

DIRECT-TO-CONSUMER SHIPPING REPORT

2012

An annual report from
ShipCompliant and Wines & Vines

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Introduction

The direct-to-consumer channel has taken on immense importance for both wineries and consumers over the past two decades. Originally a sales and distribution channel for only a few cult wineries, the direct shipment of wine is now the foundation upon which numerous small wineries depend, an important vehicle for brand-building for medium and large wineries and the primary source of wine for thousands of consumers.

The growth in the direct shipping distribution channel is a result of numerous larger trends and events unfolding simultaneously:

- A significant increase of interest in wine by American consumers
- The arrival of the important Baby Boom generation into its peak earning years
- New fast and viral communication channels with the emergence of the Internet and social media
- The advancement of more efficient delivery options, such as FedEx and UPS
- A substantial increase in both the number of U.S. wineries and imported brands
- The consolidation of the wholesale distribution tier
- The development of sophisticated e-commerce and customer relationship management (CRM) technology
- A 2005 Supreme Court ruling that forced many states to revisit their direct shipping laws

Data & Perspective

This report is collaboration between ShipCompliant and Wines & Vines Magazine.

First, it is important to note what this report looks at and what it does not. This report is concerned entirely with wines that have been shipped directly to consumers from wineries. This is not a report examining the “direct sales” of wines, which might include wines purchased at the winery and carried home from the winery without any shipment involved (carry-out sales). Additionally, this report does not include data from retailers that shipped wine directly to consumers. These caveats are important since they indicate that the entirety of the “Winery Direct Sales” channel as well as the entirety of “direct-to-consumer shipping” channel are both larger than the “winery-to-consumer shipping” channel described in this report.

All these trends and events have resulted in a dynamic direct-to-consumer wine shipping marketplace that is now well established, though always evolving as new technologies and business models emerge.

To fully take advantage of direct-to-consumer shipping, wineries need solid information on the scope of this distribution channel and trends within this channel. This report is designed to provide that information.

What follows is an in-depth look at the winery-to-consumer shipping channel for the months August 2011 through July 2012. Factors considered in this report include the size of wineries, varietals shipped, price-point performance, destination of shipments and regional considerations, all looked at through the lens of volume and value. The report is the work of ShipCompliant and Wines & Vines Magazine.

This report was preceded by a preliminary presentation of data at the 2012 ShipCompliant DIRECT Conference on June 14th in Napa, California.

The report is based on millions of anonymized transactions that ultimately led to direct shipments from wineries to consumers between August 2011 and July 2012. Using the comprehensive Wines & Vines database of all 7,400+ wineries across the United States, the ShipCompliant transactions are the basis to project estimates across all wineries using multiple stratifications including but not limited to the location of winery, annual production of winery, bottle prices, specified varietals, and destination of shipment. The model, built to project the totality of winery direct-to-consumer shipments, provides a vivid picture of this important distribution channel.

In the course of retrieving and processing the data model, the wineries and purchasers of wines are kept entirely anonymous.

Broad strokes

The winery-to-consumer direct-shipping market has increased at a significantly greater rate than the overall American wine retail market in the months covered by this report. From August 2011 through July 2012, the volume of 9-liter cases shipped by wineries to consumers in the United States increased 7.2% to 2,983,656 cases over previous same 12-month period. The retail value of these shipments increased 10.3% over the previous 12-month period to \$1,355,191,485. The average price per bottle during this time frame increased 2.9% to \$37.85.

Volume and Value of Cases Shipped

	Aug10 - July11	Aug11 - July12	% Change
Volume (cases)	2,783,981	2,983,656	+7.2%
Value	\$1,228,704,222	\$1,355,191,458	+10.3%

By contrast, IRI Symphony Group estimates that during this same reporting period, overall retail sales of table wine in the United States increased 2.9% in volume and 5.7% in

dollar value, demonstrating the strength of winery-to-consumer shipping channel by comparison.

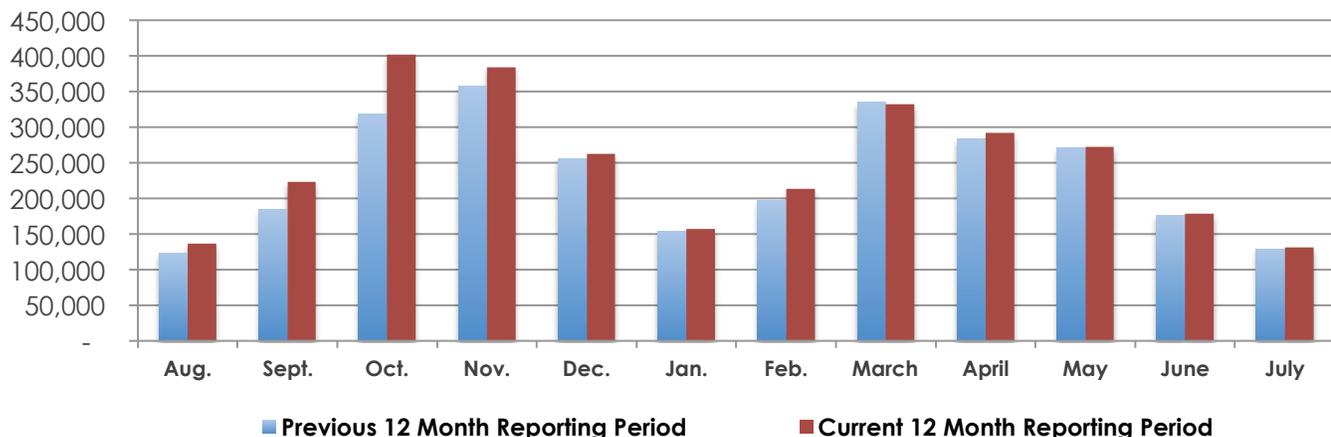
Remarkably, the \$1.35 billion value of winery shipments to consumers during this time frame amounts to 8.6% of the total wine retail market in the United States. According to the Beverage Information Group, the total U.S. wine market is valued at \$28 billion. Retail sales represent 56% of the marketplace or \$15.68 billion, while on-premise sales represent the rest.

