

STONEBRIDGE

STRATEGIC SOLUTIONS FOR THE WINE INDUSTRY

The Economic Impact of Grapes, Grape Juice and Wine on the New York Economy, 2012

Prepared for the New York Wine and Grape Foundation

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A STONEBRIDGE RESEARCH REPORT

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SELECTED HIGHLIGHTS

FULL ECONOMIC IMPACT OF GRAPES, GRAPE JUICE AND WINE ON THE NEW YORK ECONOMY

\$4.8 BILLION FROM NEW YORK GRAPES, GRAPE JUICE, WINE AND GRAPE PRODUCTS

\$4.6 BILLION FROM SALES OF OTHER WINES

\$9.4 BILLION TOTAL

	NEW YORK GRAPES, GRAPE JUICE AND WINE	ALL OTHER WINE SOLD IN NEW YORK	TOTAL IMPACT
Number of Operating Wineries*	320	N/A	320
Number of Off-Premises Outlets*	52	N/A	52
Number of Grape Farms**	1,631	N/A	1,631
Grape Bearing Acres**	37,000 acres	N/A	37,000 acres
Full-time Equivalent Jobs***	24,913	28,337	53,250
Wages Paid***	\$1.14 billion	1.17 billion	\$2.3 billion
Winery Revenue****	\$553 million	N/A	\$553 million
Retail Value of Other Wines Sold in New York****	N/A	\$3.3 billion	\$3.3 billion
Value of New York Grapes**	\$52.3 million	N/A	\$52.3 million
Retail Value of Grape Juice Products****	\$71.6 million	N/A	\$71.6 million
Wine Related Tourism Expenditures†	\$401.5 million	N/A	\$401.5 million
Number of Wine Related Visits†	5.29 million	N/A	5.29 million
NY State & Local Taxes***	\$408.2 Million	\$388.3 million	\$796.6 Million
Charitable Contributions****	\$5 million	N/A	\$5 million

*From the New York State Liquor Authority

**Source: New York State Department of Agriculture and Markets, NASS and New York State Department of Finance

***Source: Stonebridge Research Group LLC and IMPLAN

****Source: Stonebridge Research Group LLC and industry sources

†Stonebridge Research Group LLC, industry Sources and NY State Economic Development

FULL ANALYSIS

TABLE 1: 2012 Total Economic Impact (Sum of Total Spending) of New York Grapes, Grape Juice and Wine

	NEW YORK GRAPES, GRAPE JUICE AND WINE	ALL OTHER WINE SOLD IN NEW YORK	TOTAL IMPACT
Revenue			
Winery Sales	\$ 552,962,804	N.A.	\$ 552,962,804
Retail and Restaurant Margins on Wine Sales	\$ 141,189,269	\$ 1,497,860,855	\$ 1,639,050,124
Distributors Revenue	\$ 39,229,645	\$ 408,509,383	\$ 447,739,028
Juice Processor Sales	\$ 31,500,000	N.A.	\$ 31,500,000
Juice Retail Sales	\$ 38,659,091	N.A.	\$ 38,659,091
Juice Broker Sales	\$ 1,431,818	N.A.	\$ 1,431,818
Grapes Sales	\$ 52,252,000	N.A.	\$ 52,252,000
Tourism	\$ 401,469,999	N.A.	\$ 401,469,999
Tax Revenues – State & Local	\$ 408,234,691	\$ 388,335,514	\$ 796,570,205
Suppliers	\$ 137,433,160	\$ 26,496,250	\$ 163,929,410
Service Providers	\$ 62,239,929	\$ 45,728,385	\$ 107,968,314
Charitable Contributions	\$ 5,036,404	N.A.	\$ 5,036,404
Indirect (IMPLAN)	\$ 1,019,291,181	\$ 438,130,874	\$ 1,457,422,055
Induced (IMPLAN)	\$ 758,251,247	\$ 666,459,768	\$ 1,424,711,015
Total Revenue	\$ 3,649,181,238	\$ 3,471,521,029	\$ 7,120,702,267
Wages			
Winery Employees	\$ 94,778,070	N.A.	\$ 94,778,070
Vineyard Employees	\$ 25,781,070	N.A.	\$ 25,781,070
Juice Processing Employees	\$ 21,162,600	N.A.	\$ 21,162,600
Juice Retail Employees	\$ 7,731,818	N.A.	\$ 7,731,818
Juice Broker Employees	\$ 429,545	N.A.	\$ 429,545
Tourism	\$ 213,809,139	N.A.	\$ 213,809,139
Distribution	\$ 19,145,275	\$ 254,319,130	\$ 273,464,405
Retail/Liquor Stores – Wine Specific	\$ 14,171,520	\$ 104,064,048	\$ 118,235,568
Restaurant Wages – Wine Specific	\$ 6,959,242	\$ 333,698,689	\$ 340,657,931
Total Supplier Wages	\$ 28,409,809	\$ 8,832,083	\$ 37,241,892
Total Service Provider Wages	\$ 18,932,441	\$ 15,243,795	\$ 34,176,236
Indirect (IMPLAN)	\$ 391,878,019	\$ 191,566,980	\$ 583,444,999

