

Silicon Valley Bank ›

# Napa County Planning Commission

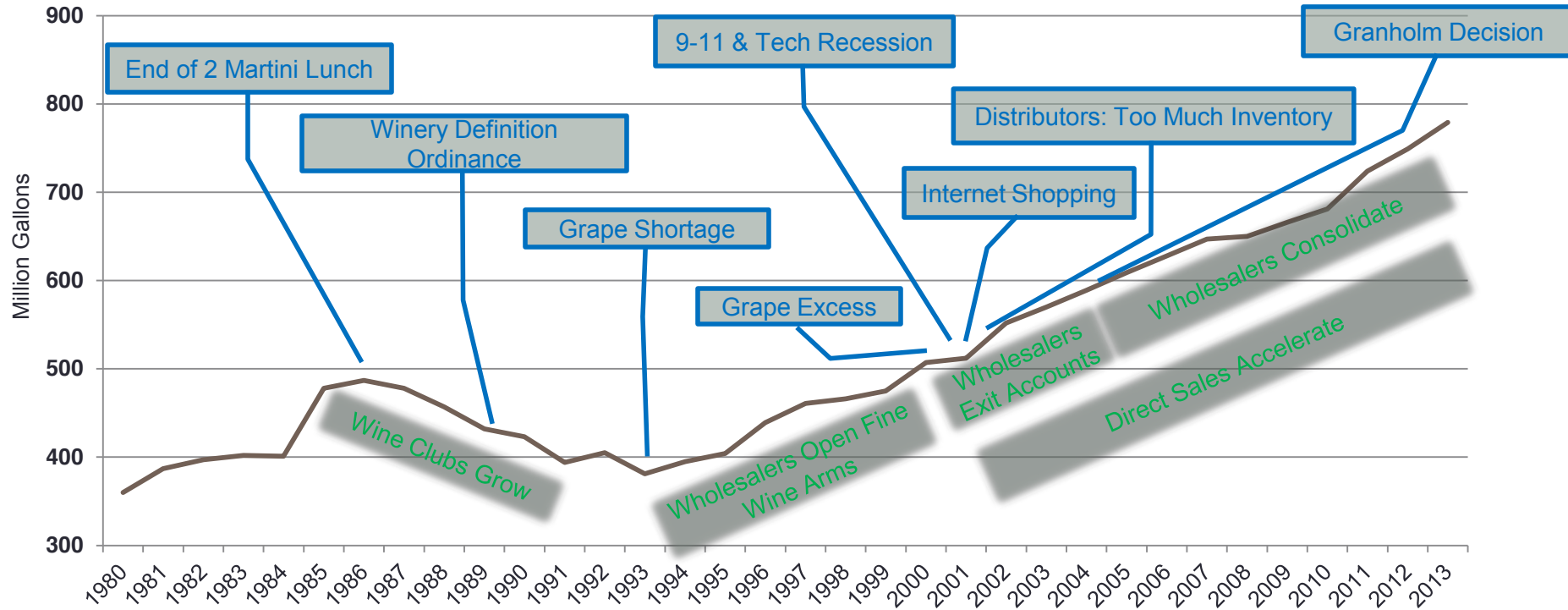
## *Shape of the Napa Wine Business*

Rob McMillan, EVP and Founder, Wine Division

## Rob McMillan - Curriculum Vitae

- EVP & Founder, Silicon Valley Bank's Wine Division
- Subject Matter Expert for Wine at Bloomberg, Reuters and other Media Outlets
- Speaker in the US and abroad cited Nationally in *CNBC, LA Times, PBS, Barron's, Forbes, NBC Universal, NY Times, Wine Spectator, Decanter*, and many others
- Managing Committee Silicon Valley Bank 1999-2002 (NASDAQ: SIVB)
- Worked in the wine banking starting 1982
- Guest Speaker SSU and UC Davis MBA Programs
- Only Banker named to Wine Industry Top 100 Most Influential People List
- Published author of various reports on industry trends picked up worldwide and used in numerous universities in Europe and the US.
- Lives and has worked in the Napa Valley since 1996

# US Wine Consumption - Forces Leading to Channel Shifts



## Sorry .... There is Math: Calculating Peer Averages

### Peer Average

	Wholesale	Direct	Total Sales \$
Winery A	100%	0%	\$ 100,000,000
Winery B	60%	40%	\$ 15,000,000
Winery C	0%	100%	\$ 4,500,000
			\$ 119,500,000
Average	53%	47%	

