Fermenting a Twenty-First Century California Wine Industry

VICTOR W. GERACI

At the start of the twenty-first century, California wineries entered a new vinti-business (vertical integration of grape farming, wine production, and wine distribution) era based on the needs of a global wine economy by adapting historic survival lessons learned from their past. This agricultural success story illuminates the entrepreneurial energy and able instincts of California farmers who replicated, with modern twists, the big business canons of Gilded Age agricultural capitalism. Whether it be the Phyloxera outbreak in the 1880s Los Angeles region of Southern California, World War I, Prohibition, the Great Depression, the Second World War, and finally neoprohibition, wine entrepreneurs rebuilt each time by returning to nineteenth-century capitalist tenets intrinsic in a market economy. Successful wineries found ways to achieve the most efficient economy-of-scale operations through their use of science, promotion of sustainable agriculture, aggressive marketing, protection of wine’s image from attacks by neoprohibitionists, and courtship of government agencies for money and favorable policies. After managing domestic production and sales, forward-thinking viticultural entrepreneurs then expanded their operations into the twenty-first century global marketplace much like their predecessors from the century before.

I refer to this phase as the globalization of the California wine industry, and I’ve set for myself the major goal of transforming a basically pro-

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duction driven state economy into an international competitor. In order to do that, we must invest in resources; we must invest in human, political, and market resources. In other words, by becoming a competitor internationally, you maintain yourself as a competitor, period, in the industry that you’re in. Otherwise you fall prey to the provincial attitudes that can occur.

California wine businesses, devastated by a half century of wars, depression, and Prohibition, physically rebuilt and reestablished an American wine culture that grew to prominence in both the domestic and international marketplace in the latter half of the twentieth century. This agricultural success story illuminates the entrepreneurial energy and able instincts of California farmers to make the most of the state’s Mediterranean climate while utilizing new scientific techniques, inexpensive labor and mechanization, and national and international marketing. Supported by state and federal government policies, California wine captains of industry formed vintibusinesses featuring vertical integration that revolutionized and restructured the global wine trade of the twentieth century.¹

Early success stories foreshadowed an explosion of the California wine industry between statehood in 1850 and Prohibition in 1918. Building upon the successes of the pioneers, the industry matured and patterned itself after the big business canon of Gilded Age capitalists by utilizing vertical and horizontal integration. California then burst into the national wine scene, and the Los Angeles region of Southern California led the nation in winemaking. Throughout the twentieth century as setbacks occurred, these wine entrepreneurs succeeded by returning to nineteenth-century capitalist tenets intrinsic in a market economy. They created trade organizations that aided corporate vintibusinesses and allowed them to first master their domestic market and then to begin the long process of securing a place for California wines in the twenty-first century global wine industry. Successful wineries found ways to achieve the most efficient economy-of-scale operations through their use of science, promotion of sustainable agriculture, aggressive marketing, protection of wine’s image from attacks by neoprohibitionists, and courtship of government agencies for money and favorable policies. After managing domestic production and sales, forward-thinking entrepreneurs then expanded their operations into the twenty-first century global marketplace much like their predecessors from the century before.²
Figure 1. This nineteenth-century Currier & Ives hand-colored print entitled "The California Beauty" portrays a young woman wearing grapes and grape leaves that allude to the youth, beauty, and agricultural bounty of California. Courtesy of the Bancroft Library, University of California, Berkeley.

Key to this story is the fact that wine growers stabilized a boom and bust market by bringing farmers and winemaking entrepreneurs into trade organizations and vertically integrated vintibusineses. Beginning with Spanish occupation in 1769, small regional producers supplied a limited amount of wine for local consumption. Most mission and small private
vineyards produced low-quality table wines and fortified spirits from inferior mission grapes for local consumers and for the Catholic Mass. Thus, commercial viticulture existed in California even during the eighteenth century.3

Initial wine-business entrepreneurial energy came from local Mexicans like Manuel Requena, Tiburcio Tapia, Ricardo Vehar, and Tomas Yorba. Yankee, English, French, and Italian settlers provided small amounts of wine for emerging pueblo and presidio centers in Los Angeles, San Diego, Monterey, and San Francisco. By the 1820s commercialization moved into the hands of easterners and foreigners like Massachusetts’s adventurer Joseph Chapman, Dutch sailor Johann Groningen, French cooper Louis Bouchet, William Chard, and Lemuel Carpenter. In the early 1830s French Bordeaux cooper Jean Louis Vignes joined their ranks and established the Southern California El Aliso vineyard with non-Mission vinifera grapevines. Competition for the El Aliso vineyard came in 1833 when William Wolfskill, Kentuckv adventurer, planted 145 acres next to Vignes’s vineyard and by the 1850s produced fifty thousand gallons per year. By 1840 Vignes’s nephew Pierre Sainsevain was shipping his Los Angeles wines to Santa Barbara, Monterey, and San Francisco.4

During the decade of the 1850s, wine production moved toward an industrial model by expanding in size and capital investment. Englishman William Workman (La Puente Ranch), Frenchman Michael Clement, Swiss Jean Bernard, Englishman Henry Dalton, and Scotsman Hugo Reid (Rancho Santa Anita) planted wine-grape vineyards. As demand grew, Irishman Matthew Keller planted vineyards just south of the city of Los Angeles at the Rising Sun Ranch and the Santa Monica Malaga Ranch, where his enterprises earned him the title “wine making millionaire.”5

