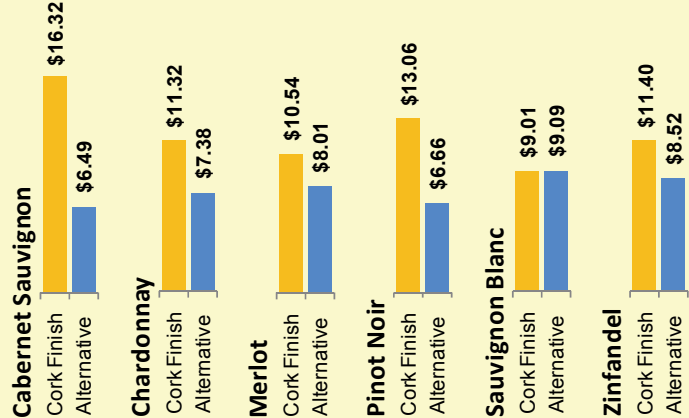


### Bottle Price by Closure Type and Wine Variety

This retail survey displays an average bottle price for domestic wines in standard 750ml packages of \$10.17. Wines finished with natural cork averaged \$11.66. Wines with alternative closures averaged \$7.58. The difference is more than \$4 per bottle (54%) higher than wines with alternative closures. Average prices by variety are displayed below:



### Doing the Math on Closures - Recover with Increased Volume

The model for recovering incremental cost of goods based on increased sales volume is based on gross margin per case. In the example of a \$0.05 per closure increase – sales volume would need to increase by 3.1% if the margin per case is \$20. Volume targets are reduced as the gross margin per case become larger. These assumptions are based on no increase in price and no additional selling expense associated with the new package.

#### Model to Recover Costs by Volume Increases Cost Increase of \$0.60/case for Cork Closures

Gross Margin/Case	\$20	\$25	\$30	\$35	\$40	\$45	\$50
Volume Increase	3.1%	2.5%	2.0%	1.7%	1.5%	1.4%	1.2%

Results of sales performance are based on a 52 week comparison by closure for the Top Fifty wine brands. These numbers indicate that brands predominantly finished with cork closures outsold comparably priced wines with alternatives. Results suggest that any incremental costs associated with the cork finish were offset by increased sales volume.

#### Annual Sales Growth by Closure & Price Point (Top 50 Wine Brands - IRI Annual Sales 07/14/09)

Price Point	Cork Finish	Alternatives	Diff
\$6 - \$9	2.6%	0.7%	1.9%
\$9 - \$12	16.4%	-1.4%	17.8%
> \$12	3.5%	-2.0%	5.5%

#### Combined Sales Performance

Results from sales figures for the Top Fifty wine brands, plus the pricing survey of Safeway online wines, show that premium, cork-finished wines enjoy greater sales volume and higher pricing than comparable wines finished with alternative closures.

In most cases, just one of the comparisons would be sufficient to offset any incremental cost attributable to the cork closure. Combined, the record of greater sales and higher prices suggest that the cork-finished brands contribute significantly greater margin than similar wines finished with alternative closures.

#### Combined Comparison by Closure Type Cork Finished Wines to Alternatives

Price Point	Pricing	Volume	Sum
\$6 - \$9	6.1%	1.9%	8.0%
\$9 - \$12	2.1%	17.8%	19.9%
> \$12	23.0%	5.5%	28.5%

#### Notes

This model is based on the assumption that the incremental cost for a cork closure is \$50/thousand - or \$0.05 per bottle. The price assumption is very loose, and depending on product specifications, the incremental cost for technical or natural cork closures can be significantly lower or higher. Please contact your CQC cork supplier to get more information on the options available.

