Ernest Gallo, 1909–2007: A Life in Wine*

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I. Introduction

A. Regional Oral History Office Interview (1969–1971)

Everyone knows the name Ernest Gallo. With his brother Julio they started the E&J Gallo Winery in Modesto, California in 1932. In 70 years the winery grew to be the largest in the world. Some evidence of the scale of the Gallo Winery’s operations can be found in the interview itself.

“We will crush this year [1971] somewhere around 650,000 tons of grapes. We will produce only somewhere in the area of 50,000 tons” (Gallo, 1995, p.31).1

A ton of grapes produces about 150 gallons of wine (Gallo, 1995). In 1971 the Gallo winery produced about 105,000,000 gallons of wine. That’s a large operation by any standard.

This paper is based on an interview with Ernest Gallo conducted during the period 1969–1971 by the Regional Oral History Office, Bancroft Library, University of California, Berkeley.2

B. Gallo Obituaries

Ernest Gallo passed away March 6, 2007. His death was widely publicized. The San Francisco Chronicle ran an “appreciation” rather than the traditional obituary. The piece was authored by Jon Bonné, the newspaper’s wine editor. Mr. Bonné notes,

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1The phrase, “We will produce…” refers to grapes actually grown by the Gallo Winery.


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“Ernest’s work ethic was instilled early. At age 17, he was sent by his father to Chicago to sell a boxcar of grapes and returned with $17,000. It was his introduction to sales, the basis for his creation of a virtual army of Gallo salespeople that exercised its influence around the globe. His work ethic was forged by grueling 18-hour days as he and Julio struggled to resurrect the family’s grape growing business after Prohibition and the trauma of their parents’ deaths” (Bonné, 2007).

The New York Times ran a more traditional obituary. But even their article couldn’t help noticing the remarkable success story of the Gallo brothers, especially starting from fairly humble roots.

“In the 1920s, Ernest’s parents bought a farm near Modesto and like their neighbors, began to grow grapes. Their fruit was loaded on railcars and shipped east (private winemaking was still allowed during Prohibition). The railheads in Eastern cities, from Boston to the Carolinas, from Pittsburgh to Cleveland and Buffalo, were dominated by thugs who took a cut of whatever was sold. By the time he was 17, Ernest was traveling with the grapes to ensure the family received top dollar” (Prial, 2007).

Mr. Gallo learned a great deal from his early education in what must have been a school of pretty hard knocks.

Figure 1
Ernest Gallo

Source: Gallo (1995), unnumbered page between pp.63 and 64.
C. The Current Work

In this paper we will focus on the economics of wine industry as understood by Ernest Gallo. We will discuss the following issues, quoting extensively from the interview as well as other sources (mainly to clarify some points made by Mr. Gallo).

- Pricing and sales
- Production
- Wine quality
- Marketing and distribution
- Horizontal and vertical integration
- Regulation and trade associations

II. Beginnings

Ernest Gallo was born in Jackson, California on March 18, 1909. His parents had operated the Gallo Wine Company at least since 1906.3

“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.

…

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.

…

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” (Gallo, 1995, pp. 15–16).

The Gallo brothers entered into several other barter agreements during the early years. As we’ll see they also believed strongly in cooperation with their suppliers, particularly grape growers.

III. Pricing and Sales

Pricing is inextricably tied to profitability. However price can also be a signal of quality (e.g., Spence, 1973; Bagwell and Riordan, 1991). Mr. Gallo understood these two points very well. As the following anecdotes reveal, he also understood marketing and sales.

“On December 5 [1933], 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” (Gallo, 1995, pp. 16–18).

Note something remarkable about this statement. Ernest Gallo regularly used air travel in the early 1930s. Mr. Barbera did not even realize it was possible to travel from California to Chicago that quickly. This was a little-appreciated innovation in sales.

The interview continues:

“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 Griffier. 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 Griffier, 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.” (Gallo, 1995, pp. 17–18).

By simply thinking quickly Gallo was able to increase the company’s margin by $0.40 per gallon. There is no apparent record of how much wine Mr. Griffier purchased, but in their first year of operation the Gallo brothers produced 100,000 gallons of wine (Gallo, 1995, p. 16). Even at $0.50 per gallon gross revenue of $50,000 in 1933 was quite an accomplishment.

In later years the Gallo winery was so large that they had significant monopsony power in the wine grape market. They eventually became the price leader. Gallo recounts the company’s experiences with various pricing models in the grape market. Note the careful attention paid to Thompson seedless grapes, long a staple of Gallo’s low-cost production.

“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 he 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 $68 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” (Gallo, 1995, pp. 73–76).

