



New York Wine & Grape Foundation

Wine Export Program Evaluation

Prepared by:

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Government & Community Relations Strategists

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PROJECT BACKGROUND

In May of 2018, Capalino+Company was engaged by the New York State Wine and Grape Foundation (NYWGF) to conduct a strategic review of NYWGF's export program, which has received funding through the United States Department of Agriculture, Foreign Agricultural Service, Market Access Program (MAP) for more than 20 years. With significant changes to market conditions as well as new leadership at NYWGF, the Foundation felt the time was right to take a close look at this long standing program to identify unmet needs and new opportunities to enhance its effectiveness and reach.

The goals of the project were to:

1. Evaluate the impact of past export program efforts
2. Identify new marketing opportunities and program best practices that will increase the competitiveness of New York State wines in the international market
3. Supplement and augment the results of the M17GXWE108 by developing a more comprehensive export strategy for all relevant markets for NY wines
4. Complement refreshed organizational mission, vision, and objectives developed during 2018 organizational strategic planning process; and
5. Identify improvement measurements of success to demonstrate how the export program is growing international business for NY wineries.

PROJECT METHODS

At the outset of the engagement, Capalino+Company reviewed background materials on NYWGF, including its recently completed foundation-wide strategic plan, its current website and marketing materials, as well as historical background on the USDA-MAP program. We also gathered background information on peer wine trade organizations receiving MAP funding in California, Washington, and Oregon to inform our engagement of stakeholders. Export resources and reports were requested from each organization and interviews focused on program evaluation and marketing activities.

In collaboration with NYWGF, a list of key stakeholders was developed, including government representatives from funding agencies, program managers and executive staff at peer organizations, international wine marketing specialists, and a number of New York wine producers. Key informant engagement was conducted via 12 individual phone interviews, which took place between June 8 and July 30, 2018.

A full list of key informant stakeholders is listed below:

Name	Title	Affiliation
Kathryn Bamberger	Senior International Trade Manager	Empire State Development
Margaret Bray	Wine Marketing Consultant	Oregon Wine Board
Christian Claessens	President	New York Wines SARL
Linsey Gallagher	Director of International Marketing	Wine Institute
Sue Harris	Managing Director	Westbury Communications
Robert Ketchin	President	Ketchin Marketing
Michael Lennon	General Manager	Artisanal Wine Imports
Doug Marshall	International Marketing Manager	Washington State Wine
David McCaleb	Director, International Marketing	Bryant Christie
Juan Micieli-Martinez	Independent winemaker	Former Winemaker
Teresa Wall	Marketing Director	Napa Valley Vintners
Don Washington	MAP Program Administrator	USDA, FAS

Producer engagement consisted of online surveys, direct producer phone interviews, and two focus groups held on July 18, 2018. Four wineries unable to attend focus groups responded to the online survey. Focus group participants were divided into MAP program participants and non-participants and are listed below:

MAP Program Participants	
Name	Winery
Oskar Bynke	Herman J. Weimer Vineyard
Meaghan Frank	Dr. Konstantin Frank Winery
John Martini	Anthony Road Wine
Scott Osborn	Fox Run Vineyards

MAP Program Non-Participants	
Name	Winery
Patrick Doyle	Pleasant Valley Wine Company
Richard Rainey	Forge Cellars
Wendy Wilson	Leonard Oaks Estate Winery

FINDINGS FROM PEER ORGANIZATIONS

From this engagement, we heard a number of recurring themes, as well as particular tactics that have been successful in other regions of the country. California, for example, has seen success by increasing its focus on influencer engagement. Having spent several years centralizing their branding approach and updating their web and social media presence, they are focused both on virtual engagement as well as highly curated and choreographed trips to the region for top trade and media representatives. In our interview with their international marketing representative, she shared that the Wine Institute hosts up to 250 media and trade VIPs during their familiarization trips each year. The Institute conducts 25 to 30 trips with influencers from an average of 15 countries.

By far the largest wine-producing state in the nation, California has the capacity, including \$5.5 million in MAP funding in 2018, to develop extensive marketing programs. However, their share of funding has experienced a downward trend, and export program members are currently required to pay a fee in order to participate. MAP funding is used to support part time representatives in a dozen key markets. Forty percent of California's export sales go to Canada, 35% to the European Union, and the remaining 15% are aimed at Asia and Mexico.

