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Regional Oral History Office

Ernest Gallo

THE E. & J. GALLO WINERY

With an Introduction by

Maynard A. Amerine

An Interview Conducted in 1969 by

Ruth Teiser



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PREFACE

The California Wine Industry Oral History Series, a project of the Regional Oral History Office, was initiated in 1969, the year noted as the bicentenary of continuous wine making in this state. It was undertaken through the action and with the financing of the Wine Advisory Board, and under the direction of University of California faculty and staff advisors at Berkeley and Davis.

The purpose of the series is to record and preserve information on California grape growing and wine making that has existed only in the memories of wine men. In some cases their recollections go back to the early years of this century, before Prohibition. These recollections are of particular value because the Prohibition period saw the disruption of not only the industry itself but also the orderly recording and preservation of records of its activities. Little has been written about the industry from late in the last century until Repeal. There is a real paucity of information on the Prohibition years (1920-1933), although some wine making did continue under supervision of the Prohibition Department. The material in this series on that period, as well as the discussion of the remarkable development of the wine industry in subsequent years (as yet treated analytically in few writings) will be of aid to historians. Of particular value is the fact that frequently several individuals have discussed the same subjects and events or expressed opinions on the same ideas, each from his own point of view.

Research underlying the interviews has been conducted principally in the University libraries at Berkeley and Davis, the California State Library, and in the library of the Wine Institute, which has made its collection of in many cases unique materials readily available for the purpose.

Three master indices for the entire series are being prepared, one of general subjects, one of wines, one of grapes by variety. These will be available to researchers at the conclusion of the series in the Regional Oral History Office and at the library of the Wine Institute.

The Regional Oral History Office was established to tape record autobiographical interviews with persons who have contributed significantly to recent California history. The office is headed by Willa K. Baum and is under the administrative supervision of James D. Hart, the Director of The Bancroft Library.

Ruth Teiser
Project Director
California Wine Industry
Oral History Series

1 March 1971
Regional Oral History Office
486 The Bancroft Library
University of California, Berkeley

INTRODUCTION

Ernest Gallo was born in Jackson, California, of Italian-born parents. He was raised in Modesto on the vineyards of his father on Maze Road, just west of town. He was graduated from Modesto High and was working on the family farm in 1933 when he and his brother started their winery.

His family had produced wines in Italy and California before Prohibition, but he, himself, had had no experience when the two brothers started their winery. He has told the story that he visited the Modesto Public Library for information on wine making.

The brothers had progressed sufficiently by 1954 that they purchased the Cribari Winery (Las Palmas) at Fresno. The company has had an almost continuous record of expansion, both in production and distribution. Gallo wines are now distributed nationally, and the company carries on an extensive television program on behalf of its products. Ernest Gallo is now chairman of the board of the E. & J. Gallo winery.

Starting in 1958, the company opened an extensive research facility and it has placed a number of new products on the market in the last 15 years. It was the first American winery to own its own bottle producing plant, which has continued to increase in size since it was opened in 1958.

In recognition of his contributions to the California grape and wine industry, Ernest Gallo was given the Merit Award of the American Society of Enologists in 1964. He has generously given of his time in serving on many Wine Advisory Board and Wine Institute committees.

An outstanding feature of Ernest Gallo's career has been his insistence on standardization and quality in the products produced by his company. He is highly respected in the industry for his contributions to the expansion of the California wine industry.

Maynard A. Amerine
Professor, Viticulture and Enology

20 December 1971
101 Wickson Hall
University of California at Davis

INTERVIEW HISTORY

Following a preliminary discussion on December 27, 1968, the interview with Ernest Gallo was held on two Saturday mornings, July 12 and August 2, 1969, a time set to avoid the interruptions of the work day. Both sessions were conducted in Mr. Gallo's spacious, well furnished office in the administration building of the winery complex adjoining Dry Creek in Modesto. The office overlooks part of the landscaped grounds and some of the wine tanks discussed in the interview.

Mr. Gallo was cordial to the interviewer, firm and precise in replying to questions. He spoke slowly and deliberately, sometimes re-phrasing his words for improved clarity. In the preliminary editing by the interviewer, the final phrasing was, as intended, retained in the transcript.

On December 30, 1969, the transcript was sent to Mr. Gallo for review. His reading of it was interrupted by pressure of business and trips abroad. Making a few changes and some additions, he had it retyped in his office and returned to the Regional Oral History Office on April 19, 1971. That retyping is the interview text in this volume. To it has been added preliminary matter, appendices and indices.

Subsequent to returning the text, Mr. Gallo and Mrs. Willa Baum, head of the Regional Oral History Office, worked out the details of the restrictions on use of the interview; they appear on the legal agreement page at the front of the volume.

Through his interest in preserving information on the recent past of the California wine industry, Mr. Gallo has been of aid to the Regional Oral History Office in the preparation of this series of interviews. His own interview is an invaluable contribution to the series. In it he has related the development of his own organization, the largest wine making company in California, and he had also discussed analytically and with perspective, significant aspects of the development of the industry as a whole.

An interview with Julio Gallo was held July 21, 1970 and is to be released under restrictions similar to those applying to this.

Ruth Teiser
Interviewer

18 January 1972
486 The Bancroft Library
University of California at Berkeley

ERNEST GALLO INTERVIEW

July 12, 1969

Family and Early Years

Teiser: Perhaps we could start with your ancestral background in the Piedmont district of Italy.

Gallo: Piemonte? (That's the Italian pronunciation.) So you want me to start back with who my parents were?

Teiser: Yes, and your grandparents if they were making wines in the Piemonte district.

Gallo: My father was born in Fossano, in the province of Piemonte. His father was a wholesale butcher and horse trader.

My father, having first gone to South America for a year and not liking it there, went back to Italy and then immediately came to the United States. He must have been around 19 by that time, I guess.

My mother's mother was born in Bologna. She married a man by the name of Batista Bianco, who was born in Agliano d'Asti in the Piemonte area of Italy.

My mother's parents brought her here at the age of around two or three. My mother's father, Batista Bianco, became a very small grape grower; he had twenty acres in the Hanford area. And he converted his grapes into wine in a small plant of perhaps thirty or forty thousand gallons, which was located at the rear of his house in Hanford. My father...

Teiser: What was his first name?

Gallo: My father's first name was Joe -- Joseph. In arriving in this country, he was able to make it as far as Philadelphia on the funds he had, and then stop

off in the coal mines to work to earn enough money to come to California.

I recall his having said that when he did depart Pennsylvania for California, not being able to speak the language, he could not order food and ate pie all the way. They were a nickel. Vendors sold them to the train passengers. And this was his diet until he arrived in San Francisco.

At that time, Italians arriving in this country as laborers were pretty much relegated to doing jobs of a menial type, and he spent some time digging ditches after arriving in San Francisco. In those days sewer lines were dug by hand by cheap labor. And this was his first start in this country in working, after having left Pennsylvania.

Teiser: How did he happen to come to San Francisco, do you think?

Gallo: In those days, there were Italians who had come here before who would write to their pals in Italy telling them there was work available. And at that time it was very rough in Italy. Let's see about how long ago that would have been. I was born in 1909, and my father was probably 24 years of age at that time, and he must have arrived here three or four years before that. So I would say my father probably arrived here around 1905. That's right, because I remember him telling me stories of the earthquake in San Francisco which occurred in 1906. So my father was here at least by 1904 or 1905. And at that time Italians were not well regarded -- probably like Mexicans are in this country today, or not even to that degree. In any event, after working as a ditchdigger for a year or so, he decided to go into the wholesale wine business. This meant that he had a cart and horse and would go out of San Francisco to down in the Valley, and he happened to buy wine -- eight or ten barrels at a time -- from my mother's father. That's how he

happened to know those people. And then would take that wine back to San Francisco and sell it to the boarding houses, the Italian boarding houses.

Teiser: What kind of wine was it that they were making then?

Gallo: In those days it was common red wine.

Teiser: What kind of grapes were they using?

Gallo: Oh, they used Carignane and Zinfandel and grapes of that type. So my father continued in this business of buying wine from this small winery and selling to the boarding houses, and it was during this time that he met my mother and they got married. And immediately upon getting married, he got out of that type of business and moved to Jackson, Amador County, and started a boarding house of his own. And that's where I was born.

Teiser: What were the big mines up there?

Gallo: Let's see, there's the Argonaut and Kennedy. They were operating then. He was running a boarding house for the miners, and many of the miners were Italians. I was born there on March 18, 1909. At the age of one year, I was farmed out to my maternal grandparents, who were the Batista Biancos in Hanford. So from the age of one to about five or six, I lived with them.

Teiser: Your brother Julio also?

Gallo: My brother Julio was born on March 21, 1910. And he remained with our parents. And the reason, apparently, I was farmed out was that another youngster came along and it was difficult for my mother because she was running the boarding house. My earliest recollections were those with my grandparents. At the age of five I obtained my first and last drunk. It's

probably the first recollection I have. I recall being in this very small winery, which was not much more than a shed in the back of the house there in Hanford. My first memory is of two men working a hand press during the vintage. They would push this hand press back and forth for five or ten minutes and then stop and sit down and wait for the juice to run through the cake in the press; and then when it started to dwindle in volume, they'd get up and push this bar back and forth another five or ten minutes, and every once in a while they'd sit down and rest. They had a tin cup there and they'd put it under the press and get some of that freshly made wine. It was still sweet, but high in alcohol, and they'd drink a little and sit down and talk. As a youngster of five I saw them do this frequently, and I remember taking the cup and filling it up and drinking it, and it tasted very good -- sweet. I have in my memory, and I never will forget it, these two men laughing. And I must have continued drinking because the next thing I remember I was in bed and my grandmother was standing over me. In any event, from then on, I have never gotten drunk in my life, so it served a good purpose.

At about six years of age, I moved back with my parents. My grandfather became of ill health and so they were moving quite often. He thought it was a matter of climate. And I remember during one or two years there that we moved -- I being with them -- into at least five or six different towns in California, seeking the climate. In those days that was the big deal. If you didn't feel well, it was the climate that was wrong. So we moved from

Hanford to San Diego and to several other small towns and ended up in San Francisco.

In the meantime, my father had left Jackson and opened a saloon in Oakland, California. It was located at 49th and Broadway. I have early recollections of the place. I was back with my parents at about the age of six, and I used to hear stories at night when my father was a little upset, had had a bad day in the saloon. In those days, a beer was five cents for a long stein and there was a free lunch counter. At this free lunch counter they had liverwurst and limburger and salami and other types of cheese and sausage, as well as bread. The workmen in the area used to come in at noon, but a glass of beer, go over to the lunch counter and have their lunch and go. This was normal. But my father had a real bad day every once in a while when two men would come in together, go to the bar, buy one glass of beer and both go and eat. (laughter) All on a nickel.

Prohibition came into effect in 1918, which meant that my father had to close down his saloon. At that location, he was not only in the saloon business but also had a boarding house. He closed down, sold his building, and decided that he was going to go into farming. He bought a ranch of 120 acres at Antioch, California, thirty of which were in wine grapes, the balance being pasture.

Teiser: Do you know who had planted that vineyard?

Gallo: No. No one that would be of any significance. So my father bought this place, knew absolutely nothing about farming, and needed horses. He went to San Francisco and bought four horses that were of the type that were used for draying in those days in large cities. They were very large horses, large

feet, specially adapted for that type of work and not farming. He took these to Antioch. It was in the middle of summer, about July, and not having farmed before, he decided to start plowing a field, not knowing that you should do it after the land is moist so you can turn it. So he hooked up a team to this plow and tried to sink it into the ground and finally did, and the ground was so hard that as soon as the plowshare took hold it snapped the -- whatever it is of the plow, I'm not sure whether it's the bow or the beam or whatever it is. The wooden part above the share. The only reason I mention it is that it shows that my father knew absolutely nothing about farming. He had been a city man all his life.

I was eight years of age when we moved there. I recall vividly at eight years of age working in the field, cultivating with four mules. I drove the four mules. That was a good long hard day's work. These were some of my earlier recollections.

He was on that place four years. When I was twelve, he sold that ranch and bought a small vineyard at Escalon, California, which was twenty acres.

This now was the year of about 1920 or 1921 -- somewhere in there. He bought this twenty acres early in the springtime, when you couldn't tell how hardy the vineyard was. When the crop came on, it was not a good one, but grapes were high. This was during Prohibition. Wine grapes at that time were selling for over a hundred dollars a ton, because they were shipping wine grapes east to Italians back there who could not buy wine and were making homemade wine. Under Prohibition, a home winemaker was allowed to make two hundred gallons. And so these grapes in California, which before Prohibition were only worth \$5 and \$6 and \$7 and \$8 a ton sold at winery, suddenly

became worth \$80 and \$100 a ton to be shipped across the United States for winemaking.

Teiser: What kind of grapes were those?

Gallo: Those were Carignane and Alicante Bouschet. We farmed that place for about three years. And quite by coincidence my father, in getting to know people of the area, happened to visit a well-known, and what was in those days a well-to-do farmer, in his own way, Giuseppe Franzia. He was considered by most people a prominent grower at Sims Station, which is only about seven or eight miles from Escalon. This Giuseppe Franzia later became my father-in-law. Giuseppe Franzia was a rather blunt, direct-speaking type of an individual. He came over one day to visit my father, and my father asked him, by the way, what did he think of the vineyard? So Giuseppe Franzia said, "Well, what I would do...you ask me what I think of this vineyard...what I would do is wait until the spring time when the leaves are out and looking well and then stick somebody else like you got stuck." The place wasn't quite that bad. My father made a lot of money on it, but he did follow that advice and the following spring sold it and bought a place which was forty acres here in Modesto, out on the Maze Road.

EDUCATION AND FIRST BUSINESS RESPONSIBILITIES

This was in 1926, at which time I was seventeen years of age. I had gone to high school in Escalon, and then finished high school here in Modesto, In that year, 1926, at a time just before harvest, a man by the name of Joseph Gazzara who was then a Chicago grape dealer, happened to call on my father, buying grapes. My father did not sell him the grapes, but made a deal with him in which he would consign them to Joseph Gazzara. Joseph

Gazzara could sell the grapes and my father would pay him a commission for selling them. That same year, Giuseppe Franzia made the same deal with Joseph Gazzara. And part of the deal was that they were going back there to watch the operation of the sale of their grapes. It was my job at age seventeen, therefore, to harvest the grapes and ship them back there to my father and to Joe Gazzara. At that time we had the forty acres on the Maze Road and twenty acres in the Keyes area; we grew Zinfandels on both. On arriving in Chicago, after the first four or five days, my father realized that the service that was being rendered by Joe Gazzara was one of very little value, that my father could do as well himself, and with this he terminated his relationship with Joe Gazzara as his representative, and finished the year selling his own grapes. Giuseppe Franzia, on the other hand, permitted Joe Gazzara to handle his crop for the rest of the year.

Teiser: Was this the same Gazzara who died recently?

Gallo: That's right. Yes. Some years thereafter -- well, I imagine it was on repeal of prohibition -- this Joe Gazzara then opened a bottling plant in Chicago and was bottling and distributing wine. He purchased wine and distributed it under his own label. I think the Crest View label in Chicago. His purchases, if I recall correctly, were mostly from Petri at that time. And after some years he sold out his bottling plant and business in Chicago to Petri and came to California and bought a winery in the Fresno area which he called the Crest View. He operated it up until a few years ago and then passed away. His widow sold that winery about a year ago to Guild Wine Co.

As I said, my father went the year 1926 to Chicago and sold his grapes. He returned, had done reasonably well -- had done very well -- but told me that he was not going back to Chicago any more. He just couldn't put up with that element. These grapes were sold in carload lots to jobbers on team track, primarily there on 21st and Archer in Chicago, to jobbers who would buy the car and then open up the doors, put a ladder in front of the door, and sell it out in one hundred and two hundred case lots to their friends to take home and make wine. The people involved in that type of business were a cross-section of characters. For example, they would haggle with you at the beginning, and you'd arrive at a deal and they would pay you, usually in cash, and then if you could get to the bank with the cash before they could hold you up, you had a good day. If the market went down the following day, they'd come after you wanting a refund. And this was the type of deal it was. So my father came back and said he'd had it, he wasn't going to go back. At which point I asked for the opportunity to go back myself. To which he readily agreed. So at the age of eighteen I went back to Chicago, and he shipped me the grapes. I enjoyed the operation very much. There was a fundamental difference in my father's personality and mine. If he got into an argument with a man over a deal, why he'd just stop dealing with him forever. Whereas with me, every deal was a new deal. And if I thought I could make a profitable deal with a man, I would deal with him, regardless of what happened 15 minutes ago. By nature I can't carry a grudge. I can't remain mad. So I worked very well with those people.

I'd make a deal with them, and if they came howling for a refund, a rebate, I may have given it to them, but at the same time I'd sell them another car for more profit.

By about 1930, my father's shipping business had pretty good volume, and he sent my brother Julio to the New York Auction to sell part of the grapes there, too.

Since I was going to high school at that time -- my last year in high school -- I would not get back because I would be in Chicago the latter part of August and stay until November. I wouldn't get back until the middle of November, and that entailed making up in school the time I had missed. The professors at the Modesto High School were very cooperative and permitted me to do this. I got through High School and then went on to Modesto Junior College here. I spent two years at Modesto Junior College, but never did graduate. That is, never did get a diploma because I confined my studies to the subjects I thought would do me the greatest good, and things like physical education and some of what I thought were liberal arts classes, which would not prepare me for making a livelihood, I just didn't take.

Teiser: What were you particularly interested in?

Gallo: I was interested in English, and I have never mastered English. My language is just terrible. But, realizing this, I took every English course and every writing course that they had, because I felt that it was extremely important to be able to communicate. And as it is, I developed a style of writing which is short sentences and right to the point, which is a way that I can express myself clearly. Anything I abhor is the reports I receive, and I receive lots of them from my people, that are very lengthy and wordy. Sometimes

you've got to read them over twice to see what they're talking about, which I think is a great imposition on the reader. To me, there's nothing more discourteous and imposing than to receive a letter with long paragraphs and long sentences that you have to read over again, and still not be quite sure what they're trying to convey. Another thing that annoys me immensely is to find a report in which words are misspelled. I'm the world's worst speller, but I make sure that my secretaries have majored in English, so that they can communicate what I give them. I don't have to check their spelling, but I do check their sentence structure and their paragraphing. In any event, I was extremely interested in that in school, so I can judge quickly by seeing something written if it's well written or not.

Other subjects were those of economics, money and banking, and history. I was extremely interested in history. It was in subjects of this type that I found great interest, and usually went well beyond the course being taught. I received a great deal of enjoyment from my classes, and always went beyond even what the professor knew. And I wasn't beyond trapping him in areas where he was not familiar. That was the extent of my education.

Teiser: Were you working while you were going to Junior College?

Gallo: Yes. My father at that time had the forty acres in Modesto and the twenty acres in Keyes, and then bought another thirty acres adjoining the forty here in Modesto. The original forty acres was purchased from Claude Maze, who was a large landowner in that district. The thirty acres we bought was immediately in back of the forty acres, and was purchased from Joe Vella, who had originally bought it from Maze. Subsequently, it must have been about 1930,

my father bought 160 acres across the street from what was now 70 acres on the Maze Road, from Ella Maze. And that 160 acres was bare, rough land. He paid \$200 an acre for it. We wanted to plant it into a vineyard. So he rented a caterpillar tractor and a Le Tourneau scraper on a daily basis. The number of hours that a day consisted of was not specified in the agreement, so I took the equipment from eight at night and drove it until eight in the morning, and my brother would take it at eight in the morning and run it until eight at night. So we ran it around the clock, and did the land levelling in very short order and planted the grapes. And that is the location that my house is now on, as well as my brother's. My nephew Bob is currently building his house on it, also.

Teiser: Do you still have vineyards around it?

Gallo: Yes.

Teiser: So you still own the whole property?

Gallo: That's right. It's still in the family.

Teiser: What kind of grapes did you plant?

Gallo: My father (and we were with him at that time, of course) planted mostly Zinfandel, some Carignane and some Mission. Unfortunately, at that time what was known as the red spider, or Pacific Red Mite, was a disease that started becoming prevalent -- and there was no proven way, or satisfactory way, of controlling the Pacific mite. And the vines deteriorated rather rapidly, and we had to dig them out and replant them later. We replanted them later to hardier varieties such as Grenache and more Mission and...

Teiser: It was the Zinfandel that was particularly susceptible?

Gallo: That's right. And...another color grape...well, it's really not important. Another vigorous grower. In other words, we replanted to more vigorous varieties than Zinfandel. The twenty acres I referred to earlier were purchased from Charlie Millard, who was an old-time farmer in the Keyes area, which I'll refer to later.

Getting back to the business of selling grapes in Chicago, I went back to Chicago to sell grapes during the years of 1927 through 1932. It was during my years going back to Chicago to sell grapes that I met Giuseppe Franzia. When the season was over, I noticed that he timed his departure from Chicago to coincide with mine. And he invited me to travel with him. Travelling on a train in those days, those first years, was travelling in a coach. And so I thought it was a great idea to have somebody to travel with. And he boarded the train with a large wicker basket under his arm, which he put under his seat. When lunch time comes, he pulls it out and here he has a salami and a piece of cheese and some big onions and some bread and a couple of bottles of wine. And I thought he was a nice old fellow, and when we landed in California, why, he invited me to come and visit him. I thought nothing of it at the time, but some months later, I decided to just go and see the old guy. I drove into his place and talked to him out there, and I noticed his daughter, and this is how I happened to meet my wife, Amelia. And not too long thereafter, of course, we were married. Now getting back to..

Teiser: Let me ask one more thing about your father-in-law. Had he been born in Italy?

Gallo: Yes. He was born in Italy, came to this country, settled in the Stockton area producing vegetables for the market. Later he moved to Sims Station and planted grapes, and sold grapes to wineries -- in those days at \$5 and \$6 a ton. While he was working in the vegetable gardens, he was a single man, and sent \$100 back to his home town of Vadoligura, near Genoa; sent \$100 to a girl he knew there and told her if she wanted to come to the United States, why, he'd marry her. Well, she was insulted that this was the approach, so she made it known around town that she would not accept such a proposal. So another young girl said, well, if she wouldn't take the proposal, why, she would. And so she wrote and said that she would be willing to come, and so he told her that that would be all right and for her to come. So she travelled over here and they were married and lived a very happy life together and raised seven children.

ESTABLISHING THE E. & J. GALLO WINERY

Gallo: I married my wife in 1931. I was still then going east to sell grapes, and so was my father-in-law and one of his youngsters.

On June 21, 1933 both my father and mother passed away. In midsummer of 1933, it became obvious that Prohibition was going to be repealed. Roosevelt had become president in the elections of 1932. It was obvious that Prohibition was going to be repealed and wine could be made under a temporary permit, anticipating repeal of Prohibition, which would take place and be effective on December 5, 1933. So therefore, that summer of 1933 (at that time I was twenty-four years of age and my brother Julio was twenty-three years of age) I decided that we would not go east to sell grapes any more; because not only had grapes, in the meantime, become very cheap, but repeal of Prohibition was opening up a new opportunity -- a start in the wine business.

In 1932, which was a disasterous year, I sold grapes in the east at a price that yielded very little out here in California. And my father-in-law had come to the same conclusion. He wasn't going back east.

