

Transition to Commercial Winery



FARM CREDIT EAST

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**

Typical Winery Start Up

- **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 2nd 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

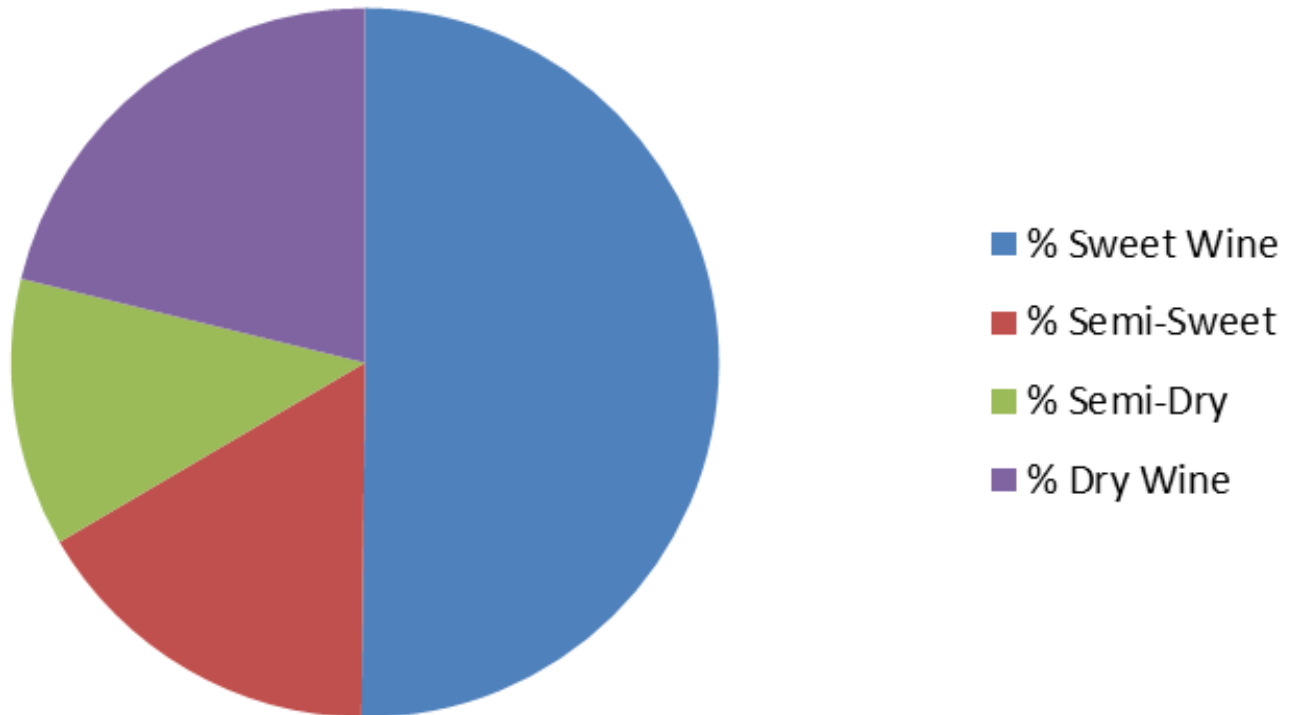
Analyze your customer

Sources of data include:

- **Other wineries**
- **Winery associations**
- **State Department of Transportation**
- **County Tourism board**
- **In the North East..... Winery Benchmark**

