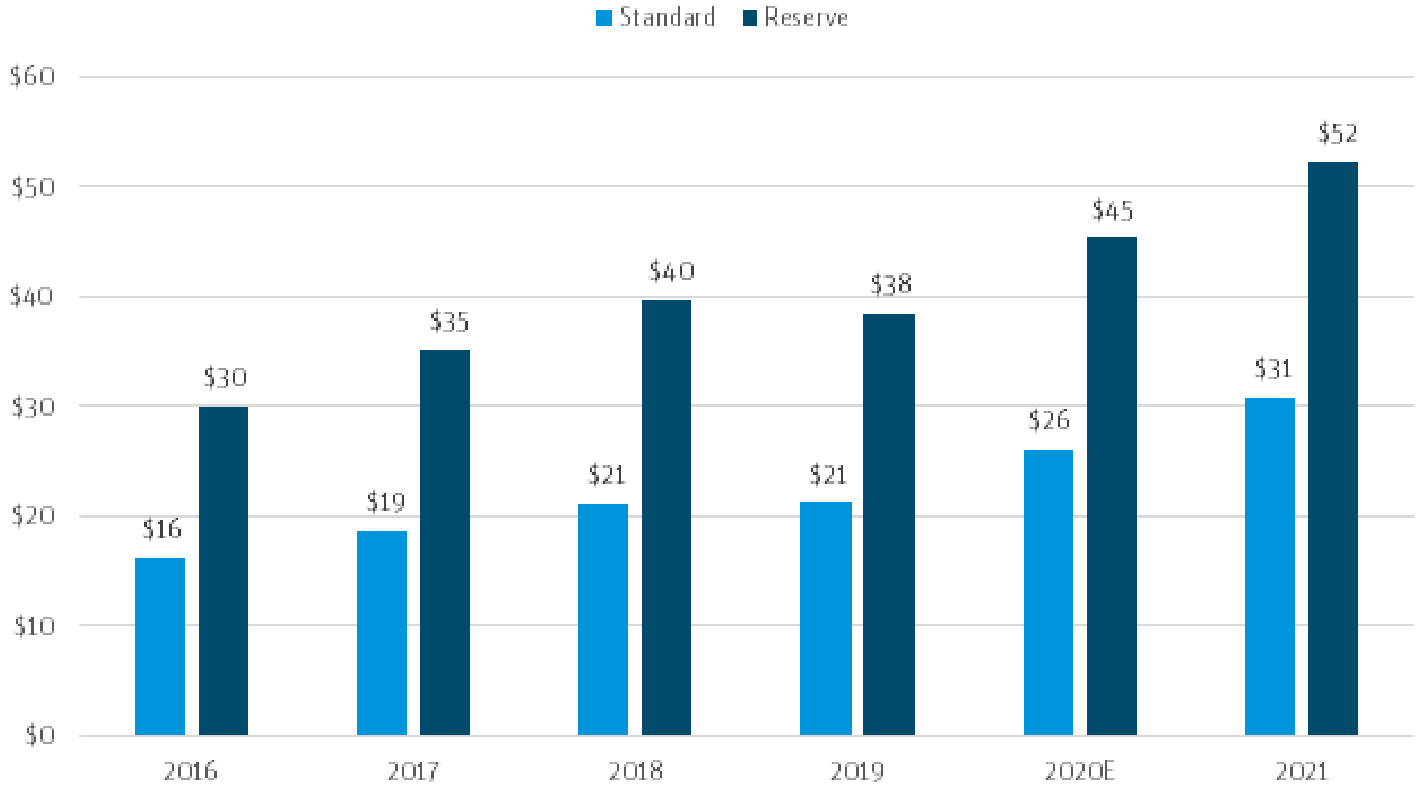
Reserve Tasting Fee



Tasting Fee by Winery's Average Suggested Retail Bottle Price

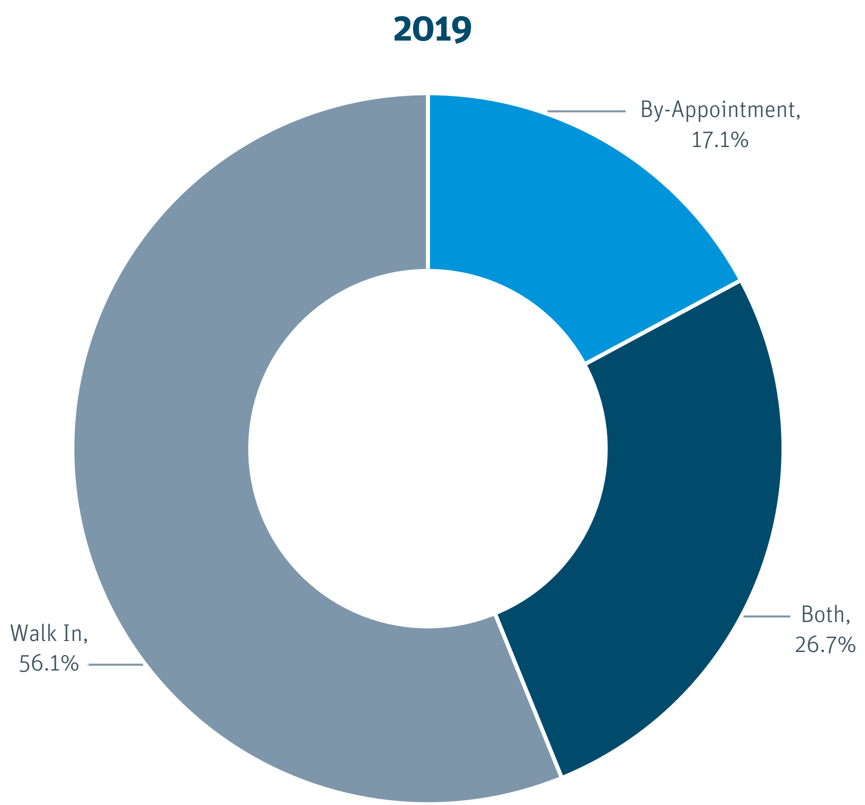


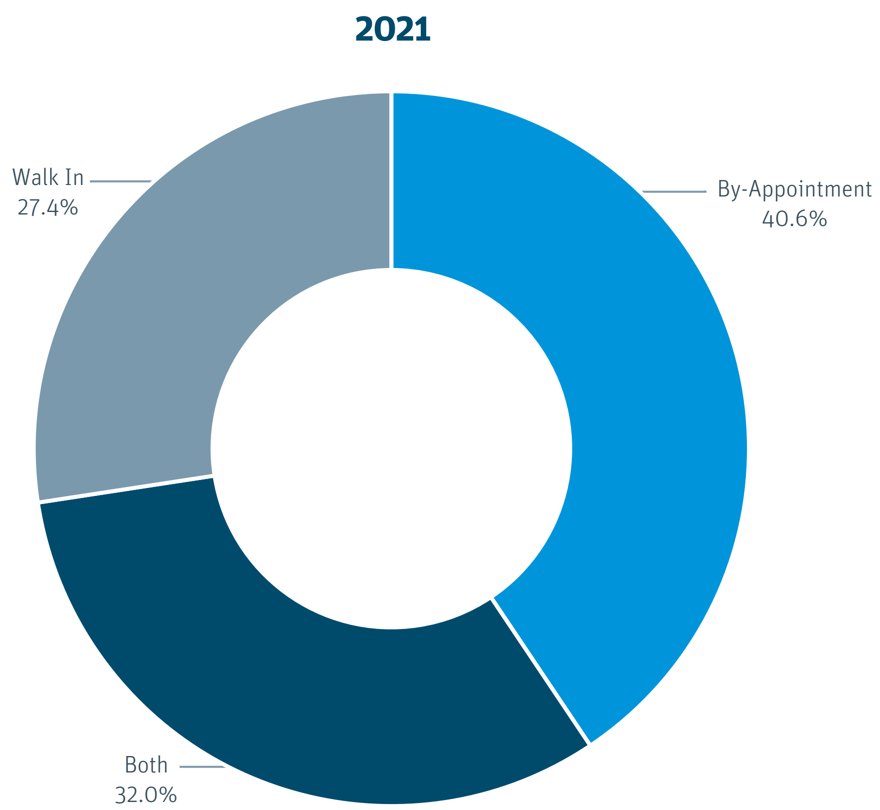
Tasting Fees Trend: 2016-2021



*2020 data estimated.
**Includes all Tasting Room Locations, urban or winery.

Proportion of By-Appointment vs. Walk-In Visitors





Over the past 20 years, wineries have moved from walk-in to a by-appointment model only when forced by local regulations. We believe by-appointment offers the ability to collect personal data, accurately staff the tasting room and better prepare for the customer visit to ensure the best outcome.

COVID-19 restrictions forced wineries into by-appointment in 2020. From conversations, we believe when fully open the majority will retain a by-appointment option or remain fully by-appointment.

Note: 2019 and 2021 refers to the year the survey took place.
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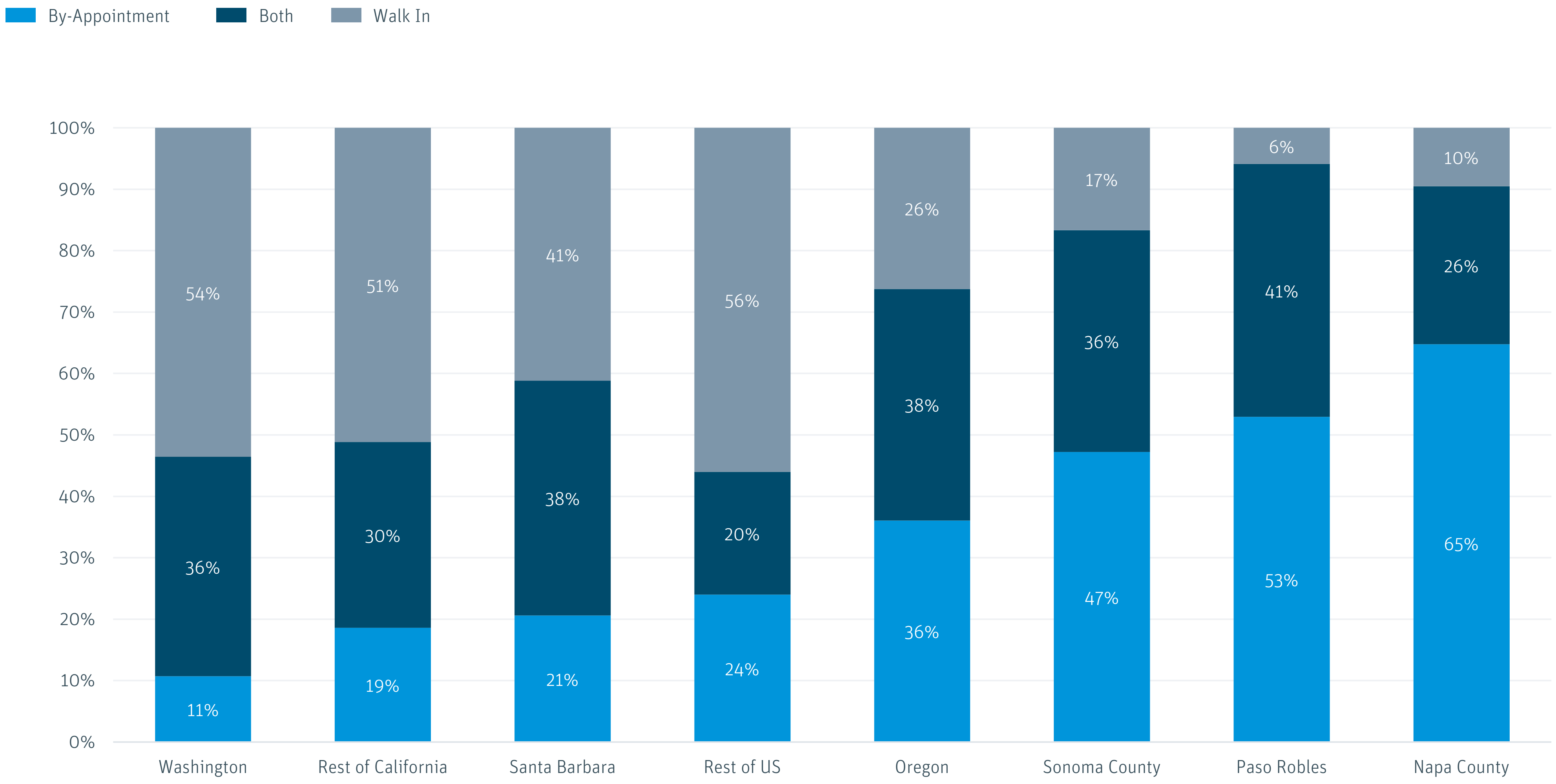
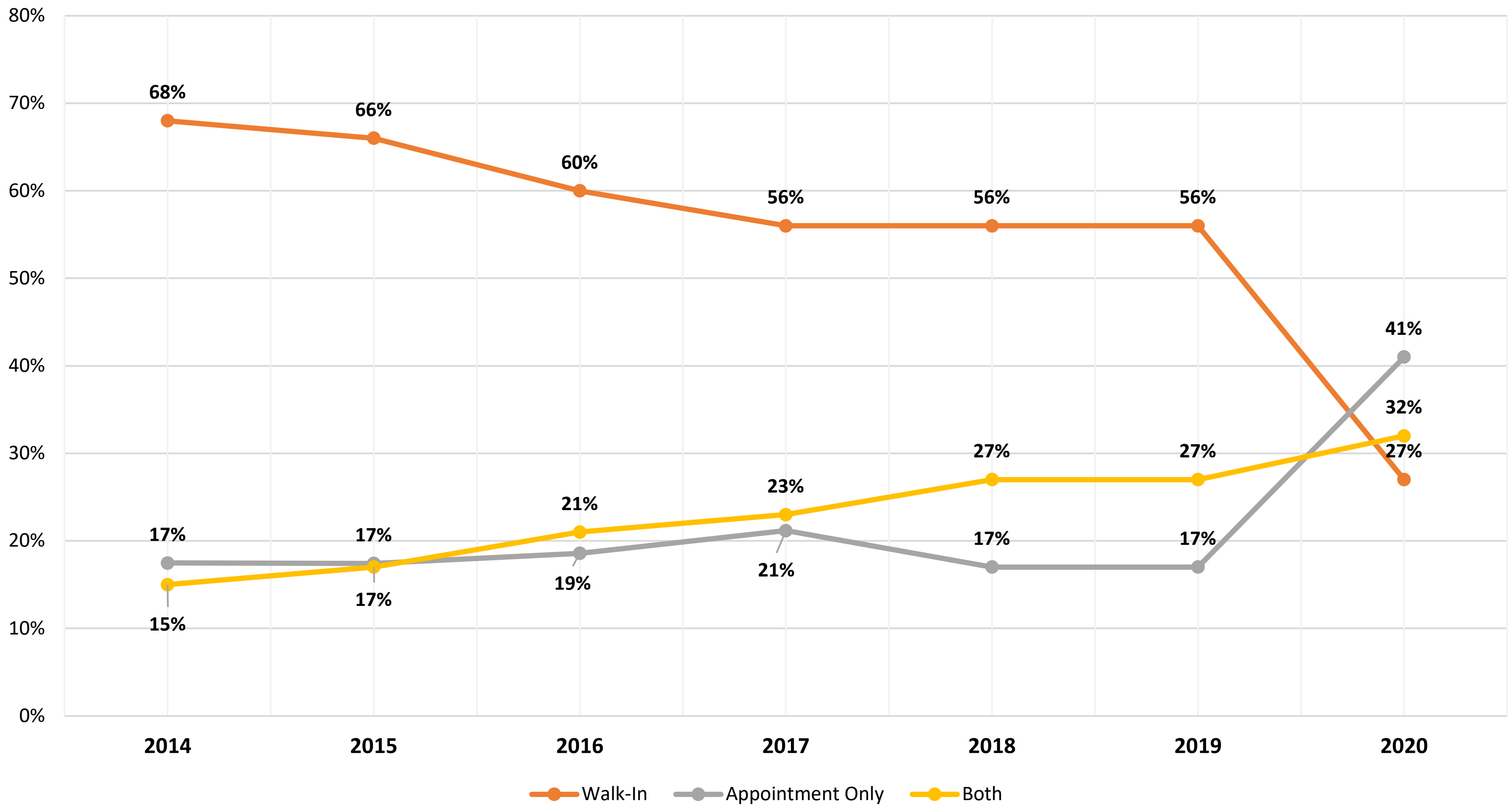
By-Appointment and Walk-In by Region