So it seemed to be the natural thing to build a winery, and take the grapes we had and make wine out of them.

Therefore, on August 21, 1933, we started the winery. My brother and I pooled our cash resources and we had \$5900.23, and we rented a building from the railroad because we didn't have the money to build a winery on the ranch.

Teiser: Where was it?

Gallo: Here in Modesto, at the corner of 11th and D Street. We rented the building from the Modesto and Empire Traction Company for \$60 a month. And then went to San Francisco and purchased a crusher and a press, and 100,000 gallons of redwood cooperage, all on a trade acceptance basis.

Teiser: Who supplied cooperage to you at that time?

Gallo: Pacific Redwood Tank Company. I went in to see them, told them we had no money (except what we did have -- \$5900.23, and we certainly couldn't give them any of it) but that if they would sell us the tanks on a trade acceptance, as soon as we sold the wine we would pay them. So they gave us the tanks on a trade acceptance basis, the first payments becoming due in the middle of January and the balance in March. And I bought the machinery the same way. We started putting up the first

50,000 gallons in this building in Modesto. And in driving the hoops on these tanks, it was quite noisy. Growers coming into town would come in and inquire what was going on, and when we told them we were building a winery, they immediately became interested and wanted to participate. Not having money to pay for grapes, we made a deal with them that if they would deliver their grapes to us, we would be willing to make wine and give them in payment fifty gallons of wine to the ton.

Grapes at that time were worth about \$8 a ton, so receiving fifty gallons for every ton they delivered meant that if wine sold at fifty cents a gallon on repeal of Prohibition, they'd be making \$25 a ton, which was a great deal for them. It also made a very good deal for us, since a ton produces at least 150 gallons.

This got around, and we had more grapes offered than we could handle, so I went back to San Francisco and got another 50,000 gallons cooperage, which was all that the building would hold. So we started the first year with 100,000 gallons of wine.

On December 5, on repeal of Prohibition -- as a matter of fact, just a few days before that -- I received an airmail letter from Chicago from a gentleman that I used to sell grapes to in Chicago, whose name was Charles Barbera. Charles Barbera had written me inquiring if I knew anyone who was going into the wine business, for he would like to go into the wholesale wine business and wanted to buy some wine...could I put him in touch with these people? I received that letter the first day or so of December. I immediately drew samples out of the tanks and took a

plane to Chicago the same day, arriving at his office the next morning. When I walked in Barbera expressed surprise and said, "You know, I just mailed you a letter." I said, "Is that so? Well, I just happened to be coming through, and I'm in the wine business." He said, "Fine, let me see what you have." And based on this, I sold him.

My reason for haste was that I wanted to make sure I got the order first, before other people found out he wanted to buy wine. I sold him a hundred barrels of wine at fifty cents a gallon, fifty gallons to the barrel. From there, I proceeded to New York and made other contacts.

I remember one particular incident: I was wandering down the Jewish neighborhood at dusk; it was snowing; I was looking for people who might be going into the wine business. By referring to the telephone book, I could find people who were in the grape juice business -- that's what they used to call themselves during Prohibition -- grape juice peddlers. And one was Griffler. It was in a sub-basement, and I went down there, and I saw a large number of women bottling wine by hand. I inquired for the proprietor and Griffler, who was an elderly man, came forward and I told him I was there to sell wine. He said, "Fine, let me see your samples. In those days we had no knowledge of processing other than that you would filter the wine, then wait. With age it would clarify and stabilize, and it would take years to eliminate the sediment. So this was new wine that I had, which required filtering almost every day in order to have it clear. So these were samples I had filtered the night before in the hotel room. I showed him one sample. He tasted it, and he asked, "What's the price?"

I said, "Fifty cents a gallon." "Oh," he said, "Oh, no, I don't want any of this cheap stuff -- I only want good wine." I said, "Oh, I'm glad to know that. I have some very good wine here, but it is ninety cents a gallon." "Well," he said, "that's what I want." I said, "Fine." So I pulled out another sample of the same wine, poured it out for him. He tasted it, said, "Well, now, that's exactly what I want." So based on this I sold him one hundred barrels at ninety cents a gallon instead of fifty cents. That's the type of people who were in the business in those days. They didn't know anything about the product, and they judged it by the price.

At that time, immediately on repeal of Prohibition, it was necessary that we sell wine to meet these obligations that we had coming.

I should back-track a little.

I told you how we got the equipment and how we got the grapes. But neither myself nor my brother knew anything about winemaking. We were aware of the fact that when my father made wine at home during Prohibition, the wine started out being sweet soon after it was made in November or December, and gradually became sour, so that in July it was very sour. We knew you couldn't sell wine of that type commercially, so it was important that we make the wine right. Based on this, just as soon as we got the tanks up and just before we started crushing, I went down to the Modesto Library and inquired of the librarian if she had any books on winemaking. And with her help, I looked through the Library and there were none. After all, this was

just on repeal of Prohibition, and it wasn't a very popular subject.

Then she thought, and "Well," she said, "down in the basement there's a stack of pamphlets. There might be some there from before Prohibition."

And she said, "Why don't you go down there and see if there are any?"

I did go down in the basement and went through an enormous stack of pamphlets and found two of them that were published by Professor Frederic T. Bioletti of Davis. One of them was entitled "The Fundamentals of Fermentation" and the other "The Fundamentals of Clarification." So this was what we needed, and I came up and I told her I had found these, and she said, "Well, you're welcome to them." So this was the beginning of our knowledge of the wine business -- how to make wine.

My brother and I then proceeded that year to make wine in conformance with these two pamphlets. As we were ready to ship wine in December on repeal of Prohibition, it happened that some of the old-time winemakers from up around the Napa Valley, men who had been in the wine business prior to the time of Repeal, happened to come through and they saw us barrelling wine, and they asked, "What in the world are you fellows doing here?" We replied, "Well, we're barrelling wine we're shipping east." One said, "Why, this is ridiculous. That wine will never carry to the east. It's too new. It's still in the process of fermentation. It's going to blow the ends out of those barrels." He said, "We're not going to ship our wine. We're going to age it for a year, at least."

We, on the other hand, felt that as long as the buyers wanted it and the wine was sound, we should supply it -- which we did. As a result, we sold the entire output the first year for fifty cents a gallon and more.

These other people up north kept their wine; did not sell it. We developed a very good bulk wine business. From the first year on -- every year since -- we have kept adding storage. At that location on 11th and D Street, we rented a little space from the neighboring lumber yard the second year. We built a lean-to and put up another 100,000 gallons. And each year we added some.

Teiser: What size tanks were you using for aging?

Gallo: Whatever would fit in the building. They were mostly 5,000 gallon tanks, 10,000 gallon tanks. In those days, a 15,000 gallon tank looked awfully large. But we adopted a policy of making the wine and selling it each year. It was good sound common red wine. By 1936 we had approximately 300,000 gallons of storage. In 1937 we built 1,000,000 gallons of concrete tanks at our present location. These were among the first concrete tanks to be erected in the industry.

Teiser: What were you crushing here, mostly?

Gallo: Mostly Zinfandel and Carignane. Those were plentiful types at that time.

Teiser: Were there many Mission grapes at that time?

Gallo: Not many around here.

The bulk wine business, red wine business, very quickly became very competitive, and the prices started to drop.

Teiser: Who were your chief competitors?

Gallo: At that time, in the valley here, the chief competitor was Dan Arena, who had started a winery at the same time in Oakland, and for three or four years we were competing. The Franzia Brothers also had gone into the wine business at the same time, in the bulk red wine business, and we were competing. Also the Roma Wine Company, Italian Swiss

Colony, California Wine Association, (Antonio) Perelli-Minetti, people of that type. Of course, we were the smallest of the lot when we started. Some of the organizations were giant in comparison. For example, the California Wine Association. This was an association of men who were very important prior to Prohibition, who had some money and a great deal of experience and a lot of contacts all over the United States. Roma Wine Company, of course, was founded by J. B. Cella, who found himself on repeal of Prohibition with a million gallons of dessert wine on hand, which means that that was worth at least a million dollars to start with. The Italian Swiss Colony, with a great background of experience and know-how and some capital. These were our competitors when we started. As I say, we adopted a policy of making the wine and selling it each year, turning it over. Each year we made a profit and increased the size of the plant. In 1937, I believe it was, we built out at this location a million gallons...

Teiser: Is this what's known as Dry Creek?

Gallo: Yes. A million gallons of concrete tanks that were put up by Cahill, a San Francisco builder. These were some of the first concrete tanks that were used in the industry.

Teiser: Were they lined?

Gallo: No. They were 40,000 gallon tanks at that time. They were not lined, but the cream of tartar from the wine would deposit on the walls and it formed a coating. And they were quite satisfactory. We liked them better than wood tanks because they didn't leak, and they were not porous, and they wouldn't be contaminated. And in the summer time, if they were empty, they would not shrink and deteriorate. This wine that these people up

north refused to sell in bulk -- it later developed that the market had dropped from 50¢-60¢-70¢ a gallon down to 20¢ a gallon, and we ended up buying their wine that they wouldn't sell at 50¢ and 60¢ and 70¢ a gallon for 8¢ and 9¢ a gallon and blending it with ours down here and shipping it out at 20¢ and 25¢ a gallon.

Teiser: This was the mid-30's?

Gallo: This was '34, '35, '36, 1937. It was about '35 or '36 that we built out here. It was 1937 that we built a distillery here, and that's when we went into the dessert wine business. Prior to that time, we were always in the table wine business.

Teiser: When did the prices fall?

Gallo: Prices started falling about the winter and spring of 1935. About 1937, we made what was at that time the largest dry wine purchase that had ever been made up to that point, and that was when we bought the entire cellar of Beaulieu Vineyards. Old man (Georges) deLatour found himself with around 400,000 gallons of wine which he couldn't sell under his label because he had produced his wine too dry and tart. We bought it all for 20¢ a gallon, blended it with ours to make a very good wine. We started making dessert wine in 1937. We remained in the bulk business for 1937, 1938, 1939.

Teiser: Before you leave this period, may I ask you what your opinion of the prorate was?

Gallo: The prorate came about, of course, because of the industry struggling with the surplus of grapes. At that time I accepted the order without any great feeling. We were paid to make the surplus into brandy, and

we had a distillery. It was a profitable operation. We built a brandy warehouse to house this brandy, and we were being paid for carrying it, which was profitable. The year after, the prorate was terminated and that was perfectly agreeable from our standpoint. In other words, we adjusted ourselves to the time, and we were still relatively very small.

Teiser: What happened to your brandy finally?

Gallo: Finally we sold most of it, like everyone else did (if I remember right) to Seagrams, when the war started. That's what happened to ours, except for keeping a few barrels for our own use, some of which I still have. I have probably fifty cases left at home of this brandy. But that was the extent of that.

FROM BARRELS TO BOTTLES

Gallo: Being in the bulk business, we were selling bulk to various bottlers all over the United States. Although it was a very competitive business, we made money every year.

It was in New Orleans that Franck and Co., bottlers, who were buying from us in bulk and bottling wine, became insolvent because their business was so competitive. I made an arrangement with them that they should give us half the company in exchange for cancelling their debt, which was something like \$30,000. They readily agreed to this. I made the deal, came back to Modesto, and about sixty days later I received a news clipping from a New Orleans paper, anonymously. This clipping was to the effect that Franck was indicted for white slave traffic. I tried to get him on the phone at once and could not, and finally did reach him. He

told me that it was all a mistake, that there was no basis for it, and not to think anything of it. I got to thinking about it -- the man was indicted on a charge, there must be some basis for it, and obviously I wasn't being told what the facts were. And so I hopped a plane and went down there. His trial was coming up within ten days and so I remained for that period of time. He was convicted and sent to jail; whereupon I purchased his share of the company. And that's how we started in the bottling business, by taking over this bottler.

Teiser: What year was that?

Gallo: That was 1939 -- under the brand name of Cream of California, which was the best seller in that market.

Teiser: That was his label originally?

Gallo: That's right. We continued that business.

And then in 1940 in Los Angeles, in selling to a bottler by the name of Distillers Outlet, owned by David Vito and Sam Watt -- they too became insolvent. We made a similar arrangement with them for them to turn over half of their company to us, and we would continue this business and my brother and I would supply them with bulk.

About this time it became apparent that there would be no future in remaining in the bulk business, and we should start developing a brand if we were to build anything. And as a result of that, since we had no one good brand, the natural thing to do would be to develop the Gallo label. And so we designed a bottle that was different from anything else on the market.

It was a high-shouldered tapered quart. Everyone else was using amber glass, and Watt, Vito and I decided to use flint so that the wine could be seen. We designed a label to fit the tapered bottle.

Teiser: Was everyone else using fifths then?

Gallo: Fifths, right. And they were amber. They were using what was known as the traditional amber fifth. This quart, as I say, departed from the tradition. I thought that the consumer would like to see the color of the wine. Wine is a beautiful color, and why not take advantage of its appeal? We designed a tapered label for the bottle and put recipes on the side of the label. Sam Watt's wife was an excellent cook and she prepared the recipes we used. It was an attractive package for the time. We introduced it in Los Angeles.

Teiser: Were you bottling there?

Gallo: Yes, in Los Angeles in the bottling plant where we were half-owners. Hired a sales force of eight men and offered the product to the stores in the Los Angeles market. Now, I think I have a talk I delivered at Stanford that covers a lot of this ground.* Maybe I could give you that instead of my...or would you rather not have it?

Teiser: I'd rather have you tell it because I can ask you questions, if you don't mind.

Gallo: All right. So we started in the merchandising of wine in 1940 in Los Angeles by designing this bottle, this package, and a rack which would hold ten cases.

*See "Building a Sales Organization for Gallo" delivered at the Stanford University Business School February 28, 1963. See Appendix.

Watt, Vito and I designed this rack with an electric bulb behind it that showed the color of the wine to the best advantage. We put these in the retail stores.

Teiser: Who were your suppliers at that time of glass and labels?

Gallo: Owens-Illinois was the supplier of glass. The labels...at that time, I don't recall.

Teiser: These were special mold bottles?

Gallo: Yes. Our own. In thinking the thing through, I concluded that we had to do something that would appeal to the public more than what the others were doing, otherwise we had no chance of getting started. Because at that time Roma was well set, Italian Swiss Colony were established in the market, Petri, Guild Wine Company and C.W.A. were growing. So this new design of bottle, this rack, this label, this uniqueness of having recipes on it, was different.

Then also, why should a retailer carry it? He had all the wine he wanted. I went on the basis of rendering a service to the retailer. Our salesmen would come in and would stock the shelf for the retailer. So this would give us the opportunity, while we were stocking, to get the best shelf. And every week or every two weeks, we'd come back and restock that, and each time we did, we'd take a little bit more space, and in a better position. I felt this: that since we couldn't spend a lot of money advertising, I wanted the retailer's recommendation of our product. I knew he wouldn't recommend it verbally, because he would be too busy and would forget. So I felt that if I put it in the best spot in the store, with the widest spread and our bottles always nicely dusted and clean, this would serve in place of a verbal recommendation by the

retailer. The consumer coming in sees it in the most prominent position and figures, well, this must be what the retailer must think is the best. And based on this, we moved very well.

Teiser: Were you bottling both table and dessert wines at that time?

Gallo: Yes. It was necessary also to do some advertising to have retailer acceptance, because we couldn't afford to sell our wines cheaper than anyone else did.

So we designed a half-page color ad, which was at that time -- 1939-1940 -- something of a novelty.

We produced one ad and ran it in a Los Angeles paper and had tear-sheets made of it, and once a month we mailed this tearsheet to the retailers. Retailers became very familiar with the Gallo name.

In 1941 we decided to shut down the bottling plant in Los Angeles and bottle here in Modesto.

Teiser: You hadn't bottled at all here?

Gallo: No. We started to bottle here just at the time when the war broke out in 1941... just before that.

VINEYARDS, GROWERS AND WINERIES

Gallo: The declaration of war resulted in the government requisitioning the Thompson variety of grapes for raisins. Therefore, the supply of grapes for the wineries was curtailed drastically, and the O. P. A. prices on wine came into effect. The price of grapes (we had been paying around \$15 and \$20 a ton in 1939-1940) immediately jumped to around \$50 a ton. We couldn't get enough grapes for the wine we could sell, because everyone was in the same position. There just weren't enough.

Teiser: All this time you were growing some grapes yourself as well as buying some?

Gallo: Yes. We always owned the vineyard out on the Maze Road, which now was 270 acres. We had the twenty acres I mentioned in Livingston, which was that twenty acres of Charles Millard's. Across, kitty-corner from that twenty acres, there was 160 acres. That general area had very good soil, which sub-irrigated. Water was at about five to six feet below the surface. There was 160 acres which was very good soil, but was infested with morning glory. It was completely covered, and was virtually abandoned. We inquired and found that we could buy it for \$80 an acre. Since there were good vineyards all around there, we knew that the soil must be good, and it was just a matter of trying to kill the morning glory. At that time this was considered quite a problem. Nobody knew quite how to handle it. We reasoned that if we could cut that morning glory below the surfact so that it couldn't get any sunlight, it would die. That just made common sense.

We talked to old man Millard and told him that we thought that we would buy that 160 acres at that price and kill the morning glory and then plant a vineyard. And the old man said, "Look, before you can kill that morning glory it will kill you!" But in any event, we did go ahead and buy the land. We then bought four mules and a weed cutter, put a man on it, and reasoned that if we would have those four mules continuously run this weed cutter over this 160 acres, it would take them about a week to do the whole field, and it would never see daylight because we would be cutting it under the surfact. And that's exactly what we did. In about eight months, the morning glory was dead. And so we had some very fine land at a very nominal cost. We planted a vineyard there; it did very well. This was about 1938.

In 1942-43, grapes went as high as \$120 a ton. We later sold that vineyard for better than a thousand dollars an acre. It was a very good investment.

During the years of '38, '39, we were buying a lot of Thompson Seedless grapes from what was known as the American Vineyard, a 1000-acre vineyard near Livingston. Since we were buying a considerable amount of grapes from this vineyard, we wanted to buy the vineyard. It was owned by a corporation, a land company. We tried to buy the vineyard from them. They were reluctant to sell, but finally did put a price of approximately one-half million dollars for the vineyard. On inquiring around, we found that we could buy control of the company for about that much money, and that they had 5000 additional acres of land scattered around the state, some of which was in row crops and some of it was just pasture land. So we acquired the majority of the stock in the company and then later bought the other stockholders out.

Teiser: That was known also as the Valley Agricultural Company?

Gallo: Yes. We acquired the entire property, and sold off the other properties so that this vineyard ended up costing us very little.

In 1942, when the war was on, it was not permitted to make wine out of Thompson Seedless grapes, so we made raisins by dehydration. We had a dehydrator on the vineyard. Grapes then immediately jumped to \$50 a ton and more, as it turned out. That place since has been expanded from a thousand acres to -- we now have there, including the family -- something like six thousand acres. Last year we purchased 3000 acres

known as the Cowell Ranch -- for \$1,550,000. It is fine river bottom soil along the Merced River. It was devoted to dairying. Several renters had dairies on the place in a very dilapidated condition.

Since the water table was high, it has been necessary to put drainage canals throughout the place. We will start planting this spring (approximately 800 acres. We expect this to be an outstanding vineyard development.

Teiser: Some owned by the company, and some by individual members of the family?

Gallo: Yes. My sons, and my brother's children. We are three brothers, you know. Myself, my brother Julio, and my brother Joe who is ten years younger than I am. My brother Julio and I and our children are the only ones interested in this company. My brother Joe is farming on his own and has six or seven thousand acres of his own, between grapes, field crops and cattle.

Teiser: What kind of grapes do you grow there?

Gallo: Originally in '42, '43, '44, we were planting varieties like Palomino, Mission, Grenache. Most of these have been dug up, including the Thompsons, and we have planted such varieties as French Colombard, Barbera, Chenin Blanc, Ruby Cabernet, Tinta Madeira and Petit Sirrah. And we have produced these after having tested in our own nurseries there hundreds of varieties, and making wine from them over a period of years so that we know that we can get from these varieties a good yield and very good wine. We are now currently experimenting with controlling the climate in growing grapes (we have a twenty-acre tract that we are working in conjunction with the University) and with having automatic sprinklers in the vineyard so that when the temperature reaches a certain point they automatically go on, and this cools the temperature within the berry of the grape; and then when the temperature gets to a certain level, it goes off. Samples from wine made from grapes that have been so grown indicate so far that the results are encouraging; that we can make much better wine by keeping the temperature in the vineyard cool.

Teiser: This then stands in place of irrigation, too?

Teiser: This then stands in place of irrigation, too?

Gallo: No. We irrigate also. The new vineyards we are now putting in have overhead sprinkler systems, but this system is really an atomizer, just above the vine, not intended to irrigate. It creates a mist and goes off and on as the temperature changes, so it is really not penetrating the ground. Last year we purchased three thousand acres of land we call the Cowell Ranch, which we're going to plant with varietals.

Teiser: Where is that?

Gallo: It is approximately 10 miles below Livingston. We feel that the general area of Livingston and north produces grapes that make far better wine than from Livingston south. In the Fresno area, there's just too much heat. And the farther down you go, the warmer it gets. And even though they do plant varietals there, we're not sure yet, at this point, how good that wine is. Certainly varietal grapes down there will make better wine than non-varietals, but as far as the resulting wine, it's better in this area and north.

Teiser: Do you maintain a certain balance between your own acreage and the tonnage you buy?

Gallo: No. We will crush this year somewhere around 650,000 tons of grapes. We will produce only somewhere in the area of 50,000 tons. Some of the vineyards are not yet bearing. But our requirements for grapes are growing at such a rate that we couldn't hope to keep a balance with our plantings. This is why 4 years ago, in an effort to encourage the planting of varietal grapes, we offered a fifteen-year contract to growers, guaranteeing them a minimum of \$75 a ton or the market price, whichever

is the higher, if they would plant the varieties that we feel are the best for the wine business.

I see more opportunity in more areas in this wine business, today, than ever before. Today, between this Modesto plant and the Fresno plant and the one in Cucamonga, we have something like 135-million gallons of capacity, and before the year is out we will have approximately 165-million gallons. Last year we built a new fifteen-million gallons winery at our vineyard in Livingston, which is included in the above figures.

The industry is expanding because we have learned to make the type of wines that the consumer is considering beverage wines. Now they can drink them because they enjoy them. Twenty years ago, or even ten years ago, most California wines were an effort for most Americans to drink unless they were people who had been drinking wine for a long time. If you remind me the next time you come, I'll have someone take you through the plant. We just completed construction on that new building you see as you come in. That's a new research laboratory. And really, they do some fantastic work there in developing new products and improving the products we have. Our wines today are far better than they were ten years ago; this requires more grapes and better grapes. That's why some years ago we started swinging heavily in our own vineyards towards varietals.

Teiser: Earlier, had you offered some inducements to growers?

Gallo: Only higher prices. After all, in addition to the land today, it costs from \$1000 to \$1500 an acre to bring a vineyard into bearing. So, as a result of this, we did not find many growers planting -- or planting in the

volume we need. So we offered this plan to encourage planting. The industry is growing so fast that we must have more plantings, and quickly, if we're to maintain the same quality. And this we'll not compromise with. Therefore, with regard to the grape segment of our industry, we must encourage the grower to plant better varieties...and quickly, if it wants to meet the demand.

