Transition to Commercial Winery

Establish your Business Plan
My Background

• Business Consultant for Farm Credit East, ACA

• Career:
  – 8 years in animal agriculture
  – 15 years as commercial loan officer for many agricultural operations including wineries
  – Business Consultant 3 years – serving winery and dairy farm clients in the Finger Lakes
  – Since 2011 – director of the Winery Benchmark
Outline

1. Intro
2. Analyze your customer base and traffic
3. Decide your business model
4. Decide on size of the business
5. Evaluate your capital sources
6. Create a budget and finalize your decision
7. Q&A
• 5 years of vineyard development

• Other costs during this phase may include:
  – Licensing
  – Permits
  – Production area
  – Wine equipment
First Sales

- So you sold your first 500 cases
- Your tasting room is your garage
- What’s next?
Next Steps could be

• Build or rent a full size tasting room
• Scale up production by expanding production space and buying more tanks and equipment
• Procure more grapes
• Build more inventory
• A 2\textsuperscript{nd} phase of capital investment
Decisions to make

• Type of processing equipment
• Size of production facility
• Size and Style of tasting room
• Brand marketing - amount of advertising to spend each year, promotional events, etc.
• Staff – amount and availability of key staff (what can you afford?)
First

Analyze your customer

Sources of data include:

• Other wineries
• Winery associations
• State Department of Transportation
• County Tourism board
• In the North East..... Winery Benchmark
Know your Region

Sweet vs Dry Region B

- % Sweet Wine
- % Semi-Sweet
- % Semi-Dry
- % Dry Wine
Know your Region

Avg Retail Price/Bottle

Region A

Region B
Two types of marketing

• Pulling the sled uphill
  – existing base of customers is little to none
  – Advertise, advertise, advertise
  – Lots of events
  – Goal: seek to attract traffic to your winery and/or tap into existing non-winery tourists
Two types of marketing

- Sledding down hill
  - Existing winery traffic
  - Perhaps even a wine “trail”
  - A bustling local tourism industry
  - A locavore restaurant scene that supports its wineries
Uphill slog–advantage?

- Little competition (quality or price)
- Few expectations: Can set the standard for the region’s wine style
- A novelty
Sledding—advantage?

- Part of the marketing is already done
- An existing stream of traffic to tap into
- Known results by existing wineries can be used to model your results
- Style preferences are known
Common Sense

- Does your area have a cultural center?
- Is there a portion of the population that has wine experience and expectations?
- What are the existing tourist themes in the area?
- What kind of tourists do they attract?
- What kind of wine do these people typically enjoy?
• What grapes or fruit are readily available?
• What kind of wine do you make well?
• What kind of wine do you and your staff like?
• Are you a proven marketer?
• How much capital (equity) is at your disposal?
Second Business Model

Small, boutique, premium wine market (Target: wine enthusiast)

Or

Fun, fruity, party atmosphere (Target: Everyone with a wallet)
Boutique

- Probably 1,000 to 4,000 cases per year
- More sophisticated
- Not inviting to buses or limos
- Costs are higher including:
  - Cost of Production (grapes, bottle, etc.)
  - Cost of facility
  - Cost of labor
Commercial

- Target of over 5,000 cases with potential over 15,000 cases
- Potential for wholesale to be a major portion of business
- Capacity to handle buses and limos
- A wider range of wines including sweet
- Wine prices generally lower
- Costs are lower
A critical step - Size

Third

• Based on all of the above
  – Wine style
  – Price point
  – Existing customer base or lack of it
  – Style of business
    • All about the wine, or
    • Events, party, experiences

• How big can you grow this business in the next 5 to 10 years?
Classic mistake

• Too much debt and too big of a facility
• Creates overhead costs that can’t be covered initially
• The sales target to cover the cash flow requirements of high debt and overhead are very difficult to reach.
Size and Overhead

Overhead as % of Sales

<5000
5,001 to 11,000
>11,001
Size and Debt

Debt per Case Sold

- <5000
- 5,001 to 11,000
- >11,001
Example:
$5,000/acre in vineyard costs @ 2.5 Tons/acre
= $2,000/ton for grapes

@ 150 gal / net yield per ton (in the bottle)
= $13.33/gal or $31.73 per case in JUST grape costs. On top of this add labor, bottling supplies, lab supplies, etc. Can you be profitable at this cost?
• Construction style should match your business model
• How much will that cost?
• Can you build a tasting room that can be expanded later?
• Can you add on to your production facility?
• Generally, size your business in 5 to 10 year increments
Fourth Evaluate your capital

• How much equity (net worth) do you have to put into this project?
• How much do you have in liquid assets to provide for cash flow needs of the business?
• How much owner labor can you contribute?
  – Is the winery your 2nd job, OR
  – Can you contribute full time for the next 5 years without taking a salary
The Capital Plan

• Fully explore what assets you will need to buy over the next 4 to 5 years to be fully functional (Tasting room, equipment, inventory)

• Then, compare the capital need with your resources and calculate the amount of debt you will need
• In the next 5 years, will you be able to fully utilize your own bottling line, crush pad, etc?
• Should you consider custom crush or other custom services?
• Should you rent a tasting room?
• Should you expand your portfolio of wines by buying grapes?
• DEBT makes a BIG difference:
  – Principal – a drag on cash flow
  – Interest – a drag on cash flow, and a drag on ability to grow net worth
  – $500,000 debt/20 yr term/2,000 cases/year is a profit target of $18.18/case
  – $500,000 debt/20 yr term/15,000 cases/year is a profit target of $2.42/case
Fifth

Budget

• Create a budget for a “typical” year once you have established your sales goal

• Create a budget for a transition year to see how much additional cash you will have to put into the business in each year you will be below that level

• Go back to the capital and debt plan....does it still make sense?
Keep Options Open

- Establish a capital and debt plan that gives you some room for error.
- Expandable building design is a good thing.
- If you will be small and boutique (i.e. unlikely ever to grow beyond 5,000 cases), then be even more conservative with debt.
- Consider custom crush or custom bottling.
Key Concepts

• Build the right size winery!
• Build the right style winery (for you and/or for your customer)
• Understand: Will your winery tap existing markets or create new ones?
Key Concepts

• Understand the difference between Boutique vs Large scale

• Reality: Will you be able to count on rapid growth to provide cash flow for future needs or will future cash flow likely come from owner investment for many years?

• Manage this critical step to provide options in case your plan doesn’t come together as well as you thought.
Questions?

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