### Cork Quality Council Members

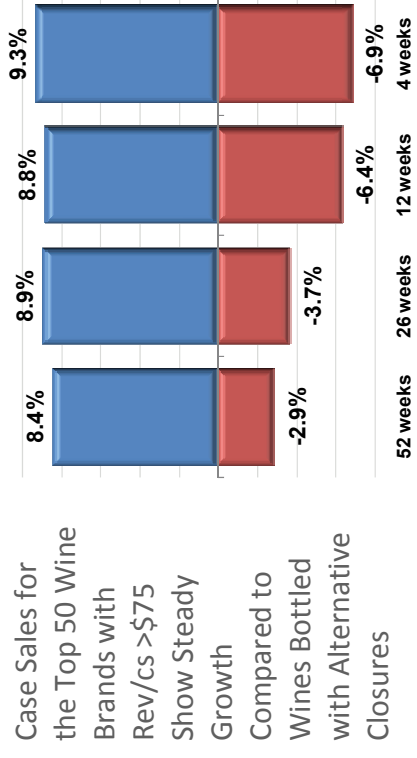
- Amorim Cork America, Cork Supply USA,
  - Ganau America, Juvenal Direct,
  - Lafitte Cork & Capsule, M.A.Silva Corks USA,
  - Portocork America
  - Scott Laboratories
- [www.corkqc.com](http://www.corkqc.com)

## Wines Under Natural Cork Excel in the Marketplace



### Cork Finished Wines Outsell Alternatives

A review of recent sales performance for the Top 50 Wine Brands offers some confirmation to the anecdotal reports that "fighting varieties" finished with cork closures seem to be doing better than those brands finished with alternatives.



■ Cork Finish ■ Alternatives

Top 50 Brands were determined from reports published in Wine Industry Insight from data provided by Information Resources, Inc. Closure types were assigned based on the predominant packaging as tabulated by members of the Cork Quality Council.

Of the Top 50 Wine brands reviewed for the 4-week period ending 7/12/09, those finished with cork closures show average volume increases of 9.9% over the same period year ago. Brands with Synthetic closures were relatively flat - up 0.4% and brands with screwcaps declined by -1.7%.

#### Top 50 Table Wine Brand Sales by Closure Type

Four Weeks Ending July 12, 2009<sup>1</sup>

	Count	Change from Year Ago		REV/CS
		Scanned Rev	Volume	
Cork Finish	19	9.1%	9.9%	\$85.02
Synthetics	20	1.7%	0.4%	\$78.24
Screwcaps	5	3.2%	-1.7%	\$36.90
Other Packaging	6	6.6%	-2.6%	\$26.44
Total	50	4.9%	1.5%	\$59.26

<sup>1</sup> Source: Sales and Revenue by Information Resources, Inc., Closure Type Assigned and Summarized by the Cork Quality Council 11/18/09



### Cork Finish Helps Brand Achieve Top Status

A Marlborough wine has replaced California's Kendall Jackson as the number one selling brand of Sauvignon Blanc in the US.

Nobilo Marlborough Sauvignon Blanc became the first New Zealand wine to top varietal sales, taking over from perennial leaders Kendall Jackson of Sonoma County in a IRI sales survey for the month of April - figures were measured by volume.

According to Joe Stanton, chief executive of Constellation NZ, topping US Sauvignon Blanc sales has been the main goal since launching the brand six years ago.

"When we launched the brand we aspired to be the number one Sauvignon Blanc brand in the US, and to do that we had to focus on targeting what we saw as the 'traditional' US wine consumers," he said.

To do this, Stanton said the company packaged the brand specifically for the US consumer by sealing the brand under cork, a move that meant going against the dominate screw cap trend in NZ.

Stanton said the company also tailored the color of the brand's glass bottle for the US market, choosing the more popular flint white glass as opposed to the French green.

Their success in the US market meant that Nobilo Marlborough Sauvignon Blanc would now set the benchmark for Sauvignon style, he said.

Daniel Pilkington, Decanter 6/09

**Cork Finished Wines Outsell Alternatives...**

Cork finished brands enjoyed a pricing advantage of \$1.70 per equivalent bottle over the alternative closures. Revenue per case was 32% higher for cork finished wines than the average of wines finished in synthetics and screwcaps.

**Top 50 Table Wine Brand Pricing by Closure Type**

Four Weeks Ending July 12, 2009<sup>1</sup>

	<u>Cork</u>	<u>Alternatives</u>	<u>Diff</u>	<u>% Diff</u>
Revenue/Case	\$85.02	\$64.65	\$20.37	32%

These tendencies were more apparent when selecting brands with scanned revenue above \$75/case. In this category, cork finished wines registered growth of 9.3% by volume compared to a loss of -6.9% for wines finished in alternative closures (all synthetic).

