

Wine in hard times
(Number 65 in a series of opinionated articles about grapes and wine)
By John Smith

For the past year and a half, the biggest worry facing the wineries in our area was the high cost of gas and how to get people to drive all the way “up the hill” from Sacramento or “over the hill” from Reno. At the same time that threat began to ease, we were faced with the same issue as the rest of the country, and for that matter, the world.

The Ground Rules

First of all, it’s well established that people don’t decrease their consumption of elevating beverages during hard times; if anything, gross sales often increase as people seek some relief from increasing financial cares and concerns. The other well-established fact is that the more expensive wines are the first to suffer as people look for the same enjoyment at more reasonable prices. Industry sources confirm that sales of wines costing more than \$40 per bottle are already being hit hard – most of these are found in that “high-priced area to the west” – but our customers (as well as our cash register tape) tell us that, for our area, wines with bottle prices much over \$20 will be increasingly hard to sell while this squeeze continues.



Whether it’s “just a recession,” an actual depression, or a global financial meltdown, the effects are being widely felt throughout the world of wine. Restaurants are among the hardest hit, and those that have weathered other storms are now facing serious challenges as people dine out less to conserve decreasing incomes. In at least one way, this affects the majority of wineries who sell to area restaurants because even when couples decide to splurge on a restaurant meal, they may be less inclined to buy a bottle of wine at the normal restaurant markup of 100% over the retail price. People will still buy wine, but they will consume more of it at home, and they will be looking for good quality wines at reasonable prices. Fortunately, that is what our area has always been known for.



From the Frying Pan Into the Fire

During the gas crisis, we saw more customers arriving four to a car instead of two, a natural response we didn't need an economist to predict. We also saw that, while there were fewer total visits to our tasting room, people were "stocking up" to a greater degree, purchasing more than a single case in anticipation of not visiting as often. Now that incomes are curtailed for many customers, the most common effect for us is cancellation of wine club memberships. Every time we send out a wine club shipment, we get a number of calls from people who forgot they had committed to a quarterly delivery and saw an unexpected charge on their credit cards, even as the highly-desired wines arrived via UPS. We have had many club members change from having their wines shipped to them to picking up, often when they can combine them with other purchases for quantity discounts while saving the delivery charges. (Perhaps the only) good news here is that the fuel surcharges that spiked delivery charges last year have been dramatically decreased with lower fuel costs.



With increased competition for moderately-priced wines, the state Alcoholic Beverage Commission has provided reminders that "free goods" offered as incentives to customers are illegal in California. There's a fine line here – it's appropriate to sell at whatever discount we like, so offering wines at 50% off is OK, while advertising, "Buy one, get one free" is not. It's also allowed, as popularized by area BevMo stores, to offer a second bottle for 5 cents, but not for zero cents. Less logically, they tell us that offering free shipping is also prohibited, but providing a fixed, reduced price of even one dollar for shipping is not (it doesn't have to make sense, it's our *policy!*).

Trouble Ahead, Trouble Behind

With the proliferation of wineries (as chronicled in these articles in recent years), it's inevitable that there will be a "shakeout" and some of the less successful (or overly greedy) wineries will have to change policies to succeed. Those whose quality has not

kept pace with their increased prices will need to seriously address one side of the equation or the other or both. The sad fact is, wine quality is very hard to change in the short term, because even if practices are refined or a consultant is hired, it can still take two years before the effect is seen in the tasting room, and that time frame may be too long for the current economic situation. The alternative is to reduce prices, and with costs fixed at the time grapes and barrels were purchased, this can dramatically reduce the already-thin margins that most wineries live on.



One local winery has already filed for a well-documented bankruptcy (and another in a neighboring Foothill county); it is our sincere hope that no one else needs to follow that path. Those who have worked to provide a pleasant experience in the tasting room and have paid attention to the quality (and the pricing) of their wines over the long term are likely to survive, but no one will go completely unscathed. You can choose the projected length of this downturn, depending on which economic pundit you believe, but no one is expecting recovery in less than twelve months. We can all hope that the time is not much longer than that, but we'll all need to redouble our efforts to provide extra service, extra bargains, and extra niceness for all the customers who visit, and to find creative ways of marketing through alternative channels while the restaurant market remains depressed.

Let us Help You

As the situation develops, there are always those who seek to profit from our perceived lack of knowledge or business sophistication. An entertaining advertisement recently reached us, called "Opportunities in Premium Alcoholic Drinks." The commentary provides these insights:

"The current economic downturn especially the historically low consumer confidence that has emerged in 2008 presents a potentially challenging environment in which to drive premiumization going forward.

The alcoholic beverage products that will be best insulated from down trading will be those with a compelling proposition benchmarked against The Premium Price Index (PPI).

The economic downturn will not result in wholesale changes in premium alcoholic beverage preferences but it will influence where consumers enjoy their favorite brands. Between 10 and 35% of consumers (depending on country and location of purchase/consumption) are seeking less expensive alternatives."

It's not clear to me exactly how to produce a "compelling proposition benchmarked against the Premium Price Index," but I'm sure I can find out by buying the full report at the bargain price of 6,094 Euros (\$8,326 at the exchange rate as this is going to press).

Another consulting firm has the following list of insightful suggestions specifically tailored to the wine industry (but an identical list is sent to all businesses on their e-mailing list) to make things better:

- 1. Act with audacity.**
- 2. Write action plans and commit to execute them.**
- 3. Engage your team.**
- 4. Encourage constructive conflict.**
- 5. Seek out a trusted business coach.**

For the last item, they humbly suggest "This is where my colleagues at [XYZ] Advisors really can be useful. It may be as simple as a quick phone call to one of us. You can reach me at"

The Last Drop

Many wineries have opened since the last downturn (2001-2003) that have never experienced hard times from behind the tasting bar, and many of the older ones have probably never seen a time like the present. We don't yet know how deep the impact will be – how many will have to reduce staff, reduce prices or just give up the dream entirely. It is a time for all the wineries to work together, with the support of our friends and neighbors who recognize that we are one of the few local commercial activities with the ability to survive the current downturn. And we will collectively be glad to provide our customers with an affordable, brief liquid respite from their own economic worries.