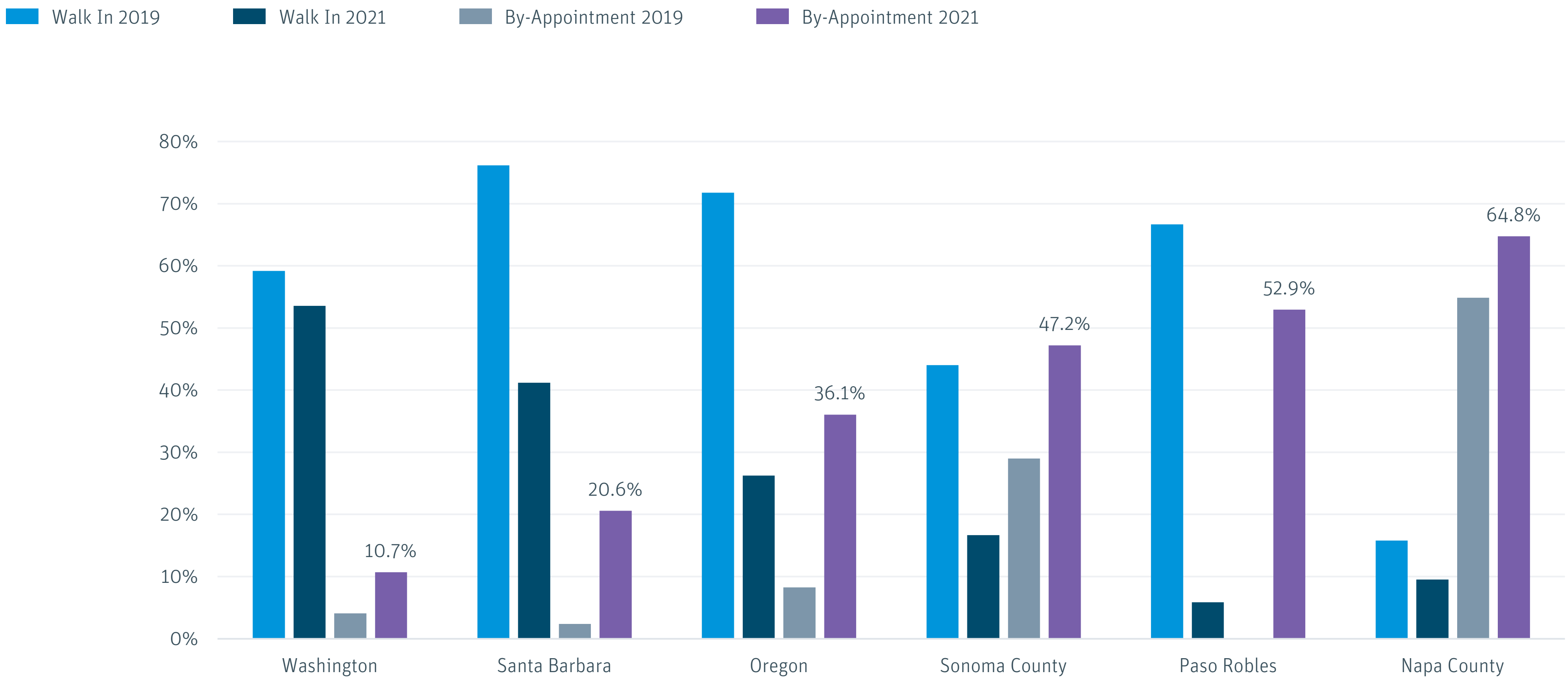
Percentage of Wineries that are Walk-In or By-Appointment

2020 Pushed the By-Appointment Model to the Forefront



Source: Pix.Wine & Silicon Valley Bank

Trend of By-Appointment and Walk-In by Region



	Washington	Santa Barbara	Oregon	Sonoma County	Paso Robles	Napa County
Walk In 2019	59.2%	76.2%	71.8%	44.0%	66.7%	15.8%
Walk In 2021	53.6%	41.2%	26.2%	16.7%	5.9%	9.5%
By-Appointment 2019	4.1%	2.4%	8.2%	29.0%	0.0%	54.9%
By-Appointment 2021	10.7%	20.6%	36.1%	47.2%	52.9%	64.8%

Regional health mandates varied along with the timing of establishing and relaxing restrictions, and that continues to evolve.

Sonoma and Napa were the only regions using by-appointment to any significant degree in 2019. By 2021, all regions increased the percentage of customers they were seeing with appointments.

Many wineries who were forced to switch from a walk-in model, have commented to us that they will retain the practice going forward.

Note: 2019 and 2021 refers to the year the survey took place.
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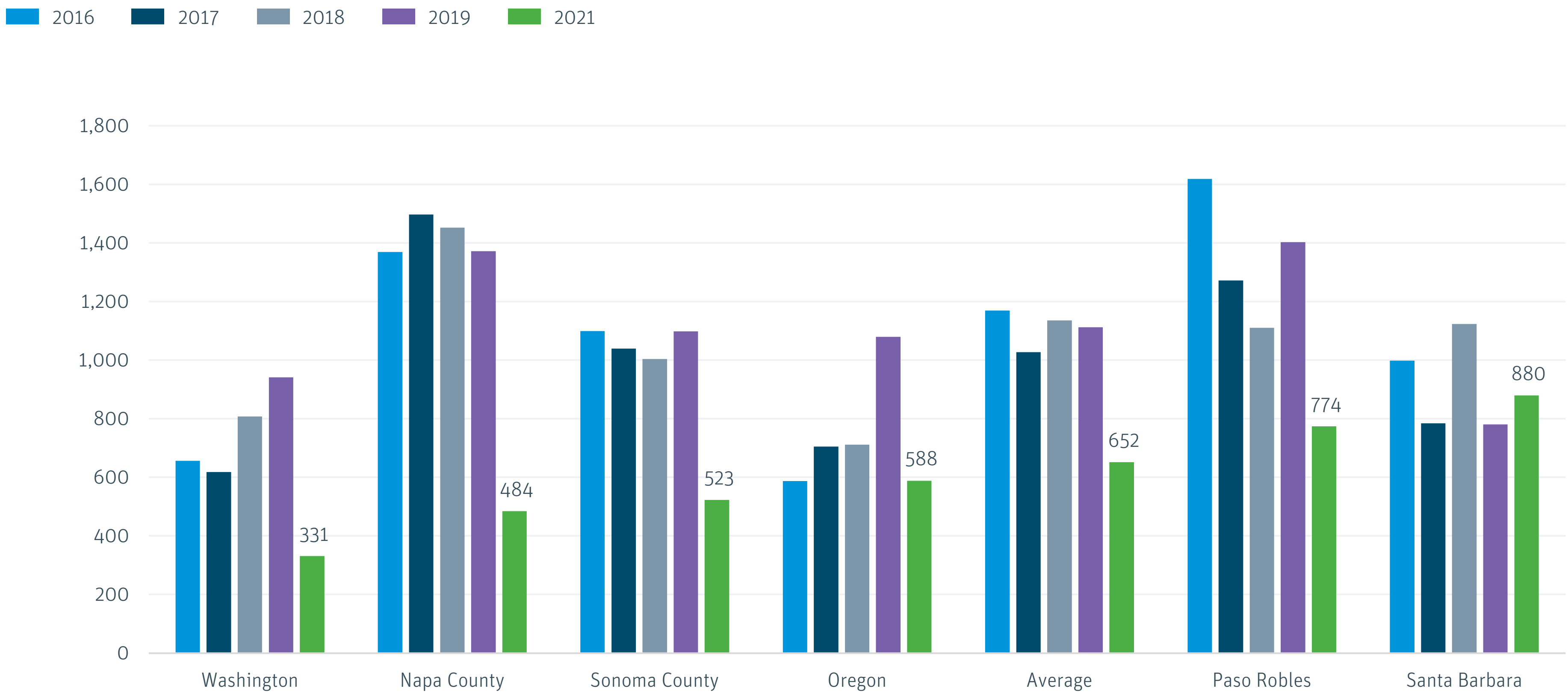
Source: Pix.Wine & Silicon Valley Bank

