Law Estates Wine

Devon Pitts* Cheyenne Jepsen†
Will Akkaya‡

*Agribusiness, Cal Puy, San Luis Obispo
†Agribusiness, Cal Puy, San Luis Obispo
‡Agribusiness, Cal Puy, San Luis Obispo
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Law Estate Wines Case Study

After graduating college in 2002 studying advertising, Oliver Esparham began working at Sports Authority in Colorado as a graphic designer. He later became a media buyer, analyst and group manager of marketing. In 2009, Oliver left Colorado for UC Davis’ two year extension program to study accounting, marketing and general management. During completing the program at UC Davis, he worked as a production assistant buying and selling wine in Washington DC and Denver, Colorado.

It was in Denver, Colorado where Oliver met his wife, whose father, Don Law, would later become Oliver’s boss. Years later, while having drinks at the Bellagio Hotel in Las Vegas, Nevada, Don and Oliver discussed how there has been a paradigm shift in the way businesses approach consumers. They noted that in the past, everything was mass marketed. “Nowadays in order to be a successful retailer you have to understand your customer,” explained Oliver. They thought, “Wouldn’t it be nice to have that implemented in the wine world or have someone execute that customer understanding?” Don Law told Oliver that it would be great to have that kind of mentality for launching a winery but Oliver would have to understand wine much better than he did at that moment. Oliver then went to school for viticulture enology and acquired a strong background in high-end wine making while buying wine and working on the consumer marketing side of the business. Oliver became passionate about understanding the consumer through targeted and segmented marketing, which would be a huge asset to the success of their dream winery. He had the skill set and the ability to fill the role as general manager; overseeing the tasting room, wine making staff, vineyard management team and projects that coincided with what goes on during the entire wine making process.

With his skills acquired from school, work experience and passion, Oliver was told there would be opportunities on the business side, permitting and on the legal side. In 2008, Oliver was approached by Don and Susie Law to turn their dream into a reality. The Laws told him that if he went to school, did well and worked the harvest, each year he would progress and responsibilities would be added. While he was happy working at Sports Authority running their marketing program, he enjoyed working in the wine industry in production and selling. As far as Oliver knew, it would be a natural progression for him going from the production side to the business side of the company. In 2013, Oliver Esparham became the general manager of Law Estate Wines.
United States Wine Industry Overview

Drinking wine is becoming a more popular method of celebration in the United States. Whether it’s a casual occasion like “Wine Wednesdays” or a romantic dinner, this concept became more noticeable when the U.S. became the world’s largest wine consuming nation in the world in 2013 (see Exhibit 1 for Consumption in the United States). According to Hoovers, a leader in business industry databases, the U.S. wine industry has its largest competition from imports, which accounts for about one third of the U.S. Market (Wine Industry-Hoovers). A noteworthy fact about the industry as a whole is that “50 of the largest companies in the wine industry account for more than 75% of revenue” (Wine Industry-Hoovers). As a whole, the wine industry represented revenue of more than $15 billion (see Exhibit 2 for the 2013 Barnes Report for Wineries & Wine).

Wine Industry Trends, Opportunities and Expected Growth

Since the United States is the leader in wine consumption, there are many individual wine outlets in which wine is sold to consumers. For example, according to Hoovers, wines that are sold in restaurants account for 20% of the U.S winery sector. Wines sold in wineries are closely tied to the food service and dining sector. When it comes to wine consumers, those who were born between 1946 – 1964 make up about 40% of wine drinkers and purchase one in every four bottles of wine sold (Wine Industry-Hoovers). The United States’ leading growth in consumption can be directly attributed to a “younger generation of Americans embracing more wine. This powers a strong growth in segments such as imported wine, sweet wine, sparkling wine and dry rosé; their young counterparts in traditional wine cultures like France and Italy are less enthusiastic” (Wine Institute-CA Wine Sales). The Wine Institute stated that “[as] wine continues to captivate American consumers, the United States [will be] the top wine culture for the foreseeable future” (Wine Institute-CA Wine Sales).

The wine industry is making a push towards expanding its exports through advertisement and promotion abroad. The Wine Institute has set a goal of reaching $2 billion in wine exports by 2020 (Wine Institute-Wine Consumption). Internet sales are starting to help small wineries reach a much wider audience for their wines. According to Wine Institute, California wine exports reached an all-time high in 2013. Out of all U.S wine exports, 90% of exports come from California. Volume shipments in California reached 435.2 million liters (or 48.4 million cases) in 2013 which is a 7.5% increase from 2012 (Wine Institute-CA Wine Sales). When it comes to wine exports in the United States as a whole, the U.S. reached $1.55 billion in winery revenues in 2013 which was up 16.4% from 2012 (see Exhibit 3 for U.S Wine Exports 1994 - 2013).

Price Segmentation

In order to understand the competitive marketplace of the U.S. wine industry, price points are used to distinguish different categories of buyer behavior patterns. Based on perceived quality and price of wine products, the wine industry can be separated into submarkets; lower-priced, mid-price premium and higher-priced luxury. Big firms dominate the lower-priced segment of the market. They take into consideration the reactions of their competitors when making pricing and product decisions. The mid-price premium segment is a combination of the low and high-quality submarkets (Thornton). This includes a considerable
number of small proprietors, many medium-sized firms, and relatively few large producers (Thornton). The higher-priced luxury submarket is controlled by a substantially large number of small boutique firms who act independently (Thornton).

Since the wine market is constantly changing, so are the prices for each grouping of wine. The price point system previously started out as a nine-price point segmentation model that has been further revised, honing in on specific purchasing behavior of wine consumers. Past studies have divided the market for table wine into anywhere from four to six different price points and segments. The revised model includes the segment featuring “super” wines that each include three sub-segmented groups. These specific groups more accurately describe the wine marketplace in the U.S. Here is the breakdown of the different price-points (Cholette):

- Jug Wines: up to $3 per bottle of wine
- Extreme Value: below $3 per bottle of wine
- Fighting Varietals: $3 up to $7 per bottle of wine
- Popular Premiums: $7 to $10 per bottle of wine
- Mid or Super-Premiums: $10 to $14 per bottle of wine
- Ultra-Premiums: $14 to $25 per bottle of wine
- Luxury: $25 to $50 per bottle of wine
- Super Luxury: $50 to $100 per bottle of wine
- Icon: over $100 per bottle of wine (Cholette)

Varietals from many wine stores categorize $12 bottles of wine as “premium wine” because of the world wine segmentation (Phillips). This segmentation divides wine into categories for marketing purposes and often challenges common sense. There is no standard definition for any of the categories of wine. Even though premium sounds as though it would be high quality wine, it is actually lower on the segmentation level. What defines a premium wine in one country is different in other countries. For example, the Lifford Wine Agency (a major Canadian wine agency), considers $12 to $17 bottles of wine as premium, whereas the University of Adelaide in Australia defines premium as wine costing between $4 (U.S. dollars) and $12 (U.S. dollars) retail per bottle including tax and markups (Phillips). The Lifford Wine Agency uses $18 to $35 per bottle as the standard for super-premium and more than $35 for ultra-premium (Phillips). Australia sets $12 (U.S. dollars) retail as the starting point for super-premium wines (Phillips).