An important aspect of this continued increase in wines shipped direct to consumers from wineries is the support it lends to other businesses that deal in e-commerce solutions, compliance technology, logistics management services, fulfillment houses, common carriers, and shipping materials, among others. Finally, a clear pattern of seasonality in shipments emerges when analyzing the data.

Monthly Sales

On a month-to-month basis, the shipment of wine occurs on fairly well-developed intervals that correlate to season and weather patterns.

Cases shipped by month



For the current reporting period, nearly 50% of all shipments occurred during the months of March, April, October and November. October and November shipments

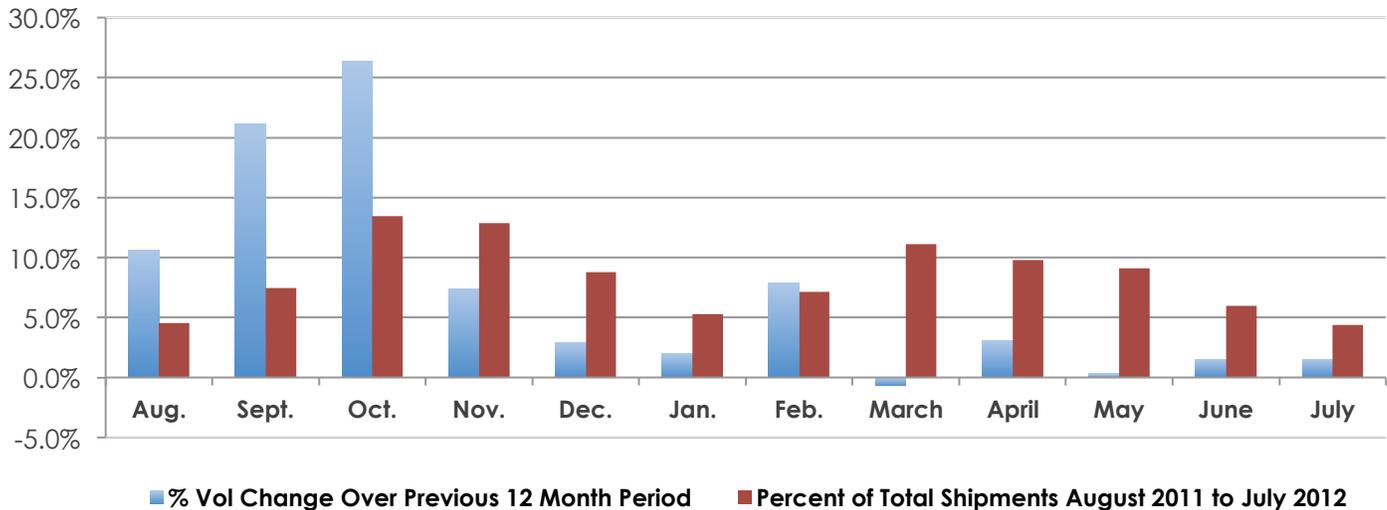
come just in advance of the important holiday season. However, these months, as well as March and April are the traditional wine club shipment months. They are

Monthly sales continued

the time of year where wineries can be most assured that extreme weather patterns will not impact the wines in shipment and hence dictate that wines be shipped during these periods. Additionally, many buyers will have the winery hold their purchases during hotter or colder times of the year until these more climatically moderate months, again to assure extreme weather does not affect their wines.

Of note is the increase in the percent of total wine being shipped during the months of September and October in the current reporting period over the previous 12-month period. Increases in shipments by month occurred across the board with the exception of a small decrease in March 2012.

Percent of Total Volume Shipped and Change in Volume



Wineries by size

The stereotypical profile of a winery that sells and ships direct to the consumer is that of a boutique enterprise. They are thought to be small production wineries making fewer than 5,000 cases annually and operated by a family or sole proprietor. While this may have been the case twenty years ago, it no longer is.

The typical “boutique” wineries producing less than 5,000 cases of wine annually today account for nearly 20% of all wines sent directly to consumers. Wineries producing less than 50,000 case account for 66% of all wine shipped. Wineries producing 50,000 cases or more of wine annually are responsible for one in three bottles of all wine shipped directly to consumers. Interestingly, large wineries produc-

ing 500,000 cases or more of wine annually saw a greater rate of increase in shipments over the previous reporting period than smaller wineries.

An overwhelming percentage of all 7,415 wineries in the United States (78%), produce less than 5,000 cases of wine as indicated in the chart below. However, these same wineries produce only 2.2% of all American wine. In fact, domestic production of wine is dominated by just 50 wineries that produce more than 83% of all American wine. It’s important to keep this distribution breakdown in mind as we profile the direct-to-consumer shipping marketplace by winery production size.

Wineries by size continued

Domestic wine production

Winery Category	Winery Production Size (in 9-liter cases)	Wineries in Category	Percent of Wineries in Category	Cases Produced in Category	Percent of Total Domestic Production
Large	500,000 plus	50	0.70%	273,752,100	83.40%
Medium	50,000 - 499,999	233	3.10%	29,942,800	9.10%
Small	5,000 - 49,999	1,372	18.50%	17,183,019	5.20%
Very Small	1,000 - 4,999	2,903	39.20%	5,990,350	1.80%
Limited Production	< 1,000	2,857	38.50%	1,234,277	0.40%
	Total	7,415	100.00%	328,102,546	100.00%

The breakdown of wine shipments by winery production size in the current reporting period tracked closely with the previous 2010-2011 period.

Direct sales by winery size

Within our stratification of wineries by production, small-sized wineries (5,000-49,000 case production) continued to pick off the lion's share of both volume and value of wines shipped, accounting for 47% and 51% respectively. While

profiles of each production category follow, certain changes during the current reporting period warrant special mention.

Volume and Value of Shipments By Winery Annual Production (9-liter Cases)

Annual Case Production	Percent of Volume	Volume Change	Percent of Value	Value Change
Under 1,000	4%	-1%	5%	-9%
1,000 - 4,999	15%	-2%	18%	12%
5,000 - 49,999	47%	4%	51%	6%
50,000 - 499,999	29%	18%	23%	27%
500,000+	5%	22%	3%	6%

Larger wineries saw the biggest increase in volumes shipped. In particular, the 50,000 to 499,000 case production wineries increased their total case shipments by 18% over the previous 12-month period. Combined with their 29% share of total volume shipped, this represents a significant increase over the previous reporting period. The 500,000+ case wineries saw an increase in volume of more than 22%—but off of a much smaller 4% share of total wines shipped—and an overall 13% decrease in average price per bottle of wine shipped.