At the same time, the profitability in California’s new commercial wine industry emanated from wineries with larger scale of size, aggressive marketing, and business efficiency. The Sainsevain Brothers of the Los Angeles area adopted new vertical integration wine business practices and bought out their uncle’s (Jean Louis Vignes) El Aliso vineyard. They quickly expanded production by purchasing bulk wine from their growers, purchasing small local vineyards, opening a store in San Francisco, and shipping wine to New York and Philadelphia. By 1858 their winery led the state with sales of 125,000 gallons of wine and brandy. Theirs was not the only large-scale operation in Los Angeles. German immigrants and musicians
Charles Kohler and John Frohling raised $12,000, purchased a small vineyard in 1854, and began making wine. They quickly expanded their business, with Kohler managing sales in San Francisco and Frohling overseeing production in Los Angeles. The company’s post Civil War wines attracted loyal customers in San Francisco, New York, and Boston and prompted vineyard expansion in Sonoma, Fresno, and Sacramento Counties.

As an agricultural endeavor, this new wine industry also benefited from patterns established by other agricultural and food-processing industries. National consumer demands resulted in expansion, and technological advances drove up the productivity of agriculture through modernization of cultivation, expanded transportation systems, and national marketing programs. Aiding in the new industry were the state and federal programs whereby governments, through university research and development, shared new discoveries with farmers through conversations, journals, and treatises. Most importantly, agricultural government planners helped draft landmark legislation that supported the nation’s movement toward an industrial and agribusiness economy.

On par with national agricultural enterprise, winegrowers advanced an American wine-drinking culture by mirroring Gilded Age business practices based on mergers, integration, and well-capitalized large business structures. Despite national depressions in the middle of each of the three decades following the Civil War, production of California local wines in the 1880s topped five hundred thousand gallons per year, a figure that bested Guernsey County, Ohio, the former US leader. This commercial success encouraged wine pioneers to spread out statewide into San Diego, Cucamonga, Santa Barbara, Monterey, Contra Costa, Amador, El Dorado, Sutter, Napa, Sacramento, and Sonoma. Small wineries that did not consolidate adapted by forming local niche markets or went out of business. These initial accomplishments in expansion set in motion a repeating business pattern whereby large-scale vintibusinesses vertically integrated and aggressively marketed California wine in national and world markets.

One of the first advocates for an organized wine industry was Agoston Haraszthy: Hungarian noble, soldier, and agricultural entrepreneur. In a quest for a post-retirement career, Haraszthy entered the wine scene where he later garnered the moniker “Father of California Viticulture.” His first four grape-growing failures gave way to success between 1858
and 1862 at his five-hundred-sixty-acre Sonoma Buena Vista Estate complete with vineyards, winery, and nursery. Realizing that the Mission grape could never make quality wine, Haraszthy wrote an 1858 “Report on Grapes and Wine of California” laying out the need for better European wine grape vineyards and blending of wines to achieve consistent quality. Governmental support came in 1861 when Governor John Downey appointed Haraszthy as a commissioner for a newly established commission to promote industry improvement in the vineyard and winery. While on a personally funded European trip, the self-appointed voice of the industry gathered thousands of vines in Germany, Italy, France, and Spain. Upon his return in 1862, he published *Grape Culture, Wines and Wine Making, with Notes upon Agriculture and Horticulture* for the commission. Haraszthy’s involvement at the agricultural and governmental levels aided support for the organizing wine industry.9

A strong activist voice in the halls of government and industry was a good start, but capitalizing a new industry required new organizational approaches. For example, when Kohler and Frohling found that their Los Angeles properties and wine purchases could not meet consumer demand, they hired Austrian George Hansen to organize San Francisco Germans to work in their newly formed Los Angeles (Anaheim) Vineyard Society. In 1857 fifty German shareholders contributed $1,400 each ($70,000 total) and the corporation purchased 1,165 acres in Los Angeles and assigned a twenty-acre parcel to each shareholder. Over a two-year period Hansen developed the vineyard at a cost of $60,000, and shareholders began supplying Kohler & Frohling with the grapes needed to meet increasing wine sales. The increase in shareholders and revenue allowed the corporation to meet the demands of their consumers. In addition, by means of horizontal integration the vast vineyards of Anaheim also provided wine grapes for Bavarian Benjamin Dreyfus, who in the 1860s opened his own wine marketing firm, B. Dreyfus and Company, in New York and San Francisco.10

Unfortunately, just as Anaheim and Los Angeles entrepreneurs were at their heyday, disease struck the industry. In 1881 USDA investigator Newton Pierce failed to find either a cause or a cure for a disease that slowly killed vines throughout the area. Later named Pierce’s disease (or Anaheim disease), this bacterium spread by the glassy-winged sharpshooter caused wine production to dwindle by 1883. As quickly as the industry had grown to commercial prominence, it fell into decline. Viticultural
Figure 2. The song "The Wines of Los Angeles County," (Music and words by George G. W. Morgan) celebrated the commercial dominance of Southern California wineries in the American wine industry. Robert B. Honeyman Jr. Collection, courtesy of the Bancroft Library, University of California, Berkeley.
investors, more interested in profits than grapes and wine, switched to citrus crops.\textsuperscript{11}