	NEW YORK GRAPES, GRAPE JUICE AND WINE	ALL OTHER WINE SOLD IN NEW YORK	TOTAL IMPACT
Induced (IMPLAN)	\$ 299,440,482	\$ 263,114,117	\$ 562,554,599
Total Wages	\$ 1,142,629,030	\$ 1,170,838,842	\$ 2,313,467,872
Total Impact	\$ 4,791,810,268	\$ 4,642,359,871	\$ 9,434,170,139

Source: Stonebridge Research Group LLC and IMPLAN

TABLE 2:
2012 Total Employment: New York Grapes, Grape Juice and Wine and Allied Industries

EMPLOYMENT	NEW YORK GRAPES, GRAPE JUICE AND WINE	ALL OTHER WINE SOLD IN NEW YORK	TOTAL IMPACT
Winery	3,615	N.A.	3,615
Vineyard	1,257	N.A.	1,257
Juice Processing	450	N.A.	450
Juice Product Sales	361	N.A.	361
Tourism	6,441	N.A.	6,441
Distributor	167	2,214	2,381
Suppliers	686	208	894
Service Providers	245	160	405
Retail/Liquor	528	3,877	4,405
Restaurants	313	14,369	14,682
Indirect (IMPLAN)	5,376	2,701	8,077
Induced (IMPLAN)	5,474	4,808	10,282
Total	24,913	28,337	53,250

Source: Stonebridge Research Group LLC and IMPLAN

Executive Summary

As detailed in **Tables 1 and 2** above, Stonebridge Research Group LLC found that, in 2012, the full economic impact of the grapes, grape juice and wine produced and sold in New York, and allied industries in New York State, totaled **\$4.8 billion**.

The last study reported on data for 2008, as the “Great Recession” was building. The increased impact reflects the growth since 2008 in both the volume and value of wine sold in New York. We have also succeeded in capturing more supplier sectors (such as warehousing, trucking, ports, marketing services, vineyard maintenance), and more tourism related expenditures — the latter based on state studies — and better information on sales and property taxes. Over this period, the industry has expanded investment in these sectors, and in infrastructure development and construction. New York wines also represent a larger share of the wines sold in New York State than was true in 2008, responding to the industry’s persistent marketing efforts. A major stimulus for recent growth has been the transformation of New York State government into a business friendly and strongly supportive environment since 2011.