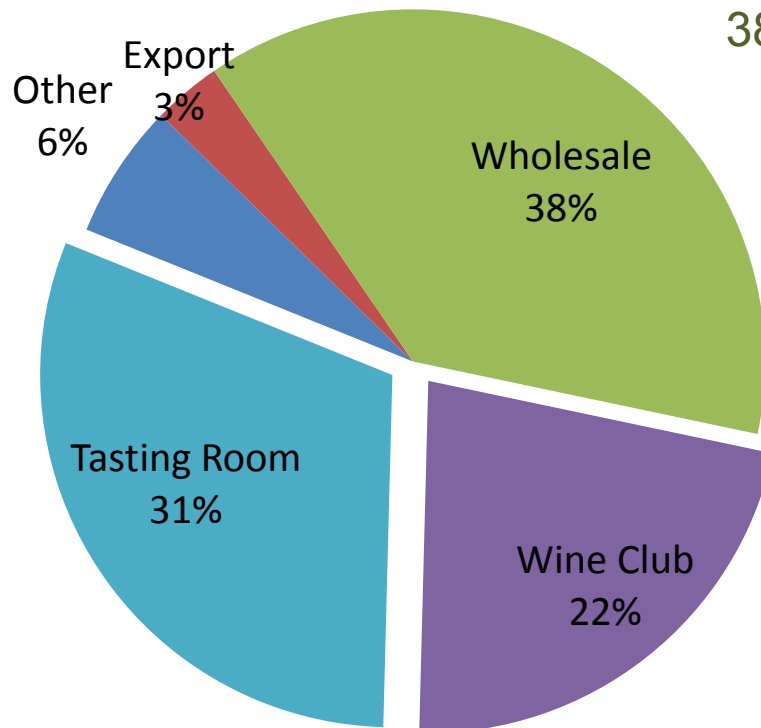
### Un-Weighted Average

Wholesale	Direct	Total Sales
\$ 100,000,000	\$ -	
\$ 9,000,000	\$ 6,000,000	
\$ -	\$ 4,500,000	
\$ 109,000,000	\$ 10,500,000	\$ 119,500,000
91%	9%	

## From Which Channels are Sales Made?

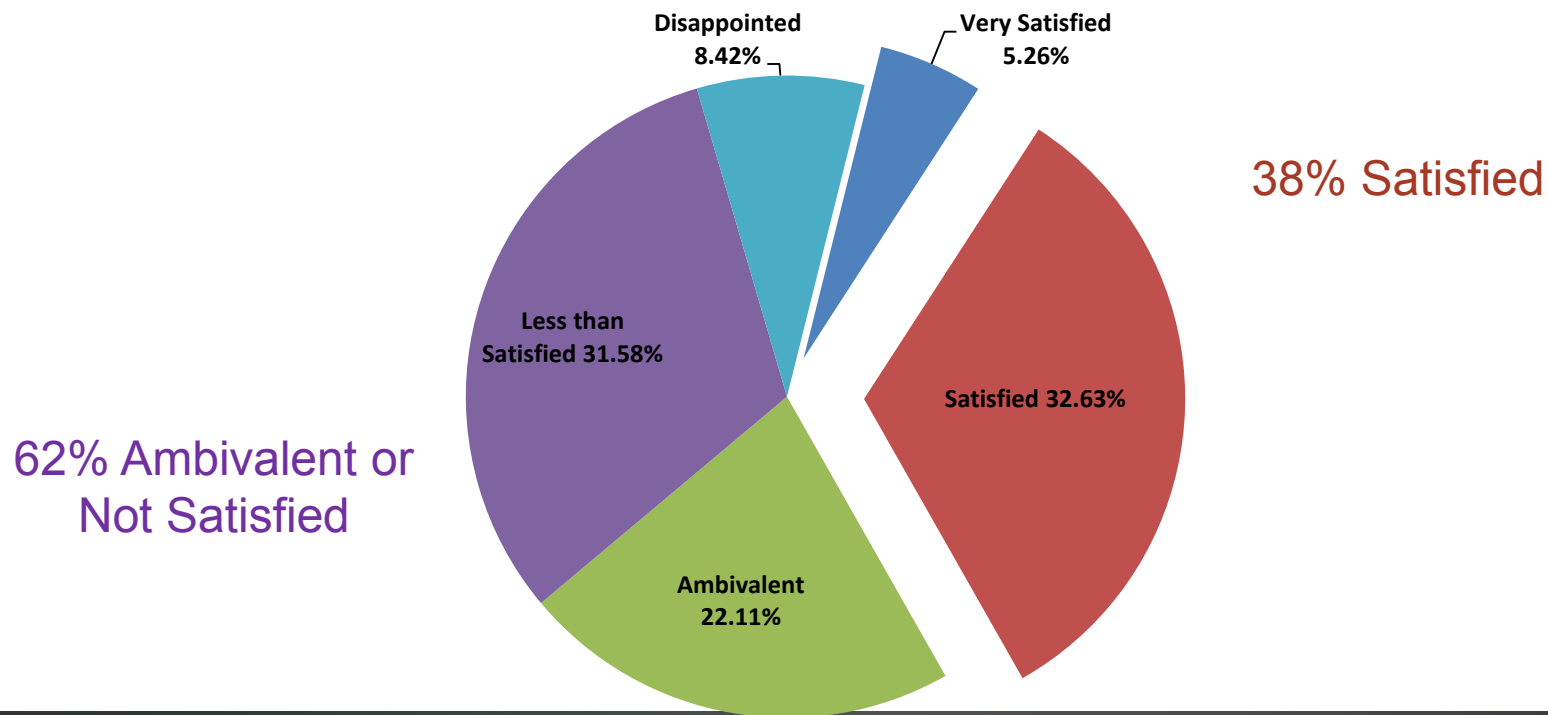
“Other” includes internet  
and phone sales

