

STONEBRIDGE

— STRATEGIC SOLUTIONS FOR THE WINE INDUSTRY —

The Economic Impact of Idaho's Wine Industry

Prepared for the Idaho Wine Commission

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A STONEBRIDGE RESEARCH REPORT

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HIGHLIGHTS

FULL 2013 ECONOMIC IMPACT OF IDAHO WINE AND GRAPES

\$169.3 million

Number of Licensed Wineries, 2013	50
Winery Revenue	\$17.1 million
Total Cases of Wine Produced 2013	214,140
Total Retail Value of Wine Produced and Sold in Idaho, 2013	\$20.5 million
Vineyard Acreage (2012)*	1,290
Grape Crop Size (Tons)	2,908
Value of Grape Crop/Vineyard Revenue	\$2,811,470
Full-time Equivalent Jobs	1,226
Wages Paid	\$39.7 million
Wine Related Tourism Expenditures	\$3.6 million
Annual Number of Winery Visits	175,000
State & Local Taxes Paid	\$10,489,786
Federal Taxes Paid	\$8,948,641
Charitable Contributions	\$225,000

Source: Stonebridge Research, Idaho NASS, US Bureau of Labor Statistics and Industry Interviews. + Winery number from Idaho Wine Commission. *From 2012 USDA Census of Agriculture, the most recent official data available.

Executive Summary

Idaho’s wine industry had a total economic impact in 2013 in excess **\$169 million**, as detailed in Table 6 below. This impact would have been larger in 2013 had not January frost reduced yields up to 30%.

Idaho’s wine industry continues to grow. The number of wineries has increased from 11 in 2002 to 25 in 2005, 43 in 2011 and 50 in 2013. The growth in grape production has not kept pace with the growth in wineries, constrained by both weather and limited research and training in enology and viticulture. Vineyards show a surprisingly wide variety of planting, farming costs and practices and growers have expressed concern about challenging grape prices in recent years. While Idaho’s climate, with its intense growing season and sharp diurnal temperature shifts, can produce high quality grapes, the industry is still young. Most wine producers are small and focused on direct to consumer sales, with few having wide distribution. Most Idaho wine is sold within the state.

The reputation of Idaho’s wine is improving rapidly, with several producers receiving national recognition. The still reasonable cost of establishing a new operation in Idaho along with its quality potential suggest continued growth in the industry. Increased investment in the research and training is needed to stabilize quality, improve production efficiency, reduce risk and justify better pricing.

Table 1: Estimated Total Wine Bottled in Idaho

	2007 (case equiv.)	2012 (case equiv.)	2013 (case equiv.)
Total Wine Bottled	215,279	179,127	234,769

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

The estimated total retail value in 2013 of all the wine produced in Idaho and sold in Idaho, including sales through the 3 tier system, direct to consumer and self-distributed sales, was \$20.5 million¹. Including the small amount of Idaho wine sold out of state, the total retail value of Idaho wine sold in the US is estimated at \$21.6 million. Although most Idaho wine is sold within the state², wine produced in Idaho represents only about 6% of all wine sold through the 3 tier system in the state.

¹ Interviews indicated that most Idaho wine sold to the trade is sold off-premise (retail), with only a small share sold on-premise (to restaurants, bars and other eating and drinking places.)

² A significant percentage of Idaho wine is blended out of state into non-Idaho wines which are nationally distributed.

Table 2: Wine Revenue by Distribution Channel

	TOTAL IDAHO REVENUE	TOTAL U.S.
WINERY REVENUE FROM TRADE/3 TIER SALES IN IDAHO AND OUT OF STATE	\$9,749,421	
DIRECT TO CONSUMER SALES	\$6,518,885	
SELF-DISTRIBUTED WINE SALES	\$805,274	
TOTAL WINERY REVENUE	\$17,073,579	\$17,073,579
TOTAL DISTRIBUTOR MARGIN	\$864,439	\$1,130,310
TOTAL RETAILER & RESTAURANT MARGIN	\$3,628,670	\$4,275,623
TOTAL RETAIL VALUE OF IDAHO WINE	\$21,566,688	\$22,479,512

Source: Idaho Wine Commission, Stonebridge Research, Industry Interviews, NASS

Consumer Direct Sales and Self-Distribution

The vast majority of wine produced by Idaho's smaller wineries is sold direct to consumers with an additional significant amount self-distributed. We estimate the total value of winery direct sales at \$6,518,884.56. The majority of this wine is sold within Idaho. We have assumed such sales incur Idaho sales tax, currently 6%, generating nearly \$274,000 in taxes for the State.