Teiser: These varietals, are they lower yielding?

Gallo: They're somewhat lower, but it's surprising how the varieties we've chosen do yield respectable tonnages. They'll yield seven, eight and nine tons to the acre, and some will -- under extremely favorable circumstances go as high as 10 tons. And they make surprisingly good wine.

Teiser: They're much lower yielding in the northern counties?

Gallo: No. This is a misconception. Fifty, forty, thirty years ago, when it was all those hillsides that were in grapes where the work was done with a mule or by hand, those grapes bore two, three and four tons to the acre. But since then, growers are planting the flat lands and lowlands, and they're sprinkling, and now they're getting seven, eight, nine tones to the acre.

Teiser: You have bought grapes from those northern valleys, have you not?

Gallo: Yes. Well, we have long-term contracts with a number of wineries in Napa and Sonoma counties. At the present time they are the Napa Valley Coop., the Sonoma Coop., Martini and Prati, Frei Brothers and Guild-Ukiah.

Teiser: Do you crush them here?

Gallo: No, No. They crush there at their plant, and we have long-term contracts to take their wine. They make the wine under our supervision.

Teiser: Do you use them for blending or do you use them by themselves?

Gallo: Both. Some wines we put out are straight north coast county grapes, wines from there. And some are blended. How did this come about?

Going back to the time that I had mentioned, as much as twenty years ago, in order to improve our quality, we didn't use those wines either by themselves or to blend. That area was not doing well at that time; and so we rendered, I think, a great service in that area.

When we went up there, grapes were about \$50 a ton, and they didn't have a home. Those cooperatives were on the verge of bankruptcy. We made these contracts and we steadily have increased their prices until this last year (1970) we returned the grower around \$250 a ton for their grapes. And as a result, whereas there was a period there twenty years ago and fifteen years ago that grapes were being dug out, now they're planting again. And, on the other hand, though they are planting on the flat lands and lands that previously were considered of marginal value for grapes because the quality would not be as good as it is from the hillsides -- because of all the economics, they're planting in the flat lands now.

Teiser: Are they finding the quality better than they anticipated?

Gallo: Somewhat better, but not as good as from the hillside. But if you can't get them from the hillside any more, if they've stopped farming those lands, then the next best thing is the valley. So I think that the price of grapes up there now is such that there's going to be accelerated planting. They're digging up old prune orchards and other things and planting them to grapes. And certain varietals, the better ones in the

better locations, are bringing around \$500 per ton in 1970. Of course, the heavy frost had a lot to do with it.

Teiser: If the prices keep going up, perhaps they'll go back to the hillsides.

Gallo: I would really doubt it, because if you can produce only two and three and four tons to the acre, it's impractical with the high labor costs...and the high cost of planting grapes. I don't think so. Except in some small, isolated instances perhaps it may occur, but generally I would doubt it. With the proper varieties that we have developed in our nursery and tested, the areas of Lodi, Modesto and Livingston produce really respectable wines.

Quality and Mechanization

Teiser: Do you supply plants or cuttings to growers?

Gallo: Yes. We make them available to growers. We also have a grower relations department, which is a staff of men who, during the growing seasons, call on our growers and observe their cultural practices, advise them when it's time to cultivate, advise them how to prune, advise them when to spray and advise them when to pick.

Teiser: When did you start that?

Gallo: We started that about seven years ago.

Teiser: Were you the first in the wine industry?

Gallo: Yes. As far as I know we are the only ones who are doing it today. This is to our interest because we want the grower to produce the best type of grapes that he can, which is reflected in the quality of our product.

Teiser: This is the same type of program, I suppose, as your research lab.
This is a parallel sort of effort.

Gallo: Yes. It's a program, really, of improving the quality of our wine.
And whereas technicians can today improve quality immensely over what we did before, still they can only go so far. You have to start with the grape. Unless you have good varieties, properly grown, properly developed, why you're just not going to produce that quality. And I feel that the quality of wine that we sell is really remarkable considering the volume that we produce.
For instance, we don't sell to restaurants, although we sell better than about 40% of all the wine sold in California, and one-third of the California wine sold in the United States is ours. In other words, one bottle out of three of California wine that's sold in the United States is ours, and one bottle out of every four of all wine sold in the United States is ours. Still, we don't sell to restaurants and hotels. As a result, when I'm in restaurants and hotels, I order the wines that they carry, which are termed premium wines. I find that I have to be very careful in picking those wines to find one that I can enjoy, whereas my wines are always clean, fruity, fresh, pleasant. There are a few wines that these other people produce that are better now, certainly. Louis Martini may have a Cabernet Sauvignon and he may have a Johannesburg Riesling, but when you leave those, I would rather drink our wines. And the same way with perhaps Krug. They may have a great Chenin Blanc...they may have a great rose' -- but the rest, I'd just as soon drink ours. And when I get to Almaden, it's one or two wines. I don't know of any wines that Paul Masson has that I think

are better than ours. I think ours are better than theirs.

And so it goes.

First of all, I think I am objective. I mean, I can afford to be. But it might be that being in the business, my sensory keenness or awareness is such that I can detect in those wines the things that the layman can't. For example, in many of those wines I get a musty flavor...an off-flavor --a contaminated, unclean taste. You see, they use mostly wood tanks. Wood is porous. Bacteria impregnates those pores. That's why we went to steel. The inside of our tanks are lined with plastiglass. After all, you're filling and emptying these tanks. Air gets to them. If you use a detergent that is powerful enough to cleanse the bacteria in the pores of wood, your wood's going to disintegrate.

Teiser: They use sulfur, don't they?

Gallo: Yes...yes, they do.

Teiser: And you don't have to use that?

Gallo: Yes, but very much less than other producers. We are very sensitive about the use of sulphur. In wood, as a result of emptying and filling, emptying and filling, over the years bacteria develops so that the wine has an off odor and flavor. And to me, since our wine is always clean because it is stored in plastic lined tanks and not contaminated in any way, most wine stored in old wood tanks is unpleasant, tastes unclean...and that's exactly what it is, unclean.

You know, years ago, people used to marvel at the winemaker who could sit down and taste wines and tell you whose they were without seeing

the label. Well, it's not that great a trick. Because each of these wineries that use wood has developed an off-taste of their own, because there are different bacteria in each plant. And that's why we recognized this long ago.

We discontinued wood soon after concrete came along, because it was better. We had beautiful redwood tanks, 60,000-gallon tanks, some of them were only two and three years old. We tore them right out and put in concrete. As soon as the steel tank proved to be feasible with the proper linings, we tore out the concrete and put in steel.

Teiser: What kind of lining do you use?

Gallo: We use a synthetic plastic lining in these tanks, which we apply ourselves. We're building tanks all the time, so we have a crew that's constantly putting this lining on. As far as transporting, that is moving the wine from one tank to another, we use stainless steel or glass pipes.

Teiser: I think you said you did not develop this type of tank here?

Gallo: My recollection is that J. B. Cella, at Reedley, used three steel tanks for grape juice at that time. And this is where we got the idea that it was feasible to use them for wine, and we started putting them up. This first tank you see up here (pointing out the window) is a million-gallon tank. That's the largest in the industry. And the rest of these are 600,000-gallon tanks.

Teiser: Is a million gallons too large? Why have you so many 600,000-gallon tanks?

Gallo: For flexibility. We have also some 400's and 300's and 200's. It's a little more flexible size. Our plant in Fresno is of almost similar size, except we don't bottle down there. And they're mostly 600,000-gallon tanks.

Teiser: How do you protect them from the heat?

Gallo: Dessert wines do not require protection from the heat. The steel is exposed. Those that have table wines in them are insulated, and the wine is refrigerated in the tank.

Teiser: Did your plant engineers work on these or did they work on them with other engineers or...

Gallo: We have a very skilled engineering department. Most of the ideas are their own. But they obtain ideas from other industries and adapt them if necessary. They produce some of our own equipment. Or, they buy equipment and adapt it.

Teiser: You have not used the Rietz disintegrator for crushing, have you?

Gallo: The disintegrator, no. We tried it for part of our production some years ago and discontinued it.

Teiser: Why?

Gallo: Because disintegrating this mass might be satisfactory for distilling material, but for wine it imparts too many unpleasant flavors. For example, we were the first to experiment in developing a mechanical harvester for picking grapes. And we spent, about three years ago, something over \$250,000 in developing the machine. The principle was a vacuum. It would, with a large hose, suck the grapes right off the vine and into a tank. The problem is that it worked too well. It not only sucked the grapes, but the leaves along with it. And when

they arrived in the tank, it was a slurry of grapes, of grape pulp, and juice and leaves. We were unable to find a way of separating the leaves from the grapes, and we turned the whole project over to the University of California for them to see if that could be perfected.

We've experimented also with these other processes that are being used -- of shaking. We're hopeful. In fact, we have one of those machines. Up to now it accounts for a small part of our harvest.

We're still picking mostly by hand.

We were one of the first to agree to have our vineyard unionized.

When we were approached by the union organizers, we were glad to have them organize our help. I have felt for a long time that the grape laborer has never received his fair share of income. I was raised in the vineyard. I know what it means to get up at three in the morning and sulfur grapes and spray and cultivate and prune, and as a result I can't reconcile a man working in the field in hundred degree weather in dust and dirt, doing hard physical labor and receiving, like they were here only a year or so ago, \$1.25 an hour, when the women we have in our bottling room in white smocks, sitting on a stool in an air-conditioned bottling room looking at bottles go by are getting \$2.75 an hour. There's just something wrong. And I just can't reconcile the two. And I've always felt that field labor should get a lot more money. We've always paid our field labor more than the prevailing wage. However, that still was not nearly what it should be. And as a result, when the unions came by -- that is, the organizers came by -- why, we told them we were quite glad to have them organize the help. And as a result of this, I've been in favor of this movement

throughout California to organize the grape laborers. This is contrary to most people in a similar position to mine. I'm glad to see that they're starting to make some progress in organizing field labor. So this is a movement I'm very glad to see from a humanitarian standpoint. Well, so much for that.

Adding a Bottle Plant

Gallo: Shall we go into the glass plant? We'll probably just have time to cover it. We went into the bottling business in 1940.

Teiser: This, I'm told, is something the whole industry is grateful to you for.

Gallo: Yes, we helped to hold the price of glass down. As I stated, we went into the bottling business in 1940. Our business continued to grow. I always had been a believer in buying all your requirements of a given item from one supplier, just as we used only one railroad. Since we've been in business, all of our traffic has gone on Sante Fe Railroad. I've always operated on the policy of making our business important to the supplier. If we split it among many, we would not be important to any. So we were buying all of our glass from the United Can and Glass Company of Oakland, which was owned by Norton Simon. I found that every year we were receiving glass price increases. They would receive a small labor cost increase and they would increase the price of glass substantially. Every excuse to keep raising the price of glass. And we had become rather important users of glass. By 1955,

1956, 1957 we were using a lot of glass. We had reason to believe that we were using most of United Can and Glass's output at that time. So we undertook to make a study as to how much it cost to make glass. From the figures we could gather, the cost of sand and the cost of soda ash and how much gas and heat you would need and all that, it seemed to me that they were making a rather substantial profit and that their increases, periodically, were unjustified. As a result of this, we set about to inquire as to the cost of a plant, and got prices, and were able to project what savings could be made by establishing a plant of our own. And with this, we were able to, at that time, prevail upon the bank to loan enough money to build a glass plant. And the savings were in accordance with the projection.

Teiser: Is bottle making equipment difficult to buy? Is it closely held?

Gallo: It's not difficult to buy. It was at that time made by the Hartford Empire Company in Connecticut. There are others now making glassmaking equipment. There's something about the know-how that is foreign to most people. So it was necessary first of all to get enough money to build the plant, secondly to have it engineered to be an efficient plant, and thirdly to get the know-how. All of which we accomplished. And from the day we started the plant, it operated perfectly. We had everything planned and timed that well. We built the first furnace in 1958, and about four years later we had outgrown its capacity and built another furnace of equal size. In 1970 we built a third furnace, whose capacity is just a little less than the other two combined.

we have never made glass for others. The plant is operated continuously for our own use. We normally carry about a million-and-a-half cases of full glass -- full bottles -- ready for shipment.

Teiser: Do I remember something about your developing your own type of glass?

Gallo: Yes. At the time that we determined we should go into the glass business, we had a contract with United Can and Glass for our requirements. I called on Mr. Simon and asked that we be released from the contract, which he refused to do. They were making flint bottles; our contract called for their making all of our requirements of flint bottles. My approach to him was that since I had developed his costs, I wanted a substantial reduction in the price. This he refused to do. Whereupon we put our research people to work to develop a different type of glass with the objective of developing a bottle which would lengthen the shelf-life of our product. And, from our studies, it was the ultra-violet rays which get through which cause the wine to deteriorate. And so through our experiments we found elements that we could add which would obstruct the ultra-violet rays getting through the glass. And these gave the bottle a green color. So we gave it the name of Flavor-Guard.

Teiser: Is this a proprietary formula?

Gallo: It's no longer a proprietary formula. The name is proprietary. So instead of using flint any more, we wanted this type of glass, and we could produce this ourselves because our contract didn't cover it. And we produced this glass at the outset.

Teiser: Did you fulfill your own requirements from the beginning?

Gallo: Right at the outset. The plant was designed to be larger than our requirements. As a matter of fact, it took us four years to get to the capacity of that plant.

Teiser: As I said, as I understand it, the industry feels you have done a benefit to everyone.

Gallo: Well, when we put up that plant there were no longer any price increases. As a matter of fact, there was a decrease or two. So we did to that extent benefit the industry. Well, the same way that Petri benefited the industry when he put up his tank ship. He built this tank ship, and based on that, freight rates stopped going up. And as a matter of fact, we got some freight reductions. (Laughter)

An Historic Maneuver

Teiser: Were you in on the beginning of the Wine Institute?

Gallo: No.

Teiser: Did you approve of it in the beginning?

Gallo: Yes. At the beginning we were, as I said, very small. Very, very small. And I was a youngster. We went into business when I was twenty-four years of age. And it was all these old-timers who organized the Institute. We didn't join the Institute. We didn't join the Institute until five or ten years after it was organized. And then I became actively interested in it. Served two years as chairman of the board.

Teiser: Did you find that an interesting experience? To serve as chairman of the board?

Gallo: Oh, only as you would...

Well, I could tell one experience before I was chairman of the board.

That was quite some time before that -- just as a younger member.

Let me backtrack.

When we decided to go in the bottling business and moved it up to

Modesto, then the war started. As soon as the war was over, I think

that was 1945 -- that crush -- all grapes became available.

Just before the war started -- 1939 or 1940 -- Schenley had bought out

Roma. And when the war started, as I have said, the grapes became

short, wine was short, and it wasn't a matter of selling wine any more,

it was just filling orders. Schenley had taken advantage of the situation

and required retailers to take large quantities of poor table wine, table

wines that they didn't want, in order to get whiskey. Lewis S. Rosenstiel

got the idea that marketing wine was very simple, and he was going to

monopolize the wine business. So the first year that grapes became avail-

able, he set out to try to buy most of the grape supply and make the wine

for his Roma. He employed wineries all up and down the state to make

wine for him. But he made a fundamental error. He paid these wineries

a fee for making the wine, and authorized them to go out and pay whatever

they had to pay for grapes. He didn't give them any ceiling. So these

wineries started bidding against each other to get as many grapes as

they could since it didn't cost them anything. And as a result he drove the

price of grapes on himself up to \$120 a ton.

We started buying grapes at \$60 a ton at the beginning of the season

like everyone else, and the price during the season kept going up.

When it got to be \$120 a ton, we felt that it was way out of line, and immediately started selling bulk wine. As a matter of fact, the few grapes we had left, we sold them at \$120 a ton, too.

Bulk wine had gotten to \$1.40 and \$1.50 a gallon. This was in November and December of 1946. It appeared to us at that time that this price was unrealistic and, as a result, proceeded to sell all the wine that we could at around \$1.40 a gallon. By the following July, bulk wine -- that is, bulk dessert wine -- was down to around fifty cents a gallon. That year Roma, which was owned by Rosenstiel, lost \$18-million in the wine business. As far as I know, we were the only ones in the wine business who made any money that year.

The Dry Creek Winery Complex

Teiser: Would you repeat what you said just now, before I started the recorder, about this building?

Gallo: With reference to this administration building, we were in considerable need of a structure of this type some years ago. We had outgrown the old offices, which were housed in the small winery building that we built in 1937. We had removed the tanks that were put in there and converted it to an office building. The first offices in that building were just a small portion of the building, but as the business grew, we removed tanks and added offices and also the laboratory. We attempted to buy the property that this building is on, which is approximately 60 acres, from the people who owned the site over the last ten years. However, they constantly refused to sell the property

to us, as they saw that we were increasing the size of our installation across the street. We were expanding every year, and as a result, they felt the day would come when we would have to pay a rather high price for this sixty acres. Of course, they were right.

I can still remember Dave Arata, who, between him and his family, owned the sixty acres. Every few months this gentleman would come over, look around, and note that we had put up a few more buildings or a few more tanks, and would break out in a grin and say, "Well, you won't be able to keep this up very much longer without buying my property."

Negotiations over the ten years were fruitless. This delayed the construction of the administration building. We finally felt that we could not buy the sixty acres, and being pressed by the need of a building, proceeded to buy just across the railroad track, east, eleven small businesses that were situated on seven acres, in order to provide an area on which we could build a building. We purchased each of these businesses and tore their buildings down (except for one which currently houses our cap producing facilities) and cleared the tract. Had the building designed to place on that piece of property. On the day before we broke ground there, my son David came to me and suggested that we try once more to buy the sixty acres, because it would be a far better site for the type of building that we had in mind. As a result of that, Julio contacted Dave Arata again and pointed out

that the new site for the new building had been cleared, that if he were to sell his property to us, it would have to be on that day. Otherwise, if we broke ground the following day, it would be too late. Based on this he agreed to sell, set a price of something in the neighborhood of \$8000 an acre, and we purchased it. This was a rather fortunate situation because the building on this site is much better than it would have been at the other location, which would be overseeing neighboring small businesses and a residential area.

Teiser: How much acreage did you have here before you purchased these...

Gallo: Before we bought this sixty acres, between the glass plant and the winery and the cap plant, there was approximately 100 acres.

Teiser: The acreage you bought where the small businesses had been, is that where your new laboratory is?

Gallo: No. There's one building in one corner left there which is being used for the cap plant, where we manufacture caps for our bottles. And the rest of it is being used for parking area.

With reference to this building, we felt that because our plant is industrial in appearance, with all large steel tanks in the open, which has the appearance of an oil refinery, we needed some type of effort to humanize the appearance of the organization and to give it a feeling of warmth which would help to improve the image of the organization to visitors and the public. With this thought in mind, we set out to try to get an office building that would help to tend in that direction. We employed five architectural firms at a fee for each to develop a schematic idea that would suit our purpose from the standpoint of appearance, image and

functional aspects. On receiving the five ideas from the architects, we discarded them all because we did not feel that they would adequately serve the purpose. As a result of this, people in the organization just sat down with me and we developed the general idea of this building. We have very creative people in the organization. One of them is Albion Fenderson, who has been with us for sixteen years and is an executive vice-president in charge of marketing, another is Howard E. Williams, who is the vice-president in charge of marketing services, and my brother, Julio, who is in charge of production. These men are particularly creative, and together we developed this general design and then gave it to the architectural firm of John Bolles of San Francisco to execute. I feel that John Bolles did a good job in executing the idea. The palm court, the pools and the landscaping were done by Donald Crump, from Stockton, whom I consider a highly qualified man. He's done all the landscaping at my home.

Teiser: You mentioned to me the other day that the land was contoured.

Gallo: Yes, this site was originally flat, but Crump induced us to do a great deal of contouring which, in my opinion, is all that he promised us it would be. As a sidelight, when the building was designed and under construction, the matter of furnishing the offices came up, and there were some who took the position that, as a matter of course, a business office would be one in which all the executive offices would be furnished and decorated pretty much alike; that an industrial decorator should be employed who would lay out the offices to be fundamentally the same -- same carpets, same type of desks, same type of wall covering, window shades, etc. Those who advanced this thought felt that this

was the normal thing to do in offices, and also it had the advantage that when visitors walked down the hall all the offices would be in harmony; they'd all be the same. After giving this matter some thought, it occurred to me that all the executives in this organization put in long hours of work, and they're all very different people.

And a lot of them are very creative. And that therefore each of them should be given a budget and allowed to decorate and furnish his office to suit himself. This was done and everyone is particularly pleased about it. Examining each office indicates a different personality.

And, as a matter of fact, what few visitors we have find it a matter of particular interest to see how each office is different. Not that it makes any real difference what the visitors think; the more important thing is that each one who's working is working in an atmosphere in which he is most comfortable and most happy.

The outside of the building is concrete in which we have added ground glass from our furnace. As a result, it gives the surface a texture and appearance that is different from anything else that you will see. There's a little green tint, which on close examination is, I think, rather interesting. So much for the building.

Teiser: Let me ask how long you've been here.

Gallo: We've been in here now three years.

Teiser: I believe you lend it at times for public use?

Gallo: Yes. Periodically, civic organizations such as the Art League and the symphony and organizations of that type want to put on a benefit or want to exhibit the work that they are doing. On certain occasions we

do permit them to come and use the palm court, and it has attracted a great deal of attention. All of these functions draw many, many times as many people to them when it's known they are being held in this building.

Teiser: Do I remember reading that your firm is the largest employer in the Modesto community?

Gallo: Yes, I believe we are.

Teiser: It seems to me I read that you feel a responsibility toward the community...

Gallo: My brother and I, of course, were in Modesto all of our business lives, and as a result, we feel Modesto is our home and are pleased to do whatever we can to have a business here which the community can consider as theirs, too. There's a closer relationship between my brother and I and the community, and the community and us, than you normally would find in another area. We find that -- at least, we believe that -- people in the community are glad to have this organization here, and we, in turn, of course, find this a very satisfactory place to be located.

Teiser: Before we leave the subject of your buildings here, the new laborabory seems to me a building of some architectural distinction, too.

Gallo: The architectural distinction of that building to me is not a favorable one. I feel that it turned out to be a little low and squatty and heavy in appearance. As a result, the landscape architect, Donald Crump, is

contouring the foreground there in an attempt to soften up the appearance of the building. As far as the building itself, it's built in a horseshoe shape. Getting around through the back, there's an open court there that's going to be developed. We've only occupied that building since the first of June. As a result, the landscaping is in a process of being developed at this time.

If I haven't already so stated, that laboratory and research building is really unique, both as to the work that's being done there and its size. As far as the wine business is concerned, no winery in the world except ours has a structure of that size devoted to winemaking analysis and research. Nor does any other winery in the world have as many people spending their time with such fine equipment, developing new products, new wines, and improving those we have. The number of personnel in that building is about eighty. And each class of wine we have has a separate winemaker and his assistants. And each winemaker has his own private laboratory, as well as access to a large analytical laboratory equipped with very sophisticated pieces of equipment.

Teiser: Some of that equipment you developed?

Gallo: Some of our personnel have developed some of the equipment, and some they have adapted to our particular use --that is, to be used for wine.

