

2021 SAN DIEGO COUNTY ECONOMIC IMPACT OF WINERIES

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**SAN DIEGO COUNTY
VINTNERS ASSOCIATION**

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All conclusions, errors and omissions are the sole responsibility of the author. We thank SDCVA for their support.

Executive Summary

Steady growth and development have been trademarks of the San Diego County wine community over the past decade, mirroring many of the industry trends seen statewide. While the COVID-19 pandemic and related government restrictions on business operations have brought uncertainty and a negative impact on sales overall, many local wineries have demonstrated economic resilience and sustained local industry interest and support. This suggests that the regional industry outlook is bright as the end to the pandemic is closer in reach.

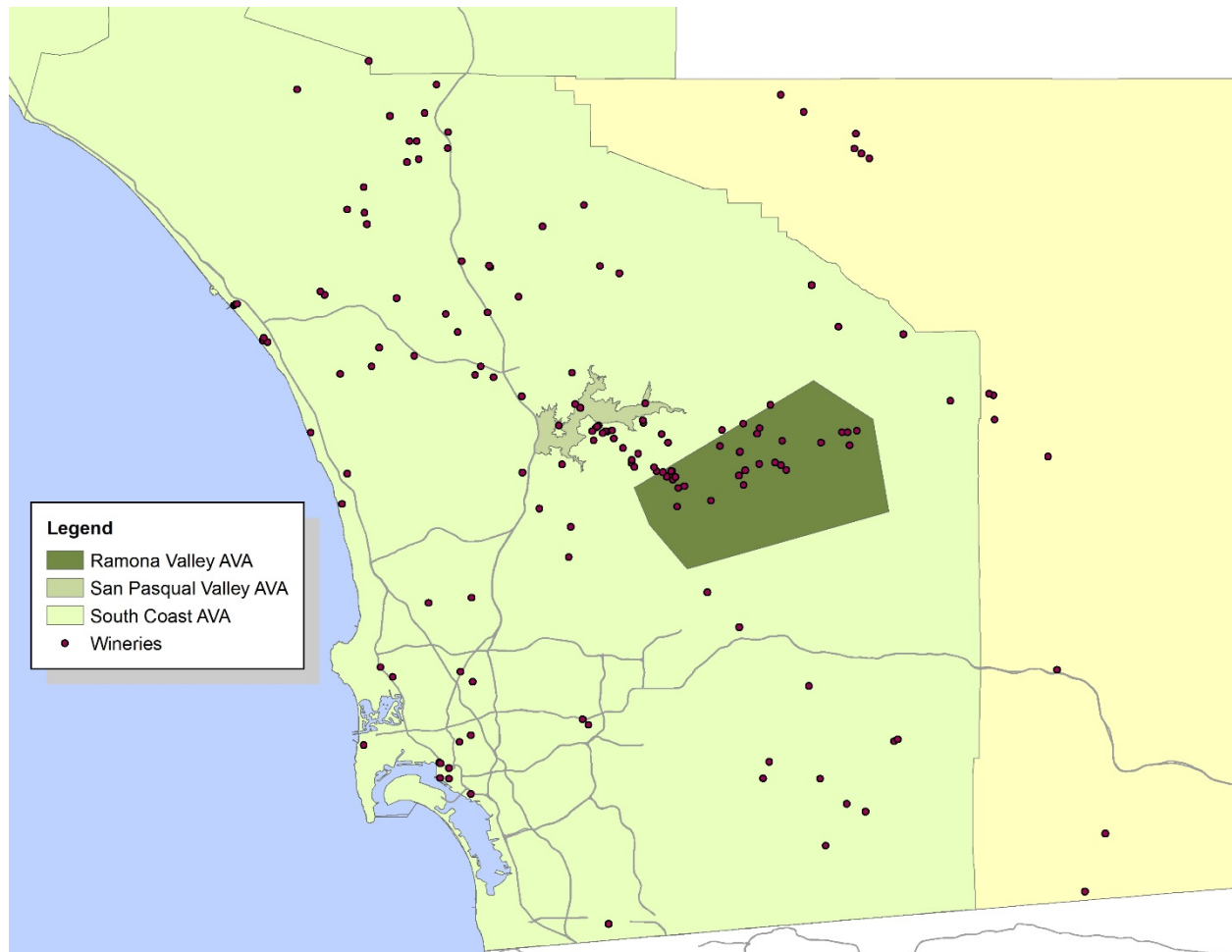
Using survey data, public data sets and proprietary business records, we conducted an economic analysis of San Diego County wineries for 2019 and 2020, building upon our prior research in this sector. Overall, we found that:

- Today, there are 150 active and planned wineries in San Diego County.
- Like other business sectors, the COVID-19 pandemic has had a negative impact on the wine industry. In 2020, San Diego County wineries generated approximately \$37.1 million in gross sales, a 19.6% decline from an all-time-high of sales reached in 2019 (\$46.2 million).
- Survey responses reveal that the regional winery workforce continued to grow in 2019 and 2020. Overall, there were 719.7 San Diego-based wine industry jobs in 2020, a 2.6% increase over the 2019 total (701.2) and 17.7% higher than the 2018 total (611.7).
- San Diego County produced 3,596 tons of wine grapes in 2019, generating a \$5.58 million production value. It is worth noting that the \$1,552 per ton value reported that year was a record amount achieved in the region.
- The top five varietals grown, cultivated and/or sold in the region in 2019 included Cabernet Sauvignon (1), Syrah (2), Sangiovese (3), and Merlot (4). For the first time, Cabernet Franc (5) appeared as a top five varietal, displacing Zinfandel, a perennial favorite in the region.
- Early 2020 data shows that average local industry wages (\$40,716) are now competitive with industry wages paid in Santa Barbara County and Santa Clara County (\$41,132 and \$41,028, respectively). This trend line indicates continued investment and development in local wineries, and higher competitive wages paid by local employers, particularly for more senior-level and skilled positions.
- When asked to quantify the impact the COVID-19 pandemic and subsequent government restrictions had on tasting room and bottle sales since March 2020, we received a wide range of responses, which included severe reductions in business, as well as responses that indicated a marginal year-to-year increase in tasting room and bottle sales. However, most respondents indicated tasting room losses in the range of 18-38%, and bottle sale losses in the range of 30-50%.
- We found wineries strongly disapproved of the efforts of San Diego County officials to help their industry weather the pandemic. When asked, "Do you feel that the county government has been helpful in mitigating the impact of the COVID-19 economic crisis on the wine industry?," 85% of respondents replied no, and 15% replied Yes.
- Wineries identified three areas where local officials can help their industry through the pandemic: 1) loosening government restrictions on business operations; 2) greater financial assistance via loans and grants for wineries, 3) and more industry partnerships and assistance with marketing local wine, wineries and the San Pasqual and Ramona Valley AVAs.

Industry Overview

San Diego County is home to two unique American Viticultural Areas (AVA) (San Pasqual Valley AVA and Ramona Valley AVA), and most of the county is geographically located in the South Coast AVA, which encompasses the majority of Southern California's grape growing regions. However, wineries and tasting rooms can be found all across San Diego (see Figure 1), stretching from the US-Mexican border, to the Pacific Coast, and to the edges of Orange and Riverside Counties.

Figure 1: Wineries and Satellite Tasting Rooms in San Diego County, February 2021



Source: California Department of Alcoholic Beverage Control

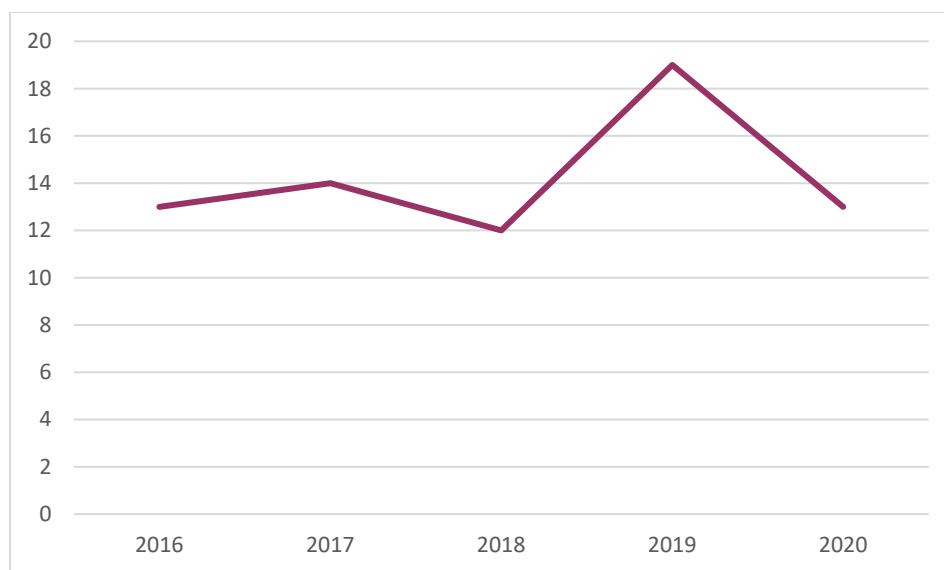
The number of wineries in the region have steadily grown over the past few years. Data from the California Department of Alcoholic Beverage Control (ABC) shows that as of February 2021, there are 203 active winegrower licenses in San Diego County, nearly double the tally of neighboring Riverside County (108). This total is a steady increase from late 2019 (181) and mid-year 2018 (174).¹ To get an