However, the crisis simply provoked other investors, corporations, and grape pioneers to move their energy northward to the state’s San Francisco Bay Area, where premium wine grapes prospered, and to the hot Central Valley, where agribusiness production of raisins, table grapes, and bulk wine juice reigned. Taking advantage of the cooperative or society/colony approach, corporate investors and individual wine entrepreneurs in the Central Valley provided capital to develop new vineyards. By the 1880s Central California Colony, Washington Colony, Scandinavian Colony, and the Fresno Colony led the area in planting vineyards. Sole proprietor wine pioneers founded large bulk winery establishments like the Eggers Vineyard, St. George Vineyard, Fresno Vineyard Company, and the lavish Barton Estate of retired mining engineer Robert Barton.
In the same effort to reestablish the wine industry in a new location, in 1881 wealthy Bay Area Italian immigrants incorporated and offered 858 shares ($60.00 par value) in the Italian Swiss Agricultural Colony. Principal investors like Pietro Rossi (largest stockholder), Andrea Sbarboro (grocer and founder of an Italian savings and loan), Dr. Paolo de Vecchi (San Francisco surgeon), Mark J. Fontana (California Fruit Canners’ Association), Baptista Frapolli (wine merchant), and Dr. Giuseppe Ollino (medical doctor) patterned the large-scale vineyard experiment along the lines of the old Anaheim Society. Sbarboro became the front man for the operation in charge of organizing the sale of 300,000 additional shares of common stock to Italian and Swiss employees who could voluntarily make installment payments from their payroll earnings. Within a year the company planted 1,500 acres of vines in Asti (Sonoma County). When workers failed to buy into the financing scheme, the directors opted for vertical integration by building a winery in order to make wine from their own grapes. Rossi’s twin sons, Edmund and Robert, traveled through Europe gathering techniques and later studying enology (study of making wine) at the University of California, Berkeley under Frederic T. Bioletti and Hans Holm. By 1909 the corporation boasted of its use of new scientific techniques like the commercial practice of sulfur dioxi ding the must (fermenting juice) and refrigerated fermentation. Continued planting of new vineyards and winery expansion made the enterprise the largest California wine producer at the start of the twentieth century and paid handsome profits to its investors.12

With the potential for prosperity, the impetus for giant commercial wineries became more intense. A new group of wealthy investors established wineries like the Alameda County Chateau Bellevue, Mont Rouge, Ravenswood, and La Bocage wineries. Leland Stanford, of Big Four Railroad fame (Collis Huntington, Charles Crocker, Mark Hopkins, Leland Stanford) established the Vina Ranch that by 1890 encompassed twenty thousand acres of vineyard land with a yearly production of 1,700,000 gallons of wine. The list of wealthy winemakers also included Senator James G. Fair’s Sonoma Vineyard, entrepreneur George Hearst’s Sonoma Madrone Vineyard, and fur magnate Gustave Niebaum’s Rutherford Inglenook Vineyard. In Livermore, Julius Paul Smith, Death Valley Borax magnate (Twenty-Mule Team Borax), started vineyards on his newly purchased 2,300-acre ranch, and Alexander Duvall, Peruvian railroad entrepreneur, did the
Figure 4. By 1890 the Kohler and Frohling wine company's increased sales necessitated their moving into this San Francisco corner building. Roy D. Graves Pictorial Collection, courtesy of the Bancroft Library, University of California, Berkeley.

same. The establishment of the California Wine Association (CWA) followed the formation of commercial wineries, and by 1914 CWA included over forty wineries, or one-half of the state's production, including complete control of Italian Swiss Colony.13

California winemakers started the twentieth century with high hopes. The state's population soared to over 1,485,000 and national wine consumption grew to three-tenths gallons per capita per annum. By 1910 the demand was enough to consume fifty million gallons produced by the industry nationally. California's share of the national wine market grew from 50 percent to 88 percent, and its only serious rivals were European wines. However, these initial successes crumbled after 1918 as moral crusaders nudged the nation into Prohibition and wine markets collapsed as the national economy faced Depression and World War II.14

Wine's commercial energy, far from dead, struggled during this era. Some winemakers, like Louis A. Petri, made quick profits when the last of
the family’s 250,000-gallon inventory was “sold at a couple of dollars a
gallon,” and his grandfather “came out of it with a considerable amount of
money.” At the same time some entrepreneurial growers shifted to sales
of grapes and bulk juice products to easterners clamoring to make legal
homemade wine. Other producers went into a holding pattern. In 1919
CWA wanted to sell off the Asti winery by breaking it into small forty-
acre plots. Seeing a business opportunity, Edmund and Robert Rossi, in a
move to ship grapes and grape juices eastward, purchased the Asti vine-
yards for $240,000 in what Edmund Rossi later said was “banking on re-
peal.” So confident were the Rossi brothers that they held two hundred
thousand gallons of dry red table wine in anticipation of repeal. In a sim-
ilar vineyard move, Joseph Di Giorgio continued grape production for his
Earl Fruit Company.15

The producers remained conservative, continuing to nurture their
vineyards, but with commercial winemaking still illegal in 1932, a handful
of growers formed the Grape Growers League of California as an appar-
atus to argue for wine repeal before the US Senate Ways and Means Com-
mittee. One result of their lobbying effort was the fortuitous hiring of
Leon Adams from Pacific Advertising, who would later take on a major
role in national and international marketing strategies. Unfortunately,
when the long-awaited repeal arrived in 1933, it found a diminished wine
industry. It seems that most Prohibition alcohol consumers shifted to
sweet high-alcohol wines in the absence of their normal distilled spirits. In
other alterations many growers replanted or grafted to grape varietals
adaptable to long distance shipping (for the eastern home winemaking
market), and most wineries neglected their facilities.16

