

Agribusiness Marketing Report

**Colorado
State**
University
Cooperative
Extension

Department of Agricultural and Resource Economics, Fort Collins, CO 80523-1172

April 2006-ABMR 06-02

Colorado Wine Consumers: Tapping Interest in Local Wines

By

Joshua Wilson and Dawn Thilmany²

- *US wine sales are growing 12% per year: double the overall economic growth. For 2005, retail sales were \$16.5 billion or \$56 per capita.*
- *Colorado wine production has increased from 113,600 liters in 1994/95 to 689,000 liters in 2004/05: five-fold increase which represents 3% of all wine purchases by Coloradans.*
- *Core Colorado buyers are only 4.2% of all consumers, but represent 27% of Colorado wine sales. These loyal consumers are essential to the industry's growth and serve as ambassadors who introduce Colorado wines to other potential consumers.*
- *Perhaps the greatest potential for growing Colorado wine sales lies in the Colorado Savvy segment that represent 21.3% of the sample and 7.7% of all wine sales, and as much as 13% of Colorado wines.*

The potential for wine production as an economic development driver is of interest to a growing number of states throughout the country. Following this trend, Colorado is a growing presence in the Intermountain West's wine industry, with over \$11 billion in sales in 2005, leading to over \$21 in induced economic activity, or over \$41 million when affiliated tourism and event activities are taken into consideration (see the CSU Economic Contribution study at: <http://dare.agsci.colostate.edu/csuaecon/extension/docs/impactanalysis/edr06-08.pdf>).

These statistics are even more encouraging when one considers the rapid growth of the industry over the past 10 years, as production has increased from 113,600 liters of wine in 1994/95 to 689,000 liters ten years later and the value of wine has increased even faster because of the premium price Colorado wines can secure. But, the Colorado Wine Industry is interested in growing smartly as they enter mainstream wine markets, by both strengthening the current consumer base and attracting new wine drinkers that may be interested in Colorado wines for various reasons.

Analysis of Colorado Wine Consumer Segments

Using a commonly used market segmentation process, smaller subgroups of consumers (called segments) can be used to develop a buyer profile. These profiles are effective tools in developing smart marketing plans and programs for consumer products. Results from the cluster analysis suggest six consumer segments or clusters exist for the Colorado wine market differentiated by a wide set of categorical variables and responses. The first consumer segment, "Core Colorado Buyers" makes up only 26 of the 616 wine consumers surveyed (4%) and shows the most potential given their familiarity, interest and expenditures on Colorado wine, with a relatively high share of purchases in the \$10-15 per bottle range. The other appropriate target segment to fuel growth is cluster 4, named "Colorado Savvy" due to their awareness, interest in and share of Colorado wine purchases (albeit not as strong of loyalty as the core buyers), and account for 131 wine consumers in the sample (21%).

¹ <http://www.wineinstitute.org/communications/statistics/sales2005.htm>.

² Graduate Research Assistant and Associate Professor, Department of Agricultural & Resource Economics, Colorado State University, Fort Collins, CO 80523-1172.

Cluster 2 was also quite small (9 or 1.5%) and characterized by high income, frequent consumers of dry, red wines chosen most likely through recommendations of experts, and are considered the “Wine Spectator” segment. Cluster 3 is quite similar, with 69 respondents or 11% of our sample, but more upper middle income consumers with interest in specific varietals and international wines that represent good values and are easily available for purchase. Cluster 3 is subsequently titled the Quality and Convenience segment. Cluster 5, 225 respondents or 37%, are labeled Casual Wine Consumers, because of their less frequent consumption of red or white sweet wines and low overall wine expenditures. They are more likely female households with dependents at home and lower middle incomes. They may be a good target segment to grow interest among since they are interested in Colorado wines, even if not currently purchasing many of them. Cluster 6, 156 respondents or 25% of the sample, is considered the Active Affluent Wine Drinkers. With their moderate but consistent wine consumption, upper middle to higher incomes, active travel and activity based lifestyles and pursuit of exploring new places and foods; they may offer some potential to wineries, especially if products are targeted at their explorative nature.

