Allied Grape Growers

Past

And

Present

A written account of the 60-year history of Allied Grape Growers, as interpreted by the stakeholders, board and management from 1951-2011.

In the late 1940's, a very bleak situation faced Biola-Kerman-Madera and Escalon-Modesto area winegrape growers. Dominated by a rampant, downward fluctuation in winegrape prices, a small group of growers held a series of meetings to discuss the idea of joining together to improve their market position. As a result of their discussions and analysis of opportunities, Allied Grape Growers (Allied), a California Cooperative Association, was formed in September of 1951. But prior to the actual formation of the cooperative, the small group of growers had to create a beneficial joint business plan relationship with a gentleman and acquaintance of the group, named Louis Petri, and his Petri Wine Company. Under the proposed joint venture, Petri would acquire a consistent source of grapes at less erratic prices than had been the case in preceding years, and the growers would benefit from a stable "home" for their grapes. As Allied's former president Bob McInturf explained, "With no track record behind them, and nothing more than faith in the future to guide them, this group, combined with Petri executives, went out into the field to sell this seemingly unattainable plan. To show the desperation prevalent in the grape market at the time, 230 growers representing 50,000 tons signed up that first year." To McInturf's further amazement, "eleven stalwart, naive growers acted as the initial Incorporators, Allied's first Board of Directors, and Allied Grape Growers was born on September 1, 1951." Allied Members agreed to acquire Petri's Plant in Escalon and the K. Arakelian Plant in Madera, as well as the established wine labels owned by Petri. The Allied Membership at that time required growers to sign a six-year commitment, with a portion of their grape delivery's value held in a revolving, six-year equity retain account to fund the purchase of the plant facilities and create working capital. Formulas were established for the pricing of grapes, and the payments to growers were spread out over a period of 18 months from when the grapes were initially delivered.

In spite of low market prices in 1951, and even lower prices during the 1952 season, Allied's contracted tonnage increased. But even considering the relatively low prices, Allied proved immediately beneficial by providing pool return prices to members that were anywhere from 10-34% higher than the cooperatives "competition", the proprietary wineries. From 1952 through 1958, McInturf credited the hard work of Allied's administrative and operational leadership with successful visionary growth. Allied was focused on growth, and as a result, began its first venture into the North Coast area with the 1953 acquisition of Geyserville Growers Cooperative in Sonoma County, with crushing facilities in Mendocino County. This was followed by Allied's 1953 lease agreement with Petri Wine Company to operate the Italian Swiss Colony Plant in Fresno, the Asti Plant in Sonoma County, the Shewan Jones Plant in Lodi, and bottling facilities in Chicago and Newark. Concurrently, Allied acquired the Italian Swiss Colony, Asti, Lejon, Gamberelli, and Davito labels, with product sales incorporated into the profit-sharing arrangements worked out in the original agreement with Petri Wine. These various new acquisitions during the initial years resulted in a name change of the association's "marketing arm" from Petri Wine to United Vintners, Inc., and the additional labels created a need for increased tonnage from Allied's Members. During this time, two more cooperatives solicited to become part of Allied. In 1957, Allied acquired Larkmead Growers Cooperative, with a delivery station in Napa County, and a substantial quantity of wine, and Larkmead's members became members of Allied. In 1958, Community Winery Cooperative in Lodi was experiencing marketing problems and low grape prices for their members. Community Winery's grower members were accepted into Allied, and Allied acquired Community Winery's facilities in Lodi, merging with the previously acquired Shewan Jones Plant in Lodi.

With each of these acquisitions, and subsequent growth, it should be noted that, however stalwart and naïve Allied's grower leadership might have been, this initial growth and success was based on working with other cooperative growers. They adhered to the guidelines and principles upon which Allied was originally organized as a California cooperative association, namely under the rules of the Capper-Volstead Act. Allied retained its “exempt” status, and the loyalty of its membership, by establishing a “home”, and giving precedence to its exclusive supply of members’ grapes.