Categories of wine have nothing to do with quality but have everything to do with price. The different wine segments can be misconstrued in regards to quality. For examples, a wine classified as premium wine that over compensates for its price could be considered higher quality when compared to super-premium wines. Although there are no defining standards in the different categories of wine, there is a sort of guide for relying on price as well as quality to differentiate wines.

Quality plays an important role with certain categories of wine. Many wineries will designate one of their wines as their “icon” wine, especially in Chile and Argentina (Phillips). These flagship wines tend to be the most expensive (icon wines are defined to be $100 or more per bottle) compared to their other wines (Cholette). There is dispute that price in fact does reflect quality and limited production of the iconic wines.
In recent years, prices on many existing wine brands, especially Californian wines, has shifted upwards. A $15 bottle of wine is no longer considered a “luxury” wine compared to a $75 bottle of wine (Cholette). Since the revision of the traditional segmented classification and further dividing price points, $14 to $25 wines are removed from the luxury segment category and wines over $25 are placed into three price segments: Luxury is $25 to $50 per bottle, Super Luxury is from $50 to $100 per bottle, and Icon is $100 per bottle or more (Cholette).

**Luxury Wines and Determining High Quality Price**

The word “luxury” is depicted through several meanings and implications. Its’ definition varies culturally and socially (Phillips). Although it is described to those who don’t believe wine is a commodity like other consumer products, they think of the term “luxury” as more suiting category within the wine market.

Determining what is thought to be luxury is still very much a discussed topic since it is such a loose definition. According to Karen MacNeil, the author of the Wine Bible, “A luxury wine is not the same thing as a high-priced wine. It takes a long time of aggregated appreciation for something to turn it into a luxury. Once something is established as a luxury, as opposed to something that costs a lot, it’s a lot more powerful” (Phillips). What could be considered a luxury wine is wine that can be recognized by quality that is commonly available, but the availability is limited by supply and price. It is a wine that some people buy while others can hope to own or be able to drink occasionally.

The production of luxury wines is still a developing occurrence. There is still little but expanding data as more and more wineries are becoming familiar with the niche market. Many wineries are interested in selling expensive wines which allows for greater profitability and more freedom for making high quality wines.

Like most luxury items, fine wine both increases and decreases in value over time. Recently, the recession caused consumption of luxury wine to plummet (Phillips). Although the recession has taken a toll on the United States’ economy, Americans continue to drink more wine overall. Consumers worried about the recession are buying more mid to low-priced wines, which has caused a fallout in sales of wines priced at $25 or higher per bottle (Carlton).

Since the price of wine reacts slower to economic and social changes, predicting change in the value of wine is more direct compared to other luxury commodities (Phillips). But what exactly defines the price of fine wine? In general, supply and demand plays a big factor in determining the price of wine. Determining the value of fine wine also stems from all sorts of variables: certain varietals, vintages, scarcity and supply, customer preference, perceptions, and ratings, word of mouth and who is buying wine.

Different varietals from certain regions of the world make for higher priced wines. For example, regions in France make up some of the most expensive wines on the market. Cabernet Sauvignon, Cabernet Franc, Malbec, and Merlot varietals originate from the Bordeaux region in France (Wine Varietals). The Rhone Valley region in France consists of Grenache and Syrah varietals (Wine Varietals). Burgundy, France features Gamay and Pinot Noir and other varietals such as Chardonnay, Chenin Blanc, Gewurztraminer, Pinot Gris (Pinot Grigio), Petite Syrah and Mourvedre come from other parts of France (Wine Varietals). These wines often sell for hundreds of dollars per bottle on release and even more for older vintages.
Another factor that influences the price of wine is the wine’s vintage and quality perceived by consumers. Vintage is simply the year in which the grapes were harvested and the wine was made. It is believed that the older the wine is, or the higher degree of age ability, the more value the wine has. For example, the first Bordeaux Vintage wines from France sell for at least $300 a bottle or more (Decanter). For example, when the first vintage of Screaming Eagle (located in Napa Valley) Sauvignon Blanc was released in 2012, only 600 bottles were given to customers on an executive mailing list (Decanter). The release price was $250 per bottle, making it the highest priced Sauvignon Blanc in the world. The same bottle of wine sold to the secondary market is being sold for $2,150 a bottle through Californian fine-wine retailer Cult Wines (Decanter).

Although the production of wine is a simple fermentation process, there are certain variables to take into account that can affect wines’ quality. In order to make wine, one must consider climate, soil, age of the vines, genetics of the vines and most importantly, the skills of the winemaker (Wine Education-Investment). Every year the climate changes, which brings variations to the final product that are classified as vintages. Although the soil and genetics of the vines usually remain the same, every year the vines continue to age, yielding less but produce more intense fruit (Wine Education-Investment). Winemakers in the production process often leave their mark on each successful vintage they produce. Unfortunately winemakers come and go and, as in any job, some are more skilled than others. Each of these factors are accountable for effecting the quality of wine.

Another important factor that sets apart fine wine from the rest is age. Aging is the process of tannins, found in the wine, reacting with other components to the point where they are unable to stay in the solution (Wine Education-Wine Ages). It is the point where they become sediment (precipitation). During the aging process, the grape aromas are replaced with reductive aromas, the color will lighten with red wines or darken with white wines and tannins become softer in the mouth (Wine Education-Wine Ages). Tannins that are found in the skin of the grapes become less fruity and more wood or leather feel in the nose. With age, they usually are more complex and full of nuance. In other words, as wines age, they become more “drinkable”; the harsh bitter tannins “calm down” and the wine becomes more desirable and valuable (Wine Education-Wine Ages).

Both producers and consumers believe that scarcity is a major driving force for a wine’s market value. They believe, given a reputation that can be built upon, having a limited supply portrays a higher quality wine. Availability of wine contributes to luxury since luxury wines are made in limited amounts. Since first-growth vintages and varietals are decreasing in supply, they are considered scarce and are in high demand. For example, Château Margaux (a First Growth Bordeaux) produces about 130,000 bottles annually, while Château Pétrus (a merlot-dominant wine from Pomerol) produces about 30,000 bottles (Phillips). These wines are in high demand in the world, however, production cannot meet increased demands due to fixed-boundary vineyards with limited yields. Having lower distribution of high-end wines focuses on exclusivity in marketing outlets. In other words, establishing wines that are “only available at select wine stores” gives the impression the wine is desirable because it is hard to get (Thornton).

There are some perceptions among wine consumers that distinguish high-end wine. Although knowledgeable wine consumers believe that price is not always the best indicator for
quality wine, many consumers do think that expensive wine is better. In a study published in the Journal of Consumer Research, an advertisement for a bottle of wine was shown to consumers; one with a high price and one with a low price (Gibb). The belief was that consumers would pick the more expensive wine as better than the less expensive wine. “Consumers rarely have complete information and use various strategies to fill the gaps in their knowledge as they consider and choose products,” concluded the four researchers drawn from universities in Cincinnati, Indiana, Nova Scotia and Tennessee (Gibb). “For example, consumers may believe that popular products are high in quality while also believing that scarce products are high in quality” (Gibb). This study supported another case, completed in 2008, which concluded tasters enjoyed the wines that were supposedly more expensive. The $90 bottle of wine was the group’s favorite compared to a $10 bottle of wine, even though they were the same wine being tasted (Gibb). Typically, a wine buyer sees price as an indicator of quality: the higher the price, the higher the quality. If the price of a wine is lower, these consumers will buy less since they see the wine as having a lower quality even if the smell and taste are exactly the same. How do consumers assess wine quality, and what characteristics of wine do they value most highly?

