

Why Wine Costs What It Does

By AMANDA HESSER
Published: April 09, 2003

LAST year, when Paul Hobbs, a California winemaker, was about to release his 1999 Beckstoffer cabernet sauvignon, lots of things were going through his mind. He had investments to pay off and a reputation to build on the wine, but he was also facing a market that had softened tremendously. It was up to Mr. Hobbs to determine a retail price that would let him pay off some debts and draw the attention of serious wine drinkers, yet be low enough that he could actually sell the wine, not just this year but for vintages to come.

Mr. Hobbs thought long and hard and decided: \$135.

Why does one bottle of fermented grape juice cost \$135, and another just \$15? Americans consumed 14.9 million cases of California cabernet in 2001, according to a study by Impact, a trade publication that tracks the wine industry, and customers in a wine store, faced with walls of bottles that range in price from the low end to the high, confront the question every time they shop.

"It's definitely more art than science," said Mannie Berk, the owner of the Rare Wine Company, an importer in Sonoma, Calif. "It's finding the right point in the market where you're priced appropriately in relation to other wines that are similar in stature and style and level, where both merchants and consumers will be eager to buy the wine."

Price also plays into the perception of value, said Vic Motto, a senior partner at Motto Kryla Fisher, a wine industry consulting company in St. Helena, Calif. "If I made the best wine in the world and charged \$1 for it," he said, "no one would believe it was the best. They'd say it's a great bottle of \$1 wine."

But there is much more to the cost of a bottle than the wine inside. To begin with, the retail price on the shelf is generally twice what the winery sold the wine for. That means a \$100 wine was \$50 when it left the winery and had \$50 tagged on by the distributor and the retailer. Mr. Hobbs's 1999 Beckstoffer left his winery at \$67.50.

Wineries, of course, also like a profit. A \$100 wine that cost \$50 when it left its maker may have cost as little as \$25 to produce. For wines in the \$7 to \$10 range, the margin is far less, because the makers make money on volume. Mr. Hobbs said his margin is around 40 percent on his most expensive wines, meaning that the Beckstoffer cost about \$48 to produce. But coming up with a precise number is hard because overhead like electricity and staff costs are devoted to all the wines a winery produces.

Christian Miller, director of research at Motto Kryla, said: "Probably the most important ingredient in changing the price from \$20 to \$60 to \$100 wine is scarcity. Almost all the high-priced wines around the world are produced in small amounts. It's the oldest economic rule of all. When you have a very small supply, with all things being equal, you can charge a high price."

On Mr. Hobbs's Web site, www.paulhobbs.com, buyers may purchase a maximum of six bottles of the Beckstoffer, whose production came to about 800 cases in 1999. There are exceptions to Mr. Miller's scarcity rule -- Opus One and Silver Oak Cellars, for example, produce thousands of cases, not hundreds -- but they are few.

Mr. Miller added: "The thing you're paying for as you move up would be prestige, scarcity and to some extent intensity of flavor."

For that, the winery must invest in high-quality grapes, French oak barrels, skilled winemakers, even fine packaging. "It's pretty much to send a consistent message," Mr. Hobbs said. That message? I look expensive; I am expensive; I am worth every penny.

First, the grapes. "The very best grapes grow in very few places," Mr. Motto explained. "You can grow very good \$15-a-bottle grapes all over."

Mr. Hobbs's Beckstoffer cabernet sauvignon is a single vineyard wine from a vineyard with a prestigious history. It was once owned by André Tchelistcheff, the legendary oenologist, who produced some of the Napa Valley's first great cabernets, and some of its grapes were supposedly used in the esteemed Georges de Latour Private Reserve from Beaulieu Vineyard.

Grapes are no small item. According to Bob Holder, a wine industry accountant at G & J Seiberlich in St. Helena, they can vary from \$1,000 a ton at the low end up to \$10,000 a ton from the very best land. (Last year, cabernet sauvignon commanded an average of \$4,021 a ton in the Napa Valley. Mr. Hobbs declined to say how much his grapes cost.) A ton of grapes yields about 700 bottles of wine, and so can add anywhere from roughly \$1.40 to \$14 to the production cost of a single bottle.

And if you want to buy your own land, get in line. Vineyard prices have soared over the years. In the 1980's, Far Niente, a respected winery in Napa, bought a property for \$18,000 an acre. A vineyard it bought five years ago cost \$100,000 an acre, which is now the average. A vineyard with a top pedigree could run to \$300,000 an acre.

Expensive wines like Mr. Hobbs's also require more labor, both in the fields and in the winemaking. Grapes may be placed in small tubs after they are picked, so that none are crushed. The wine may be racked by hand and tasted daily. And by pruning heavily to concentrate the flavor in the best grapes, winemakers get lower yields.

Mr. Hobbs said he got just 3.2 tons of grapes per acre from Beckstoffer in 1999; a typical yield is more like 5 tons. High-end winemakers

often use only the "free-run juice," or juice that bleeds from the grape with minimal pressure. The maker of a \$15 wine is likely to press all the juice he can out of his grapes. And in that juice will be more tannins and more solids, which will result in a coarser wine.

Once a wine is made, it must be aged in oak barrels, which can cost from \$300 for American oak to \$750 for French. A wine to be sold for \$15 might be aged in less expensive barrels, which are used for a few years. But a winery like Far Niente, whose cabernet sauvignon retails for \$100, buys French oak barrels and replaces them every year. A barrel holds 280 or so bottles, so French oak can add more than \$2 to every bottle. Last year, Far Niente briefly considered replacing only 70 percent of its new oak and using the other 30 percent twice, saving \$400,000. The owners decided against it.