Only limited production and very small-size wineries saw a decrease in volumes and values of cases shipped.

The 1,000 to 4,999 case volume winery category saw a 1.5% dip in the volume of wines it shipped, yet the value of those

shipments increased by 12% on 14% increase in average price per bottle. Meanwhile smallest under-1,000 case production wineries also saw a slight decrease in volumes of cases shipped along with decreases in overall value and average price per bottle shipped.

Limited production wineries far outpaced other winery size categories by price per bottle. Wineries producing less than 1,000 cases annually averaged \$51.00 per bottle for the wines they shipped direct to the consumer. This was far higher than the average \$37.00 per bottle for all wines shipped direct.

Following is an examination of wine shipments broken down by winery production size:

Direct sales by winery size continued

Limited production wineries: <1,000 cases produced annually



This smallest winery-size category under-performed considerably during the August 2011 to July 2012 period. The 0.6% decrease in volume from the previous 12-month period is a sharp contrast to the overall 7% increase in the winery-to-consumer shipping channel. This decrease in volume shipped seems even more significant given that it came while the average bottle price among these wineries slipped 8%. This indicates the possibility of price fatigue among consumers and the distinct possibility that in moving down the price ladder, consumers moved to larger wineries' offerings where the average price per bottle is considerably lower.

The average price per bottle within this limited production winery category still remains far above that for all wineries combined, coming in at \$51.15.

Despite the limited production wineries' small 3.8% total share of volume of the direct shipping marketplace, the shipping channel remains crucial to this category. The volume of wines shipped direct by limited production wineries represents fully 9% of the overall production by these tiniest of wineries. No category of winery-size ships a larger percentage of its production than the 1,000 and under production winery.

Very small wineries: 1,000 to 4,999 cases produced annually



A total of 2,903 wineries across the country fall into this category of winery-size, making it the largest category by production size at 39% of all producers in the U.S. During the reporting period these very small wineries experienced a negative growth rate in cases shipped, down 1.5% to 443,246 9-liter cases.

Most remarkable about these very small wineries is the 13.7% increase in price per bottle of wine shipped during the current reporting period. It is this significant price increase in this category of wineries that allowed it to experience the nearly 12% increase in the value of shipments this

period despite a decrease in the volume of wines shipped. This price increase far outpaces that of all other winery-size categories and is significantly higher than the overall 2.9% per bottle price increase for all wine shipped during the period.

Despite the fact that there are more very small wineries than wineries of any other size, their overall production accounts for merely 1.8% of all American wines. As a reminder of how important the direct-to-consumer shipping market is to these small producers, we note that they account for 14.9% of the total volume of wine shipped.

Direct sales by winery size continued

Small wineries: 5,000-49,000 cases produced annually



However one wants to describe the girth of the direct-to-consumer wine-shipping channel, the activity of small-sized wineries predominantly defines the channel. During the reporting period, these wineries accounted for nearly 50% of the volume of all wines shipped direct and 51% of the value of all shipments. While this category saw relatively small increases in volume and value during the reporting period relative to the overall increase, it remains the engine driving direct-to-consumer shipping.

These small-sized wineries' influence on the direct-shipping channel can also be seen in understanding they represent only 5.2% of the domestic wine production yet they repre-

sent 47% of the direct shipping channel. In shipping 8.19% of their production directly to the consumer, this category of winery only trails the limited production wineries in terms of percent of production shipped.

The domination of the small-sized winery in the direct shipping channel is certainly due to a number of factors. They are the size of winery to most likely have a tasting room—where many consumers join wine clubs. Their size also gives them larger exposure than smaller wineries. Finally, these wineries may be more likely to make use of alternative marketing channels, which would result in more wines being shipped.

Medium wineries: 50,000-499,000 cases produced annually



For the primary driver of the increased volume and value of wine shipped during the August 2011 to July 2012 period, look no further than these medium-sized wineries. Their significant increases in volume and value of direct shipments (17.8% and 26.5% respectively) is currently driving the impressive overall increases in consumer shipments of wine.

Like the small-sized wineries, these medium-sized wineries

have some advantages over smaller wineries in that they are far more exposed to the wine buying public and are far more likely to operate tasting rooms where they can promote their wine clubs to consumers. However, this category of medium-sized wineries—only 233 of which exist in the United States—ship a far smaller percent of their total production; only 2.9%. Still, representing 29.4% of all consumer shipments of wine, their contribution to the channel is second only to the small-sized wineries.

Direct sales by winery size continued

Large (giant) wineries: 500,000+ cases produced annually



Only 50 producers across the country fall into this category of large wineries, and they account for 83% of all wine produced in the United States. While they completely dominate the domestic wine marketplace, their contribution to the direct shipping channel is fairly small. Large wineries account for only 4.6% of the total volume of wines shipped direct to consumers and an even smaller 3.1% of the value of shipments. However, they are growing their volume of shipments at a greater pace than any other category of winery.

During the current reporting period, these 50 large wineries increased their volume of shipments 22.4% to a total of 138,692 nine-liter cases shipped. This increase in volume

shipped may be correlated with the 13.2% decrease in the average price-per-bottle shipped.

It should be no surprise that these large wineries ship a mere 0.05% of their total production; these are the American wineries that drive three-tier distribution. However, a growing diversification of these large wineries' product portfolios with wines more appropriate for the direct shipping channel, their continued growth in total cases shipped, along with the fact that their volume shipped exceeds the micro-winery category most reliant on the direct shipping channel, warrants a watchful eye on their future movement in the direct-to-consumer shipping channel.

Direct shipping by price category

Examining the winery-to-consumer shipping channel through the lens of price bands illuminates a variety of trends that are helpful in understanding consumer buying behavior. For example, wines priced at \$50 or more represented

21% of all case shipments to consumers, yet they accounted for nearly 50% of the dollar value. The direct to consumer wine shipping market channel is very much about high-end, luxury wines.