Those who have studied the wine market have seen wine consumers display irrational behavior and those making irrational decisions thrive. For example, some consumers believe price of wine has little influence on wine purchasing decisions for those who regularly have wine with their meals (Thornton). Those who are unaffected to price changes are those who are brand loyal, or could be considered to be “wine snobs” (Thornton). These consumers thriving in the luxury segment of the wine market are buying wine to be exclusive (or to advertise their wealth). The same consumers tend to buy less of a luxury wine when price falls and availability increases (Thornton).

Wine Consumers

In order to understand what is going on in the wine marketplace as a whole, we need to include another major contributor to the wine industry: the consumer. To get an idea of who is buying these categorized wines, we must segment consumers into their own categories. Here are the types of wine drinkers (Gray):

- Non-Drinkers: 40-50% of adults do not consume any kind of alcohol
- Marginal Drinkers: those who drink wine on occasion but if they had to choose, they’d drink liquor or beer
- Connoisseurs: are knowledgeable and comfortable with purchasing expensive wines
- Aspirants: have mastered the basics of wine, would like to learn more and are willing to try new varietals and brands
- New Consumers: enjoy wine but are not yet comfortable with experimenting. They tend to stick to the brands they know
- Simple Wine Drinkers: not very interested in learning more about wine, typically elders from traditional wine-drinking countries (Gray)
- Millennials: ages 21 to 34 years old
- Gen X: ages 35 to 46 years old
- Boomers: ages 47 to 64 years old
- Matures: age 65 and older (see Exhibit 4)
Although these are the different categories of wine consumers as a whole, there is an entirely separate group of wine drinkers consuming high end wines. This separate consumer group can be broken down into further categories. The categories for this group have trends and perceptions of their own.

**Luxury Wine Drinkers**

John Gillespie, president of the Wine Market Council stated, “We talked to sommeliers and high-end buyers in New York and there’s definitely something there” (Gray). Successful wines are now entering the wine world through blogs and sommeliers. In studying U.S. wine consumers who buy high-end wines (wines that sell for more than $20), the Wine Market Council has concluded that $20 is the “true demarcation line for high-end buyers because the same people who are buying wines over $20 are the people buying wines over $30, over $50, over $100”, stated Gillespie (Gray).

According to Gillespie, “the high-end wine buyers are much more sophisticated, and have tried and tasted many more wines than others,” he said (Gray). "They are sort of in the middle between the level of sophistication of the trade and the level of sophistication of average consumers. But it is my feeling and observation that they are a great 'leading indicator' of where tastes and trends are going" (Gray). Here are some facts about U.S. wine consumers: about 35% of American adults don't drink at all; another 21% drink beer or spirits, but not wine, only 15% of the U.S. adult population drinks wine more than once a week (Gray), about 8% of wine consumers are from the Millennial Generation, about 19% of wine drinkers are from the Gen X Generation, about 28% of wine drinkers are from the Boomer Generation and about 7% are from the Mature Generation (McMillan). Wine producers around the world are interested in the 30% of consumers who occasionally spend $20 on a bottle of wine.

In the entire U.S. population, only 5% buy wines priced over $20. Although this is a low percentage of everyday wine consumers, this is, in fact, the world’s largest wine market. Here are several facts about the 5% who drink wines at $20 a bottle or more (Gray):

- They are equally male or female
- They purchase domestic wine from Oregon, Washington and New York in belief that wine from wine-producing states have as much value as imported wines
- For quality, these consumers believe California wine is just behind French and Italian wine and above every other country. However, they think California wines are not particularly close on value compared to French and Italian wines
- Opinions of California wine are different than opinions from the other side of the Sierra Mountains. Californians are more likely than not to say California wine is of "excellent" quality, while Americans in other states are more likely classify as "very good" but nothing more
- 70% of high-end buyers say reviews are very important for purchase decisions. Only 19% of non-high-end buyers them say reviews are very important
- 67% of high-frequency wine drinkers report drinking beer at least several times a week. High-end buyers are more likely to drink craft beer
- High-end wine buyers are the main readers of wine information on the internet; 56% read wine blogs and 46% visit Wine-Searcher. Only 11% of non-high-end buyers read
wine blogs, and only 7% visit Wine-Searcher. The other 93% don't know what they’re missing (Gray)

The world wine market is constantly changing and evolving. The price of high-end wines is determined by certain varietals, vintages, scarcity and supply, customer preference, perceptions, ratings, word of mouth and who is buying wine. Furthermore, the luxury wine industry can be affected by global, economic and social factors so it is crucial for wine producers to know how to deal with each of these factors. It is helpful to segment both the wine price market and consumers to understand the changes so producers can formulate strategic decisions, allowing them to prosper in the ever-changing and challenging wine marketplace.

By Appointment Only

Often times, wine tasters ask the questions “What is a good wine? Can you recommend a good bottle of Cabernet?” Instead of asking what kind of wines consumers like, wine enthusiasts are often responding now with “What kind of experience do you like?”. Wine spectators are starting to recommend wineries that offer experiences that will be talked about long after consumers visit. These experiences include personal one on one, or in formal group appointments, offering direct consumer interaction. “Wineries, for instance, that are open by appointment only sell more wine once the customer arrives, while wineries that offer formal seated tastings do better with their wine club” (Penn). A memorable tasting room visit can inspire steady online purchases for ongoing years. That is a major reason why many wineries are working to enhance the experiences they offer.

While most wineries in the United States are still feature open tasting room visits, “by appointment only” tastings are becoming more popular in the wine industry. Wineries who are only open for appointments realize by offering intimate tastings to consumers and enhancing customer engagement, they are creating brand loyalty and memorable experiences. Most of the Napa Valley wineries have picked up on the success of being by appointment only. Other wine regions in California are slowly switching over from being open to the public tastings.

A recent survey conducted in 2014 by Silicon Valley Bank and Wine Business Monthly asked wineries about tasting room purchases based on their type of tasting and service style. The survey was conducted in regards to seeing which direct to consumer model was generating the greater results. Wineries who are “by appointment only” claimed to having average purchases of about $294 whereas wineries with “open to the public” tastings said to have had average purchase prices of about $70 (Penn). Although the wineries that are by appointment only work more to get more visitors in the tasting room, those visitors that come in are pre-screened and are likely to spend more money on wine (Penn).

In addition to which direct to consumer methods wineries were using to generate revenue in their tasting rooms, the survey asked about service style: whether tasters typically were standing at a tasting bar, seated at a tasting bar, seated in a casual tasting or group, or if visitors participated in formal seated tastings. The results for service styles in the tasting rooms included (Penn):

- Formal seated tastings was the highest average sales per customer: $172
- Standing at the bar generated an average purchase of $78 for tasters
Seated tastings generate at least a 21.8% greater average purchase per visitor than tastings conducted standing at the bar (see Exhibit 5 for the Average Tasting Room Purchases Per Service Style)

According to Lesley Berglund, director of the Wine Industry Sales Education (WISE) Academy, “Seated tasting experiences allow for more focused time spent with each guest, which allows for a better understanding of their tastes and preferences. The consumers themselves perhaps come in with better spending expectations versus a walk-in standing tasting bar” (Penn). The overall conclusion to the survey is that a customers’ tasting room experience and the service style of a winery directly influences the success of a winery’s direct to consumer sales.