Average Monthly Visitors to the Winery by Region

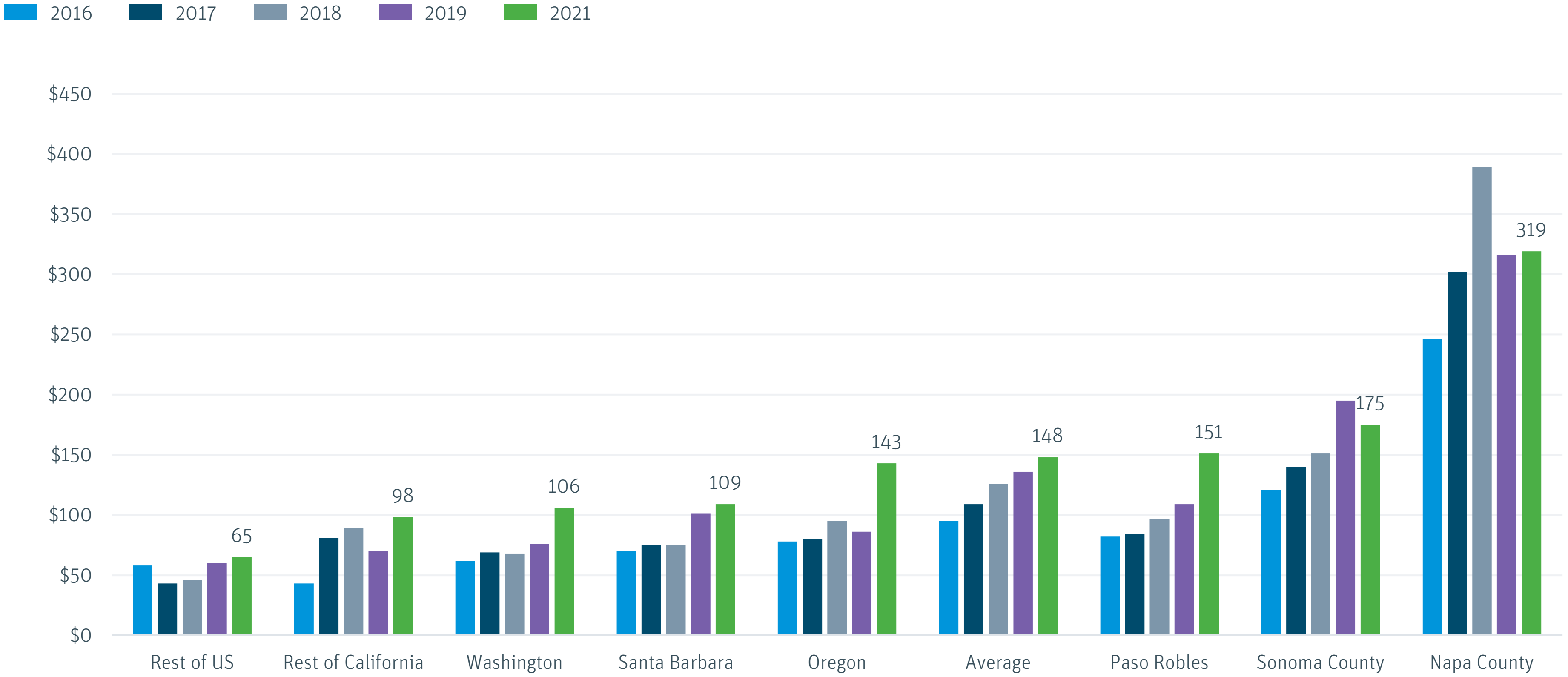


	Washington	Napa County	Sonoma County	Oregon	Average	Paso Robles	Santa Barbara
2016	656	1,369	1,099	587	1,169	1,619	998
2017	618	1,497	1,039	705	1,027	1,272	784
2018	808	1,453	1,004	712	1,136	1,110	1,124
2019	942	1,372	1,098	1,079	1,112	1,402	781
2021	331	484	523	588	652	774	880

COVID-19 restrictions made for significant reductions in tasting room visitation in all regions with the exception of Santa Barbara, which showed a small increase.

Tasting Room Wine Purchases

Tasting Room Average Wine Purchase per Person, by Region

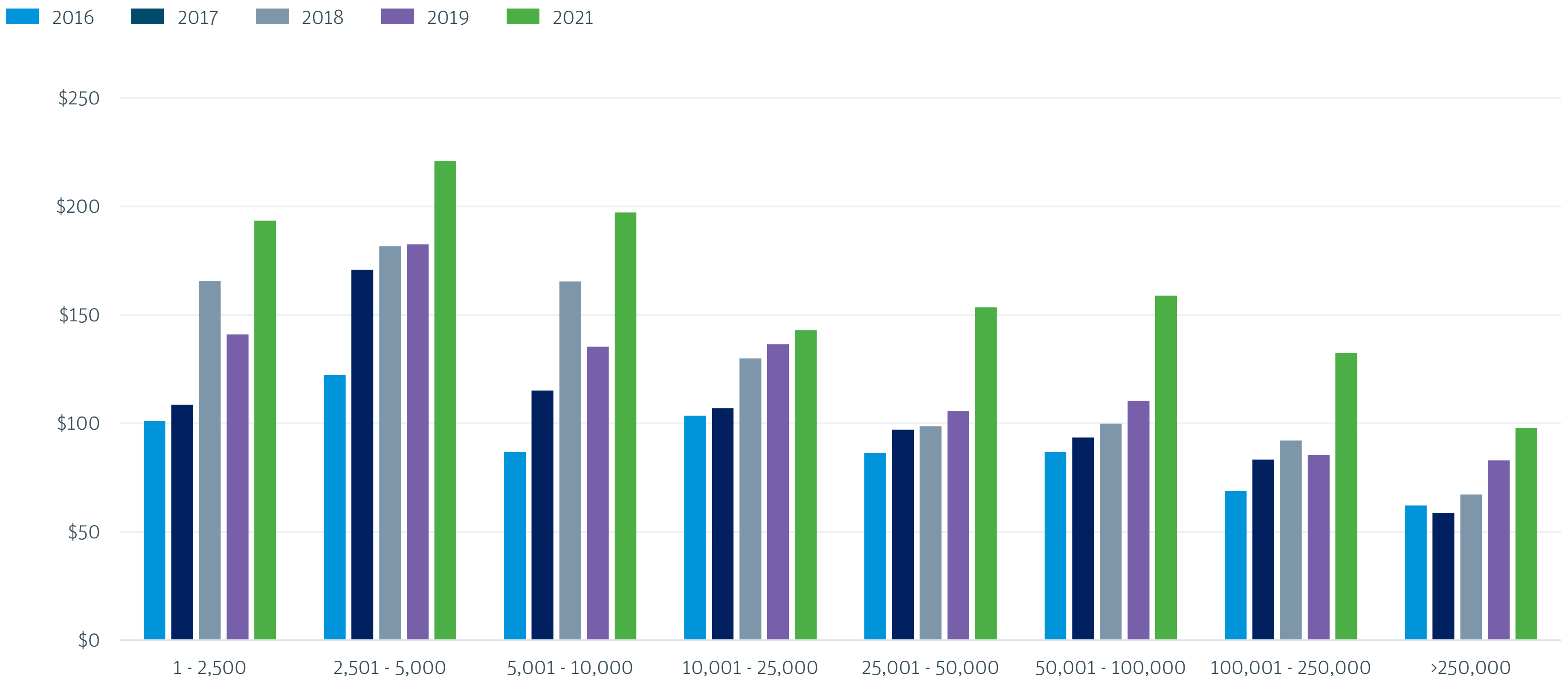


	Rest of US	Rest of California	Washington	Santa Barbara	Oregon	Average	Paso Robles	Sonoma County	Napa County
2016	$58	$43	$62	$70	$78	$95	$82	$121	$246
2017	$43	$81	$69	$75	$80	$109	$84	$140	$302
2018	$46	$89	$68	$75	$95	$126	$97	$151	$389
2019	$60	$70	$76	$101	$86	$136	$109	$195	$316
2021	$65	$98	$106	$109	$143	$148	$151	$175	$319

COVID-19 restrictions created circumstances where consumers that were given more personalized attention, spent more per person at the tasting room.

The data are slightly clouded by other activities such as curbside pickup and differences in duration of regional restrictions, but average tickets were higher in 2020.

Average Tasting Room Purchase by Case Production

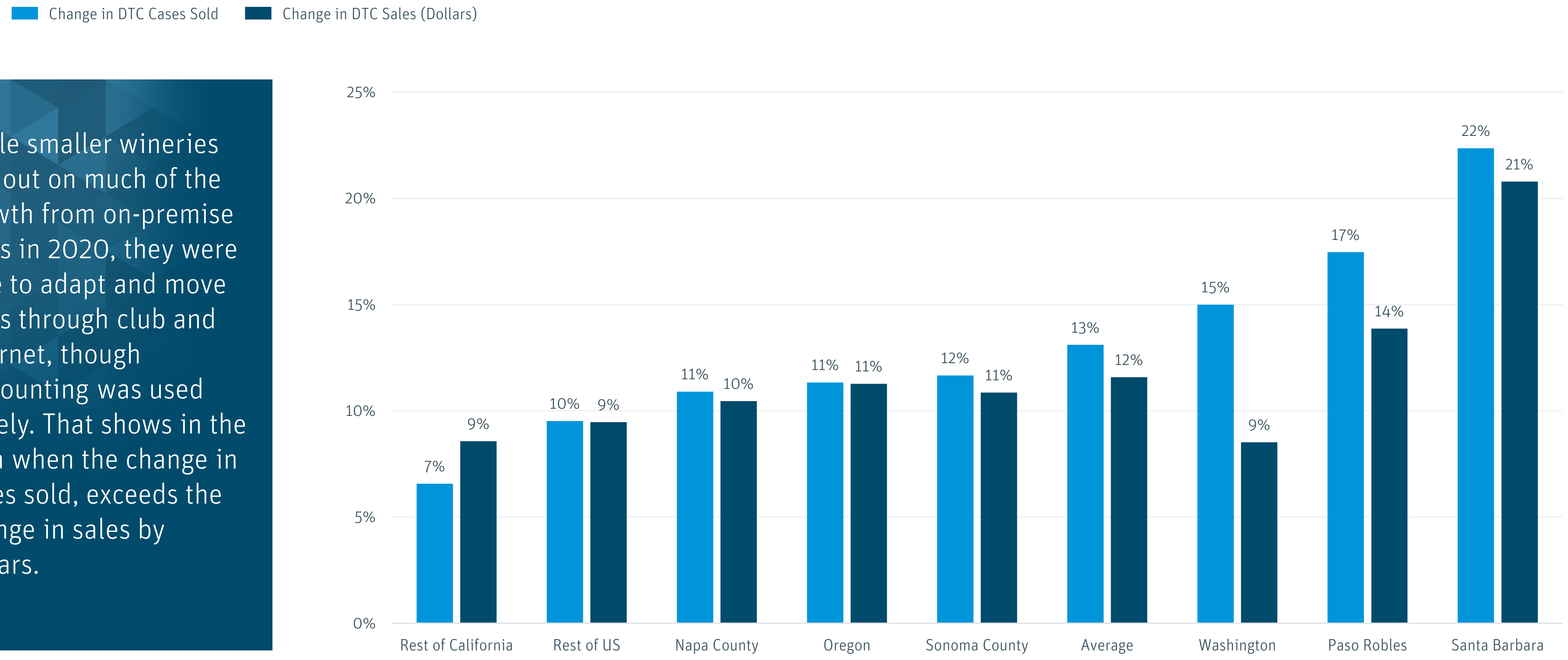


	1 - 2,500	2,501 - 5,000	5,001 - 10,000	10,001 - 25,000	25,001 - 50,000	50,001 - 100,000	100,001 - 250,000	>250,000
2016	$101	$122	$87	$104	$86	$87	$69	$62
2017	$109	$171	$115	$107	$97	$93	$83	$59
2018	$166	$182	$165	$130	$99	$100	$92	$67
2019	$141	$182	$135	$136	$106	$110	$85	$83
2021	$193	$221	$197	$143	$154	$159	$132	$98

When consumers lost many of their typical pastimes, such as sports, movies, travel and dining out, they found pleasure in going to restricted-opening tasting rooms. Across all case counts, average purchase per visit was higher.

Change in Direct-to-Consumer Cases and Dollar Sales by Region

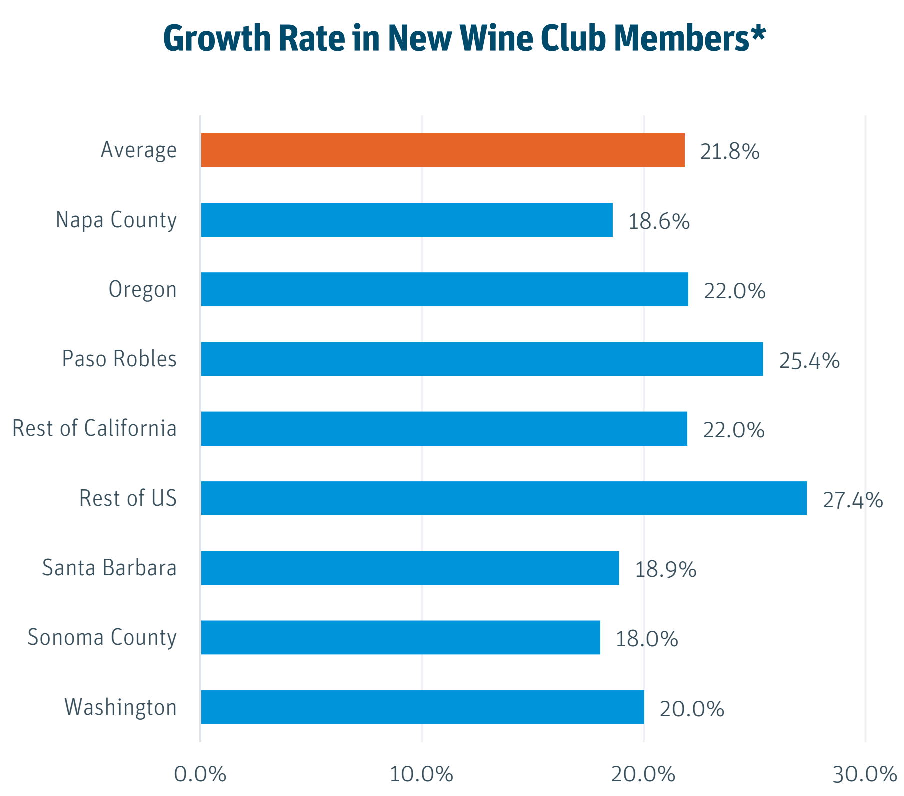
While smaller wineries lost out on much of the growth from on-premise sales in 2020, they were able to adapt and move sales through club and internet, though discounting was used widely. That shows in the data when the change in cases sold, exceeds the change in sales by dollars.