Direct Shipments By Price Category (August 2011 to July 2012)

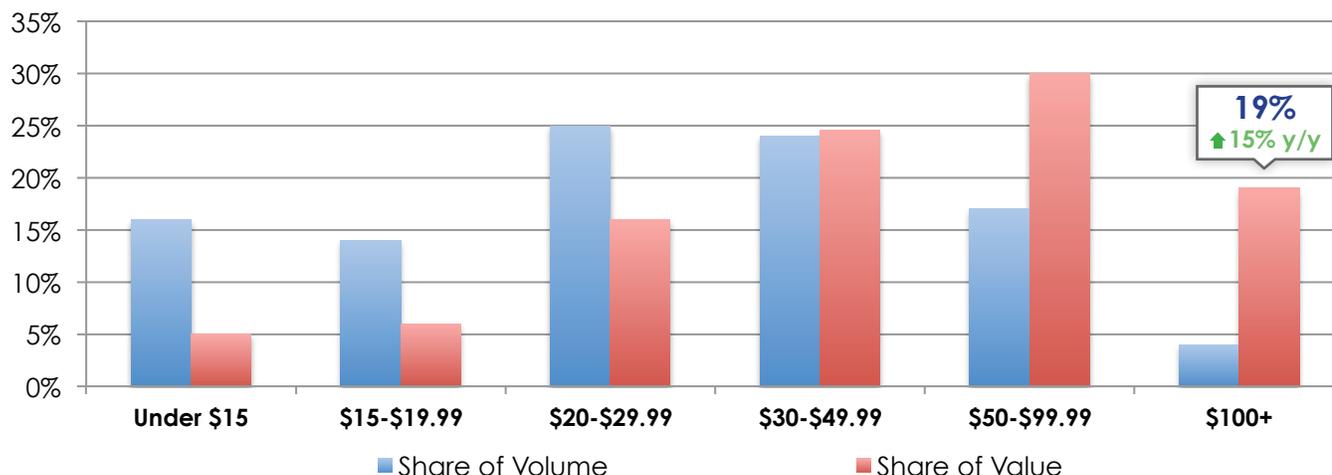
Price Category	Volume Shipped 9-liter Cases	Share of Volume	Change in Volume	Value of Wines Shipped	Share of Value	Change in Value
Under \$15	473,751	16%	10%	\$66,018,060	5%	10%
\$15 - \$19.99	416,614	14%	-6%	\$86,323,880	6%	-6%
\$20 - \$29.99	726,411	25%	5%	\$213,869,015	16%	5%
\$30 - \$49.99	716,975	24%	14%	\$330,595,553	24%	14%
\$50 - \$99.99	493,229	17%	11%	\$404,569,126	30%	11%
\$100 and over	128,238	4%	13%	\$253,815,213	19%	15%

Direct shipping by price continued

To underline the luxury nature of the direct shipping channel, we can look at the performance of wines priced at \$100 or more. Wines in this pricing tier account for only 4% of total volume of wines shipped from August 2011 through July 2011, and that 4% of volume represented 19% of the

total dollar value. Further, the total value of these super luxury-priced wines increased by 15% over the previous 12-month period, compared to the across-the-board increase of 10.3%.

Comparison of value and volume of price categories



The main volume drivers are wines priced \$20 to \$50 per bottle. These wines account for nearly half of the total volume of the direct to consumer shipping marketplace and 40% of total dollar value.

Notably, the \$15.99 to \$19.99 category of wines was the only price category that saw a decrease in both volume and value over the preceding reporting period. Volume and value of this category diminished by 6% and 5.6% respectively.

The overall average price of a bottle of wine shipped direct to consumers during the current period increased \$1.11 to \$37.69. It is notable that when looking at average price-per-bottle on a monthly basis, we see significant differences. The average price-per-bottle looked at on a monthly basis shows that it can be as low as \$29.91 per bottle in June and as high as \$45.72 in March.

Finally, despite the over-performance of the \$50+ wines relative to the overall average when considering the value of this distribution channel, it is clear that consumers are buying across price points. No single price point category dominates the direct to consumer shipping channel. Watching the volume distribution across price point categories over time can help us evaluate the trends, direction and health of the direct-to-consumer wine-shipping channel.

Direct shipping by varietal

Which varietals are most likely to be shipped directly to consumers? Three varietals—Cabernet Sauvignon, Pinot Noir and Chardonnay—together accounted for 59% of all wines shipped to consumers, and the total dollar value represented by these three varietals is a whopping 72%. The cause is Cabernet.

Cabernet Sauvignon alone represents 26% of all wines shipped to consumers, trailed by Pinot Noir at 19%. Cabernet Sauvignon continues to top all varietals in price per bottle, averaging \$62.34 this reporting period. The next best selling varietals, Pinot Noir and Chardonnay, have a considerably lower price per bottle at \$41.09 and \$30.51 respectively.

	Volume Shipped (cases)	Percent of Total Volume	Percent Volume Change	Value of Wine Shipped	Percent of Total Value	Percent Value Change	Price Per Bottle	Per Bottle % Change
Cabernet Sauvignon	552,812	25.6%	1.5%	\$413,528,028	40.8%	5.4%	62.34	3.8%
Pinot Noir	402,335	18.6%	9.7%	\$198,361,308	19.6%	17.6%	41.09	7.2%
Chardonnay	314,680	14.6%	10.9%	\$115,200,637	11.4%	6.2%	30.51	-4.3%
Zinfandel	206,919	9.6%	17.5%	\$65,149,637	6.4%	16.5%	26.24	-0.8%
Syrah	156,272	7.2%	12.4%	\$56,200,384	5.5%	12.8%	29.97	0.4%
Merlot	116,412	5.4%	-6.1%	\$44,568,990	4.4%	-6.9%	31.90	-0.8%
Sauvignon Blanc	106,982	5.0%	-2.0%	\$28,619,048	2.8%	-6.1%	22.29	-4.2%
Sparkling	73,380	3.4%	-1.8%	\$26,365,589	2.6%	-13.4%	29.94	-11.9%
Petite Sirah	44,623	2.1%	7.1%	\$14,230,293	1.4%	9.0%	26.58	1.7%
Cabernet Franc	43,042	2.0%	-11.1%	\$18,685,975	1.8%	-2.7%	36.18	9.4%
Rose	39,100	1.8%	36.1%	\$9,059,085	0.9%	31.2%	19.31	-3.6%
Sangiovese	36,283	1.7%	27.8%	\$10,698,206	1.1%	23.3%	24.57	-3.5%
Riesling	33,872	1.6%	-5.9%	\$6,197,609	0.6%	-6.5%	15.25	-0.7%
Pinot Gris	33,809	1.6%	-3.1%	\$6,592,298	0.7%	-5.1%	16.25	-2.1%

