The Central California Winemaking Industry Analysis

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The state of California produces 81% of wine made in the U.S. and is the world's fourth largest producer of wine (wineinstitute.org/resources/statistics, 2018). According to the Alcohol and Tobacco, Tax and Trade Bureau (TTB.gov, 2020), in 2016 California produced 680 million gallons of wine and contributed $37.1 billion to U.S. sales (wineinstitute.org, 2020).

The Central Coast region of California is a dominant winemaking and wine grape growing area, and a federally recognized winemaking area (or "appellation") known as a American Viticultural Areas (AVAs). For a wine to be labeled with a particular AVA, at least 85% of the grapes used in it must be grown in that region. This analysis is focused on the Central Coast winemaking industry.

Influence of Competition and Pricing on the Wine Industry

The Central Coast AVA is comprised of 291 wineries located along a 300-mile stretch along Hwy. 101 from San Francisco and south to Santa Barbara County – see map (wineinstitute.org, 2020). Competition for wine sales is significant among other wine growers in the region as well as producers in the other five California AVAs.

According to a January 2020 report on the U.S. wine industry, (McMillan, State of the Wine Industry, 2020), it was predicted that oversupply will drive prices down, yet the quality of wines being produced has "never been better," which is good news for consumers and signal lower prices. McMillan also noted that sales growth in the wine industry has been flat for the past several years, due to the drought and wildfires, and could now be on the verge of negative returns "for the first time since 1993" (McMillan, 2020).

Influence of the Winemaking Industry on the Supply Chain

The supply chain for winemaking starts with the growers of wine grapes. They've seen reductions in price-per-ton of wine grapes, as well as an unknown quantity of grapes left unharvested throughout California regions (McMillan, 2020). If the growers cannot make the wine grape harvest profitable, they are likely going to look at alternative uses for their acreage. In 2001, there was a low supply of grapes and wine producers in California were clamoring to buy grapes from growers and paying a premium price per ton. According to Alston, Lapsley & Sambucci (2018), supply of grapes is highly *inelastic* with respect to pricing, because the supply has been determined (and planted) years in advance. Pricing shifts higher when the demand for the limited supply increases. In 2017, wildfires destroyed grape production in Northern California, which impacted the other regions driving prices for certain varieties up (Alston, et al, 2018).

Most and Least Important Factors of Production on the Winemaking Industry

To produce wine, the natural resources needed include land, rich soil and water to grow the vines. The average amount of acreage for wine-grape growers in the Central Coast is 83.2 acres and the total wine-grape acreage of the region is 133,329 (Alston, Lapsley & Sambucci, 2018). It also takes time - approximately five years from initial planting to shipping. Without these elements, it cannot be done – even if you have the most advanced equipment for harvesting, extracting and fermentation. The least important factor of production in winemaking, which is still important and necessary, is human capital. This also depends on the labor supply of unskilled farm workers, which is said to be declining (McMillan, 2020) as younger generations seek higher education and income in more densely populated cities.

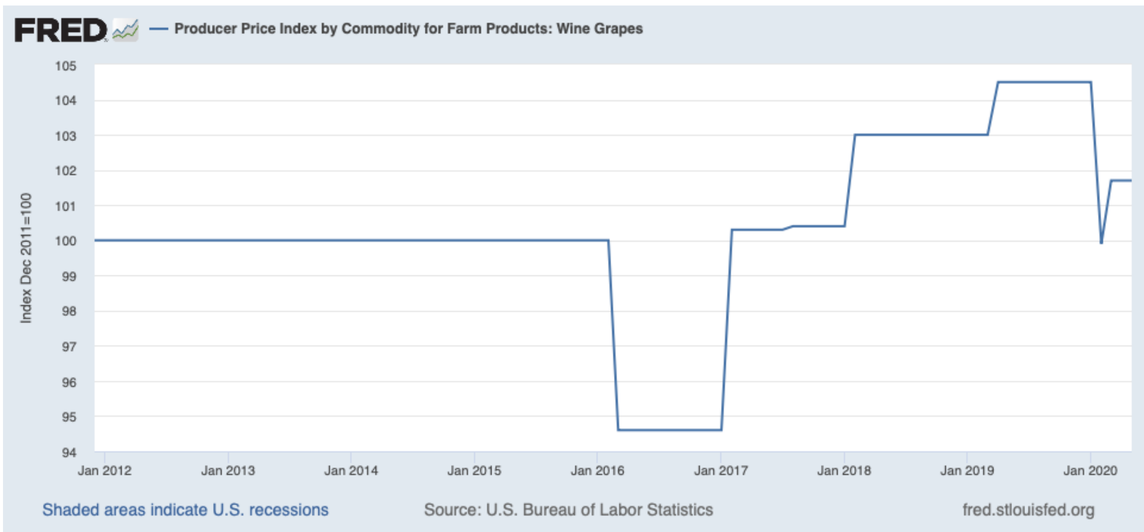
Outlook for the Industry in the Near Future

The report predicting a sharp decline in U.S. wine sales for 2020 was published in January before the pandemic and economic downturn was felt across the U.S. While people have been sheltering, home-schooling, and working from home, reports have emerged that alcohol consumption has risen. According to BeverageDaily.com, alcohol sales in the U.S. for the week of May 13 was up 34.2 %. Nielsen shopper insights reported wine sales have increased 14.1%, spirits were up 27.4% and beer and cider were up 12.3% (Askew, BeverageDaily.com, 2020). The question remains: will “at home” retail consumption offset the decrease in bar and restaurant wine sales and consumption? Total expenditures spent on wine will surely be less, but the wine industry could possibly sell more units through the remainder of 2020 than it did in 2019.

Conclusion

Researching the economics of wine opened my eyes to the many variables involved in producing an agricultural product. The Central Coast is just one region of many in a large state that produces a lot of varieties of grapes for many uses besides wine. The grapes grown in this region are primarily used to produce Pinot Noir and Chardonnay wines. However, the wine industry as a whole is highly vulnerable to the availability of quality grapes, competition and pricing among other wineries, wine critics, personal taste, adequate rainfall, natural disasters and even fictitious movie characters announcing, “We are not drinking Merlot!”

In the wine industry, that movie moment was known as the "Sideways" effect, which had a real and negative impact on Merlot wine sales. It also *increased* Pinot Noir sales by 2% following the Oscar-winning movie of the same title (Cuellar, S.S., D. Karnowsky, and F. Acostac, 2009).



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