

West Coast Wineries Wrestle with Recession

As consumers stop eating out and buy cheaper wines, producers are changing their game plans in order to survive

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Posted: Tuesday, February 17, 2009

Sonoma's wine industry quickly dubbed it "Black Friday." On Jan. 30, dozens of employees of Jackson Family Wines, parent company of Kendall-Jackson, came to work to find they'd been fired. Jess Jackson's company reportedly laid off 170 employees in the last half of January, most of them on that final Friday. That's roughly 20 percent of the staff.

"There was a reduction in force affecting every area of the organization," said Caroline Shaw, a spokeswoman for the company. "There are a variety of factors affecting the economy right now and we needed to adjust."

Everyone knows that the current recession, the worst the country has faced in decades, will have a big impact on the U.S. wine industry. But no one's quite sure what that impact will be. The laid-off Jackson workers were just a small number of the 600,000 Americans who lost their jobs in January, joining 3 million people already out of work. Across the country, families are making hard choices and spending less. American wine consumption grew for the 16th straight year in 2008, but at a slower pace than in previous years, and industry analysts are predicting growth will be very slow in 2009. "If a winery can be relatively flat in this environment, they're doing pretty well," said Mark Freund, senior relationship manager for Silicon Valley Bank in California, which works with about 250 West Coast wineries.

"There is no one who is going to escape this," said Bill Harlan, of [Harlan Estate](#). While no one is panicking yet, there are plenty of warning signs that wineries could find themselves in trouble. The [Sebastiani family recently sold its historic Sonoma winery](#) to billionaire [William Foley](#) for a reported \$47.5 million, which many in the industry saw as a vastly discounted price from what they could have gotten a year ago. Local aid agencies in Sonoma and the Central Valley report that vineyard workers are finding fewer jobs helping with winter pruning, ironically at a time when the decline of the construction industry has pushed more migrant laborers into farm work. Kirkland Ranch winery's leading creditor began foreclosure procedures on the Napa winery in January. [Kirkland had struggled financially for some time](#). The owners had put it up for auction market earlier. But it's hard to believe it would have failed to sell a few years ago.

Winery owners in better shape are adjusting to a new landscape. "People are really hurting, especially if you rely on restaurant sales," said Dan Kosta, of Sonoma cult Pinot Noir producer [Kosta Browne](#). Consumers are eating out less and ordering cheaper bottles or wine by the glass when they do. Restaurants from New York to San Francisco and everywhere in between are offering heavy discounts, waiving corkage fees and hosting BYOB nights. The Mirage Hotel & Casino in Las Vegas recently started a promotion offering 50 percent off wines in many of its

restaurants two days a week. Wineries that focused heavily on on-premise sales at restaurants and bars are trying to shift their focus to retailers.

Many consumers are not buying less wine when they go shopping, but buying cheaper wine, according to marketing research firms. The hottest categories are wines priced between \$10 and \$20 and wines for under \$10. "It looks like we're having a pretty good January," said Keith Love, vice president of [Chateau Ste. Michelle Wine Estates](#) in Washington. He noted that 99 percent of Ste. Michelle's 2 million-case production is priced at \$10 to \$20 a bottle. "We're not anticipating any damage to that business."

But even larger wineries are facing a challenge. Love anticipates a slowdown for Ste. Michelle's luxury brands: [Spring Valley](#), [Col Solare](#) and [Northstar](#), which retail for \$40 a bottle and up and depend heavily on restaurant sales. "We're seeing trading down in our portfolio," said Eric Morham, president of Constellation's Icon Estates, which includes [Robert Mondavi Winery](#), [Simi](#) and [Kim Crawford](#). "[Value] brands like Estancia are doing amazingly well. Things that are over \$25 are soft." Icon is expanding production of Estancia this year, and holding off on a planned price increase for Kim Crawford.

Even smaller wineries are attempting to shift their focus to lower priced wines, while trying to maintain high quality. David O'Reilly, co-owner and winemaker at [Owen Roe](#) winery in Oregon, is releasing a value line of Washington wines priced between \$10 and \$13. He's sourcing the grapes from growers selling at a discount because other wineries aren't buying.

Smaller wineries are having a tougher time, though. Several wine collectors report they are suddenly getting allocation offers from cult producers after being stuck on waiting lists for years. "I think the higher-end wines are probably struggling as much as anyone," said Tom Klein, owner of [Rodney Strong](#) Vineyards. "In a way, conspicuous consumption is out of favor these days. Nobody is bullet-proof in this environment."

Freund expects smaller wineries with strong reputations or consistently high ratings to survive. "I'm happy to be established," said Ken Wright, of [Ken Wright](#) Cellars in Oregon, who reported that he obtained bank financing for remodeling and expanding his production space. "It would be a much more difficult situation if we were brand-new and didn't have a well-known presence." Banks tightened credit lines late last year. While they're still lending, they're asking for a lot more evidence that wineries have a strong business plan.

The most endangered wineries are new ones that haven't built up a loyal customer base yet. Chris Sparkman, of Sparkman Cellars in Woodinville, Wash., has just released his third vintage. His wines retail for \$28 to \$56. "We don't have distribution far and wide, and that's part of our current challenge," said Sparkman. "I'm having to hit the ground real hard to gain distribution."

Sparkman is shifting his production focus. He recently launched a second label, Wilderness, which retails for \$28. He plans to boost production of that lower-priced Cabernet-Syrah blend. "The primary focus of this and most businesses is to survive this year," he said. For many wineries, getting to 2010 is business goal No. 1.