The continued growth for Allied and its acquired marketing arm, United Vintners, during the period of 1959-1968, evoked a strong sense of pride in the cooperative’s management. Bucking the downward trend in the California wine grape industry as a whole, in 1959, Allied negotiated the purchase of United Vintners from Louis Petri for $24 million over ten years, with no down payment, and a $10.50 per ton equity retain established to fund the indebtedness. Allied’s growth accelerated even further with two additional purchases: the Cella Plant in Reedley in 1961, complete with on-premise facilities and established labels, and the ultra-premium Inglenook label in 1964, with facilities in Rutherford and Oakville. An extremely successful track record had growers eager to join the cooperative, to the degree that there was a waiting list to get into Allied. Efficient management and vertical integration of the entire winemaking process, from grapes to the winery and from bottling to marketing, further emphasized that being comfortable with whom you do business, while treating grower members and employees fairly, was the recipe for incredible success.

As the 1960s drew to a close, Allied Grape Growers experienced unprecedented growth and prosperity. In 1969, industry sales of table wine exceeded sales of dessert wine for the first time. At its United Vintners facilities, Allied tried to keep pace with market demands. With gallonage derived per ton from making table wine nearly double that of dessert wine, more refrigerated cooperage was required. Moreover, Allied’s sales of wine through United Vintners reflected historic growth. From the original 230 growers delivering 50,000 tons in 1951, Allied had grown to 1,600 grower-members delivered in excess of 400,000 tons by 1968. Eighteen months ahead of schedule, Allied made the final payment to the Petri family for the $24 million purchase of stock in United Vintners. Significant improvements were made at most of Allied’s facilities including: a new bottling room at Inglenook; updated crushing facilities at Oakville; new bottling and crushing facilities at Asti; expansion of Reedley’s table wine operation; additional refrigeration and cooperage at Escalon; the Madera Mission Bell Winery doubled in size to handle the delivery of 150,000 tons, with corresponding refrigerated cooperage; and in 1964, a new bottling plant was constructed. These improvements during the 1960’s were regarded by Allied’s Board as necessary investments in itself to facilitate future growth. But it was hard to anticipate or predict the adverse consequences of the cooperative’s attractiveness to eastern distilled spirits corporate giant, Heublein, Inc.. The foreshadowing of circumstances that led to the Allied-Heublein merger, through Heublein’s acquisition of a certain portion of United Vintners, almost portends the reading of a fairly tale evolving into a horror story.

In the late 1960’s, Heublein executives began talks with Allied’s board and management regarding a possible merger. It is speculated by some, to this day, that the executives had a great deal of important “information” that put them at a considerable advantage in the negotiation with Allied. The package presented was attractive, and Allied’s growers voted overwhelmingly in favor of the proposed merger, because of Heublein’s promises within the agreement. Enticements to growers included a long-term, 20-year renewable supply contract (under which Allied growers would be the sole supplier of grapes to the company), established methods of pricing for grower’s grapes, and Heublein’s representation to growers about its marketing expertise and market tie-ins with Smirnoff Vodka. Heublein’s optimistic projections that new grape plantings would be necessary to keep pace with sales needs, coupled with charts showing Heublein’s success in all aspects of their business, helped closed the deal. With Allied’s Capital Fund in equity retains valued at over $25,000,000 , the merger resulted in growers receiving cash equal to 82% of the Capital Fund.

Heublein received 82% interest in United Vintners, with Allied retaining the remaining 18% of United Vintners.

After Heublein took control of United Vintners, most of the sales and marketing staff, which had been responsible for United Vintners success, was dismissed and replaced. Wines sales began to decline for a number of reasons, with a corresponding decline in grape requirements. The Italian Swiss Colony label and the "Little Old Winemaker," the bulwark of United Vintner's sales, were dropped and never used again. A series of merger disagreements lead to numerous contract disputes during the next decade. Heublein's failure to adhere to the requirements stated in the supply contract, while simultaneously authorizing United Vintners to buy non-Allied member grapes in the market place, led to tension between the parties. Fearing a boycott of their Kentucky Fried Chicken restaurants, Heublein applied tremendous pressure on Allied's 1,600 members to contract with Cesar Chavez's United Farm Workers Union to harvest all of their grapes. When Allied's board and members resisted this action, a series of adversarial meetings ensued between Allied growers and Heublein representatives. Suits and countersuits dominated the next several years. This often lead to legal disputes over past due pool payments due growers.

