Costs, Financing & Forecasting Sales Considerations for Wine and Cider Producers

Tips and Tricks for Starting and Operating a Successful Winery

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Introductions

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- Partner in the 1855 Project, a start-up winery
- MSU & VESTA Instructor
- Michigan Wine Collaborative Board Member
- Masters of Agricultural Economics, Michigan State University
The First Harvest, Liter and Bottle Sold

Where to start on the continuum?

- Buy Land
- Grow Fruit
- Buy Fruit
- Build a Winery
- Produce Wine & Cider
- Open a Tasting Room
- Sell Wine & Cider
Overview of Successful Approaches

Key to success:

– Start with passion and develop a business plan that aligns with your personal and professional goals
– Connect with mentors and advisors
– Purchase land and plant a vineyard or orchard
– Invest in equipment and buildings wisely
– Adequately size the production and tasting/event facilities
– Assess the financial needs in the short-term and long-term: tap into your personal finances & friends, family & fools Network
– Review various investment & debt financing options
– Know the value of your fruit and products (collateral)
– Forecast and assess sales data
Winemaking Wisdom
Invest in your Craft

– Usually starts with a love of wine or cider
– Home winemaking >> Travel >> A few seminars >> A DREAM is BORN!
– Seek mentors & on the job training with skilled wine & cider makers
– Constantly engage peers and others for professional development
– Education will only take you so far, experience is a critical consideration especially when it comes to securing financing

Great Resources: Michigan Wine Collaborative, VESTA, Michigan State University & Extension, Community College Partners

MI Wine Collaborative & VESTA Meeting
June 3-10
Traverse City, MI
When it comes to Wine & Cider we are Selling a Place, We are tied to the land…

- It starts with the soil, the places where the fruit is grown
- The climate
- The varietals
- People want to hear the stories of your Farm
- The history of the vines and orchards
- The Local Lore

Manigold Farm, Gewurztraminer planting
The BEST Wines & Ciders start in the Vineyard & Orchard

- Where should I grow fruit in Michigan?
- How much will land cost?
- Do I meet with a traditional commercial lender or farm lender?
- How much will it cost to establish and maintain the vineyard or orchard?
- Farm Management Services may be available in your area
- Separate Personal Property from Vineyard and Manufacturing companies for Liability reasons
How much to budget for the Production Facility?

Assess the Business Plan: How big do I want to be?
Small wineries can estimate Up Front Investment:
$2-3M:

- Crush & Bottling Equipment
- Tanks and Barrels
- Building

Economies of Scale incrementally jump:

- 2,000 cases
- 5,000 cases
- 20,000 cases
- 100,000 cases

Dylan Punching Down
Crush Equipment

- One harvest a year lasting 6 weeks using highly specialized equipment
- Components are manufactured and shipped among a tightly regulated world wide supply chain
- Be prepared to maintain and fix things on the fly
- The rest of the world uses metric
- Power supply is a huge issue
  - Electrical needs may increase costs 20-30%
- Big Players in the US & Canada: Prospero Equipment, Scott Labs, Criveller Co.
Tanks & Barrels

Stainless Steel Tanks & Bins
- Vance Metal Fabricators: Geneva, NY
- Considerations: Cleanliness, Cost and Size of lots for Fermentation and Aging

Barrels
- Seguin Moreau, Radoux, Mercurey, Damy
- Considerations: French, American, Toast, Grain, shipping, size and racks
Equipment

$700,000 Initial Budget

Large incremental growth in equipment

Financing options are available with most large equipment suppliers

Short term government secured USDA loans and SBA may also be an option

Several producers have been successful with USDA Grants and a cost match
The Building

- Anticipate the needs for:
  - Current and future production and finished goods space
  - Tasting Room and Event Space
  - Restrooms!
- Assess Materials Flow, ADA Compliance & Wastewater Issues
- Permitting process can take up to a year: TTB, MLCC, MDARD, MDEQ, TWP
Tasting Room / Sales Costs

- Glassware
- Bar & Kitchen Items
- Furnishings & Fixtures
- Server Certifications
- Sales Licenses & Taxes
- Marketing & Social Media
- POS & Website Software
- Merchandise
- Wine Club & Shipping Costs

Glassware, spittoons, menus, pencils...
Labor and a Growing Winery

- Highly specified and seasonal labor force
  - Migrant Workers and Interns
    - Housing & Transportation
    - H2A Guest Worker Program
  - Long hours, strenuous work, low wages
  - 1st yr ($350K) vs. 5 yr ($700K) payroll estimates with benefits for FT
  - As a small business owner how do you value your own labor?
Annual Operating Costs

- Utilities
- Insurance: building, liability, workmans comp
- Licenses, Fees & Taxes
- Mortgage and Loan payments
- Supplies
- Vehicles
- Rule of thumb have access to 2 years of operating capital when you open
How much does it really cost to produce?

