

BY TOM JOHNSON

THE POUCH REVOLUTION

FLEXIBLE WINE PACKAGING TECHNOLOGY FOLLOWS A STEEP LEARNING CURVE

You already know the paradigmatic wine industry customers of the future, Jason and Jen Millennial. They're young, ambitious and have a taste for wine. They know no brand loyalty. There they are now, walking up to a shelf of wine at a pharmacy or grocery store or other alternative outlet they, on impulse, choose to visit. They're picking up some wine on their way to a TV-commercial-worthy activity – climbing or kayaking or playing a sexually evocative contact sport on the beach or in a slough of mud. They may not know it, but they're about to make a decision that affects the future of the American wine industry.

For the last several years, the wine industry has been Millennial-obsessed, churning out brands, highlighting offbeat grapes and sponsoring promotional events with all kinds of "Choose me! Choose me!" co-marketing deals designed to influence Jen and Jason. And now there's a new thing.

To attract the wandering eyes of young adults, the very same wine industry that held for 50 years that American wine depended on the creation of soft-focus ambience de Provence is deploying a new weapon in the war for Millennial mind-share. The graying and comfortable wine industry is leaning close to Jason and Jen's ear and whisper-

ing the secret of future prosperity: plastics.

OK, it's a little more complicated than that. The plastics we're talking about are pouches that generally hold about 1.5 liters of wine and have caught the imagination of the wine marketers whose job it is to capture the discretionary dollars of Jen and Jason. The plastic pouch wine segment is too new to have actual data to back up the claims, but the anecdotal evidence and buzz are strong, the opportunities seem endless, and the logic is clear.

Still, one can imagine the ghosts of Robert Mondavi, André Tchelistcheff and even old Gustave Niebaum – the legends who worked their whole lives to class-up American wine culture – clustered around their heavenly Skype, watching the goings-on below and wondering, WTF?

BORN OF BOYCOTTS

Although the concept may seem fairly new to American wine drinkers, pouch packaging evolved in South Africa decades ago, as a reaction to boycotts of that country's apartheid policy. Unable to manufacture glass and unsure of their ability to get bottles from overseas, ingenious manufacturers started putting everything liquid into plastic pouches: soup, spaghetti sauce, baby food, even wine.

It was David Moynihan, a veteran of Constellation Brands, who introduced the wine pouch to North America. He left Constellation in 2009 and founded a startup, origi-

nally called AstraPouch and now branded as Impaq, to license the pouch technology from its South African developers and bring it to the United States.

"It's the Millennial wine drinker that's driving this," he said. "I grew up opening my lunchbox and hav-

ing a Capri Sun. This (drinking out of pouches) is not strange to us."

The advantages of the pouch were obvious to Moynihan. It's light, unbreakable, and keeps wine fresh for up to four weeks after it has been opened. In an ice chest, it chills more quickly than a glass bottle. There is also an environmental claim to be made: that pouches produce less

carbon than glass in their manufacturing and transport. The layout of the pouch enables large, full-color printing – "serious brand equity," as Moynihan puts it. And all of that, together, makes pouches an actual competitive advantage when trying to sell to Millennials.

"It's the perfect packaging," said Christophe de Carbonnieres, managing director of Smurfit Kappa, a competitor of Moynihan's that sells pouch packaging beyond the beverage industry. "If you go camping, hiking, boating, you don't have to carry the glass. With this type of packaging, you run no risk of having it break in your bag, and when you're done, you just fold it and it's not taking up much space."

FROM BOTTLE TO POUCH

Impeccable though that reasoning may be, very few U.S. wineries



David Moynihan of Impaq brought the wine pouch concept to the United States.

