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## **Retail Sales Analysis: Screw Caps Flummox Wine Industry**

*By Mary-Colleen Tinney*

**For several years**, screw caps have been touted as being "the next big thing" in wine packaging. Proponents celebrated its "superior" qualities versus other closures and were enthusiastic about its prospects for success. Now, according to **The Nielsen Company** research, there are more brands than ever before under screw cap, its market share has doubled since March 2006 and sales have increased dramatically--but that doesn't seem to be the whole story.

Screw cap success is multi-layered and depends largely on the varietal, price, color and country of origin of the screw capped wine. The most adventurous and savvy wine consumers have seemingly embraced the closure, while traditional and less wine educated consumers still seem unsure of what to do. Depending on whom you are speaking with, the screw cap category is either poised on the edge of phenomenal success or comfortably settling into a niche status.

Even wine industry executives cannot come to a consensus on where the category is going. Privately, several wine industry executives expressed serious doubts about the consumer acceptance of the closure. "The industry has a tendency to convince ourselves that something's happening when it really isn't happening," said one executive. "Screw caps are here to stay, but they aren't growing quite as rapidly as it may look." Then again, other executives declared the category to be one of the hottest in the retail arena.

Those who are pessimistic about the category point to studies that screw caps create a "barrier" for a new brand, especially at lower price points. Proponents, though, argue that consumers don't seem to care how the wine is closed as long as the quality delivers, citing research that supports their position.

In the near term, screw cap closures have certainly found certain niches in the market. The industry would do well to promote those categories, such as imported white wines, offering wary consumers a comfortable entry point into the segment. Whether screw caps end up as a massive success or, more likely, a strong niche segment, consumer education and acceptance is key.

### **Growth of the Screw Cap Market**

The growth of screw capped wines is obvious, at least as tracked by The Nielsen Company. It is important to note that Nielsen Company data, unlike the *Wine Business Monthly* closure survey on page 40, does not quantify the percentage of wineries using screw caps, but what amounts of wine are sold in Nielsen-tracked retail outlets.

The number of items, or individual bottlings, under screw cap has grown from 330 in the 26 weeks ending March 11, 2006 to 505 in the 26 weeks ending December 16, 2006, a 53 percent increase. In the same timeframe, the number of brands that have at least one offering under screw cap has jumped 78 percent from 120 to 214.

In terms of dollar sales, in December 2006 the category accounted for nearly \$100 million in sales and represented 4 percent of all 750ml table wine sold. In March 2006, the category accounted for \$68 million in sales, or 2.7 percent of 750ml table wine market. In the December 2006 figures, screw capped wines had grown 16 percent over the same period a year before, 1.7 times faster than the total 750ml category growth.

"It's gotten bigger in some ways, but it's also gotten a lot smaller," said **Donny Sebastiani**, marketing director at **Don Sebastiani & Sons**. "It's very relative. New Zealand Sauvignon Blanc that's not in a screw cap looks funny. But a California appellation Merlot, maybe people think it looks funny under screw cap. Maybe it doesn't sell. A lot of items on the list of elimination [at retailers] were screw caps. I wonder if sales slow when you have a screw cap on it?"

There are several factors that go into a successful screw cap brand, said Sebastiani. But he's left wondering how successful the brand could be if it didn't have the alternative closure. "With Mia's Playground, for example, we think [we're in] a layer where people are interested in the quality and appellation and they get past the screw cap," said Sebastiani. "But I don't know how many people are *not* buying Mia's because of screw cap. And we don't have the ability to find that out."

Indeed, there are signs that the industry may be shying away from screw cap closures for their wines. In the 52 weeks ending January 13, 2007, there were 552 items under screw cap and 220 brands, and the growth rate over the year before was 25 percent, 2.3 times faster than the 750ml category growth. The difference between the 52-week data and the 26-week data is stark: in the shorter data snapshot, growth has slowed, and fewer items and brands are on the shelves. Yet, both indicate substantive growth rates and increasing numbers of brands and items under screw cap. Given the contrast, you can only assume that this is a category that is in flux.

"We see that the trade has come a long way toward accepting screw caps, and consumers have come a long way, but not as far as trade," said **Allison Simpson**, spokesperson for **Fosters Wine Estates Americas**. "I think more people are buying screw cap wines because there are more screw cap wines available. They are learning and they understand that screw cap is a good closure and no longer an indication of 'cheap wine.'"

