

Prices, Quantities Produced and Critical Scores: The Case of North American Pinot Noir

John Haeger, The Research Libraries Group, P. O. Box 18450, Stanford, CA 94309, fax 650-325-3727, e-mail: jwhaeger@pacbell.net

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Background

By many metrics -- including tons harvested, price per ton and average list price per bottle of finished wine -- the 1990's have been witness to an astonishing revival of interest in American pinot noir. In fact, California and Oregon pinot noir has quietly emerged as the single most expensive category of ultra-premium table wine produced in North America. There are many reasons for this realignment. One is the virtual non-existence of inexpensive pinot fruit, owing largely to the impossibility of growing it successfully in the warm, low-cost, high-volume regions of California's Central Valley. The absence of inexpensive fruit pushes the average price per ton of pinot noir far higher than the equivalent average price for cabernet sauvignon or merlot. In 2002 the California statewide average price for pinot noir was USD 1857 per ton, as against just USD 1056 for cabernet sauvignon and USD 915 for merlot. Pinot noir's legendary sensitivity to over-cropping also tends to depress yields per acre. Even in areas where four or five tons per acre could be ripened successfully, most serious growers crop downward to between two and three tons per acre in order to achieve better varietal expression. Finally, high prices for finished wine are supported by a proliferation of small-lot offerings, typically distinguished by vineyard-designation. This last factor is the object of this study.

It is commonplace to assert that pinot noir, along with riesling, is the most profoundly site-marked of wine grape varieties. This view has its origins in Burgundy, of course, where it is enshrined in France's most granular appellation-based *découpage*. I have calculated that if every grape in Burgundy were harvested by the vine's owner, if every owner bottled his own wine, and if every wine were labeled for the most specific geographic designation to which it is entitled -- none of which is the case -- there would be less than one case of finished wine made per proprietor per vineyard. As North American vintners have become more site-conscious in the last two decades, they too have begun to celebrate *terroir*, and to eschew blending in favor of a proliferation of small and typically vineyard-designated bottlings. So-called "reserve" programs, always meaningless but usually denoting some kind of barrel-selection protocol, have all but disappeared, and coined proprietary names (e.g., Testarossa's Cuvée Niçlaire) are decreasingly common. Instead, many top producers like Oregon's Ken Wright and California's Siduri have built their reputations on vineyard-designation. Typically, these producers offer small quantities of many different wines to the marketplace, rather than propose larger quantities of regional blends. With increasing frequency, large producers

have mimicked this behavior, settling aside two, four or eight barrels for a special vineyard-designated release. Before examining the economic underpinnings of this behavior, it is fair to observe that the North American practice is only a pale reflection of its Burgundian inspiration. Vineyard nomenclature in North America is not controlled by law – apart from certain regulations on use of the term “estate,” so vineyards can be defined in the eye of the vintner. Named vineyards can be large coherent parcels like the nine-hundred acre Bien Nacido Vineyard in California’s Santa Maria Valley, or large and discontinuous holdings like the so-called Dutton Ranch in the Russian River Valley. Dutton Ranch would be better expressed as the Dutton Ranches; it is simply a collection of unrelated vineyard parcels with a common owner. Even the famous Hirsch Vineyard on the Sonoma Coast is an array of non-contiguous vine blocks that, according to many winemakers, are so different that they are best viewed as separate vineyards. Conversely, Calera Wine Company vinifies four adjacent parcels as separate vineyards, even though most producers would classify them as blocks of the same vineyard. Nothing prevents producers from inventing vineyard names, or from using what appear to be vineyard names for what are in fact barrel selections of wine. Growers are not prevented, when they sell fruit to producers, from insisting on vineyard-designation as a condition of the sale, simply to bolster the grower’s reputation and to inflate the sales price per ton in subsequent years.

The *Wine Spectator* Sample

To assess the economic importance of small-lot production and vineyard-designation, I examined price and production data for 351 pinot noirs from the 1996, 1997, 1998 and 1999 vintages, reviewed in *Wine Spectator* between 1999 and 2001. Although *Wine Spectator*’s coverage of pinot noir is far from comprehensive, there are good reasons to believe that these 351 wines constitute a representative sample. As the single largest-circulation wine magazine in the world, *Spectator* receives tasting samples from most serious producers, including boutique-scale ventures on the one hand, and large-volume wineries shopping for visibility and recognition on the other. For convenience, I grouped these wines into six categories by volume produced: 200 cases (= 8 barrels or *pièces*) or less, 201-500 cases, 501-1000 cases, 1001-2000 cases, 2001-5000 cases and more than 5000 cases. The same 351 wines were also classified by suggested California retail price (SRP) as follows: SRP=USD 50 or more, SRP=USD 40-49, SRP=USD 30-39, SRP=USD 20-29, and SRP less than USD 20.