¹ It is important to note it is an overall figure that includes satellite tasting rooms, inactive wineries and non-winery businesses, like wine wholesalers and mead producers.

accurate count of operating wineries and planned wineries, we conducted an exhaustive review of the Type 2 licenses in San Diego County, verifying every license holder and their current operating status, and removing all duplicate licenses, non-wineries and inactive wineries from the list. In total, we found there are 150 unique operating wineries and planned wineries in San Diego County, an increase from our verified tally from late 2019 (142).

Interest in opening new wineries has sustained throughout the COVID-19 pandemic. When looking at our verified list of operating and planned wineries in the region, and sorting by the year in which their Type 2 winegrower license was issued by the ABC, the number of new winegrower licenses issued in 2020 in San Diego County (13) is in the range of issued licenses from 2016-2019 (12-19). A closer look at these license holders reveals that some have already opened their winery since the start of the pandemic or have announced plans to open in 2021, a sign of operational resilience and industry adaptation to the challenges of COVID-19.

Chart 1: First Year of Issuance for Type 2 Winegrower Licenses for Verified Operating or Planned Wineries, 2016-2020



2020 Survey

In order to evaluate the collective experience of wineries through the 2019 wine grape harvest and the 2020 COVID-19 pandemic, we partnered with the San Diego County Vintners Association to electronically distribute an 18-question survey to its members. We also distributed the survey directly to non-member winery owners in the county, using contact information found on the Internet and in business license records. We contacted wineries over multiple rounds in late December 2020 and early January 2021. Overall, we received 37 responses, generating a 28% response rate from operating wineries.

To maintain quality control of our survey instrument, and ensure that survey responses are in aggregate reflective of the views and experiences of regional wineries, we weighted responses using SPSS statistical software. We used a multivariate weighting analysis, weighting responses by 1) winery type (urban winery, major use permit, et al), 2) the winery's geographic location, and 3) the year in which the winery was established.

Sales

We asked survey respondents to indicate their total estimated gross sales revenue for 2019 and 2020, respectively. We first compiled revenue responses and supplemented them with responses from prior surveys, and in limited cases with sales data from Dun & Bradstreet, a best-in-class proprietary business record database. Overall, we estimate that in 2019, county wineries generated an all-time high of \$46,236,060 in gross sales, and \$37,100,211 in sales in 2020, a 19.6% decline. The overall decline in year over year sales was attributed to the COVID-19 pandemic, and government restrictions on business operations, which fluctuated throughout the year in response to virus spread. While some respondents indicated flat year-over-year sales, and others recorded a marginal increase from 2019 to 2020, the majority of respondents indicated a decline in sales in the range of 18-38%.

Table 1: Estimated Gross Sales for San Diego County Wineries, 2018-2020

| | 2018 | 2019 | 2020 |
|----|------------|---------------|---------------|
| \$ | 41,059,126 | \$ 46,236,060 | \$ 37,100,211 |

Harvest

The region's wine grape harvest has steadily grown in scale and value over the past decade. Data from the San Diego County Agriculture, Weights and Measures Department identifies that 1,511 acres of wine grapes were harvested in the 2019 growing season, a 56% increase from 2015 (see Table 2). In all, San Diego County produced 3,596 tons of wine grapes in 2019, generating a \$5.58 million production value. It is worth noting that the \$1,552 per ton value reported that year was a record amount achieved in the region.