Cabernet Sauvignon totals are further skewed geographically by the Napa Valley region. While a 'varietal by region' analysis is covered later in this report, it is worth noting here that Napa Valley was the source of 43% of all Cabernet Sauvignon wines shipped to consumers in the August 2011 through July 2012 period. More importantly, the average price paid for a bottle of Napa Valley Cabernet Sauvignon shipped to a consumer during this period is an astounding \$76.58, double the overall average price per bottle during this same period of \$37.85. This extraordinary premium placed on Napa Valley Cabernet Sauvignon in terms of price and demand must be appreciated to understand the contours of the direct-to-consumer wine shipping market.

Outside of the big three varietals, only Zinfandel and Syrah are shipped in even slightly large amounts and both these

varietals grew in both the volume and value of shipments over the previous year. Zinfandel shipments, representing 9.6% of total shipments, increased 17.5% during the current reporting period with 16.5% increase in the value of those shipments. Meanwhile, Syrah, a varietal for which many have expressed concern in recent years, saw an increase of 12.4% in case-volume shipped, bringing its share of total shipments to 7.2%. At the same time, the value of Syrah shipments increased by 12.8%.

Finally, attention ought to be drawn to Rose. Though representing a very small percent of total shipments, those shipments did increase by a whopping 36% during the current reporting period with a 31% increase in the value of those shipments to \$9,059,085.

Direct shipping by region

In examining direct shipments by region of origin, we break the wine shipping universe into four regions: Napa Valley, Sonoma County, Rest of California and Non-California. While we are determined in the future to become more granular for regions, we believe this current breakdown of winery origins tells a story that strongly adheres to the current marketplace perception of the American winery universe. Napa and Sonoma are by far the best-known

winery regions, and California is appreciated as the source of most of America's wine. Many, on the other hand, view the winemaking universe as California and the rest of the Country.

When we examine wine shipments by origin, we find varied and interesting profiles of each region. In comparing the four regions to each other, a few interesting facts emerge.

Wine shipments by region

	Volume Shipped (cases)	Percent of Total Volume	Percent Volume Change	Value of Wine Shipped	Percent of Total Value	Percent Value Change	Price Per Bottle	Per Bottle % Change
Napa Valley	1,002,955	34%	5%	\$669,704,691	49%	10%	\$55.64	5%
Sonoma County	629,598	21%	10%	\$268,504,629	20%	9%	\$35.54	-4%
Rest of CA	852,473	29%	5%	\$269,502,966	20%	5%	\$26.35	-2%
Rest of U.S.	498,629	17%	13%	\$147,479,172	11%	24%	\$24.65	11%

Wines from Napa Valley alone account for nearly 50% of the value of all U.S. wine shipments. Though Napa Valley wines account for just over a third of all shipped wine, consumers show a willingness to pay a premium for Napa wines as seen by the much higher-than-average \$55.64 per bottle.

Non-California wines showed a healthy growth in the direct-to-consumer market with a 24% increase in the value of those shipments that results from from a combined 13% increase in the volume shipped and an 11% increase in average price per bottle.

Direct sales by region continued

Napa Valley: regional profile



Napa Valley easily out-performed all other regions considered. The \$670 million worth of wine shipped from Napa equals the value of all other wine shipments across California and the rest of the United States combined.

	Volume Shipped (cases)	% of regional Volume	Volume Change	Value of Shipments	% Regional Value	Value Change	Price Per Bottle	Per Bottle % Change
Cabernet Sauvignon	328,697	43%	-2%	\$302,048,047	61%	5%	\$76.58	7%
Chardonnay	105,115	14%	16%	\$45,730,498	9%	12%	\$36.25	-3%
Pinot Noir	71,499	9%	1%	\$37,655,487	8%	10%	\$43.89	9%
Merlot	55,481	7%	-9%	\$27,234,126	5%	-16%	\$40.91	-7%
Sauvignon Blanc	47,846	6%	-6%	\$15,465,800	3%	-3%	\$26.94	3%
Zinfandel	45,811	6%	7%	\$18,652,904	4%	15%	\$33.93	7%
Sparkling	37,930	5%	-17%	\$14,077,879	3%	-34%	\$30.93	-21%
Syrah	24,191	3%	3%	\$11,600,554	2%	2%	\$39.96	-1%
Cabernet Franc	19,189	2%	50%	\$10,704,764	2%	62%	\$46.49	8%
Petite Sirah	11,462	1%	-13%	\$4,833,458	1%	-7%	\$35.14	7%
Rose	10,331	1%	7%	\$3,105,486	1%	0%	\$25.05	-7%
Sangiovese	7,931	1%	93%	\$3,092,354	1%	61%	\$32.49	-17%
Pinot Gris	6,577	1%	-1%	\$1,440,343	0.3%	-6%	\$18.25	-5%
Riesling	4,863	1%	0%	\$1,256,168	0.3%	9%	\$21.53	9%

Within Napa Valley, a single varietal dominates the Napa Valley direct shipping landscape in a way unseen in any other region. Cabernet Sauvignon not only accounts for 43% of wine shipments, but the average price of a bottle of Napa Valley Cabernet shipped off to a consumer is a remarkable \$76.58.

Although paled in numbers compared to Cabernet Sauvignon, Chardonnay had a very strong 12-month period,

shipping 16% more than the previous year and also raising the average price per bottle 12%. Chardonnay now represents 14% of all wines shipped out of Napa Valley.

Despite their relatively small market share in Napa, both Sangiovese and Cabernet Franc saw a significant bump in total volume shipped, 93% and 50% respectively. Sparkling wine and Petite Sirah from Napa, on the other hand, both shipped less wine total year over year.