What’s truly interesting about this excerpt is how far ahead of their time the Gallo brothers really were. Before 1970 the idea of long-term exclusive contracts with grape growers was unheard of. The notion that a grower was to focus on grapes grown solely for wine (as opposed to raisins or table grapes) was also new. Perhaps most interesting of all is Gallo’s memory for details.

IV. Production

Ernest Gallo learned how to make wine the old-fashioned way: he did some research in a library. This passage tells the story.

“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” (Gallo, 1995, pp. 18–19).

In other words they learned how to make wine by reading two booklets. The California wine industry owes something of a debt to Prof. Bioletti.4

Frederic Bioletti was a force in the agricultural area at U.C. Davis in the early 20th century. He specialized in viticulture as well as growing other fruit. Some of the most

4It’s very likely that one of the books Gallo read was Bioletti (1933). The U.C. Davis campus has a street named after him (Bioletti Way).
interesting material about his publications and other activities at Davis can be found at the Online Archive of California.\(^5\) Figure 2 shows Prof. Bioletti demonstrating the correct technique for pruning a vine.

The Gallo brothers were very creative in financing their enterprise. Whenever possible they engaged in barter. They used trade credit and trade acceptance extensively. Without the implicit financing by their suppliers, they could not possibly have grown so fast.

“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.

…

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” (Gallo, 1995, pp. 15–16).

“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” (Gallo, 1995, pp. 16–18).

The accounting is very simple. They produced 100,000 gallons of wine (about 42,000 cases). They gave 1/3 back to the grape-growers, leaving them with 66,667 gallons. At $0.50 per gallon their total revenue was $33,333.50. Not bad for their first year in operation.

V. Wine Quality

The Gallo brothers eventually recognized the importance of viticulture to their success. In the following exchange, Ernest Gallo notes that the winery began working closely with growers “about seven years ago.” That puts the year around 1962, very early for this sort of cooperative venture.

“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 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 Johannesberg [Johannisberg] 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” (Gallo, 1995, pp. 35–37).

At the same time Gallo was not shy about his wine tasting skills. He was also forthright about what he liked and did not like. And he had learned enough about wine chemistry to realize the deficiencies in wood fermentation tanks.

“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” (Gallo, 1995, p. 37).

At the same time Gallo believed that improving the quality of California wines in general would be good for both the industry and his winery.

“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” (Gallo, 1995, p. 53).

A characteristic of Gallo wine production is their use of Thompson seedless grapes. These white grapes produce wine with very little flavor. As such it is perfect for blending. According to Saint_Vini,

“As a produce grape Thompson Seedless (TS) is rather good. It has a high sugar content, good (although somewhat neutral) flavor, light acidity, and is seedless. It produces a neutral wine, with no real varietal aromas. 99.5% of all TS is grown in Madera, Fresno, Tulare, Kings, and Kern counties for an average price of $96/ton (2003 data). It’s primarily grown for raisins, table grapes, white grape concentrate, juice, vinegar and brandy.”

Ruth Teiser asked Ernest Gallo about the future of the Thompson seedless and other grapes.

“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.” (Gallo, 1995, p. 76).

Finally, Mr. Gallo has some strong opinions about wines being made in Europe. As you read the following passage it will be helpful to remember this interview was in 1969–1971.

“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 Portuguese [Portuguese] 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” (Gallo, 1995, pp. 82–83).

VI. Marketing and Distribution

The Gallo winery introduced a technique that has become common in retailing: the “rack jobber.” A more modern term is “service merchandiser.” Regardless of the phrase used, the idea is simple. A manufacturer’s representative visits retail locations and undertakes some of the functions that the retailer’s employees would otherwise have to perform. A rack jobber traditionally set up display racks and in-aisle displays. Service merchandisers have a broader role, stocking shelves and checking inventory as well. Here’s what the Gallo brothers did.

“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” (Gallo, 1995, p.26).

Reading carefully you can see that the Gallo field representative not only made sure the shelves were stocked but improved the product’s location and visibility, too.

VII. Horizontal and Vertical Integration

The Gallo brothers’ original business plan was to produce and sell bulk wine. Many of Ernest’s stories about the early days of the winery involve trips to various parts of the country and techniques he used to sell their product. The Gallos were almost forced to vertically integrate. They began by stumbling into the bottling business – in New Orleans, of all places.

“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” (Gallo, 1995, pp. 23–24).
But, as was the case in so many other aspects of their business, the brothers soon began to innovate. The bottles they started with were the traditional “fifths” used for liquor. The only problem was their color, amber. Wine does not display very well through a filter of this color. So the Gallos came up with something new.

“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.

…

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.

…

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. 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” (Gallo, 1995, pp. 25–26).

But even while they were vertically integrating their business they remained aware of the need to control costs. This concern extended to details such as the price of the glass itself.

“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 Santa Fe Railroad [Santa 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.