Table 2: San Diego County Wine Grape Harvest, 2015-2019

| Year | Acres Harvested | Tons Produced | Production Value | Value/Ton |
|------|-----------------|---------------|------------------|-----------|
| 2015 | 969 | 2,907 | \$4,232,592 | \$1,456 |
| 2016 | 930 | 2,515 | \$3,005,000 | \$1,195 |
| 2017 | 1,210 | 2,783 | \$3,854,455 | \$1,385 |
| 2018 | 1,642 | 3,284 | \$4,591,032 | \$1,398 |
| 2019 | 1,511 | 3,596 | \$5,580,300 | \$1,552 |

In contrast to other wine regions in the state, most wine grapes grown and harvested in San Diego County are from boutique wineries and vineyards, making harvest comparisons difficult to do. In order to evaluate wine grape harvests in a meaningful way, we used two harvest metrics, “tons per harvested acre” and “value per ton” to compare San Diego to benchmark wine growing regions in the Northern California and the Central Coast. As illustrated in Table 3, crop values and production levels are lower than other counties, reflecting the variation in scale, relative temperature, rainfall, varietal, and other factors.

Table 3: 2019 Tons of Wine Grapes Harvested per Harvested Acre, and Value of Harvest Wine Grapes per Ton Harvested, by County

| County | Tons/Harvested Acre | Dollar Value/Ton |
|------------------|---------------------|------------------|
| Napa | 3.43 | \$5,872 |
| San Luis Obispo | 3.38 | \$1,699 |
| Santa Barbara | 3.36 | \$2,114 |
| Santa Clara | 3.4 | \$1,997 |
| Riverside | 3.8 | \$1,623 |
| SAN DIEGO | 2.38 | \$1,552 |

Survey responses on the 2019 harvest identify mostly positive experiences from winegrowers, especially compared to more recent harvest seasons. Most respondents favorably reported that their 2019 harvest yield was “average” (44%) or “above average” (29%) (see Chart 3). This was a significant shift from 2018, when most respondents indicated the harvest that year was “below average” (50%). Respondents also indicated that the year-over-year harvest quality also improved (see Chart 4) compared to 2018 levels. Weather appears to be a primary factor - as mentioned in the Wine Institute’s California Wine 2019 Harvest Report, with cooler-than-normal winter temperatures and higher-than-normal rainfall, 2019 yields in San Diego County were up about 30% compared to 2018 levels, and “vintners praised fruit quality across all varieties and harvest at their Brix goals without high pH.”² While we are still waiting for county specific crop data, early indicators for the 2020 harvest quality and yield in San Diego County are positive.³

² Source: California Wine 2019 Harvest Report. Wine Institute. <http://28rbcq2h1bmh1vlw303uo1et-wpengine.netdna-ssl.com/wp-content/uploads/2019/12/WineInstitute_HarvestReport2019.pdf>.

³ Silicon Valley Bank. State of the US Wine Industry 2021, Pages 31-33. <<https://www.svb.com/globalassets/trendsandinsights/reports/wine/sotwi-2021/svb-state-of-the-wine-industry-report-2021.pdf>>

