

# MARKET UPDATE

Vol. 3 No. 4

August 1991

Published by

**Turrentine Wine Brokerage, Inc.**

**122 Tunstead Ave., San Anselmo, CA 94960-2622. FAX 415 454-9665**

PHONE: (415) 454-4546

Bill Turrentine - Editor

Copyright 1991 Turrentine Wine Brokerage, Inc.

**Confidential - For the exclusive use of customers of Turrentine Wine Brokerage, Inc.**

---

## CAB FARE \_\_\_\_\_

Remember Econ 101? Or did you sleep through it too. Its actually simple. The producer/seller exchanges his product for money. The marketer/buyer exchanges money for product. When this happens regularly, at a fixed location and with some order, you have a marketplace. The market may be simple, like the farmer's market at the fairgrounds, or it may be complex, like options on the N. Y. Stock Exchange.

All markets, simple or sophisticated, must have accurate and timely information to inform sellers and buyers of the supply and demand situation. When demand is up, producers can gear up production, which will help both producers and marketers. When demand is down, producers can throttle back and marketers can take advantage of lower costs to increase sales by promotion &/or dropping prices. The market responds to reality and seeks a balance between supply and demand.

The point I'm making here is that the worst problems occur not when information is negative for buyers or for sellers, but when the news is wrong or just unavailable. When sellers and buyers don't know what's changing, adaptation is delayed. Reality then sneaks up and knocks them on the head. The longer it takes to figure out what's going on, the harder the knock. With that preamble, let's take a look at how Cabernet is faring before reality knocks us all on the head.

On the positive side, **Marketing geniuses should take note - some great buys in Cabernet are here.** And it looks like great buys will be here for some time to come. Now is the time for that innovative plan to sell Cab to the masses. Producers should think hard before putting more Cab in the ground. They may want to explore grafting options for any vineyards producing less than

exceptional wine.

Why is Cabernet hitting hard times? Simply put, Cabernet acreage has been steadily increasing and sales have not. Consumers don't age wine and most Cabs need age. Consumers also perceive Cabernet to be a heavy, tannic wine. Many prefer light and fruity wines. The popularity of Merlot, perceived as lighter and yet still classy, is coming partially at the expense of Cabernet. California's bladder presses, stainless steel and refrigeration capacity give us an edge over many inexpensive imported whites. The technological advantage, however, is not as significant with reds. South America, in particular, is making inroads with inexpensive Cab and Merlot.

Why has there been so little press about the troubles of the Cab market? Media attention focuses on prestige wines, which are bargains compared to Bordeaux and are selling well. The top 2% of the market is all we usually hear about.

And its the other 98% that's suffering.

As those who read this newsletter know, the bulk market is still awash in 1989 Cabernet. The 1990 crop was thankfully smaller but still large enough. As examined in the following article and worksheet, 1991 looks big.

## '91 CAB CROP \_\_\_\_\_

On the side of a large Cab crop this year, we have the following:

-Cluster count looks big.

- Long term yield/acre trend is up.
- Bearing acres up 12% or 2,900 acres.

Factors working against a large crop include:

- Possible drought stress from last year.
- The spread of phyloxerra.
- A two week delay in maturity, increasing risk of rain at harvest.
- Vines may not have fully recovered from huge '89 harvest.

The most important factors are cluster count and increased bearing acreage. The worksheet estimate is based on the assumption that the yield will be above the average of the two biggest years out of the last three.

The worksheet, like others we have done, shows new acreage and historic yields by area. The projection is not expected to be accurate in each district. The chances are high, however, that the crop will be within the projected state-wide range of 103,000 to 138,000 tons. That's an increase of between 10% to 47% over the 1990 crop of 94,000 tons. The average is 120,000 tons, up 28%, (26,000 tons or 3.9 million gallons over 1990).

## **rest of our clients added together.**

A couple of years ago, for example, a client decided to meet with us before signing a three year grape contract. We showed them the trends. Prices were headed down for the variety under question and we were confident that the bulk market could supply wine to match their quality and appellation requirements. In actual fact, bulk wine was plentiful and they saved over \$175,000. Not all situations are as measurable as this one. But there are many times that our knowledge of trends, learned from the bulk market, can make huge dollar savings to wineries developing their supply strategies. Depending on the potential business for us, we may ask a modest consulting fee. Call us to fatten your bottom line.

## **CROP CONTEST 91'** \_\_\_\_\_

Our annual crop contest is enclosed with this issue. Vinous prizes and international acclaim await the winners. With 20 chances to win, its better than lotto. Those who participated at ASEV in Seattle are entitled to a second entry with an additional 20 chances to win. **All entries must be received by August 20, so don't delay!**

## **HOW NOW MERLOT?** \_\_\_\_\_

We have also prepared a Merlot crop worksheet. Call, fax or write if you would like a copy. To summarize, Merlot production should increase substantially this year. Bearing acres are up to 6,700 from last year's 4,000. We are guessing that the yield will be above last year but below the record of 1989. We're projecting a range of 23,000 to 31,000 tons, with an average of 27,000 tons. That's an 80% increase over 1990's 15,000 tons. Demand, however, is also increasing rapidly, especially for moderately priced Merlot.

## **BOTTOM LINE HELP** \_\_\_\_\_

Most of our clients don't call us until they have an excess or a shortage of one variety or another. But some clients pick our brains (such as they are) much earlier in the process. They consult with us concerning long term supply plans. We review options and trends concerning what varieties to contract for, what to plant, what to source on the bulk market, what to plan on selling on the bulk market. **We have added more to the bottom line of these few companies than all of the**