

Alca Intelligence Inc & TTGV Advisors Industry Market Report: BC Wine Industry Fall 2021

Globally, the wine industry has suffered through one of the most challenging years ever due to the continued effects of the pandemic, consequential supply chain disruptions and numerous extraordinary climate-related events. The BC wine industry has not escaped the turmoil and continues to face challenges on multiple fronts. This report summarizes and highlights some of the issues, particularly those related to harvest and grape prices.



Input Costs & Grape Prices

The cost of producing wine in BC continues to rise, posing challenges for producers. Input costs have risen considerably over the past year fueled by labour shortages, shipping cost increases and strong demand for grapes. As a result, prices have risen for everything from glass bottles to oak barrels. Grape prices continue to be robust, benefiting independent growers and rewarding wineries who own their own vineyards.

Review of prices last year (in 2020-2021)

According to the BC Wine Grape Council, in 2020 the two highest volume red grapes produced in BC were Merlot and Pinot Noir. The two highest volume white grapes were Pinot Gris and Chardonnay. The average short ton price for Merlot in 2020 was just over \$2900. The average short ton price for Pinot Gris was just below \$2300. While prices will vary widely depending upon varietal, vineyard and farming practices, generally, the average prices for most red vinifera varieties was in the range of \$2900-3200. For whites, the average price was in the range of \$2200-2700.

Anecdotal evidence 2021

2021 was a challenging year for grape-growing due to wildfires and labour shortages. In addition, the “heat dome” in early summer contributed to below optimal fruit set resulting in lower than average crop yields. Nevertheless, the weather was good and quality appears high. Producers are still assessing the manner and extent to which wildfire smoke in certain areas may have affected the vintage. Anecdotal reports from the field indicate that this year’s grape prices will either be consistent with last year’s, or in many cases, higher due to demand. Indeed, for vintners dealing with smaller lot production (e.g. “esoteric” grape varieties or grapes farmed organically), their grape costs may be considerably higher than the averages noted above.

Average Bottle Price and Sales

The average retail price for BC VQA wine in 2021 is about \$19.20 according to Wine Growers of British Columbia (based on an average wholesale price of about \$16 and retail markup of 20%). However, this number would include a large amount of wine produced by the “big 3” major players who have significant vineyard holdings of their own and/or long term leases (and thus who would be less affected by grape price changes).

In contrast, analysis by Paul Rickett (of VARketing!) indicates that the average current price for 100% BC wine produced by independent wineries is somewhat higher: \$18.19 wholesale (estimated \$21.28 retail with that same 20% markup). More specifically, it breaks down for BC red wine to \$21.70 wholesale (estimated \$26.04 retail). And for white wine it is \$15.68 wholesale (estimated \$18.82 retail). Paul has produced a detailed report on BC wine pricing which could prove invaluable to wineries who wish to delve into these comparisons in greater detail (contact: pderrickt@hotmail.com).



1% Rule

There is a “rule of thumb” in the North American wine industry that in order to recover production costs and generate a reasonable return for the winery, 1 ton of grapes ought to be priced at 100 times the retail price of the wine bottle that those grapes produce. So for example, a purchase of Pinot Gris grapes at \$2300 a ton, should produce wine that retails for about \$23 a bottle. If one uses that test on the grape cost averages above, it indicates that most BC reds should retail between \$29-32 and whites between \$22-27. Those projected prices are higher than the actual averages just noted. Even if one adjusts the retail margins upward to 30-35%, the numbers come closer but *are still below the “100 times” metric*. This would suggest that some, or perhaps many, BC wineries are not obtaining the pricing for their wines that would put them in line with North American winery average returns.

Indeed, anecdotal evidence from some wineries confirms that production costs have risen to the extent that price adjustments may be necessary. At the very least, this would indicate that there is some considerable advantage for producers to own their own vineyards and control their production costs. We understand that, in many cases during this harvest, producers purchasing stock from growers received far fewer grapes than they were expecting. Presumably this may also contribute to decreased returns and additional cost pressures for some wineries.

Winery and Vineyard Prices

Despite the pandemic, the North American wine industry has seen continued acquisition, consolidation and investment activity. South of the border, there has been some very significant activity including the sale of Ste Michelle Wine Estates and a successful IPO by Duckhorn Wine Co. In BC, the activity has generated less headlines but has continued (e.g. Wild Goose, Stoneboat, Joie, Unsworth). Al Hudec reviewed some of this activity during a recent AIDV Canada webinar (<https://www.aidv.ca/aidv-updates/>).



Pricing remains strong, particularly for wineries with significant vineyard holdings. Recent activity indicates that planted vineyards in prime areas are fetching about \$300,000 per acre. Prices have been consistently edging upward with growth of about 2% *per month* which is reflective of strong demand from existing producers and relatively new entrants, such as Frind Estate Winery which now has hundreds of acres of BC vineyard holdings, rivaling the established “big 3”.

We expect to see continued acquisition and investment activity throughout the remainder of this year and into 2022.

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