AT A GLANCE

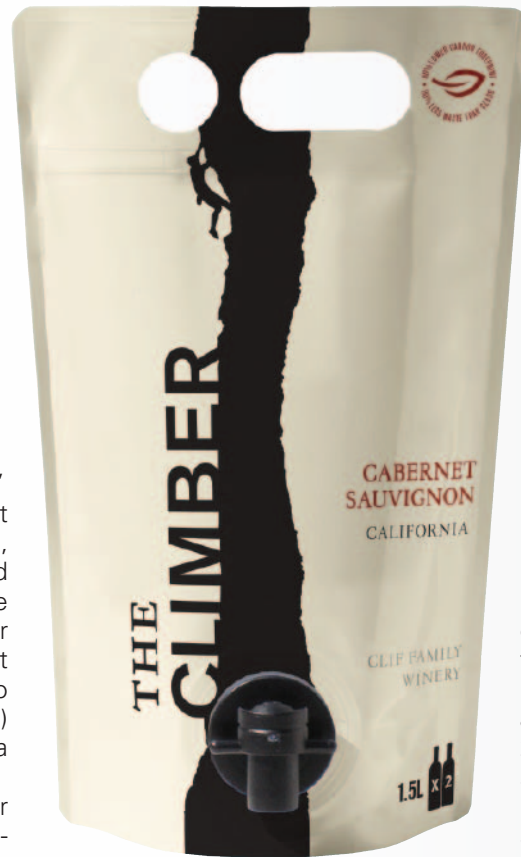
- + Flexible pouches are being positioned as the perfect wine packaging for Millennials.
- + Pouches are light, unbreakable and allow ample branding space.
- + Some wineries have experienced issues with short shelf life of wine in pouches.
- + Controlling dissolved oxygen at the filling stage can solve shelf-life issues.

have taken the plunge into pouch packaging. Those that have are mainly small, producing a few thousand cases a year, and looking for some point of differentiation to increase their market leverage.

They are mostly true believers in "pouch technology," but even if their sales are strong, their evangelism is realistic. The transition from bottle to pouch is not without its pitfalls.

"I tell people to start slow," said Bruce Regalia, winemaker at Clif Family Winery in St. Helena, Calif., which offers a wine called The Climber in pouches. (The name alludes to the target market for the wine: outdoor enthusiasts. Not coincidentally, the Clif family also produces Clif Bar energy bars.) "Don't do 20,000 cases, there's a lot that's going to happen."

Steve DiFrancesco, winemaker at New York's Glenora Wine Cel-



Clif Family Winery created an outdoorsy theme for its pouch wine, The Climber, which ties in with the packaging's portability.

lars in the Finger Lakes – the first winery in the U.S. to bring a pouch wine to market, in 2010 – started carefully. Using pouches imported from England, he constructed an experiment, filling them with different wines and storing them side-by-side with bottles under a variety of conditions.

"We took a bottle and a pouch from each area after 58 days," he said. "We took another one of each out at 342 days, and we tasted them and checked for sulfur. The bottles we opened at 58 days we also tasted and checked for sulfur 22 days after they were opened, to see where (the wine) would fail."

Even under the best of circumstances, the wine in the pouch

didn't last a year. His conclusion: "Nine months."

The advantage shown by DiFrancesco's test, however, was that the pouch wine, once opened, resisted oxidation for three weeks. That, he said is, a considerable advantage over bottles.

Encouraged, in 2010 DiFrancesco became the first U.S. winemaker to commercially release pouch wine: the non-vintage Trestle Creek Riesling in a 1.5L size, priced at \$15. He followed that release with a chardonnay in the same package. The pouches did well in stores; Glenora sold 5,500 cases of the wines, a little more than 10% of the winery's total output.

But then the pouch riesling started to ferment and the CO2 expanded inside the pouches, causing some of the seams to split. To prevent that from happening again, DiFrancesco found, it was necessary to treat the pouch wines differently from the bottled wines. "We now add potassium sorbate to the

pouch, which we don't do to our bottled wine," he said.

The first California winery to use pouches, Bluebird Wines in Sonoma, Calif., loved the market's reaction to its pouched 2009 pinot noir but abandoned the package after shelf-life proved untrustworthy.

"Consumers were intrigued by the alternative packaging," said Ryan Donnelly, co-owner and national sales manager for Bluebird. "We were seeing some pretty good success. But we had problems with the wine staying fresh."