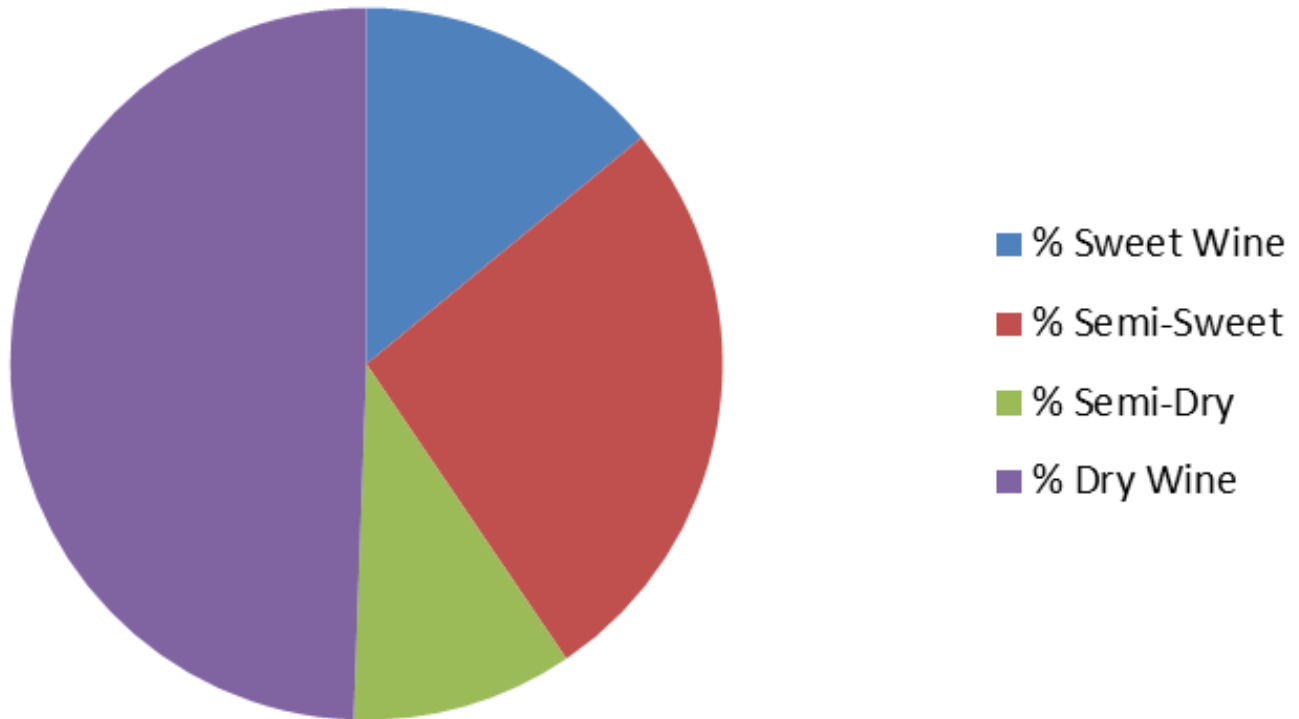
Know your Region

Sweet vs Dry Region A

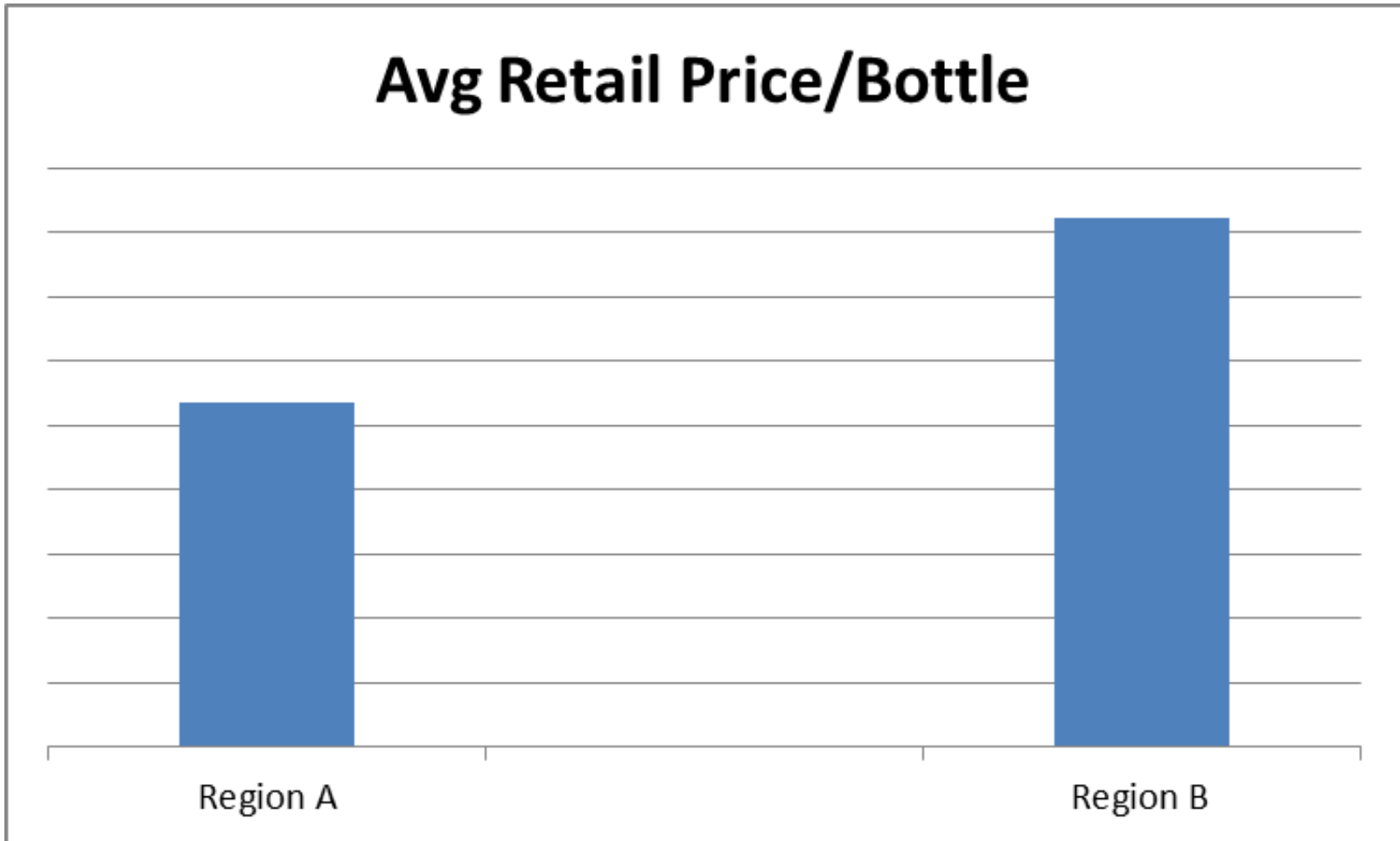


Know your Region

Sweet vs Dry Region B



Know your Region



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?**

Common Sense - #2

- **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**