California Wine
California makes up 90% of all U.S. wine and is the world’s 4th leading wine producer after France, Italy and Spain. California’s wine industry comprises a $22 billion retail value (Wine Institute-CA Wine Sales). The estimated retail value of California wine sales in the U.S. is 60% share of U.S. market by volume (Wine Institute-CA Wine Sales). Three of every five bottles sold in the U.S. is a California wine. According to Wine Institute President and CEO Robert P. (Bobby) Koch, “Consumers across the globe continue to recognize the quality, diversity and value of California wines, despite significant trade barriers and heavily subsidized foreign competitors” (Wine Institute-CA Wine Sales). Koch also noted, “While the U.S. remains our largest, most important market, California exports a fifth of its wine, and we are on track to reach our goal of $2 billion in exports by 2020. Our outstanding 2012 and 2013 California vintages, heralded for quality as well as quantity, were a record high so we have the ability to expand” (Wine Institute-CA Wine Sales).

When it comes to promoting California wines, agritourism is a popular method in the wine industry. This is when many wineries promote their products by offering wine tastings, vineyard tours, and even winemaking. According to the Wine Institute, more than 20 million people visit California wineries in a typical year generating about $2 billion in revenue per year (see Exhibit 6 for Annual Economic Impacts).

Napa Valley
Napa Valley is one of the most prestigious wine regions in all of the world, as well California. Known for its tannin filled cabernets, Napa Valley produces about five percent of total California Wine with about 225,300 acres of total production land (Wine Institute-Appellations). The region is found within the North Coast American Viticultural Area - which includes California’s most populated wine regions. According to the 2012 Tasting Room Report by Wine Business Monthly (Tinney), the average spending for tasting rooms in Paso Robles is around $58 compared to $162 for wineries in Napa Valley (see Exhibit 7 for Tasting Room Comparisons).

The soil of Napa Valley is very diverse. According to Napa Vintners, a nonprofit trade association devoted to developing the wine region, “violent geologic forces and the steady march of time have created an agricultural Eden that produces some of the world’s most sought - after wine” (Soil). In essence, the region is native to over 33 soil series, with more than 100 soil
variations (Soils). This leads to a much easier time for the Napa Valley grape grower deciding what rootstocks and grape varietal to plant in their vineyard (see Exhibit 8 for the top ranking varieties of wine in the Napa Valley Region).

Paso Robles Wine Country

Paso Robles is located halfway between Los Angeles and San Francisco. The city of Paso Robles was originally called “El Paso de Robles”, which is Spanish for “The Pass of the Oaks” (Paso Robles). In the 1970’s the small town was known for having a sulfur-rich mineral baths, large cattle ranches and fields. It wasn’t until the 1980’s that wine grapes began to be grown in the region (Paso Robles). The Paso Robles area is now often referred to as California’s Central Coast Wine Country. This area has become one of the fastest growing wine regions in California ranking behind only Napa, Sonoma, and Monterey counties in planted acreage (see Exhibit 9 for California’s Wine Growing Regions). In terms of largest concentration of wineries for an American Viticultural Area (or AVA) Paso Robles is ranked third behind Napa and Sonoma (Sawyer).This wine region now has the largest geographic appellation the entire area is 614,000 acres (2a). This includes 26,000 acres used for viticulture and has an ever increasing number of wineries. There are currently more than 200 wineries in the Paso Robles area. According to the Paso Robles Wine Country Alliance, it is estimated that 58 percent of wine grapes grown in the Paso Robles area are sold to wineries outside of the region and put into blended wines all over California (Paso Robles).

This area was first designated as the Paso Robles AVA in 1983 (Sawyer). It was expanded in 1997 and then again in 2009 due to the rapid increase of acreage dedicated to vineyard use. The Paso Robles AVA is roughly a rectangle shape that is 35 miles east to west, and 25 miles from north to south (Sawyer). The Monterey County line establishes the northern border and the Cuesta Grade is the southern border. The Cholame Hills make up the eastern border that extends all the way to the Pacific Ocean as the western border of the AVA (Sawyer).

The economic impact that the wine industry brings to the Paso Robles AVA is estimated to be at $1.467 billion. The region also has an estimated 7,000 employees with a total payroll of $182 million (Paso Robles). Paso Robles has changed from being a small rural community to a destination for many wine enthusiasts in the duration of just 30 years.

Climate

What makes California’s Central Coast such an ideal place to grow wine grapes is the distinct microclimates, diverse soils and extended growing seasons. The Paso Robles area is known for producing grapes that create premium and ultra-premium wines. The climate in Paso Robles is optimal for over 40 wine grape varietals (Paso Robles). These varietals range from Cabernet Sauvignon and Merlot, to Syrah and Roussanne, and the great Zinfandel, which is the heritage wine varietal of the Central Coast.

Wine grapes grown in the Paso Robles region benefit from the change in high day temperatures and low temperatures at night. This region has a nighttime cooling effect as a result of the cool marine air that comes from the ocean. During the summer months, the region experiences warm, clear days and don’t have to worry about any severe storms or windy conditions. Temperatures in the summer range from 85 to 105 degrees Fahrenheit, and at night the temperature falls by about 40 or 50 degrees (Paso Robles).
Rainfall in Paso Robles most often begins about two weeks later than that of Napa or Sonoma. One threat to grapes in the region is frost, which can occur through the middle of May during a more harsh winter.

**Soil**

The soil in Paso Robles is different from other wine growing regions in California. Many other wine regions in California have a rich fertile valley soil. There are over 45 soil types found within the Paso Robles AVA (Sawyer). Much of the soil in the area is primarily bedrock derived soils coming from weathered granite, marine sedimentary rocks, volcanic rock along with calcareous shales, sandstone or mudstone (Paso Robles). Soil diversity is very common in the area and a typical vineyard may contain a few different soil types.

A characteristic that makes soil in the Paso Robles AVA is that the calcareous soils found in the region contain a high pH value of around 7.4 to 8.6 (Paso Robles). These pH levels are not typical of other wine grape growing areas in California.

The west side hills of the Paso Robles region is mainly a dense clay-based soil combination. In a typical growing season the soil gets enough rainfall to allow for dry land farming to take place. This means that the use of supplemental irrigation isn’t often necessary. However, the soil is more granular containing broken down calcareous shale on the eastern hills and valley of the Paso Robles region (Paso Robles).

**Law Estate Wines**

**History**

Don Law grew up working on his grandfather’s cattle ranch in Rocky Ford, Colorado. He enjoyed the aspects of farming and knew he wanted to own and farm his own land one day. After working with his grandfather and graduating college, Don went into geology and mineral exploration. Alongside geology, he was passionate about wine and viticulture. In 2005, he made his dream a reality: he purchased a plot of land on the Central Coast of California to begin farming and pursue his dream of building a winery.