54% Of Avg. Sales  
Are Now Direct

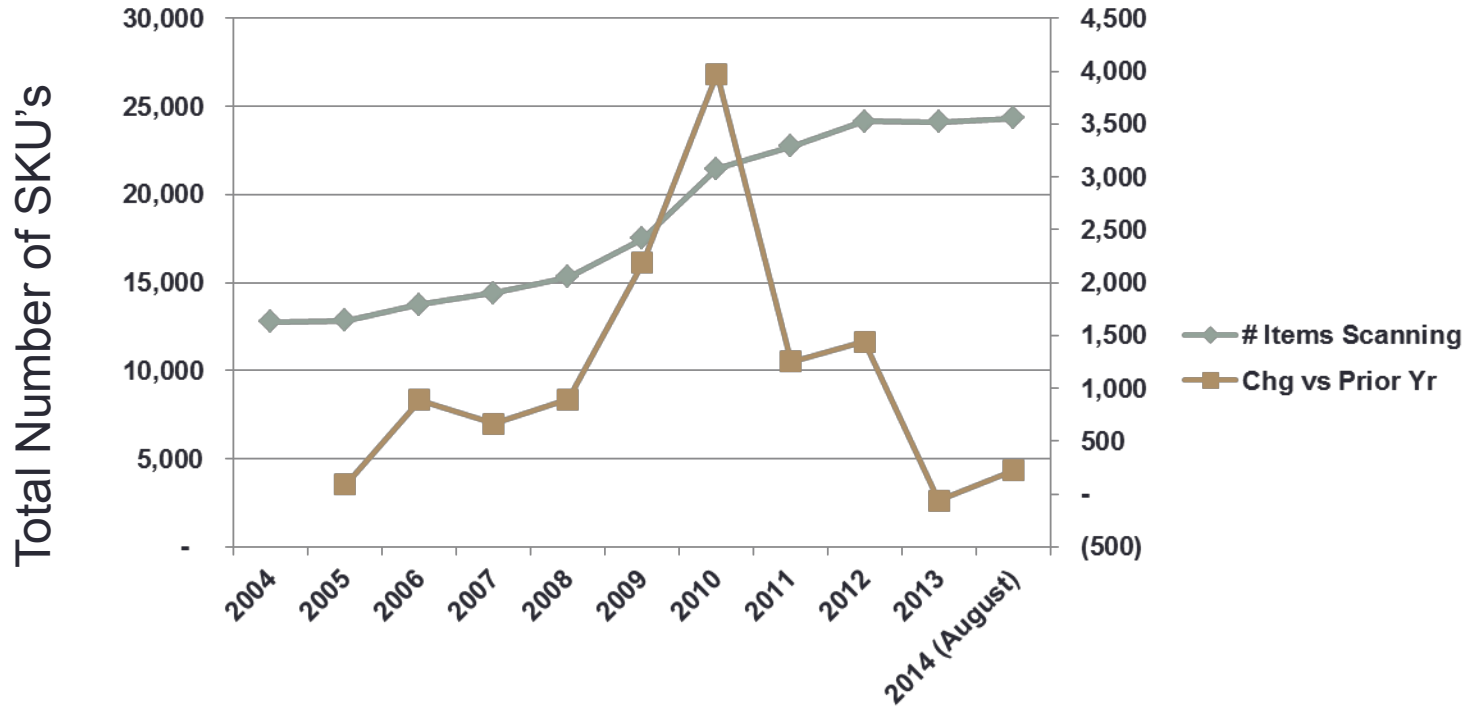


38% Of Avg. Sales  
Thru Wholesale

# Only 38% of Napa Wineries Satisfied with Wholesaler Arrangements



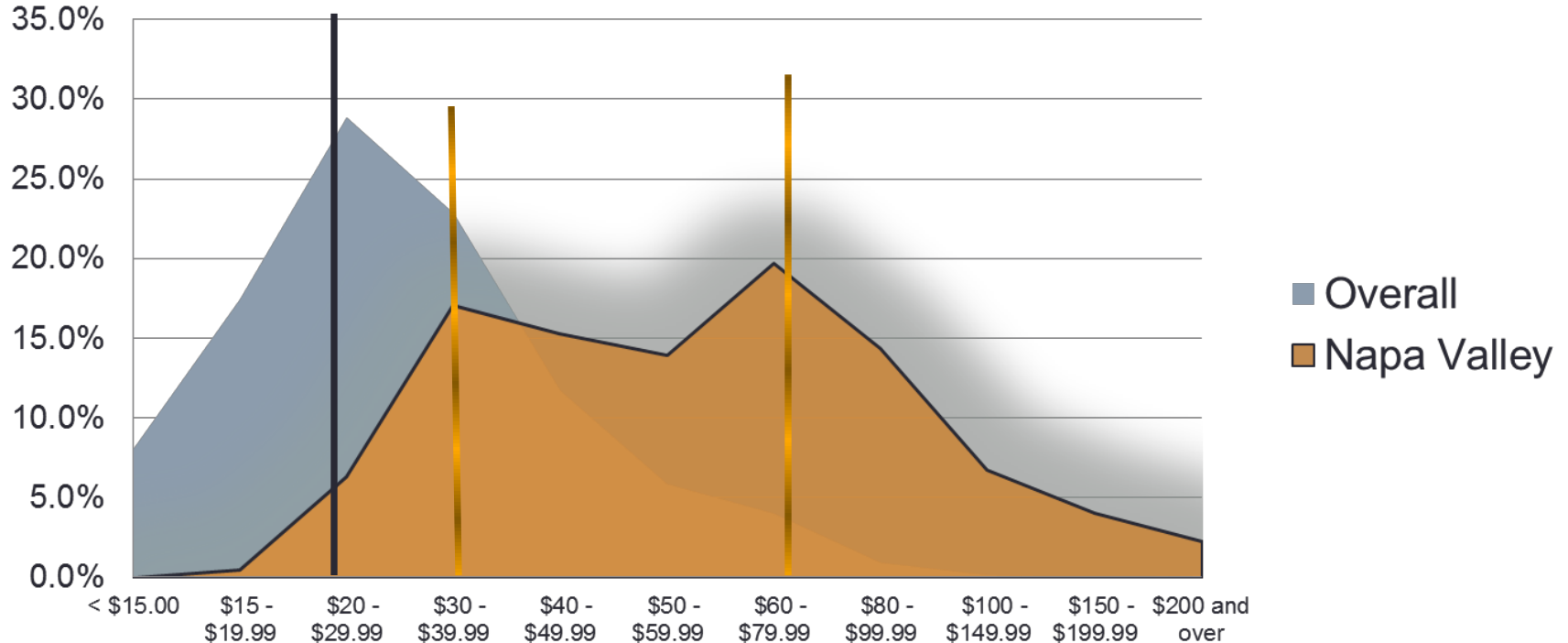
## Fewer Wineries Use Wholesale Reversing the Growth in SKU's