Targeting Colorado Wine Consumers

The first step in developing a marketing strategy involves analyzing the demographic and purchase behavior variability across clusters more closely. All six clusters are skewed toward being female (65% of total respondents) but the Active and Affluent segment is more male (43 vs. 35% of sample) and the Colorado Savvy and Casual Wine segments are even more female than average. In terms of employment status, more than 60% of all clusters are employed fulltime with the Wine Spectator segment significantly higher than most segments at nearly 78% (Figure 1).

The Core Colorado Buyers have the highest percentage of individuals self-employed at just over 15%, and the Quality and Convenience and Colorado Savvy segments have the highest portion of retirees with both clusters at just over 17%. A greater sense of variability exists among the clusters when assessing type of household (Figure 2). Nearly 67% of the Wine Spectators reside in a joint head of household with dependents, which is in contrast to the Colorado Savvy segment who have under 37% of individuals married with children. Colorado Savvy maintains the largest share of married couples without dependents as well as those single without dependents (35% and 22%, respectively).

Among income categories, we found vast differences among the wine segments. The richest segment was the Wine Spectator with 33% in the over \$150,000 household income category compared to 7% on average; while the Quality and Convenience segment was more upper middle class given the high share of respondents in the over \$100,000 annual income categories. The Active, Affluent segment was also more closely related to upper middle and higher income brackets. The two targeted segments, Core Colorado and Colorado Savvy consumers, were more likely to be in the \$50,000-100,000 income range, showing significant buying power, perhaps without the strong ties to luxury and prestige purchases. Finally, the Casual Wine consumers were more likely to be in the lower middle income categories, which may also explain some of their wine expenditure and consumption patterns.

Consumption of wine varies greatly across consumers, from those who drink a glass of wine each day for dinner to those who never drink. The Core wine drinkers may be an attractive segment to target for the Colorado wine industry since one loyal Core customer will lead to a disproportionate increase in sales, although Core drinkers may also be the most difficult to impress and gain as customers. Because respondents were intercepted at a wine event or tasting room, there are relatively few non-drinkers in this sample, but 8% did drink less than monthly.