In order to successfully build his dream winery, Don Law’s vision was to find the right piece of land with the innate ability to plant and grow as many grapes as he could with the right team. He believed the key to success was having the right people in place. Don found the vineyard manager, John Crossland, and the winemaker, Jessica Holley. Working in mineral exploration had Don travelling all over California where he’d pass through Paso Robles making him familiar with the area. He was originally looking to purchase land in Santa Barbara his vineyard manager, John Crossland, told Don “there’s a raw piece of dirt in west Paso you should check out” (Esparham). Don and his team met on the property located on the west side of Paso Robles. When they arrived, the team agreed that it was a spectacular, brilliant site to produce wine. It was then Don Law dropped his search in Santa Barbara and said “This is the spot. This is the area I want to be in” (Esparham). With their 10,000 level foot view overlooking the Limestone vineyard, Don knew wanted to make some of the best wines in the world: high end, Rhone-style, ultra-premium wines.
Located in the hills above Peachy Canyon on the west side of Paso Robles, California, Law Estate Wines creates hand-crafted, high quality wine through sustainable farming (Law). They sit on top of a 1,950 foot hill site overlooking their vineyards and all of Paso Robles. Having only just opened their tasting room doors December 20th, 2013, Law Estate Wines is considered a new brand in the area. Since they are selling ultra-premium wines by appointment only with limited inventory, segmenting their target market is a key concept in their business model. In addition, Law Estate Wines targets consumers who are interested in ultra-premium, hand crafted and high quality wines. “These wines are designed to age gracefully and tend to get better with age [evolve], becoming something new and exciting. They’re great now but the idea of age ability is a concept that is a part of the brand” (Esparham).

Production and Wines

Law Estate Wines is considered a “boutique winery”. According to Oliver, there are two important factors that make up a boutique winery: overhead (staff) and overseeing the physicality of production. These factors of production Oliver labels as “touch points”. “A boutique winery is one where the wine is customized by hand as well as the production of the grapes, the hand sell of the bottle [through distribution, the tasting room or through allocation] and has a dedicated person working in each aspect” (Esparham). Every touch point, from the vineyard to the sale and the follow up is watched closely by each member of the team. Oliver believes that each boutique place must have those touch points, and that there is no point in the process where anything is automated or hands off. From vine to follow up of sale, every facet is done by hand which has customized feel. With Law's brand, the winemaker, production manager and tasting room manager all touch everything before it leaves the property. The team works closely with the winemaker and they feel with the 15 to 20 people in their staff (with half in vineyard and production, half being in hospitality and tasting room and retention) they aren't losing that essence. This allows for more quality control of their product.

Right now, Law Estate Wines are producing around 3,000 cases of wine. “We are probably going to hover around 5,000 cases a year for the next seven years. The average in a seven year period from start to seven years from now is about 5,000 cases” (Esparham). In three years, Law will be harvesting 6,000 cases. Breaking it down by year, in the beginning, Law Estate Wines was producing: about 1,500 cases for 2010, 2,400 cases for 2011, 3,000 cases for 2012, 3,500 for 2013.

The wines at Law Estate Wines are predominately Rhone varieties and 100% estate fruit, meaning the grapes come directly from Law Estate Wines Vineyards and nowhere else. This allows for greater control and knowledge on the wines they are producing. “We are not monolithic in our approach because there is quite a bit of variance in the microclimates in each of our vineyards. We go from 1,600 feet to 1,950 feet and every aspect of the vineyard is planted, whether it’s north, south, east or west facing” (Esparham). About 65% of the vineyard is planted with Grenache and Syrah varietals with seven different clones of each varietal. For example, an Australian clone of Grenache is different than a Spanish clone of Grenache (having to do with taste and texture). In small increments, Law Estate Winery has Cabernet Sauvignon, Mourvedre, Petit Bordeaux, Petit Syrah, Carignan Tempranillo varietals and recently planted white varietals; Marsanne, Roussanne, and Claret.
Law Estate Wines features three vintage categories of wine: 2010 features four wines, 2011 features five wines and 2012 features six wines. Each wine is priced at $65 per bottle, placing them in the “luxury wine” price point category. Their earliest vintage is their 2010 vintage, made up of four wines. These are tasted during all appointments, using a “flight format”. With this format, the “brighter wines” are tasted first and the more tannic or brooding wines are tasted last. Audacious is tasted last because “it can fatigue someone faster than the other three due to its bigger mouth feel” explains Oliver. These wines include:

- “Beguiling”: 94% Grenache, 6% Syrah (391 cases)
- “Sagacious”: 44% Grenache, 42% Syrah, 14% Mourvedre (351 cases)
- “Intrepid”: 100% Syrah (359 cases)
- “Audacious”: 44% Grenache, 26% Cabernet Sauvignon, 20% Syrah, 10% Petite Syrah (369 cases) (see Exhibit 10 for the Law Estate Wines)

Year to year, as the vineyard matures, the more fruit comes onto the vines which means the team at Law Estate Wines has more to work with. Between the two vineyards at Law Estate Winery (the north and south vineyards) there is a total of 300 acres. In the north vineyard, 250 of those acres are plantable. However, there is about 45 acres planted currently with potential 60 acres plantable. In the south vineyard, there are 11 acres currently planted with the option of 14 plantable acres in the future. “With 2.5 tons per acre, roughly 50 cases in a ton, that is the equivalent to 8,500 cases between both vineyards” according to Oliver.

Unlike the many wineries in Paso Robles that have wine clubs, Law Estate Wines instead has a mailing list. “When you sign up to be apart of a winery’s wine club, you sign up for shipments and payments,” explains Oliver. “At Law, nobody is obligated to buy wines. Instead, they can reserve a position on the mailing list through wine purchases” (Esparham). Anyone who has bought four bottles or more has the opportunity to buy through the mailing list. Each September, the team sends out a letter in form of an email as well as a hard copy letter saying, “You can buy six of each of the five wines we have available. If our customers buy our wines, they will receive them in October. If they don’t want to buy, they are not committed to,” stated Oliver.

**Boutique Winery and By Appointment Only Tastings**

Along with other select wineries in Paso Robles, Law Estate Wines features “by appointment only” tastings. Since they have are considered a boutique winery, it would be tough to pour out wine to those who are just wanting to be out and about tasting. The Law Estate team wanted to segment their consumers as part of their marketing scheme. In marketing to consumers, they don’t specifically target any particular demographics such as income or age. With their limitation of wine inventory, as well as the amount of time put into making each wine, the team focuses on the segmented consumer demographics. Oliver explains, “Out of the 100% of wine drinkers in the world, we are targeting about 1%.” The small percentage they are targeting are wine drinkers who collect wine, age wine, spend $65 or above on a bottle of wine. “I had a passion for understanding the consumer through targeted marketing but then that migrated into how that was relevant to wine. That’s why we do segmentation through being by appointment only” (Esparham).
In explaining the reasoning for being by appointment only, Oliver stated, “When you have 2,000 cases to sell, your target market is a lot smaller because of price point and the style of the wines. Not everyone who is driving around tasting wines is necessarily interested in buying a $65 bottle of wine or they might not even be interested in purchasing wine, they just want to go out and taste.” Law Estate Wines’ margin is more expensive to produce their wines compared to other wineries who have the benefits of economy of scale. All the wines at Law Estate Wines are “estate” wines so they are more expensive. This results in a higher cost margin per bottle so they could never offset the cost of what it costs to produce the wines by charging a tasting fee. Oliver explained, “Consumers who are just up there to have a good time are going to be better suited at a place that is set up that way.”