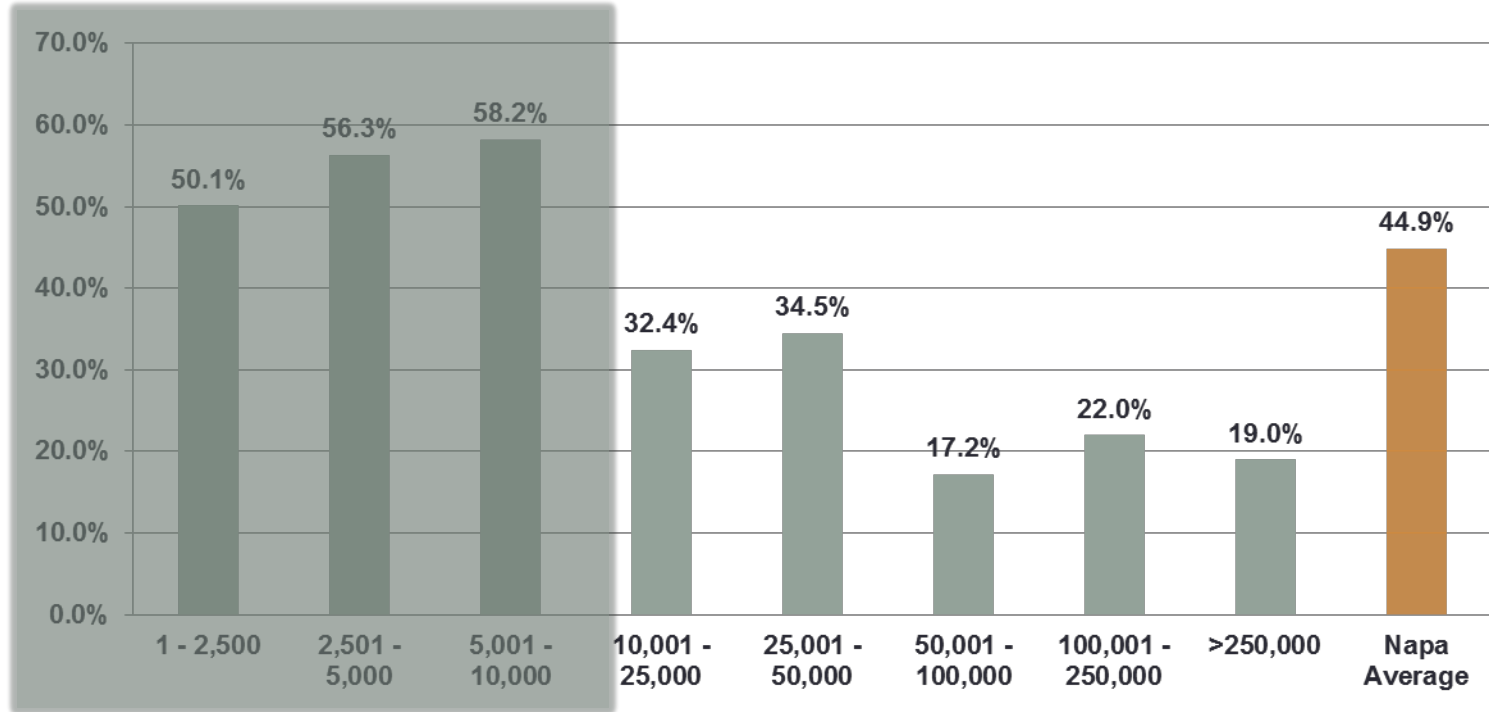
## How Are Napa Wines Sold?