Several wineries choose to sell to restaurants and retailers directly rather than through distributors, which is legal within the state. Such sales are usually made at a 30% discount to the retail price, allowing the winery to capture a higher share of revenues than possible through the three tier system, although it requires them to handle their own sales, marketing and delivery.

The 3 Tier System

Most of the wine produced by Idaho's largest wineries is sold through the three tier system (through licensed distributors to retailers and restaurants) - with sales concentrated in the US Northwest.

Employment

Wineries employ full and part-time workers as labor for bottling, storage, maintenance, and winemaking needs as well as hospitality, finance, sales, and marketing functions. Some wineries also employ seasonal labor, for both harvesting and hospitality. Vineyard employment includes owner-operators, regular full or part-time employees and seasonal labor, many of whom may work with other crops in other periods.

Idaho grapes, wine and their allied industries, directly and indirectly, provided full-time equivalent jobs for nearly 1,226 individuals in Idaho, with an associated payroll of \$39.7 million, as shown in **Table 3** below. Owner-operators make up a large share of the employment in wineries and vineyards.

Table 3: Employment Impact of Wine Produced in Idaho

SECTOR	Full-Time Equivalent Jobs
WINERIES*	235
DISTRIBUTORS	8
3 TIER RETAIL & RESTAURANT	23
VINEYARD	71
SUPPLIERS	37
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATION	18
TOTAL DIRECT JOBS	392
TOURISM INCLUDING EATING AND DRINKING PLACES SERVING TOURISTS	178
INDIRECT (IMPLAN)	319
INDUCED (IMPLAN)	337
TOTAL	1,226

Source: Stonebridge Research, US Bureau of Labor Statistics and industry interviews *Includes owner-operators, part-time, contract and full-time staff adjusted to full-time equivalents.

Tourism

We estimate the total number of visits³ to Idaho's wineries at 175,000 in 2013, based on interviews with a large cross section of wineries. Wineries have quite varied methods of tracking their visitor numbers -- paid tastings, glasses used, CRM or POS entries, etc. -- and some are still developing their visitor tracking methods.

We then use all the information collected to estimate visitor numbers for all the state's wineries. In these estimates as in all estimates developed from interviews for this study, we always take the low end of a possible range of values to ensure that estimates are conservative as well as realistic.

Our next step was to determine the direct wine tourism related spending and employment in the county based on state tourism reports. We have estimated such spending to total \$16.45 million in 2013, generating 178 of Idaho's tourism-related jobs.

³ Note also that the number of visits is not the same as the total number of winery visitors, as visitors often visit more than one winery.

Suppliers and Service Providers

Producing and selling wine is a complex activity, involving a vast range of suppliers, service providers and tiers of buyers. These parties typically generate a large share of the industry's economic impact. This study only considers those products and employees based in the state. Idaho's wine industry still acquires many of its supplies from out of state specialists.

Suppliers include cooperage, farm and winery equipment, construction, professional services, tanks, printers, trucking, lab, vineyard development and services. Due to the small number of such suppliers based in Idaho, we have aggregated the data to protect confidentiality.

Table 4: Suppliers to the Idaho Wine Industry

	In Idaho
Direct Employment	37
Total Revenue	\$4,449,355
Total Wages	\$1,164,093

Source: Stonebridge Research Industry Interviews

Public Revenues

From grape to consumer, the wine and wine grape industry generates significant tax dollars, benefiting federal, state and local governments. Tax dollars are raised through sales taxes, excise taxes, income taxes, estate and gift taxes, payroll taxes, property taxes, and other business taxes and fees, including permits and licenses of various types.