Law Estate Wines’ tasting room is open seven days a week from 10 a.m. to 5 p.m. Interested and potential wine customers are requested to call five to seven days in advance to reserve an appointment. Each appointment lasts an hour with groups of four or more people. During the appointments, customers are given a tour of the facilities and end up back in the tasting room to taste the wines. The tasting room is about 1,400 square feet with a modern and clean design (see Exhibit 11 for the Tasting Room at Law Estate Wines). From a design perspective, the tasting room is extremely modern, has very clean lines, features lots of windows and open space, very minimalistic with a slight contemporary edge through the use of a fireplace and warm colors. “From a feel perspective when people walk in they are impressed by how open the space is and how unassumingly elegant it is having driven up the road,” explains Oliver. Through physical space and the views, there is excitement in consumers because the tasting room style is less common in the Paso Robles area. Relative to the rest of the wineries and tasting rooms in Paso Robles, customers are more focused, engaged and want to become educated in the technical side of Law Estate Wines. Oliver feels that an open bar format is less about wine and more about the social experience. The tasting room at Law Estate Wines features a banquet table where the wines are tasted. Several couches are also provided in the tasting room for comfort and communication. The entire tasting room is surrounded by windows allowing tasters to view the vineyard and Paso Robles on top of the hill. On average, Law Estate Wines see about 170 people per week (not including during wine events) and have about 41 appointments per week. The average size group is about four people. The average people and appointments Law has daily include (Esparham):

- Monday: 10 people (3 appointments)
- Tuesday: 10 people (3 appointments)
- Wednesday: 10 people (3 appointments)
- Thursday: 15 people (3-4 appointments)
- Friday: 25 people (6 appointments)
- Saturday: 65 people (16 appointments)
- Sunday: 35 people (8 appointments)

Like Law Estate Wines, there are other wineries in Paso Robles who are switching to being “by appointment only”. Denner is considered offering by appointment only tastings. Booker switched (within the last two months) and so has L’ Aventure. Having been an “open to the public” tasting room since 2000 to switching recently to by appointment only, L’ Aventure is
seeing positive outcomes. Since the switch, they are seeing half as many people coming through the door but they are generating the same amount of revenue as they did before. Their revenue has not decrease despite the fact that their decreased traffic when they were seeing twice as many people. “They are making more margin dollars, their gross margin is much better than it was when they were seeing twice as many people because they have more operational and cost of goods associated with more people” explained Oliver. “The operational cost of hiring a bunch of people to be working in the tasting room for ‘open to the public’ tastings as well as the number of wines you end up pouring out to twice as many people, your margins get better” (Esparham). Other wineries including Epoch (another ultra-premium winery) and Villa Creek are most likely to switch to being by appointment only because of how they are quickly selling out of their wines.

Distribution

Although Law Estate Winery sell their wines directly to their customers, their tasting room is not their only selling outlet. “Our model is that 90% [1,800 cases] of our inventory is sold directly to consumers [by tasting room, mailing list and website] and 10% [200 cases] is for distribution [restaurants and wine shops]” (Esparham). Law Estate Wines distributes 50 cases to Colorado, 50 cases to Texas, 50 cases to California, 25 to Arizona and 25 cases to Florida. Their distributed wines are sold at high-end wine shops, wine bars and high-end restaurants (mostly steak houses) with strong wine lists. About 60% of Law Estate’s distributed wines are placed in high-end boutique wine shops and 40% of their distributed wines are placed in restaurants. This is because the conversion of customers going into that retail location is much stronger. The distributors of the restaurants and wine shops buy Law Estate Wines for $44 per bottle. “We don’t make as much money selling it to them [the distributor] because the idea is we sell it to the distributor, the customer then buys our wine and then they end up coming to us and buying wine directly from us. That’s why we are heavier in wine shops” (Esparham). According to Oliver, the customer is more likely to go on Law Estate Wines’ website and buy directly from the winery the next time they want Law Estate Wines. Wine shops sell their wine for $70 to $85 per bottle whereas the restaurants markup Law Estate Wines to about $100 per bottle. There is a much larger markup in restaurants than there is wine shops. “All of the wine that was sold for distribution to restaurants and wine shops are pretty much gone. We sell a six pack to maximum of a case to each restaurant or wine shop” explained Oliver.

Marketing and Advertising

When it comes to marketing and advertising, the team at Law Estate Wines believes in good visiting experiences and through word of mouth networking is the best form of getting their wines largely known. In order to gain recognition, Law submits their wines through trade magazines such as Robert Parker and Wine Spectator. There, customers and previous wine tasters can rate, review and talk about Law Estate Wines. All of Law Estate Wines’ Public Relation inputs are on the internet and can be obtained electronically (Esparham). Newspapers from all over read articles about Law Estate Wines in Robert Parker and Wine Spectator and seeks out Law Estate Winery through their Public Relation resources. Newspapers such as San Jose Mercury News, LA Times and New York Times have all incorporated Law Estate Wines in their papers (which is more organic).
The team at Law Estate Wines uses industry marketing as well in promoting their wines. There are over 200 wineries in Paso Robles and the team at Law Estate Wines will invite different wineries (in the area) at a time to come visit their tasting room, drink their wine and get to know each other. They become friends and partners with different wineries and recommend each other to potential customers. In addition, Law is partners with and members in a few of the wine chapters in the area including the Rhone Rangers and Paso Robles Wine Country Alliance (PRWCA).

Network marketing also helps Law Estate Wines get potential customers interested in buying their ultra-premium wines. Although it may seem very to the point, Law Estate Wines takes the time to connect with each customer and treats them to an enjoyable and memorable experience. “Our buyers come in, we pour them wine, they have a great time and want their friends to come try the wines. We will do event pourings at people’s houses and sell to them directly on the spot,” explained Oliver. Law Estate Wines also pours their wine at certain wine events throughout the year. These outlets of marketing and advertising have certainly helped Law Estate Wines strongly come into the wine market as having new, high-end wine with an amazing personal experience.

The Team and Vineyard

There are six full time employees and four part time employees at Law Estate Wines (see Exhibit 12 for the Law Estate Wines Team and Owner). Although there is a select team including a vineyard manager, the vineyard management is contracted out through a different company. The vineyards are 100% organic and certified sustainable (see Exhibit 13 for the Vineyards at Law Estate Wines). They reuse all of their waste water and collect rain water which gets sent through a bioreactor. Oliver noted, “All of the water that gets used here gets sent down to the bioreactor at the bottom of the hill [which is subterranean], bacteria eats all the waste and it goes back into the vineyard.” Law Estate Wines’ vineyards are under a deficit irrigation model, meaning each plant is not receiving 100% of the recommended water usually needed in irrigating a vineyard. When Law Estate Wines began their vineyards, they were watering the plants at 80% of what they needed. Now the plants are being watered at half [closer to 40%] of what the recommended watering level is. Oliver explained, “The idea of that is we want them to develop a tap root deep enough so they can find their own water. Each year we keep using less and less water which allows the tap root to go deeper and deeper to search for water but keeping it strong enough so it has the energy to do that instead of killing it.” According to Oliver, the drought has not impacted the vineyards in any negative way. The Law Estate property has had a well run dry but “that’s normal in a non-drought year” (Esparham). They have found a few fishers on each property that they’ve drilled and found water 600 feet down. If there is a continuation of a drought in years to come, Oliver doesn’t think it will impact the vineyard and the property of Law Estate Wines that much.