New York is a major U.S. market for sales of wine from all parts of the U.S. and the world. It is home to a vast network of wine importers, distributors, writers, educators, wine auctioneers and other wine professionals, as well as many of America’s most distinguished specialty wine retailers and fine restaurants, wine bars and other food, drink and entertainment venues. The economic impact of these many activities in 2012 is estimated at **\$4.6 billion**, also a large increase from 2008. This year we captured more of the suppliers and services such as transport, education and marketing services, provided in New York to wines sold in New York from other regions, and more comprehensive sales and excise tax collections.

Thus, the total economic impact of the grapes, grape juice and all wines sold in New York State (including wine produced elsewhere) is **\$9.4 billion** in 2012, compared with \$7.02 billion in 2008, a 34% increase.

Employment

New York’s grape, grape juice and wine sectors, considering both products produced and sold in the state and those produced elsewhere and sold in the state, directly and indirectly through services and products they consume or generate, provided more than **53,000 jobs** in New York in 2012, compared with 39,000 jobs in 2008 (36% increase). This growth in employment reflects both the growth of the wine and grape industry, and the overall

employment expansion in many of these sectors in the four years. Total wages generated by these jobs in 2012 was nearly **\$2.3 billion**, compared with \$1.5 billion in 2008 (53% increase).

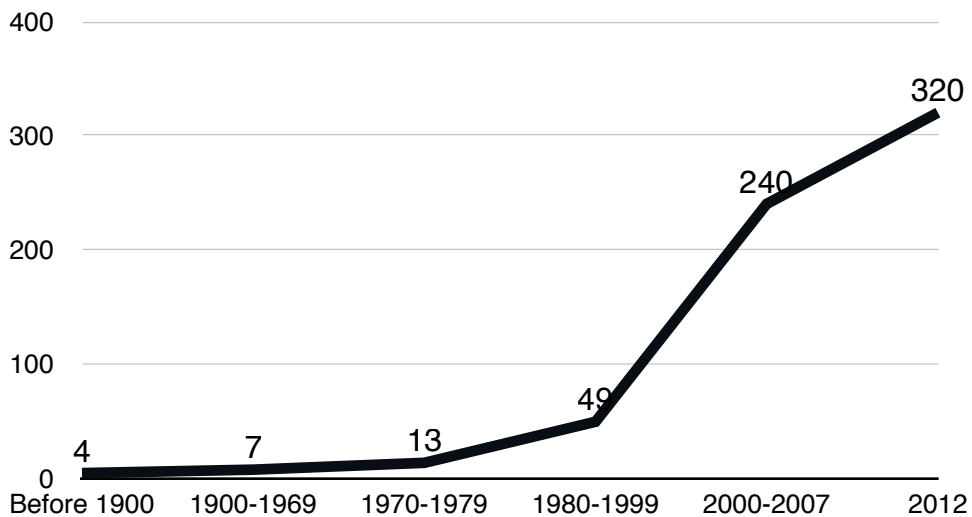
State and Local Taxes

Furthermore, the total grape, grape juice and wine sectors, including all wine sold in New York State, and their related activities generated nearly **\$800 million** in state and Local taxes in 2012, **conservatively estimated**. As noted above, this amount not only reflects the industry's growth but also better access to sales, property and excise tax data related to the industry.

New York Wine

Table wine, sparkling wine, dessert wine, and specialty wine are all produced in the State of New York. 34.8 million gallons of wine were bottled in New York in 2012, of which 1.2 million gallons were sparkling wines.¹

Figure 1: Number of Wineries, by Year Established



Source: NY State Liquor Authority (2012) and NASS 2008 New York Winery Survey

The number of wineries has increased by one third since 2008, from 240 to 320 in 2012. In addition, the number of winery satellite stores or branch offices has increased from 27 in 2008 to 52 in 2012. New York's wineries now employ more than 3,600 full-time equivalent individuals. In addition to a 20% increase in full-time employees, the number of

¹ Source: Alcohol and Tobacco Tax and Trade Bureau (TTB) of the U.S. Department of the Treasury

individuals working part-time and seasonally for wineries has grown, particularly to support consumer direct services and sales. The number of owner operators has also grown with the establishment of new wineries. The report measures the economic impact for 2012, but since many more wineries and satellite stores were opened in 2013, all figures should be considered conservative.