# Napa Valley Bottle Prices Are Higher Than The Industry Overall



## Almost 60% of Average Sales under 10K Cases in Napa Are DtC



# What do Consumers Desire When Buying Napa Wine?

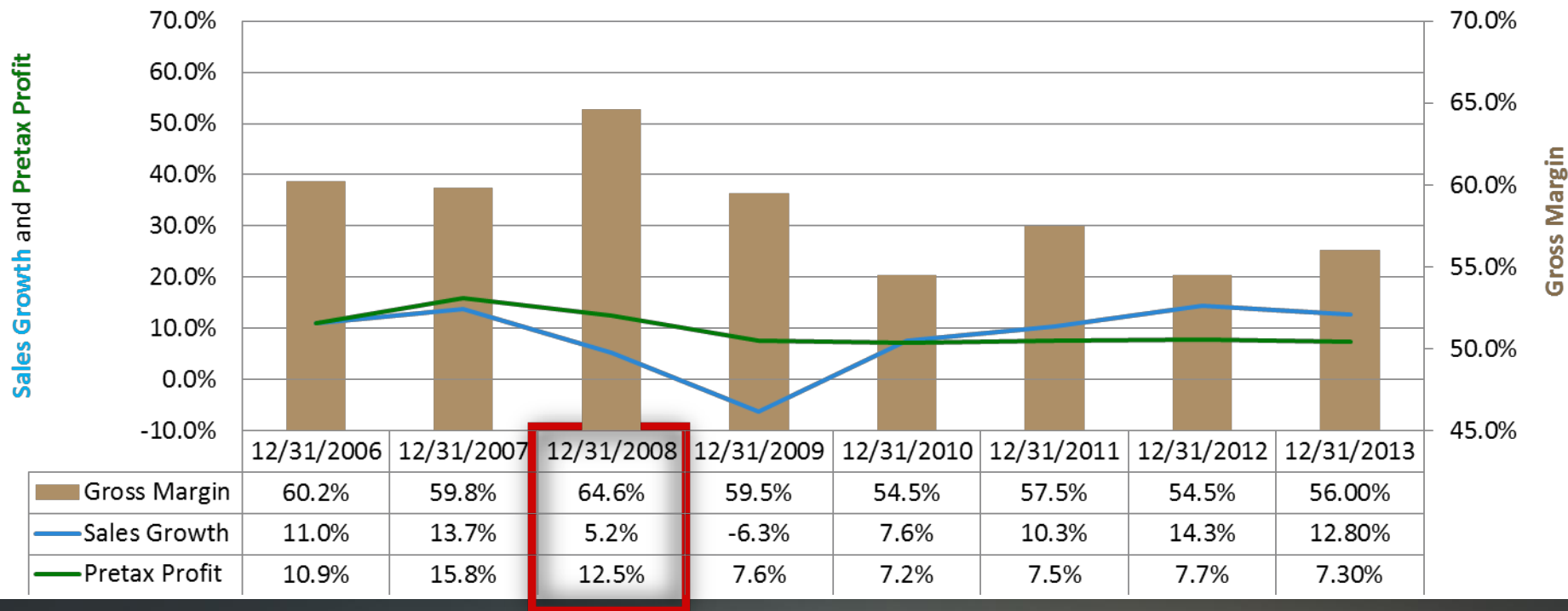
## The Lowest Price?

$$\text{Value} = \frac{\text{Perceived Quality} \times \text{Experience}}{\text{Price}}$$

**Unobtainable Wine?**

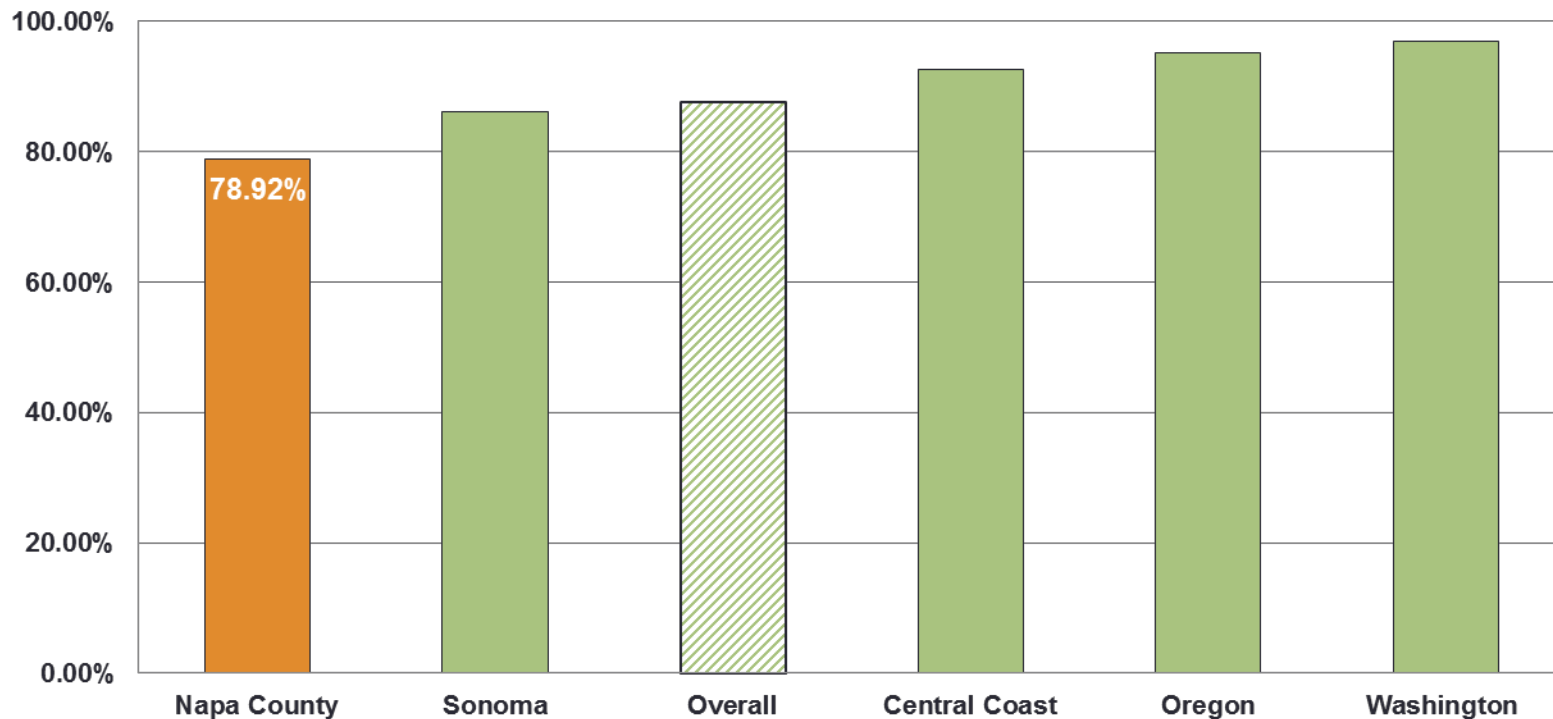
How Much Do Napa Wineries Make?

