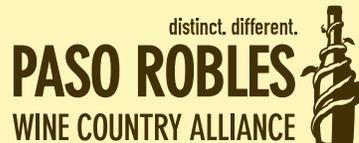




# **MKF RESEARCH**

## ECONOMIC IMPACT OF WINE AND WINEGRAPES IN THE PASO ROBLES AVA AND GREATER SAN LUIS OBISPO COUNTY 2007

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A joint venture of  
Global Wine Partners US LLC  
Frank, Rimerman + Co. LLP CPAs

# ECONOMIC IMPACT OF WINE AND GRAPES IN THE PASO ROBLES AVA AND GREATER SAN LUIS OBISPO COUNTY 2007

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## EXECUTIVE SUMMARY

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The wine and grape industry in San Luis Obispo County has been transformed over the last decade, a transformation that has enabled growth in employment and incomes in the county while preserving agriculture in an astonishingly beautiful rural environment.

Over this period,

- ✓ The number of wineries in the county increased from 51 to 217;
- ✓ The number of wineries in the Paso Robles American Viticultural Area (AVA) increased from 35 to 181;
- ✓ The number of vineyards in the county increased by 72%, with winegrape bearing acres growing by more than 190%;
- ✓ Winegrapes, now the county's highest value crop, represents one third of San Luis Obispo County's total agricultural production value.

Winegrapes surpassed vegetables as the county's leading agricultural crop by value in 2000. Vegetable production had led San Luis Obispo County agriculture for the previous 75 years.

Wine, vineyards and related industries and services generate \$1.785 billion in economic value in San Luis Obispo County, including more than \$86 million in state and local taxes.

San Luis Obispo's wineries, vineyards and allied industries and services account for 8,114 jobs in the county, generating a payroll of more than \$240 million per year. These jobs represent 7.5% of total county employment, 9.2% of private sector employment and a major share of the jobs created in the county in recent years<sup>3</sup>.

The county's wine industry is largely concentrated in North County, which is primarily the Paso Robles AVA. The Paso Robles AVA accounts for more than 90% of the number of wineries in the county, about 82.4% of the county's winery revenue and 82.5% of county wine production.

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<sup>3</sup> Available data indicates that Health and Education Services together represent the largest single employment sector in the county, with 17% of total reported employment. The next largest sector appears to be Leisure and Hospitality, with 14% of the county's total employment, a significant share of which is wine related.

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Nearly 90% of the county's reported 29,000 vineyard acreage is within the Paso Robles AVA. Consequently, the economic impact of wine and grapes in the Paso

Robles AVA is estimated at \$ 1.467 billion, employing 7,000 persons with a total payroll of \$182 million.

Despite the acceleration in winery construction over the past decade, the production capacity of wineries within the AVA and of wineries, wherever located, producing wine with the Paso Robles AVA designation has still not caught up with the region's growth in grape production, although significant progress has been made. Whereas several years ago, 85% of Paso Robles grapes were sold out of the county, today 58% of these grapes are sold outside of the county. More than two thirds of the grapes produced in the Paso Robles AVA go into wines designated for the lower priced California and Central Coast AVAs.

The major value added from producing wine grapes is derived from processing grapes into wine, which includes the sales and marketing of that wine. Moreover, grape prices reflect in large part the price of the wine they produce – grapes processed for lower value AVAs thus depress the returns of their growers.

To both improve the incomes of winegrape growers in the county and to capture more of the value added of its vineyards, more of these winegrapes need to be made into wine within the county – and that wine should carry the higher priced Paso Robles, Arroyo Grande or Edna Valley AVAs.

A key question is whether Paso Robles can stimulate sufficient growth in demand for wine with its AVA to attract sufficient new brands, as well as the growth in existing brands, to absorb a substantial share of these grapes.

Paso Robles and greater San Luis Obispo County have clearly shown the ability to produce high quality wines at reasonable prices. The Paso Robles Wine Alliance has made major strides in building the reputation of the region's wines in recent years. However, even with significant continuing growth of existing brands and the several new high end wineries in

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## **ECONOMIC IMPACT OF WINE AND GRAPES IN THE PASO ROBLES AVA AND GREATER SAN LUIS OBISPO COUNTY 2007**

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development, major new initiatives are required. To attract the needed investors, the region needs to further

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expand its promotional efforts, with strong support by the city and county and by the region's economic development organizations.

The crucial missing ingredient to realizing the potential of the County's winegrape investment is thus the development of additional brands to speak for the county's distinctive combination of quality and value. The core of such brand creation will be the growth of brick and mortar wineries – smaller, higher end wineries -- offering visitors memorable experiences, reinforcing the county's image as the source of quality wines and turning tourists into "brand ambassadors". Generally, smaller high end wineries refer to wineries producing up to 100,000 cases of wine priced above \$15 to \$20 per bottle.

It cannot be overemphasized how important these winery visit and tasting room experiences are to the growth of brand and the development of brand loyalty in today's wine market. Ample research has shown that word of mouth based on personal experience is the ultimate driver of wine selection for today's wine consumers. This development will also drive high end tourism to San Luis Obispo County.

The estimated 57,600 tons of grapes which could eventually be shifted into local AVA wine, as discussed on pages 18-19 below, would be equal to the production of about 3.6 million cases of wine. Developing new "brand evocative" wineries for about one third of this wine would enable the full economic potential of the AVA to be realized. The remaining grapes could be processed in crush facilities already existing in the county. Thus, only a limited expansion of the winery footprint in the county would be needed to substantially enhance the value of the county's wine and winegrape industry.

Concerns about grape quality apparently can be resolved by reasonable adjustments in viticultural practices in some vineyards.

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The economic benefits of realizing this goal<sup>7</sup> would be considerable, including increased economic impact estimated at \$1.43 billion, the creation of more than 5,600 new and primarily higher level professional jobs along with a payroll of nearly \$188 million, as shown in Tables 8 and 9. These benefits can be achieved from the existing vineyard footprint and have the potential to ensure the long term stability of the County's agricultural base and enhance its environment and quality of life.

## San Luis Obispo County in California's Central Coast



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<sup>7</sup> This calculation assumes 80% of the grapes currently processed out of county and in AVAs other than those of Paso Robles or San Luis Obispo County remained in the county and became wine using one of these AVAs, as discussed on pages 17-19.

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ECONOMIC IMPACT OF WINE AND GRAPES IN THE PASO ROBLES AVA AND GREATER SAN LUIS OBISPO COUNTY 2007

HIGHLIGHTS

FULL ECONOMIC IMPACT OF WINEGRAPES AND WINE IN THE PASO ROBLES AVA AND GREATER SAN LUIS OBISPO COUNTY  
**\$ 1.785 Billion<sup>1</sup>**

PASO ROBLES AVA + GREATER SAN LUIS OBISPO WINE	ECONOMIC IMPACT
Full-time Equivalent Jobs	8114
Wages Paid	\$241 million
Retail Value of Paso Robles AVA Wine	\$657 million
Retail Value of Greater San Luis Obispo County Wine	\$803 million
Number of Bonded Wineries	217
Wine Produced (9 liter cases)	3.2 million
Winegrape Bearing Acres	29,000
Value of Winegrape Crop	\$151 million
Allied Industry Revenues	\$51 million
Tourism Expenditures	\$113 million
Winery Tourists Visits	1.2 million
Charitable Contributions	\$1.1 million
Taxes Paid (State and Local)	\$86 million

<sup>1</sup> See **Table1** below.