Third

A critical step - Size

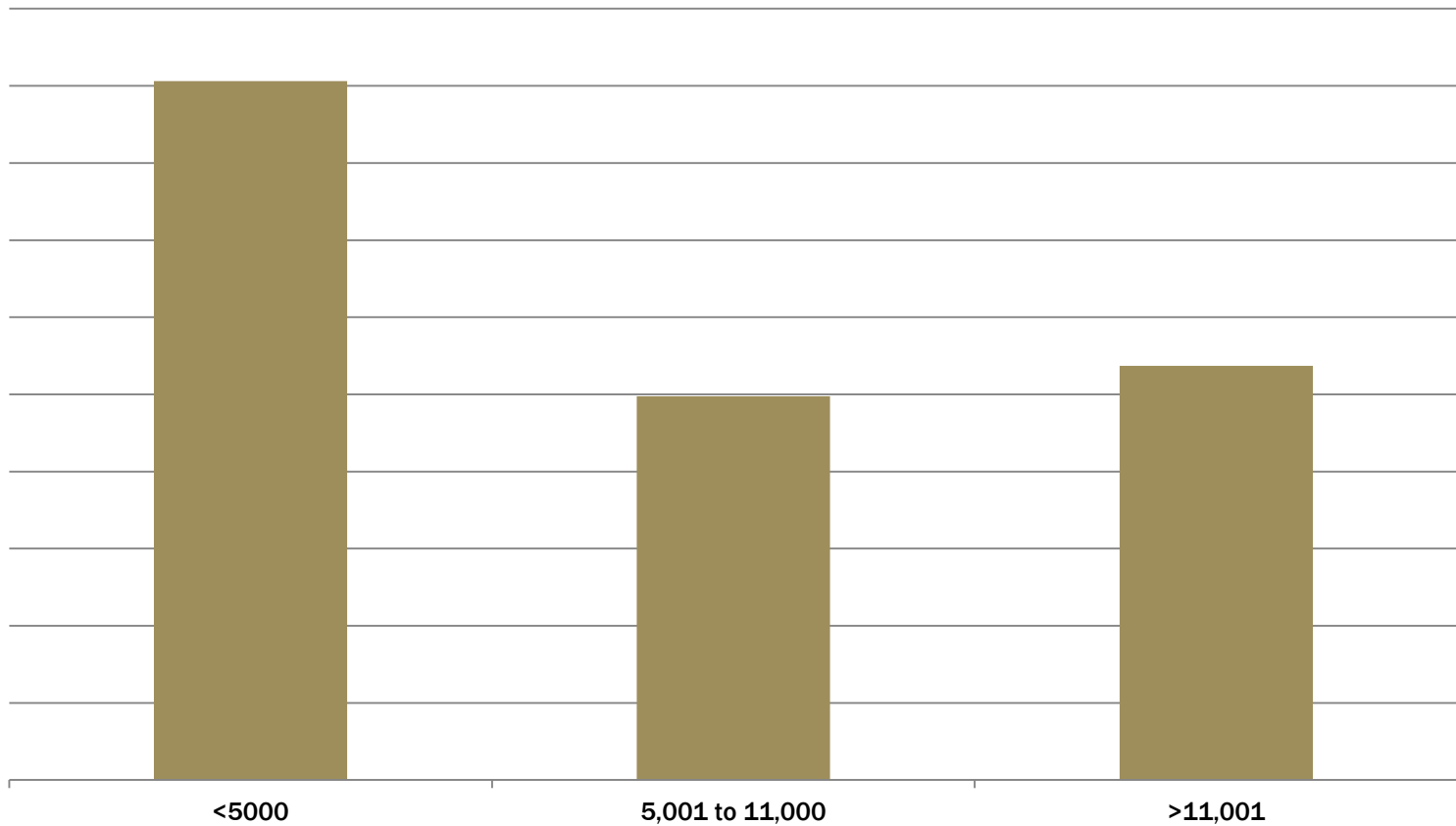
- **Based on all of the above**
 - Wine style
 - Price point
 - Existing customer base or lack of it
 - Style of business
 - All about the wine, or
 - Events, party, experiences
- **How big can you grow this business in the next 5 to 10 years?**