# Napa Profitability: It's Good But Margins Have Compressed

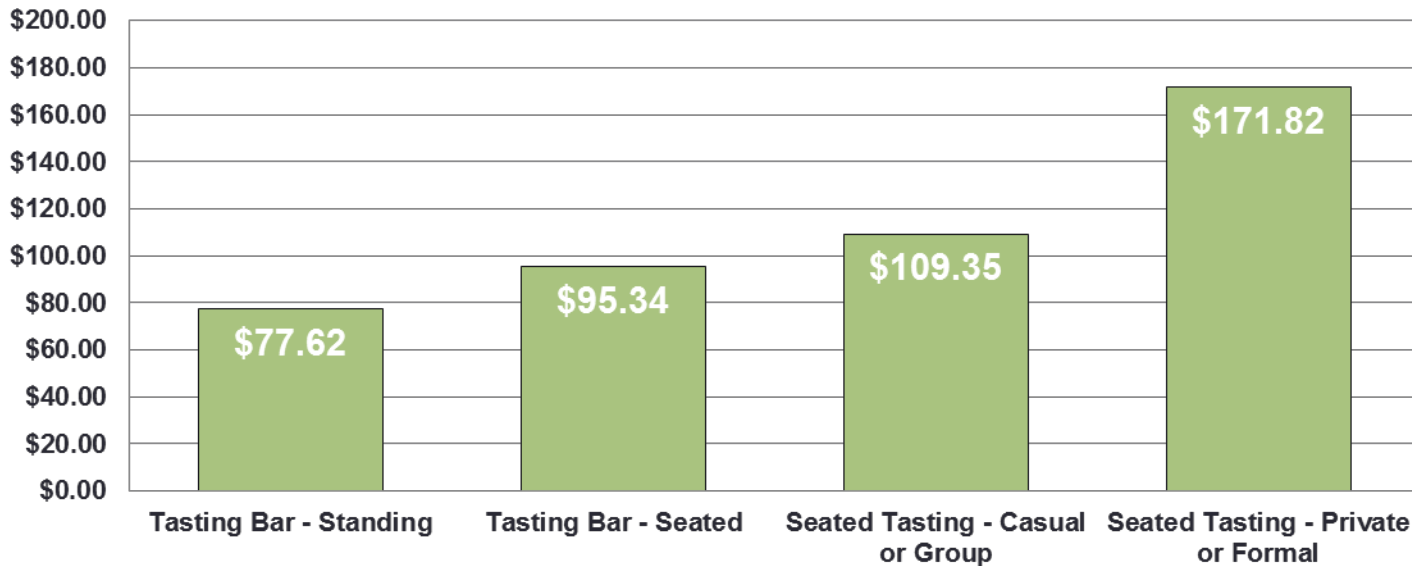


# Tasting Room Dynamics

## Napa Has a Slightly Lower Percentage of Tasting Rooms

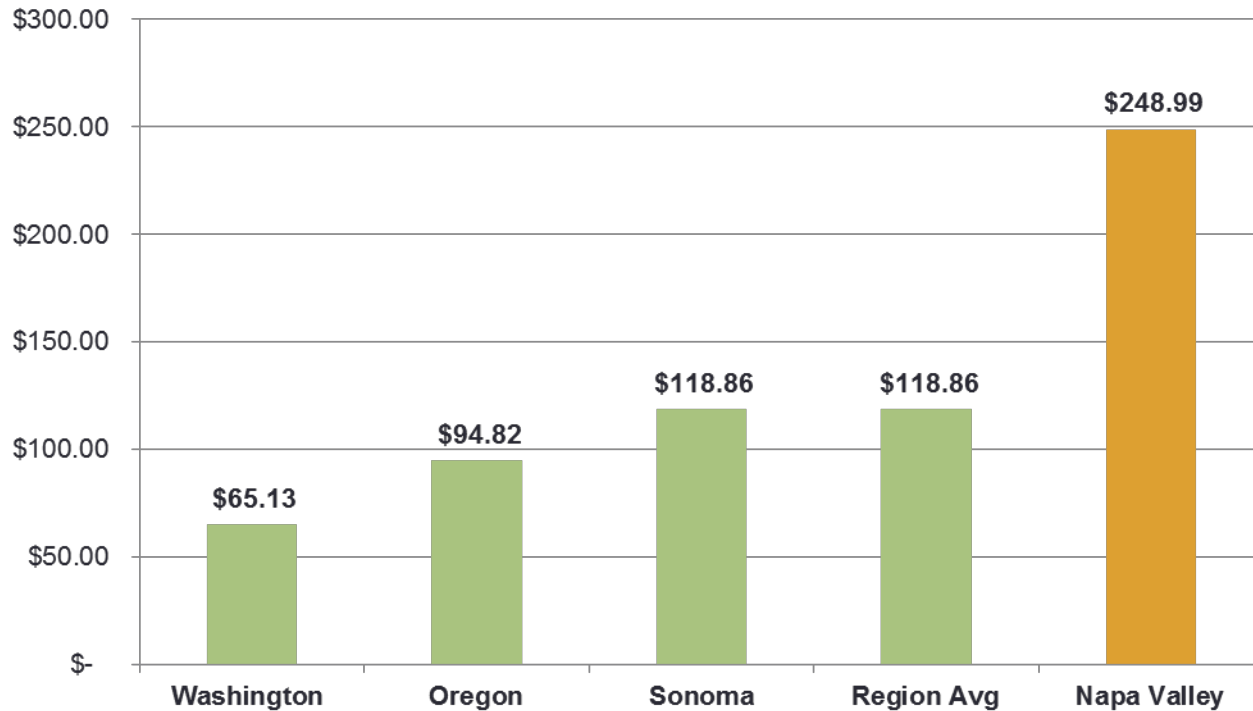


## On Average, Seated Tastings Result in Higher Purchases

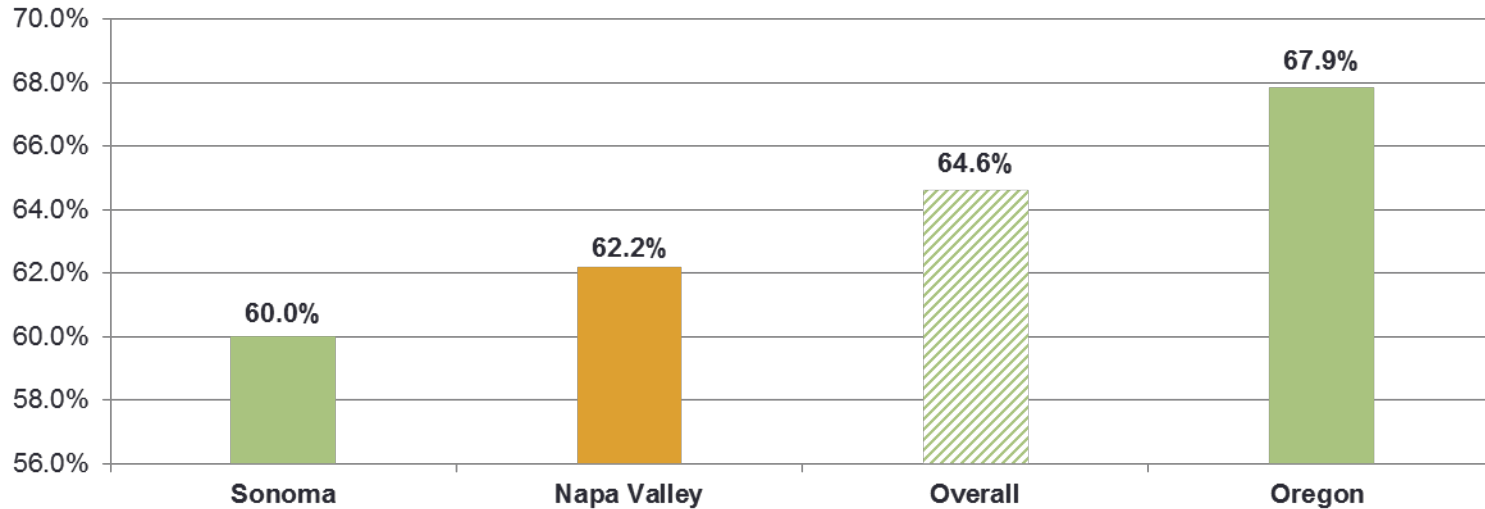




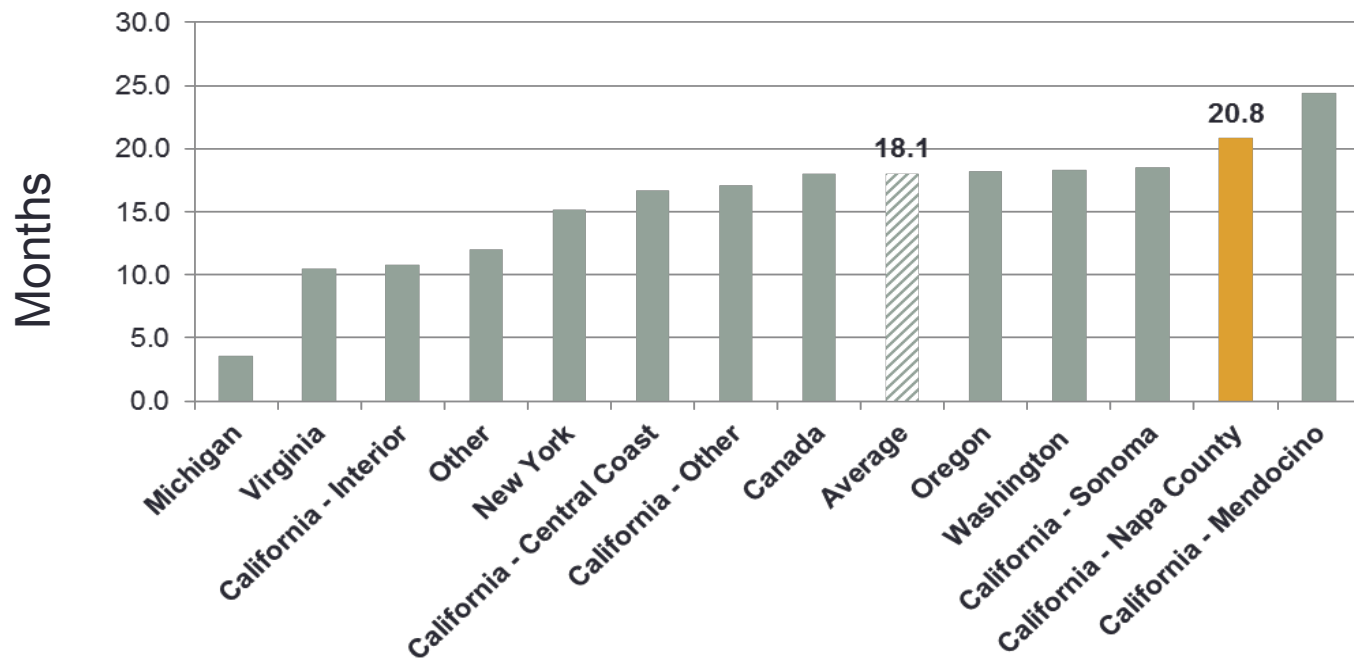
# Napa Valley Wines Have the Highest Average TR Purchase



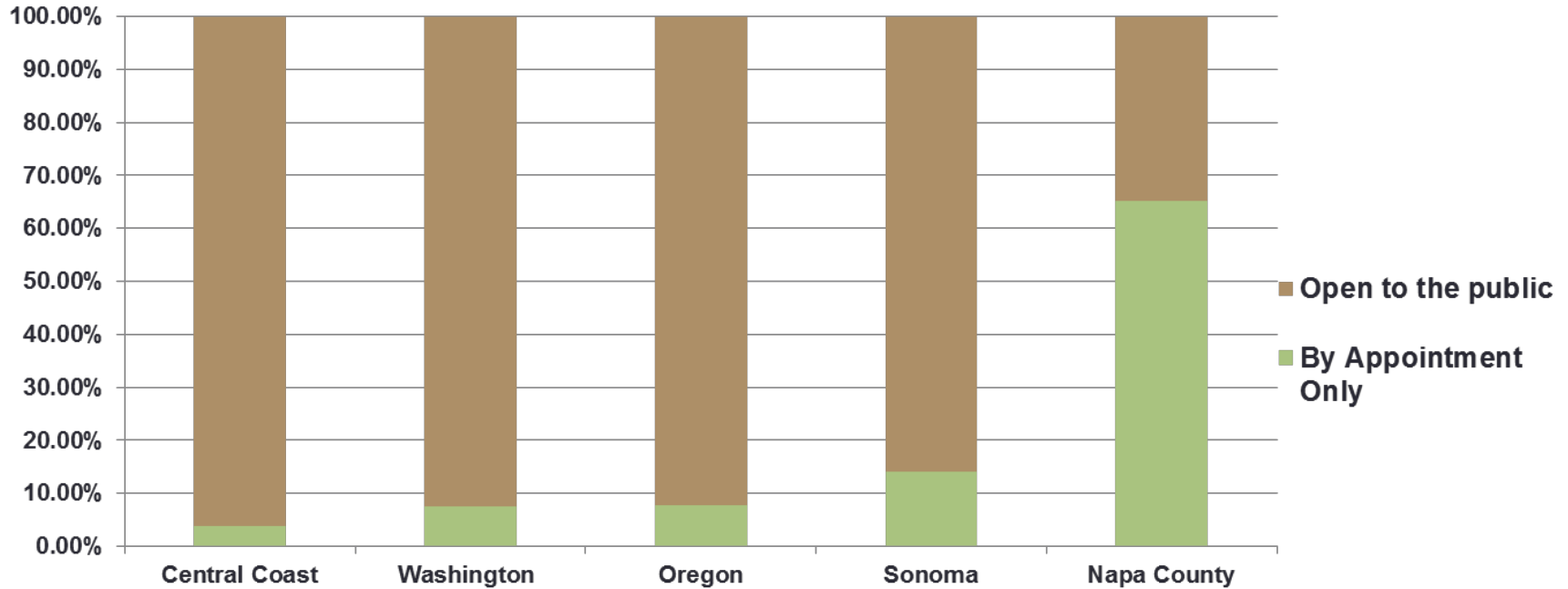
# Average Conversion of Tasting Room Visitors to Purchase



## Average Length of Wine Club Memberships



# Napa Has the Highest Percentage of By Appointment Tastings



## Summary

- DtC sales growth is an evolution, but not the first choice of wineries
- ROA's of wineries aren't great given the capital invested.
- Margins are compressing slightly despite higher DtC gross margin.
- Napa wines are hand-sold as Luxury Goods, which requires “experience” as part of the equation.
- 45% of an average Napa Winery's Sales come Direct
- Consumers stay in a wine club less than 2 years
- The best source of new club members is the tasting room
- Most small family wineries in Napa will not survive without an increasing emphasis on DtC sales

Questions

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