Once again entrepreneurial wine people found creative ways to re-
build their large commercial wineries. The Petri family utilized their Petri
Cigar Company profits to reenter the industry by purchasing St. Helena
and Calistoga co-ops (business structures whereby grape farmers pooled
resources and cooperatively sold grapes to wineries) and contracting bulk
wines to Gallo. Norbert and Edmund Mirassou had resisted the urge dur-
ing Prohibition to shift to easily transportable grapes and met the new
post-Prohibition wine demand with established vineyards of Petite Sirah
and Zinfandel grapes that were snapped up by the Cribari and Bisceglia
wineries. Using these initial profits, backing from the Santa Clara Valley
Wine Growers Association, technical advice from the University of Cali-
ifornia, and support from the Berkeley Yeast Laboratory, they moved into bulk wine production by capitalizing on the new technique of field crushing and pressing.¹⁷

During the 1930s as the profits of the post-repeal industry shifted to the side of the large-scale commercial vintners with the means to rebuild a devastated industry, the depression era small grape growers scrambled to keep their heads above water. The newly restarted Italian Swiss Colony, short on cash, grapes, and bulk juice, with vastly underused facilities, joined in a partnership with Di Giorgio’s Fruit Industries Incorporated, who held surpluses of grapes and saw wine as a means to use their under-valued crop. At first, Joseph Di Giorgio only asked, “will you make wine for me out of my grapes?” Italian Swiss Colony kept 40 percent of all wine made from Di Giorgio grapes and marketed the rest for the Di Giorgios. Later, along with Seghesio and Sbaboro families, the Di Giorgios’s purchased 37.5 percent of Italian Swiss Colony. In 1932 the Di Giorgios, happy with their new vertically integrated endeavor, purchased the Tro-cha Winery (Delano), planted new vineyards, and started making wine. Winemaking guidance for the project came from wine greats Horace O. Lanza and Antonio Perelli-Minetti, and the business quickly expanded to about seven million gallons of cooperage capacity.¹⁸

As cheap, abundant grapes and low quality bulk wines had shifted profit to the wineries, growers responded by feeding consumer interest in premium and super-premium wines. Establishments of all sizes created new quality labels built upon trusted reputations. Initial design help came from University of California professors Albert Winkler, Maynard Amerine, William Cruess, and Maynard Joslyn. Like many farmers, Louis Petri and others found that “trying to be farmers in a large scale was not profitable.” Over the next few years, quality and quantity came into balance, and Italian Swiss Colony purchased the La Paloma Winery and expanded production facilities at both Asti and La Paloma. By the end of the 1930s, the company was back on its feet and making a profit. In a similar move toward expansion, the Schilling Corporation of San Francisco started custom crushing (acting as both a wholesaler and producer) in Cloverdale. The Petri family expanded by restructuring their wine sales, including a Pennsylvania deal to purchase the bulk bottle Margo Wine Company and the Tulare Wine Company that had a monopoly contract for all Washington State wine.¹⁹

Along with growth in vertical and horizontal industrial methodology,
wine executives sought favorable government policies to support the industry’s return to prominence. In 1934, under the tutelage of men like Edmund Rossi and Leon Adams, wine-grape businessmen again formed an organization (much like the previous California Wine Association), the Wine Producers Association (WPA). The WPA was a voluntary organization and only represented one-half of the wineries. From the start, it faced an uphill battle in the education of the “American public to the proper use and knowledge of wine.” Seeking a uniform coalition, forward-thinking wine men created the Wine Institute and later the Wine Advisory Board. Utilizing the legal expertise of the Institute’s general council Jefferson Peyser, San Francisco lawyer and state representative, the Institute guided the industry’s “good old dirt farmers who were interested in grapes and were idealists” through the rebuilding process. The founders quickly moved to regulate quality and create government policies like the 1937 Marketing Act that took advantage of a state agricultural umbrella. In a brilliant move, Peyser convinced the California state legislature to define industry members as “winegrowers.” For an industry just emerging from the repression of Prohibition, this agricultural status was important in relaxing a “crazy-quilt” of local, regional, and state laws restricting growing, making, and distribution of wine. Eventually, over two hundred fifty wineries and ten thousand growers (nearly 90 percent of all the state’s industry) took advantage of the 1937 California Agricultural Marketing Act that allowed agricultural specialty groups to form a Marketing Order for Wine. The wine industry now had a uniform voice.20

Despite legislative support, improved scientific techniques, and restructured vintibusiness organization, the advent of World War II once again found most wineries facing dwindling sales and little capital for modernization. Complicating the decline was the loss of the ability to distribute wines after the federal government took over bulk tankers for the war effort. For the third time in a half-century, after battling disease and the effects of Prohibition, the industry responded to the chaotic market with a marketing organization. The struggle to rebuild and organize the industry began with the strong leadership of men capable of bringing order to chaos. For a while grape-growing co-ops provided a means for farmers to maintain stable grape prices and have access to long-term government loans for modernization and tax breaks. By the 1950s two of the five biggest wineries were co-ops. But in the words of Ernest Gallo, “by its
nature, a co-op was primarily a producer, not a marketer.” Without marketing strategies for their product, the growers’ solution seemed to fade almost as soon as it began. At the same time, hard-hit distillers watched as their grain supplies were diverted to the war effort.21

Thus, in a stroke of capitalist genius, corporate wine and distillery leaders merged the two industries and created a scenario whereby grape growers found a market, and wineries found a way to finance modernization projects. The renewal began in 1941 as Schenley Distillers purchased Cresta Blanca and Roma wineries and vast vineyard acreage in the Central Valley. In a move that appeared to combine the industry overnight, large liquor companies in the eastern United States, such as Seagrams, Schenley, and National Distillers, made major investments in California wineries. The renewal continued as national distillers purchased Italian Swiss Colony and Di Giorgio sold Trocha Winery to Schenley. The consolidation took hold and spread in the 1950s and 1960s.