Direct sales by region continued

Sonoma County: regional profile

<p>VOLUME</p> <p>21% </p> <p>of all wine shipped direct is from a winery this size.</p> <p>↑ 10% y/y</p> <p>629,598 (9-liter)</p>	<p>VALUE</p> <p>20% </p> <p>of value of all wine shipped direct is from this winery size.</p> <p>↑ 9% y/y</p> <p>\$268,504,629</p>	<p>PRICE</p> <p>\$35.54</p> <p>average bottle price</p> <p>↓ 4% y/y</p>
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With nary a change in the average price per bottle of wine shipped out of Sonoma County, both volume and value of wines showed steady growth.

and Non-California wines as you will see, is the far more equitable distribution of varietals shipped out of the region compared with the overly-weighted Cabernets that ship from Napa Valley.

What is notable about Sonoma County, Rest of California

	Volume Shipped (cases)	% of regional Volume	Volume Change	Value of Shipments	% Regional Value	Value Change	Price Per Bottle	Per Bottle % Change
Pinot Noir	139,223	27%	22%	\$78,078,610	33.8%	25%	\$46.73	2.6%
Chardonnay	94,017	18%	2%	\$40,067,554	17.4%	-8%	\$35.51	-8.9%
Cabernet Sauvignon	74,646	14%	7%	\$43,244,777	18.7%	-1%	\$48.28	-7.8%
Zinfandel	72,490	14%	11%	\$24,165,995	10.5%	12%	\$27.78	1.4%
Sauvignon Blanc	31,186	6%	5%	\$7,580,539	3.3%	2%	\$20.26	-2.8%
Syrah	25,457	5%	-3%	\$9,118,275	3.9%	11%	\$29.85	14.5%
Merlot	22,931	4%	39%	\$7,795,427	3.4%	50%	\$28.33	7.6%
Sparkling	17,514	3%	39%	\$7,559,500	3.3%	55%	\$35.97	11.0%
Sangiovese	12,288	2%	61%	\$3,837,242	1.7%	61%	\$26.02	0.4%
Petite Sirah	10,373	2%	16%	\$3,331,394	1.4%	18%	\$26.76	2.5%
Rose	10,025	2%	46%	\$2,242,960	1.0%	63%	\$18.64	12.0%
Pinot Gris	6,454	1%	-3%	\$1,294,175	0.6%	-6%	\$16.71	-3.3%
Cabernet Franc	5,450	1%	-37%	\$2,341,114	1.0%	-36%	\$35.79	2.0%
Riesling	1,025	0.2%	163%	\$240,662	0.1%	138%	\$19.56	-9.6%

Four varietals account for 73% of the wine shipped out of Sonoma County: Pinot Noir, Chardonnay, Zinfandel and Cabernet Sauvignon. Pinot Noir leads with 26% of total volume of specified varietals shipped, as well as in value given the premium wine lovers paid for the County’s Pinot Noir. With an average bottle price of \$46.92, Sonoma County Pinot Noir possess the highest average price for this varietal across all four regions. Sonoma County Pinot Noir shipments increased in volume by a significant 22% even with an average price-per-bottle increase.

Sonoma County Merlot also performed well during the

period with a 39% increase in shipment volume, adding to the speculation that “merlot is back”.

At 18% of the total of all specified varietals shipped out of the Sonoma County, Chardonnay is an important product for the region. The notable decline in the value of its shipments during this reporting period appears due to pressure on the varietal’s price.

Finally, note the increase in cases of Riesling being shipped out of Sonoma County.

Direct sales by region continued

Rest of California: regional profile

<p>VOLUME</p> <p>29% </p> <p>of all wine shipped direct is from a winery this size.</p> <p>↑ 5% y/y</p> <p>852,473 (9-liter)</p>	<p>VALUE</p> <p>20% </p> <p>of value of all wine shipped direct is from this winery size.</p> <p>↑ 5% y/y</p> <p>\$269,502,966</p>	<p>PRICE</p> <p>\$26.35</p> <p>average bottle price</p> <p>↓ 2% y/y</p>
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Wineries outside Napa Valley and Sonoma County remain a very important and growing sector of the direct shipping marketplace, representing nearly a third of all wine cases shipped in the U.S. Among others, the key regions in this category include Mendocino County, Santa Barbara County,

Monterey County and the Sierra Foothills.

The Rest of California category underperformed the overall winery-to-consumer shipping channel, coming in with only 5% jumps in both volume of wines shipped and value.

	Volume Shipped (cases)	% of regional Volume	Volume Change	Value of Shipments	% Regional Value	Value Change	Price Per Bottle	Per Bottle % Change
Pinot Noir	130,745	21%	9%	\$50,732,870	26%	21%	\$32.34	10%
Cabernet Sauvignon	109,697	18%	3%	\$49,469,211	25%	0%	\$37.58	-3%
Chardonnay	92,234	15%	23%	\$22,168,275	11%	22%	\$20.03	-1%
Zinfandel	86,814	14%	31%	\$21,896,383	11%	23%	\$21.02	-6%
Syrah	75,659	12%	9%	\$24,932,730	13%	5%	\$27.46	-4%
Sauvignon Blanc	22,409	4%	-10%	\$4,670,220	2%	-27%	\$17.37	-19%
Petite Sirah	21,321	3%	17%	\$5,485,372	3%	18%	\$21.44	1%
Merlot	18,046	3%	-36%	\$4,619,148	2%	-20%	\$21.33	25%
Sangiovese	13,585	2%	-4%	\$3,104,166	2%	-17%	\$19.04	-13%
Sparkling	11,648	2%	1%	\$2,567,963	1%	-5%	\$18.37	-7%
Cabernet Franc	9,844	2%	-37%	\$3,479,196	2%	-44%	\$29.45	-11%
Pinot Gris	8,461	1%	-18%	\$1,522,359	1%	-22%	\$14.99	-5%
Rose	6,446	1%	12%	\$1,433,474	1%	10%	\$18.53	-2%
Riesling	3,585	1%	45%	\$513,258	0.3%	48%	\$11.93	2%

Even more so than Sonoma, the Rest of California wine shipments are diversified across a number of varietals. Given the diversity of regions outside of Napa Valley and Sonoma County, this should not be a surprise.