New Techniques and New Wines

Teiser: I believe some technical articles about that work have come out?

Gallo: Yes. Our technicians are constantly putting out articles on the development of their new techniques and new findings that they make available to the industry.

Teiser: This brings up the point that, as I gather, you feel not only a desire to share certain things with your community, you also seem to feel a desire to share things with your industry in this way.

Gallo: That's right. Our technicians do attend industry functions and meetings at which they participate in seminars and discuss some of the things that we are using and how we are using them. We feel that the wine industry will grow much faster if everyone's wines are improved. We feel that the wine industry is growing very rapidly in recent years because the product in general has improved tremendously over what it was twenty-five years ago. At that time, wines were being made like they had been made for centuries. And there were few people who really drank wine and enjoyed it, except some of the Italian, the French and the German, who had been raised on wine. As far as those who had not been raised on wine, the greatest consumption was among those who were drinking dessert wines for alcoholic reasons, that is, drinking it for the alcoholic content. But with the advancement of the technique of making wine, improving such wines as burgundy, sauterne, port and sherry, the consumption of these wines has steadily increased. In the last ten years our attention and effort has also been directed to producing new types of wines that can be drunk more readily, that there's a desire for, that don't require a lot of previous wine experience to enjoy. These new wines can be classified as beverage wines -- wines that you can drink with your meal, wines that you can drink between meals. They're not high in alcohol. They're under 14%, usually averaging from 11% to 12-1/2%, and have a very pleasant flavor.

Teiser: Which wines are you speaking of?

Gallo: The ones I'm speaking of are wines such as Ripple, Pink Chablis, Boone's Farm Apple, Spanada and some of our champagnes, others that we have in development that we will launch before the year is out -- wines which it doesn't take any getting used to. I mean, you like them as soon as you drink them. And this is the area that is literally exploding.

Teiser: These are carbonated, are they? Crackling?

Gallo: Slightly. Let me put it this way: Yes, carbon dioxide has been added, but this is only one feature of the product.

Teiser: Whose concept was this originally, to introduce new wines?

Gallo: As far as new wines, they started, I believe, with Thunderbird. The wine itself not only was the first non-traditional wine, but the name Thunderbird, too, was the first non-traditional name used in the industry. This was Albion Fenderson's idea of a name for the product. It was this organization's idea, and that did not require a great deal of imagination. We observed in the market place that people were buying white port and adding concentrated lemon juice, which to a wine man was shocking. To take a wine we thought we had produced with great care and to find black consumers dumping a can of concentrated lemon juice in a bottle of our white Port and drinking it and thinking it's great...! As a result of this, we put this idea into the laboratory and had them produce something which was much better and that we could turn out and satisfy that type of flavor characteristic, which was obviously very desirable. The idea of Ripple came as an aftermath of our having tried to produce a light-alcohol, carbonated drink, which could be drunk as a beverage.

This we first tried in a product that was made of apples at about 9% alcohol and carbonated to five atmospheres, which we introduced and called Scotty. This was placed in a small 6-2/5-ounce bottle with a crown cap, that looked like a bottle of beer. This failed. I feel that it failed because it came a little early and our technical know-how was not up to developing a product that would meet with consumer acceptance.

We weren't able to develop a characteristic in that wine that would enable a consumer to continue drinking it. As I recall it, you drank a few ounces and it became satiating. You couldn't continue drinking it. You didn't feel like drinking a second glass.

I know many winemakers have many different ways that they will judge a wine. I simply judge a wine by pouring a glass and drinking it and seeing whether I enjoy drinking it all, and if I want another glass. If I feel like another glass and have a desire for it, to me it's good wine. I'm not too particularly interested in how deep the color is and how pronounced the bouquet is and how high is the total acid and how low is the sugar. To me, is it something I enjoy drinking and want more? If so, then it's good. And if it's not, I don't think it's good, regardless.

But, profiting from the experience of Scotty, we developed an all-grape wine that we called Ripple. We started by putting it out in tenth-size bottles. The Wine Institute had succeeded in changing the regulations so the law permitted the addition of five pounds carbonation without paying the carbonation tax. We introduced it. We spent a great deal of money advertising it. In most markets, it did not go. It did not generate volume except in Los Angeles, where there was a small but steady

demand; and we continued supplying that. Then about two years later, through the Wine Institute, we succeeded in changing the regulations so we could have seven pounds, or seven atmospheres, of carbonation instead of the five, and this materially improved the taste of the product. We also, during this period of time, improved the drinking characteristics of the product. And it started to grow. We had it in both red and white. Ripple Red and Ripple White. With stepped-up advertising, Ripple has been growing very rapidly in the last few years. And just a few months ago we added a third item to the line, which we call Pagan Pink. Now, we are changing Ripple White to a pear-based product instead of grape. And these three are being promoted throughout the country. This year Ripple will be twice our Thunderbird in Volume. It's growing very rapidly.

Teiser: I believe it was Dr. Maynard Joslyn that said that you had put the first rose wine that wasn't a premium wine on the market. Is this correct? I'm trying to recall. We certainly were either the first or simultaneous in coming out with a rose. It was a fairly obvious thing to do. What we did introduce a few years ago was a new pink wine we call Pink Chablis. This name was the suggestion of Richard Witter. Pink Chablis was an idea that was developed here. The name was unique and provoking and fitted a lively pink wine very well. We introduced that and it has become a very popular wine. And we find that people who never drank Gallo before found this wine particularly pleasing, and it has been something that they apparently are drinking in considerable quantities.

Teiser: Is this in the special mold bottle, like the Rhine Garten?

Gallo: No. You're thinking of the decanters. The Pink Chablis is in the regular Gallo fifth bottle and half gallon.

Teiser: You were testing, I imagine, a wine that I liked very much, called Rose Naturel?

Gallo: Yes. Well, we were at that time experimenting and testing. My brother at that time felt that a good pink wine should be dry, and people who normally drink wine, who are accustomed to drinking wine, tend to like their wines a little bit on the dry side. He felt that there would be a market for a wine that was a little dryer for those people who do drink wine as a regular course. We tried it, and it was a very good wine, except that we couldn't generate any volume. There are not enough people who appreciate a wine as dry as that. And it was the forerunner of Pink Chablis. With some slight changes in the blend, and a little less sweetness and zero pounds of carbonation and aggressive advertising, it turned out to be a product that had instant acceptance.

Teiser: The Rhine Garten, that was another "invention" of yours?

Gallo: That's right. Howard Williams came up with that name. That was a new fruity white wine, just slightly sweet. A better term would be "not dry." In the decanter bottle, it has proved to be very successful. The decanter bottle was designed by Howard Williams. This bottle increased the sale of Rose', Rhine Garten and Chianti of California dramatically. It's wine such as these -- the Pink Chablis, the Rhine Garten, the Rose', the Ripples, Spanada, Champagne and Boone's Farm Apple -- that have vastly expanded this wine market. These are all wines that you can drink in quantity.

The surprising thing about these wines is this: even those who at one

time preferred the very dry wines are now drinking these wines that are not dry and seem to enjoy them, just as some people who before have drunk only very sweet wines are now drinking these wines that are almost dry and enjoying them. It seems that you can develop a taste, and if you drink a product repeatedly, your taste tends to adjust itself to that measure of sweetness.

Teiser: Have you done any kind of taste testing beyond your own staff on these?

Gallo: Yes, we have a research department here which uses panels both in San Francisco and Los Angeles for any new products, to sample them. Also, any new package, any new bottle, any new label, any new name that we put through, in order to assist us in determining what to do.

Teiser: Do you see the future as involving many more types of new wines?

Gallo: Yes. As I said a few moments ago, we have some new wines that we've developed which we think are just great.

Teiser: You were speaking of the government regulations on carbonation. As I remember, there has been some discussion in the industry about the possibility of government regulations being changed so that wines of a lower alcoholic content can be marketed.

Gallo: Oh, I think what you must be referring to is the dessert wines -- lowering the State of California standard from 19% to the Federal standards of 17% on Sherry and 18% on the other wines. Yes, there's been a considerable amount of industry discussion on this, and it now has occurred.

Teiser: I think what I had in mind also was that Dr. Joslyn said that Italian Swiss Colony had attempted to market a 3.2% wine and that it had failed. But I think he said that there was still some interest in a very low alcoholic content wine that would be served quite freely.

Gallo: Well, we attempted something like that with Scotty. When did Swiss Colony try that?

Teiser: 1932 or 1933, I think.

Acquisitions

Teiser: What was the winery called Las Palmas that you acquired?

Gallo: Las Palmas Winery was the Cribari Winery at Fresno, which we bought in 1953. It was owned by the Cribari family. They had gone into bankruptcy. They were operating under Chapter 11, and we acquired the property. One of the valuable assets was a loss carry-forward of \$1,400,000, which we could use. The winery at that time was approximately four million gallons, as I recall, of wooden and concrete tanks. Since then, we have removed everything that was a part of the winery at that time and have replaced it with new and modern equipment. That plant now, with this year's additions, will be about sixty-five million gallons in size. It's very well laid out and produces an important part of our requirements, there in the Fresno area.

Teiser: When did you acquire the Cucamonga winery?

Gallo: In the year of about 1959, we purchased the Bartolomeo Pio Company, who were bottlers of wine in the state of Pennsylvania, and who had a winery in Cucamonga of approximately two million gallons. We purchased the production winery in Cucamonga as well as the bottling

plant in Pennsylvania. We dismantled the bottling plant and converted the labels of Pio to Gallo and made shipments from here in Modesto into the state of Pennsylvania. The Pio brothers, Albert, Elmo and Eugene, are still our representatives in the state of Pennsylvania. Some time later, I believe it was in 1961 or thereabouts, we bought out a bottler in Indianapolis by the name of Melody Hill. The owner was Marvin Laskey. We also dismantled this bottling plant, converted their labels to Gallo, and bottled here in Modesto.

Teiser: Was there vineyard land involved in the Cribari purchase?

Gallo: No, just the winery itself.

Teiser: The Cribari family has gone on, has it not, in the wine business?

Gallo: One of the sons has remained in the wine industry and is now employed by, I believe it's Paul Masson.

Teiser: Doesn't someone use that label?

Gallo: Yes, that's owned and used by Guild. But when we bought the plant we did not buy the labels that they had.

Concepts and Practices

Teiser: It was my impression that at one time you put everything under the Gallo label and then -- maybe I'm wrong about this -- other times since, you have used other labels.

Gallo: Yes. When we started bottling (and that was caused by our buying those bottlers that we were selling bulk to) we converted the brands they had to Gallo, and we promoted Gallo through the years.

Teiser: This is an unimportant detail, but for the record, an article in the Modesto Bee of July 24, 1954 stated:

"E. & J. Gallo of Modesto have sold the 240 acre vineyard included in the holdings of the B. Cribari and Sons winery near Fresno to Clyde Paschal Pitts of Fowler ... and Floyd Roberts Kerman, Fresno County. The Gallos purchased the winery in May for a figure in excess of \$1,000,000. The vineyard property was sold for more than \$100,000."

Is this correct?

Gallo: Yes.

Teiser: Did you once have a "Gourmet" brand?

Gallo: We never did develop that. We toyed with the idea of a different brand at a higher price, but never have proceeded with the thought.

Teiser: You've never marketed a premium wine?

Gallo: No. About 1962, we developed a lower-priced line of wine that we called Red Mountain, or Carlo Rossi Red Mountain Brand.

Teiser: Where did you get the name?

Gallo: There was a Red Mountain Winery up above Oakdale. We did not own it. They closed during Prohibition. We just used the name.

Teiser: And who was Carlo Rossi?

Gallo: Carlo Rossi? There's a gentleman working for the organization by the name of Charles Rossi, and it sounded like a name that we could use for the purpose.

Carlo Rossi has developed into rather a substantial volume. It's currently being sold only in California, and yet the Carlo Rossi Red Mountain table wines are filling a need for a low-priced, good, sound, table wine. Burgundy, Sauterne, Rose. It's something that people buy in gallons, and it's of good quality for the price.

Teiser: That's your only other label then? (Note: what about Eden Roc?)

Gallo: That's right. (looking at letter) I see you have here a question about concept of marketing, consumer studies, advertising, sales organization and brand manager system.

Teiser: Yes. Some of that we have covered. The brand manager system... you said that you had in your laboratory a wine maker for each type of wine. Do they fall into the same categories as your brand managers?

Gallo: The brand managers are the marketing managers.

Teiser: But do they have the same departments as your laboratory?

Gallo: Yes. It is the brand manager's job to really manage his brand, sometimes from the idea of the product to the package to the marketing plan and the advertising of that product, and to watch the sales performance and the profit performance to see that it's a successful product.

Teiser: Is this not a new sales concept?

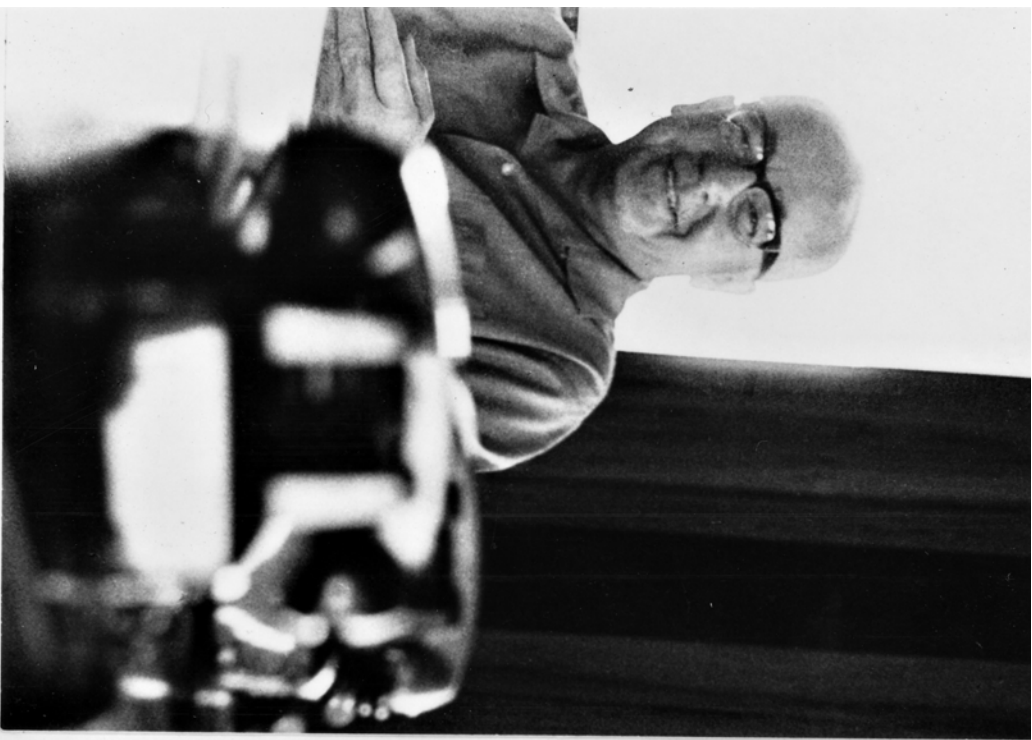
Gallo: We went to the brand manager plan in 1960. We certainly were the first in the wine industry. It could be that now some of the others are doing the same thing.

Teiser: Was it made reasonable because of the growth of the company?

Gallo: That's right. The company has grown every year since we started. The business was pretty much a two-man affair, my brother was taking care of production and I was taking care of sales until... oh, about sixteen-seventeen years ago when it had gotten to a size where it started to level off because there were just so many things to do that, well, we couldn't do them all and we didn't have the personnel to do them. And it was at that time that we set about to develop an organization because too many things were just sitting by waiting to get done. And this is when we started to get men like Albion P. Fenderson in marketing, Jon Shastid in our financial area, and Howard E. Williams in advertising and packaging. Charles Crawford, of course, was in production from the beginning.

Teiser: He was?

Gallo: Yes. Charles Crawford came here as a youngster of about twenty-six years of age from Cornell. And shortly after Howard Williams, Kenneth Bertsch came as sales manager. And these gentlemen then expanded



Ernest Gallo being interviewed.
August 1969

Photographs by Ruth Teiser

their effort by recruiting assistants. And then from that we went to the brand manager system of marketing.

Teiser: When did the second generation of your family start to come in?

Gallo: My brother's son, Bob, upon graduating from the University of Oregon, came into the organization by interesting himself in the glass plant, and developed into overseeing the glass plant for a number of years. In recent years he has expanded his responsibility to include assisting his father. In addition, he was responsible for the development of the trucking company that is known as the Fairbanks Trucking Company. Although primarily involved in transporting all the material for the glass plant, as well as all the hauling for the winery, that trucking company now has a P. U. C. license and hauls for others.

Teiser: Is that a subsidiary company?

Gallo: No, it's owned by Bob Gallo and his brother-in-law Jim Coleman, and my two sons, David and Joey. Jim Coleman, who's my brother's son-in-law, joined the company on leaving Oregon State College and is in charge of the bottling and shipping operation; getting the goods out, that's his responsibility.

As far as my sons are concerned, after leaving Notre Dame and then graduate school at Stanford, David is in the office here in marketing.

Teiser: When did he join the firm?

Gallo: It was about five years ago. He was primarily responsible for our getting into the champagne business.

Teiser: He wrote an article on it, didn't he?

Gallo: Yes.* We were not in the champagne business. He made a study of the champagne business, and made projections and acted as the brand manager for champagne until he induced us to go into the champagne business. He got it off and going, and then turned it over to someone else. He spends his time pretty much as an owner in that he interests himself and keeps himself informed as to the marketing operations primarily. My younger son, Joey, having gone through the same schools, joined the winery about four years ago, and has spent most of his time -- in fact, all of his time -- in the sales department, in traveling and taking part in sales projects.

Teiser: You're fortunate to have had good young men come along.

Gallo: Yes. Although on the other hand, the organization has grown to such size now that whether or not they were interested, this organization would and will continue to grow at an even faster pace than it has in the past. I mean it's gotten beyond any one man.

Teiser: Your functions today, and your brother's, remain essentially what they were in the beginning, I presume.

Gallo: That's right. My brother's area of interest and responsibility is the vineyards, the grapes, the production. And mine is the financing, the packaging, the advertising, the selling. That's how it works out.

Teiser: I understand that you have a very long work day almost every day.

*"The Gallo Champagne Story" by David Gallo, pp. 39-40, Wines & Vines, June, 1966

Gallo: My day starts at about eight o'clock in the morning and I leave for home at six-thirty or seven o'clock, and I take the day's reports and mail with me, and after dinner, why, I'm usually through by eleven. And either Saturday or Sunday will be spent on the work that I haven't had time for during the week. But this is not unusual, I think, with people in my position. I know a lot of men who put in a great deal of time. I find that sometimes, the more responsibility they have, that is the more their accomplishment, why the harder workers they are. At least, I've never been able to quit at five and go home and forget everything and come back the next morning at nine or ten (laughter) or take off Wednesday afternoon and go play golf, and Saturday as well. I just haven't been able to learn how to do that.

Teiser: Perhaps you enjoy your work.

Gallo: Well, that's exactly it. This to me is not work. I'd rather do it than other things. Other people would rather do other things than what they call work. What I do is fascinating to me. And as a result, when you do something you enjoy, why, you're never tired. I can see that when people are doing what they want to do, why, hours don't seem to mean anything. It is irritating to this degree, that there are a lot of other things I'd like to do that I just don't find time to do. But I imagine everybody has that problem.

Does this cover about everything?

Teiser: I don't think so. There's another page of interview subjects here.

Wine Institute and Wine Advisory Board

Gallo: (reading) "Accomplishments of Wine Institute and future challenges."

Teiser: I think we were starting to talk last time about the work that you have done with the Wine Institute as a committee member first, and then as chairman of the board. I think when you told the story about Mr. Rosenstiel you had just started to say something about your early work with the Wine Institute before you came to be chairman of the board. But I couldn't tell what thought was in your mind. I don't know if it was marketing, prices, or ...

Gallo: Oh, I think, yes, (laughter) that must be how I got off onto this Rosenstiel thing. As a result of Rosenstiel's maneuver to try to corner the wine market and make all this wine, and then the price breaking, he found himself with this large quantity of high cost wine which had dropped dramatically in value. He came up with an ingenious effort to try to save the situation, save the value of his inventory, by proposing the idea that California wine that was aged for four years should be permitted to be sold bearing the seal of the State of California. And in order to be able to use the seal of the State of California, your wine would have to be four years old. So with all this wine on hand that he couldn't sell anyway (laughter) this was a great idea for him. So he tried to get the industry to go for it, and this was one of the great battles in Wine Institute. I was just on the opposite end. I had sold my wine. I didn't have any surplus, and I wasn't apt to try to find some artificial way of making old wine very valuable. General James K. Herbert was the manager of Roma at that time for Mr. Rosenstiel, and he tried to

put this idea through a Wine Institute Board of Directors' meeting down in Fresno. And so for a couple of months before the meeting, General Herbert was out trying to recruit support for the idea. And he did this by buying wine from people who wanted to sell it, selling wine to people who wanted to buy it, all at favorable prices, and making all kinds of promises. But I was able to point out the dangers of the idea, the enormous financing requirements that would be involved in storing wine for four years before you could sell it. This would not in any way improve the quality of the wine. If you have a bad wine to start with, and age it, it just gets worse, so this was no solution to any problem. And at the directors' meeting, it was very close. We had a real battle, and I won by just one vote. And I almost lost it because one of the people who was committed to me got confused in voting and voted the wrong way. I had to stop the vote and do it over again. (laughter)

Teiser: Well, if the Wine Institute had voted in favor of it, would it have been obligatory upon the entire industry?

Gallo: Well, to this extent, that Wine Institute then would have been charged with going to Sacramento and lobbying for that law. And they are a very potent influence in Sacramento.

Teiser: And you were a member of the board, of course, by then, and had been for some time?

Gallo: That's right.

Teiser: Did you and your brother serve alternately for sometime?

Gallo: No. I first became interested in Institute matters and was a board member ... well, I've been a board member for probably 30 years, and then

later, Julio became interested and has been a board member until a few years ago when he got off the board and his son Bob has taken his place.

Teiser: You're still a board member too?

Gallo: Yes. And an executive committee member.

Teiser: And you've done some special committee work, too, have you not?

Gallo: Some special committee work, and I was chairman of Wine Institute for two years.*

Teiser: Do you have any general assessment of the Wine Institute as an industry organization?

Gallo: The Wine Institute is a very good organization. It, as you know, represents almost the entire industry.

Teiser: Are there any outstanding wineries that don't belong to it?

Gallo: Well, the only one I know that doesn't belong is California Wine Association. I think that the membership must be something like 90% of the industry. Wine Institute serves a great function in several areas. First of all, and I think most important, is in the industry's effort against trade barriers that are constantly cropping up. And then the constant threat of increased taxes on wine. Also publicity and public relations. Wine Institute has done a great deal of very constructive work in improving the image of wine throughout the country. And through our publicity program, I think we've helped increase the consumption of wine. We've had, and do have, a medical research project that has been very productive over the years. We have a scholarship program. The scholarship program I initiated. Wine Institute is a very good, well-knit organization, and very effective.

