# California refuses to wither on the vine

By David Gelles in San Francisco
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The vines in California's wine country are currently bare as vintners await spring and the breaking of buds that herald next year's harvest.

Yet as the winemakers prune row upon twisted row, there is a palpable air of sobriety, as if a thick fog has subdued the usually exuberant Napa Valley.

California wine shipments fell last year for the first time in 16 years, a contraction that marked the end of one of the region's most robust periods of growth. Shipments were down by 4m cases to 236m, according to analyst estimates. That represents only a 1.6 per cent dip in the produce of California's $19bn (£12.5bn, €14bn) wine industry, but it was enough to seriously rattle wine industry veterans.

"This threw a monkey wrench into many grape-growing and wine-making markets and will continue to do so," said Jon Fredrikson, a wine industry consultant. Winemakers, distributors and the local California economy have all felt the effect.

Consumer habits were upended by the recession, and in the throes of the economic crisis it seemed to many as if people had simply stopped drinking.

"We hit a wall a year ago," said Vic Motto, chief executive of Global Wine Partners, a wine industry investment bank. "Some producers were down 30 per cent in their sales."

But it was more than just the effects of the recession at play. A combination of factors came together to end California wine country's growth spurt.

"There was tough economy, a shift from excess, a combination of vintage issues and a marked change in consumer behaviour," said Benjamin Sharp, the president of Captûre Wines, an upstart winemaker in Sonoma County.

Part of California's problem is that the wine that it produces is so good. Because of the generally high quality of the region's product, it commands a premium, leaving it more exposed as consumers decide to trade down during a recession.

"The higher the price of their wine, the more they've struggled," said Mr Motto.

Consumers who once bought exclusive bottles from California now have plenty of cheaper options from Chile, Argentina and Australia, to name but a few. "It's not like you have to do without," said Mr Fredrikson. "Instead of spending $50 for a bottle, you can spend $10 or $20."

This trading down led to an uneven battering of the industry. While boutique wines with high prices have been hardest hit, many of the largest producers, which sell so-called "supermarket wines", had record years.

“The big players all did relatively well, many of them hitting record volumes because of this resetting of consumer demand,” said Mr Fredrikson.

Because most wineries are privately held, they do not release exact sales figures. And few wanted to discuss the troubles of a tight-knit community. Yet there were some bright points. Captûre Wines, founded by Mr Sharp, his wife Tara and four other partners, has enjoyed surprising success in its first years in business.

But by debuting its first release in the midst of the recession, the company was forced to enter the market at a lower price point than it otherwise might have.

“Everyone has been impacted,” said Ms Sharp. “We had to ask ourselves a lot of hard questions.”

Critically, Captûre decided to price its first release, a 2008 Sauvignon Blanc, at $32, a bargain for a boutique wine.

Before the recession, Captûre would have sold the same bottle for $75-$100.

“You have to have a strong stomach, deep pockets and a lot of passion,” said Ms Sharp.

But Captûre has succeeded in selling 90 per cent of its allotment by aggressively pursuing direct sales.

Rather than rely on distributors, which are heavily dependent on sales to the beleaguered restaurant industry, many winemakers are cultivating closer personal ties with their consumers. “The ones that have direct relationships with consumers have done better,” said Mr Motto.

As the wine industry now counts its losses from the previous year, it also faces an uncertain future.

“The financial heart attack we had was a severe health problem for the economy,” said Mr Fredrikson. “It applies to lots of different product categories, including wine.”

Because California bottles will for the forseeable future remain more expensive than those from overseas competitors, it may take time before consumers begin spending on premium wines again, meaning another potentially tough year for Napa Valley.

Others believe the strong momentum that has catapulted California to the apex of the global wine industry will help it rebound quickly.

“A series of demographic and cultural changes have driven the growth of the California wine industry for 25 years, and they’re still driving the industry,” said Mr Motto.