Five varietals account for 80% of the volume shipped out of this large area with a similar dollar-value share: Pinot Noir, Cabernet Sauvignon, Chardonnay, Zinfandel and Syrah.

At 21% of total volume shipped, Pinot Noir represented the single largest varietal shipped from the 'Rest of California' category. More importantly, the average price per bottle of

Pinot Noir rose 10% on a 9% increase for a total value to \$50.7 million shipped this period.

Chardonnay and Zinfandel shipped significantly more cases over the previous year, which may, in part, be due to the drop in the average price-per-bottle for these varietals.

With \$25.4 million worth of direct shipments, this region is the top performer among all four for the Syrah varietal.

And once again, Riesling, though a tiny percentage of overall volume, shipped significantly more than the prior year.

Direct sales by region continued

Non-California: regional profile

<p>VOLUME</p> <p>17% </p> <p>of all wine shipped direct is from a winery this size.</p> <p>↑ 13% y/y</p> <p>498,629 (9-liter)</p>	<p>VALUE</p> <p>11% </p> <p>of value of all wine shipped direct is from this winery size.</p> <p>↑ 24% y/y</p> <p>\$147,479,172</p>	<p>PRICE</p> <p>\$24.65</p> <p>average bottle price</p> <p>↑ 11% y/y</p>
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The “Non-California” category encompasses a hugely diverse set of regions and wineries. Among the wine producing regions in this broad category, Oregon, Washington, New York and Texas each have substantial wine industries. As noted in the beginning of this section, a more granular approach to understanding the direct shipping trends outside of California is preferred. However, it remains a fact that the value of direct shipment from these other 49 states still accounts for just over half of that for Sonoma County alone.

And yet, this regional category out performed all other regional categories during the reporting period in terms of percentage increase in volume, value and average price of wines shipped from winery to the consumer.

Perhaps the most important dynamic to understand about this regional category is the influence of Oregon and Washington State. Though in this report we do not break out figures on these two states, together they exert a great deal of influence over the numbers due to the sheer volume they represent.

	Volume Shipped (cases)	% of regional Volume	Volume Change	Value of Shipments	% Regional Value	Value Change	Price Per Bottle	Per Bottle % Change
Pinot Noir	60,868	24%	-2%	31,894,341	36%	6%	43.67	8%
Cabernet Sauvignon	39,772	16%	18%	18,765,993	21%	69%	39.32	43%
Syrah	30,965	12%	56%	10,548,825	12%	65%	28.39	6%
Riesling	24,398	10%	-14%	4,187,520	5%	-17%	14.30	-3%
Chardonnay	23,313	9%	-8%	7,234,310	8%	14%	25.86	25%
Merlot	19,955	8%	10%	4,920,289	6%	7%	20.55	-2%
Pinot Gris	12,317	5%	10%	2,335,421	3%	12%	15.80	2%
Rose	12,298	5%	92%	2,277,166	3%	105%	15.43	7%
Cabernet Franc	8,559	3%	-25%	2,160,901	2%	-22%	21.04	4%
Sparkling	6,288	3%	26%	2,160,246	2%	53%	28.63	21%
Sauvignon Blanc	5,541	2%	51%	902,489	1%	42%	13.57	-6%
Sangiovese	2,479	1%	0%	664,444	1%	3%	22.33	3%
Zinfandel	1,804	1%	20%	434,356	0%	12%	20.06	-6%
Petite Sirah	1,467	1%	21%	580,069	1%	39%	32.94	15%

Pinot Noir is the highest revenue-generating varietal shipped from this Non-California wineries with more than a third of the total value of wine shipped. Unquestionably, this is due to the inclusion in this regional category of

Oregon, where Pinot Noir overwhelmingly dominates the wine-producing landscape.

But even more notable is the 24,000+ cases of Riesling

Direct sales by region continued

shipped from Non-CA wineries, which is three times more than all other regions' Riesling shipments combined. Riesling is a popular varietal in New York, among the North Eastern wineries, in Michigan as well as in the Pacific Northwest. Given the relative importance of Riesling in this category, the decline in Riesling volume, value and average per-bottle price shipments originating outside of California far outweighs any gain the varietal experienced in from

California wineries outside of Napa and Sonoma.

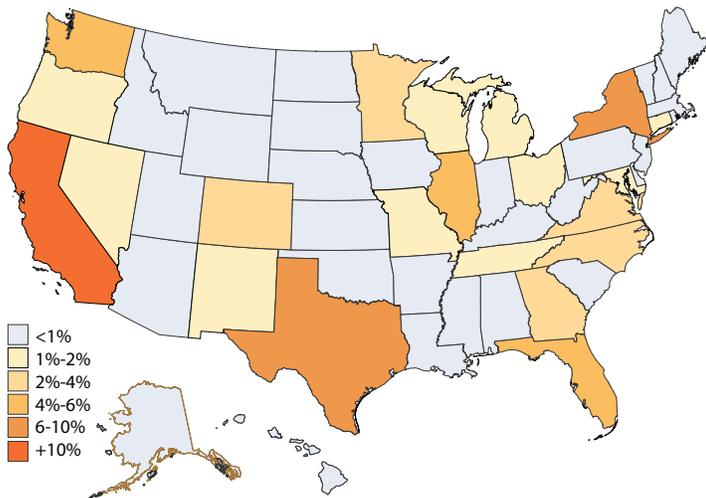
Syrah also has a story here. Shipments of this varietal originating outside California grew 56% by volume and 65% in value, an impressive increase given that it already had a healthy share of this market. With Chardonnay and Riesling cases shipping less than the prior year, Syrah jumped past both varietals in overall volume from 5th place to 3rd place.