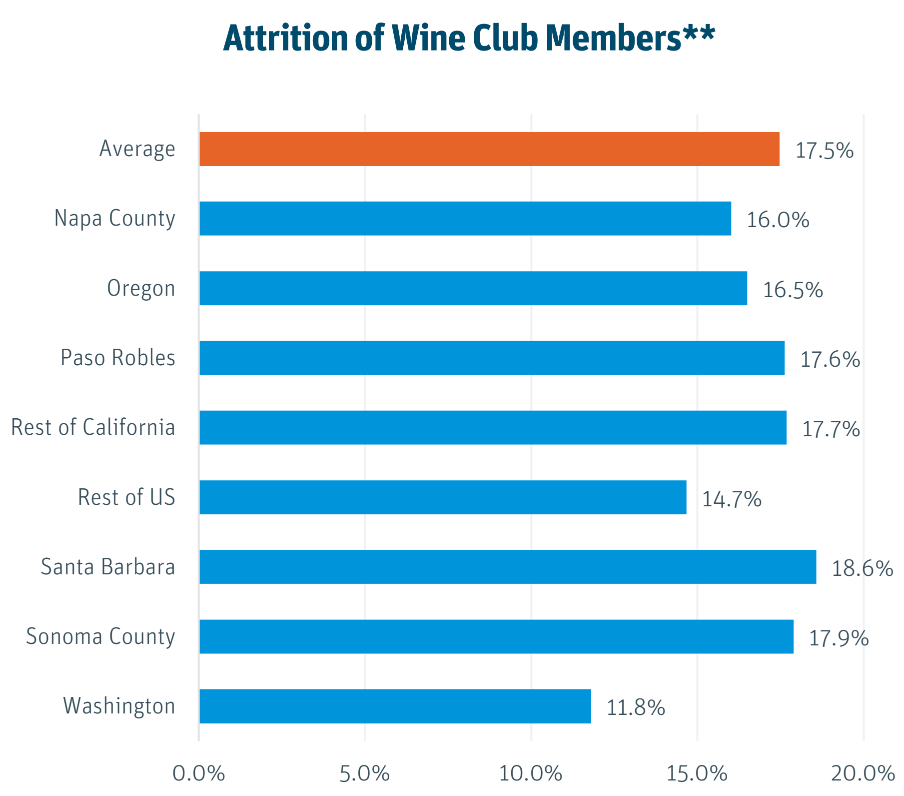


Excludes wineries <5 yrs. Experience

Wine Club Structure, Conversion, and Growth

Wine Club Growth and Attrition Rates



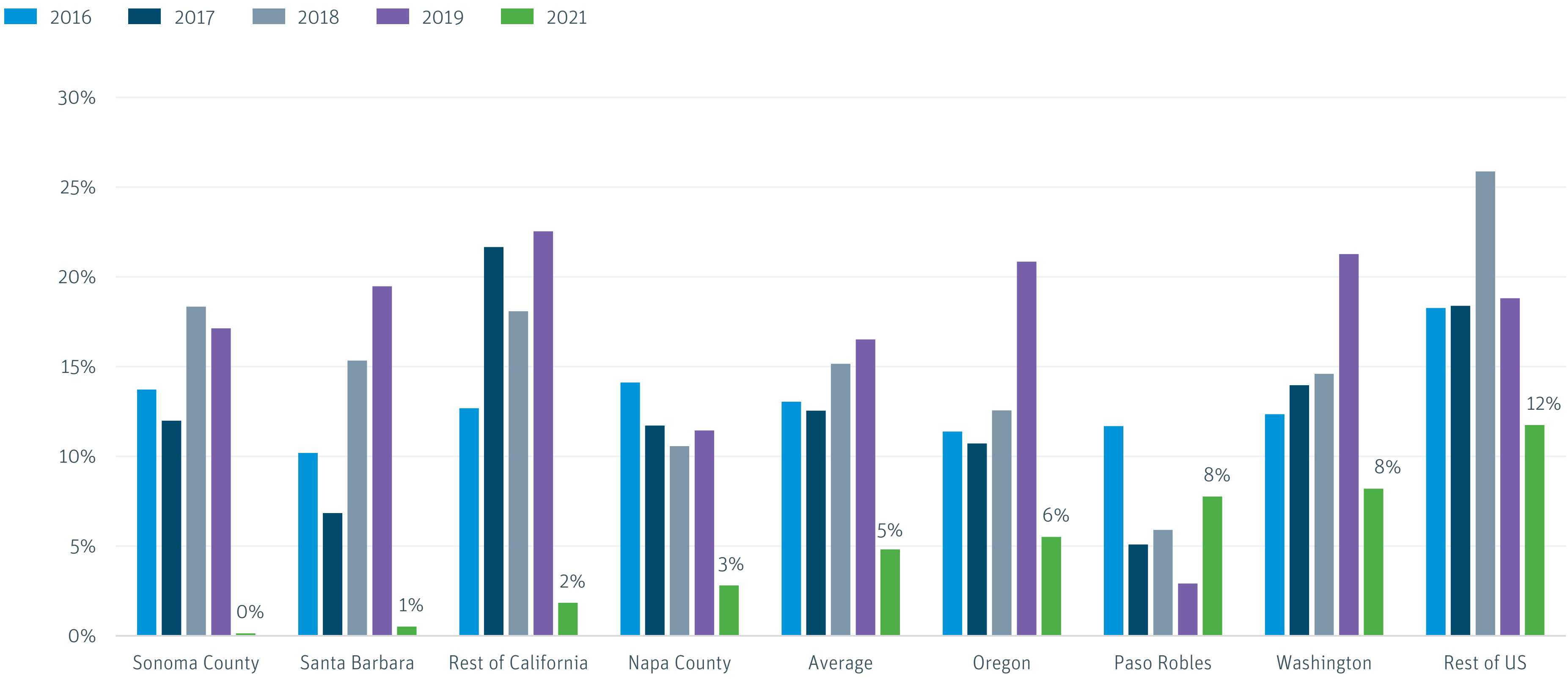


It's useful to look at the growth in new club members, along with attrition rather than net growth. It's far more profitable to grow by 5% and lose 5% for a net zero, than grow 20% and lose 20%.

In the COVID-19 period, it's probably surprising to see growth of any kind given club growth has historically been tied to the tasting room.

*New Wine Club Member Growth Rate = New wine club members acquired, divided by starting number of wine club members.
**Attrition Rate = Number of wine club members lost, divided by number of wine club members.
Excludes wineries with <5 years experience.

Annual Change in Net Wine Club Member Growth Rate*



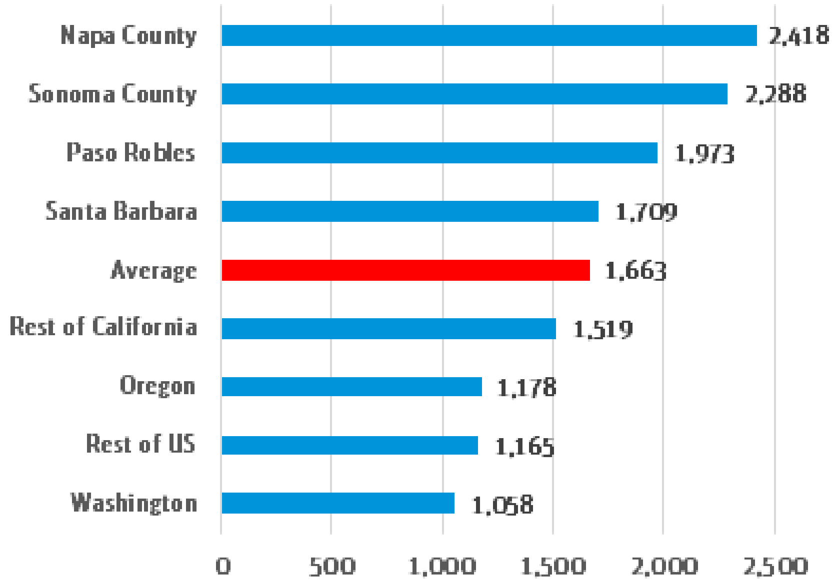
	Sonoma County	Santa Barbara	Rest of California	Napa County	Average	Oregon	Paso Robles	Washington	Rest of US
2016	14%	10%	13%	14%	13%	11%	12%	12%	18%
2017	12%	7%	22%	12%	13%	11%	5%	14%	18%
2018	18%	15%	18%	11%	15%	13%	6%	15%	26%
2019	17%	19%	23%	11%	17%	21%	3%	21%	19%
2021	0%	1%	2%	3%	5%	6%	8%	8%	12%

Wine club sales were successful during the COVID-19 period, even though attrition was slightly higher in the spring during the onset of lockdowns. Net membership ended the year higher, but with a lower growth rate versus prior years.

Growth in club memberships skewed to the second half of the year as tastings rooms reopened and the industry started to promote digital club signups.

Net Wine Club Growth Rate = New club members acquired in 2018, less lost club members in 2020, divided by base membership level at the beginning of 2020.
*Excludes Wineries <5 years old

Average Wine Club Size by Region



Average Members Lost by Region	2019	2021
Napa County	502	450
Sonoma County	399	355
Paso Robles	482	408
Santa Barbara	228	296
Average	328	305
Rest of California	499	226
Oregon	196	229
Rest of US	180	150
Washington	135	120

Note: 2019 and 2021 refers to the year the survey took place.
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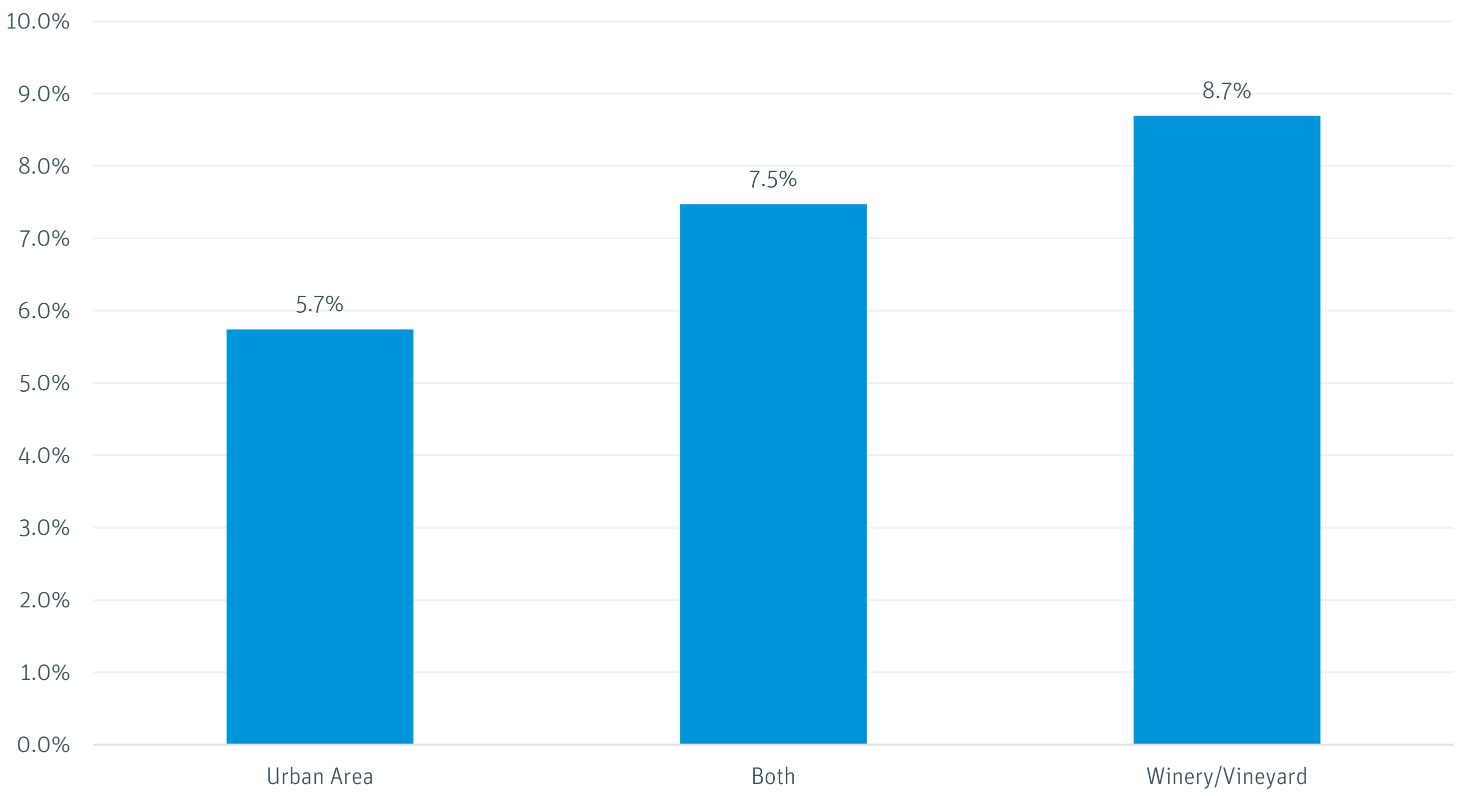
Conversion Rate* of Visitors to Wine Club by Location