By 1976, the required tonnage from Allied growers to United Vintners had slid to 326,000 tons. By July 1978, the Allied supply contract, which was the very "guts of the merger," was declared illegal in Superior Court in San Francisco. As a result of the disagreement and loss of contract, Allied negotiated the sale of their remaining 18% interest in United Vintners to Heublein. Allied now had the opportunity and challenge of finding alternative buyers for their grapes. Allied began contracting with other wineries for their growers' deliveries. This caused some growing pains including an infamous four-year payment delay by Bronco Winery on over $4.3 million from the 1982 vintage that was not settled until 1986. Also proving to add difficulty to their marketing situation was that in December of 1982, United Vintners notified Allied that they would be closing the Lodi and Asti plants prior to the 1983 delivery season. The pricing of grapes and the reduction in grape supply requirements continued to be a burden to growers. It was becoming quite apparent to Allied's Board of Directors that United Vintners did not intend to remain a competitive force in the generic wine market. Given their record over the previous fourteen years, it was not clear whether or not they would remain a viable force in the wine business. Due to experiences during the 1982 crush, the board of directors deemed it essential that Allied acquire some crushing facilities of its own. A negotiating committee and various experts were appointed to meet with United Vintners to attempt such an acquisition. Negotiations began with United Vintners regarding the purchase of the Escalon, Asti, and Reedley wineries, in addition to Colony and other labels. The name ISC Wines was used for the newly-formed company. Union Bank and Bankers Trust arranged the financing for these crushing facilities. In addition, growers meetings were held, and solicitations for grower funding were carried out with just under $11 million raised from growers for this acquisition. In the agreement, growers were responsible for funding any losses experienced by ISC Wines. Personnel from United Vintners comprised the nucleus for the personnel of ISC Wines. ISC Wines came into being with the 1983 harvest.

Still burdened by an excessively large crush of 1982, coupled with many factors contributing to an unfavorable consumer view of alcohol-based products, the industry experienced disastrously low grape prices in 1983 and subsequent years as supply and demand were significantly out of balance. It also became apparent that the Colony and other labels acquired by ISC Wines had been allowed to deteriorate significantly prior to acquisition by ISC Wines. Wine sales continued to falter and profits fell in direct proportion. The loss factor of ISC Wines further eroded the returns brought about by lower grape prices in the market place.

By early 1986, with ISC Wines sales and returns continuing to decrease, the Allied Board of Directors decided that drastic steps needed to be taken to avoid any further losses. They authorized a sale agreement with Erly Industries in May of 1987 that released Allied's interest in ISC Wines. Following this sale, the Allied board voted to make Allied strictly a marketing cooperative to market their members' grapes. As a result of the turbulent times the cooperative had faced during the previous two decades (as well as the industry in general during the early 1980's) many growers exited from the business. Allied's membership retracted even further from the erosion experienced during the decline associated with Heublein.

By the time the cooperative had sold off its interest in ISC Wines, the membership had dwindled to less than 500 growers with 150,000 tons of grapes. , Barry Bedwell was hired as President of Allied Grape Growers to replace retiring President Bob McInturf in late 1987. Barry's tenure with Allied was comprised of three distinct phases: 1.) 1987-1992:a transitional period, marked by the organization's change from a combination supply/marketing cooperative to one that was purely marketing-oriented; 2.) 1992-1997: a growth period, that was generally characterized by positive trends (due in part to the French Paradox) and rising grape prices due to shortage, along with increased plantings throughout California; and 3.) 1997-2000: a period of growing crush tonnages and the start of predictions of potential oversupply.

1987-1992

As the 1987 crush came to close, the challenges facing the new and revamped Allied Grape Growers as a marketing cooperative were clear. Allied needed to communicate value and restore confidence in the cooperative following a period of financial setbacks, litigation, loss of equity, and the flight of some of its members, who were selling to the same wineries that remained under contract to Allied. In addition, at the end of the 1987 harvest, and prior to the 1988 crush, Allied was notified that its contract with Italian Swiss Colony Wines was going to be terminated. This meant that a large amount of tonnage was now available on the spot market, a fact not lost on a number of potential buyers.