Cost of Production
$4.75/Bottle

- Grapes: 41%
- Packaging: 28%
- Supplies, Equipment & Operating: 19%
- Labor: 12%
Custom Crush Alternative

Mutually beneficial relationship between a winery and a custom client

Very cost effective way to make wine with out the up front investment

Very Common

Can be tailored to fit the needs of the client

<table>
<thead>
<tr>
<th>Custom Crush</th>
<th>Cost per Case w/o Grapes</th>
</tr>
</thead>
<tbody>
<tr>
<td>White Wine</td>
<td>$35</td>
</tr>
<tr>
<td>Red Wine</td>
<td>$45</td>
</tr>
<tr>
<td>Sparkling Wine</td>
<td>$65</td>
</tr>
<tr>
<td>Fruit Wines</td>
<td>$25</td>
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</tbody>
</table>
Switching Gears
Forecasting Sales
Equally Important

– Good Sales Projections tell you:
  – How much fruit to grow, harvest, sell, purchase
  – The size of the facility and the capacity to meet production goals
  – Number of staff needed and what your labor costs
– Sales Data area a part of any successful business plan:
  – Three Key Performance Indicators: Balance Sheet, Income
    Statement, Statement of Cash Flows
  – SCORE and SBA Website: Business Planning toolkits
Big Decisions: What & How Much to Make
Part 1

1. Use vineyard tonnage to estimate lot size, supplement or sell fruit
2. Take into account the timeline from grape until customer purchase: single harvest per year, the winemaking process, bottle aging
3. Take into account current inventory, sales, distribution and growth strategies
   - Pinot Grigio Example:
     - 2 acres planted, typical harvest 3.5 T/Ac = 7 Tons.
     - Assuming a yield of 700 liters/tons = 4,900 liters juice
     - Assuming 15% loss = 460 cases of Pinot Grigio
     - 6 months from grape to bottle
     - Sales goal: 300 Cases
     - Sell some fruit or make a new product (like Ice Wine!)
1. Generate an annual winemaking budget
2. Use a weighted average to calculate cost of production per bottle
3. Estimate desired production levels by product based on previous sales, update at bud count
4. Add 20% for reserve to insulate from crop failure and allow for adequate time in the bottle
5. Set or Change prices to reflect the quality of the wine and quantity on hand
6. Assess competitors prices
The Next Step: Create a “I want what your selling” Experience

- Most people consume & purchase wine for the relaxation and social benefits
- Most people talk dry but drink semi-dry or sweet, meet them where they are at today
- Tasting Room Educators are selling more that wine, they are selling an experience, a lifestyle, the nectar of the gods
- Experiences in your Tasting Room have lasting impacts
DTC: Selling in the Tasting Room

Realistic DTC Sales Goals: 2,000 cases per year
Key Price Points $10-15 & $15-$20 (WBM)

Pros
• Highest profit margins
• Ability to hand sell

Cons
• The customer may have to travel long distances
• Highly dependent on the season and tourist traffic

Other Considerations
• Customer Service is extremely important
• Creative ways to make money by selling merchandise, tours, events
Events = Opportunities

- Bring guests to the winery year round for a new experience
- Connect with outside vendors
- Substantial income opportunities
- Weddings are big business
  - $25K average wedding costs
- Marketing and getting the word out about events can be difficult
- Consider staffing and local zoning

Yoga in the Vines
- Weekly for 12 Weeks
- $40 Class x 15 Students

Wine Education Dinners
- Weekly for 15 Weeks
- $100 Class x 8 students

Sip & Dab
- Monthly for 4 months
- $40 Class x 20 students
The Decision to Sell off Farm

- In Michigan, Wineries have the right to self-distribute to any licensed retailer given that all state sales and taxes laws are obeyed.

- Considerations for signing with a distributor:
  - Be prepared to sign Statewide.
  - A winery may be locked in for life.
  - Realize much of the WORLD of WINE is consolidating.

Love to travel and talk about wine.
Line Pricing in The Three Tier System
Pinot Grigio

Tasting Room: $22 /1.5
Wholesale: $14.66 /1.5
Distribution: $9.77
Projected Annual Revenues for a Small Winery: $1M

- Consumers via Tasting Room & Wine Club: 64%
- Wholesale: 16%
- Distribution: 12%
- Private Paid Tastings: 1%
- T-Shirts: 1%
- Corkscrews, bottle stoppers, glassware: 3%
- Yoga in the Vines: 2%
- Wine Education Dinners: 1%
- Sip & Dab: 0%
- Vineyard and Winery Educational Boot Camp: 0%
Importance of Connecting the Dots... Cost, Financing and Forecasting

- Successful Producers:
  - Manage crop risk/loss, which is at the mercy of mother nature
  - Practice due diligence in the highly regulated beverage manufacturing industry
  - Assess capital and infrastructure needs with a growth mindset
  - Respect the artistry of the craft and create unique products
  - Market effectively to prospective customers across all tiers
  - Set price points carefully and update prices when vintage or inventory requires it
  - Make good decisions from detailed sales forecasts
  - Invest in people and provide an exceptional tasting room experience
It all starts with
A Great Business Plan!

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Cheers And Enjoy
Michigan Craft Beverages!!