Activities in Idaho related to wine and grapes generated more than **\$19 million⁴** in total public revenues in 2013, including more than **\$10.5 million in state and local taxes⁵** and other public revenues and nearly **\$8.9 million** in Federal revenues, as shown in **Table 5** below.

⁴ All the tax estimates in this table, except for excise and winery direct sales taxes, were produced by the IMPLAN model, explained on pages 10-11 below, based on the employment data in Table 3, provided by Stonebridge.

⁵ Included in this total are \$8.2 million in Idaho state and local taxes on production and imports, as calculated by the IMPLAN model. IMPLAN includes in this line item indirect business taxes, sales and use taxes, business property taxes, motor vehicle taxes, and severance tax, 'other' and non-taxes (e.g. fees etc.). Some of these taxes (e.g. property, some parts of sales taxes) are collected at the local government level.

Table 5: Estimated Impact of Idaho Wine and Grapes on Government Revenues in 2013

	Generated by Idaho wine and grape related activities
STATE AND LOCAL TAXES	
PRODUCER ASSESSMENTS	\$51,926
SALES TAX ON WINERY DIRECT SALES	\$273,793
EXCISE TAX ON IDAHO PRODUCERS**	\$275,691
TAX ON PRODUCTION & IMPORTS*	\$8,157,855
EMPLOYEE COMPENSATION*	\$81,621
HOUSEHOLD TAX*	\$1,600,492
CORPORATE TAX*	\$48,409
TOTAL	\$10,489,786
FEDERAL TAX	
EXCISE TAX***	\$94,864
Proprietor Income	\$1,052,333
COMPENSATION RELATED*	\$4,051,767
INDIRECT BUSINESS TAX*	\$1,445,103
HOUSEHOLD (INCOME) TAX*	\$2,969,534
CORPORATE TAX*	\$387,373
TOTAL	\$8,948,641
TOTAL TAXES PAID	\$19,438,428

Source: Stonebridge Research, Idaho Wine Commission, *IMPLAN **5.85% of 2013 wine tax reported in Idaho Division of Tax Annual Report ***Federal excise tax rates applied to Idaho wine production estimates

Charitable Contributions

The wine industry is unique in its charitable support to the community. Many wineries do not even track such contributions or differentiate between family and company support. However, Stonebridge estimates, based on industry interviews, that charitable contributions by the industry in 2013 totaled \$225,000, including both cash in-kind donations⁶.

⁶ The industries provided the valuations of any in-kind donations.

TABLE 6: TOTAL ECONOMIC IMPACT OF IDAHO WINE AND GRAPES, 2013

TYPE OF IMPACT	DOLLARS
REVENUE	
WINERY REVENUE INCLUDING DIRECT TO CONSUMER, SELF-DISTRIBUTION AND SALES TO DISTRIBUTORS	\$ 17,073,579
DISTRIBUTOR MARKUP IN IDAHO	\$ 864,439
RETAIL/RESTAURANT MARKUP IN IDAHO	\$ 3,628,670
WINE GRAPE SALES	\$ 3,376,670
TOURISM	\$ 2,450,000
SUPPLIERS	\$ 3,884,155
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATIONS	\$ 1,633,338
CHARITABLE CONTRIBUTIONS	\$ 225,000
TAX REVENUES - FEDERAL	\$ 8,948,641
TAX REVENUES - STATE AND LOCAL	\$ 10,489,786
INDIRECT (IMPLAN)	\$ 42,758,341
INDUCED (IMPLAN)	\$ 34,268,635
TOTAL REVENUE	\$ 129,601,254
WAGES	
WINERIES	\$ 4,705,875
DISTRIBUTORS	\$ 345,478
RETAIL/RESTAURANT	\$ 295,735
VINEYARD (INCLUDING VINEYARD DEVELOPMENT)	\$ 1,461,964
TOURISM	\$ 3,043,179
SUPPLIERS	\$ 1,242,272
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATION	\$ 845,393
INDIRECT (IMPLAN)	\$ 13,855,699
INDUCED (IMPLAN)	\$ 13,855,699
TOTAL WAGES	\$ 39,651,295
TOTAL IMPACT	\$ 169,252,549