California’s post-World War II commercial wineries, with favorable government policies, reentered the national and international wine marketplace. By the late 1940s this newest vintibusiness surge placed large distillers in control of one-half of the nation’s commercial wine production and saved the ravaged industry with an influx of much-needed capital for expansion and rebuilding. The “bigger is better” philosophy resulted in 271 bonded (a governmental practice whereby a winery posts a surety bond to guarantee that taxes will be paid) wineries in 1960, down from 1,300 in 1936, and prepared the way for corporate wine giants with a scale-of-size capable of international marketing.22

The next few decades were not without obstacles. Andrew Beckstoffer, Heublein executive and vineyard owner, remembered the serious price declines “that happened in 1974. It happened again in 1983. It happened again in 1991. It seems to happen about every ten years. If that’s the case, we should be looking for some activity soon after the turn of the century.” Liquor companies, unwilling to wait out winery long-term profits, quickly grew impatient and withdrew from the industry, and within a few years many of the state’s wineries reverted back to ownership by resident entrepreneurs whose main interest was winemaking. The Petri family purchased National Distiller’s ownership of Italian Swiss Colony in a deal that financed $6 million of the $12 million purchase price with loans secured by US savings bonds that matured when the notes came due. The Petris also toyed with
making their wine interests part of larger publicly traded corporations in a
deal that acquired 51 percent of S & W Corporation in 1957. Louis Petri, in
a more successful move, vertically integrated wineries and growers in the
Allied Grape Growers (1951) and United Vintners (1952) organizations.23

As always, success came for wineries that simultaneously mastered
marketing and made renewed commitments to grape growing and wine-
making. One such success story came in the 1960s when Philo Biane’s
Southern California Brookside Winery marketed and distributed wine
through sixteen winery tasting rooms, utilizing grapes from its five-
thousand-acre Italian Vineyard Company, thus creating the state’s largest
direct sales operation.24

Consolidation of vineyards and wineries remained prevalent through-
out the late 1960s and continued into the late 1980s. In 1968 Schenley pur-
chased the Glen Alden Corporation, then in 1969 Heublein bought United
Vintners (Inglenook and ISC) with a business plan that included “con-
verting the mix from sweet to dry and probably premium dry wine, selling
it for more than two dollars a bottle.” Over the decade of the seventies,
large acquisitions included: Nestlé buying Beringer in 1970; Guild Win-
eries buying Glen Alden Corporation in 1974; Canandaigua Wine Company
buying Bisceglia Brothers Wine Company in 1977; and Coca-Cola buying
Sterling Vineyards in 1977. As the consolidation continued into the 1980s,
industry insiders watched as Schenley purchased Rodney Strong Vine-
yards, RJR Nabisco bought out Heublein, Seagrams obtained Sterling,
and Heublein procured Almaden.25

As large corporate wineries consolidated, they also sought means to
quickly increase bottom-line profits in an industry notoriously slow for
profit returns on investment. Wineries like Wine World, seeking innova-
tive ways to generate income, started to participate in the new global wine
economy by stocking a large range of domestic and foreign products.
Michael Moone, representative for Beringer and Wine World, Inc., re-
membered that in the 1980s “one of the ways [to increase sales] was to sell
European wines, where you had no investment and your people could
talk to somebody, sell them something, and make some money.” The end
result of the introduction of domestic and foreign products consisted of a
flurry of American/European partnerships designed to build markets on
other continents. Partnership fever produced alliances like the ones with
Beringer and French Champagne house Maison Deutz, and the Opus
One creation by Robert Mondavi Winery and the French Rothschild Estates. Consolidation continued through the early 1990s, as Heublein purchased Glen Ellen and M. G. Vallejo, and Canandaigua purchased Almaden and Inglenook. All benefited from the large corporations’ knowledge of how to raise capital and effectively market wine to consumers.26

Corporate expansion was one avenue for increased sales, but on a smaller scale the 1960s and 1970s heralded the expansion of the newly revitalized Northern California family wineries. America’s post-World War II middle class, freed by its car culture and disposable income, sought new and interesting ways to relax and enjoy an acquired appreciation of self-indulgent recreation. Consequently, many middle-class consumers planned vacations and short escapes to numerous family wine-farms to imbibe wine and enjoy the good life at its source. However, these newly fermented enophiles quickly outstripped the production capacities of the premium American wine industry.

In the last quarter of the twentieth century, wineries, faced with production shortages, again formed vintibusinesses to meet new needs. The process began in the 1980s, as California wineries mimicked their nineteenth and mid-twentieth century predecessors. California Bay Area vintibusinesses spent the last decade of the twentieth century implementing an almost imperialistic conquest of smaller California regional vineyards and wineries. Utilizing vertical integration and high levels of capitalization, these mega-wineries quickly dominated the American wine market and sought ways to increase their business through international exports.27

Amazingly, throughout the history of the industry, the roadblocks to success remained similar. In the latter twentieth century, the California industry consolidated into large wine corporations that quickly dominated the domestic wine market and successfully pursued global markets as European competitors slowly recuperated from the devastation of World Wars I and II. This short-lived reign of American wine superiority ended as the new millennium marshaled in a reinvigorated competitive global marketplace that coveted the deep pockets of American consumers. In response, many growers and winemakers quickly repositioned themselves to seize control of international vineyards and wineries, so as to soften the effects of the twenty-first century boom and bust cycles influenced by war, government policies, anti-alcohol concerns, recessions, depressions, and stepped-up global competition.28
For small wineries, which tied themselves to the imagery of the good life and the Jeffersonian yeoman farmer, survival depended upon their ability to adapt vintibusness techniques. New York Times writer Elizabeth Becker astutely observed that the Jeffersonian yeoman farmer is a “straw man” and that the “real issues were 21st century questions of corporate interests, the environment, global trade, and budget constraints.”