**Periscope Cellars** owner and winemaker **Brendan Eliason** believes that the wine industry has to embrace alternative closures because the vast Millennial generation, who are just a few years younger than he is, has grown up expecting new innovations in their consumer products. "If anyone walks down the aisle of **Safeway**, there is an amazing diversity of packaging throughout the store in all the aisles. And then you walk into the wine aisle and it is a wall of 750ml glass bottles ranging from green to dark green," said Eliason.

"[Millennials] have always been inundated with packaging innovations and marketing messages--look at how juice boxes have changed from when we were young," he continued. "We get bored easily and don't put up with a lot of crap. If one product doesn't do it, there are 100 more that do."

	26 weeks ending	
	03/11/2006	12/16/2006
Number of Items	330	505
Number of Brands	120	214
Retail Size	\$68MM	\$100MM

Sebastiani questioned, though, if consumers at any age will ever fully embrace screw capped wines. "People ask, 'when will the consumers accept screw caps?' I think that assumes something, that at some point in the future that the consumer will accept screw cap as a proper finish for all wines," said Sebastiani. "I don't think that's the case. In the pockets where screw cap fits, we are optimistic, but



we are guardedly so."

There are, of course, some in the industry who are very enthusiastic about screw cap closures. Eliason argues that consumers don't really care about the closure as long as the quality of the wine delivers. "I would say that

in general, there was demand for it before the industry started moving toward it. It's an easily accessible, high-quality closure," said Eliason.

"I don't think there's a huge groundswell of consumers who are demanding screw cap. I think they don't care how their wine is closed," Eliason continued. "They want the best quality wine they can get at the best price they can get. If it's screw capped, that's great for them. If not, that's great, too."

Eliason believes that the only thing limiting the continued development of screw cap sales are the wine companies. "The highest quality, most consistent, easiest to use closure we have right now is screw cap," said Eliason. "The proof in the pudding is the success of the category. Look at how quickly the category developed--that doesn't happen if there's not latent demand. In the end, it's akin to the other trend I see: you are taking the worst closure for your best wine and your best closure for your worst wine. There's so much of an emotional block. They'd rather be emotional about it than make money off of it."

Simpson, however, feels that wine companies are merely trying to appeal to as wide a variety of consumers as possible. "I can understand people's enthusiasm, but realistically it's an education process that's going to take time," she said. "I don't think it's going to be the be-all and end-all [for all wines]. There's always going to be a wide variety of consumers and so many different kinds of wines. That's the great thing about wine as a product--there's always so much to learn and so much variety. There is always going to be a need for different closures."

### **Success Depends on Segment**

The crux of the issue seems to be that wine companies are segmenting exactly how and where screw caps are used. There are certain segments where consumers are buying more screw cap closures: white wines, imports and at premium price levels. Whether these consumers are doing so because there are simply more wines available in those segments or because they are rejecting wines under screw caps in others, however, remains to be seen.

In terms of the development of the category, white wine sales more than double those of reds, imports comprise more than two-thirds of the total segment and most screw capped wines are purchased between \$8 and \$11.99, with an average price between \$9.02 and \$9.18.

Simpson points out that for catering managers, restaurateurs and other on-premise locations (which, unfortunately, are not tracked by Nielsen data), screw caps are popular because they save time and money. "For by-the-glass program or catering pours, it's awesome," she said. "As far as the acceptance of screw caps by consumers in a restaurant setting, it depends on whether the customer is more traditionally focused or someone who is in a more exploratory frame of mind."

### **Price and Education Dictate Acceptance**

The biggest barrier to consumer acceptance seems to be based on the price of the bottle. "Fighting varietals and maybe into the low teens might be the hardest category," said Eliason. "Label design and price are the two primary quality indicators on the shelf that we give consumers. If we sell them a bottle of wine for \$30, they have the price as a place keeper on the quality. But, when you

get down to the fighting varietal wines, the quality can be variable. If the consumers are unsure about the quality, the screw cap can maybe [turn them off]. They may be more nervous to go with it."

Sebastiani agrees, but feels the divide is much closer to \$10 and there are other variables to consider. "There are places where screw caps completely work, and places where they might be a death knell. If you have a popular premium wine between \$6 to \$9 dollars that has some generic appellation designation, it has the potential to be a hindrance to sales in that category," said Sebastiani.

"Like anything, there's a great divide around \$10," Sebastiani continued. "I think once you get up above \$10, the closure is much lower on the decision tree. There are other things--like quality, rating, appellation or brand--that are more important to the consumers."

According to Simpson, it's not so much the bottle price as the level of wine involvement of the consumers buying at each point. "There is a segment of very traditional wine consumers who know what they like and buy the same thing all the time. Many of them see a cork closure as an indication of quality--these people aren't generally spending as much as wine consumers who are involved in wine," said Simpson.

