THE CHANGING LANDSCAPE OF CALIFORNIA WINE
No doubt the California wine industry was in dream land back in the 1990s. One fantastic vintage followed another and there seemed to be no upper limit to the price consumers would pay for a glass of fermented California grape juice. And then, as the phrase goes, they woke up. 1998 and 2000 proved to be less than stellar vintages, demand slowed and the competition launched a full-scale assault. Now, wary consumers are insisting on better value at every price point and only the brands that succeed in convincing the consumer that they deliver more flavor per dollar are seeing 90s-like sales growth.

A New Playing Field

While the tide of winery bankruptcies appears to have slowed following the notable failures of both De Loach and Fife in 2003, there remain several clouds approaching the foggy shores of the Golden State which could make for even leaner times to come. For starters, over the past three years, yields in California have been substantially below average at 3.0 to 3.1 million tons compared to a peak of 3.3 million tons in 2000, according to figures released by the Wine Institute (total acres under vine actually peaked in 2001 and have declined very slightly since.) A return to historically average yields could mean an increase of 5 to 10 percent or more in the volume of wine produced, turning the current surplus into a surplus-plus.

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— Tony Cartlidge, Cartlidge & Browne, Napa

One factor, however, that has been working in California’s favor is the unusually weak dollar which has put upward price pressure on imports. Bob Paulinski, Master of Wine and chief wine merchant for Sam’s Club, states, “The exchange rate is helping to ease the woes of California right now. If the rate was where it was 5 years ago, I think we would have a catastrophe.” The change in the exchange rate amounted to almost a 20 percent slide against the Euro in 2003 and close to a 50 percent decline since 2001. Another advantage for California producers has been the anti-French, pro-American sentiment following the war in Iraq. While that feeling seems to be fading fast, it has certainly provided a much needed boost to American winemakers.

Good and Bad News from the Vineyards

In 2002, the difficulties of the Central Valley grape growers were in the spotlight. Many growers were paid as little as $65 per ton, barely enough to cover the cost of harvesting. For the 2003 harvest, however, the base rate more than doubled to $125 to $150 per ton. Even more encouraging was the concern expressed by some of the large wineries over future supply. Discussions for 2004 fruit started early with offers of $150 to $200 per ton, a level which might be high enough to keep growers from pulling out more vines. Gallo also reportedly offered some 3-year contracts and, in a shocking turn of events, some planting contracts for certain varieties of diminishing interest, the supply of which was diminishing a bit faster than the interest.
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Of course, all the turnaround in the Central Valley is due largely to the success of the extreme value varietals sector, which tapped up enormous amounts of extra juice. Nat DiBuduo, president of Allied Grape Growers, states, “We’re pretty excited about the super-value category. Consumers are getting some great wine at a great price. The $2 price point has come up a bit. But if you hit $3 the grower can get a decent return on his grapes.”

But there is new pain elsewhere which may be more difficult to alleviate. While bulldozers have been working overtime ripping up vineyards in the fertile plains around Modesto, plantings have continued apace in the more Northern counties. Even more disconcertingly, there are several thousand more acres planted and scheduled to come in to production over the next few years. Surprisingly, it is the number-one must-have grape, Cabernet Sauvignon, that is expected to show the largest surplus. Demand for Cabernet is almost flat while the supply has increased dramatically and is expected to continue to do so for the next few years as newly-planted vines start to produce commercially meaningful crops. And it is just this sector which has been under the most pressure on the sales side in the last year. One New York distributor who asked not to be named stated, “We have California Cabs that were allocated a year ago and are now on discount.” So while the extreme value sector may be obliged to add a dollar or two, further discounting looks likely for more upscale sectors.

Long Live Value Amidst all the doom and gloom, let’s not forget that there is definitely an upside here, and plenty of it, from the perspective of the California wine lover. The California wine industry may be learning some important lessons about setting prices without proper consideration of changes in demand and vintage variations. Prices in Bordeaux have always fluctuated based on factors outside the producers’ intentions and frequently go down in poor years or when demand is on the wane. This concept has been anathema to California winemakers yet the advantages for equalizing supply and demand are obvious.

“The slow down has really occurred at the high end; bottles over $50,” observes Rene Schlatter, executive VP, Merryvale Vineyards. “While I have seen it start to rebound, it is by no means where it was a few years ago. We have noticed a lot of people trading down from our Reserve Line to our Starmont line, which retails in the mid-teens. A lot of producers have created the second label, to move excess juice. In many ways, it is a healthy shift. It weeds out some of the people who should not have been in the business in the first place.”

Ted Hall, the president of Long Meadow Ranch Winery and the new Chairman of Robert Mondavi Corporation would say that Californians are effectively mirroring the Bordeaux system by redirecting juice to new, lower-priced brands. He states, “there have been a lot of stresses over the past few years and they have made us stronger and more creative.”

One thing that is incontrovertible is that California continues to represent better and better value for the consumer. When the now-famous Charles Shaw (aka Two-Buck Chuck) was introduced in 2002, it sent shock waves through the wine community. Many commentators saw Two-Buck Chuck as a temporary phenomena reflecting a temporary glut. Said commentators were wrong. Dead wrong. Chuck has just passed his second birthday and is still going strong, with an astonishing 70 million bottles sold last year.