For the wine industry, one means to achieve these goals was through the revised Wine Institute that had grown to include 90 percent of all wineries. In 1986 John De Luca, president of the Wine Institute, remembered “that the industry in California was only 5 percent of the production of the world’s wine,” and he worried that “the industry had developed an enormous aptitude for viticulture and enology, but that in terms of economic analysis or in terms of international analysis of the interaction of trade and subsidies and the dollar and mass movement of marketing, that we weren’t prepared for this phase.” De Luca believed that California winegrowers were “witnessing the internationalization of the California wine industry” and pledged Wine Institute energies to help “raise a consciousness and to get people aware of it before it happened.” Part of the institute’s goal was to demystify California wine and get members to see it as “an augmentation of our resources, ideas, people power, people ideas,” and a means to expand as an industry. In 1990 Louis Gomberg, Gomberg-Frederikson wine business consultant, concurred with De Luca on the topic of foreign investment but added the caveat that this would be true only as long as the premium California industry maintained “its reputation for quality excellence.”

In the new global marketplace, California wineries again found themselves in a highly competitive domestic and international arena and returned to scientific technology, political lobbying, and aggressive marketing to maintain profits. As part of the effort, thirty-two forward-looking wineries stepped up their ties with global vintibusinesses as a means to make up for losses due to increased international wine imports. In the mid-1980s, in a fast-paced complex series of sales, international wine man Agustin Huneeus, ex-Seagrams executive and past owner of Chilean Concha y Toro Winery, took over Franciscan Vineyards and numerous Central Valley vineyards (Pacific Land and Viticulture, Incorporated). Huneeus recognized that the “American market is a very unique market” and that “Americans are used to following trends.” He quickly incorporated vertical
integration into his business with “a plan to eliminate everything that wasn’t produced in our own vineyards.” In a similar global move, Jack Davies of Schramsberg Vineyards Company, invested in Portuguese vineyards in order to get a toehold in Europe.\textsuperscript{31}

Simultaneously, domestic issues of pests and disease control, high cost science, and environmental land restrictions forced most wineries to re-evaluate their business techniques. Pest and disease agricultural economist Alejandro Waters held that a successful wine industry must utilize “learning institutions” and their professional members’ ability to develop new equipment, techniques, and marketing strategies to lure capital investors and provide future growth opportunities. This simple premise had always driven successful wineries. As a result, most wine regions tied themselves to university programs that trained their employees, assisted in the continual fight against grapevine pests and diseases, devised machines to lessen dependence on expensive labor costs, provided techniques to improve quality in the vineyard and in the winery, and trained business professionals to promote, sell, and distribute their product globally.\textsuperscript{32}

As the scientists attempted to make technological advances battling new pests and diseases, Pierce’s disease reappeared at the start of the new millennium, once again threatening the California wine industry. In June 2000 the USDA declared that the recurrence of Pierce’s disease was an agricultural emergency after it caused more than $40 million of damage to the industry. According to William J. Lyons, secretary of the California Department of Food and Agriculture, “The glassy-winged sharpshooter has emerged as the most significant threat to California agriculture in 20 years.” Between 1995 and 2000 agricultural scientists spent more than $10 million on an estimated sixty projects to combat the disease, none of which were successful. Consistent with the past practice of government support, Congress approved $16.5 million in 2001 for the USDA to begin a national battle against Pierce’s disease. Senator Barbara Boxer of California announced that Congress was proud to “assist California’s grape growers and vintners in protecting their crops from the deadly disease.”\textsuperscript{33}

Though the federal government stepped in with aid, non-emergency funding for viticulture and vinticulture had steadily decreased in the second half of the twentieth century, and much of the funding for scientific research came from large corporations. In one such example, Modesto-based E & J Gallo Winery filled the gap by creating their private Technical
Research Center that employed chemists, microbiologists, and biologists to keep the corporation on the cutting edge of new techniques, machines, and agricultural science. In 2001 the center devised and patented a computerized early detection system based on the genetic codes of harmful organisms to diagnose possible difficulties from the field to the finished product and allow winemakers to react before major problems occurred. Luckily, not all corporations had to create an in-house research and development team to take advantage of the new science. New scientific consulting firms like Leo McCloskey’s Enologix appeared and offered, for a price, their services and discoveries to the wine industry.34

As the California wine industry expanded its technology, it also became the target of numerous environmental groups and governmental land-use planners. By the 1990s many environmental groups, determined to save and preserve the natural beauty of the earth, viewed vintibusiness as just another corporate entity destroying the environment for profit. Their aggressive activism forced local, state, and federal governments to institute environmental policies that limited the growth of the industry. These new policies restricted both the planting of vineyard acreage and the placement of winemaking facilities (seen as wine factories by some). Again, the Wine Institute became one of the voices for the industry. De Luca’s belief that the questions “of energy, the question of water, the question of land and being stewards of the land” would serve “as a bridge to many groups” led to the institute’s development and promotion of an industry-wide sustainability program. In a 2001 interview, De Luca eloquently reminded all sides of the irony that “just when agriculture is making its greatest contributions, it’s losing political influence. I think around these great big issues of environmental justice, sustainable agriculture, and sustainable commerce and smart growth, that we should take the leadership and maybe our value system will be just as important as our crops.”35