Future of Law Estate Wines

Since Law Estate Wines is still a new and upcoming winery, it is going to be several years before they begin making profit. “It will be seven years before we start breaking even: turning red numbers into black numbers will take about five years” Oliver stated. Oliver and anyone else in the wine industry knows that wine is and will always be an investment. “We will
not have a positive revenue probably until the next five years. This is a very pricey facility and the vineyard management is definitely up there in price” (Esparham).

As their wine production continues to grow, Law Estate Wines will keep producing more every year as the vineyards start producing more of the blocks of wine. They have planted upwards of about 7,000 cases worth of wine but it takes time for each of the plants to mature to the point of being harvested. Law Estate Wines will not change much of their practices: remain by appointment only, keep their distribution model (90% direct to consumer and 10% in distribution), keep producing ultra-premium wine, keep using their own fruit and stay a boutique winery for the time being. The only change Oliver sees that might happen is Law Estate Wines incorporating a wine club to make things easier for the allocation manager where “there’d be a lot less grey area where inventory is going to be broken up” (Esparham). Since Law Estate Wine is a new, upcoming and already successful winery, they are going to keep doing what they sought out in the beginning and see where that takes them in the future.
Exhibit 1  Consumption in the United States from 1993 to 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Wine per Resident</th>
<th>Total Wine Gallons</th>
<th>Total Table Wine Gallons</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.73 gals</td>
<td>856 million</td>
<td>749 million</td>
</tr>
<tr>
<td>2011</td>
<td>2.68 gals</td>
<td>836 million</td>
<td>724 million</td>
</tr>
<tr>
<td>2010</td>
<td>2.53 gals</td>
<td>784 million</td>
<td>681 million</td>
</tr>
<tr>
<td>2009</td>
<td>2.49 gals</td>
<td>763 million</td>
<td>666 million</td>
</tr>
<tr>
<td>2008</td>
<td>2.45 gals</td>
<td>746 million</td>
<td>650 million</td>
</tr>
<tr>
<td>2007</td>
<td>2.46 gals</td>
<td>742 million</td>
<td>647 million</td>
</tr>
<tr>
<td>2006</td>
<td>2.40 gals</td>
<td>717 million</td>
<td>628 million</td>
</tr>
<tr>
<td>2005</td>
<td>2.34 gals</td>
<td>691 million</td>
<td>609 million</td>
</tr>
<tr>
<td>2004</td>
<td>2.26 gals</td>
<td>665 million</td>
<td>589 million</td>
</tr>
<tr>
<td>2003</td>
<td>2.20 gals</td>
<td>639 million</td>
<td>570 million</td>
</tr>
<tr>
<td>2002</td>
<td>2.14 gals</td>
<td>617 million</td>
<td>552 million</td>
</tr>
<tr>
<td>2001</td>
<td>2.01 gals</td>
<td>574 million</td>
<td>512 million</td>
</tr>
<tr>
<td>2000</td>
<td>2.01 gals</td>
<td>568 million</td>
<td>507 million</td>
</tr>
<tr>
<td>1999</td>
<td>2.02 gals</td>
<td>543 million</td>
<td>475 million</td>
</tr>
<tr>
<td>1998</td>
<td>1.95 gals</td>
<td>526 million</td>
<td>466 million</td>
</tr>
<tr>
<td>1997</td>
<td>1.94 gals</td>
<td>519 million</td>
<td>461 million</td>
</tr>
<tr>
<td>1996</td>
<td>1.89 gals</td>
<td>500 million</td>
<td>439 million</td>
</tr>
<tr>
<td>1995</td>
<td>1.77 gals</td>
<td>464 million</td>
<td>404 million</td>
</tr>
<tr>
<td>1994</td>
<td>1.77 gals</td>
<td>459 million</td>
<td>395 million</td>
</tr>
<tr>
<td>1993</td>
<td>1.74 gals</td>
<td>449 million</td>
<td>381 million</td>
</tr>
</tbody>
</table>
Exhibit 2  Below is the 2013 Barnes Report for Wineries & Wine

**UNITED STATES**

### Industry Establishments, Sales & Employment Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>Establishments</th>
<th>Sales ($Millions)</th>
<th>Employment</th>
<th>Sales (DollarsM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2,299</td>
<td>10,251</td>
<td>34,298</td>
<td>10,251</td>
</tr>
<tr>
<td>2010</td>
<td>2,307</td>
<td>10,182</td>
<td>35,030</td>
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<tr>
<td>2011</td>
<td>2,400</td>
<td>9,804</td>
<td>36,023</td>
<td>9,804</td>
</tr>
<tr>
<td>2012</td>
<td>2,452</td>
<td>9,577</td>
<td>36,604</td>
<td>9,577</td>
</tr>
<tr>
<td>2013</td>
<td>2,545</td>
<td>9,428</td>
<td>36,054</td>
<td>9,428</td>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>09-10</th>
<th>10-11</th>
<th>11-12</th>
<th>12-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.4%</td>
<td>1.6%</td>
<td>2.2%</td>
<td>3.5%</td>
</tr>
<tr>
<td>2010</td>
<td>-0.7%</td>
<td>-3.7%</td>
<td>-2.3%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>2011</td>
<td>3.3%</td>
<td>1.8%</td>
<td>2.2%</td>
<td>3.4%</td>
</tr>
<tr>
<td>2012</td>
<td>-0.7%</td>
<td>-3.7%</td>
<td>-2.3%</td>
<td>-1.8%</td>
</tr>
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### Industry Ratios

<table>
<thead>
<tr>
<th>(Industry Averages)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales ($M)/Estab.</td>
<td>4.48</td>
<td>4.30</td>
<td>4.08</td>
<td>3.82</td>
</tr>
<tr>
<td>Sales ($) per Emp.</td>
<td>299,145</td>
<td>287,609</td>
<td>277,147</td>
<td>260,196</td>
</tr>
<tr>
<td>Emps. per Estab.</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Dollars(M)/Estab.</td>
<td>4.48</td>
<td>4.30</td>
<td>4.08</td>
<td>3.88</td>
</tr>
<tr>
<td>Dollars per Emp.</td>
<td>299,145</td>
<td>287,609</td>
<td>277,147</td>
<td>260,196</td>
</tr>
</tbody>
</table>