Chart 2: Harvest Yield, San Diego County, 2016-2019

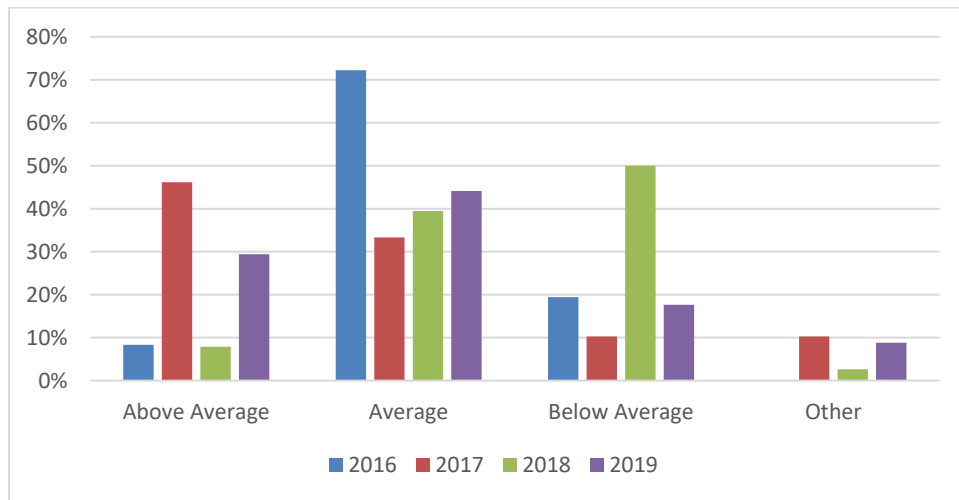
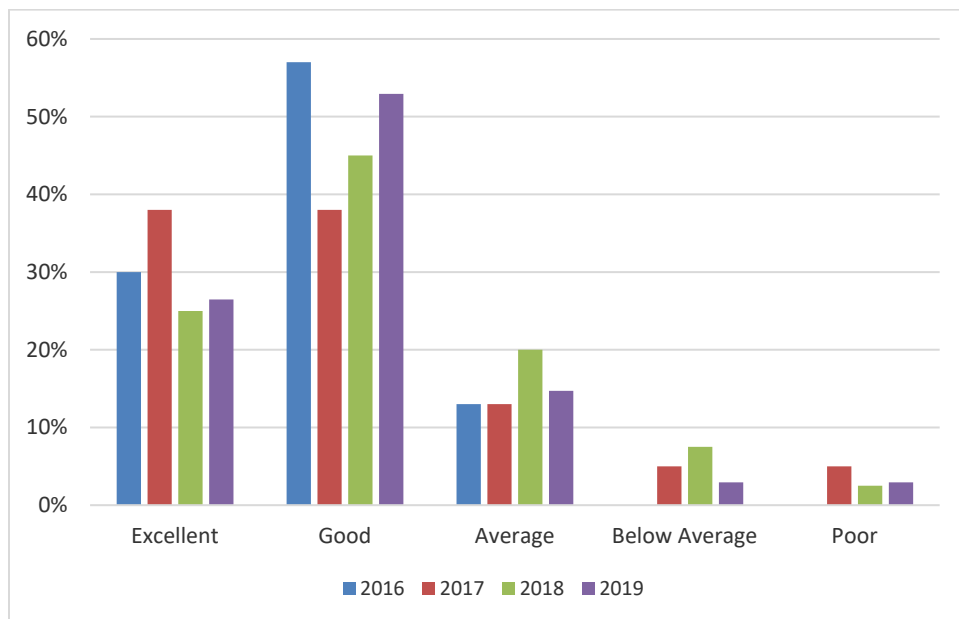


Chart 3: Harvest Quality, San Diego County, 2016-2019



We asked survey respondents to list the wine grape varieties grown, cultivated and/or sold in 2019. In all, respondents identified fifty varieties in the region, a tally which falls in the range of responses from prior survey years (45-62). The top four varieties grown, cultivated and/or sold in the region in 2019 retain their rankings from 2018 – they are Cabernet Sauvignon (1), Syrah (2), Sangiovese (3), and Merlot (4). For the first time, Cabernet Franc (5) appeared as a top five variety, displacing Zinfandel, a perennial favorite in the region.

Collectively, California wineries have been experiencing drops in production since 2019; the 3.4 million tons of wine grapes crushed in 2020 was the lowest haul since 2011 (see Table 4).⁴ Prices and demand were down due to purchaser concerns of smoke exposure and damage; a market correction following an oversupply of bulk wine grapes; and pandemic-related restaurant closures. The top five crushed wine grapes in California from the 2020 harvest were Chardonnay (1), Cabernet Sauvignon (2), French Colombard (3), Zinfandel (4), and Pinot Gris (5).

Table 4: Statewide Wine Grape Harvest and Production Value, California, 2010-2020

| YEAR | PRODUCTION, MEASURED IN TONS | \$/TON |
|------|------------------------------------|--------|
| 2010 | 3,589,000 | 574 |
| 2011 | 3,347,000 | 637 |
| 2012 | 4,018,000 | 773 |
| 2013 | 4,246,000 | 754 |
| 2014 | 3,894,000 | 759 |
| 2015 | 3,705,000 | 679 |
| 2016 | 4,032,000 | 780 |
| 2017 | 4,016,000 | 880 |
| 2018 | 4,281,000 | 856 |
| 2019 | 3,920,000 | 827 |
| 2020 | 3,404,000 | 680 |