New York's wineries also contribute to New York State's exports. In 2012, 19.8% of the wine produced in the state was exported.

New York is the third largest grape producer in the United States after California and Washington. The number of vineyard bearing acres in the state continues to be recorded as 37,000 until the 2012 Census of Agriculture is released later in 2014. New York State tax data currently estimates the number of vineyard farms at 1,631. Including part-time, contract, seasonal workers and owner operators, vineyards employ 1,271 individuals. 115,000 tons of grapes were produced in 2012, for a total market value of \$52.3 million, compared with 172,000 tons in 2008, valued at \$57.5 million. Production of juice grapes declined most drastically, due to severe 2012 weather conditions, from 130,000 tons in 2011 to 69,000 tons in 2012.

Tourism

New York wineries and their satellite facilities received more than 5.29 million visits in 2012, spending more than \$401 million, compared with 4.98 million visitors spending \$376 million in 2008 – and 4.14 million wine related tourists in 2004, generating \$312 million in tourism related spending. Tourism is an important facet of the local economy, impacting several different industries, from wineries to hotels and restaurants, retailing and transportation. Winery tourism contributes over 6,400 jobs to the state, for a total of more than \$213 million in wages, compared with 6,000 jobs in 2008 and about 5,000 in 2004.

Tourism is particularly important to New York's farm wineries, with sales direct to consumers (usually linked to winery visits) representing about 60% of total wine sales volume by these producers.

Grape Juice and Grape Juice Products

Growers earned nearly \$32 million from the sale of New York juice grapes in 2012. Juice processing facilities in New York employed 450 people, with wages totaling \$21 million. The full retail value of grape juice products, from products produced in New York State, totaled more than \$71 million in 2012.

New York as a Center for Wine

New York is a leading wine market in the U.S. The industry has rebounded strongly since the recession, with a variety of lively and innovative new retail and on-premise venues and services.

On-premise Wine Sales

New York's leading role in the U.S. wine industry is drawn in part from the major role its restaurants play in the U.S. food and hospitality industry. For example, New York has five of *Full Service Restaurants Magazine's* top 10 standalone restaurants in 2012, and fully one third of the top grossing 100 independent restaurants² in the U.S. are based in New York.

Wine Retailing

The volume of wine purchases continued to grow through the recession but the prices at which wine sold declined drastically. By 2010 prices began to recover. Consumers have not regained their pre-recession exuberance but are spending more comfortably on strong brands at higher prices. Business entertaining has definitely revived. All these trends are reflected in rising wine sales in New York. The trade also reports that sales of New York wines now average about 7% of all wine sales through the "three-tier" wholesale distribution system in the state, a significant improvement on earlier patterns.

Additional Opportunities for Wine Sales in New York

New York State passed a law permitting the direct interstate shipment of wines in 2005, which modestly helped increase the sales and national distribution of New York wines. Initial growth of such sales was slow due to unnecessarily burdensome regulations and paperwork, but the new Administration has greatly streamlined and simplified the process.

Prospects

New York's wine and grape industry has shown notable resilience over several very difficult years. The industry's prospects are attractive as the economy has stabilized and the new Administration has become engaged in supporting the grape and wine sector.

The industry continues to support New York agriculture, tourism and New York's growing food and wine culture, creating jobs and generating taxes. The industry also continues to demonstrate its unique capacity to bring long-term stability and commitment to the region's economy and has now spread to 55 of New York State's 62 counties.

² Restaurants and Institutions Magazine, April 1, 2010 Issue.

The wine producers of California, Washington State and Oregon are the major American competitors to New York's wine industry. These states have long recognized their wine industries as key drivers of the local economy, providing a regulatory framework to support the industry's growth. Until recently, New York's regulatory environment imposed major competitive challenges on New York producers.