* 1957-1958 and 1958-1959

Teiser: Are there things you'd like to see it do in the future that it hasn't in the past?

Gallo: Well, since I have been a member of the organization for many, many years, and have taken a keen interest in its operations, I find that it's doing all the things I think it should be doing, and doing them quite well.

Teiser: I think you said when the Wine Institute was formed in 1934, your company was so small you didn't have time to even think about it. But by the time the Wine Advisory Board was formed in 1938, did you have more free time to interest yourself in industry affairs?

Gallo: I don't believe I was a member at the time it was formed, but some time later, as the company became larger, I did become a member of the Board.

Teiser: As I recall, at the time of its formation, at the time the marketing order was originally put into effect, there was some objection on the part of some people, including either you personally or your firm.

Gallo: We did take a position against the Advisory Board. And I don't recall at the moment precisely what our objections were.

Teiser: Was there a suit brought?

Gallo: Yes, there was. There was a suit brought, and I just can't remember what our differences were. Couldn't have been very important.

Teiser: Yes, because you became a member shortly after.

Gallo: Yes. I know that we had some differences. I know we stopped paying. I know there was either a threatened law suit or a law suit, I forget which. And then that we reconciled our differences, and I've been quite a supporter of it. Actually I guess about a third of all the money that goes into Wine Advisory Board and Institute is paid by this organization.

So as I say, what the differences were then, I really don't remember (laughter) and they couldn't have been very important.

Teiser: It's unusual for an industry to have this dual organization, but it seems to work well.

Gallo: Yes. Yes, quite well. That's probably why we have such a large membership in Wine Institute, because most of the money is collected through the Wine Advisory Board, where you have no choice. (laughter)

Stabilization Programs, Public and Private

So it doesn't cost much to belong to the Institute. Did I discuss last time the price stabilization program?

Teiser: Only the brandy...

Gallo: Only the brandy one. Well, that was in 1938.

Teiser: The first stabilization effort I know of that you would have been possibly involved in was the California Vineyardists Association, the Donald Conn organization.

Gallo: Oh, yes, that was on repeal of Prohibition.

Teiser: You were not involved in that?

Gallo: No. Not in those days. That was too early for me. But the grape stabilization program in 1961, this program was an effort to improve the price of grapes for the growers of California, and one which I supported. And A. Setrakian was the motivating influence at that time, and I joined him in helping him to put it through. There was considerable opposition. A two-thirds vote was necessary, and through my effort, we were able to get just enough to put it into effect. I had visualized this program as

one that would work to the mutual benefit of the growers and the wineries to stabilize our industry, to get a better return for the grower, and at the same time prevent surpluses of inventory so that the wineries would be benefitted also.

Unfortunately, after the program went into effect, the growers, headed by Setrakian, attempted -- and did, for a year or two -- to direct the operation, since the board consisted predominantly of growers, to increase the price of grapes without relation to their quality, and not too much relation to the quantity. And, as a result, put a great burden on the wineries. And the wineries' voice in the whole program was to little effect. As a result, it became apparent to me that the direction of the program had gotten completely out of hand -- that it was being operated for the very short-term benefit of the grape grower with no interest or concern as to the long-term benefit of the grape or wine industry. I was unable to have Mr. Setrakian modify his views or take a long range view of the industry's problems and how this association should work. As a result of that, when it came up for renewal, I threw my effort to defeating a renewal of the program, and it was not renewed. You see they, taking strictly the view of a grower, were interested in getting as much for their grapes as they could without adequate consideration of the inventories that were available in the state and with no regard for quality or variety. The organization was dominated by Thompson Seedless growers, and whether you produced wine varieties or not, you were under their influence. And this could not work for the long-term benefit of the industry.

Gallo: Did I discuss the grape bargaining association last time?

Teiser: No.

Gallo: Two years ago there was a movement to form a grape growers bargaining association in the Fresno area, which we at first thought well of, because we do feel that the price of grapes to the grower should be sufficiently high to enable him to produce first, those types of grapes that the industry needs, and second, grapes of such quality that they will make the best wine. And for a grower to do this, he must have a fair return for his grapes. Otherwise he will tend towards producing the varieties that produce the greatest tonnage, and his cultural practices will become very poor. If he is to produce good grapes of the right varieties, he must be paid for them. It's just as simple as that. So we were in favor of the bargaining association.

We have had the unwilling responsibility in this state in recent years of pretty much having to determine what the price of grapes should be. And then other wineries come in and either will match us if they feel that they can't buy them cheaper than that price, and if they feel that they can, why, they'll come out at a lower figure. So for this reason we thought that something like the bargaining association would be worthwhile. However, this association had no plans as to how to handle the surplus grapes, and indicated no desire to include quality control. As a result of that, and the irresponsible statements they were making to the newspapers, we felt that we should adopt a completely different philosophy in our relationship with the growers from what we had in the past.

My brother and I determined that what we should do -- what this company should do -- is to determine what is a fair price for each variety of grapes of certain quality, and what varieties we feel should be encouraged in the light of the programs we have in production. And we should early in the season come out with these prices and announce them to the growers; and these prices to reflect current costs and a fair profit to the grower; and these prices weighted toward better prices for those varieties we wanted to encourage the planting of. And also, as part of our philosophy, that we would only buy from and insure a home for the growers who will always sell to us, who will always look to us as a home for their grapes year in and year out. Our thinking being that since the industry has been in a turmoil of surplus (the grape production surplus has been -- until this year -- a problem since as far back as anyone alive can remember), that since none of the artificial programs which have been tried and dropped would work, that what we should do is to run our own business and provide for the growers who sell to us at a price at which they can make some money producing the variety and quality we need. And we'll pay them that price and we will not buy grapes from anyone else, regardless of how cheap they go. In other words, instead of trying to provide a home for all the grapes that are produced, we're going to take a position: we're just going to buy from those growers who are going to supply us regularly and we'll pay them, not a price that's influenced by those who cannot sell their grapes, but a price that they can make a profit on. And we feel that if other wineries would adopt the same policy for their growers, that then those growers who do

not have a market will not upset the market for everybody else by throwing their grapes on the market and having some winery buy them, and letting those last few tons set the value for all the grapes. Our position is that a grower who sometimes makes raisins and sometimes sells for wine should not be allowed the option. If he's going to be a wine grape grower -- that is, produce his Thompsons for wine -- he should sell to a winery every year. If he's going to make raisins, let him make raisins. As a result of this, if other wineries would adopt the policy we have adopted, that we'll buy only from those growers who will produce for us, then the others know they can't sell to a winery and they will sell their Thompsons for raisins. Last year is the third year that we have embarked on that program. Three years ago the crop was large, which we anticipated, and although we paid \$40 a ton in 1968 for Thompsons for a much shorter crop, in 1969 we bought the Thompson varieties at \$48 a ton. And whereas in 1968 we paid \$45 a ton for Tokays, in 1969 we paid \$55 a ton for Tokays. Whereas in 1968 we paid \$60 a ton for the Carignane variety in this district, in 1969 we paid \$68. a ton. Whereas in 1968 we paid for Chenin Blanc in this area \$100 a ton, in 1969 we paid \$110 per ton. Whereas in 1968 we paid in this district \$90 a ton for French Columbards, in 1969 we paid \$100. Whereas in 1968 we paid for Barbera and Ruby Cabernet \$90 a ton, in 1969 we paid \$95. Whereas in 1968 we paid \$50 for Missions, in 1969 we paid \$58.

In contrast, this past year (1970), because of frost and light crop setting, we came out in June and July with the following prices: Carignane \$80, Grenache \$80, Barbera and Ruby Cabernet \$120, French Columbard \$120, Mission \$70, Thompson \$54 and Tokay \$60.

In October of 1970, in recognition of the fact that the crop was shorter than we had anticipated, we voluntarily paid a bonus to our growers as follows:

Carignane	\$15
Grenache	\$15
Barbera and Ruby	
Cabernet	\$10
Columbard	\$10
Mission	\$ 5
Tokay	\$10

In February of this year, 1971, unprecedented in this industry, we offered one or five year contracts to grape growers from Lodi south.

These contracts provided that we would pay as a minimum the prices we paid last year including the bonus as minimums, and that we would pay more to all growers who signed the contract if we paid anyone else more.

The offer was well received and all growers signed up on a five year basis.

Teiser: Do you see a day when Thompson seedless will be completely replaced?

Gallo: Not necessarily. I think that the Thompson Seedless will always remain as a grape that will fulfill a certain need.

Teiser: Will have a place in the wine picture?

Gallo: That's right. It will take many years before we can develop and produce enough of other types of varieties to replace them.

Teiser: What about Mission?

Gallo: The Mission may be replaced rather quickly. I don't think that you're going to have replantings of Missions in any quantity.

Teiser: What will go in?

Gallo: The varieties that are going to be planted over the foreseeable future are varieties like the French Colombard, Chenin Blanc, Barbera, Ruby Cabernet, this type of grape, for wine.

Teiser: This plan that you've just spoken of, the contract arrangement, the head of another company or group has praised you recently for this. Was it Guild?

Gallo: Yes. That's right. Yes, as a matter of fact, all of the larger wineries, all the more responsible wineries have felt that this was a rather daring thing to do, but a great thing to do. And they were glad to see that we did take this action. I think, for example, ideally a grower should have either a long term contract with a winery or an understanding that every year he will sell there. This way the winery knows that it's getting that tonnage and the grower knows he has a home. And at grape season he doesn't have to go around peddling his grapes to see what he can get for them.

Teiser: The cooperatives serve this function in part, don't they?

Gallo: In part, but the cooperative movement has not been successful in this state. It got off to a fair start, but it has not succeeded. I was disappointed in seeing in one respect that it has not succeeded. It could have been a great stabilizing influence, but they haven't been able to develop the management to operate effectively. You see, the wine business has gotten to be a highly sophisticated business and requires the very best people in each area from production to selling, and a farmer by nature is not one who will aggressively look for the very best personnel that's available.

Teiser: If cooperatives had succeeded, might they not be giving you a kind of competition you might not like because they would be in a more favorable tax situation than a private company?

Gallo: There was a time when I thought this was a possibility. It's true that they do have a tax advantage, but this advantage on the part of cooperatives is offset by the great disadvantage of the difficulty of obtaining good management. It's just difficult for good management to remain and be directed by a board of directors of farmers.

Teiser: The only one that I know of -- and perhaps this should be off the record -- that seems to be entirely successful is Mr. Setrakian's which I presume he dominates.

Gallo: I don't consider that a successful...

Teiser: Isn't it?

Gallo: Not at all. I think that it's far from successful. That happens to be a fact. They're in dire circumstances.

Past and Future

Teiser: The men you have known who have, you felt, made outstanding contributions to the industry...?

Gallo: I think the men who've made a contribution to the industry... we've mentioned Setrakian. He has attempted to help, and some years has helped, the Thompson grape growers of the

State of California, particularly through his work with the Raisin Board. He has been successful in getting help from the Federal Government to buy surplus raisins to ship them abroad. He deserves a great deal of credit for this effort. He has dabbled in trying to straighten out things in the other segment of the industry, the wine industry. This has not been successful, and has been far from being something that was sometimes constructive. It was not at all.

As far as the people such as Louis Martini... Louis Martini has rendered, I think, a great service to the industry in that he has exemplified an effort to produce the very best wines that this country can produce. He's produced, in the past, three very good wines as far as I am concerned. One was his dry sherry, which he produced in very small quantities, but I thought was a very good wine, and still is. Then his Cabernet Sauvignon, years ago was an excellent wine. And his Johannisberg Riesling. In recent years I feel his wines have slipped, but he has always exemplified the effort to make the very best wines possible, in comparison to those of Europe. As far as other men in the industry... you mean that have made a contribution?

Teiser: Yes. Whom you have known and ...

Gallo: Yes. Well, I've known them all, but...

Teiser: Those you feel have made outstanding contributions.

Gallo: Outstanding contributions. There are men I know who've been in it

all their lives and have been good vintners and have struggled along, but clearly, when you nail it down to something concrete... Take L. K. Marshall. He was always cooperative minded. He was very influential in the cooperative movement, attended a lot of meetings, but that was about it.

Louis Petri made a contribution building that tanker. In doing so, freight rates to the East were maintained at a status quo for many years. He purchased several other wineries, the Mission Bell Winery and the Italian Swiss Colony, and then he sold it to the growers and got out. In most peoples' minds this was quite an accomplishment, although I feel it would have been a greater accomplishment if he'd stayed with it because, although he sold it at what was thought to be a fabulous price at \$24,000,000, the growers he sold it to paid him back out of profits in eight years. And they just recently have sold the business to Heublein for a lot more than that. But still I'd say he made a contribution to the industry.

There's Maynard Amerine, who I think has made a great contribution to the industry. He's very knowledgeable, has done a great deal towards developing and assisting wineries in the state in many ways. He's quite an authority on wine, a man I respect very highly. Who else is on the list?

Teiser: My list is based on an earlier conversation I had with you. I think you mentioned Leon Adams?

Gallo: Yes, well, that list was of people you would probably be interested in interviewing. Leon Adams, of course, was the first secretary of

the Wine Institute, helped to organize it, along with H. A. Caddow. He was the secretary and ran it for a number of stormy years, but his personality was such that he couldn't keep the industry together and so he was let go. Since then, of course, he has been a writer of some success.

Then, of course, there is my brother, Julio. He has probably done more to improve the quality of wine in this state than all the rest put together.

Teiser: I'd like to ask you to discuss the Central Valley a little more.

Gallo: The Central Valley -- you mean its future in the industry?

Teiser: Yes.

Gallo: I think this -- that we are very rapidly developing varieties which do quite well in this climate and make quite good wine. And the enormous volume of wine that's going to be consumed in this country in the foreseeable future can only come from this valley. It's going to be good wine, and it's going to be in the quantities that are needed. And so I know that there are going to be tens of thousands of acres of grapes planted of the better varieties over the next five or ten years. The Napa and Sonoma Valleys can't hope to produce what is going to be needed. We're fortunate to have the San Joaquin Valley, and the research that has been done as to varieties so that there will be minor interruption in quality. We can make very satisfactory wines in this area.

Teiser: I've heard that there's an increasing demand for California brandy. Do you see that?

Gallo: Yes, there's an increasing demand for California brandy. I think it's going to continue. It's growing at about five or six percent compound rate, as I recall. We have introduced in certain test markets a brandy under the Eden Roc label. At this point, it's too early to tell what progress it's going to make.

Teiser: Are you making it yourself?

Gallo: No, this brandy we purchased.

Teiser: If it goes well, will you make it?

Gallo: Well, that's something that we'll cross at that time.

Teiser: I know you have traveled frequently in Europe.

Gallo: Yes, I've made innumerable trips through Europe; in fact, around the world. On my earlier trips, I used to spend a great deal of time visiting wineries. After a few trips, I found that neither their plants nor their techniques are equal to what we have here. As a matter of fact, in most countries of the world, they're thirty years behind us. And so my interest now every time I go to a country is to try three or four of their wines at each meal to cover as many as I can as a matter of interest. I usually come home again confirmed in the opinion that we make far better wines than all these other countries, with the exception, of course, of the very best of France. The very top select French wines, whether they be the white or red, are superior to what is made in this country... a few of the chateaux... but how much do they produce? Each one will produce one thousand, two thousand, three thousand cases apiece, and with this they have to

supply the world. Their regular wines are not to compare with those of this country. And at this time I don't think there are any good Italian wines compared to this country; and I don't think there are any good Spanish wines or any good Portugese wines or any South American wines. They are either oxidized, mousey, have off flavors, acetic. I mean none of them, I think, begin to compare with what we have here.

Teiser: Do you have any foreign markets for your wines?

Gallo: No. Most countries of the world have arbitrary restrictions on American wines, either by higher import duties or because they subscribe to the Madrid Agreement, which prevents American wines being shipped into their countries under names such as burgundy or sauterne or champagne or sherry or port. As a result, it's difficult to ship wines in there under other bases. And our costs are higher than theirs. There is a prejudice already in those countries against American wines. And so I see no reasonable opportunity there. I know there are some wineries in this country which for advertising purposes have made a great effort to send a few cases to as many countries in the world as they can. To me, this is not worth the effort. I'd rather spend that same effort in this country and sell many, many times more than that. The only wines we export are for the armed services. But that's about all there is to that.

Teiser: Do you see anything in export in the future?

Gallo: I think the opportunity in this country is so great that I'd rather continue exploiting this than divert effort to something I don't think there is any great future in anyway in the near future.

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APPENDIX I

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The purpose of this meeting is to review and appraise our sales efforts during the past - in the light of changing competitive conditions, -- and to tell you of our program to ensure the maximum possible progress in this coming year in Southern California.

I need not tell you that our competitors are working harder and more intelligently than ever before. They have been at last jolted by the full realization that we not only have taken the first place position away from them, - but are first by a wide margin!

We can understand that they paid no mind when we first started. Their attention was on each other. They made at least two errors:

- (1) They did not realize the rate at which we were progressing until very late.
- (2) They did not start to do something about it until very recently --- now that we have almost as much of the market as all of the other advertised brands combined.

Let us review the principal factors that have contributed to our present position in this market:

- 2 -

1. THE PRODUCT:

I marvel at the job the boys at the Winery are doing. They continue to turn out an increasingly greater volume of wine, and at the same time are constantly improving it and making it more superior than ever!

I know-- and you know-- that we have far better wine than our competitors!

2. THE DISTRIBUTOR:

Our distributor is determined to make GALLO the only wine in this area. His organizing and merchandising genius is outstanding.

3. SALESMEN:

The most powerful and effective sales organization our industry has ever known. You are all high caliber men. Men, who for the most part realize that the brand is only as good as you are collectively, - and you are collectively only as good as the brand.

-- 3 --

This is why all of you with but very few exceptions:

- 1) Make your calls with increasing frequency and cultivate your accounts. At one time, one call per month upon a licensee was adequate. But competition forced you to call two times per month. The increased competition now makes it imperative that you call on most of your accounts at least once each week.
- 2) Most of you take inventory of the retailer's supply of GALLO.
- 3) Most of you keep your shelves stocked.
- 4) Most of you place bottle collars, shelf strips, and other material religiously.
- 5) Most of you book floor displays and counters.
- 6) Most of you sell the complete line on each call.
- 7) Most of you constantly realize the value of, and seek to improve shelf position, and to consolidate position.
- 8) Most of you use imagination on each call on a retailer, asking yourself before you enter the store: "How am I going to improve GALLO in this store this time..?" And on leaving the store, asking yourself: "How did I improve GALLO in this store as a result of this call..?"

-- 4 --

It is because of the guidance, training and help you have received along with your own native ability and ambition, that you are the most successful wine-men in your area. You have helped to make the brand, --and the brand has helped to make you!

4. PRICING POLICY:

Our pricing policy has proved to be sound in the light of our objectives and conditions existing at the time.

5. OUR ADVERTISING AND MERCHANDISING:

All of these have been much better, and in greater quantity, than most of the competition. Adequate in keeping with the overall conditions existing at the time, taking into consideration our's and competitive pricing, retailer cooperation, and store position.

6. INACTION OF THE COMPETITION:

Up until recently, the competition has been unbelievably inactive.

Each of the above six factors has made its full contribution to our present position.

1. The Product. 3. Salesmen. 5. Our Advertising & Merchandising.
 2. The Distributor. 4. Pricing Policy. 6. Inaction of the Competition.

-- 5 --

During the past year, particularly during the last half of the year, we lost what I had predicted time and again we would lose, and that is the last of the above six advantages I have referred to, namely, inaction of the competition!

Our competitors are no longer asleep! Far from it. They are today alert and very wide-awake, and they're now doing everything you've been doing for years.

Our competitors have learned well, --the lessons we taught them in merchandising, in point-of-sale work, in servicing, in price policy, in stock rotation, etc. I have told you before that most competitive advantages are strictly temporary, and how much you gain from your temporary competitive advantages depends entirely on how much, and how fast, you take advantage of them while you have them.

We start this year by having lost the advantage of the inactivity of competition. They are in fact very active.

However, we start this year with the best quality we ever had! More time and money is being spent on research and consumer preference work on GALLO wines than we ever dreamed of a few years ago.

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We start this year with our distributor being wiser, and more experienced.

We start this year with the finest and most powerful sales organization we ever had!

We start this year realizing that there never was a product but what the quality could not be lessened a little and then sold for a little cheaper, --and wine is no exception. Our emphasis will not be on price.

We start off the year with the greatest advertising appropriation in not only our history, but the history of the wine business! I am happy with our selection of advertising agency. The effort, initiative, imagination and effectiveness of their work is already apparent.

I have told most of you at previous meetings that this wine business cannot avoid boiling down to one or two brands, --and that in fact, this boiling-down process was well on its way.

I have told you before, that in ;the last analysis the consumer is the boss, -not me, not you, -not the retailer.

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The consumer buys that brand which he thinks gives him the greatest satisfaction for the money he spends.

The boss, -the consumer--, does not know, and doesn't care how much profit I make, you make, or how much the retailer makes. He buys the brand he thinks gives him the greatest satisfaction for the money, --and by satisfaction I mean taste, prestige, or anything else he's looking for in a bottle of wine.

Therefore, our greatest emphasis at this time-- if we are to attain our objective-- that is, to completely dominate the wine business in this area, we must necessarily consider the factors that will create that satisfaction for the consumer.

WHAT ARE THESE FACTORS? THERE ARE THREE: --

- (1) The quality of product - which we have - and which we are continuing to improve.
- (2) The advertising which we are doing, and which is the most extensive in amount and effectiveness in the history of the wine business.
- (3) The retailers' recommendation.

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The first two we are doing, and doing well, that is:
(1) the quality of product; and (2) the advertising.

It is this Number 3, the retailers' recommendation, which we are primarily concerned with at this meeting.

The retailers' recommendation comes in two forms:

- (1) Silent recommendation; and
- (2) Verbal.

By "silent" recommendation, I mean of course, the retailer having placed GALLO on the best shelves and consolidated.

By giving a brand more space, shelf consolidations in the best position, the retailer conveys to the consumer without opening his mouth, the recommendation to buy the brand. By putting a brand in a dark corner or high-up on a shelf out-of-sight or reach, the retailer conveys the impression to the consumer that he is not recommending it, that it is inferior.

By and large, up to this time, most of you have done a good job in getting larger spread, more types and consolidations than your competitors. However, in recent months, your competition has come to life and is attempting to obtain equal prominence in the stores...

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Those of you who were smart enough to have heeded the urging of your employer and worked hard each and every time you went into a store to obtain a better shelf position and consolidation, can best offset the attempt of the competition to obtain a position. And, of course, those of you who were not smart enough to have done your job when it was easy, will now have to do it when it is much harder.

You may ask--

WHAT ARE THE REASONS WHY RETAILERS SHOULD GIVE GALLO BEST POSITION IN HIS STORE AND CONSOLIDATE SHELVES?

They are as follows:

1. Fast turnover. GALLO sells fast and by itself.

Although other brands may cost him less, they're no bargain, as he must force them on his customers!

These other brands do not have the quality and prestige, or consumer acceptance of GALLO, and therefore he risks losing his customers.

2. New Business: GALLO research and consumer preference studies develop acceptable types of wines for people who never bought wines before. For example, Paisano and Grenache Rose.

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Vinos and Rosé were small volume items before GALLO research perfected them to attract new consumers. Now they are imitated - but never equaled.