Figure 1-Employment Status by Cluster

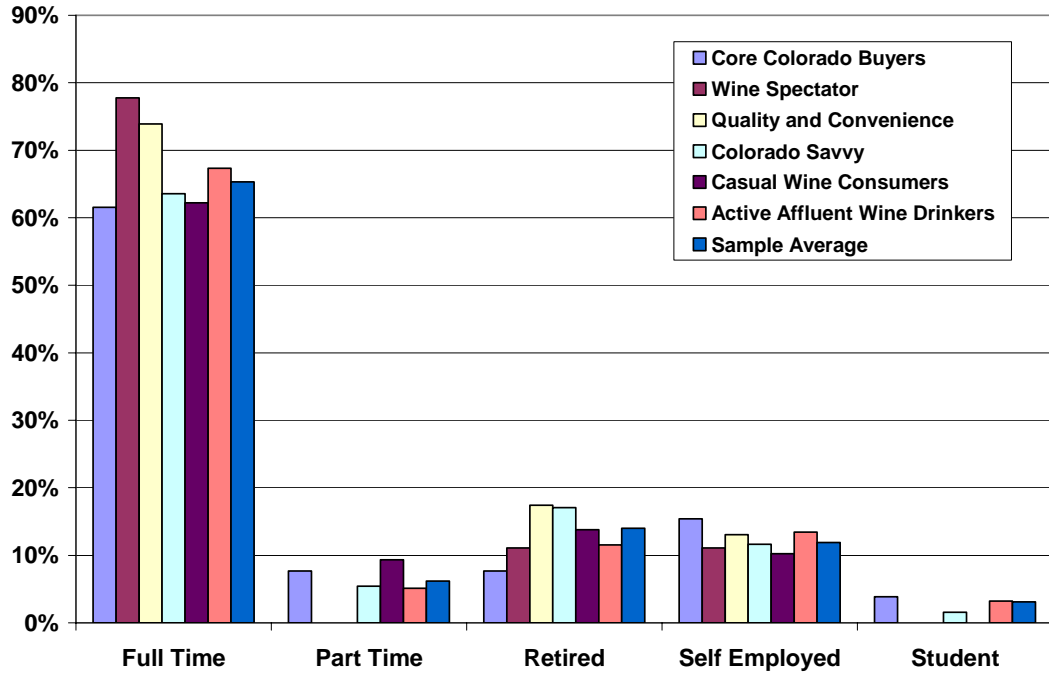
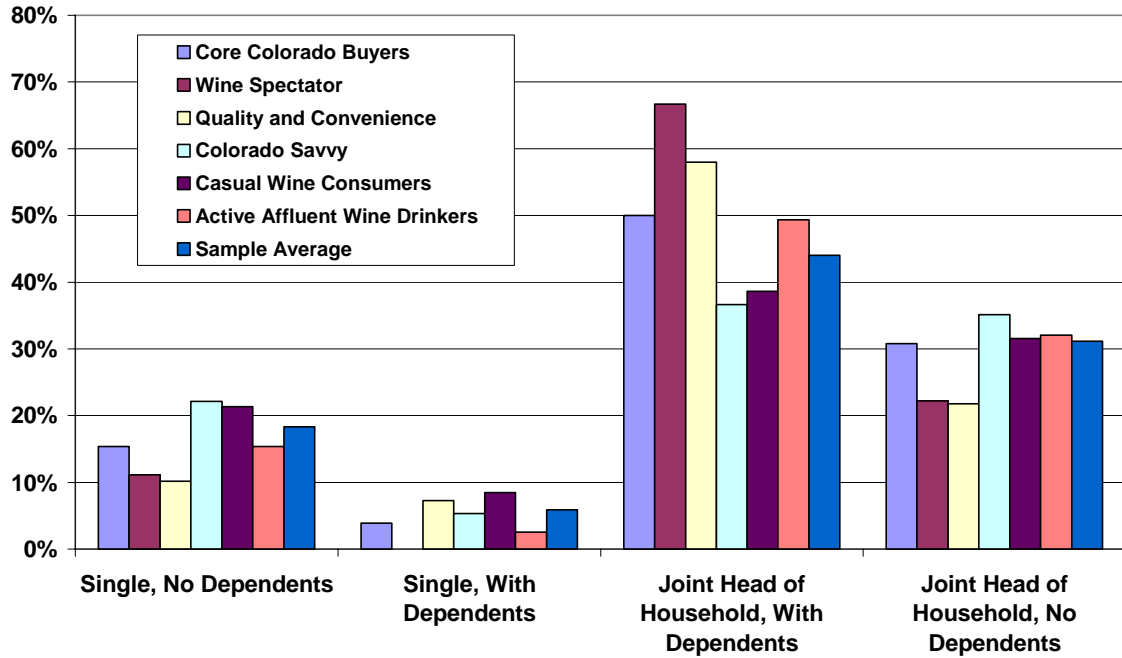


Figure 2-Type of Household by Cluster



In this sample, the Wine Spectator segment was the most likely to drink wine daily, but Core Colorado and Quality & Convenience consumers were only slightly (and insignificantly) lower. These 3 segments represent 16.5% of the total sample, which is quite similar to the 14% Core wine drinkers referenced in the national study (Table 1). The Active and Affluent consumers were most likely to drink 2-3 times a week, while Casual Wine drinkers and Colorado Savvy were most likely to consume wine monthly or less often, but as the national study suggests, these segments represent over 80% of consumers but less than 15% of total wine consumed, so the impact of gaining their business may result in less of an impact.