Source: National Agricultural Statistics Service

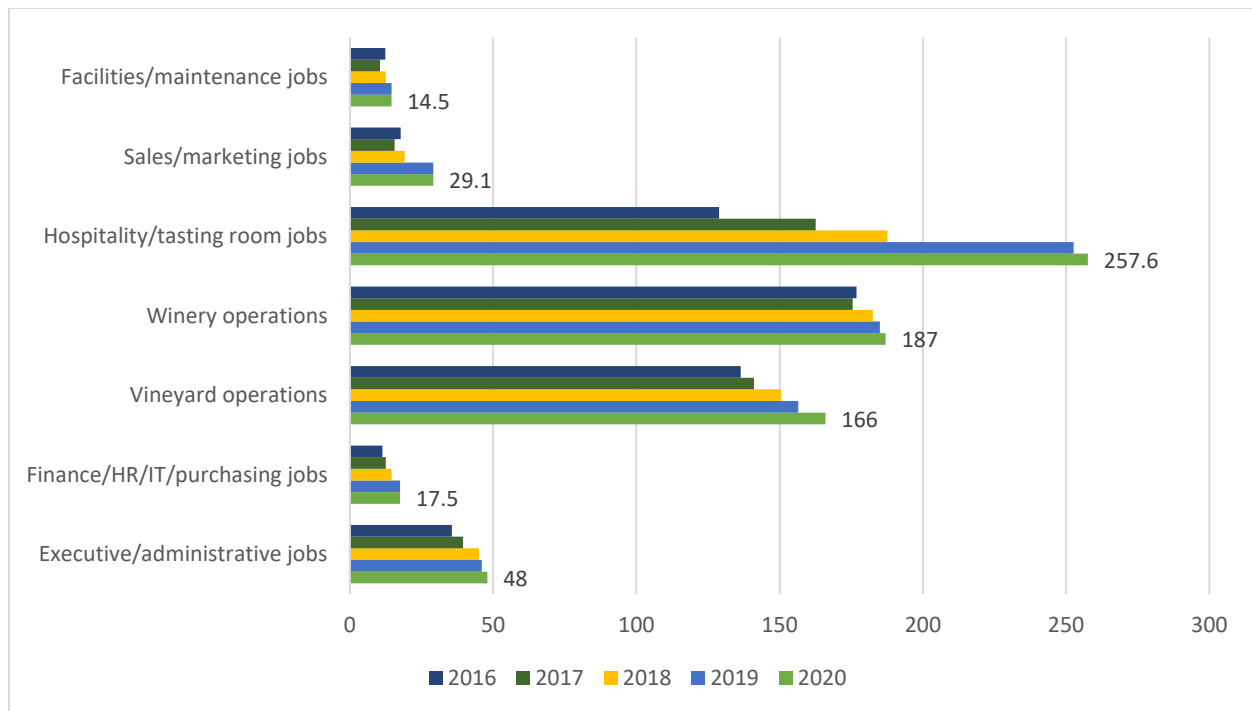
Workforce, Wages & Training

Survey responses reveal that the regional winery workforce continued to grow in 2019 and 2020 (see Chart 6). Overall, there were 719.7 San Diego-based wine industry jobs in 2020, a 2.6% increase over the 2019 total (701.2) and 17.7% higher than the 2018 total (611.7). Most of the year-over-year job growth was from new hospitality/tasting room jobs (257.6), and vineyard operations (166), due to new satellite tasting rooms, expanding wineries, and new wineries coming online. Year-over-year job growth however was flat in three labor force categories – facilities/maintenance, sales/marketing, and finance/HR/IT/purchasing. No labor

⁴ California Grape Crush Report Preliminary 2021. National Agricultural Statistics Service and the California Department of Food and Agriculture. Released February 10, 2021.
<https://www.nass.usda.gov/Statistics_by_State/California/Publications/Specialty_and_Other_Releases/Grapes/Crush/Prelim/2020/202002gcbt00.pdf>.