As vintibusinesses joined to present a united lobbying entity, economic and political pressures from budget-strapped governmental agencies threatened the viability of the American wine industry. The new millennium had brought a recession that quickly forced eight cash-strapped states to raise “sin taxes” on wine, beer, and distilled spirits. By 2003 the national “use tax” or “sin tax” per liter of wine averaged sixty cents per gallon, with the highest taxes of $2.25 and $1.70 per liter being charged
respectively in Florida and New Mexico. The situation worsened in September of 2003 when a US Senate Subcommittee on Substance Abuse and Services held hearings on a National Academy of Sciences report entitled “Reducing Underage Drinking: A Collective Responsibility.” The controversial twelve-member group, with nine active anti-alcohol proponents, concluded that the only way to stop underage drinking was to eliminate alcohol. That same month, as many celebrated the seventieth anniversary of the repeal of Prohibition, wine supporters bemoaned the work of Mothers Against Drunk Driving and the Robert Wood Johnson Foundation and accused them of tactics that would re-institute “prohibition, drip by drip.” The Wine Institute facilitated members’ lobbying, and De Luca warned members that “we should be in the forefront of those who talk about the consequences of abusive behavior. But we also should encourage scientists to research the positive salutary affects of moderation.” Despite the creation of an active plan, many worried whether wine would become a target like cigarettes, creating a situation whereby product taxes approach or exceed the actual cost of the item and thus serve as a deterrent from product use.36

Unfortunately, some wineries, large and small, in an effort to remain competitive, turned to cost-cutting measures that sometimes bordered on unethical practices. In 2001 Rabbit Ridge Winery (Healdsburg) paid a record settlement of $810,000 after a six-month investigation by the US Bureau of Alcohol, Tobacco and Firearms revealed that between 1994 and 2000 the winery had mislabeled seventeen thousand cases of wine with erroneous vintage dates, geographical information, and brand names. Laws protecting consumers from misleading names sparked a labeling controversy between small regional wineries and larger vintibusinesses. Wine makers like Tim Mondavi, Jess Jackson, and Phil Wente argued for a new California Coast label to include a fourteen million-acre stretch of the California coast from San Diego to Mendocino. They argued that this would keep wineries from using cheap, low-quality wines in the coastal blended labels.37

Labeling disputes reflected desperation on the part of some wine businessmen’s need to increase production and quality. Most wine business insiders instead devoted their efforts to increasing domestic and international marketing efforts amid a new wave of attacks from neoprohibitionists. Businessmen feared attempts to fuse wine with alcohol, a combi-
nation that destroyed the beverage’s food relationships. Regrettfully, many wine industry people had done little to combat this effort and in some cases had strengthened the resolve of the anti-alcohol movement with the continued production of low-end high alcohol “wino” products. Large wine corporations, with lines of both premium and cheap wines, had not suffered as much as smaller middle- and high-end wineries, which were dependent on wine’s symbolism as artistic and fashionable. Historic wine purchasing trends supported the fact that wealthy wine drinkers always purchased their product, regardless of economic variations, and that the middle-class consumers were the most affected by economic and social downturns.

Like all businesses, wineries pursuing market expansion relied heavily on advertising and large-scale distribution systems. For small artisan wineries, blocked from large distribution arrangements, a large part of advertising consisted of attracting tourists and local visitors to their wineries. Yet when the visitors returned home, they found that the only way to buy their favorite vacation wines was to order them directly from the winery or join the winery’s wine club. Large liquor wholesalers refused to carry labels from small wineries because of limited quantities and lower profit margins; they effectively blocked these small producers from many out of state markets. Intensifying the problem was the fact that over one-half of the states had laws that restricted or banned direct shipments from wineries. Small wineries argued that these laws were attacks on the constitution and their guarantee of free trade, and that wine was an agricultural product. In response, anti-direct-shipment proponents like Charles W. Ehart, chief of Maryland’s Alcohol and Tobacco Division, responded, “It’s an intoxicating product. It’s a drug. It’s a controlled drug,” and producers and distributors “knew what kind of product it was when they got their license.” Ehart continued, “If they wanted to operate uncontrolled, they should have started up a hardware store.” De Luca reminded his members that “being part of the agricultural community, which for some meant being inoculated against the challenges from the neoprohibitionists, would in fact open us up to other attacks, that agriculture and the food cycle in America was going to be attacked. Therefore we were not going to be immunized by saying wine was food, because food itself was under attack.”

On September 11, 2001, the American age of innocence ended as ter-
rorists leveled New York City’s Twin Towers. Vic Motto, partner in Motto Kryla Fisher, a Napa consulting firm, estimated that the industry lost over $75 million in the six months after the terrorist attack as wine sales in restaurants, hotels, and airlines plummeted. The California wine industry slowed to a cool 3 percent increase after a period of six years of double-digit growth. But the news was far from bad as Motto also cited figures revealing that 90 percent of California wineries were profitable. It seemed that the hardest hit were wineries producing low-priced wines in the under $8.00 sector. Pessimistic industry leaders, however, continued to worry as foreign wine imports grew to 23 percent of the US market, the most since 1985. Regretfully, many American industry leaders had failed to comprehend that European wine consumption had declined. In France, the per capita drinking of wine fell 60 percent and was followed by a 45 percent reduction in Italy. In the end this meant that the global market faced a European “wine lake” as commodity production exceeded consumer demand. Despite the gloomy news, retail sales remained strong for California mid-level wines as customers looked for values, and marketers cut prices to promote more mid-level wines. San Francisco based wine industry analyst Jon Fredrikson referred to the trend as “the era of the consumer.”