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.

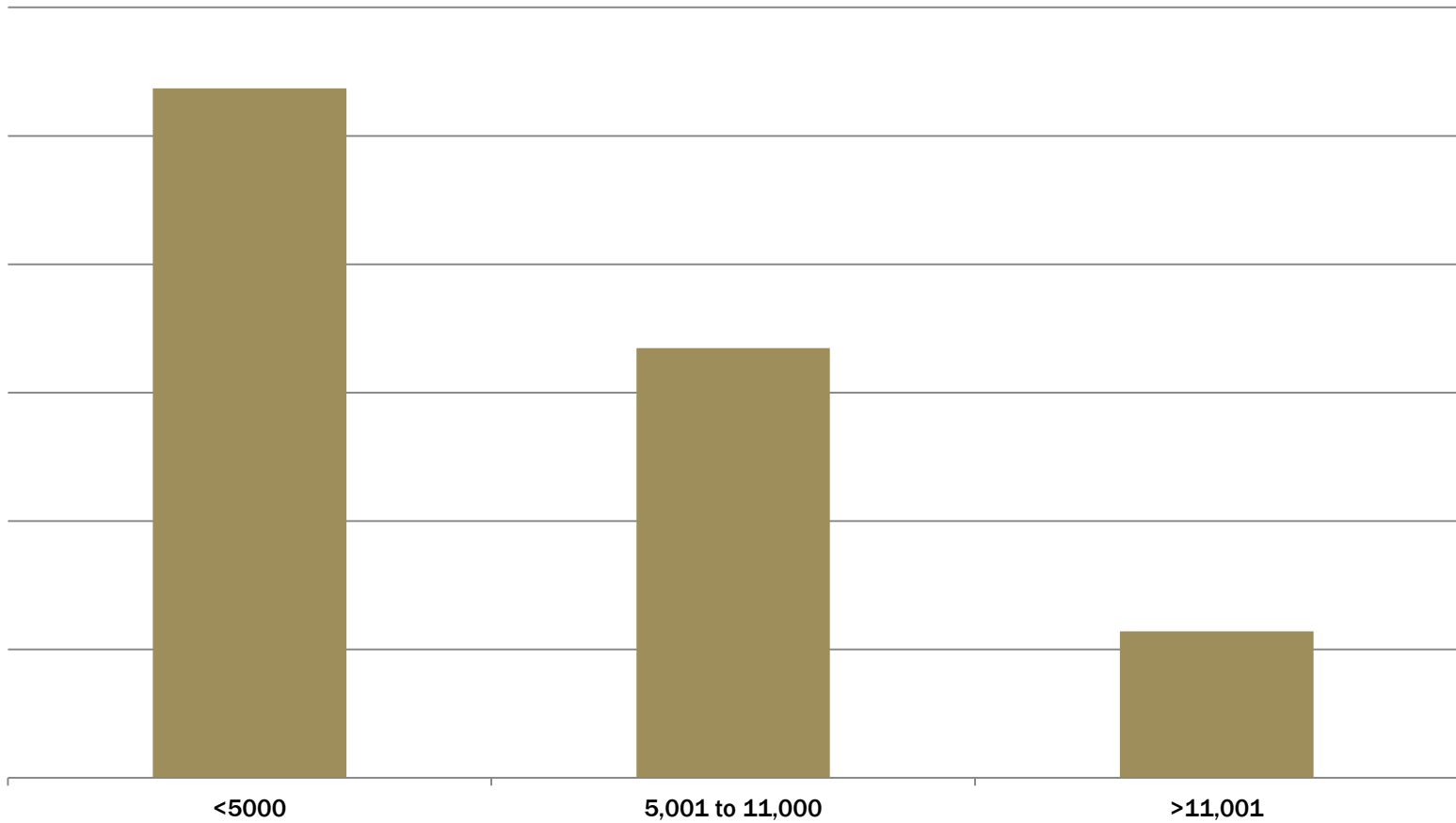
Size and Overhead

Overhead as % of Sales



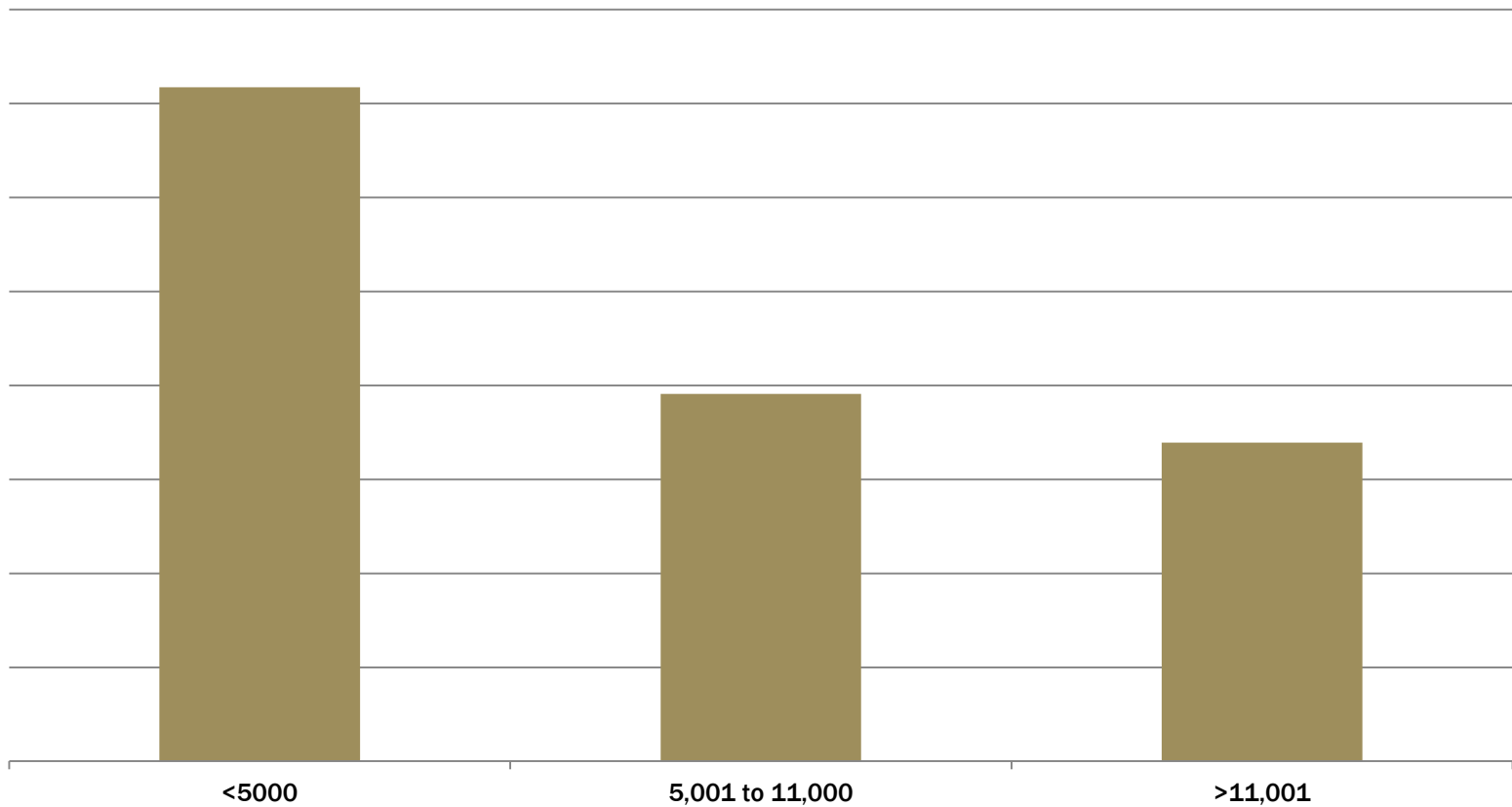
Size and Debt

Debt per Case Sold



Cost of Production

Cost of Producing a Case



Vineyard Costs > Bottle

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?**

Style and Size

- **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**

Explore Alternatives

- **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 plan

- **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 will 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?

Gregg McConnell
Farm Credit East, ACA



gregg.mcconnell@farmcrediteast.com

<https://www.farmcrediteast.com/winerybenchmarks>