Distribution by volume produced was as follows:

200 cases or less	46
201-500 cases	113
501-1000 cases	56
1001-2000 cases	38
2001-5000 cases	47
5001 cases or more	51

Distribution by SRP was as follows:

USD 50+	28
USD 40-49	52
USD 30-39	38
USD 20-29	127
USD less than 20	71

Save for the small glut of wines priced between USD 40 and USD 49, the distribution by price is a standard bell-shape curve, with the largest number of wines offered (unsurprisingly) between USD 20 and 29. The distribution by volume-produced is more remarkable, however. 45% of wines were made in lots smaller than 500 cases; 61% in lots smaller than 1000 cases, but only 15% were made in lots larger than 5000 cases. I do not have comparable data for other varieties, but it seems likely that pinot noir is especially skewed toward small-lot production. In fact, the distribution resembles what most specialists would expect from Burgundy's *négociants*: very small volumes of many wines, mostly of *premier cru* or vineyard-designated village pedigree, and larger volumes of a few blended village wines and Bourgogne AOC.

When SRP and volume produced were examined together, the foreseeable inverse correlations (between high SRP and low volume, and between low SRP and high volume) were clear enough. 92% of wines priced at USD 50 or more were made in lots smaller than 500 cases. Conversely, 54% of wines priced less than USD20 were made in quantities exceeding 5000 cases. Good old-fashioned supply and demand at work, one presumes, in entirely predictable ways. Illustrating the correspondence between small volume, high price and vineyard-designation, 74% of wines price above USD 30 *and* Produced in lots of 500 cases or less were vineyard-designated. If wines priced over USD 30 are examined without regard to quantity produced, this number dropped to 66%. And when quantity produced was examined independently, only 62% of wines in the sample were vineyard-designates.

An examination of the intersecting relationships between quantities produced, SRP and *Wine Spectator's* scores for each wine was also interesting. Quite obviously, producers send samples to the *Spectator* in hopes of obtaining a score that could be used to bolster reputation overall, to increase sales of an individual wine, or to justify a higher price for the same wine in a subsequent vintage. Conventional wisdom holds that scores lower than 88 points have no positive effect on sales of wine priced above USD 30/bottle, although scores of 85, 86 and 87 points sometimes help to sell less expensive bottles. Scores of 84 points or less are regarded as entirely useless commercially, and are almost never used in wineries' marketing campaigns. At first blush, price and quantity correlated well with *Wine Spectator's* scores for the 351 wines in the sample. Of the six wines produced in quantities less than 200 cases and priced at USD 50+, *all* scored 88 points or more. (Two scored 90+; four received scores of 88 or 89.) When the universe of high price and small quantity was expanded to include wines made in lots smaller than 500 cases priced at USD 40+, however, the correlation was less impressive. Only 57% of the 63 wines in this category scored 88 points or higher; although 15 of these scored 90+.

Conversely, of the 39 wines priced under USD 20 and made in quantities exceeding 5000 cases, only one scored above 87. But very significantly, nearly half of wines priced above USD 40 and two-thirds of wines priced above USD 30 – all high-priced wines by nearly any standard -- earned scores in the range conventionally deemed useless for marketing purposes in their price category – namely 87 points or less.

When I examined quantities produced for the 83 wines in the sample (24%) that were priced above USD 30 but scored 87 or lower, I found that 71% were produced in lots of less than 500 cases, and 84% in lots less than 1000 cases, while less than one percent were produced in lots larger than 2000 cases. Since it is unlikely that this correlation has gone unnoticed in the industry, one is permitted to wonder if the proliferation of micro-lots could reflect an explicit marketing strategy. Alongside their philosophical sympathy for *terroir*, could producers have embraced a policy of multiple micro-lot production in order to lessen the marketplace importance of scores overall, or to buffer the negative impact of a mediocre score on sales of a higher-volume wine? Even the *Spectator* itself raises some questions. James Laude, writing for the *Spectator* in 2001 suggested that the consumer is often “paying for the image of a single-vineyard expression” although some winemakers “say their ... blends are ... as good or better than their single-vineyard efforts.”

Conclusion

This elementary examination of micro-lot production suggests that, at least in the case of North American pinot noir, the strategy has economic advantages for many producers. It reduces the importance of critical scores as a purchase criterion, and more than compensates for the presumed inefficiencies of marketing many wines in small quantities. Micro-lots can be sold easily and effectively through affective channels like tasting rooms, direct mail and the Internet. Many wineries restrict the sale of micro-lots to affective channels. Affective channels are associated with much higher returns to the winery, since the average affective sale generates gross revenue of ninety cents on the SRP dollar, while traditional distribution ranges from only fifty to sixty cents. For their part, consumers of North American pinot noir seem prepared to buy affectively as well, allowing the cachet derived from scarcity and direct personal access to substitute for the traditional security associated with high critical scores.