"I think the most critical thing for the success of the segment is for producers to continue to put premium wines under screw cap," she continued. "For the education to be pervasive and successful, it needs to be at a premium level."

Sebastiani also noted that consumers are also more hesitant to buy red wines, especially domestic red wines, under screw cap. Whites dominate the screw cap segment, though it may be a function of the strength of the import category.

"Alternative white varietals work under screw caps. I don't think people have a problem with that," said Sebastiani. "It's something that you chill that has the crisp, fresh flavor. But consumers still have that perception, even if they are taking it home to drink that night, of that red wine laying in the cellar and aging. In the mind of the consumer, the screw cap doesn't meet that perception."

### **Higher Screw Cap Penetration Among Imports**

As noted above, imports make up more than two-thirds of the total screw cap sales in the Nielsen Company-tracked segment. Much of that is driven by New Zealand Sauvignon Blanc and German imports, assumingly Riesling. In the 26 weeks ending in March, New Zealand made up more than 61 percent of the import share of screw cap sales. Germany followed with more than 49 percent, then Chile with about 18 percent. In terms of importance to the dollar sales of the category, New Zealand again tops all other imports with 33 percent, followed by Germany's 25 percent.

"The imports are eating our lunch," said Eliason. "You have two countries that have embraced screw cap over the past few decades and they are clobbering us on the market. Every group and division of the wine industry that has chosen to go to screw cap have all been successful. It's tough to argue with the fact that the people who use screw caps [around the world] are the ones that are succeeding here. The U.S. is the only country in the world that isn't actively using screw caps for something."

There are several layers to the acceptance of imported wines under screw caps. For one, some believe consumers are more willing to accept imports under screw caps because there are simply more offerings in those categories. Further, the most adventurous consumers--and therefore are more open to alternative closures--are also more interested in different countries of origin.

### **The Future of Screw Caps**

Given that the industry and consumers alike don't appear to be settled on just how large the screw cap segment can grow, the wine industry should continue to develop the category. While some may argue that identifying and promoting the most popular segments for screw caps, others argue that consumers need to see more screw capped wines in the segments where they currently have low penetration. The larger, more important point, though, is that the industry needs to continue to educate the consumers about alternative closures if they hope to have any sustained, widespread success.

### **Overall Wine Sales Up 5 Percent in March**

As Winter closed, wine sales continued to rise in the The Nielsen Company-tracked supermarket channel--though generally by smaller margins than during the holiday sales boom. In the 13 weeks ending March 10, 2007, overall wine sales rose by 5 percent, and case volume sales gained 2 percent. Both figures are down about 1 percent from the last four months.

Year-on-year, sales have risen 6 percent in the 52 weeks ending March 10, while case volume has grown again by 3 percent. Dollar sales are continuing to outpace case sales, currently by about double, meaning consumers are still buying more wine at higher prices than before. This is a trend that has sustained itself for well over two years, though has slowed down from a three-to-one margin in recent months.

As always, the "big three" varietals still dominate the retail arena. Chardonnay sales rose 2 percent in the 13 weeks ending March 10. By case volume, Chardonnay was up 1 percent in the March data. Both figures are down by about 1 percent from February data and 2 percent from January. Chardonnay is still the top-selling varietal in The Nielsen Company-tracked marketplace with a 21 percent market share in sales and 19 percent share in volume.

Perhaps spurred by research detailing the positive health benefits of drinking red wines, those sales continue to surge. Cabernet Sauvignon increased sales by 12 percent in the 13 weeks ending in mid-March. By case volume, Cabernet Sauvignon gained 12 percent in the 13 weeks ending March 10, 2007 over the same period in 2006. Sales are identical to the January figures, though volume is down 1 percent.

Merlot sales are also continuing to rise, which is welcome news after months of speculation about the fall in popularity of the varietal. Merlot sales rose by 3 percent in the 13 weeks ending March 10, 2007 (down 1 percent from January and February). In terms of case volume, though, the varietal grew 5 percent in the March data. This is three straight months of growth for the varietal, welcome news for Merlot purveyors.

Domestic wine sales gained 6 percent in the 13 weeks ending March 10, 2007 over the same period in 2006, while imports rose 4 percent in the same time period (imports have dropped by about 1 percent from last month). In terms of case volume, domestic and imported wines both grew by 2 percent. Domestic wine sales are identical to last month, but imports are down by 1 percent. **wbm**

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