Regional Spotlights

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THE CALIFORNIA WINE REGION

As of February of 2020, California was home to 4,613 wineries and was the state with the most
wineries in the United States, which had a total of 10,472 wineries. These California wineries
were responsible for 86 percent of the wine produced in the United States. If California were
considered as a separate country, it would have been the world’s fourth largest wine producer,
after France, Italy, and Spain. More than 95 percent of United States wine exports were produced
in California in 2019, with the European Union, Canada, and Hong Kong being the top three
export markets for California wine.

California wine appellations refer to either a geographical region, such as a county, or an
American Viticulture Area (AVA), which is the general system under which American wine-
producing regions are classified. Wines labeled with an AVA must be made with at least 85
percent of grapes from that appellation, and wines labeled with a county appellation must be
made with at least 75 percent of grapes from that county. California currently has 139 AVAs.
Any wine labelled with a California county appellation, California AVA, or bearing the name
California is required to be made with 100 percent California-grown grapes.

California, being the third largest state in the United States by area, has a wide variety of
climates and geographical regions. California climate, in general, is characterized by warm
sunny days and cool nights. California soils are quite varied, with sand, clay, ash, gravel, and
seabed soil contributing to a very diverse terroir.

California has five main wine regions: the North Coast, the Central Coast, the Sierra Foothills,
the Central Valley, and the South Coast. The North Coast region, covering more than 3 million
acres, has cooler summers and mild winters, and is home to more than half of California’s
wineries, including some of its most renowned. Cabernet Sauvignon and Chardonnay make up
about half of the vines planted here, although there is also Zinfandel, Pinot Noir, Merlot, and
Sauvignon Blanc. The Central Coast region runs from San Francisco to Santa Barbara and is
mountainous with diverse soil types due to tectonic activity. Chardonnay and Pinot Noir are predominantly planted here, along with Cabernet Sauvignon, Zinfandel, and Sauvignon Blanc. The Sierra Foothills region, more than 2.6 million acres, drew many immigrants during the California Gold Rush who remained and planted vines in the warm, high altitudes. Zinfandel, Syrah, and other red varieties are primarily grown here. The Central Valley region grows 70 percent of California’s grapes, with the majority sold in the bulk wine market, and is typically hot and dry. The South Coast region features several mountain ranges and favors Zinfandel.

The California wine industry, like the American wine industry in general, has struggled in recent years with an oversupply of grapes. California produced a record crop of 4.3 million tons of wine grapes in 2018 and is projected to have a 2019 harvest at or just slightly below normal yields. These high yields, coupled with a slowing demand for wine due to a transition in consumer demographics from Baby Boomers to Millennials, led to the need for wineries to discount finished wine, bulk wine, and grapes in 2019. Lower-priced wines saw a negative sales growth rate at the end of 2019, and the premiumization model, which had benefited many in the California wine industry in previous years, began to prove unsustainable as the premium wine sales growth rate declined due to increased price sensitivity in consumers.

Although American wine sales by value had another record year in 2019 due to the slowed but still increasing premium wine sales, the lowered sales volume meant that while established brands which had good relationships with their distributors did well, it was at the expense of smaller, less fortunate wineries. This reality was also reflected in California.

On March 15, 2020, California Governor Gavin Newsom announced a directive advising non-essential business, which included winery tasting rooms, to close in order to slow the spread of the Coronavirus. While wineries themselves were deemed essential and allowed to remain in production, the loss of revenue from tasting room sales was significant, especially among smaller wineries without distributor relationships. Additionally, this directive also closed restaurants and bars, causing on-premises wine sales to fall even further.

However, the many consumers also forced to stay home by the directive drove up off-premise wine sales considerably. By March 21, 2020 there was a 66 percent increase in off-premise wine sales, although this increase only benefited those wineries that had space on supermarket shelves. There was also a remarkable 225 percent increase in online retail wine sales. While these two increases were considered by the industry to likely be a temporary phenomenon, the increase in online sales was seen by some to offer a measure of longer-term benefit to California wineries, as it included a 72 percent increase over the same time last year in buyers purchasing alcohol online for the first time.

Another potential silver lining to the lockdown may have been the fact that it forced California wineries to explore alternate direct-to-consumer models. Wineries pivoted online out of necessity due to tasting rooms closures, holding virtual tastings, online wine classes, virtual winery tours,
virtual introductions to their winemakers, and generally putting more time and effort into their social media presence. Although it may have been difficult to translate a physical winery visit online, these virtual experiences helped to maintain the relationship between wineries and their customers and also allowed wineries to reach consumers who may never come to California. These efforts, especially if they were continued once tasting rooms reopen, could have a lasting positive impact on customer engagement for California wineries.

Additionally, a long-standing area of concern for wineries has been labor costs and availability. As restaurants were also closed in California in response to the pandemic, this development made available to wineries a larger pool of workers for grape harvesting and production, easing these labor concerns for wineries.

While these relatively positive results of the lockdown helped to mitigate the loss of tasting room income, California wineries were still adversely affected by tasting room closures overall, especially smaller wineries without distributors, who relied on their tasting rooms for a significant portion of their revenue. As an unfortunate surprise, many wineries also discovered that their insurance’s business interruption policy, which they counted on to replace lost income due to the lockdown, included specific exemptions for business interruptions caused by viruses and infections. These exemptions were commonly added to policies by insurance companies in 2006 in response to their payouts due to SARS in the early 2000s. A further concern is that the diminishing wine sales volume due to the lockdown will also worsen the preexisting oversupply of grapes as wineries enter the 2020 harvest in the Fall. This especially holds true for vineyards without contracts to sell their grapes.

At the end of May 2020, individual California counties, largely responsible for reopening guidelines, slowly began to allow local restaurants and wineries to reopen. Early estimates put the loss to the US wine industry as a result of the pandemic at $6 billion. The almost 97 percent of United States wineries that produce less than 50,000 cases per year are expected to lose between 36 percent and 66 percent of their annual revenue in 2020 as a result of the pandemic. Wineries that produce between 1,000 to 5,000 cases per year are expected to lose roughly 47 percent of their annual revenue for 2020. Wineries that produce less than 1,000 cases per year are expected to lose up to 66 percent of their annual revenue. Further, even as lockdown restrictions lift, it would take considerable time for customer visits to wineries, and the restaurants and bars that buy their wines, to return to their previous levels, as tourism and air travel recover.
References