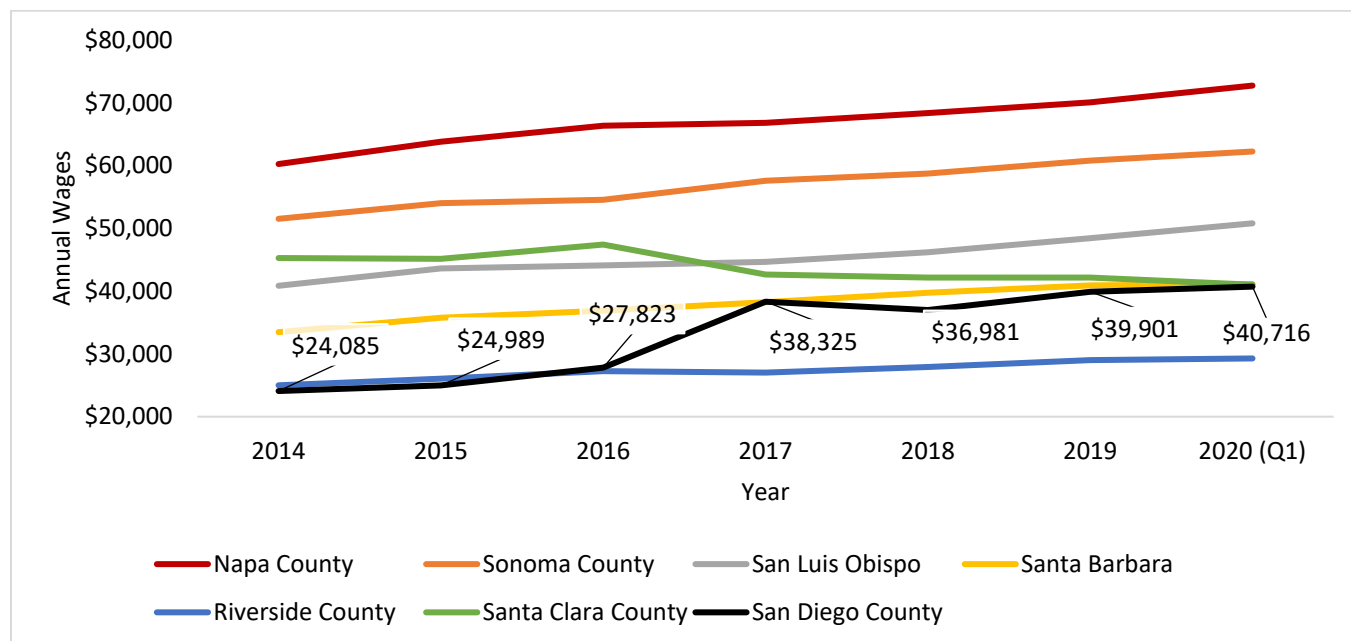
force category experienced an overall reduction in positions, but some respondents indicated job losses at their business establishment in 2020.

Chart 4: San Diego County Wine Industry Workforce, by Occupation, 2016-2020



As data from the U.S. Bureau of Labor Statistics shows, overall industry wages in the region have steadily climbed since 2014 (see Chart 7). Early Q1 2020 data shows that San Diego County average industry wages (\$40,716) are now competitive with industry wages paid in benchmark regions - Santa Barbara County and Santa Clara County (\$41,132 and \$41,028, respectively). This trend line indicates continued investment and development in local wineries, and higher competitive wages paid by local employers, particularly for more senior-level and skilled positions.

Chart 5: Average Annual Industry Wages, by County, 2014-2020 (Q1)



Source: Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics, 2014-Q1 2020

COVID-19 and Local Government

When asked to quantify the impact the COVID-19 pandemic and subsequent government restrictions had on tasting room and bottle sales since March 2020, we received a wide range of responses, which included severe reductions in business, as well as responses that indicated a marginal year-to-year increase in tasting room and bottle sales. However, most respondents indicated tasting room losses in the range of 18-38%, and bottle sale losses in the range of 30-50%. Generally, losses were more common among urban wineries and tasting rooms in the City of San Diego/metro San Diego area, and among the largest wineries in the county. The pandemic also affected regional wine production - when asked, “has your wine production slowed this year due to the COVID-19 pandemic and related government restrictions on business operations?” 65% of respondents said, “yes.”

Media outlets reported frequently on pandemic purchases and increased consumer sales for wine during the widespread stay-at-home orders that affected California and most other states. Indeed, direct-to-consumer (DtC) winery shipments nationally increased 27% between 2019 to 2020, compared to an average of 10.5% year-over-year increases in the prior nine years.⁵ Direct-to-consumer shipment data from SOVOS ShipCompliant and Wine Vines Analytics reveals this phenomenon was largely beneficial only to larger, more established wineries, primarily in Sonoma County and the East Coast, and

⁵ Source: 2021 Direct to Consumer Wine Shipping Report: 2020 Year in Review, published by SOVOS ShipCompliant and Wine Vines Analytics. < <https://s33694.pcdn.co/shipcompliant/wp-content/uploads/sites/9/2021/01/2021-Direct-to-Consumer-Wine-Shipping-Report.pdf>>.

wine sold under \$20. The industry category of “Very Small Wineries,” (1,000 to 4,999 cases produced annually), of which the overwhelming majority of San Diego County wineries fall under, did not match the direct-to-consumer shipping average increase of 27% in 2020, achieving only a 4.3% shipping increase instead. As stated in the 2021 Direct to Consumer Wine Shipping Report:

The group of Very Small Wineries underperformed the overall DtC shipping channel average considerably, bucking the overall trend of producers trading increased volume at the expense of price. Because these producers ship wines of higher than average prices, this category only increased its volume of shipments 4.3% over 2019. This is likely the result of Very Small Wineries not seeing a significant decrease in average price per bottle (only 5%), especially when compared to the typically similarly priced Limited Sized Wineries, which registered a 16% decrease in average price per bottle shipped but were able to achieve a 64.9% increase in volume as noted below⁶.