Yet Bluebird's principals are watching pouch development closely, with the intent of re-entering the market when they are confident that the shelf-life issue has been addressed. "We're trying to figure out if the wine is going to have at least a 12-month lifespan," Donnelly said.

PROBLEM SOLVED

Tim Orr, a packaging engineer from Redding, Calif., said the 12-month problem has been solved. His company, TORR Industries, builds machines that fill pouches. He has worked closely with several wineries – including Bluebird during its shelf-life crisis – and says he's found the key to pouch-wine preservation.

"Dissolved oxygen," he said. "To properly package the soft pack, you need to control the dissolved oxygen that gets into the wine."

Orr and others are tweaking the design of pouch fillers to decrease the amount of oxygen added to the wine during filling. He has it down to .10 micrograms per liter, which, even when combined with the oxygen already in the bottle-ready wine, implies a stability that gives the wine the year it needs to clear the distribution process and make its way to the consumer's refrigerator.

Across the industry, people are

Glenora Wine Cellars in New York was the first U.S. winery to package its wine in pouches.



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tweaking techniques and technology to make wine pouches more dependable, because they believe it's the Next Big Thing.

"It wasn't perfect when they started bottling Champagne," DiFrancesco said. "They blew up a lot of bottles before they got it right."

A MATTER OF TRUST

Eric Steigelman is founder and CEO of Bonfire Wines, which will hit the market this summer. While most people in the wine business are in it because they love wine, Steigelman is in it because he loves packaging. He has a degree in packaging science, and started Bonfire in 2012 after looking for markets where packaging hadn't modernized.

Ask Steigelman about the challenges of getting people to try pouch wine, and he'll tell you about baby food.

"Gerber baby food for three generations put its product in little glass jars," he said. "Once the pouch revolution came along in 2011, (the consumer) fought that trend as a trust issue. Forever, consumers trusted glass. That paradigm is shifting. This next generation is more willing to trust that (pouch) packaging, and once you gain that trust, you're in."

Everyone interviewed for this article pointed out that the Millennial generation grew up with pouches of fruit juice and that trust is not an issue.

"We were the first to start drinking out of pouches as kids," Steigelman said. "There is research that says that pouch packaging, among Millennials, is perceived as desirable, high-tech in a way that resonates with that demographic."



The packaging is our brand. You'll never see Bonfire in a bottle."

Pouches, Moynihan said, are best filled with premium wine. Stores tend to locate the brightly colored packaging up front rather than in back with the value wines.

"I want to be in the premium wine category, not the value category," he added. "We're not going to make a 4-liter or 5-liter pouch."

At this point, the mass-producers of value and premium wines haven't stepped into the pouch game. They are, according to an industry consultant who didn't want to be quoted, standing on the sidelines, waiting for the right moment to step in. At that point, they'll flood the market with product, leveraging their existing shelf space and buying up smaller wineries that have staked out meaningful market share.

"It's going to have a good market share," the consultant said. "Will

it be 50%? No. Will it be 10%? I think so."

Perhaps most interestingly, there is unanimity on one other aspect of pouch wine: It's creating new markets rather than cannibalizing old.

"Brands are extending their wines to venues where wine hasn't been sold before," Moynihan said.

"It's increasing the consuming of wine," added de Carbonnieres of Smurfit Kappa, "because you offer consumers a way to take wine to a different place. You would not take a glass bottle on a boat, but now that's another occasion when you could drink wine."

The "pouch revolution" is new and exciting technology on a steep learning curve. Pouch manufacturers are frenetically improving the performance of their products. Engineers are tackling the problem of filling the pouches while entrepreneurs install a pouch-filling infrastructure familiar to anyone who

has seen a mobile bottling plant pull up to the back of a winery.

There are marketers – smart, experienced, filled with fire – designing brands that make premium wine a viable option for NASCAR infields, poolside parties and every place else currently dominated by canned beer.

And there are our Millennials, Jen and Jason, facing shelves of infinite wine choices. They've been eating and drinking out of pouches their whole lives. They're about to make their choice, and the wine industry waits to see what it is.

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