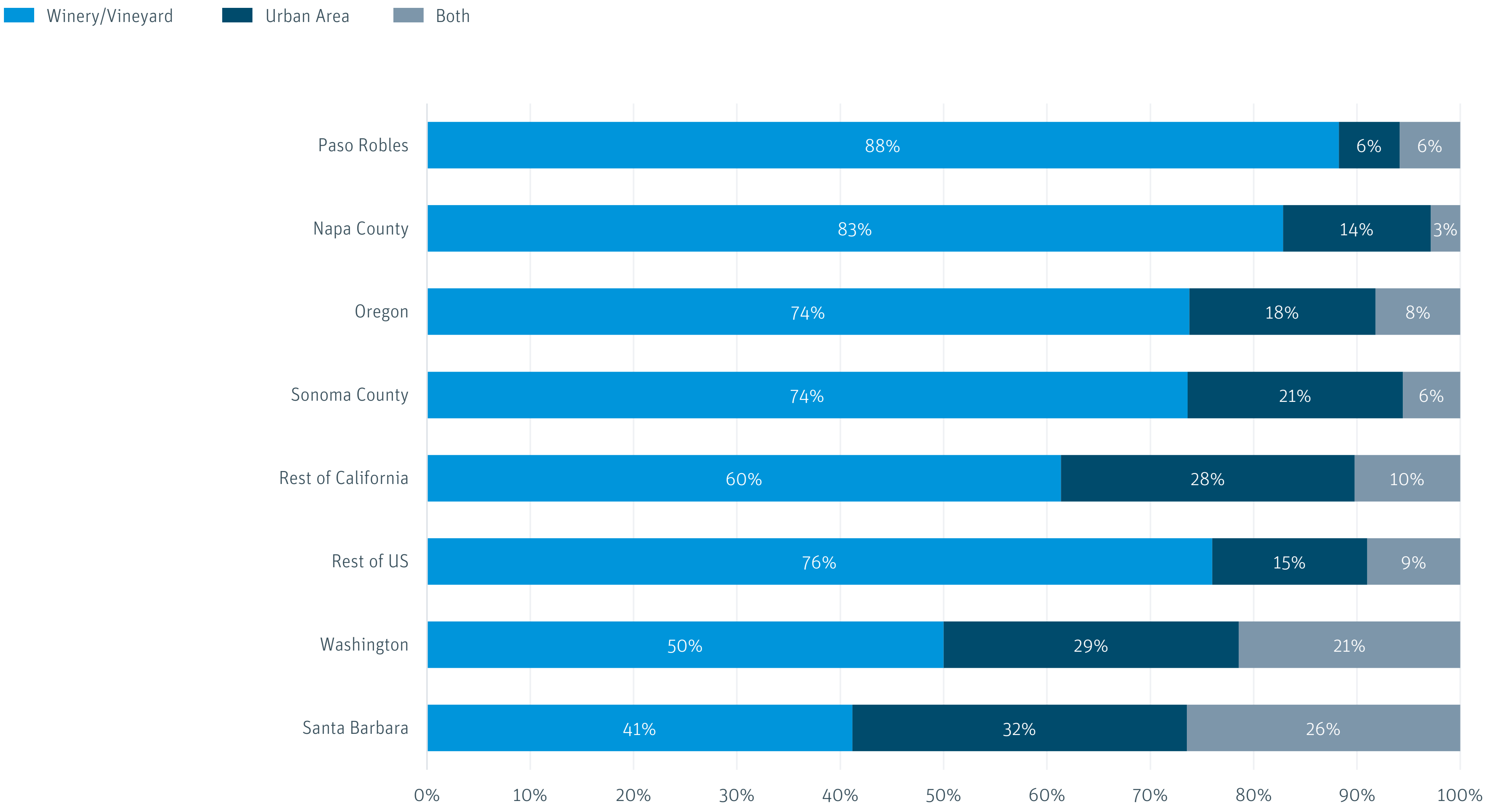
As urban tasting rooms opened in different regions, the experience provided was found to be less robust than that of the winery.

These results have remained consistent over the years, with conversion rates about 25% to 35% higher in winery tasting rooms versus urban tasting rooms.

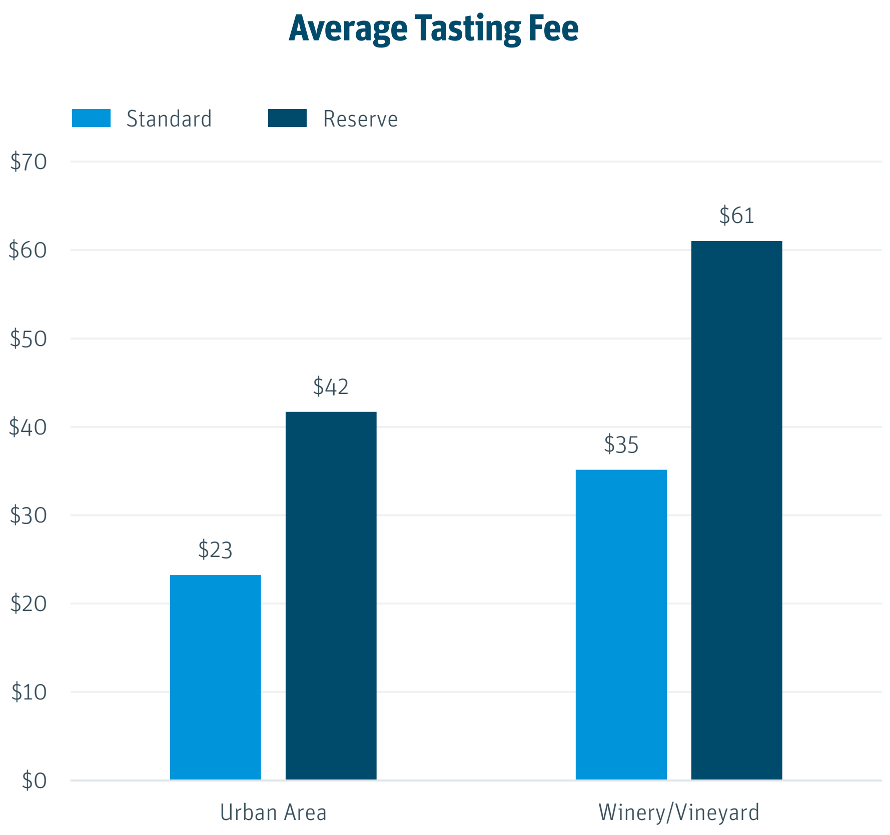
*Conversion Rate = Number of new wine club members in 2020 divided by the number of total visitors in 2020.

Tasting Room Location

Tasting Room Locations by Region



Average Purchase and Tasting Fee by Tasting Room Location

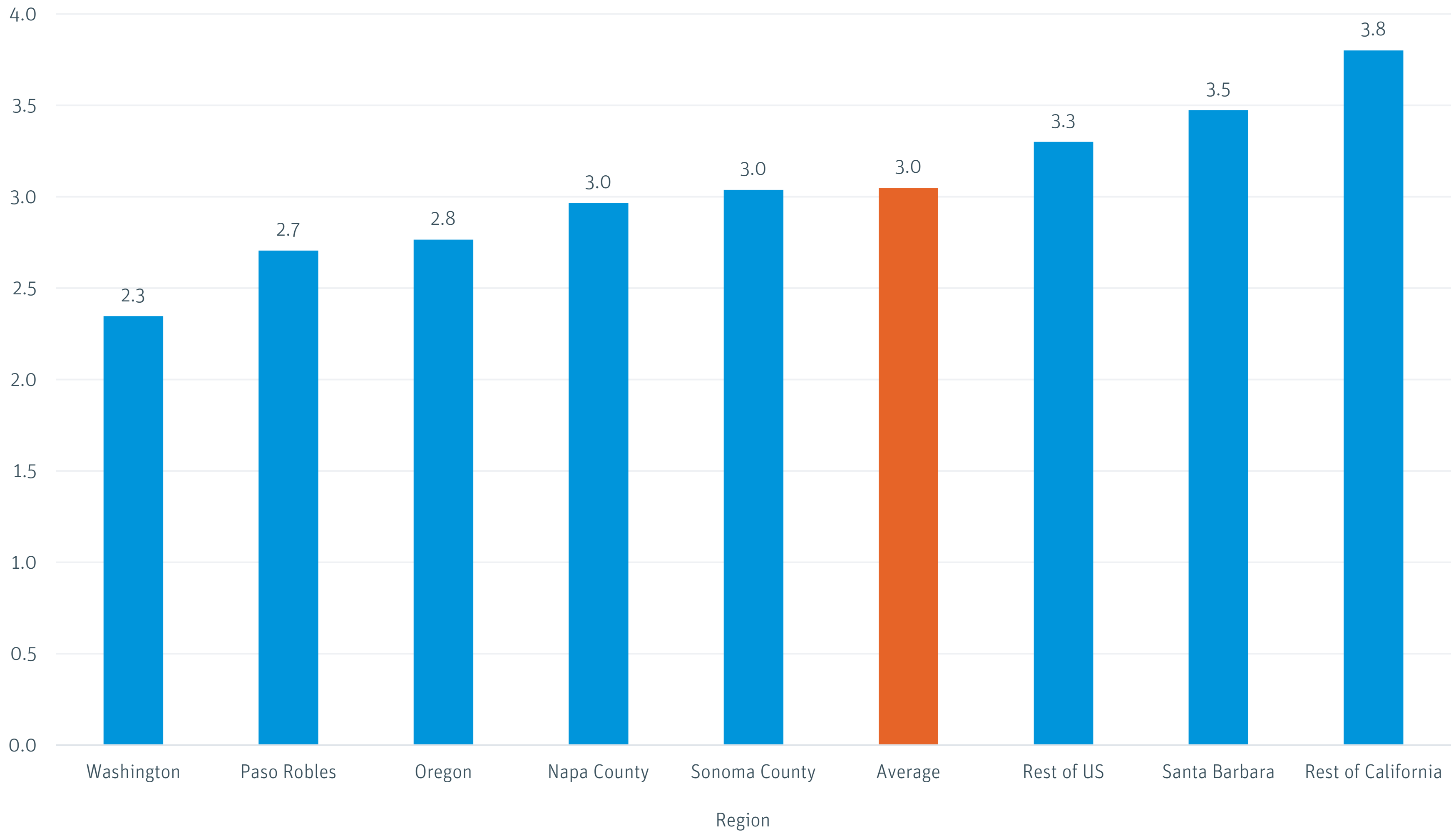


Early on, urban tasting rooms in wine regions struggled to find their identity. While wineries had good traffic during the day, urban tasting rooms would often be empty.