The first order of business for the restructured cooperative was to communicate to membership the absolute necessity of honoring the membership agreement, and the related value that went along with it. Grower meetings were held, along with scores of individual discussions, about the consequences and costs of non-delivery. These discussions underscored why it was in the grower's best interest, not only to remain a member of Allied, but why they should encourage their neighbors. For many members, there needed to be a basic change in the way they viewed their cooperative. Allied not only needed to be perceived as a "home" for members' grapes, but as an in-house source of valuable marketing expertise and field services, along with providing the benefit of combining members' tonnages for mutual gain.

There was also the issue with many members of the impact of the cooperative's practice of averaging all the prices to arrive at a single price per varietal per district. This worked well in areas of the state most associated with generic wine production, and previously when the cooperative was supplying its own winery. Some growers, particularly those in the coastal regions with high-end, premium varietal vineyards, saw this as a detrimental means of averaging down prices, which outweighed the organization's other benefits. At this time, Allied's Board of Directors approved the concept of "vintner's preference," which allowed more flexibility in the member's final price determination. This enlightened awareness paved the way for increased membership in the future, while still maintaining the benefits of joint marketing for other members.

Another prime factor in the success of Allied's transition was the ability to educate membership of the importance of Allied's field staff, who, along with marketing efforts to efficiently combine or "package" tonnages, also served in the role of truly being the "grower's agent" in making recommendations and dealing with winery personnel. With these key elements in place, and with the continuing education efforts to members, Allied was now positioned to move forward to provide true and tangible value as a marketing association.

During this period in the grape market, along with the production of wine coolers, the continued rise of the "fighting varietals" phenomenon was a dominant feature. Premium varietals such as Chardonnay, Cabernet Sauvignon, Merlot, and Zinfandel were in very strong demand, while generic varieties survived mostly because of their blending capabilities. There was a real debate about whether premium varietals could even be grown in the central and southern San Joaquin Valley, and if they could produce wines that would be accepted by consumers. The overall California crush during this period was relatively consistent, ranging from 2.5 to 2.8 million tons, and far less than the previous record of 3.12 million tons in 1982.

In 1991, the CBS News program "60 Minutes" aired a broadcast about the health benefits of wine consumption in a segment named the "French Paradox." The story was based on the fact that the French seemingly ate fattier foods, exercised less, and smoked more than citizens of other countries, but apparently outlived them due consumption of red wine. That 20-minute broadcast became one of the most important events for the California wine industry in the 20th Century. In the meantime, Allied's membership had stabilized and started, once again, to grow noticeably.

1992-1997

This period opened with above-average rainfall and optimal growing season conditions, providing a very large crush of 3.01 million tons, (only the second time in history that the crush exceeded the three million ton mark), and ended in 1997 with an all-time record crush of 3.9 million tons. In between, the amount of grapes processed ranged from 2.5 to 2.9 million tons, and prices rose on a statewide basis by more than 50 percent. During this six-year time frame, Allied's membership and returns to growers grew proportionately. Membership continued to expand as the value of being an Allied member became more apparent, even in an "up" market.

The questions as to if the interior of California could grow "varietal" wines was quickly answered as wine shipments took off and shortages of certain grapes became a reality. First, the northern San Joaquin Valley became a hotbed for planting contracts, while the central and southern valley followed more slowly. Reflecting this growing demand, Allied became more involved in multi-year marketing and contracts, both for generics and varietals. Overall statewide prices and grower returns escalated to unprecedented levels, which pressured vintners to look overseas and to become creative with the formulation and make-up of wines and "wine-like" products.

During this period, Allied also solidified its role as a grower advocate by working closely with the California Association of Winegrape Growers, making presentations throughout the state related to grape and wine market statistics. The association was recognized as a prime and unbiased resource for information, which also assisted in the recruitment of new members.

