

**Bloomberg.com**

## Wine Lovers Uncork Cellar Stock, Sap California Vintners' Sales

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By Ryan Flinn

Dec. 23 (Bloomberg) -- Producing vintages that delight the palate and impress the nose won't be enough to make this a good year for California winemakers.

"People have money but they're afraid about the future," said Paul Hayashi, California sales representative for **Grgich Hills Estate**, whose Napa Valley wines retail for \$30 to \$135 a bottle. "When the mortgage thing hit, it was a sharp drop."

Aficionados feeling the economic pinch are drinking cheaper wines, buying less or consuming what's already in their cellars, slowing sales growth. This year's U.S. sales of California wines will be about \$19 billion, little changed from \$18.9 billion in 2007, said **Jon Fredrikson** of wine industry research firm **Gomberg, Fredrikson & Associates**, in Woodside.

The cutbacks may be most damaging to the state's small, independent wineries, which typically need to charge more than big winemakers to cover costs and make a profit, Fredrikson said.

"Consumers are trading down," he said. "Higher-priced wines are getting hurt because 40 to 60 percent are sold in restaurants. People aren't springing for the big celebration."

The shift can be seen at New York restaurants, said **Danny Meyer**, whose Union Square Hospitality Group operates Gramercy Tavern, Eleven Madison Park, Shake Shack and other eateries.

"Wine sales by the bottle are down, while wine sales by the glass are up" at his Blue Smoke barbecue restaurant, Meyer, 50, said in an interview. The increase in purchases by the glass pushed up wine revenue almost 15 percent in the past two months.

### Union Square's Menu

His Union Square Cafe, ranked the city's most popular restaurant in Zagat's 30th annual survey, is doubling the number of wines offered for less than \$75 a bottle, Meyer said. The new choices are from Italy and France, joining 23 California wines in that price range, said Michelle Lehmann, a spokeswoman.

Online retailer **Wine.com** is experiencing a similar trend. Its average selling price dropped 19 percent in the first half of this month from a year earlier to \$24.50, while the number of bottles sold increased 11 percent, said Rich Bergsund, chief executive officer.

Demand is still strong for some expensive vintages. Some wineries have long wait lists for bottles that have cult followings and sell for hundreds of dollars, Fredrikson said.

Those who do pay lower prices may not be settling for inferior quality. Sales of wines rated 91 points on critics' 100-point scale increased 44 percent by unit volume in September, while the price dropped 27 percent, Bergsund said.

### Raiding the Racks

Alder Yarrow, who writes the Vinography.com [wine blog](#), said he cut his wine spending by half to \$200 for six months, then stopped buying altogether because he was worried about the economy.

"It's a good excuse to drink the wine I have," said Yarrow, 34, who estimated that he owns more than 450 bottles. "I'll save my money."

Some artisanal producers are being hurt because they haven't been around long enough to develop a wide following, said Sean Thackrey, a winemaker in Bolinas.

"The days of opening a boutique winery and charging \$75 a bottle, we're way past that," said Brian Zucker, co-owner of San Francisco-based retailer [K&L Wine Merchants](#). "There's just more and more wine out there."

Small wineries also are being squeezed by rising costs. Prices for barrels, corks, fertilizer and shipping all increased along with energy this year, said Paul Kronenberg, president of Family Winemakers of California, in Sacramento, which represents more than 700 producers.

#### Loss of Tourists

Many small wineries depend on tasting-room sales and wine-club memberships for most of their revenue. High gasoline prices last summer deterred some casual drinkers from touring wine country, while some customers dropped out of wine clubs that ship bottles automatically, said Barbara Insel, president of [Stonebridge Research Group LLC](#), a wine-industry research firm in Napa.

"Retailers and wineries are working twice as hard to sell the same amount of wine," Insel said.

[Craig Root](#) of St. Helena, a consultant for tasting rooms, said he expects the slowdown to persist through 2009.

"Business is definitely off," Root said. "Case buyers are buying bottles, and bottle buyers are buying nothing."

Deborah Schatzlein, owner of [Bink Wines](#) in Mendocino County's Yorkville Highlands, said restaurants are ordering fewer bottles of her wines, which sell for \$20 to \$40 retail.

"We've had some accounts that used to order three cases every other week now order three cases every six weeks," said Schatzlein, 51.

#### Cheaper Replacements

Other restaurants are restocking with less expensive bottles, said Kevin Westlye, executive director of the [Golden Gate Restaurant Association](#) in San Francisco.

Thackrey is used to his limited-production bottles selling out within days of reaching stores. These days, he's offering consumers his Andromeda and Sirius brands at reduced prices, so they can avoid paying distributors' markup. He calls it a "Chicken Little discount," after the fable.

"Two of the wholesale distributors I sell to are delaying buying anything from anyone until the sky stops falling," Thackrey wrote in an e-mail.

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*Last Updated: December 23, 2008 03:00 EST*

