



Growth Prospects for the Tennessee Wine Industry:

Major Findings, Challenges and Opportunities and Recommendations

The Tennessee wine industry has strong prospects for future growth. Consumer wine demand trends favor growth, including interest in local foods and beverages. A farm-level cost of production analysis shows Tennessee farm profits are possible for producing wine grapes, as well as wineries when both are under excellent management.

Production and distribution regulations, consumer awareness, regional rivalries, and research and marketing needs are all potential challenges to this generally positive outlook for Tennessee's grape and wine industry. The growth of the craft beer and spirits industry is also a potential challenge – but also an opportunity, as consumers are growing in their awareness and interest in locally-produced beverages.

These challenges appear to be outweighed by accompanying opportunities, including a changing legal environment for wine production and distribution in Tennessee. Strong consumer interest exist in local foods indicates demand potential for local wines. Tennessee

already has a strong existing wine industry association.

A study was conducted in 2015 to determine the prospects for growth in the Tennessee wine industry. This summary outlines

- I) Three major findings of the study;
- II) Challenges and opportunities for the Tennessee wine industry;
- III) Recommendations for paths forward.

The full report, *Growth Prospects for the Tennessee Wine Industry: An Overview, Demand, and Cost of Production Based Analysis*, is available at <https://ag.tennessee.edu/cpa/Information%20Sheets/CPA248.pdf>.

I. Major Findings

The wine and grape industry is growing nationally with Tennessee showing especially strong recent growth.

Grape acreage in Tennessee increased by 56% between 2007 and 2012, by far the highest percent increase among Tennessee and selected neighboring states. There was strong comparative growth in Tennessee's wine industry from 2013 to the first half of 2015, with increases in reported wine industry employment and wages in Tennessee outstripping growth rates in all neighboring states and for the national wine industry.

Grape Acreage and Farms in Tennessee, Selected Neighboring States, and United States

State	Farms	Acres	Acres per Farm	% Bearing Acres	% Acre Change 2012 vs. 2007
Tennessee	343	905	2.64	71.3%	56.0%
North Carolina	874	3,392	3.88	79.2%	6.5%
Virginia	660	4,371	6.62	85.4%	34.2%
Kentucky	411	626	1.52	73.2%	1.3%
Georgia	387	1,941	5.02	90.5%	17.9%
United States	27,878	1,139,146	40.86	91.6%	8.3%

Source: U.S. Census of Agriculture, 2007 and 2012

The number of Tennessee wineries has also increased, from 21 bonded wineries in 1999 to 67 wineries in Oct. 2015, according to the U.S. Department of the Treasury. Tennessee wineries tend to be clustered in certain areas, which is a positive basis for wine tourism and industry development.

Tennessee consumers indicate their willingness to pay a premium for Tennessee wines, despite some indicators of some limited product availability and consumer knowledge

Continued consumer interest in local foods is creating interest in Tennessee wines. An analysis of survey data from 528 Tennessee households where wine is consumed indicated:

- » 72% of consumers said locally produced was somewhat important (29.7%), important (28.3%) or very important (14.1%) when purchasing wine for home consumption
- » 56.7% of consumers said it was easy to find Tennessee wines at the store where they primarily shop for wine
- » Just 33.2% of respondents indicated purchasing a glass of Tennessee wine in an eating/drinking establishment during the past six months
- » Only 16% of respondents indicated they were knowledgeable or extremely knowledgeable about Tennessee wines
- » Consumers were on average willing to pay **\$14.04/bottle** for Tennessee labeled wine, a **\$2.04** premium over the base price of wine presented in a consumer willingness to pay survey
- » The consumer placing importance in locally produced goods was willing to pay a price **premium of \$3.80/bottle** over the base price, suggesting that wine producers could benefit from selling their wine at food retailers emphasizing locally-produced goods.

Cost of production analyses indicate both growing grapes for wine and operating a winery in Tennessee can be profitable ventures, assuming excellent management Muscadine, Cayuga White, Vidal Blanc, and Chambourcin grapes can be grown profitably in Tennessee, with returns from established grapes estimated between \$3,300 and \$4,900 per acre. It will take five to six years to recoup the costs of planting and establishment, under the key assumption of excellent management in grape plantings and production.

Current Direct Economic Impact

- » The Tennessee wine industry provides direct employment for **464** workers, including self-employed owner operators
- » Wineries predominately use grapes grown in Tennessee. Tennessee wineries generate wine **sales of \$40 to \$60 million annually** (including agritourism-based events) from **\$5 million** worth of Tennessee grapes
- » The **current use of grapes primarily grown in-state** by Tennessee's wineries presents a strong case for industry growth by meeting demand for local food products.



