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How is the squeeze of Consolidation forcing *adaptive innovation in Suisun Valley?*

Suisun Valley, CA – In any business course worth its salt, you eventually get to the chapter on *The Economic Environment: Factors and Trends*. This is where the concepts of perfect competition, monopolistic competition, oligopoly, and monopoly are discussed at great length.

Few industries operate as an oligopoly. The wine industry has moved into that category, and it's happened at a rapid rate. Not confined to the US market, it's a global race to see who can swiftly acquire as many wine companies as possible.

An oligopoly occurs when there are a small number of firms (usually large in size) which dominate an industry. According to *Wine Business Monthly* (February 2005), the top three wine companies in the world are E & J Gallo (with annual case sales of 75,000,000), Constellation Brands (56,000,000), and The Wine Group (40,000,000). It's interesting to note that within the recognized oligopolies in the US, Anheuser-Busch and Miller fall into the beer category; Coke and Pepsi fall into the soft drink category. The race to acquire has become global. Everyone in the wine industry is keeping a vigilant eye to see where it's all going.

When oligopolies rule, firms have a lot of freedom to set prices. They keep a very close eye on their competitors, setting prices in a very similar fashion. And, innovation is much less important than their bottom line. Sometimes we watch those companies file Chapter 11; e.g., United Airlines, Delta, etc.

What is this wine industry consolidation doing to the little guys?

- Oligopolies are acquiring vineyards; therefore, growers who once had long-standing buyer contracts no longer do.
- Their fruit is purchased only to be put into bulk wine. With growing plans for quality throughout the season, this makes all of that fastidious work of little consequence.
- This forces the quantity over the quality concept that some of these growers find unconscionable, and not the way of their future.
- They can't possibly survive this economic turmoil without completely changing all that they know and practice.
- They either begin to innovate, or they get out of the business and reinvest in a safer haven.
- What was once a quality of life choice becomes a sinking ship, as their feet are held to the fire.

This is something that's happened over-and-over in many industries. It's just democratic fruition.

What's happening in Suisun Valley is a modern-day, evolutionary case study in innovation. It will eventually set those who *dared* to become the leading pioneers into eventual, broadly recognized prominence, in much the same way that Joe Rochioli Jr. dared to plant

Pinot Noir in Russian River Valley in 1968, and is now recognized as one of Russian River Valley's preeminent Pinot leader. That move began with more than a hope and a prayer. It began with daring originality and a gut feeling that there was only one way to go. It was a "kill it or cure it" situation.

One grower, Steven Tenbrink, has decided to become symbiotic with his buyers; i.e., Steve stays in constant contact with winemakers who buy his grapes. They tell Steve what vineyard practices they want, and Steve delivers. Tenbrink's in touch with what the wineries are doing once his fruit is delivered, also. The outcome has been that he's regularly invited to the wineries, as the bonds of friendship are forged in this process. He admits that, "I now have a better understanding of what's happening on the other end, and not only know how wine is made, but I'm also now making some of my own wine. As I meet their needs, they produce a product that's solely mine. I feel very fortunate to have forged these new bonds.

Another grower in Suisun Valley is Roger King, owner of Ledgewood Vineyards. King's prior background was in the corporate world. Like many before him, his intelligence carried him through all the hurdles set before him. And like many others before him, although well-equipped to endure those rigors, the rigidity became inconsequential to his overall well being. King adapted to a less-structured, corporate world, to make a living. Suisun Valley is a place where if one doesn't purchase 20 acres of land, one can't buy into that valley.

[SIDEBAR: In the 1970s, civil engineer Brice Bledsoe, who just passed away on November 21, 2005, brokered innovative agreements in Solano County that protected historic Suisun Valley farming and row crop territories, east of Leisure Town Road. This set very high standards for maintaining agriculture as the basis for land use management; therefore, Suisun Valley is not scheduled to become another tract housing community. Roger King saw this as an ideal place to put down roots and get to work.]

King brought a fresh perspective and a high level of intellectual property to Suisun Valley, at a critical point in their evolutionary process. There were many before King, who had lived and worked in Suisun Valley for generations: most notably, the Lanza family. The Lanzas have been in Suisun Valley working the land for three generations. Ron Lanza is very bullish about how to go forward in their protected AVA, and has formed a tight alliance with King, as have many others.

The Lanza family owns and operates Wooden Valley Winery. Because they have been there for generations, the easiest route would be to cautiously keep moving forward as they have for the last three generations. But Ron Lanza isn't as cautious as others in Suisun Valley. He has plans for growth of his family's winery, and is willing to do whatever it takes to make that happen for the future generations of his family. The quality of life in Suisun Valley is rural simplicity, where children can still go out to their swings after school with only a modicum of a parent's watchful eye.

According to Ron Lanza, about five years ago, the Lanza family foresaw that they'd have to change their viticultural practices, or they wouldn't be able to keep up with what was evolving in the industry. Farming 500 acres puts the Lanzas into another category of adaptive practices in order to survive the consolidating frenzy. "Larger blocks were pulled out and replanted with a wide range of smaller blocks of a wide range of clones and rootstocks in the forefront of selected varieties. We're now micromanaging our vineyards, giving each vine exactly what it needs in order to produce stellar fruit. What we're doing is all arranged around soil types, irrigation needs (or lack, thereof), trellising, and harvesting. We're now picking in small 2-ton gondolas, and we're willing to deliver in small lots. In the process of downsizing our blocks and removing some of the larger ones, we planted varieties like Primitivo, Syrah, Malbec, Pinot Gris, and Petite Sirah... whatever is leaning toward artisan, our new buyer profile. Just now we're beginning to see the benefits of our forward thinking, but it will ultimately pay off for our children and our children's children."

Another major force in Suisun Valley is Ledgewood Creek Winery. Speaking on behalf of the Frisbie Family, Sales Manager Rick Wehman states, "the growers in this valley are making changes to viticulture practices and grower/winery relations to improve fruit quality."

So, what are the basic endeavors that growers are taking that define innovation?

- Focusing on growing niche fruit to complement a specific varietal
- Focusing on growing artisan varietals in small quantities
- Growing outstanding quality fruit to serve super premium to luxury wine categories, in order to provide the best quality to value ratio
- Dropping fruit, cutting leaves, hand-holding each vine in his possession
- Finding buyers from outside of California; e.g., Ohio, upstate New York, etc.
- Identifying “home winemakers”

Growers in Suisun Valley are breaking away from historical sustainable demands, due to diminished pricing at this new commodity level. That’s creating non sustainable operations, and thus reconfiguring small on quality, in order to customized their ultra premium 'spice rack' demand.

As Suisun Valley growers wonder if this entrepreneurial spirit and far-to-the-left strategy will work, they may be losing precious moments in their ability for future success. A few early adopters, like the Frisbie Family, Roger King, Ron Lanza, and Stephen Tenbrink are proving to be fearless leaders. Some growers have already begun to pull up familiar vines, and are planting in this new approach. Others have pulled out vines and have left town. Suisun Valley has an opportunity to become the industry’s spice rack, and some recognize that. Others are also beginning to think that way, and following a gut feeling that tells them to innovate or risk losing the race to survive.

Suisun Valley AVA will eventually be recognized as a great North Coast quality-to-value-ratio appellation in which to do business, and all the early strategy and growing pains will be written in a history book as just that... history. For now, it’s in the making.

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