While overall DtC wine shipments and off-premise alcohol sales grew nationally in the pandemic, they did not make up for on-premise sales losses (down 22% year-over-year from August 2019-August 2020), according to the Nielsen Corporation, a global marketing research firm.⁷ Year-over-year on-premise wine sales were down more than 30% in 2020, according to Wine Vines Analytics.⁸

An analysis by Jon Moramarco, managing partner of bw166, an industry analyst firm, forecasted that California wine grape growers would lose at least \$437 million in sales from March 2020 to February 2021.⁹ Moramarco also projected that in that time, California wineries will experience significant decreases in restaurant sales (-60%) and winery tasting room sales (-60%).

Still, local wineries have adapted to the challenges of serving customers and generating sales through the pandemic (see Chart 8). Most survey respondents indicated they have pivoted and improve consumer marketing strategies to include curbside retail pickup (71%), direct-to-consumer special offers (56%), increased social media advertising (53%) and wine club special offers (53%). Other employed strategies include virtual wine tastings (18%). When we asked which marketing strategy was most effective for their respective winery, there was no clear consensus from the responses provided – each winery was unique.

⁶ Ibid., page 21.

⁷ As of early August 2020. Press Release, Nielsen. “Off-Premise Alcohol Gains Not Enough to Make Up for Losses in On-Premise.” WineIndustryNetwork Advisor website. Accessed February 1, 2021. <<https://wineindustryadvisor.com/2020/09/02/nielsen-u-s-off-premise-alcohol-update>>.

⁸ Wine Vine Analytics: “Despite the strength of winery DtC shipments and off-prem sales, the total U.S. market is still down about 9% compared to last year largely because of losses from the on-prem market. Total wine spending is down more than 30% through Aug. 8.”

⁹ PowerPoint Presentation. COVID-19 and the California Grape Harvest. June 8, 2020. Moramarco, John. <<https://files.constantcontact.com/cd6628ed001/9a9b8758-34b3-42ce-9e4b-48925cb88923.pdf>>.

Chart 6: Survey Answers to “Which, if any, of the following marketing strategies did you use to increase sales since the beginning of the COVID-19 pandemic (March 2020)?”



Like other San Diego County businesses, regional wineries applied for federal relief programs during the pandemic. We conducted an exhaustive public record search of local winery recipients of the COVID-19 Economic Industry Disaster Loans (EIDL) and Paycheck Protection Program (PPP), administered by the Small Business Administration, using data files published online by the federal government. In all, roughly a 1/3 (50) of all San Diego wineries received EIDL or PPP loans in 2020, in amounts ranging from \$1,000 to \$364,100, for a total of \$3.5 million.

Turning to local government response, we found wineries strongly disapproved of the efforts of San Diego County officials to help their industry weather the pandemic. When asked, “Do you feel that the county government has been helpful in mitigating the impact of the COVID-19 economic crisis on the wine industry?” 85% of respondents replied no, and 15% replied Yes. To facilitate greater constructive feedback, we asked respondents what in their opinion, can local and county officials do to help and better address the needs of San Diego County vintners through the COVID-19 pandemic and post-pandemic phase. The responses we received were wide-ranging, but generally fell in three areas: 1) allowing onsite tastings and less government restrictions on business operations; 2) greater financial assistance via loans and grants for wineries; 3) and more industry partnerships and assistance with marketing local wine, wineries and the San Pasqual and Ramona Valley AVAs.

About The Policycraft Institute

Established in 2019, the Policycraft Institute is an independent public policy research organization based in Carlsbad, California.

About the Author

Vince Vasquez is an independent economic data analyst and executive director of the Policycraft Institute. Professionally, he has worked as a public policy researcher for more than fourteen years. He has authored more than forty policy papers on a range of economic and workforce issues, including craft brewing, small business districts, and the renewable energy sector. He has a Bachelor of Arts in Political Science from the University of California, San Diego, and is currently completing coursework at towards a Certificate in Viticulture and Enology at MiraCosta College.



SAN DIEGO COUNTY VINTNERS ASSOCIATION

The San Diego County Vintners Association (SDCVA) is a non-profit member association dedicated to supporting the San Diego viticulture and winemaking community, educating local wine enthusiasts and embracing sustainable agricultural practices in the county.