... 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 [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” (Gallo, 1995, pp. 41–43).

Note something interesting about this statement. The original bottles were clear with a light behind the display to illuminate the wine’s color. But their research showed that green bottles would give the wine a longer shelf life. It was the Gallo Winery that began the practice that continues today: red wines almost always are bottled in the characteristic green bottles.

VIII. Regulation and Trade Associations

Ernest Gallo was reluctant to join industry associations. He served a term as Chairman of the Wine Institute (1957–1959) and was a member of the Board of Directors for about 30 years (Gallo, 1995, p. 68). But, as Frank Prial noted,

“Ernest himself, aside from his service on the Wine Institute, the industry’s promotional arm, usually kept apart from the rest of the wine business. Only in his last years did he begin to appear at wine events, often in the company of Robert Mondavi, another winemaker, who had long urged him to become more open to the trade and to his customers” (Prial, 2007).

But even Gallo was willing to play hardball when it came to regulation. One of the more outrageous attempts at anti-competitive regulation was led by Lewis Rosenstiel, chairman of Schenley Distillers. Rosenstiel had purchased the Cresta Blanca winery in the Livermore Valley in the 1940s (Paulson, 2007). Shortly after that Mr. Rosenstiel made an attempt to reduce competition in the wine market.

“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)” (Gallo, 1995, p. 67).

But that didn’t mean Mr. Gallo was a believer in free markets. Quite the contrary, he espoused a belief in stabilizing prices.

“...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 [benefited] also.” (Gallo, 1995, pp.71–72).

Ernest Gallo then learned a lesson many others have absorbed over the years. When you give a group some market power it will try to maximize the benefit to itself.

“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 varietals or not, you were under their influence. And this could not work for the long-term benefit of the industry” (Gallo, 1995, 71–72).

Mr. Gallo’s attitude towards suppliers and competitors can be summarized rather neatly. He believed in cooperating with suppliers – but only to a certain point. In August, 2002 Gallo offered San Joaquin County growers $65 per ton for their Thompson seedless grapes. The growers protested that the grapes cost them between $90 and $180 per ton to produce. The Gallos did not budge and many of the farmers tore out their vines, replanting with more lucrative crops. Eileen Fredrikson of Gomberg, Fredrikson & Associates, said, “The problem in the Valley is not Gallo. The problem is that there are too few wineries that make the kind of wine for which the San Joaquin Valley traditionally has been known.”

IX. Conclusion

Ernest Gallo was a visionary in many ways. Perhaps the best summary was given by Robert Mondavi.

“Robert Mondavi, who knew Gallo since the 1930s, recalled their efforts to develop a wine business as America struggled through the Depression and two world wars.

‘I remember the earliest days, when Ernest and I traveled up and down the country trying to sell California wine,’ Mondavi said. ‘He was a little more successful than I, but we both worked our legs off.’

‘The truth is we both had different visions and were able to realize those different dreams.’” (Laube, 2007).

But the two men had some things in common. Both believed in a more scientific approach to winemaking. Both believed quality grapes and grapegrowing techniques contributed to improving wine quality. And both believed passionately in the California wine business.

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7Material in this paragraph, including the quotation from Eileen Fredrikson, is from the Zinquisition blog http://zinquisition.blogspot.com/.
Gallo’s success is a truly remarkable story:

“According to Forbes magazine, Gallo had sales of about $980 million in 2005 with a net profit of $44 million. In 2006, according to Forbes, Ernest Gallo was No. 283 on its list of the 400 richest Americans, with an estimated net worth of $1.2 billion” (Prial, 2007).

Truly the American dream. The best conclusion about the future of the wine industry comes from Ernest Gallo’s parting speech as chairman of the Wine Institute:
“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” (Gallo, 1995, p. 100). 

References


8 From Ernest Gallo’s final address as Chairman of the Board, the Wine Institute.
Appendix

The Regional Oral History Office, Bancroft Library, University of California, Berkeley

The Regional Oral History Office describes its work on the web site:

“As a division of The Bancroft Library, the Regional Oral History Office preserves the history of the San Francisco Bay Area, California, and the Western United States. By conducting carefully researched, tape-recorded, and transcribed interviews, ROHO creates archival oral histories intended for the widest possible use.

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Interviews are conducted with the goal of eliciting from each participant a full and accurate account of events. The interviews are transcribed, lightly edited for accuracy and clarity, and reviewed by the interviewees, who are encouraged to augment or correct their spoken words. The reviewed and corrected transcripts are indexed, printed, and bound with photographs and illustrative materials. Archival copies are placed in The Bancroft Library, with the sponsoring agency, if any, and at UCLA. Copies are made available at cost to other manuscript libraries. The Bancroft Library also houses the original tapes so researchers can gain a sense of the interviewee’s voice and intonations.

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