Oregon and Washington, states at more similar scales to New York, combine marketing efforts through the Northwest Wine Coalition, which received over \$1 million in MAP funding in 2018. Oregon has focused on its image as a leader in sustainability, updating their brand to reflect "green" and "natural" character. This marketing campaign is targeted at a select number of international markets due to the small scale of Oregon's industry. Aligned with this narrow focus is Oregon's decision to focus its trade show efforts primarily on small scale events. Prowein is the only large trade show the organization attends.

The Oregon Wine Country YouTube channel has been developed in part to build their sustainable image and to increase brand awareness internationally. Export program resources are mostly dedicated to helping members currently exporting or with an interest in exporting find exporters, understand the dynamics of the target market, and to offset the expense of developing international marketing capacity. Approximately 5% of their members participate in the export program. Outside of funding provided by USDA, a Western US grant is used to offset the cost of tastings, events, travel, and shipping.

In Washington, a focus on developing new educational resources has been well received. This stream of work includes a section of their website dedicated to vintage overviews, production reports, and other materials useful to their producers. The state's mandatory assessments on the wine industry have permitted Washington State Wine to hire a full-time staff member dedicated to the development and management of these export resources. Operationally, this marketing manager role is focused on conducting educational seminars, hosting tastings, overseeing in-market promotions, and developing media content. His role is driven by the four key pillars of the Washington State Wine Strategic Plan, which include increasing trade and media advocacy, strengthening industry unity, actively supporting wine tourism development, and supporting education and research. Metrics used to track progress within the export program towards meeting these goals include number of wineries involved, media content created, and anecdotal success stories.

In our interviews with the Washington State staff, the organization stressed that they focus on not falling into a role of operational consulting. Rather, their focus is on ensuring their international marketing representatives in China, Europe, Canada and the United Kingdom are effectively marketing to the trade. While the organization focuses on building awareness of wine from their state, the sales representatives do the on-the-ground work to develop strong working relationships with the trade once outside the space of major trade shows. Social media is playing an increasingly important role in their efforts to increase the trade's awareness of their state's industry.

CURRENT INDUSTRY CONDITIONS

To date, approximately two dozen wineries have participated in New York's export program, representing about 5% of all NYS wineries, which have traditionally sold the majority of their product through on-premise sales. The NYS wine industry currently generates about \$13.8 billion in total economic activity in the state, and generates 5.5 million tourist visits annually.

Wineries decide to export for a variety of reasons. For some, external factors, including the growth in beverage licenses in other categories, have driven them to seek new outlets. Other producers export for the cache of saying their wines are available in foreign markets and for the networking and/or educational value derived from pursuing new markets. Changing consumer tastes have also made export more attractive to some New York wineries, with growing interest in the types of food-friendly, low-alcohol, higher acidity wines that are produced here. None of the producers interviewed consider export an essential marketing channel, but many expressed interest in increasing their ability to export through collaborative efforts among wineries and with the support of the NYWGF.

Major challenges for exporting cited by stakeholders include:

- A lack of global awareness of New York as a wine-producing state,
- High production costs that prohibit competitiveness (in part due to the majority of Producers being small/low-volume),
- Outdated branding and limited online presence,
- Competition from the craft beverage industry,
- A lack of sustained investment in promotion,
- A lack of a clear identity for New York wines, with such a large variety produced, and
- Barriers to entry in particular markets (e.g. Provincial Liquor Control Boards in Canada)

Many of these challenges are true for other wine-producing regions across the country, but are exacerbated in New York, which is a younger region with an exceptionally wide variety of wines produced. A number of these challenges are consistent with the objectives laid out in the NYWGF's new strategic plan, including developing strategies for revitalizing their brand and advancing the image of NY.

Perception of New York State wines internationally is a key concern among producers. The challenge of developing an identity for such a diverse region was raised in numerous interviews. For example, hybrids are controversial topic, with some saying they can be a differentiator to

distinguish New York as a place for innovation, and some saying they have a bad reputation and shouldn't be marketed as hybrids.

Relatedly, there is a concern about the quality of wines being exported. A number of producers stressed that it will be essential to develop a means to jury the wines presented in the export market. They indicated that the industry has been hurt by poor quality wines being sent to export by producers who don't consider export buyers to be their more important customers.

Given the NYWGF's newly refined mission to promote the world-class image of New York grapes and wines, and its vision "to be the world's premier region for cool and cold climate viticulture," these concerns are of particular significance.

Addressing issues related to supply chains and operations will be a critical part of increasing the number of wineries able to export. Given the volume produced by most New York wineries, there is need for collaboration among producers, and dedicating staff to collaborations of this type will be essential. Consolidating shipments from pallets to containers decreases the costs of shipping and creates access to more types of buyers - even small distributors in Europe are not interested in handling small volumes. Creating business structures that permit collaboration, such as LLCs and joint ventures is one way to accomplish this. In addition, any marketing efforts abroad should be tied to these efforts to increase supply chain capacity. Otherwise, marketing efforts risk showing little payback.