Following reports of wine consumption increase, vintibusines executives moved to educate and train a new corps of mid-level professionals to oversee the changing business management techniques in the global marketing and distribution of their wine. In response, the University of California, Davis’s Graduate School of Management and the Department of Viticulture and Enology started a wine executive program in an attempt to train new industry experts. The new program, for middle- and senior-level staff in wineries, vineyards, industry suppliers, distributors, financial institutions, and service providers, began churning out a knowledgeable workforce for the global marketplace. University of California, Davis also launched a thirteen-month MBA program in cooperation with a business school in Bordeaux, France, that Alyson Grant, French program director, predicted would teach “everything from vine to wine with an emphasis on the world market.” Other business schools, such as the University of California, Berkeley, Haas School of Business, also established wine management programs.

Along with an emphasis on management education came a prediction for an international onslaught of wine grapes from a decade-long trend of
planting new acreage to chase consumer whims. Grape broker Barry Bedwell warned that vineyards planted in response to years of double-digit growth would flood the American market with grapes and wine. The problem worsened as Australian production tripled in a fifteen-year period, and many growers picked only the best of their crops as they faced an Australian “wine lake.” Australian wine insiders predicted the need for a 20 percent increase in exports to compensate for their glut. Bedwell warned, reminiscent of Fredrikson’s observation, that “it’s a buyers’ market,” and “the bottom line is, we shouldn’t be planting anything right now.”

Historically, large wine corporations managed boom-bust markets by simply reducing wine grape purchase, trimming contract prices paid to independent growers, and cutting costs. Many in the industry saw these bust times as the natural process whereby the capitalist canon would naturally push out marginal low-end producers. This line of reasoning proved accurate as wineries like Fife Vineyards, De Loach Vineyards, Larson Family Winery, and Buchanan Cellars reorganized under bankruptcy laws. Recent entrant to the industry Patrick Kuleto, Napa vintner, believed that “people who are weak will drop off” and that in the “long term, that makes the market better.”

The global wine glut became exacerbated as Australian wineries faced the reality of having to export an extra 98 million liters of wine. In order to achieve this export goal, Australian producer BRL Hardy moved forward to create one of the world’s largest vintibusinesses. The producer’s chief executive, Stephen Millar, predicted that his wine empire “could be the Microsoft, McDonalds, or Coca-Cola of the wine industry.” He went on to say that BRL would continue to purchase US-based wine producers and take advantage of “the most profitable and biggest market in the world.”

The merger frenzy seemed to slow in November of 2001 when Constellation Brands (Simi, Ravenswood, Franciscan Estates in Napa, Estancia in Monterey County, Covey Run, Paul Thomas, and Columbia in Washington, and Alice White in Australia) failed to take over Trinchero Family Estates (Sutter Home Winery), the fifth largest wine marketer in America. Despite the acquisition failure, Constellation stock registered a 50 percent gain in 2001, prompting JP Morgan analyst John A. Faucher to optimistically declare, “The Company is well-suited for this type of economy” because most of its “brands tend to be lower end.” In January 2002 Jon Fred-
rikson told a Unified Wine and Grape Symposium audience that, "If you are the biggest in the world, vertically integrated ... you can get very aggressive against multinational competitors."  

Further evidence of the wine industry's participation in a global industry appeared when the Australian wine industry ratcheted up the call to vintibusiness. Rich Allert, chairman of Southcorp, the world's largest listed wine company, warned Australians, "Globalization has become a catch call for every political and economic ill." He proposed that Australians should allow "mega-mergers between its major companies to reach critical mass or else risk being sidelined in the global economy."  

At the start of the twenty-first century, California wineries entered a vintibusiness era redefined by a revitalized global wine economy. In response, American wine businessmen adapted historic survival lessons in an attempt to maintain a prominent place in the worldwide market. In this new era they again began the process of lobbying for supportive govern-
ment policies, rebuilding ties with educational institutions, taking advantage of new scientific advancements, and most importantly forming global vinti-business partnerships and techniques. In 2004 new entrepreneurs like Luke Bass and Elena Fels and their startup Sonoma Porter-Bass Winery, Lani and Tim Holdeners' Central Valley Macchia Winery, and ex-paint contractor Jack Salerno in Sonoma started new wineries on shoestrings, bank loans, sweat equity, and day job supplemental wages in the hopes of adding to the already over ten thousand labels list of available wines. In the long run, the lesson learned is that premium wineries will continue to flourish as long as wine pioneers venture into viticulture and large vinti-businesses continue to market and modernize efficient large-scale winery corporations for the global economy. \(^{46}\)

NOTES


5. Ibid., 250.

6. Ibid., 253–54.


11. Pierce’s disease (or Anaheim disease) is caused by a bacterium (*Xylella fastidiosa*) that is spread by the glassy-winged sharpshooter.


27. Geraci, Salud.
35. De Luca, Aug. 6, 2001, Hicke, BL.