Governor Andrew M. Cuomo, working with the state legislature, has created a new business climate for the grape and wine industry through legislative changes, regulatory reform and aggressive promotion programs. A highlight of this changed environment was a "Governor's Wine, Beer and Spirits Summit" in October 2012 which resulted in many immediate regulatory changes for all those farm-based craft beverage sectors, along with a major commitment to promote them through a new "Taste NY" program. In addition, a convenient "One Stop Shop" office was formed to handle any and all questions from the industry about government policies and regulations. Since the Cuomo Administration took office in January 2011, 78 new farm wineries have opened (a 40% increase), plus 22 branch office/satellite stores (76%) and 18 commercial wineries (33%), and the growth rate is accelerating, as it is for other farm-based craft beverages.

In the grape and wine industry, people are always talking about climate because you need a good climate to grow good grapes to make good wine. A good business climate is just as vital for growing the industry, and New York now has that.

Methodology

To produce this assessment, Stonebridge Research Group LLC focused on the largest and most significant section of the industry involved in wine production and consumption, grape cultivation and allied industries – distribution, tourism, and equipment and suppliers. Other economic benefits, including tax revenues, financing, charitable contributions and other indirect and induced benefits generated by the grape and wine industry are also summarized.

Direct, Indirect and Induced Effects (IMPLAN)

Much like dropping a rock into a pond, the grape, grape juice and wine industry has ripple effects on New York's economy. Economic impact studies estimate the impact of an industry in a defined geographical area by identifying and measuring specific concrete economic "events." The events tracked in this report are jobs by industry code.

IMPLAN is the acronym for "IMpact analysis for PLANing." IMPLAN (www.implan.com) is a well established and widely used economic model that uses input-output analyses and

data for more than 500 industries to estimate regional and industry-specific economic impacts of a specific industry. IMPLAN grew out of work developed by University of Minnesota and the U.S. Forest Service in the 1970s. The model currently has 1500 active users including the Federal Reserve Bank, the National Agricultural Statistics Service (NASS), the Forest Service, many state and local governments, universities and private organizations.

The IMPLAN model and its structure are updated annually to reflect changes in the U.S. economy, in wages, in productivity assumptions and in regional economic structures. Thus, readers should not try to directly compare the IMPLAN results from the previous reports with the results of this update.

The IMPLAN model and methodology classifies these effects into three categories, as defined below: Direct Effects, Indirect Effects, and Induced Effects.

Direct Effects

Direct effects are economic changes in industries **directly** associated with the product's final demand. Thus, direct effects in this case consider the direct employment and spending of wineries, vineyards, juice processors, distributors, and immediately allied industries, data that Stonebridge Research Group LLC collected through primary research.

Indirect Effects

Indirect effects are economic changes – income created through job creation – in industries that supply goods and services to the directly affected industries noted above. Examples of industry effects are purchases of electricity and gasoline by wineries, of janitorial services by wine bottle manufacturers, and cash registers purchased for use in a tasting room. These may also be defined as “secondary economic exchanges.”

Induced Effects

Induced effects are the effects of these new workers spending their new incomes, creating a still further flow of income in their communities and a flow of new jobs and services.

Examples are spending in grocery and retail stores, medical offices, insurance companies, internet providers, and other non-wine related industries by workers in industries allied to the wine industry – such as the spending by the janitor working under contract to the wine bottle manufacturer in New York. These tertiary exchanges induce more jobs and incomes throughout New York, based on the original economic flows from the wine industry.

APPLYING IMPLAN TO THIS STUDY

This economic impact analysis is driven by jobs. The number of jobs directly created by the growing and processing and selling of grapes and by the making, distribution and selling of wine, as noted in Table 2, are entered into the IMPLAN model. The IMPLAN model then calculates the indirect and induced effects of these jobs in terms of taxes, revenues, wages and employment created. These indirect and induced effects provide a measure of the “ripple effects” of the wine and grape industry through the American economy.