Given the limited budget for wine export that New York State has, it is important to be strategic and selective about which international markets to target. In both the European and Canadian markets, New York has had to focus on medium prime wines, because the cost of production simply cannot compete with the larger-production regions like California, France, and Italy. There are positives and negatives for every market under consideration:

Canada has historically been a priority market due to its proximity, but has become less important because of increased tariffs (as high as 142% in British Columbia), logistical challenges in the monopoly system, and inconsistent support among sales agents. We also heard that some New York State wines compete with Ontario wines because they are of similar style and locality. Finally, it is difficult to get consistent support from the Liquor Control Board of Ontario.

China is a large and emergent market and it is difficult to capture an area to target. Past export efforts have struggled to succeed there. Because the market is growing so rapidly, it is constantly changing and there is a significant need for on the ground education efforts. It will take a sustained, long-term effort to succeed in this market, but there is significant potential here.

The United Kingdom is important, as London is the second largest wine market in the world. The biggest challenge here is that New York competes against other U.S. states that target the U.K. for its common language as well as the scale of the market. It is also a highly segmented and complex market. However, independent retail merchants, who favor niche wines, are managed by influential tradesmen with the potential to become ambassadors for New York wine.

Finally, Northern Europe, particularly the Scandinavian countries, have become increasingly important. They favor cool climate wines, don't produce wines, and have an accessible monopoly system.

RECOMMENDATIONS

- 1. Update international branding to reflect the innovative, diverse, and sustainable character of the New York State wine industry.**

The brand character of New York wine on the international market was reviewed with each stakeholder group engaged. The Uncork NY! brand is seen as dated and out of line with the image the region aims to convey to the industry. As a relatively new production region that offers wines outside the mold of old-world traditions, numerous trade stakeholders identify New York as a region of innovation. While we heard mixed opinions on hybrid grapes, some trade stakeholders associate the hybrids grown and developed in the state with this image of innovation. Closely aligned with this image was the casual, accessible character of the state's industry.

We consistently heard that New York producers struggle to resolve the urban image of New York City with the rural character of its wine-producing regions. For this reason, peer organizations were specifically asked how they address the image of their state's major cities, such as Los Angeles or Seattle, against the promotion of an agricultural image. California organizations focus their branding on the healthy and outdoor lifestyle attributes for which the state is famous. Washington state stakeholders have embraced the urban identity of Seattle and leveraged it to build their image as a diverse state. Each peer organization interviewed stressed the importance of conveying the sustainability of the production and overall business practices, and they often lead their branding efforts to promote the agricultural aspects of their states.

These organizations also discussed the challenge of maintaining their state-level identity while engaging in the promotion of the overall United States wine industry at international trade shows. While peer stakeholders are eager to promote the diversity and quality of American wine, interviews demonstrated consistent support for maintaining state-level identity while presenting at major trade shows. Reasons given for the reluctance to national promotion included the potential to dilute decades of brand development each organization has made and the risk of alignment with national politics.

In our discussions with New York wineries on branding, community was a consistent theme. There is a pride in the independent ownership of most wineries in the state rather than being part of major beverage groups. This was stressed as an important attribute of the state's industry in international marketing efforts as a means of differentiation from major producers in Europe and California. Related to this community theme, attendees expressed an interest in marketing materials being fun, accessible, and character-driven. Respondents also discussed the importance of conveying the sustainable production practices they use and their overall land stewardship values. Trade stakeholders echoed

the importance of promoting community and sustainability, stressing the opportunity to connect through profiles of individuals and updates on seasonal growing conditions.

2. Develop trade-facing resources that provide insights on priority countries for program participants and offer technical details for industry professionals.

Wineries reported an interest in educational opportunities and marketing resources to improve their connections to the wine trade. While individual winery representatives are prepared to promote their home regions and neighboring businesses, characterizing the scale and diversity of the industry in the state at trade events has presented a challenge. Printed materials and online resources to share at events were suggested as a means to overcome this challenge. Participants are eager to support the promotion of wines from other regions and businesses, but are seeking resources of this type that prepare them to do so.

Oregon's Pinot Camp was mentioned as a model for educating both the domestic and international trade. One focus group discussion centered around the potential to develop a similar event that could be initially focused on preparing export program participants to present wines from across the state. Expanding upon this development of producer education materials on regions within the state, marketing content could be developed to highlight regions of the state.