A \$100 bottle of wine also tends to be aged longer in both the barrel and the bottle. "You have to sit on the money," Mr. Holder, of G & J Seiberlich, said. "With reds you might pay for and own several vintages before you start selling." Mr. Hobbs, for instance, has not released his 2000 Beckstoffer, which, for three years, has done nothing but cost him money.

Distinctive packaging helps sell a wine, too. A \$100 wine will often be bottled in thicker, more expensive glass with a tall punt, or indentation at the bottom. Bottles can cost 50 cents to \$2. A Beckstoffer bottle, which costs \$1.25, is significantly heavier than a standard bottle, and the punt seems so high that it could cover an egg without breaking the shell.

"Entry-level corks," Mr. Holder said, "are probably a dime apiece, and an expensive one might be 50 cents, and a very expensive cork might be as much as 75 cents to \$1." Mr. Hobbs's Beckstoffer corks, extra long and smooth, cost 75 cents.

Some winemakers also spend thousands, up to \$100,000, on package and label designs, and then 20 to 30 cents to produce each one. Mr. Hobbs's labels cost about 25 cents, and he packs Beckstoffer in a wood box that holds just 6 bottles, as opposed to the standard 12. He pays \$11 for the box. His alternative is a sturdy cardboard box, which holds 12 bottles and costs \$5 to \$7. (Standard flimsy boxes often come free with bottles.)

Someone producing a \$100 bottle of wine rarely benefits from economies of scale. A restaurant, for instance, might order just six bottles, while a discounter like Costco might take a whole truckload of \$10 wines.

Once the wine has left the winery, a small winery can do little to make it succeed. According to Eileen Fredrikson, a partner at Gomberg, Fredrikson, a consulting company in Woodside, Calif., it must depend on its distributors to create a market for its brand. It can hope for a good rating by a critic, but that is not worth betting on.

"Third-party endorsement is important for any consumer product," said Larry Maguire, the president of Far Niente and a partner in Nickel & Nickel, a new winery in Oakville, Calif. "Just ask a show that's closing on Broadway."

But if you are lucky, Mr. Hobbs said, the small but vocal number of true wine fanatics will talk up your wine, revving the hype. "Those guys drive the market," he said.

Last July, for instance, three months before Blankiet Estate's 1999 Paradise Hills Proprietary Red was released, its price began soaring on WineCommune.com, an auction Web site. The vineyard the wine comes from was developed by David Abreu, and the wine was made by Helen Turley, both celebrated winemakers. With such a pedigree, said Michael Stajer, president of WineCommune.com, the wine first appeared at \$270 a bottle, and soon began climbing. "In August," he said, "it reaches \$450, and in September, a month before it's released, it sells well at \$500." The wine's retail price was supposed to have been \$90.

A hidden but significant marketing expense is the cost of wines provided for samples or donated to charity events. "It's not unusual to give away somewhere from 500 to 1,000 cases of cabernet," Mr. Maguire said, referring to Far Niente's \$100 cabernet. Last year, the winery gave away about 600 cases, roughly \$360,000 worth.

"The average business is out of business before the winery starts making money," Mr. Motto said. "It takes 15 years on average for a winery to be economically working well. In that period of time, eight restaurants have opened and closed."

Ms. Fredrikson added, "That is why they say the way to make a small fortune in the wine business is to start with a large one."

All over California, that is the norm. Groth, Niebaum-Coppola, Harlan and Harrison were all begun by people who were already well off.

Far Niente is just now unveiling Nickel & Nickel. The winemakers bought established vineyards at \$100,000 an acre, paid Napa County some \$300,000 in fees to build on the property and have invested \$20 million in constructing the winery itself. They are producing just 8,000 cases of wine a year. While most businesses typically have a capital investment of \$1 for every dollar of annual sales revenue, in the wine business the capital investment can be \$4 to \$8 for every dollar of sales revenue.

Wineries may not be so profitable, but they can be long lasting. As Mr. Motto pointed out, Thomas Jefferson's favorite wineries were Château Margaux and Château Latour, which are still flourishing.

"At Nickel & Nickel," Mr. Maguire said, "there's not a price we can put on these wines that will make them profitable now." So while the winery's Oakville neighbors are Opus One, Harlan Estate and Dalla Valle, Nickel has played its new wines conservatively. Mr. Maguire says it has a zinfandel that could be sold alongside a Turley zinfandel that retails for \$65, but has been put on the market at \$45.

And yet a winemaker should not undersell his wine. "There's a perception among consumers that you need to be at a certain price to be taken seriously," Andrew F. Bell, president of Wine Symphony, a New York importer, said. "So if you're making a cabernet that's on the shelf for

\$20, it can't possibly be good."

Quality and perception are hard to separate. "You can get a really great bottle of wine for \$40," Mr. Motto said. "Beyond that, it's something that depends on how discriminating you are, how important it is to your life, how much you can afford."

And just when a winery thinks it has settled on a good price, the weather changes. Mr. Hobbs has not yet set the price for his 2000 and 2001 vintages. The 2000 was less than stellar. He is considering pricing it so it would retail for about \$100. The 2001, on the other hand, was a tremendous year. Look for it at about \$150.

A lot of labor went into that price. But it is up to you whether it is worth it.

[Home](#) | [Times topics](#) | [Member Center](#)

[Copyright 2012](#) | [The New York Times Company](#) | [Privacy Policy](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#) | [Index by Keyword](#)