Table 1
Alcohol Consumption Patterns of U.S. Adults
Source: 2005 Study Sponsored by Wine Market Council

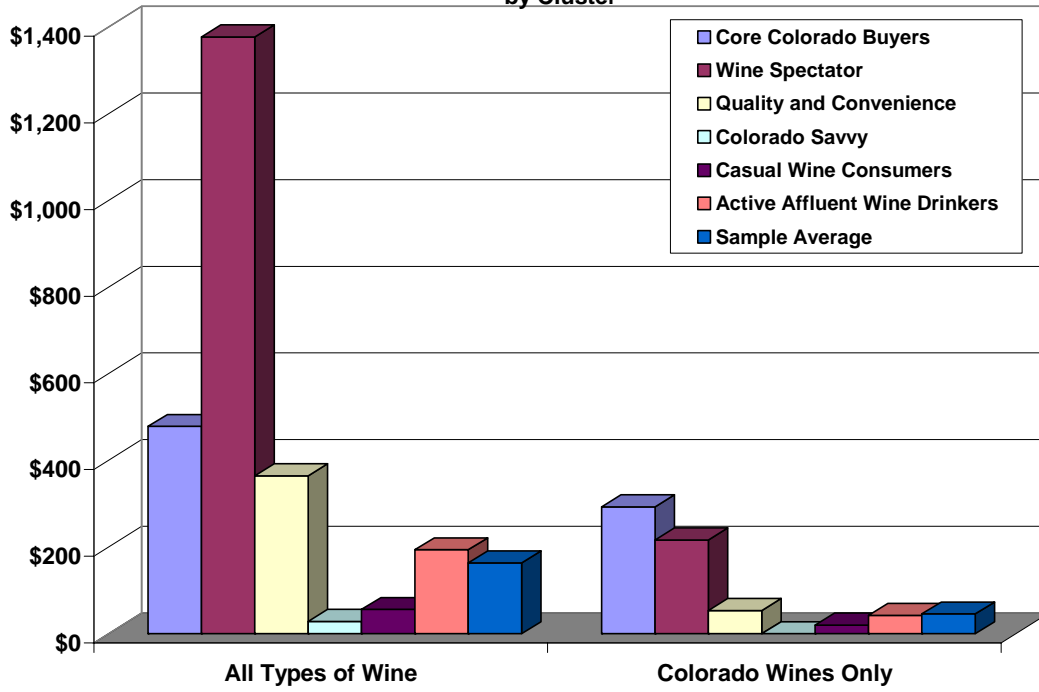
| <u>Category</u> | <u>% Of U.S. Adults</u> |
|------------------------|-------------------------|
| "Core" Wine Drinkers | 13.7 |
| Marginal Wine Drinkers | 18.9 |
| Beer/Spirits Only | 24.7 |
| Non-Drinkers | 42.7 |
| TOTAL | 100 |

Expenditures on wine, both in total and on Colorado wines, are another factor influencing the potential impact of targeting segments. Figure 3 reports the total household expenditures on Colorado and all wines in the past 3 months per cluster. Not surprisingly, the Wine Spectators who make up part of the core drinkers are the biggest purchasers of all wine, spending an average of \$1,378 per household in the previous 3 month period, and although less than 20% is Colorado wines, this segment still has the 2nd highest level of purchases because of the absolute level of their purchases. The Core Colorado Buyers are a distant second, purchasing \$479 worth of all wines in the past three months; however, of those expenditures, \$293 are spent on Colorado wine. This suggests that over 61% of wine purchased by this segment originates in Colorado, making them a key customer of Colorado's wine industry and far exceeding the 3% market share that Colorado wines currently represent. In short, a large majority of the Colorado wine purchases made were by the 3 "core" segments even though they have a varying degree of affinity for Colorado wines.