Trade contacts expressed an interest in more developed resources on the production regions and industry in the state. Washington State Wine has developed a series of American Viticultural Area profiles that include details on growing conditions, geography, soils, common grape varieties, and viticultural history. Such detailed profiles could be developed to align with the community image for which producers expressed a preference. Tech sheets that include vintage and tasting notes on individual wines featured at events would bring additional value for trade promotion. These technical details are especially important for accessing European markets, where trade representatives are required to maintain certifications and education credits. Education is highly valued, and aligning with the region's expectations will increase the credibility of New York's industry.

While the market reports available through USDA's Foreign Agricultural Service provide extensive economic data on potential target countries, highlights of market trends, interesting data points, or cultural insights would be valuable to producers with a goal of accessing export markets. The content, such as infographics or fact sheets, could be integrated with newsletters or presentations to producers. Few stakeholders expressed an interest in understanding the process used to select target countries, but they did express interest in understanding the general dynamics of markets. In stakeholder interviews and through the review of peer organization materials, case studies were commonly used to illustrate best practices for accessing markets, developing trade relationships, and overcoming supply chain challenges.

3. Dedicate resources to smaller scale marketing events tailored to trade representatives who specialize in niche wines.

While international trade shows remain a vital marketing activity, stakeholders reported that smaller-scale efforts have become increasingly important, and may provide a greater return on investment. Smaller-scale efforts include master classes, inbound familiarization tours, and specialty tastings. These marketing efforts should be targeted to independent distributors and sales representatives who specialize in unique or niche wines. This type of strategic segmentation has helped businesses to overcome the challenge presented by the often limited volume of wine available for export. Peer organizations have developed trade-facing social media content that builds their character-driven brands and supports relationship building with industry professionals abroad. This finding is in line with the themes presented in the European Union Evaluation conducted for the NYWGF by Rose Research, LLC.

We repeatedly heard that there is no substitute for on-the-ground experiences such as personal meetings and winery tours. Financial or business development support should be provided for program participants to remain abroad in the days before or after a major trade show. Additional travel time will allow producers to network with industry professionals and possibly conduct master classes. We heard numerous references to successful relationships with importer/distributors in the time surrounding a larger event. Our interview with Empire State Development export program staff indicated an interest in increasing the coordination of promotion and trade mission activities with the Foundation.

4. Measure the impact of the export program by adopting key evaluation metrics.

Tracking the progress of a select number of marketing metrics will provide an improved evaluation framework for the export program. When peer organizations were asked about their approaches to program evaluation, metrics in this category were the most frequently referenced. Sales metrics, including financial goals or cases shipped, were secondary to the relationship and engagement indicators tracked through marketing activities. Examples of metrics shared included social media engagement, media mentions resulting from inbound tours, and event attendance among trade representatives and wineries.

Our interviews demonstrated that U.S. wineries outside of California are motivated to export wine for the marketing value it provides and to develop their professional networks. In Washington and Oregon, only a select number of wineries depend upon export sales in their business models. Similar to New York, five percent of Oregon Wine's members participate in their export program. The top pillar of Washington State's marketing strategy is to increase trade and media advocacy through national and international marketing campaigns, trade and media missions and targeted media outreach.

As New York's presence in the international market increases, volume and value of wine sold will become more central indicators to track, but increasing the trade's familiarity

with quality wines from the state is currently a priority. All groups engaged stressed the need to adopt a process to evaluate the quality of wines selected for the export market. We were told that the reputation of the state's wines has been damaged by poor quality wines exported in the past. Suggestions for how to create a quality evaluation framework included only relying on third party wine awards, creating an industry panel to conduct rankings, or depending on industry influencers to select wines they prefer.

5. Report on priority export program strategies to NYWGF membership and engage industry advisors in their execution.

The impact of New York's wine export program is increasing due to the growth in and transition of NYWGF staff, emergence of entrepreneurial leaders among the organization's members, and momentum from its recent foundation-wide strategic plan. Earlier this month, NYWGF hired its first Brand Ambassador, who brings significant industry relationships and experience. NYWGF leadership and program staff have evaluated the impact of historic trade relationships and are beginning to identify new partners where necessary. Collaborations between wineries and supply chain professionals are emerging, which have begun to create a consistent availability of high-quality wines for export.

While these positive developments are exciting, the need for significant and sustained support in order to create a mature and viable industry persists. Industry leaders and member wineries should be formally engaged in program development and evaluation, perhaps through a committee or advisory group structure. Following a review of these recommendations, the foundation should present its priority market growth tactics in the form of an export program strategic summary.