Destinations of shipments

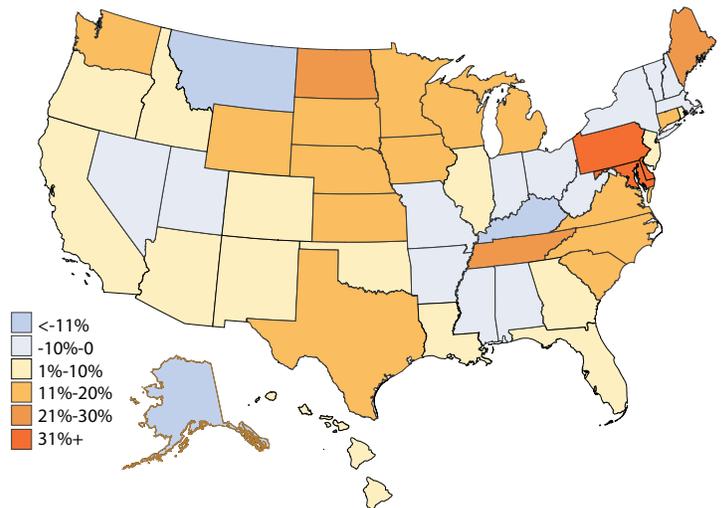
A great deal has been observed here about who is shipping wine, which varietals are being shipped and the geographic origin of the wine shipments. Equally important is the final destination where the wine is going. In fact, the majority of the myriad legal and political issues that have defined wine shipping politics over the past 20 years stem from where the wine is being shipped, not who is shipping it nor what is being shipped.

Remarkably, only four states—California, Texas, New York and Florida—account for 54% of all wine shipped direct to the consumer. Yet on sheer volume, California consumers stand above them all. One out of every three bottles shipped heads to a California address. No doubt this is due to Californians being in such close proximity to an intense concentration of wine producers. Interestingly enough, California residents are beat out only by District of Columbia on wine shipped per-capita basis, as we will show below.

Total sales



Growth of direct-to-consumer sales



Destinations of shipments continued

Top Ten States For Winery-To-Consumer Shipments

	Cases Shipped	Share of Total Volume	Percent Volume Change	Value	Dollar Share	Ave Price Per Bottle
California	958,501	32.1%	5.2%	\$434,492,675	32.1%	\$37.78
Texas	278,446	9.3%	12.6%	\$136,250,850	10.1%	\$40.78
New York	204,544	6.9%	-1.3%	\$101,214,266	7.5%	\$41.24
Florida	170,486	5.7%	6.1%	\$81,164,126	6.0%	\$39.67
Illinois	146,323	4.9%	2.1%	\$69,229,110	5.1%	\$39.43
Washington	124,631	4.2%	18.3%	\$56,011,542	4.1%	\$37.45
Virginia	108,346	3.6%	12.3%	\$42,064,048	3.1%	\$32.35
Colorado	96,162	3.2%	1.2%	\$40,830,796	3.0%	\$35.38
North Carolina	64,630	2.2%	12.6%	\$26,534,431	2.0%	\$34.21
Georgia	63,740	2.1%	9.9%	\$30,583,839	2.3%	\$39.99

The top 10 states for shipments of wine represent 74% of the total shipments for the August 2011 through July 2012 reporting period. Notably, Texas, Washington State, Virginia and North Carolina outpaced the national 7% average increase in volume of wines shipped.

Over the course of the current reporting period some recent and important legal changes occurred in the direct shipping landscape. Most important was the legalization of direct shipments by wineries to residents of Maryland that went into effect on July 1, 2011. As you can see from the chart

below, 28,380 more cases of wine—amounting to \$11.5 million in dollar value— flowed into the state from wineries over the previous 12 months. Increases in shipments to Maine and Tennessee are likely in part due to the impact of recent liberalization of wine shipment laws in those states.

New Jersey is the most recent state to open its borders to direct wine shipping effective May 1, 2012. When this report is issued next year, we expect to see a significant jump in shipments to the state.

Top ten states by increase in volume shipped

	Percent Volume Change	Share of Total Volume	Cases Shipped
Maryland	1444%	1.0%	30,346
Pennsylvania	41%	0.2%	4,612
North Dakota	36%	0.1%	4,130
Delaware	31%	0.0%	1,295
Maine	23%	0.1%	4,316
Tennessee	22%	1.0%	29,246
Washington	18%	4.2%	124,631
Wyoming	17%	0.3%	7,521
Kansas	17%	0.5%	16,088
Nebraska	16%	0.4%	11,037
Michigan	14%	1.8%	46,799

Destinations of shipments continued

Per capita sales by region

Finally, there is the question of which states’ consumers are more likely to order wine to be shipped to them, which we can determine by calculating bottles shipped on a per-capita basis.

Our nation’s capital has long been known as a hot spot for wine drinking. Without speculating why, it is enough to note that far more bottles of wine flow into Washington, DC on a per capita basis than any other state. California, as noted early, is also impressive in this regard, particularly given the size of the population. On the other hand, looking at those states that experience the smallest amount of bottles shipped per capita tells a fairly straightforward story

Top ten states by bottles shipped per capita

	Bottles Shipped Per Capita	Total Cases Shipped
District of Columbia	0.4926	24,703
California	0.3087	958,501
Colorado	0.2294	96,162
Washington	0.2224	124,631
New Hampshire	0.1647	18,068
Oregon	0.1635	52,203
Virginia	0.1625	108,346
Wyoming	0.1601	7,521
Nevada	0.1496	33,674
Minnesota	0.1372	60,650

Conclusions

For the vast majority of wineries in the United States, the direct-to-consumer shipping channel is growing in significance as a distribution channel. For some wineries, particularly the smaller production wineries, it is already a critical distribution channel. Now representing 8.6% of the total value of the American domestic retail wine market, the winery-to-consumer shipping channel is poised to continue to grow not only in size and value, but at a faster rate than the overall wine retail marketplace.

Finally, we should mention that throughout this report we have taken scant note of the current challenging economic

conditions in the United States during the period this report covers. While it is generally understood that the alcoholic beverage sector performs better than average in difficult economic times, it is still negatively impacted. This reality underlines the current success of the winery-to-consumer shipping channel. Even while the economy traverses difficult economic waters, this growing channel far outpaces the general wine retail sales marketplace. This fact provides us with optimism for the channel going forward as the economy improves.



Founded in 2002 and located in Boulder, Colorado and is the leader in automated alcohol beverage compliance services. ShipCompliant provides wine and spirits suppliers and importers with a full suite of web-based software tools to ensure compliance with federal and state regulations for direct and wholesale distribution. ShipCompliant works with the industry's leading software providers and fulfillment companies to provide fully integrated solutions for direct and three-tier distribution.

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