Trader Joe’s as a Permanent Part of the Winescape The success of Two-Buck Chuck is not a phenomena limited to its exclusive retailer, Trader Joe’s. The biggest change in the U.S. market for wine is in fact the emergence of numerous chain stores, including those 300-pound gorillas, Wal-mart/Sam’s Club, Costco and Target as major players in the retail wine sector. And not only in the value segment. According to recent statistics, Costco is now the largest seller of classified-growth Bordeaux. As evidence of their seriousness in the sector, several chains have added marquee names to their buying rosters. Shortly after Sam’s Club hired Master of Wine Bob Paulinski, Target took on Andrea Immer, Master Sommelier, as consultant for its new line of bag-in-the-box wines made by Trincher Family Estates (excuse me, make that bag-in-the-cube wine).

For those envying Californians and their easy access to bargain-priced wine, there is a flip-side of the chain-store aspect to consider. Tony Cartlidge, of Cartlidge & Browne in Napa, sees the increasing influence of super-stores in the wine arena as a potentially negative trend. Cartlidge was born in the U.K. where 80 percent of wine is sold by 5 large chain stores and where, he believes, “extreme value has led to extreme monopoly.” Wine buyers looking to try something different or those seeking a particular bottle from an obscure appellation are probably not well-served by the super-store dominance. “The consolidation of buying power within a few large chains may lead to greater margins for the retailers but depressingly little choice for the consumer, as it has in the U.K.” says Cartlidge.

Paulinski agrees that the U.S. is moving toward the UK model. “I look at the UK and use that as measuring stick, and we are about 5 years behind.” However, in terms of how this will affect the consumer, Paulinski paints a much pret-
California

The Old Days

“I make the best-value $100 Napa Cabernet Sauvignon.” — Clark Smith, owner/winemaker, WineSmith Vineyards

Now

“Those people who are buying Two-Buck Chuck are getting ripped off.” — Tony Cartlidge of Cartlidge & Browne, as quoted in The San Francisco Chronicle, during his limited-run $1.67/bottle sale.

tier picture. He believes the greater efficiency the chains can offer translates to better value through own-label brands as well as lower prices on national brands. And, in terms of the wineries making the most sought-after bottles, he asserts, "A few years ago, a lot of them would not be interested in us. Now, when you walk into a Sam’s Club, you see Grange and Opus and Insignia and of course everyone wants to be a part of that. And the consumer is going to be able to buy those well-known wines at a lower price."

Competition from Down Under

No doubt a great portion of the pain in California is the result of having been underpriced by the competition. Many observers also believe that Californians have also been out marketed, particularly by the Australians. Oliver McCrum, a Berkeley-based importer of Italian wines as well as a distributor for several California wineries, voices the feeling of many in the industry when he says, “there has been a dreadful sameness in the marketing of domestic wines. You look at Australian wines and they have much fresher, more interesting packaging with these cool labels and interesting names. I think the cleverness of their marketing accounts for a large portion of their success.” This is not an insult that Californians, with their global reputation for promotional creativity, are likely to take lying down. And there are many signs that the California wine industry is rising to the challenge. Cartlidge & Browne, for one, has responded by adding a new line of wines under the Manzanita Canyon label, which retails for $6 and has been lauded by critics for its excellent value. Cartlidge is threatening to promote his wines with POS displays depicting Kangaroos boarding boats headed back to Australia.

The Silver Lining

Despite all the current challenges, the U.S. is still a great place to be in the wine business for a number of reasons. Most importantly, Americans are drinking more and more wine. The U.S. has the honor of being one of the few wine-producing countries with an increasing per capita consumption. And at an annual rate of 8.8 liters per person compared to 35 to 60 liters in Europe, the market could hardly be said to be saturated. It is also one of the few wine producing countries which consumes more than it produces, so American producers are less reliant on foreign markets and, consequently, the vagaries of foreign exchange rates. Lastly, the effect of the weak dollar has yet to be fully reflected in the shelf prices of imported wines, which may start to make Californian wines look like better values.

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6 new reasons to Drink California Wines

Some of the most impressive values in California these days are in the new wines which have been introduced over the past few years, many of them second labels from wineries better known for more upscale bottlings. Here are some of the best of the latest crop.

**Papio Chardonnay 2002 $6.99**

With a good dose of Viognier and Muscat grapes, this unoaked wine is fragrant, zesty and light on its feet.

**Manzanita Canyon Cabernet Sauvignon 2002 $6.99**

This zippy little cab has an elegance that belies its modest price tag.

**Wyatt Chardonnay 2002 $9.99**

Clean, pure fruit flavors in a very attractive package.

**Wyatt Pinot Noir 2002 $9.99**

This zippy little cab has an elegance that belies its modest price tag.

**Ravenswood Vintner’s Blend Cabernet Sauvignon 2001 $9.99**

Ravenswood is set to follow up the overwhelming success of their Zin with this juicy, good-value cab.

**Grand Archer Sonoma County Merlot 2000 $20**

For those who worship Arrowood, here at last is a more affordable line from the famed winery. This Merlot is restrained and elegant, a true wine geek’s wine.