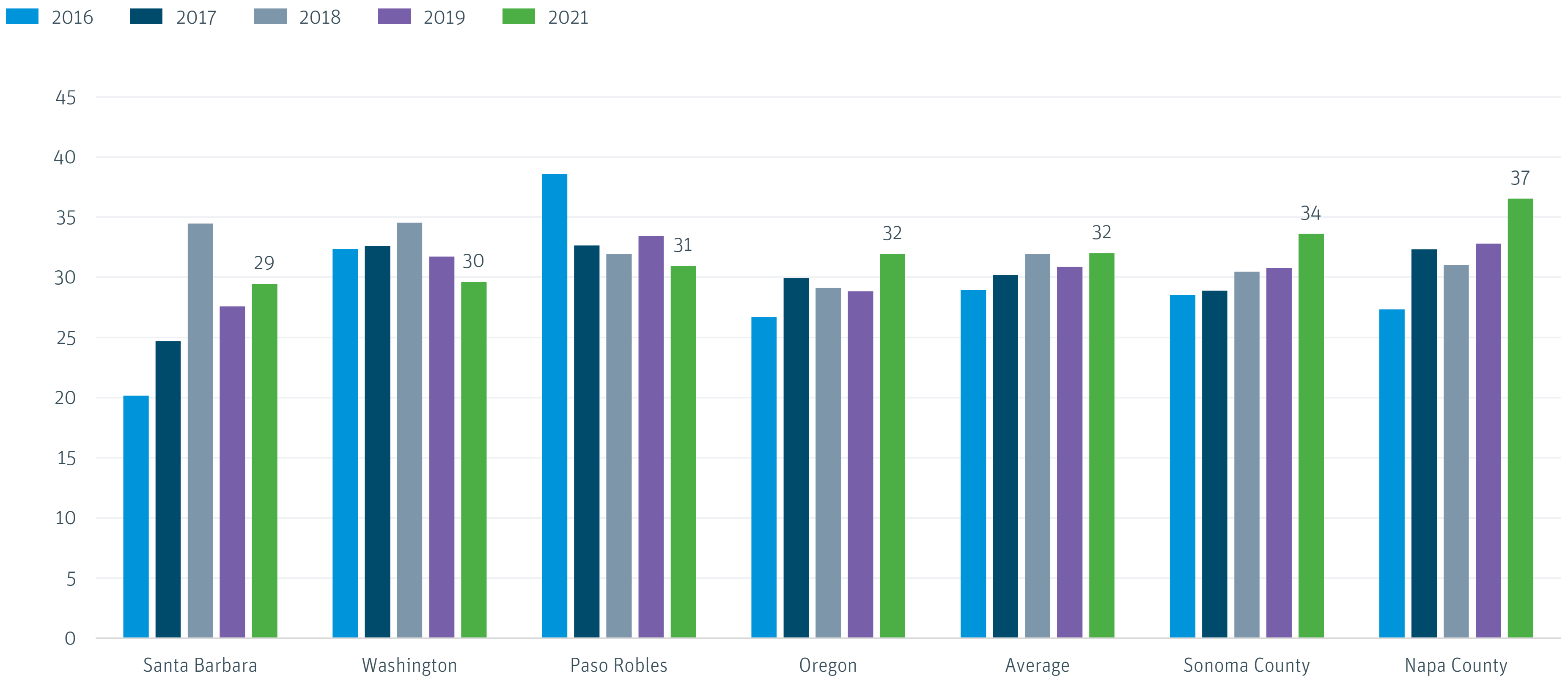
Today, many owners are discovering that an urban location should have a different feel. For higher-priced regions, an urban tasting room is an opportunity to present an entry-level experience — priced more affordably and often geared to younger consumers. It can also be an oasis at night.

Wine Club Member Tenure

Club Shipments per Year



Membership Length in Months by Region



	Santa Barbara	Washington	Paso Robles	Oregon	Average	Sonoma County	Napa County
2016	20	32	39	27	29	29	27
2017	25	33	33	30	30	29	32
2018	34	35	32	29	32	30	31
2019	28	32	33	29	31	31	33
2021	29	30	31	32	32	34	37

The critical benchmarks for clubs are the length of membership and average annual purchase. The product of those two metrics is the Lifetime Value of a Customer.

Small increases in annual purchases and member retention in the club are the mechanics for greater success.

Predictive analytics such as understanding when a customer is likely to tip out, and developing strategies to counter that, is the secret to improved performance.

Survey Respondent Profile

Survey Respondent Profile

We would like to thank the

460

respondents who fully completed the 2021 Silicon Valley Bank DtC Survey.

Without their participation, we would have been unable to produce this report for the industry. That said, it should be noted that we are nearing a minimum participation rate to continue with this report.

We were not able to produce metrics for several regions whose participation fell below statistical significance this year included in with rest of California or rest of US.

If you would like to participate in this research and receive enhanced data, please sign up for reports at the bottom of this page:

https://www.svb.com/trends-insights/reports/wine-report

Results for this Silicon Valley Bank 2021 Direct-To-Consumer Survey are based on voluntary online survey submission from March 1st - 26th, 2021, resulting in a sample of 460 wine producers after scrubbing for outliers and duplicates. The survey was conducted in early 2021 however all reported data points are based on 2020 annual data. The sample encompasses varying production sizes, retail price points, regions and years in operation.

For best results based on the total sample of wine producers, the margin of sampling error is ± 4.5 percentage point at the 95% confidence level. With a total wine producing population in the United States of 11,053*, a confidence level of 95% and a confidence interval of 4.5, the minimum sample size needed would equal 455.

The largest production range represented in the survey is 1-2,500 cases and the most common average retail price point per bottle is, as a percent of total responses is equally

$30-$39 and $40-$49.

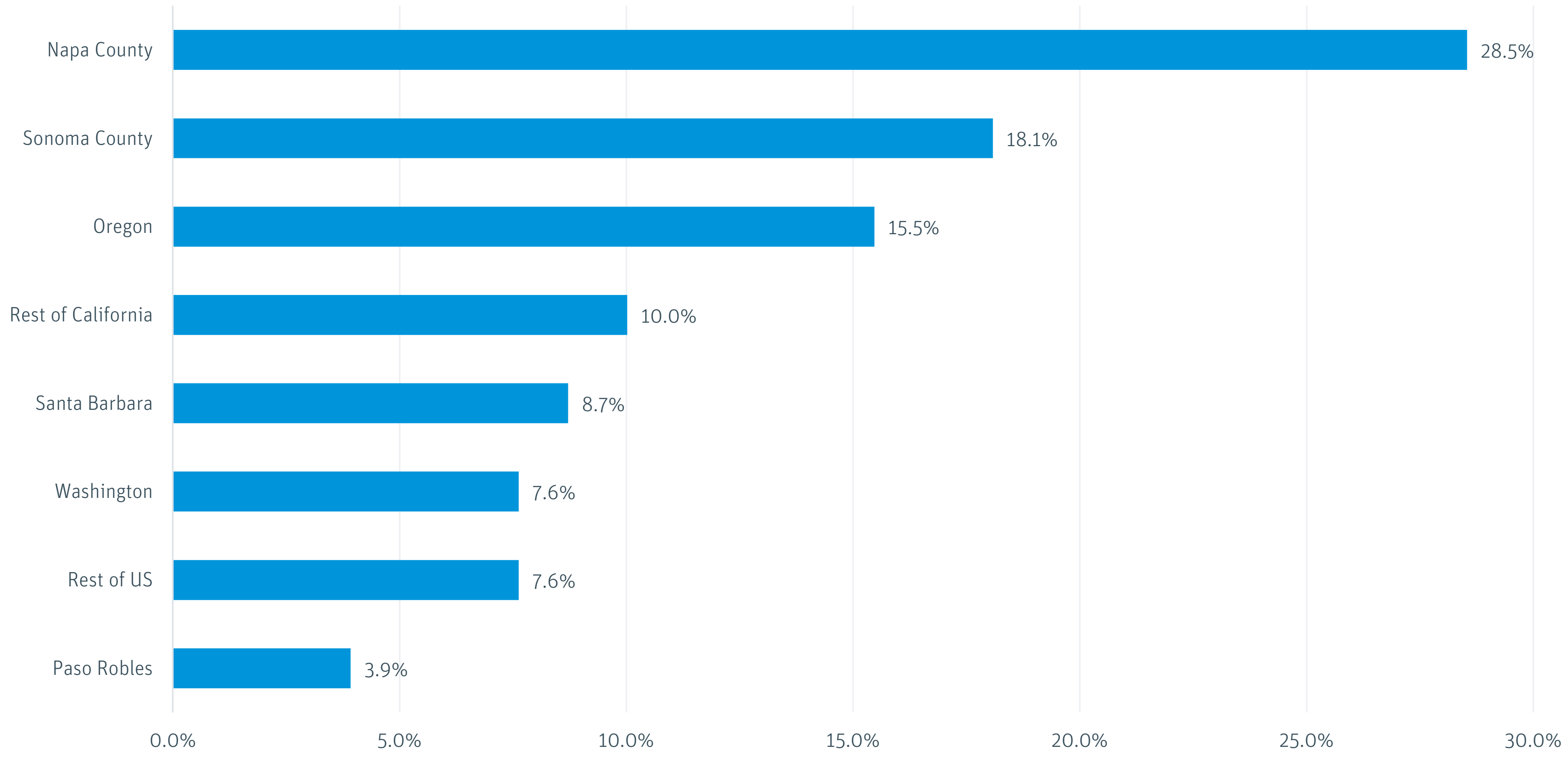
If there were too few respondents from a participating region, the data were statistically insignificant due to the small sample size. These responses were placed into combined categories as defined below:

Rest of California:
Lake County; Livermore; Lodi/Clarksburg; Santa Cruz and Monterey; Sierra Foothills; Solano, Yolo, and Contra Costa County; Southern California (San Diego, Temecula, Los Angeles County); Suisun Valley; Mendocino County; Ventura County

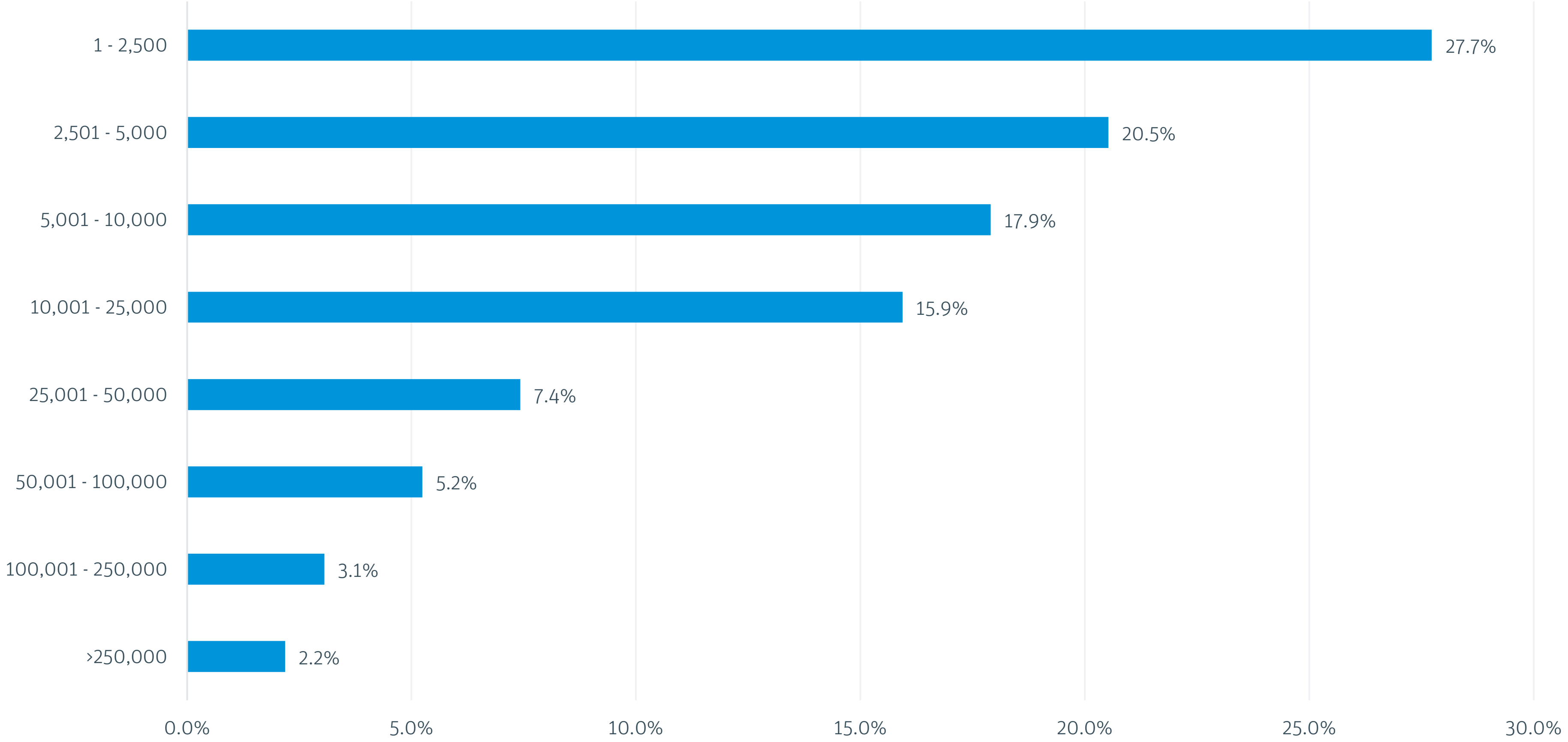
Rest of US:
Arizona, Arkansas, Colorado, Delaware, Massachusetts, Minnesota, Missouri, Montana, New York, Texas, Virginia

Source: Silicon Valley Bank Proprietary Research

Regional Participation
(460 Total Respondents)