In addition to the growth experienced in the wine sector during these years resulting in high demand for grapes, another industry that was becoming significant in size and grape need was the grape concentrate industry. Along with increased demand for generic grapes for blending into varietal wines, there was strong interest in producing grape concentrate by

California wineries and brandy makers for sale into the bulk fruit juice and concentrate markets. Positioned with a relatively large supply of generic grapes, including Thompson Seedless, Allied was in a good position to capitalize on the opportunity by negotiating for large amounts of tonnages and providing market leverage for it growers.

1997-2000

The 1997 crush tonnage of 3.9 million tons was the largest on record up to that point. The effect of newly-planted acreage just coming into bearing was being felt for the first time. Prices remained high due to the chronic shortage up to that point, but clearly with an ever-growing amount of acreage coming online, the days of grape shortages were numbered. In fact, average statewide prices increased every year from 1990 to 1999, and the 2000 crop year average price decrease was the first in a decade. To gauge how far grape prices had risen, the average per ton of grapes crushed in California was $221 in 1987 and was $524 in 1999. In the meantime, however, due to the upward trend of varietal prices, the chronic supply shortage and the potential loss of market opportunity, some vintners elected to create a product called "Table Wine With Natural Flavors," which had no BATF requirement regarding the percent of grape wine used in the formulation, and, thus, effectively and significantly reduced their dependence on California grapes.

Even with a modest increase in wine demand, non-bearing acreage projections in the late 1990's showed that the potential oversupply in a number of varietal categories was imminent. Allied could do little about the amount of acreage being planted, except to urge that growers not plant without a contract. There was a concerted effort to address the issue of "Table Wines With Natural Flavors". Allied's board and management felt the products were not only replacing grape wine with water and other components, but that the products would erode the hard earned reputation of California wines to the consumer. While this led to tension between Allied and some of the wineries with which they were under contract, and who produced such products, the Allied board and membership stood the course in opposition. In late 2000, with pressure from numerous industry groups, including CAWG, the BATF issued a ruling that prohibited processors from creating flavored wine products, over 7% alcohol, from carrying any varietal designation. This ruling had a positive impact on San Joaquin Valley varietal grapes, as it effectively required that a wine product had to be composed of 100% grape wine if it was to be varietally labeled., Through the 1990's Allied Grape Growers had worked very hard to establish itself as a valuable marketing and information resource for its membership, and the wine grape community as a whole. The organization had reworked its financial structure, moving from a revolving equity retains payout to a system of service fees paid by both the members and the vintner customers. The cooperative had re-established a strong financial position, assisting its members as upcoming challenges arose during times of oversupply.

In 2000, President Barry Bedwell moved on to other opportunities within the wine industry. And with the distinct possibility of rougher marketing waters ahead, the Allied Board of Directors acted quickly to secure a qualified candidate to continue the growth and success platform established during Barry's tenure. Allied hired Nat DiBuduo as its president in 2000. DiBuduo, a veteran in California agriculture, and an individual who understood the various winegrape growing regions throughout the state, particularly the potential of the San Joaquin Valley, proved to be an ideal pick to lead Allied into the 21st century.

2000-2011

Allied Grape Growers faced the daunting specter of oversupply looming over its growers during the 2000-2003 harvests. DiBuduo summoned a proactive response by advocating his growers' need for economic, as well as viticultural, sustainability while improving overall winegrape quality. He argued that Allied's members deserved a reasonable return on their vineyard investment. Spot market grape prices plummeted to $75, $65, and $90 for the 2001, 2002, and 2003 harvests, respectively, based on the fact that the wine industry was seriously oversupplied and the excess supply was making its way primarily into grape juice concentrate. Subsequently, the pullout of well over 100,000 acres of grapes began to change both the supply situation for concentrate and generic wines, and even varietal wines as some of the acreage being pulled was actually newer vineyards that were economically unsustainable given spot market prices of the early 2000's. DiBuduo and his Allied Grape Growers Board of Directors met these challenges head-on, guiding the Allied membership through a turbulent grape market. An "unwelcome" record 4.3 million ton grape harvest in 2005 was followed by an unprecedented amount of Australian and South American bulk and bottled wine being imported into California by California wineries. Utilizing a network of industry sources, Allied works to provide its growers with the updated market information needed to enhance strategic planning and planting, Allied Grape Growers emerged into the second decade of the 21st century holding a strong financial position. Growers in the San Joaquin Valley began planting premium varietals with long-term contracts from wineries, followed by a corresponding statewide improvement at all price points for varietals with market popularity.