**Top 50 Table Wine Brands having Revenue >\$75/case**

Four Weeks Ending July 12, 2009<sup>1</sup>

	<u>Count</u>	<u>Change from Year Ago</u>			<u>REV/CS</u>
		<u>Scanned Rev</u>	<u>Volume</u>	<u>REV/CS</u>	
Cork Finish	15	8.0%	9.3%	\$112.02	
Synthetics	12	-6.2%	-6.9%	\$96.85	
<b>Total</b>	<b>27</b>	<b>0.2%</b>	<b>-0.2%</b>	<b>\$103.16</b>	

Of course, you cannot draw a conclusive root cause from this pattern. There are many factors involved with sales growth or decline. However, it is interesting to note that this pattern has been visible all year. When looking at similar brands at 4 weeks, 12 weeks, 26 weeks and 52 weeks – the disparity between performance of Top 50 Brands with revenue >\$75/cs appears to be steadily intensifying. Cork finished brands have shown steady growth while the average of brands bottled in alternatives has shown deeper declines at every measurement interval.

**Top 50 Table Wine Brands >\$75/case - Trend Analysis**

	<u>Sales Volume Change from Year Ago</u>			
	<u>52 Wks</u>	<u>26 Wks</u>	<u>12 Wks</u>	<u>4 Wks</u>
Cork Finish	8.4%	8.9%	8.8%	9.3%
Synthetics	-2.9%	-3.7%	-6.4%	-6.9%
<b>Total</b>	<b>1.7%</b>	<b>1.4%</b>	<b>-0.1%</b>	<b>-0.2%</b>

Consumer research has consistently revealed strong consumer preference for cork closures over alternatives. Several studies have conclusively shown that consumers perceive cork finished wines to have higher quality and value than the same wine with non-cork finishes. Though the recent pattern of performance for Top Fifty wines might be an aberration, it could also indicate that consumers are taking the closure into consideration when making purchasing decisions in these competitive times.

**Marketing Notes**

It's budget time at wineries all over the nation. That means several thousand sales and marketing people are just getting a glimpse at their new cost of goods assessments for the year.

In my 30 years of experience – this occasion usually reveals a new cost assessment that is up 5%. That is sufficient to send my careful plan to improve gross margin back to the drawing board.

There is not much the marketing department can do - nearly all wine expenses have been incurred long ago. Expenses for grapes, cooperage and most packaging have already been decided.

When the plaintive request for cost relief is raised – a common answer is – “well, maybe we can buy cheaper corks”. Occasionally, there is a suggestion to abandon cork in favor of less expensive alternatives.

This has always been a questionable decision for the long run. Concerns over consumer perception and aging performance have traditionally encouraged most wineries to use good quality, natural corks.

More immediately, this report demonstrates that cork closures may directly benefit the bottom line.

A review of the 50 largest brands, sorted by closure preference, shows that wineries primarily using cork closures have posted steady gains over last year. This is not the case for those wineries using alternative closures.

The attached retail survey by closure illustrates that cork finished wines enjoy significant pricing advantages over wines bottled with alternative closures and priced in the same market segment.

Altogether, the prudent marketing director might conclude that the choice of cork closures may produce immediate benefits to gross margin in addition to superior performance in the bottle.

Peter Weber  
for the CQC

**Doing the Math on Closures -**

Alternative closures are a popular choice for wineries competing in the \$6-\$9 price segment. They make up slightly more than half of the wines seen in this category by the retail survey conducted of wines sold on-line by Safeway. (see the right hand column)

This is a highly competitive price segment where the primary benefit of alternative closures is often seen as their lower costs. Nearly all surveyed examples of alternatives consisted of synthetic closure. Their costs vary based on volume, but it not difficult to find a good quality cork closure, with superior aging characteristics, for no more than an additional \$50 per thousand.