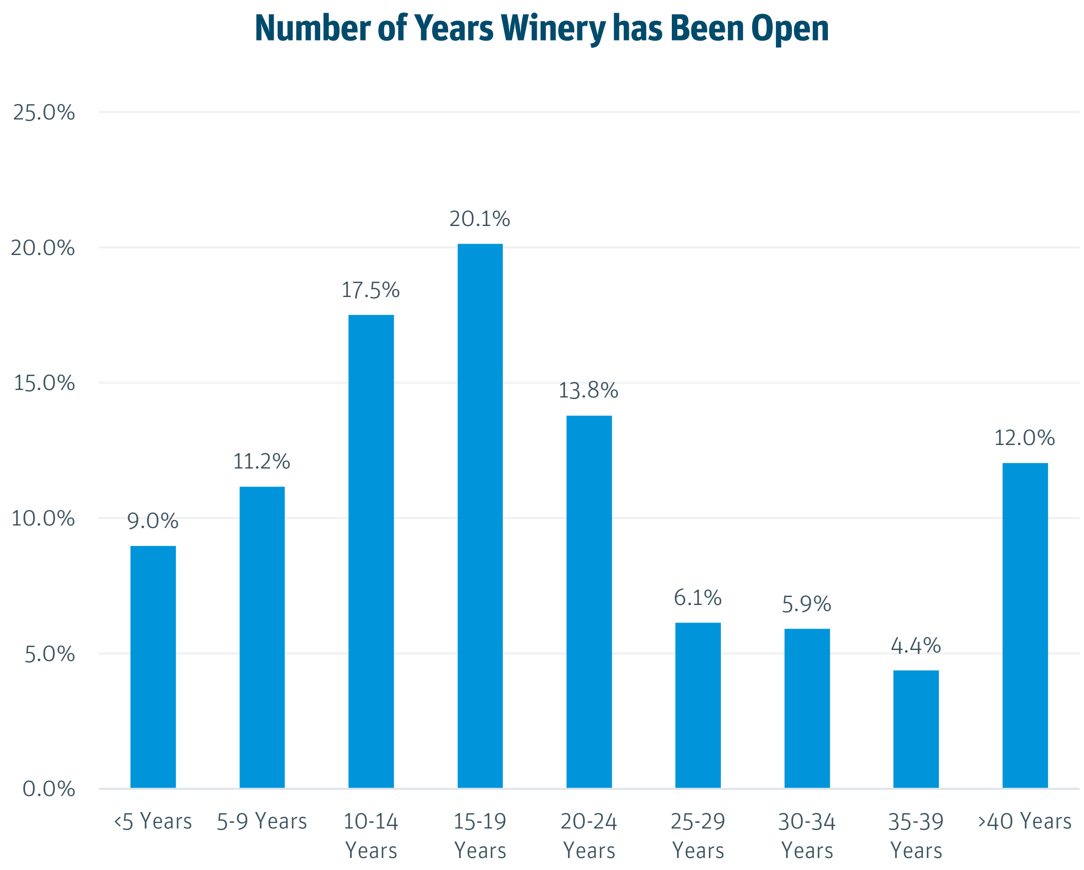


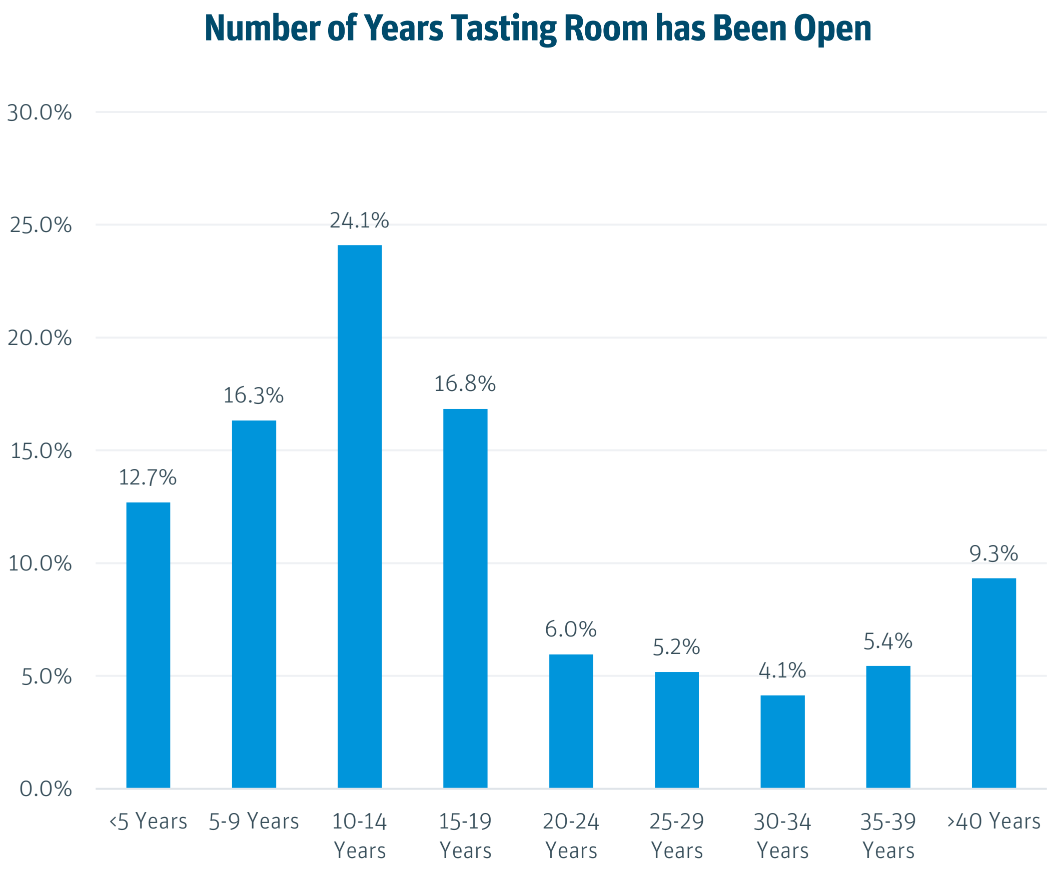
Participation by Case Production Levels



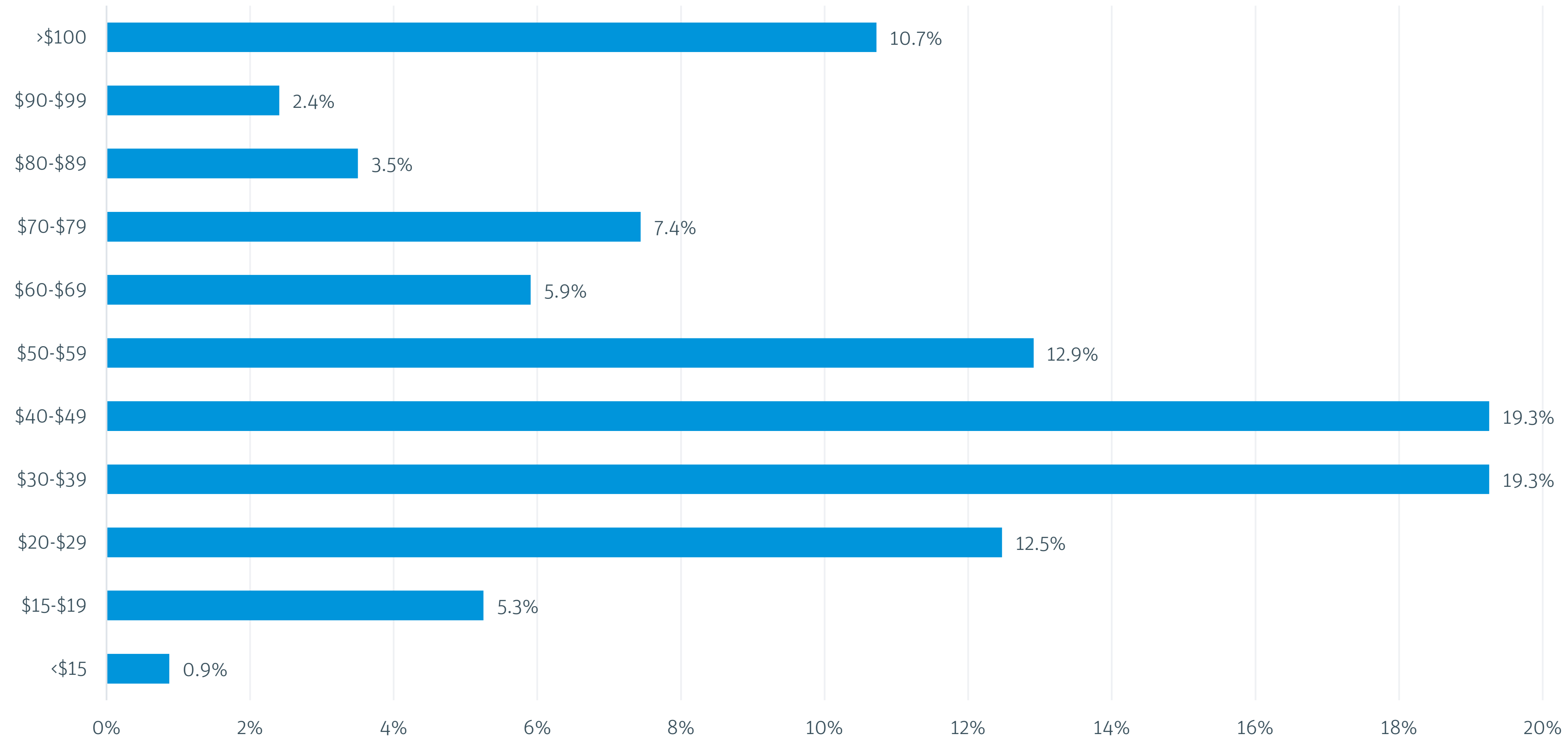
Appendix

Winery and Tasting Room Years Open

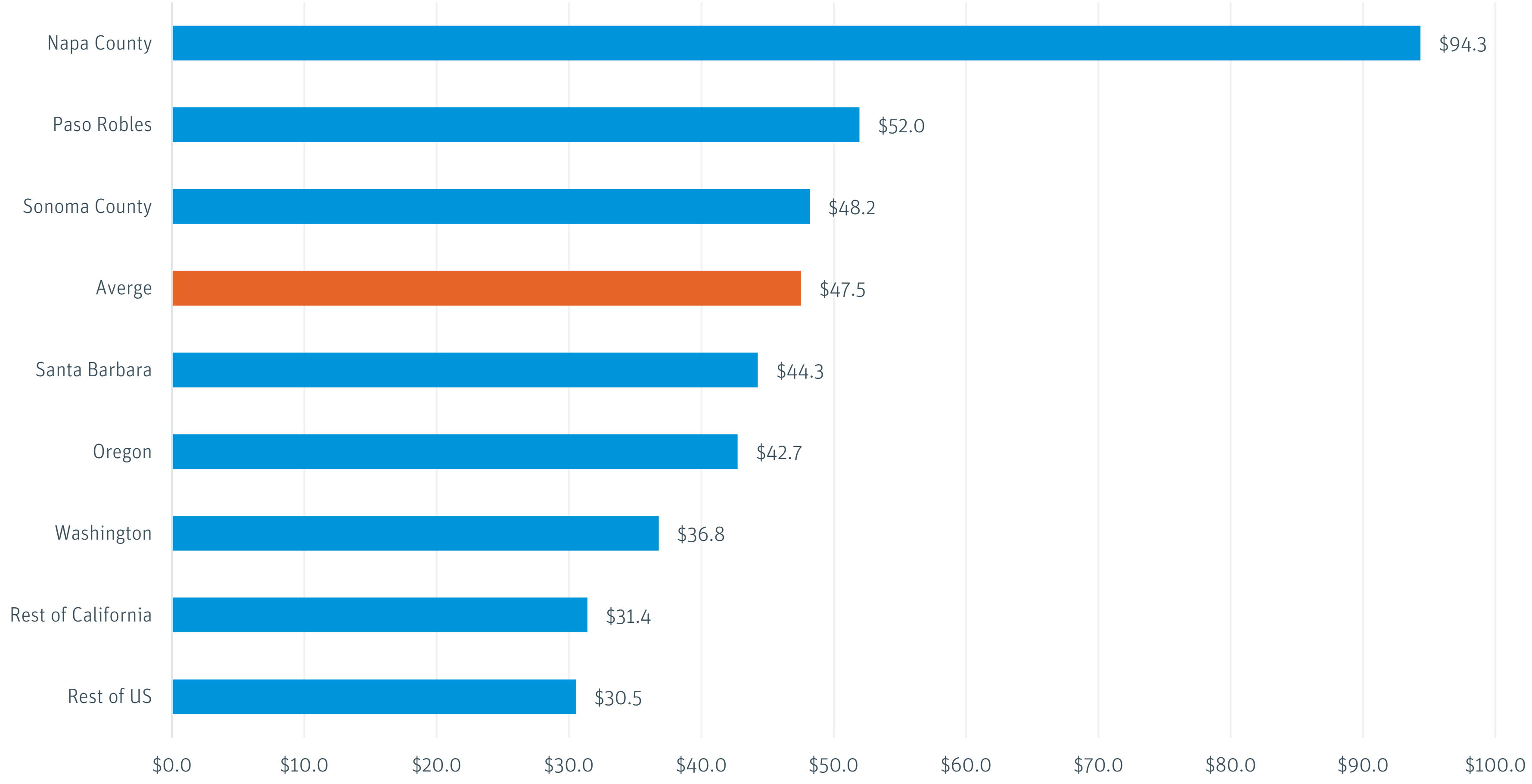




Participation by Suggested Retail Bottle Price (Range)