Source: Stonebridge Research, US Bureau of Labor Statistics, Idaho NASS, TTB, Idaho Wine Commission, Idaho Division of Tax and industry interviews

Methodology

The best way to understand an economic impact analysis is to see it as the answer to the question: what would we lose if this industry disappeared tomorrow? Intuitively, we all know that the answer to that question is far more than the industry's direct sales. We know that answer needs to include the jobs and the tax revenues lost, the business for the restaurant where the workers ate lunch and the car dealers who sold them cars, the office supply stores where the companies bought printers and papers, and the sales and business and other taxes paid by all those businesses. An economic impact study is essentially a way to put numbers to those losses.

To produce this assessment, Stonebridge Research Group LLC explored and developed metrics for the multiple components of this very complex industry: from wine grape growing and winemaking to the many allied industries involved in wine production and consumption, grape cultivation and allied industries - distribution, tourism, equipment, and suppliers. Other economic benefits, including tax revenues, financing, charitable contributions and other indirect and induced benefits generated by the wine industry are also summarized.

This report is based primarily on 2013 data, although 2012 data was included for some data items where 2013 data was unavailable (primarily vineyard acreage and some tax and tourism data.)

A Note on the Data

Each time we do these studies we need to stress that there is hardly any public or standardized data on this complex industry. The Idaho Wine Commission was able to assist with vineyard and winery production volume estimates. Revenue data is not available from any published source. The 2012 Federal Agricultural Census provided vineyard acreage calculations, albeit only for 2012; thus, we do not have 2013 acreage data. Idaho's wine and grape production is too small to attract research by Idaho's branch of the National Agricultural Statistics Service. TTB also provides estimates of wine volume removed from fermentation. Number of permitted wineries can be obtained from Federal (TTB) and state sources-- but these numbers seldom agree, due to timing differences in permit approvals and cancellations and different license categories at state and federal level.

No region can provide specific vineyard counts, as vineyards are often held in multiple parcels for private tax reasons. Employment and wage data by county is available for certain industry categories from the US Department of Labor Bureau of Labor Statistics but only includes full-time employees eligible for unemployment insurance — thus, part-time, seasonal and owner-operators need to be added to BLS data. Fortunately, wineries and vineyards are specific categories for such data. Data for specialized suppliers to the wine industry, such as Idaho such as cooperages, bottle, closure and processing equipment manufacturers, is buried in much broader categories, such as “wood processing” or “glass containers” — but these businesses are not yet present Idaho, so this was one problem we avoided.

Thus, these studies depend on diligent primary research: multiple industry interviews combined with searches of multiple sources for pieces of information that can be assembled to substantiate an estimate. To provide a metric for the effort, we tracked employment, revenues, and wages for approximately 38 industry activities for this study. Much of this process is explained below but please understand that these findings are best available estimates.

Direct, Indirect and Induced Effects (IMPLAN)

Much like dropping a rock into a pond, the wine industry has ripple effects on the Idaho 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 “**IM** impact analysis for **PLAN**ing.” **IMPLAN** is a well established and widely used economic model that uses input-output analyses and tables for over 500 industries to estimate regional and industry-specific economic impacts of a specific industry.

Thus, the full economic impact of wine and grapes produced in Idaho, as shown in **Table 6**, reflects the Idaho 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 3** of this report.

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, distributors, and immediately allied industries, data on which 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 or of janitorial services by wine bottle manufacturers. 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 industry supplier. These tertiary exchanges induce more jobs and incomes throughout the state and the nation, based on the original economic flows from Idaho’s wine industry.

Taxes

The IMPLAN model estimates all non-industry-specific taxes generated at federal, state, and local levels by the jobs produced by the industry in the respective geographical area. Stonebridge added to these estimates industry specific taxes including federal and state alcohol excise taxes, consumer direct sales taxes, and assessments paid by the industry, because these amounts are not included in the IMPLAN results.

Measuring the Full Economic Impact of Idaho Wine and Grape Production

Idaho's wine industry has a "multiplier" effect, extending across a broad network of economic benefits. The revenue derived by the wine industry becomes income for other workers and firms, in the state who spend more money on other goods and services.