### Size of Firm Industry Estimates

<table>
<thead>
<tr>
<th>Year</th>
<th>1-4 Emps.</th>
<th>5-9 Emps.</th>
<th>10-19 Emps.</th>
<th>20-49 Emps.</th>
<th>50-99 Emps.</th>
<th>100-249 Emps.</th>
<th>250-499 Emps.</th>
<th>500+ Emps.</th>
<th>Unknown Emps.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1,183</td>
<td>442</td>
<td>350</td>
<td>280</td>
<td>88</td>
<td>34</td>
<td>6</td>
<td>21</td>
<td>2,405</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1,210</td>
<td>452</td>
<td>359</td>
<td>286</td>
<td>90</td>
<td>34</td>
<td>6</td>
<td>21</td>
<td>2,485</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>1,252</td>
<td>466</td>
<td>370</td>
<td>286</td>
<td>91</td>
<td>34</td>
<td>6</td>
<td>21</td>
<td>2,545</td>
<td></td>
</tr>
</tbody>
</table>

### Sales ($Millions) by Size of Firm

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>9,404</td>
</tr>
<tr>
<td>2012</td>
<td>9,577</td>
</tr>
<tr>
<td>2013</td>
<td>9,428</td>
</tr>
</tbody>
</table>

### Employment by Size of Firm

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>36,023</td>
</tr>
<tr>
<td>2012</td>
<td>36,883</td>
</tr>
<tr>
<td>2013</td>
<td>38,056</td>
</tr>
</tbody>
</table>


Exhibit 3  U.S Wine Exports in Millions of Dollars 1994 - 2013

http://www.wineinstitute.org/resources/statistics/article86
Exhibit 4  Generations Consuming Different Priced Wines

Exhibit 5  Average Tasting Room Purchase Per Service Style

**Exhibit 6**  Annual Economic Impacts of California Wine Industry

<table>
<thead>
<tr>
<th>Economic Impact</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State economic impact</td>
<td>$61.5 billion</td>
</tr>
<tr>
<td>National economic impact</td>
<td>$121.8 billion</td>
</tr>
<tr>
<td>Jobs in California</td>
<td>330,000</td>
</tr>
<tr>
<td>Jobs nationwide</td>
<td>820,000</td>
</tr>
<tr>
<td>State wages</td>
<td>$12.3 billion</td>
</tr>
<tr>
<td>U.S. wages</td>
<td>$25.8 billion</td>
</tr>
<tr>
<td>Charitable contributions</td>
<td>$101.5 million</td>
</tr>
<tr>
<td>State and federal taxes</td>
<td>$14.7 billion</td>
</tr>
<tr>
<td>Tourists visiting California</td>
<td>20.7 million</td>
</tr>
<tr>
<td>Tourists spent in state</td>
<td>$2.1 billion</td>
</tr>
</tbody>
</table>


[http://www.wineinstitute.org/resources/pressroom/04242014](http://www.wineinstitute.org/resources/pressroom/04242014)
### Exhibit 7  Comparing Tasting Room Purchases in the United States

Napa wineries garner more than double the average tasting room purchase than any other region

<table>
<thead>
<tr>
<th>Region</th>
<th>Average Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>$36</td>
</tr>
<tr>
<td>Central States</td>
<td>$37</td>
</tr>
<tr>
<td>Eastern States (-NY)</td>
<td>$42</td>
</tr>
<tr>
<td>Canada</td>
<td>$54</td>
</tr>
<tr>
<td>CA - Central Valley &amp; Foothills</td>
<td>$58</td>
</tr>
<tr>
<td>CA - Central Coast</td>
<td>$58</td>
</tr>
<tr>
<td>Oregon</td>
<td>$59</td>
</tr>
<tr>
<td>Average</td>
<td><strong>$68</strong></td>
</tr>
<tr>
<td>Washington</td>
<td>$70</td>
</tr>
<tr>
<td>Sonoma</td>
<td>$76</td>
</tr>
<tr>
<td>Napa</td>
<td><strong>$162</strong></td>
</tr>
</tbody>
</table>

[http://www.winebusiness.com/wbm/?go=getArticle&dataId=99945](http://www.winebusiness.com/wbm/?go=getArticle&dataId=99945)
Exhibit 8  Top Ranking Varieties of Wine in the Napa Valley Region

Summary of Top Varieties in Selected District Production and Prices in District and State

<table>
<thead>
<tr>
<th>Rank</th>
<th>Variety</th>
<th>Red or White?</th>
<th>Tons Produced</th>
<th>Price</th>
<th>Value of Production ($mil)</th>
<th>Share of District’s Production</th>
<th>District’s Share of State Production</th>
<th>Value of Production Relative to State</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cabernet Sauvignon</td>
<td>Red</td>
<td>25,982</td>
<td>4,660</td>
<td>121.09</td>
<td>39%</td>
<td>182%</td>
<td>9%</td>
</tr>
<tr>
<td>2</td>
<td>Chardonnay</td>
<td>White</td>
<td>13,211</td>
<td>2,255</td>
<td>29.80</td>
<td>20%</td>
<td>45%</td>
<td>3%</td>
</tr>
<tr>
<td>3</td>
<td>Merlot</td>
<td>Red</td>
<td>9,403</td>
<td>2,560</td>
<td>24.07</td>
<td>14%</td>
<td>36%</td>
<td>4%</td>
</tr>
<tr>
<td>4</td>
<td>Sauvignon Blanc</td>
<td>White</td>
<td>4,515</td>
<td>1,831</td>
<td>8.27</td>
<td>7%</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>5</td>
<td>Pinot Noir</td>
<td>Red</td>
<td>3,263</td>
<td>2,529</td>
<td>8.25</td>
<td>5%</td>
<td>12%</td>
<td>3%</td>
</tr>
<tr>
<td>6</td>
<td>Zinfandel</td>
<td>Red</td>
<td>2,391</td>
<td>2,864</td>
<td>6.85</td>
<td>4%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>7</td>
<td>Petite Sirah</td>
<td>Red</td>
<td>1,937</td>
<td>1,153</td>
<td>9.30</td>
<td>3%</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>8</td>
<td>Cabernet Franc</td>
<td>Red</td>
<td>1,204</td>
<td>5,194</td>
<td>6.25</td>
<td>2%</td>
<td>9%</td>
<td>17%</td>
</tr>
<tr>
<td>9</td>
<td>Syrah</td>
<td>Red</td>
<td>1,197</td>
<td>3,019</td>
<td>3.61</td>
<td>2%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>Petit Verdot</td>
<td>Red</td>
<td>987</td>
<td>4,786</td>
<td>4.72</td>
<td>1%</td>
<td>7%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Tons Produced for Districts Top 5 Varieties and all Others Combined:

<table>
<thead>
<tr>
<th>District</th>
<th>Total Production (in tons)</th>
<th>State</th>
<th>Total Production (in tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>66567</td>
<td></td>
<td>2,856,379</td>
</tr>
</tbody>
</table>

Value of Production for Districts Top 5 Varieties and all Others Combined:

<table>
<thead>
<tr>
<th>District</th>
<th>Total Value of Production (in $mil)</th>
<th>State</th>
<th>Total Value of Production (in $mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>223.65</td>
<td></td>
<td>1818.6</td>
</tr>
</tbody>
</table>

Exhibit 9  California’s Wine Growing Regions

Exhibit 10  Law Estate Wines

[http://wine-dingroad.com/2013/11/16/law-estate-wines-paso-robles-ca/]
Exhibit 11  Law Estate Winery Tasting Room

http://www.lawestatewines.com/
Exhibit 12  The Law Estate Wines Team and Owner

http://www.lawestatewines.com/
Exhibit 13  The Vineyards at Law Estate wines


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