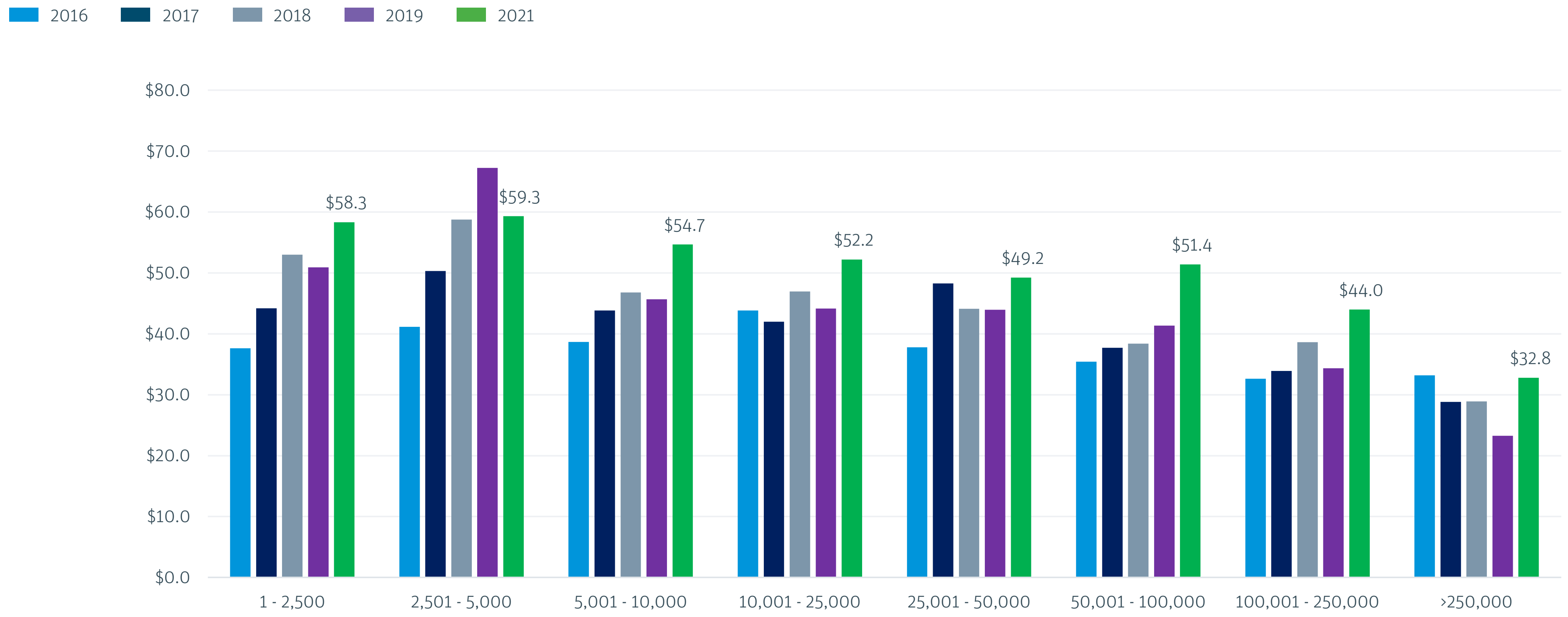
Suggested Retail Bottle Price by Region



Suggested Retail Bottle Price by Region

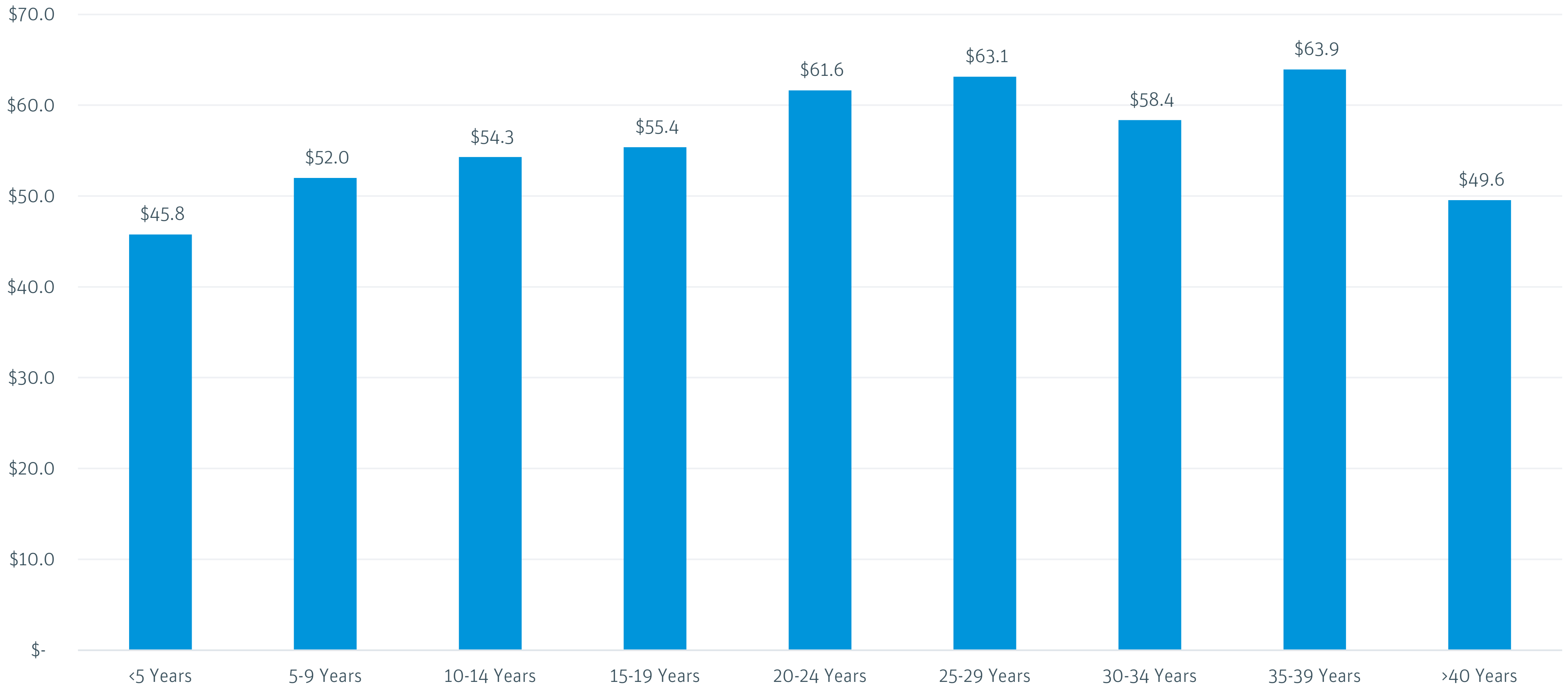
	Rest of US	Rest of California	Washington	Oregon	Santa Barbara	Average	Sonoma County	Paso Robles	Napa County
2016	$18.6	$30.3	$32.1	$37.0	$37.4	$37.9	$43.0	$34.3	$70.7
2017	$19.0	$30.1	$32.3	$35.2	$39.2	$40.9	$46.1	$41.4	$83.8
2018	$20.6	$32.2	$33.7	$39.5	$41.0	$43.8	$45.1	$44.4	$94.3
2019	$25.5	$33.9	$34.5	$38.8	$37.2	$44.8	$49.5	$45.9	$95.5
2021	$30.5	$31.2	$36.8	$42.7	$44.3	$47.5	$48.2	$52.0	$94.3

Average Suggested Retail Bottle Price by Case Production



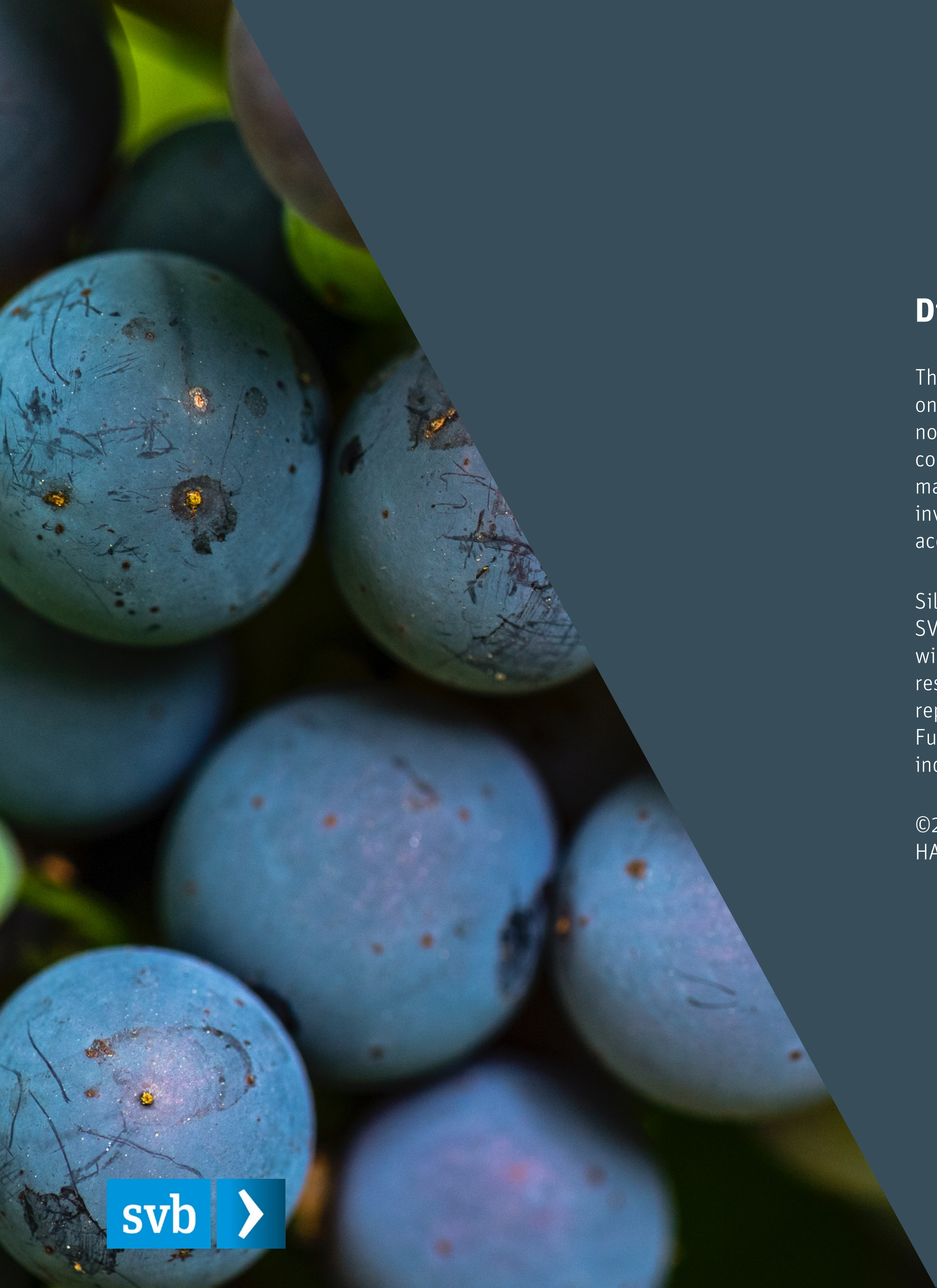
	1 - 2,500	2,501 - 5,000	5,001 - 10,000	10,001 - 25,000	25,001 - 50,000	50,001 - 100,000	100,001 - 250,000	>250,000
2016	$37.6	$41.1	$38.7	$43.8	$37.8	$35.4	$32.6	$33.2
2017	$44.2	$50.3	$43.8	$42.0	$48.3	$37.7	$33.9	$28.8
2018	$53.0	$58.7	$46.8	$46.9	$44.1	$38.4	$38.6	$28.9
2019	$50.9	$67.2	$45.7	$44.1	$44.0	$41.3	$34.3	$23.3
2021	$58.3	$59.3	$54.7	$52.2	$49.2	$51.4	$44.0	$32.8

Average Suggested Retail Bottle Price by Winery Age



About Silicon Valley Bank's Wine Division

Silicon Valley 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 and the industries that support them. SVB has the largest team of commercial bankers dedicated to the wine industry of any bank nationwide. Founded in 1994, SVB's Wine Division has offices in Napa and Sonoma counties and serves 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 is a member of the FDIC and the Federal Reserve System. Silicon Valley Bank is the California bank subsidiary of SVB Financial Group (Nasdaq: SIVB). More information on the company can be found at www.svb.com.



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