To study the relationship between wine consumers and their other social activities, respondents were asked about participation in activities with which they typically consume wine. Figure 4 reports several such activities and the portion of each cluster that participates in them. The majority of the sample reported to regularly participate in fine dining with nearly 78% of all respondents reporting to consume wine while doing so. The Wine Spectators are most likely to partake in the more expensive activities such as fine dining, boating and golfing. Travel and sight seeing is another activity commonly enjoyed by participants with 58% of the entire sample reporting to do so regularly. The Quality and Convenience segment take part in the more aerobic and less cost intensive activities such as hiking, biking, and camping. They also appear to be the most likely segment to ski.

It may be logical for Colorado's wine industry to exploit the fact that Colorado offers a wide range of outdoor activities, many of which attract an abundance of visitors each year. Thus, joint marketing efforts between the wine and other recreational industries may be effective. For example, offering packages where outdoor enthusiasts can river raft, bike or ski during the day and wine taste in the evening or on "breaks" from physical activities may be beneficial to both industries.

**Figure 3-Household Expenditures on Wine For Past 3 Months
by Cluster**



**Figure 4-Reports Consuming Wine During Leisure Activities
Share by Cluster**

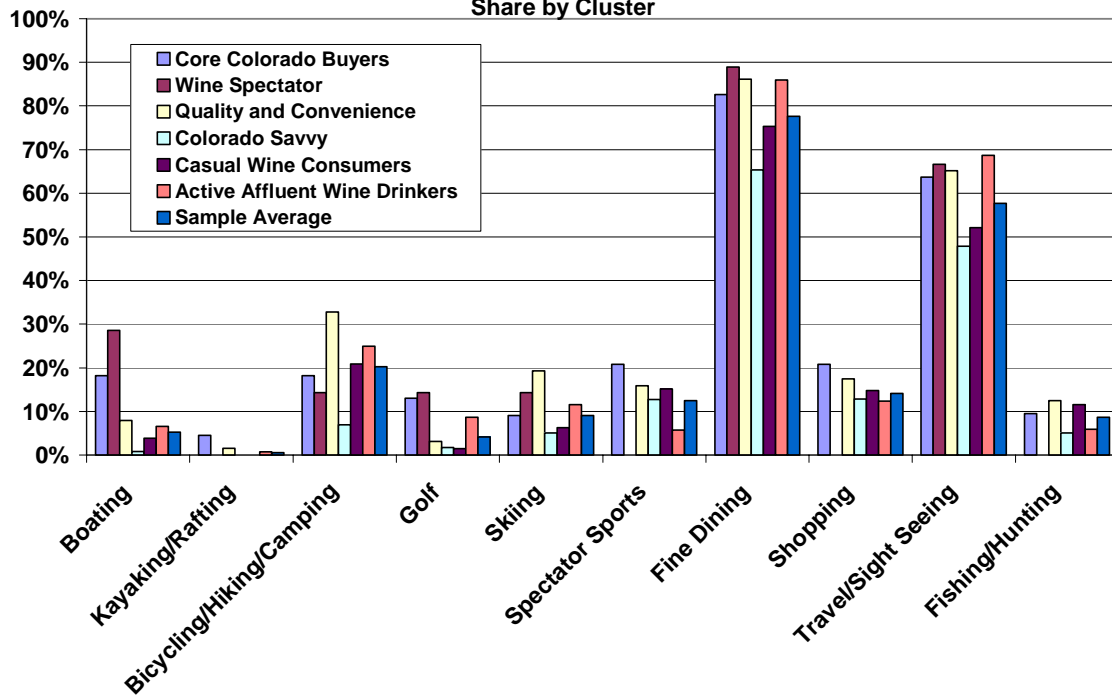
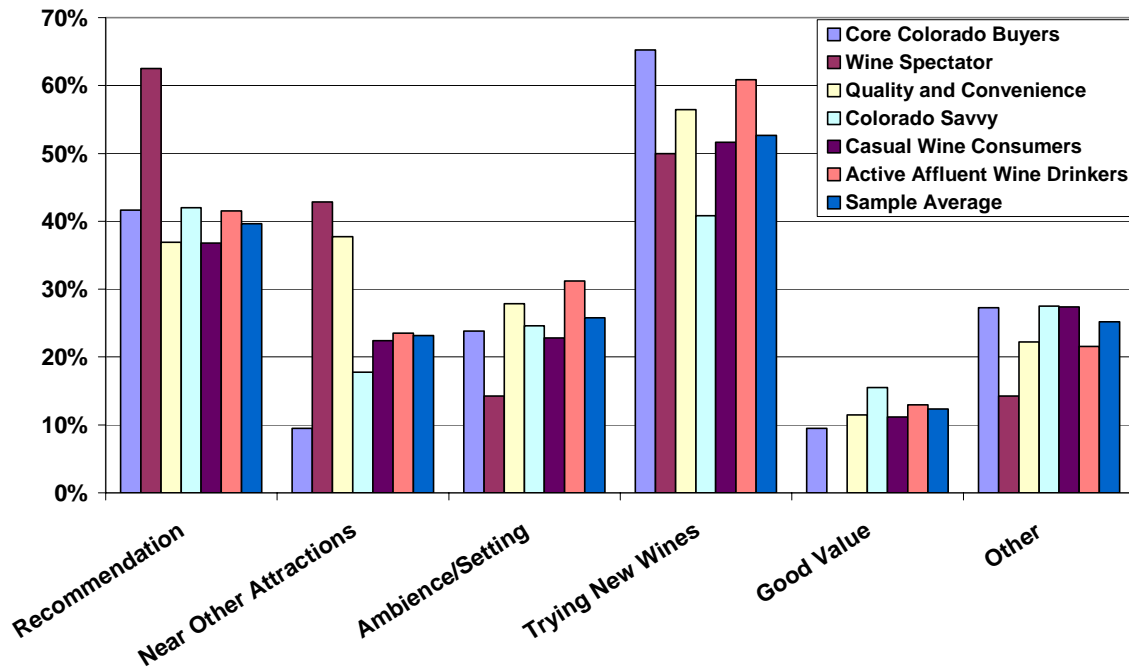