3. GALLO advertising, merchandising and promotion, sold these types of wines to the public and is continuing to send more and more new people into liquor stores to buy these new wines.

This is all plus business for the retailer.

AS LEADERS OF OUR INDUSTRY, IT IS OUR JOB TO: -

- 1) Expand the wine market to get new consumers.
- 2) To make our wines so enjoyable that present consumers will drink more.

This is all plus business, plus profit, that only GALLO is creating for the retailer.

- 3) TO PROMOTE LARGER UNIT SALE: --

By having quarts, halves and gallons displayed in the same section, the customer is automatically traded up to a larger unit sale. It has been established that once a larger unit is taken home it will be consumed as rapidly as a smaller unit. This means plus business, and plus profits, for the retailer.

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Therefore, to sum up, there are three very good reasons why the retailer will make more money by giving GALLO the best shelf positions in the store and to consolidate these shelves.

These three reasons are:

- 1) To promote larger unit sales.
- 2) Fast turnover.
- 3) New business.

Only you, as a GALLO salesman, have these three reasons! Competitive salesmen honestly do not have the quality, the turnover, the initiative, organization and know-how to expand the present wine market. Only you, have these great reasons for the retailer.

Use them today, -- your competitors may be able to use them tomorrow.

.....

You have been told time and again that it is harder to get favored position in a store today than it was yesterday, -- and it will be harder tomorrow! It is imperative, that you get the best position and shelf consolidations in each of your stores where this has not yet been accomplished. Only you, can do this work! Do it at once. Do it today, -- because it will be harder tomorrow.

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So much for the silent recommendation of the retailer.

Now as to his verbal recommendation: --

I am really proud, and you too, can be proud of many things we have accomplished: Excellent quality, - good advertising, - good shelf position, - good merchandising, - good consumer acceptance, - and even demand. We all contributed to this accomplishment.

But one place where we've failed miserably, -- was to achieve retailer realization that GALLO Wine is superior to competitive ones; that the GALLO COMPANY is superior to competitive wine companies. We have failed almost completely at acquiring verbal recommendation of GALLO Wines from the retailer to his customers!

Our job, starting immediately, is to convince every dealer of the fact that GALLO WINE is far superior in quality to every other brand in our price category; that the quality of our wine today is such that the retailer should recommend our wine to his customers as against wines in the same consumer price range.

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He must know that we put more quality in every bottle of wine than our competitors do. It costs us more for the grapes we use; it costs us more for processing; it costs us more for aging. GALLO today is a far costlier wine to produce than any competitive wine.

The only reason we can sell GALLO Wine at the price we do, is because we are the biggest selling brand in the United States! It is only because of the economies of the most modern plant and equipment and great volume that we can sell at the prices we do - and still spend so much money on advertising!

The average dealer does not appreciate the fact that GALLO is so much better than other wines. He knows that GALLO sells better. He knows that customers are satisfied with GALLO and come back for more. But the average retailer tells you: "All these wines are the same, -- there's no real difference between them, & one wine is as good as another."

But this is all wrong, and contrary to the facts.

That, is the attitude we must change, --and fast!

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To help you do this, the Winery has prepared, at considerable expense, a tool designed solely for that purpose, -to convince retailers that GALLO is the quality wine in the competitive price class, - and the only quality wine at the price. Al Fenderson is here to present this tool to you.

If you do this job, --and in my judgment it is the most important single job you've ever been called upon to do, and it must be done, --you will make more real progress in 1956 than in any previous year!

If you fail to do this job, you will have missed the biggest single opportunity of your selling careers, --an opportunity to sell Quality, while all your competitors are selling Price.

Remember that -- right now, you have the opportunity to sell quality on an exclusive basis, -while all your competitors are selling price. That is a once-in-a-lifetime opportunity for any real salesman, - and I guarantee you we will not have the opportunity for long, - because once we hit the streets with the idea, our competitors will soon be out selling quality too, - even though they don't have it to sell.

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Because this job is so important to the entire organization, we're going to make it our first order of business, -to see to it that you do not miss this opportunity!

Every man here, will I'm sure, do this job with every one of his retailers, starting at once. Any man who fails to do so will not only be hurting himself, -he will be hurting the entire organization. This is one big team! We pull together!

APPENDIX II

Address by
ERNEST GALLO

CHAIRMAN OF THE BOARD OF DIRECTORS

To the 25th Annual Membership Meeting of the

WINE INSTITUTE

San Francisco, California, May 26, 1959

TODAY MARKS the end of my two years as Chairman of the Board of Directors. This is my last report to the membership as such.

I see by the program that I am scheduled to deliver a report of what your Directors have been doing in the past year. Well—we have had six Board meetings, at which we have considered something like seventy industry problems—but I'm afraid that such a report would be pretty dull. In fact, those of you who didn't have to sit through all those meetings are the lucky people here.

So—instead of re-hashing the Board meetings—which have been reported in the Wine Institute Bulletins, anyway—I would prefer, and I believe you would prefer—that I talk about money and how we can make more money in the wine business.

There are only three ways that readily come to my mind as to how we can make more money in the wine business—or in any other business, for that matter. One way would be for all of us to raise our prices, which history shows we won't do except to reflect increased costs—and besides, there are some legal barriers; or (2) to cut our costs, which is impossible, and (3) the only *real* way—to materially increase consumer demand and the size of our industry.

It is true that through the Wine Institute and Wine Advisory Board we have been and are engaged in projects whose purpose is to increase the consumption of wine in the United States. Some will say these efforts have been successful. The word "successful" unfortunately is a relative term. I do not agree that our industry's increase to an average of 149 million gallons for the past five years—from 136 million gallons for the previous five years—a gain of only 9%—*is* successful expansion of our industry. Not in the face of a 10% increase in population. Not in the face of the 30% increase in purchasing power during the same periods. And emphatically not when we consider the superior value our product, wine, has to offer the American public in comparison to the other alcoholic beverages.

When I note that this country is now consuming annually over 2.6 *billion* gallons of beer, 212 million gallons of distilled spirits, and only 149 million gallons of wine, I must ask myself: Why? *Why*

is there so much more beer and liquor sold in this country than wine?

Let us look into the reasons *why* people choose to serve and drink each of the three kinds of alcoholic beverages—beer, liquor and wine. Basically, there seem to be four principal reasons:

- (1) For the taste;
- (2) For the relaxing effect;
- (3) As a social beverage—the choice here being influenced by social prestige, and
- (4) Reasons of health.

Let us examine each of the three kinds of beverages from these four standpoints.

As to **Beer**: Some people may drink it for the taste. As for its effect, I would say that beer is refreshing. But few, if any, drink beer for social prestige. You seldom hear of anyone drinking beer for his health.

As to **Distilled Spirits**: Few drink liquors for their taste. This is shown by the increasing use of vodka, which is even served in tomato juice; by the preference for light-bodied whiskey blends, and by the popularity of the new lower-proof straights. There can be no doubt that their principal use is for effect. Liquors do have social prestige. As for health, relatively few people drink liquor for that reason.

Now, what does **Wine** offer in these four respects—taste, effect, social prestige, and health?

In taste, wines are the most delicious of all alcoholic beverages. The dozens of wine types offer many separate and distinct pleasing flavors. And now, with the new special natural wines, we are offering Americans entirely new flavors, which are winning new wine consumers.

We all know that wine's effect is relaxing.

In social prestige, wine ranks the highest of *all* beverages, but unfortunately the particular segment of high society that serves wine is, if anything, *too* high socially to influence or set a pattern for the average American family. The prestige appeal of wine is not getting over to most people in this country. That is one of our industry's problems.

So much for what wine has to offer in taste, effect, and social prestige. Now, how about its values for health?

In making these comparisons, I have been looking into the health values of wine. And what I have learned is, to me, astounding. Here I see an opportunity for our industry.

I wonder what our consumption of wine would be today if the public had been made aware, back in 1938, that the University of California had found that wines contain enough of the "B" vitamins to—and these are the words used in the report—"enough to materially augment the average person's daily vitamin intake."

I wonder what the consumption of wine in the United States would be today if the public had been made aware, in 1940, that Dr. Eric Ogden and his associates at the University had discovered,

in their experiments using college students as subjects, that wine definitely stimulates digestion.

What do you think would be the consumption of wine today if the public had learned, in 1952, that Dr. Hamilton Anderson, head of the University's Pharmacology Department, had discovered that wine contains a mild heart stimulant—a substance which acts something like adrenalin.

I wonder what the consumption of wine would be today if the public had learned, in 1953, that Dr. Franz Goetzel of the Permanente Foundation, after six years of experiments with hospital patients who suffered from lack of appetite, found that dry wines taken with meals caused these patients to increase their food intake by more than 50%. He showed that table wine is the only natural occurring foodstuff that actually stimulates appetite.

What do you think would have happened to wine consumption if the general public had known, in 1954, that John Gardner, a researcher testing wines at the University under a grant from the Wine Advisory Board, had isolated from wines a substance that actually killed certain disease germs—a wine antibiotic. This discovery was so important that when the Academy of Medicine at Bordeaux, just last month, announced that they had discovered the very same thing, American newspapers published their announcement as front-page news from Paris.

I wonder what the consumption of wine in the United States would be today if the public had been made aware, in 1956, that Dr. Theodore Althausen of the University's Medical School had found that there is something in white table wines that markedly helps absorption of hard-to-digest fatty foods. This, at last, supplies the explanation of why wine with meals helps people who suffer from so-called "nervous indigestion." Just picture what would happen if Americans, who are buying indigestion remedies at the rate of 50 million dollars a year, only knew that wine could help them.

I wonder what wine consumption in the United States would be today if the public knew that nutritionists at the University of California, in 1956, had finally found the scientific proof of the old family doctor's prescription of port wine for building blood. They showed that red sweet dessert wines retain folic acid, the vitamin that prevents anemia, and they also found a surprising amount of vitamin B₂. Just imagine what these discoveries could mean in the United States where, according to one recent estimate, 66 million people, 38% of the population, are taking synthetic vitamin pills every day.

I wonder what the consumption of wine would be today if the American public had learned, in 1957, that Doctors Leon Greenberg and John Carpenter at Yale University had discovered that wine materially diminishes the basic level of emotional tension. In other words, that wine is a natural tranquilizer. I am sure it is a better one than the synthetic tranquilizer drugs that people in this country, according to a recent estimate, are taking at the rate of 150 million dollars worth each year.

What would you say the effect would be on wine consumption if the public could learn the very latest results, not yet published, of some entirely new research at Yale University, which indicates that wine can help people reduce weight? The Yale physicians find that when wine is included in low calorie diets, it reduces the patients' desire to eat between meals.

Just a few weeks ago I read in the newspapers that Dr. Agnes Fay Morgan of the University of California had made findings that suggest wine may prevent hardening of the arteries, the principal cause of heart disease. This scientist had been studying wine's nutritive values since 1938. I suppose most of you have read about it. Experimenting with animals, she found that those fed wine had significantly less cholesterol in their blood than those fed an equivalent solution of alcohol. You probably also noticed that the most cholesterol was found in the animals that drank only water. Cholesterol, as you know, is the substance that deposits in the arteries and causes them to harden. Imagine what would happen if this became generally public knowledge in the United States, where heart disease has become the number one killer among all causes of death.

Can you imagine what our industry's volume would be today if all these medical research facts I have mentioned had been effectively brought to the attention of the public when they were discovered? I have only mentioned those that I readily came across, and I know there are more.

I found that many of the facts about wine's health values were the results of research projects proposed and financed by our Wine Advisory Board. They only cost something like \$300,000 during the past 20 years. Certainly these are some of the wisest expenditures we have made in that period.

Now, then, I think you will agree with me that the health values of wine are really impressive, even sensational. How many other beverages have such values for adult consumers?

Staying within the alcoholic beverage field and applying the measure of taste, relaxing effect, social prestige and health, wine must be rated as scoring "A plus"—head and shoulders above the rest. Wine has by far the greatest number of reasons and the most powerful reasons to be consumed in the greatest quantity.

So, it is not any lack of desirability in our product that causes ours to be only a baby industry in comparison to the beer and liquor industries. On the basis of desirability, we should have an industry many times its present size. Why haven't we? It's because the American public generally doesn't *know* the virtues of wine.

Nor is it any fault in our advertising, because as we all know, under the Federal advertising regulations it is not permissible to advertise any medical or health claims for any alcoholic beverage. Anybody who has ever seen the kind of liquor ads that used to appear before prohibition understands why the regulations prevent it. I looked up some of those old-time ads. There was the one where Rainier Beer used to advertise—with a picture of a woman holding a glass high like a jewel: "Rainier Bottled Beer—To It I Owe My

Health—More Strength and Vigor in a single bottle than in a barrel of ordinary beer." Ads for Canadian Club Whiskey claimed it was "particularly adapted for medicinal use." Those for Duffy's Pure Malt Whiskey called it "Medicine for All Mankind—the only absolutely pure malt whiskey which contains medicinal, health-giving qualities." Those Duffy ads used testimonials. A couple who had celebrated their 67th wedding anniversary were pictured and quoted as saying their health was due to drinking Duffy's whiskey regularly. "It tones the system, gives us good appetite and refreshing sleep—agrees with my wife, too," it said. Another Duffy ad was headed: "Grippe and Pleurisy Cured—Tones up the Heart—Prolongs Life—Recommended everywhere by Clergymen, Temperance Advocates and Doctors—Has Rejuvenating and Curative Powers—\$1.00 a bottle."

Ads for Rock & Rye read: "For all bronchitis, consumption and all diseases of the throat and lungs—put up in quart size bottles for family use."

I also remember seeing an advertisement for Green River Whiskey that spelled whiskey W I S K Y, not W H I S K E Y. It left out the "H." The ad read: "Green River — the Wisky without a Headache—Wisky without an 'H.' Why? Because there's not the *beginning* of a headache in Green River Wisky."

Wine ads weren't as numerous. But there were some—like Good Samaritan California Port Wine and Good Samaritan Grape Brandy, advertised by the Southern California Wine Co. of Los Angeles. The Good Samaritan ads read: "Recommended by physicians — strengthening after illness — possess tissue-building qualities not found in ordinary wines and brandies."

There also was Reihlen Champagne, which advertised: "Indorsed by the most prominent physicians of Europe—Used in large quantities in hospitals—also in private practice on account of its purity as well as cheapness."

No wonder the regulations were written to prevent that kind of advertising!

It is a good thing for our industry and for the public that the able men of the Internal Revenue Service in Washington have done such a good enforcement job in preventing that kind of advertising since repeal. Such advertising would only mislead the public, promote intemperate drinking, and provide the drys with ammunition. Moreover, the health claims made before prohibition were without scientific proof, and probably weren't true.

But now the health values of wine are *proved*. We have an impressive array of facts supplied during the past 20 years by modern medical research. We must ask ourselves what would happen to demand for wine and to our profits—real money—if the public knew these facts.

Let me tell you what happened to one product, which I shall never forget. This is a true story.

When I was a boy, and our family couldn't afford steak, I was sent to the store twice a week to buy a dime's worth of liver each

time. It was our family meal, because 10 cents was the price of a whole liver. In those days any butcher, when he sold you other meat, would give you, for nothing, enough liver to feed your dog or cat.

I shall never forget that day in May 1925, when newspapers published an article headlined "Liver Extract Eases Blood Pressure." Dr. W. J. MacDonald had reported this discovery to the Ontario, Canada, Medical Association. The National Livestock and Meat Board had begun sponsoring research the year before into the effects of meat in the diet. Good Housekeeping Magazine published an article entitled "New Values in Liver." A New York Times headline read: "Liver Called Best Food to Prevent Disease."

What happened? People all over the country rushed to their butchers to buy liver. And the price of liver went up overnight from 5c and 10c a pound to \$1.00 a pound. And, boy, was I glad that I no longer had to eat liver!

Even today, when the B vitamins and Vitamin A, in which liver is rich, are cheaper in synthetic form, you still can't buy calves liver for much less than \$1.50 a pound.

Imagine something like *that* happening to wine!

We have been comparing beer, distilled spirits and wine by the four reasons Americans have for choosing an alcoholic beverage—taste—relaxing effect—social prestige—and health. In taste, we score high, but people only discover this when they taste our product. In relaxing effect we also rate well, but the public expects that effect from any alcoholic beverage. The two other reasons for using wine the public does *not* know. The general public is not aware of the great prestige that wine enjoys in the highest circles of society, and the public does not know the health values of wine.

Now, I hope that all of you will share the conclusions I have come to:

(1) That we now have a *great opportunity* to increase consumer demand for wine.

(2) That what the grape and wine industry needs is a fully organized industry effort to make the American public aware of wine's really *high social prestige* and wine's *great health values*; and

(3) That these are the *sure* ways to build our industry and to make more money from wine.

Although today I cease to be your Chairman, my interest in expanding our industry to the rank it deserves in the economy of our State and Nation continues, and is greater than it has ever been. And so I plan, at the next meeting of the Advisory Board, to propose specific ways in which we can and should acquaint the American public with the two important reasons for using wine of which the public is not now aware—*social prestige* and *health*. I think you will agree with me that it is our responsibility to the public, to our industry, and to ourselves.

Sales Meeting Speech delivered October, 1959

APPENDIX III

SALES MEETING

INTRODUCTORY REMARKS -

I appreciate the opportunity you have provided us to meet with you. Particularly since you have given us of your time in the middle of a week. I know you all have given up important work to come to this meeting. I trust you will find this meeting to be worth your while.

It has been several years since I have met with you. I used to drop in on you, and on quite a few of your accounts, pretty often. You've taught me a lot, and I've always enjoyed it. In fact, for quite a few years, visiting with you gentlemen has been one of my greatest pleasures, and I've missed it. I want you to know why you haven't been seeing me lately. It is not because I was idle.

It was only two years ago - less than two years, in fact - that Galle wine was sold in only 23 states. Since then, we've opened seven more states -- Maryland, Tennessee, Arkansas, Delaware, New Mexico, Pennsylvania -- and just a month ago, Oklahoma. With Alaska and Hawaii also having become states, Galle wine now sells in 32 states. Yes, we've been pretty busy, just opening new markets.

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But that isn't all we've been doing. It is the other things we have been doing that will interest you most. In March of last year we opened our new laboratory, with one of America's greatest food and beverage researchers -- Dr. Robert J. Bouthilet -- in charge. This department has already contributed importantly to our production and quality. To make good wine, 4 factors are important:

Type and condition of grape

Proper fermentation

Sanitary Storage

Technical Know-How

(1) As to the type and condition of the grapes we use, we are as selective as the so-called "Premium Wine" producers.

We have recognized for years that grapes make the best wine at a given state of maturity -- at what we term a certain sugar acid ratio. I will not bore you with a highly technical discussion -- but in layman's language, if grapes are green when made into wine, the wine is harsh. If the grapes are overripe, the wine is flat and without character -- lifeless. All but the "Premium Wine" producers try to get overripe grapes as with the increased sugar you get more gallons per ton, and the result is, of course, cheaper wine.

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I tell you that Gallo is the only company other than the "Premium Wine" producers, that insists on crushing their grapes that go into wine at only the proper sugar acid ratio.

(2) As to proper fermentation, we this year installed 1,800,000 gallons in Modesto and 1,200,000 gallons in Fresno of additional fermenting capacity -- more than double what we had. This will result in better controlled and cooler fermentation, which means superior wine. This year this greatly increased fermenting capacity saved us from a near calamity. As you know, we had a 2-inch rain a few weeks ago -- the heaviest in recorded history for that time of year. Rot and mold has started, and the grapes on the vine are becoming useless for wine purposes in some areas of the state already. Without this added fermenting capacity, we would have been caught short this year. We are able to crush our requirements in this emergency in 35 days, ending approximately October 15th -- whereas it would have required until November 15th -- a time too long to make our requirements this year. Grapes will not be fit for wine beyond October 15th.

(3) Sanitary Storage - extremely important - I will discuss this in detail later.

- 4 -

(4) Technical Know-How. In addition to the largest and best trained staff of technical men in the Wine Industry making our wine, we are the only winery having scientists doing basic research in the United States.

What I have just told you about

Type and Condition of grapes we use

Cool and proper Fermentation

Sanitary Storage - - which I have alluded

to and will discuss in a moment

Technical Know-How

are all extremely important. I want you to know that we are way out in front on quality, and that we have the wherewithal to stay there.

Yes - our wine costs much more than the competition. However,
when we realize the -

great amount of money that must be spent

today in advertising to get people to

try your product -

the great amount of daily effort on the

part of both management and salesman to

sell a product during these competitive

times -

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I believe it to be foolhardy to try to save money by compromising on quality.

Our wines are the best we know how to make today regardless of cost. The consumer is getting a hell of a bargain, and more and more consumers are finding it out every day!

Only because of our volume, efficiency of operation, and concentrated effort can we afford to sell such costly wine at the price we do, and still spend as much as we do in advertising. Our new research laboratory is contributing importantly to our quality.

In June of last year we completed building of the biggest wine warehouse in the United States. It covered an area of six acres, and its capacity was 2 million cases. Already this year, we had to enlarge it from 2 million case capacity to 3 million cases. It is now 1100 feet long and 300 feet wide.

In July of last year, we completed building the most modern glass plant west of the Mississippi -- and Gallo became the first winery in the world to have its own bottles manufactured at the Winery. This, involving an expenditure of over \$6-million was -- as you know -- to make Flavor-Guard Bottles for Gallo wines.

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We have, during the last two years, improved our vineyards, planting a number of new varieties for finer, better tasting, Gallo wines.

Last year, as a result of Gallo research, we made a major advance toward greater stability and brilliance in wine, when we developed equipment for the use of the new ion-exchange process, which clarifies wine better than any other method.

This year, we perfected and installed costly new equipment that now separates the free-run juice -- that's the first squeezing -- from the grapes at the moment the skins are broken. We thereby have shortened the time during which juice is in contact with the pomace. It means that Gallo wines, henceforth, will be even more delicate and more brilliant than ever before.

For the past few years we have been working on an improved closure for Gallo wines, to give a tighter seal that would also be safe against tampering, and that would be easier to open -- a major new consumer advantage. By April of this year we were using Alcoa pilferproof closures on the entire Gallo line, as you know.

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We have also made advances in the bottling of wine, with installation of new high speed equipment of entirely new design.

But the greatest quality advance we have made since I was with you last is the total elimination of wood tanks in our winery. Our research has shown us, as it has shown the producers of fine wine in Germany, that Wooden Cooperage has no place in winemaking or aging - - that wood, being porous, is a haven for bacteria. If you could look at a cross-section of a wine tank stave under a microscope, you would see billions of bacteria. A sterilizing agent powerful enough to penetrate the pores of the wood to reach and kill this bacteria would have to be so powerful that it would destroy the wood itself. Wood tanks cannot be properly sterilized.

You have all heard stories of how the old Wine Tasters claimed great tasting skill, because they could tell at what winery a certain wine was made. The truth is, it was relatively easy. Over the years, the bacteria in the wood tanks of each plant would develop an off-taste - or odor - of its own, so that it was very easy to identify each winery's wine.

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Wine is a food like milk. It requires the greatest sanitation. Some years ago, milk was carried in wooden buckets. Today that would be unthinkable. In a very few years, it will be unthinkable to use wood for wine storage.