This favorable winegrape market atmosphere was only achieved with a coordinated, cooperative effort among Allied's leadership, a vigilant field staff monitoring growers' vineyards throughout the year and frequent communications with wineries regarding their quality requirements. From the early days of Allied Grape Growers in 1951, and up to the present time, the essential reason for growing and harvesting winegrapes has not changed that much, (except that the bulk of the harvest is completed in the relative coolness nighttime.) As Allied's Viticulturist, Emilio Miranda explains, "We must provide value and service to both our growers and winery partners." If we coordinate our efforts effectively and our fruit is picked and delivered on-schedule, then we enhance everyone's harvest experience".

Under Nat DiBuduo's leadership, Allied Grape Growers grew from 485 members to 600 members. Allied growers currently farm over 28,000 acres comprised of 40+ major varietals, producing 285,000 tons, with a gross farm receipt value of $80+ million dollars. These growers are located within most of the major wine grape growing regions of California. From an association originally formed in 1951 to make wine from its growers grapes at facilities owned and operated by the cooperative, Allied Grape Growers has evolved into a marketing cooperative, whose primary purpose is the efficient and competitive marketing of its members grapes to numerous wineries and other grape buyers statewide.

Allied has grown into a financially solid company, representing growers by marketing their grapes, providing year-round viticulture information to growers through a professional field staff, and speaking on their behalf at both government and industry forums. As DiBuduo explains, "Allied Grape Growers has a very proud heritage of serving the California wine industry with quality, integrity and stability. We are a quality operation in both product and service; we operate only under the highest standards of integrity; and we continue to be effective representatives for our grape growers, offering stability to their operations." Allied Grape Growers (more recently referred to as "AGG") has continued to enhance its image and improve on its core competencies in order to maximize marketing results for growers.

Since becoming strictly a marketing cooperative, AGG has extended its winegrape market penetration to nearly 100 different outlets. With this wide range of vintners, buyers and processors, AGG remains privy to much more first-hand market information than any individual grower. AGG's established relationships with multiple buyers, provides its growers with extensive marketing opportunities. Having established year-round dialogue between vintners and growers, and not just during harvest, AGG helps keep growers abreast of current market conditions from a grower's standpoint. AGG constantly evaluates wine and winegrape market data for the purpose of identifying market trends. Additionally, AGG benefits its growers and buyers through the diversity of varieties it has available to market. Because of the many varieties AGG markets in various categories, red and white, varietal and generic, table wine and red and white concentrate, the cooperative effectively "packages" different varieties for sale to various buyers. Since market demand for grapes can change rapidly, in many instances, AGG is able to successfully market various varieties and categories, because they offer such a diverse selection to vintners. In addition to marketing grapes, since the late 1990's, AGG has worked closely with growers who wish to make bulk wine, thereby offering another viable marketing option to it members. In almost all cases, AGG has been able to provide bulk wine growers with net returns that exceed what they would have received for their grapes if otherwise marketed at harvest.

Allied Grape Growers also has adopted an active role in assessing grower's contractual interests concerning Grape Purchase Agreements. The cooperative evaluates the credit worthiness of buyers, and handles the collection and distribution of grape and wine proceeds. Within the all-important area of monetary returns to grower-members, AGG has dramatically accelerated its post-delivery payment schedule. AGG pay growers on a timely basis following completion of deliveries. To fund the cooperative's day-to-day operations, AGG collects a fee from both growers and vintners. After paying annual operating expenses, any profits that the association posts are then allocated back to the membership.

Reflecting back on Allied Grape Growers historical ebb and flow, Nat DiBuduo put the cooperative's first sixty years into perspective by observing, "My pioneering grape grower dad once told me 'After bad times come good times, but after good times come bad times.' For sixty years, AGG and its growers have met adversity and enjoyed success. Most important of all, however, is that AGG has endured through it all. AGG will continue serving our grower-members' needs by providing economic prosperity through viable marketing, maintaining a strong financial base and providing leadership to the wine and agricultural industry".