Figure 5 reports specific reasons for visiting the wine region among clusters. Several segments report “trying new wines” as a motivating factor for their trip. This is good news for Colorado’s wine industry as one of the critical steps in increasing their market share is exposing wine consumers to their products; i.e. they won’t purchase if they don’t know it exists. Also, 63% of Wine Spectators report visiting the region due to reputation or recommendation; another plus for wine producers as both are important factors when developing a consistent customer base.

**Figure 5-Reason for Visiting the Region
by Cluster**

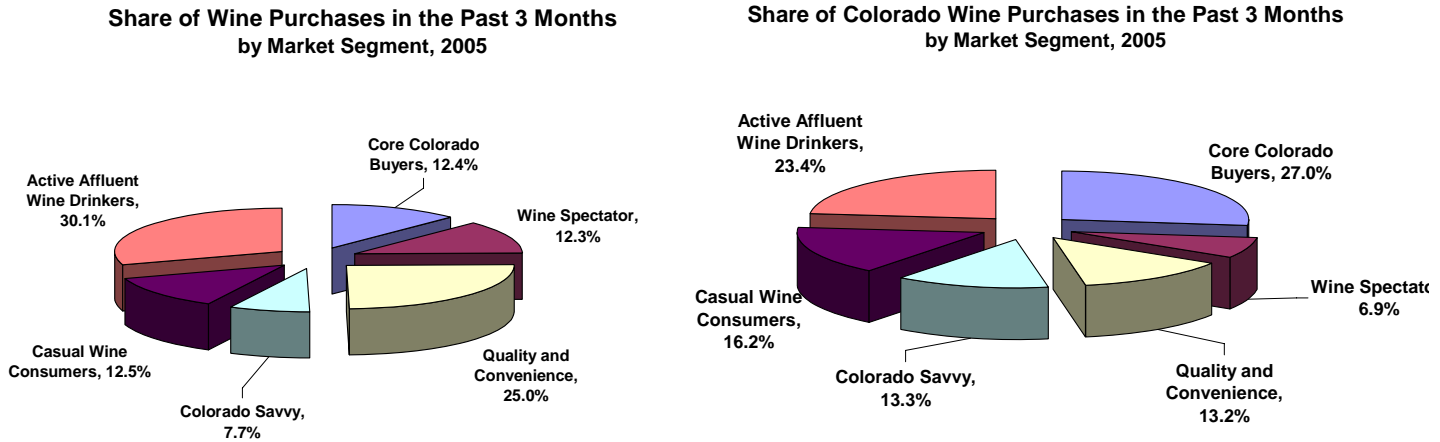


Marketing Recommendations and Conclusions

Growing niche markets represents a challenge to any agribusiness, as the tastes and buying patterns of consumers can be somewhat unpredictable and growth may not be sustained in the long run. Among all consumers, Colorado purchases have grown by about 17% per year between 2003 and 2005 in terms of volume and the value of sales has doubled between 1999 and 2005, with no apparent slowing in growth (Colorado Wine Industry Development Board, <http://www.coloradowine.com/>). Yet, continued growth will depend on increased sales among current customers or the adoption of some Colorado brands by consumers who currently purchase other domestic or international wines. For instance, Core Colorado buyers are only 4.2% of all consumers, but represent 27% of Colorado wine sales, so sustaining or slightly growing purchases by this segment is essential to maintaining the industry’s revenue growth (Figures 6a & b).

But, the industry must continue to increase the number of consumers who look to Colorado wineries as part of their purchases and wine cellar inventory. Perhaps the greatest potential for growing Colorado wine sales lies in the Colorado Savvy segment, who represent 21.3% of the sample and 7.7% of all wine expenditures or a relatively higher 13.3% of all Colorado wine purchases. They rate the importance of wines being from Colorado significantly lower than the Colorado Core consumers, but have similarly high familiarity and quality perceptions about the state’s wine offerings. Growth in sales to this group is most limited by their relatively low consumption compared to Core Colorado or Wine Spectator consumers, possibly due to their relatively lower incomes. Their interest in sweeter, non-red wines and purchases through tasting rooms might suggest an opportunity to grow fruit, blend and dessert wine brands in the fruit-laden Western Slope wine region.

Figures 6a & b: Share of Wine Purchases by Consumer Segment



Another attractive segment to target might be the Active and Affluent consumers, who drink wine fairly frequently and have high enough incomes to maintain their buying power, but who are seeking good values for their wine dollar. This segment represents 25.3% of the market, but 30% of all wine expenditures, but lags with only 23.4% of Colorado wine sales. Their perceptions of the quality of Colorado wines are relatively high and they are as familiar with the state's wines as all but the Core Colorado consumers. Given their strong buying power and current purchases toward the higher end price points, a properly positioned wine brand may be able to grow this segment's interest and purchases in locally produced wines.

In short, there are clear differences between the perceptions, tastes and purchase behavior of Colorado wine consumers, and these differences can be used to conduct more targeted product positioning, marketing and promotional activities suited to various segments. Although the Colorado wine industry continues to grow by over 10% per year on average, this growth can only be sustained beyond its niche status if specific consumer groups are targeted as attractive or predisposed to particular varietals or brands. This study explored the unique characteristics of Colorado wine consumer segments and provided some insights to the types of varietals, production claims and marketing channels from which each segment shows distinct differences from other consumers.

References

2005 California Wine Sales Continue Growth Trend as Wine Enters Mainstream U.S. Lifestyles. April 3, 2006. <<http://www.wineinstitute.org/communications/statistics/sales2005.htm>>

Stemerding, M. P., H. Oppewal, T. A. M. Beckers, and H. J. P. Timmermans. "Leisure Market Segmentation: An Integrated Preferences/Constraints-Based Approach." *Recent Advances in Tourism Marketing Research* (1996): 161-185.