During this last year, at great expense, we ripped out 3,700,000 gallons of wood tanks at one sweep -- the last of what we had. These were replaced with glass-lined steel tanks -- giant bottles, if you will!

Today, we are the only winery in California that can boast of not having one wooden tank left in its cellar, although other wineries are now beginning to follow Gallo in this advance as their means permit.

Winery expansion to keep up with demand, has also kept us busy. You have already heard about our addition, last Spring, of 4,200,000 gallons of capacity at our Modesto and Fresno wineries. And of our purchase this June of the 2-million gallon Pio winery at Cucamonga, in Southern California.

Two years ago -- in 1957 -- the total storage capacity for Gallo wines was 32-million gallons. Today, it is 43-million gallons.

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You have already seen some of our recent packaging improvements, such as the new label for Thunderbird.

During the past two years, we have worked on a solution to a major packaging problem -- to bring up the quality of the regular Gallo package to the quality of our wines. For a number of years now, we have realized that the only way in which the "premium" wines were better than ours was in their packaging. We employed the nation's foremost package designer -- Walter Landor. His job was not easy -- on the one hand, he had to come up with a package that would look at home with and in the same class as, the premium wines -- and on the other, package that could be produced at speeds heretofore unthought of in any wine plant in the world -- speeds up to 300 bottles per minute!

It has taken tremendous effort to re-engineer and re-tool to attain these speeds for a custom premium-type, two-piece label. We now are satisfied we can do the job, and expect to go into this production in about 3 weeks. Much work has been done, and you may know of the intensive store-testing we have been doing recently.

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I believe that the new two piece label is one of the most important strides forward we have ever made. It will give our fine quality wine the personality it deserves -- it will give us great opportunity to make new efforts, in those neighborhoods, or amongst those groups of consumers, who require a new slant to get them to try our wine at this time. It will make it much easier to get consumers who never tasted Gallo wines before to try them.

It will also give us a second chance at those volatile groups who once drank Gallo and changed -- specifically, the large Negro market! We know the negro particularly, but also everyone else, is moved by appearance, by emotion, sometimes a gimmick. This two piece label package has enough prestige appearance to get us back our rightful share of the negro market if properly presented.

This two piece label should materially help to increase our volume with consumers of all levels. This two piece label gives you a real opportunity. It is a package that bespeaks the true quality of Gallo wines, which are equal to any wines at any price.

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These things I have told you are the most important things we have been doing since I saw you last that have to do with plant facilities, product, and packaging. I wanted to bring you up-to-date in this regard.

Now then -- just as we have been working at improving the quality of our wines, improving the appearance of our package and improving our plant facilities -- so have we been working on and overhauling our marketing concept.

We have felt that our volume increase during the past few years has been coming too slow -- just as though we were up against a ceiling.

We realized that progress above this point was to be hard and slow if we continue to use the same marketing techniques that were so effective just a few years ago.

In analyzing our experiences and studying the success of other consumer products we have determined that there is no reason to be limited to stagnation or very slow growth -- in fact, there is real opportunity for a rapidly increased volume for each of you.

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This is because we have determined a way to create in the minds of consumers in the entire market, regardless of neighborhood, an image of Gallo as the brand of prestige, quality, and preference - - so much so that it is in a class by itself -

This will be done by two things -

First - The scope of our advertising and by the nature of its content - - which I will call on Howard Williams to reveal to you - - and,

Second - Our new concept of total selling - - which I will call on Al Fenderson to explain to you.

After they are through, I will talk to you again - -

Now: H. Williams

Now: A. Fenderson

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From what you have heard from Howard Williams, you have learned . .

- (1) That we have the best thought-out advertising campaign this year that we have ever had. We have a real message to deliver, and it will be delivered with prestige and effectiveness.
- (2) How much more we are advertising than our competition. In fact, how much more advertising Gallo is receiving in this area than most other leading consumer products.

From what Al Fenderson has told you, you have learned our plan of total selling . .

- (1) What to tell the retailer about Gallo advertising -
 - That it protects the wine business
 - That it increases the overall wine business
 - That it insures the value of a retail outlet
 - That it increases the value of a retail outlet.
- (2) What to tell those retailers who are so shortsighted that they are only interested in today's profit.
 - That in terms of money invested in wine he makes far
 - far more money on fast moving Gallo than any other brand.

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Very Important - - the message I want you to take out of this room and never forget - is

What H. Williams told you about the scope of our advertising and the nature of its content - and,

What Al Fenderson told you about our new concept of total selling.

From what I told you at the beginning of this meeting, from what you have learned from Howard Williams and Al Fenderson, you must realize the odds are heavy in our favor -

We have better product.

We have better packaging.

We have better plant facilities.

We have larger plant facilities.

We have better people - in production, in advertising, in sales.

We have better distributors with better salesmen.

We are spending more money advertising than the entire industry combined!

We have thinking - we have ambition -

We have a plan - Heavy and outstanding advertising - and total selling!

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We excel every other competitor in each and every respect.

NO competitor can tell us he is better in even one respect --
except perhaps at playing golf!

Men - the wine business is there for us to take, and we are going
to take it!

This is not the type of an organization that lets opportunity go by!

I have told you before -- what is required is the joint maximum
effort of the winery - the distributor - and you, the salesman!

- - - Stop - - -

So that there will be no misunderstanding that may jeopardize the
success of this operation, let us review once again the responsibilities
and effort required by each of us, the Winery, the Distributor, the
Salesman.

Although Al Fenderson said all you men know the ABC's, the elementary
things that should be done in a store - the two days just spent in
surveying stores would make it advisable at this time to review them.

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I have told you this before, in years gone by, but it is worth repeating.

A. The Winery must supply:

- 1 - A Superior Product.
- 2 - Outstandingly packaged.
- 3 - Properly Priced.
4. - Effective merchandising tools and aids.
- 5 - Create Consumer acceptance and demand.
- 6 - Provide the benefit of our experience obtained
in other markets.
- 7 - As leaders of our industry, we must also expand
the present wine market.

B. The Distributor must:

- 1 - Have the determination to make Gallo the only
wine in his territory - which he has.
- 2 - Maintain, train, and supervise an effective sales
force - which he has.
- 3 - Provide intensive display activity - which he has.
- 4 - Provide fast delivery of wine to retailers after
the order is received - which he has.

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5 - Keep adequate inventory of all types and sizes.

If the distributor does not keep an adequate inventory - both the Winery and the salesman are hurt.

(a) The Winery is hurt if the Distributor does not carry adequate inventory because -

(1) It will be wasting advertising money by the product not being available to the Consumer.

(2) Too much shelf space being devoted to the competition.

(3) Our lacking domination of stores which is essential for the retailers' silent recommendation, to which I shall refer to again soon.

(4) Rush orders to the Winery interfere with normal bottling schedules, thereby making our production operation more costly.

(b) The salesmen are hurt if the Distributor does not carry an adequate inventory because:

(1) You cannot keep from shorting retailers on orders, which means they sell a competitive wine which prolongs the competitor's life and strength.

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- (2) You cannot sell maximum quantities.
- (3) You cannot sell maximum varieties.
- (4) You cannot sell maximum spreads.

Without maximum quantities, varieties and spreads in a store, you fail to receive the retailer's silent recommendation to which I shall refer to again in a moment and is so important to the success of a product.

So you see how it is vital for a distributor to carry an adequate inventory if he is not to hurt the Winery and the salesman, as well as himself. _____ has kept an adequate inventory.

Now - I have listed the responsibilities of the Winery, as well as that of the Distributor, in this effort. I will discuss the responsibility which is that of the salesman.

C. The Salesman must:

- 1 - Get replacement in all stores.
- 2 - Get the retailers' verbal recommendation by thoroughly selling him on the story of Gallo quality, packaging, pricing, advertising, and Gallo responsibility, prestige and leadership in the industry. You must so sell him that the retailer will recommend Gallo and switch his customers.

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- 3 - You must get the best shelf position and consolidated - that is all your sizes and types together to get the maximum visual effect.
- 4 - You must get the maximum spread for the same purpose.
- 5 - You must place point-of-sale material at every opportunity in quantity.
 - (a) Point of sale material is advertising at the last moment before the sale.
 - (b) It attracts the attention of the consumer to your product at the critical moment - when he is trying to decide what wine to buy.
 - (c) It makes your wine look more important.
 - (d) It makes it look like the retailer is recommending it.
 - (e) It reminds the consumer of our advertising.
 - (f) Point-of-sale material prices merchandise - it is a service to the retailer - and shelf strips tend to increase your spread and to maintain shelf position.

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- (g) You must use imagination on each call to the retailer - asking yourself each time before you enter a store "How am I going to improve Gallo in this store as a result of this call - and what shall I try next time I call?" If you will do that before and after each call on each store, I assure you the progress you make will be surprising to you.

By accomplishing large shelf spreads, good position, placing point-of-sale, having floor displays, having Gallo dominate the store - you are having the retailer unwittingly silently recommending Gallo to each and every person who enters his store. By giving a brand real prominence in his store, a retailer conveys to his customer his recommendation of that brand over all others without opening his mouth. By putting a brand low in a dark corner or high upon a shelf out of sight and reach, the retailer conveys the impression to the consumer that that brand is not recommended and that it is inferior.

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Now then - if you get the retailers to verbally recommend Gallo to his customers as I have said - by selling him on the story of Gallo quality, packaging, pricing, advertising and Gallo responsibility, prestige and leadership in the industry, and - if you get the retailers silent recommendation by - as I have pointed out - getting the best shelf position, largest spread, consolidation, all sizes and types, place point-of-sale in quantity and religiously, and use your imagination on each call - you will have done your full share along with the Winery and the Distributor.

Remember this - the brand is no stronger than you men - and you men are no stronger than the brand. So we must all work together.

On the last occasion I spoke to you, I promised you the Winery would give every ounce of effort that it possessed to realize our common objective. At the beginning of this meeting, I recited the things the Winery has done since I saw you last. How well the Winery is fulfilling my promise of its effort - is, of course, for you to judge.

None-the-less, - I promise you greater effort by the Winery than ever before.

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So did our distributor - - Mr. _____ - - make a promise, and I can say he has lived up to his promise up to this time, and I have every reason to believe and hope that he will continue his outstanding effort.

So did you make promises - - and by and large most of you have lived up to your promises up to this time. I hope that those of you who have worked so well will continue, and those of you who have not - or those of you who are new here - will see things in a new light, and make a fresh new start. You owe it to the rest of us, but most of all to yourself and your family.

In closing let me say - although some will say Gallo has made great progress during the last 2 years - our rate of progress will be stepped up and greater as we develop more men to help us in Modesto - We will be looking over your territories in the hope of finding men to help us.

Hope to see you sooner next time!

APPENDIX IV

Delivered February 28, 1963
Stanford University Business School

BUILDING A SALES ORGANIZATION FOR GALLO

I was invited by the Chairman of your symposium group, Tad Winans, a few weeks ago to come to talk to you. I told him I should be glad to come -- what did he suggest I talk about? "Something about the problems in building a sales organization for Gallo'," he replied.

In a chat with him a few days later, he happened to make a remark which characterized a philosophy which I have long felt and believed. It occurred to me that I probably would be more helpful to you if I discussed that subject instead -- it being a broader and more fundamental subject -- and it will include reference to 'Building the Gallo Sales Organization'.

Tad Winans' statement, and the subject I intend to discuss with you here today is: "Young Men's Capacities are Usually Underestimated By Most Companies".

I have felt this way for a long time. I must have felt that way when I was your age -- about 30 years ago. I believe I will demonstrate the fallacy of underestimating a young man's capacities best not by giving you a theoretical discussion, but by an example -- a true case history -- the story of E & J Gallo Winery, and how the Gallo sales organization was built.

But first a word as to who and what the Gallo Winery is today.

Gallo is the largest wine-producing and marketing organization in the world. This position has been achieved even though our products as of this time have complete distribution in only 26 states, and partial distribution in 16 others. We still have a lot of growing to do. We have planted and developed several thousands of acres of vineyards at Livingston. At Modesto we have the world's largest winery, with 32,000,000 gallons capacity, and other large wineries at Fresno and Cucamonga. In addition, we have long-term contracts for the entire production of 8 other wineries, situated in various parts of the state. We have recently built one of the largest glass plants in the west to make our own bottles, and another plant to make our own bottle caps.

But, let's go back and start at the beginning. In the fall of 1933 when my brother Julio and I were just about your ages -- 23 and 24 years of age respectively -- prohibition laws in the U.S. were repealed, legalizing the sale of wine and other alcoholic beverages for the first time in 15 years. We were small grape growers at that time, during the depth of the depression. Our combined cash consisted of \$5,900.23.

With the legalizing of the production and sale of wine, I saw what I considered a natural opportunity. We quickly decided to go into the wine business.

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I took inventory of our resources:

Experience in producing wine -- none!

Experience in marketing wine -- none!

Cash -- \$5,900.23

Confidence -- Unbounded!

At that time I honestly felt I could do anything anyone else could do -- not because I was brilliant, but because I was willing to devote as much time and effort as was necessary regardless of sacrifice. To start a winery, \$5,900.23 did not appear to be enough. A building, grape crusher, press, pump, filter and tanks were needed, as a minimum.

With enthusiasm I told of my plans to go into the wine business to my relatives and friends, but anticipating my need for money, they cut me short by saying they had no money to lose.

Quickly realizing I could not raise the money for a building, I rented a building from the railroad at \$60 per month. I went to San Francisco and found a small machine shop that was building crushers and presses in anticipation of repeal of prohibition. Realizing the owner was venturesome, I had no difficulty in buying the crusher and press (approximately \$2,000) on terms of a 90 and 180 day trade-acceptance basis.

The redwood tank manufacturers required more persuasion, but finally sold me 100,000 gallons of cooperage for \$4,000, also payable on 90 and 180 day trade-acceptance.

It was now late in August -- just before the grape harvest. I now had facilities and know-how, but needed grapes. I contacted grape growers, I pointed out that grapes were being sold at only \$8.00 per ton. I pointed out that on December 5th it would be legal to sell wine again for the first time in 15 years, that wine would sell for probably a minimum of 50¢ per gallon. A ton of grapes would produce 160 gallons of table wine. If they would bring me their grapes, I would make wine and would either give them or sell for their account 60 gallons of wine in return for each ton they delivered to me. If the wine would sell for 50¢ per gallon, it would gross them \$30 instead of \$8 per ton. This would give me for my share 100 gallons of wine per ton of grapes they delivered to me without any cost for grapes. On this basis, I succeeded in getting enough grapes to fill the winery.

I now had wine, but no customers. Repeal of prohibition on December 5th was drawing close, and so were the due dates of the trade acceptances I had issued in payment for the equipment and tanks.

One morning, a few days before the 5th of December, I received a letter written by a prospective purchaser of wine from Chicago, requesting samples and prices. It was addressed to all in California who had taken out licenses to produce wine.

Knowing my bills were coming due, it was imperative that I got his order. I took samples and boarded a plane that same day for Chicago, and the next morning was at the office of the prospective purchaser when he arrived. He remarked at the coincidence -- that he had just written

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me, and here I was in his office about the same time. I let it go at that, and sold him 120 barrels -- 6,000 gallons at 50¢ per gallon -- receiving a check for full payment in advance. I continued east, establishing customers in sufficient number to take our production for the year. With a first year's profit of \$34,000 our plant was immediately enlarged, embarking us on an expansion program which has never ended: 7-million additional gallons are scheduled to be added this year, for example.

The structure of the wine industry from repeal of prohibition in 1933 to about 1940 was largely that of wineries producing bulk wine and selling it to bottlers in various markets. Bottlers, in turn bottled the wine and sold it under numerous labels to retailers. Sales by wineries to bottlers and bottlers to retailers were made principally on price alone. It was at that time essentially a commodity business. About 1940 the structure of the wine industry started to change. There was a growing realization that the future would belong to Brands. Commodities do not create a position in the market for their sellers. The so-called "giants" of the industry of that day were making clumsy efforts to market a small quantity of their production under their own brands.

I realized that the Gallo future would be in developing our own brand. Again I took inventory of our resources:

Experience in packaging -- None!

Experience in advertising -- None!

Experience in merchandising -- None!

Experience in selling to retailers -- None!

Financial capacity to launch a brand -- very limited!

Experience in producing a quality product -- at least as good as any in the industry! We had already established the nucleus of what was to become the foremost wine research and quality control laboratory in the industry.

Although we were operating at an increasing profit each year, our earnings were required for the continuous growth that had been taking place: increased plant, inventories, and accounts receivable.

Confidence -- Unbounded!

Because of my complete lack of experience in brand promotion, it just made sense to start establishing a brand slowly -- in spite of what the "giants" were attempting.

I started by acquiring two of my customers: a bottler in Los Angeles and a bottler in New Orleans.

I went to Los Angeles, literally to reason out how to establish a brand for Gallo. I went into stores, looked at their physical layout, asked questions of clerks and owners: from this study in the stores I came to some simple conclusions:

Everything being equal, a consumer buys brands he knows and has confidence in. I reasoned that brand knowledge and brand confidence comes only from -- advertising --, or one customer recommending the brand to another, -- or recommendation of the retailer.

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When I started to think in terms of establishing the Gallo brand back in 1941, I quickly came to the conclusion that I did not have the resources to establish consumer knowledge of and confidence in the proposed Gallo brand by media advertising. I simply did not have sufficient money available to spend the large sums required even in those days to make an impression by newspapers, radio or billboards. There was no television in 1941. Therefore, consumer advertising at that time, as far as I was concerned was impossible.

Recommendation by one consumer to another? This couldn't happen until you get some consumers started first -- besides, our product at that time did not have such superiority in quality as to merit such voluntary comment among consumers. Therefore, the only avenue open to me in establishing Gallo at that time was the retailer's recommendation. Since the Retailer's Recommendation was to be so vital in establishing Gallo, it was obvious a very careful study and appraisal of this effort was imperative. By talking to retailers and by reasoning, I came to the following conclusions which, incidentally, have stood the test of time.

First, retailers are, as a rule, either too busy or too indifferent to vocally recommend a product very long, even for monetary consideration.

Second, effective retailer recommendation can be obtained without his saying a word - what I term his silent recommendation, by obtaining for Gallo dominant exposure, making Gallo visually very important in the store.

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I reasoned that by giving this dominant visual exposure and importance to a brand in the retailer's store, the consumer would accept this dominance as indicative of the retailer's considered opinion as to which brand is the best, and in effect, which one he is recommending. It would give the consumer confidence in buying Gallo. I came to this simple conclusion back in 1941 when I started establishing the Gallo brand, and its importance is as imperative today as it was then. Having determined that for the first few years, at least, I would be limited to promoting Gallo by the retailer's silent recommendation, I set about to determine how I was to obtain this dominance in the retail store.

As I have previously stated, up to this time wine was sold pretty much as a commodity. Bottlers used almost any shape bottle, unattractive labels, and sold principally on price. No effort was made by a bottler to get any particular position in a store for his wine. As a result, their bottles were stuck around mixed with everyone else's wine. A real hodge-podge.

Again in talking to retailers, putting together their thinking and suggestions, and using just plain common sense, I determined that I could obtain the retailer's silent recommendation by the following:

1. Producing and maintaining a high quality product.
2. Packaging the product in a distinctive manner denoting quality.
3. Providing a constant fair and sure markup for the retailer by fair-trading the consumer price.

4. Occasionally providing a "deal" or extra incentive to the retailer to encourage him to buy sizes or types he was not carrying, or to just load him with enough Gallo wines to absorb his purchasing power and exclude competition.
5. Overcoming the retailer's usual objection of "no room" for a new brand by providing an attractive metal rack holding ten cases of wine. This was self-liquidating from the profit on the first ten-case order.
6. By sending mailing pieces, "broadsides", I called them, to each retailer each month. These were very bold, colorful pieces unfolding to 18 x 24 inches. Their purpose was to:
announce our promotional programs,
show pictures of our P. O. S. materials,
Show a reproduction of the single full-page newspaper color ad we would run. This technique proved to be surprisingly effective in giving the Gallo brand status.
7. I reasoned that it would be imperative to constantly exert great effort to have the retailer stock all types and sizes of Gallo wines in quantity.

To obtain the most visible position at eye level.

Trim shelves with the colorful P. O. S. we provided.

To use bottle collars to attract consumer attention to Gallo wines.

Rotate stock, and keep the Gallo shelves stocked.

Dust the bottles.

To place counter displays of Gallo wine next to the cash register.

And to talk to the retailer about the quality of our product.

All of these things would have to be done to obtain the retailer's silent recommendation.

It became apparent to me that to do all of these things to obtain the retailer's silent recommendation in each store would be quite a job.

The next matter to consider was how to get all this done at the retail level. I started by talking to wholesale liquor distributors. This was the method of distribution used by other wineries.

I soon learned that a liquor distributor's salesman usually has several lines and many sizes of whiskies, gins, cordials and imports as well as wines for sale. As a result, it is not unusual for a wholesale liquor distributor's salesman to have well over 500 items to sell. This made it impossible for him to devote much of his effort to selling wine.

It became immediately apparent to me that I could not hope to get the intensive sales effort that was required to do this job by the method of selling the retailer that my competitors were using.

The only thing that made sense to me was to have retailers called upon by salesmen concentrating their entire effort on Gallo.

This meant the creation of a sales force.

I wanted men with a background of retail service. I hired young men from the ranks of the soap, grocery, soft drink and tobacco industries. Each man was given specific accounts, required to make regular calls and daily reports.

The sales force was divided into teams of 10 men each. A supervisor was employed for each team.

Retailers in Los Angeles soon felt that here was a brand on the move. For the first time, here was a wine of consistent quality.

Attractively packaged,

Aggressively merchandised.

We immediately assumed the status of leadership.

In those days we were first and alone in the wine business to do these things -- simple principles, but as a package, extremely effective. Our progress in Los Angeles was phenomenal. Continuing to use substantially the same technique, as soon as we established one market we invaded another.

In this latter regard, I should say that an important contribution to Gallo progress has been by recognizing the capacity of and encouraging young men to go into business for themselves as distributors of Gallo wines.

You may be interested to know, for example, that our distributor for the whole San Francisco Bay Area is one of our former salesmen. Our New York distributor is owned by a former salesman and his former sales manager.

Our state of New Jersey distributor is owned by a former winery state manager and the former sales manager of another Gallo distributor.

These organizations, to mention only a few, have grown to be highly effective organizations with approximately 100 salesmen each.

There are a number of states we are not yet in and await the development of proper personnel. We are always ready to assist a person of proper capacity and integrity, if he wants to become a distributor for Gallo wines.

I mention this to emphasize that although some companies underestimate a young man's capacity, there are many who do not.

In those few states where we do distribute through wholesale liquor distributors we require a separate wine sales force concentrating on our wines alone.

Along with our desire to expand our distribution, it became necessary to build a sales organization.

To survey potential markets

To establish and train distributors

To feed back to winery headquarters market information

To convey to distributors winery policy, programs, assistance and supervision.

Mostly from the ranks of the salesmen we developed winery representatives, state managers, regional managers, brand managers, distributors. As time passed, it was to be expected that competition would react by attempting to do the things we were doing.

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But in most cases, it was too late. We already were generating the capacity to advertise in newspapers, radio, and then television. From starting as perhaps the smallest, we were well on our way to become the largest.