Thus, the full economic impact of New York grapes, grape juice and wine, as shown in **Table 1**, combines the New York’s wine industry’s direct, indirect and induced economic effects as measured by the application of the IMPLAN model to the employment data presented in **Table 2** of this report.

Measuring the Full Economic Impact of the New York Grapes, Grape Juice and Wine

New York’s wine industry has a “multiplier” effect, extending across the county, state, and nation in a broad network of economic benefits. The revenue derived by the wine industry becomes income for other workers and firms, who spend more money on other goods and services.

About Stonebridge Research Group, LLC

Stonebridge Research Group LLC is a leading source of data and advisory services for the wine industry. We are known for the quality of our insights, the precision and thoroughness of our analysis, and a reliance on facts rather than conventional wisdom.

Stonebridge Research's services include market, trade and consumer research, market development strategies, investment due diligence, litigation research, economic impact studies, and business and strategic planning for all segments of the wine industry.

Stonebridge's work has been a cited reference in U.S. Federal Trade Commission and federal court findings. Stonebridge's Fine Wine Trade Monitor is considered a definitive assessment of the evolving situation of the U.S. three-tier system for wine.

Having conducted market entry development strategy research for a variety of producing regions, including Chile, France, Argentina and Spain (and having a founder with deep emerging market investment experience), Stonebridge Research, together with Family Winemakers of California, recently received a grant from the Foreign Agricultural Service of the U.S. Department of Agriculture to build and execute a strategy to develop the market in China for California's fine wines.

Stonebridge Research was founded in 2008 by Barbara Insel and a group of food and beverage investors interested in bringing a new level of analytical rigor to the wine industry. Since its founding Stonebridge Research has conducted major studies for such clients as the French Trade Ministry, the Wine Institute, the California Association of Wine grape Growers, Napa Valley Vintners Association, the Office of Champagne, Wines from Spain, Family Winemakers of California, the Washington State Wine Commission, the Food Marketing Institute and numerous individual producers, industry investors and suppliers.

Barbara Insel is President and CEO of Stonebridge Research Group LLC. Prior to joining Stonebridge Research, Ms. Insel was the Managing Director of MKF Research LLC for nearly five years, leading all of that firm's research and advisory work, including the first study of "The Impact of Wine, Grapes and Grape Products on the American Economy", completed in 2007 and economic impact studies of the wine and grape industry in 12 states, including New York, California, Washington State, Texas and North Carolina, and several counties.

Ms. Insel has been a featured speaker at the Unified Wine and Grape Symposium, the Free the Grapes Symposium, Viticulture 2007, the inaugural Wine Tourism Symposium and meetings of Napa Valley Vintners, the Wine Institute, California Association of Winegrape Growers, the National Association for Business Economics, Family Winemakers of California

and numerous regional, national and international organizations. She has been published in many industry publications including Wine Business Monthly, Business Economics and Foreign Affairs and is the author of the forthcoming book “At Profile of the Wine Industry: Global, Local, Earth and Glitz”, to be published in 2015 by the Business Expert Press.

She is also frequently quoted in the regional and national press on the topic of the business of wine. Having taught for several years at the University of California, Davis Wine Marketing Course, Barbara is now a regular contributor to the Wine Business course at the Culinary Institute of America.

Ms. Insel has over two decades of experience in international investment, finance and related research, holding senior positions at Salomon Brothers, the European Bank for Reconstruction and Development, Morgan Stanley Asset Management, Kleinwort Benson, and the World Bank, working in New York, Washington DC, London, Prague, Moscow and Latin America. Ms. Insel was also an International Affairs Fellow at the Council on Foreign Relations.

Ms. Insel education includes a BA from Barnard College, and MA in Economics from Brown University and an MBA from Stanford’s Graduate School of Business.