Assuming excellent management, a Tennessee winery can also be a profitable investment. A budget-based analysis shows a winery producing 100,000 bottles can generate a 16.9% rate of return on investment over 20 years.

Tennessee Farm Returns for Grape Production by Variety

	Muscadine	Cayuga White	Vidal Blanc-Chambourcin
Net Annual Return Per Acre, Years 4-20	\$4,895	\$4,835	\$3,377
Breakeven Year ¹	Year 6	Year 5	Year 5
Internal Rate of Return ¹	25.6%	40.2%	31.3%

¹At 5.5% discount rate.



II. Challenges and Opportunities

Legal and regulatory restrictions on alcohol consumption and distribution can create barriers for farm winery establishment and growth. Among Tennessee’s 95 counties, 26 are totally dry (no sales of liquor or wine is allowed), 60 counties are limited sales (certain forms of either liquor or wine can be sold), and 9 counties – including the counties with the four largest cities – are wet (sales of wine and liquor are allowed). These legal restrictions are indicative of the attitude held by many citizens concerning the sale and consumption of wine in Tennessee.

There are also labeling and distribution challenges. State regulators seek to have Tennessee cider labeled as “cider wine,” which is apparently not consistent under federal regulations and creates confusion in the mind of producers and consumers of both wine and hard cider. In July 2016, some Tennessee grocery stores will be allowed to sell alcoholic beverages, provided the stores meet certain requirements regarding proximity to liquor stores. While an industry challenge, **a changing legal environment can also create opportunities for farm wineries** through adjustments to consumption regulations and distribution channels.

The legal restrictions on wine production and marketing may contribute to lower support for **wine research and marketing** in Tennessee, compared to surrounding states. **Regional rivalry** – including established farm wineries and wine trails in surrounding



states – is another challenge for Tennessee wine industry growth. **Consumer awareness** tends to be lacking for Tennessee wines, and could be a barrier for growth needed to be counteracted through marketing.

Growth in Tennessee’s **craft beer and craft spirits industry** is both an opportunity and challenge for wine industry growth. Brewers and distillers may compete with local wines for consumer market share, but growth of these industries also helps increase consumer interest and knowledge of locally-produced beverages. Similarly, regional winery rivalries indicate that Tennessee’s consumers are at least willing to investigate wine and wine tourism nearby.

Local foods continues to be an area of consumer interest and market growth. Consumers surveyed indicated that supporting Tennessee farmers and the state’s economy were reasons for consuming Tennessee wine. Tennessee wines should continue to benefit from the local foods trend, especially with more satellite tasting sites and the opening of the grocery store market.

The well-organized Tennessee Farm Winegrowers Alliance is a major strength for industry growth, as it may form the basis for cooperation among producers. Wineries have clustered in three areas of Tennessee, and cooperation among these clusters for industry promotion, research and development will likely be beneficial.

III. Recommendations

A wine quality enhancement program is shown to improve the quality of wines coming from less-traditional production areas. Wine quality, paired with marketing efforts to improve consumer awareness of local wines, can help improve a regional industry. Tying quality enhancement efforts to efforts to employ environmentally sustainable production practices, especially on grape farms, could markedly increase consumer acceptance and demand.

Market education and promotional efforts are also needed to increase consumer awareness and demand for the Tennessee wine industry. This could include efforts to promote in-state high quality wine at wine tastings, as well as developing and maintaining strong relationships with food columnists and business journalists would also serve to increase awareness and enhance access to Tennessee wines by consumers. Wine associations can work with retail industry organizations, such as the Tennessee Grocers & Convenience Store Association, as well as other stores and organizations to highlight the promotion of Tennessee wine as a part of the region's local foods. Educational efforts aimed at retail staff in grocery stores and liquor stores could yield benefits. Philanthropic efforts by wineries and wine associations may also help to promote the industry.



A statewide wine trail would promote Tennessee wine in restaurants and other venues. A statewide wine trail can also help establish a larger area as a wine tourism destination by developing linkages between the hospitality industry and the wine industry. Clusters of wineries have emerged in the three main regions of Tennessee, with Eastern Tennessee having the largest cluster in and around Sevier County. A statewide wine trail could also develop linkages with wineries across the state.

Certifications can differentiate or highlight Tennessee wine. The industry should investigate designation of Tennessee as an American Viticultural Area (AVA), a federal designation of regions having certain wine-producing characteristics. To build on consumer interest and willingness to consume local foods and wines with favorable sustainability attributes, the Tennessee wine industry should promote winery and vineyard involvement in third-party sustainability certifications, such as the wine Sustainable in Practice Certification Standards Program (SIP).

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