Now, of course, our competitive capacity also includes a highly skilled merchandising materials production department as well as the usual advertising department.

With the development of our new products, we recently instituted the brand manager system of control, to maintain maximum effort on each product. Under this system, each brand manager is virtually in business for himself. He is responsible for his products in:

Testing

Initiating proposed budgets

Packaging

Initiating proposed advertising campaigns with the advertising agency,

Working out advertising schedules

Initiating effort on the part of the merchandising department to create promotions for his brands

Checking the market as necessary to determine that the sales department is exerting satisfactory effort on his brands, and,

Establishing sales quotas

In short, he is virtually responsible for the success or failure of the brands assigned to him.

It is his job to see that the Winery's resources are used effectively to further the sale of his assigned brands.

In every growing organization there is a shortage of capable men. New products, new markets, new concepts open up new positions requiring more and better executives.

Up to a few years ago, we looked to employment agencies for such men. This source proved to be increasingly disappointing. We found that middle-aged men of real ability, except for unusual circumstances, don't change jobs. Their value is usually fully recognized by the company they are with. In contrast, three years ago our director of marketing, quite by chance, happened to employ a young man who struggled through to receive his M. B. A. here at Stanford. With a minimum of training, this young man has developed into an outstanding brand manager. This was a powerful reminder that young men's capacities are usually underestimated.

With this thought in mind, we decided to immediately institute a program of developing our own executives. We employed a man with a background of college teaching and personnel training to head up a recruiting and training program.

This training program is conducted in Los Angeles, where we operate our own distributing organization. This affords us a unique class and field training opportunity. This training in Los Angeles is for a period of 6 months to 1 year. The trainee, in addition to class room work is required to spend time as a salesman handling for several months the full responsibility for our products in 80 to 100 stores. Next, he becomes a junior district manager in charge of 5 or 6 salesmen and some 600 stores, and in a few more months,

a district manager in charge of a team of 10 salesmen covering approximately 1,000 stores. During this period he is under constant appraisal by not only the training director and other Los Angeles personnel but also occasionally on-the-ground checks by at least one company vice president from Modesto. He is required to come to Modesto approximately once a month to sit in on advertising meetings and to discuss his observations and reactions, and to review the problems of his training in order to better judge the direction his aptitudes are taking. By the time the trainee is ready to leave Los Angeles, both he and we know whether he will more likely be successful in sales, advertising, or brand management. Some we find should not be in these fields at all, but rather in production or administration. Because of our growth, we have executive needs in these areas as well. Now in concluding, I hope I am leaving you with at least the following:

1. Successful people never think of the term - "It can't be done".
2. What you may lack in knowledge or experience, whether it be in production, administration or sales, you can overcome by hard work and common sense
3. More and more business organizations are becoming aware of young men's capacities.
4. More and more business organizations have programs for rapidly developing young men into executives.
5. Don't underestimate your own capacity.

You may not now know where your greatest capacity lies, but you can quickly find this out by joining one of the many organizations which are in a position to give you opportunity to demonstrate your ability to find and organize facts.

To give you the opportunity to think about them

To give you the opportunity to come to conclusions

To give you the opportunity to recommend action

and then, to give you the opportunity to carry out the programs you devise.

With such an opportunity and with encouragement and guidance, you will quickly determine your capacity for growth. You can help to prove again that young mens' capacities are usually underestimated.

30 Years Back was Repeal; 30 Years Ahead . . .

by ERNEST GALLO E. & J. GALLO WINERY

[ED. NOTE: *Maybe Ernest Gallo is a visionary, but if he is, the record indicates that he is a very practical one. In this article, based on a recent talk to the members of the American Society of Enologists, Gallo measures the present against the past, and the future against the present. Gallo's evaluation of the California wine industry's future amounts to stating that if the industry is not one of the "good sized industries" of the U. S. 30 years from now, it will not be because of a lack of potential.*]

SINCE the Wine Industry is observing the 30th anniversary of the repeal of prohibition this year, I feel it is proper to review the condition of our industry on repeal of prohibition, to assess our current status after 30 years of existence, and with this background and information, to attempt to project ourselves into the next 30 years.

We shall see that if we succeed in developing our potential, we have a surprisingly great future.

The deserving of today—whether growers, enologists, marketing men, managers or owners—should look forward to the future with anticipation and excitement.

Now, let us start from the beginning: December 5th, 1933.

To make good wine you need good grapes, and what grapes were available in 1933? During the fifteen years of prohibition, fine table wine grapes almost disappeared, having been replaced with the common varieties. This happened because wine was made in the home during prohibition, and grapes had to be rugged to travel long distances across the country to people who did not know any more about grapes than that they were either white or black.

So, in 1933, insignificant varietal acreage existed. Viticultural practices were quite elementary. The growers were, in large part, inexperienced people who had been attracted to grape growing from other walks of life because common variety grapes were bringing phenomenal prices in the Eastern fresh grape market for homemade wine.

These growers knew little about maintaining proper soil moisture, fertilization, or pruning and spraying practices. Their limited knowledge resulted in light yields per acre and inferior grapes.

Today, because of research by the University of California and members of the industry, viticultural practices have been improved and advanced. The quantity produced per acre is far greater and the quality is far better, than that of 30 years ago, making possible the production of more, and much better, wine.

However today, 30 years after the repeal of prohibition, we still have insufficient acreage planted to fine wine grapes. This is one area where we cannot take pride in accomplishment.

We have had the resources at hand to greatly improve and increase the plantings of good varietal winemaking grapes. Too few of us have done this, to date. We can be greatly encouraged, however, by the increasing interest and action of growers and vintners in the last several years.

In the next 30 years, I believe that our research will develop

grape varieties of considerably higher yield, with desirable varietal characteristics which are at least equal to the very best we now have. I rate this as a goal of greatest importance, for I consider the development of more fine wine grapes as the key that turns the lock that opens the door to the future.

On the repeal of prohibition, the little winemaking know-how available to the industry was limited to a handful of older men who were entering the wine business as proprietors, and to a few pamphlets published around 1914 and earlier by Professor Bioletti of the University of California.

For example, all that my brother and I knew about winemaking at the time of Repeal was how my father used to make wine in the basement for our own use. Some of you may remember what homemade wine was—something like grapejuice in December and something like vinegar in June.

My brother and I started looking for a winemaker. We ran down various leads obtained from old timers who used to work in wineries before prohibition and we reached a dead end each time. The people we sought had either passed away or could not be tracked down.

A search of the local library unearthed two of Professor Bioletti's pamphlets. These pamphlets were probably the difference between going out of business the first year because of an unsalable product, and what was to become the Gallo Winery of today.

I believe I would be safe in estimating that there were only about half a dozen trained enologists, chemists and technicians in California 30 years ago. Today we have about three hundred, and about ten to twenty are joining the industry annually. If this industry grows as I think it will, we will soon have several times this number.

Increased technology, breakthroughs into new scientific areas in other industries which are adaptable to ours, exploration of new areas, and development of new products will require an increasing number of highly trained enologists, chemists, and technicians. The enologists of today and tomorrow now have a tremendous base of knowledge to build upon.

Let us compare the know-how and practices of 30 years ago with those of today.

Thirty years ago we burned sulfur sticks in tanks. Today, we have automatic SO₂ feed, and we are now on the threshold of completely eliminating SO₂ in winemaking.

Thirty years ago oxblood, isinglass, or skim milk, was used as a clarificant—and used only when there was a full moon. Today, it's Bentonite or ion exchange on any day of the year.

Thirty years ago most fermenting was without cooling—with the resultant stuck wine coming from fermenters, tasting flat and over-heated. Today, all our fermenters have cooling coils, and fermenting temperatures are under reasonable control. We are already thinking in terms of automatic control of the temperature to its optimum point in the fermenters, depending on the variety of grapes—perhaps as low as 50° F. for some with properly selected yeasts. This will be one of the great steps forward in improving our quality and contributing to the enormous increase in consumption that is in the offing.

"... what we did yesterday is obsolete today ..."

Thirty years ago we depended upon the natural wild yeast to start the fermentations; today we have pure wine yeast cake, and before another 30 years we may be using selected enzymes alone, to develop the very best characteristics from each variety of grape.

Thirty years ago oxidation was a problem of great magnitude. Many wines were already oxidized at the time of bottling, with the result that we were exposing the new American market to inferior—in some cases, undrinkable—wines. Is it any wonder Americans were so slow in developing a desire for our table wines?

In recent years our enologists have tackled the oxidation and shelf-life problem and have made great strides. This has contributed materially to the healthy increases in table wine consumption, and these increases will be augmented by new developments in the offing—the use of atmospheric control and antioxidants.

One of the most dramatic improvements in the last 30 years has been in winery sanitation.

From the use of small, leaking, sometimes contaminated and moldy wood tanks, our industry has progressed to the giant plastic-lined, insulated steel tanks that are comparable in sanitation to giant thermos bottles. We can wonder if greater sanitation is possible. Much of our cleaning is done manually, and I believe the next 30 years will bring fully automatic sanitation.

Thirty years ago, the only way known to bottle wine with the hope of keeping it from spoiling was through the addition of excessive doses of SO_2 . This destroyed much of a wine's natural, delicate character. Today, we do slightly better by pasteurizing into the bottle, and considerably better with DEPC. Thirty years from now we will have been using selective antibiotics and sterile filtration for many years.

Thirty years ago we had Ebulliometers for alcohol test, sugar stem for solids, and litmus paper for acid. We have now progressed to semi-automatic, micro-dichromate alcohol test, refractometer for solids, and recording titrimeter and gas chromatography for identifying minute quantities of the congeners in grapes and wine. The future will hold for us fully automatic wine analysis with digital computers compiling the necessary data.

No one in this business is more aware of these changes taking place today within the industry than the enologist. The enologist has revolutionized the art of winemaking and through modern technology and advanced scientific theory will augment this revolution to the point where methods 30 years from today will have made today's practices even more obsolete than the methods of today have made obsolete the methods of 30 years ago.

Of course, the people within the industry have changed, too.

Let us look at the people who entered this business on the repeal of Prohibition. A few had been winery owner before Prohibition; another few had been in winery management.

These were people who had remained associated with the industry through vineyard holdings or through attempts at producing or selling grape juice and/or a little sacramental wine. They had for years been clinging to the hope that

Repeal would some day come. But when it came, it found them an impoverished lot.

By and large, however, the people who rushed into the wine business at Repeal were people who were attracted to it mainly because they saw a new industry coming into being. They jumped in with no experience, training or capital, hoping to find a quick way to make money.

Both categories of people had to think first of survival and only then of the consumer.

Because of ignorance and/or necessity, they bought grapes as cheaply as possible, produced wine as cheaply as possible, and sold it as cheaply as possible and couldn't pay their debts.

Is it any wonder that our industry started so chaotically and grew so slowly?

At its start, we saw the same wine bottled under several labels and priced to the consumer as low as 39c per fifth and as high as \$1.75 per fifth. This did inestimable damage. Consumers switched from one brand to another, sometimes to higher prices, in their search for something they might like. Unfortunately, they too often found the same poor quality.

The first attempts at bottling were clumsy and crude—packaging left much to be desired. Today, wine packaging receives great care and effort and is often the result of the best packaging engineers and designers in the world.

Wine now costs little more to the consumer than it did shortly after Repeal, and the quality has vastly improved. Wines today are actually a real value. I am sure that during the next 30 years, the quality of wine received by the consumer will be increasing faster than the price—the competition of other beverages will see to this.

Today, I believe we are equal to the challenges of competition. The wine industry is now comprised of comparatively well-financed people, whether they operate as an individual, a corporation, or a grower cooperative. The personnel is highly skilled and trained in the areas of viticulture, enology, production, and marketing. People in management and ownership today are, on the whole, competent business people. They are modernizing and building new plant facilities, placing increasing emphasis on training and skill in the areas of chemistry, technology, enology, marketing and management, making the best wine possible with the grapes available, developing and planting new grape varieties, developing new wines, and increasing our sophistication in marketing wines.

It is noteworthy that the California wineries, by voting for the Fermenting Materials Marketing Order, have shown they are starting to appreciate the importance that the quality of wine is to play in our future. This is an historic initial step forward for the improvement of the quality of California wines.

Let us compare the wines produced 30 years ago with those produced today.

Then, our table wines were heavy, very dry, high in tannin, usually oxidized, coarse, harsh and often sour. Today they range from full-bodied red wines to light rosé and white wines, reaching in sweetness from quite dry to very mellow, permitting the unsophisticated as well as the critical and the experienced to find a wine of their particular liking.

Our 20% wines of 30 years ago were limited to Port, Sherry, Muscatel, Tokay and Angelica. They were unstable, of crude, inconsistent quality, and were consumed primarily by unfortunate, low-income individuals.

Today our dessert wines are materially improved, and are now of such quality that they are being increasingly consumed by people in higher income brackets.

These dessert wines will be further improved, perhaps by lowering the alcohol from 20% to possibly 18% or 17%, or perhaps by developing better varietal characteristics through viticulture.

Special Natural Wines have made their place, currently representing 1 out of each 6 gallons in the 20% category.

California table wine shipments have increased from 12 million gallons in 1935 to 46-million gallons in 1963, and have averaged an increase of 10% per year the last five years.

American 20% wines have grown from 19-million gallons in 1934 to 114-million gallons in 1963. The disturbing fact, of course, is that the consumption of 20% wines has not increased during the last five years.

Without question, the Special Natural Wine category presents a challenge to develop wines that can stimulate the volume of the 20% category. This is an area where the enologist can develop products limited only by his imagination and the Internal Revenue regulations.

The wine industry, like any other industry, cannot stand still. It will either progress or regress. As a result of increased purchasing power, education, leisure time and advertising, customs and taste change very rapidly.

Thirty years ago if the producer of any product turned out a standard, dependable product, he "had it made." So much so, that you may recall what Henry Ford was led to say in reply to his marketing department's request for the production of Fords in various colors. Said Henry: "They can have any color Ford they want, as long as it is black." We know that this policy was changed fast when the great Ford Motor Company was within inches of going broke as a result of General Motors, Chrysler and other automobile companies giving the public something new and better, as well as many beautiful colors from which to choose.

Faced with similar competitive forces, the wine industry must grow faster if it is to continue to grow at all. It must grow faster by constantly improving its existing wines and developing new wines. Hard liquor, beer, soft drinks, juices and new beverages that are not even in existence today will be increasing competitors. Thirty-five percent of the food products sold today were not even in existence five years ago. The radical changes in consumer buying habits in such a basic commodity as food are attributable to *new products*, as well as to effective advertising and marketing. We must accelerate our rate of progress, or fall behind in the race for public favor, and fall short of our full potential.

The marketing of wine has become a highly specialized and very complex profession.

Today we have merchandising, advertising, and sales people who are equal in calibre to those in the most competitive fields of consumer products, and who use the same effective techniques. We can be confident that they will competently promote our wines.

Up to this point, we have reviewed together the progress this industry has made during the last 30 years. We were reminded of its humble beginnings. We have assessed our current status. And we have previewed a few examples of the improvements that could well take place in the wine industry during the next 30 years.

What was my purpose in taking you through this highly respectable record of the industry's accomplishments to date?

My purpose was to establish that the last 30 years have been a period of "preparation" and that now—30 years after our start of preparation—we are ready for "*commencement*." The commencement of what can be a 30-year period of fantastic growth in our industry as a result of our current capacity in viticultural experience, technology, facilities, marketing and management.

Stated in another way, my purpose was to prepare you for the acceptance of such volume goals for the next 30 years that, although they may at present stagger the imagination of some, may nevertheless be accepted as a possibility.

I need not remind you that European wine consumption averages over twenty gallons per capita, while ours is less than one gallon. I do not accept the idea that the American taste is different from the European when it comes to wine, except that it is—strange as it may sound—more sophisticated.

The American taste for wine is more sophisticated in that the American public—except for the very low income consumer—will not drink a wine unless it is quite good. We know that this is not the case with the average European.

As far as Americans are concerned, all of us have had many occasions to observe how repeatedly they require the refilling of their glass when served a truly fine wine, and how unapologetically they simply leave their first glass of wine after the first sip, if it is not really good.

From this clue our industry must take its cue.

If we recognize both its significance and potential, if we have the intelligence to see the opportunity, and the courage to seize the challenge, the California wine business can become one of the "good-sized industries" of the United States.

We know that Americans will buy and use what they enjoy because they can afford it. From my observation, I know that there are wines in existence of such desirable characteristics that the American who will not enjoy them is the exception rather than the rule. Furthermore, these wines would be desired by most Americans for daily use *if they were available in quantity at reasonable prices*.

For example, assuming that advances in viticulture, technology and volume production made it possible, what do you think would be the American per capita consumption of wine if wines such as Wente's Pinot Chardonnay, Mondavi's Chenin Blanc and Martini's Zinfandel were available, in all liquor stores, markets and supermarkets at 72c per fifth, \$1.25 per half gallon, and \$2.15 per gallon in California, and proportionately priced in other markets? Gone would be the attitude of "I can take it or leave it."

These wines have sufficient appeal to be used every day by a great many people—and very important, not only would they be served often, but the quantity consumed at each use would be several times that consumed now. Partly filled glasses would be replaced by empty bottles.

What could our annual volume be by 1994? According to the U. S. Census Bureau, 30 years from now—in 1994—our population will have reached 160 million adults, with an average disposable family income of \$13,000 versus today's \$7,000. They will have the benefits of higher education and increased leisure time. They will be aware of the therapeutic values and the low caloric content of wine. Wine will have assumed its rightful place as a nutritious, enjoyable, wholesome family beverage.

Let us make some projections.

I ask you this question: If it is possible, through increased plantings of varietals, advances in viticultural practices, and advances in technology and volume production, *to make table wine of the quality I have described, at the relative prices I have stated*—then wouldn't you agree with me that it is safe to assume that 30 years from now at least 40 million

people—one-quarter of the projected adult population of 160 million—would use two glasses of table wine per day on an average?

Here is the shocker! Two glasses per day by 40 million people means a consumption of 1 billion, 100 million gallons per year. Yet, under our assumption, this projection is by no means unrealistic.

As to dessert wines, assuming no change in the tax relative to distilling spirits, I believe our enologists will be able to make such improvements in product as to permit us to at least maintain our current per capita consumption. This would mean 132 million gallons of dessert wines consumed.

Although the sales volume of Special Natural Wines has leveled off, I believe that Special Natural Wines have not reached their full potential. I believe that we shall be able to produce wines of such appeal as to enable us to at least increase our volume of Special Natural Wines proportionate to the increase in population. This will mean an annual volume of at least 20 million gallons per year by 1994.

As to sparkling wines—Total United States' Champagne consumption has, as you know, grown at an average annual rate of 7% per year for the last three years. An American is, in my opinion, a natural for being a comparatively large consumer of good Champagne. He likes the dramatic, enjoys the fizz, is status conscious, and can afford it all.

Based on the current 7% annual growth rate and based upon the projected population 30 years from now, we should be selling 40,000,000 gallons of Champagne per year by 1994.

And now we come to still wines with residual carbon dioxide. Here was an idea that could have opened a great new volume. Certain vintners, who could not possibly have been hurt by the idea, prevailed upon Washington to limit the carbonation to five pounds instead of seven. And since, as you know, the five pounds is actually the maximum, you must, in order to be sure that you do not exceed the limit, carbonate to approximately four and one-half pounds. This new product was licked before it got started, it was destined to hardly make a ripple. What volume the future holds in this area is dependent upon increasing the amount of carbonation currently permitted. Since it is impossible to guess how long it will be before Internal Revenue regulations will permit a modest and necessary increase, let us not include this category in our projection.

The consumption of American Vermouth has remained fairly static for the last five years at about 4 million gallons. I can see nothing at this time which indicates significant growth in the future.

Now let us total the projections we have made:

- 1 billion, 100 million gallons of Table Wines.
- 132 million gallons of Dessert Wines.
- 20 million gallons of Special Natural Wines.
- 40 million gallons of Champagne.
- 4 million gallons of Vermouth.

Total: 1 billion, 300 million gallons of wine consumed annually in America by 1994. We can achieve this volume if the vinticulturists, enologists, marketing men, management and winery proprietors have the foresight, courage, and drive of pioneers—of empire builders; if they become imbued with the spirit that this wine business can be truly a great business.

Let us consider what the industry will need to produce the type of wines described, at approximately the prices referred to, in the quantities projected.

It will need nearly 8 million tons of good varietal grapes for table wines and at least 1,700,000 tons of the common varieties for Dessert Wines, Special Natural Wines, and Vermouth.

For wine alone, there would be required approximately

double the existing 474,000 acres that are presently in grapes, for all purposes.

Our industry's problem of the immediate future appears to be not that of being plagued with too many overall acres of grapes, but rather of disallocation of those acres among the various grape varieties. There are too many acres devoted to raisin and table varieties and too few acres devoted to fine wine varieties to provide prosperity to the grower and to permit wineries to supply the demand for the type of wine the American consumer is prepared to buy in quantity.

Therefore, it would seem that there can be little sympathy for the grower who persists in planting table and raisin variety grapes. In fact, methods should be found to encourage growers to replace some of their existing table and raisin grape variety vineyards with good wine varieties by dissemination of information, by loans, long term contracts, and any other way possible to achieve this end.

This would provide an *immediate* and *economically sound* way for reducing the production of table and raisin grape varieties currently in over-production; this would immediately increase the price of table, raisin and wine grape varieties.

This would also start to provide a supply of good varietal wine grapes, commencing five to seven years from now when the replanted vineyards come into bearing. By that time we will already be desperately in need of an additional 300,000 tons of good wine variety grapes merely to maintain our current quality and keep up with the current table wine consumption growth rate.

The industry should be able to produce increasingly superior wines, to sell them at a price within reach of the average consumer, to use sophisticated marketing methods and effective advertising to expand its sales, and to prepare for the increased volume of business which lies ahead.

Scientific, economic, and managerial developments are proceeding so rapidly that it is almost impossible to keep up. Scientists are synthesizing elemental materials never before in existence. We are in the middle of a population explosion. Digital computers are in their infancy. Radioactive isotopes will show us the mysteries of grapes and wine which we cannot now explain. Growth hormones such as Giberellin will control the size and quality of fruit. Radiation preservation will be a reality in wine. Expandable warehouses will be of blown plastic foam and will make insulation, carpentry and concrete a thing of the past. What we did yesterday is obsolete today; what we are doing today is already obsolete tomorrow.

The future demands more specialization and awareness of progress, and each professional group within the wine industry—whether in science, marketing or management—will have its hands full trying to keep up with the competition of other beverage industries.

With our eyes set on the goal, and with recognition of our capabilities and potential, our industry, inside of 30 years, will less resemble our industry of today, than our industry of today resembles our industry of 30 years ago.

Our industry needs more and more men who strongly believe that our commencement is *today*. Men who will only for a moment look back to the humble beginning of 30 years ago and compare it with the progress that has been made as of today, for the sole purpose of appreciating all the capabilities we now have and realizing the opportunities that this great industry holds forth for us.

We have just *commenced* to grow. We can look forward to the stimulation, the excitement and the rewards that will accompany our development—development into an industry of stature among the leading industries in the United States. Our future is truly exciting.

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