If, for the moment, we ignore the long-term benefits of a cork finish to the consumer's quality perception, current observations of pricing and volume trends suggest that any additional costs related to a cork finish are readily offset by improved pricing and/or increased sales volume.

**Recover with Pricing**

In a simplified wine pricing model, the winery targets gross margin at 50% and the wholesaler and retailer both take margins near 30%. Under these assumptions, an increase in packaging costs of \$.05 per bottle will be offset by \$0.20 per bottle at the retail level. A more aggressive, volume targeted, model has reduced margins across the network and requires a \$0.14 price increase to recover the additional investment in closures.

**Model to Recover Costs by Price Increase**

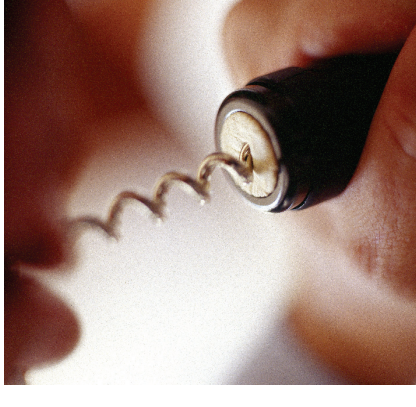
<u>Traditional</u>	<u>Cost</u>	<u>GM%</u>	<u>New Packaging Cost</u>	<u>New Packaging Difference</u>
Winery	\$36.00	50%	\$36.60	\$0.60
Wholesale	\$72.00	28%	\$73.20	\$1.20
Retail	\$99.31	30%	\$100.97	\$1.66
<b>Retail/Bottle</b>	<b>\$11.82</b>		<b>\$12.02</b>	<b>\$0.20</b>

<u>Aggressive</u>	<u>Cost</u>	<u>GM%</u>	<u>New Packaging Cost</u>	<u>New Packaging Difference</u>
Winery	\$36.00	40%	\$36.60	\$0.60
Wholesale	\$60.00	28%	\$61.00	\$1.00
Retail	\$83.33	20%	\$84.72	\$1.39
<b>Retail/Bottle</b>	<b>\$8.68</b>		<b>\$8.83</b>	<b>\$0.14</b>

The December survey of retail prices shows that average bottle price for cork finished wines in the \$6-\$9 segment was \$0.47 higher than seen with alternatives. Every other premium prices segment showed cork finished wines boasting higher prices as well.

**Average Price by Closure Type and Price Point (Domestic 750ml - Safeway Online 12/04/09)**

<u>Price Point</u>	<u>Cork Finish</u>	<u>Alternatives</u>	<u>Diff</u>
<b>\$6 - \$9</b>	\$8.21	\$7.74	\$0.47
<b>\$9 - \$12</b>	\$10.53	\$10.31	\$0.22
<b>\$12 - \$15</b>	\$13.70	\$13.65	\$0.05
<b>\$15 - \$20</b>	\$16.88	\$16.09	\$0.79
<b>&gt; \$20</b>	\$27.26	none	---



...current observations of pricing and volume trends suggest that any additional costs related to a cork finish are readily offset by improved pricing and/or increased sales volume.

**Retail Survey**

This retail survey is based on wines and prices posted for online shopping on the Safeway supermarket website. Recorded wines are domestic, 750ml packages, which have been sorted into groups of (1) cork finished and (2) alternative closures.

In the first survey, dated 12/4/09 there were a total of 319 wines recorded.

These were sorted into price segments including a demarcation for "Premium" defined as \$6.00 per bottle and up. This online inventory is smaller than the wine selection seen at most store locations, and does not include many of the more limited and expensive listings.

**Closure by Price Segment**

<u>Premium Segments</u>	<u>Percent of Bottles</u>	<u>Cork</u>	<u>Alternative</u>
<b>\$6-\$9</b>	47%	53%	24%
<b>\$9-\$12</b>	76%	80%	9%
<b>\$12-\$15</b>	80%	91%	100%
<b>\$15-\$20</b>	91%	100%	29%
<b>&gt;\$20</b>	100%	71%	29%
<b>Total</b>	<b>71%</b>	<b>29%</b>	