

Transition from Non-Commercial Winemaking to Commercial Wine Production/Sales: *Lessons Learned and Pitfalls to Avoid.*

(presentation given by Jacques Mercier from Solune Winegrowers to SWGGA on 5/19/2011)

1. Production touch stone numbers:

- 1.1. Large winery => ~ Million cases / year
- 1.2. Medium winery => Hundreds of thousand cases / year
- 1.3. Small winery => Tens of thousand cases / year (NCW)
- 1.4. Mini-winery => Couple of thousand cases / year
- 1.5. Micro-winery => ~1000 cases / year
- 1.6. "Garagist" winery => Few hundred cases / year
- 1.7. **Profitability threshold:** ~ 1200 cases/year => 25 cases/week:
=> Need to sell ~ 1 barrel/week (~ 300 bottles / week).

2. Vineyard and/or Winery ?

- 2.1. One thing you would need to decide is whether you want to start/operate a **vineyard** (basically, farming)
- 2.2. and/or a **winery** (wine production, very different from growing grapes),
- 2.3. or **both**. Each is quite an undertaking, but for different reasons.

3. Vineyard

- 3.1. On the vineyard side, you need to be **fairly large** (at least 50 acres) to even break even if you only plan to grow grapes and sell to wineries (i.e., no wine production).
- 3.2. If you lease an established vineyard to sell the grapes, the break-even point can be much smaller (i.e., smaller initial investment required), although some years can be a total write-off (like 2010).
- 3.3. Typically wineries do not purchase small quantities of grapes, so as a vineyard **you need to produce enough of any single variety** to be able to deal with most wineries. For example at our winery, Solune winegrowers, due to the size of winemaking equipment set, it does not make sense for us to purchase less than 3 tons of any single variety (and we are a very small winery - larger wineries will require 5-15 tons or more of any variety).

4. Winery

- 4.1. On the winery side, as mentioned above, to break even a winery needs to **produce at least 1200 cases per year**, with the challenge being as much in the **marketing/selling** aspect as in the **wine production** itself (although **it helps to make good wine** to be able to sell it).
- 4.2. Many people who are attracted to the winemaking part of the adventure, **underestimate the marketing/selling aspect**. Eventually, count on spending at least 50% of your time (if not more at times) in the marketing/selling effort, otherwise, you will end up with an ever increasing inventory of unsold wine.
- 4.3. The **more people like your wines** the less it will cost you in marketing effort.
- 4.4. Ideally, the marketing is to bring people to you and then **your first bottle** should be what sells your second bottle

5. Winery vs Vineyard Revisited

- 5.1. Overall, there is very little money to be made in grape growing, with most of the earning potential residing in the winemaking/selling.
- 5.2. This is why many small vineyards (and quite a few large ones) have added a winery to their operations because the return on their vineyard investment has a better chance of being realized if they "sell the grapes to themselves" to make/sell the wine instead of just selling the grapes to a winery for them to realize the profit.
- 5.3. It also means, that the vineyard does not have to be as large to have a chance at being profitable if wine production is part of the operations.
- 5.4. Also, remember, that it takes at least 4 years for a vineyard to start producing and 6-7 years to be producing fully.
- 5.5. At Solune, we both grow some of our own grapes, but we buy quite a bit more than we grow.

6. Is profitability an Important Part of your Plans

- 6.1. Of course, if making a profit is not part of your plan, then forget about what I just said
- 6.2. but remember the following: "Question: How do you make a small fortune in the wine business ? Answer: Start with a large one !"
- 6.3. Many of the decisions you are making will depend on whether or not profitability is part of your plans.
- 6.4. Profitability = Revenues less ALL expenses (not just some).
- 6.5. For example, if you spend a \$1000 on an event and you sell \$1000 worth of wine, from a cash flow point of view, looks like you are breaking even, but you are actually losing money => All the expenses that went into making that wine.

7. UC Davis Vineyard Courses

- 7.1. UC Davis also has a good continuing education program in grape growing, wine production, wine business and sensory analysis
- 7.2. Especially if you are planning to plant a vineyard, I would strongly advise to take their Managing the Small Vineyard course series (four 1-day courses) before you plant. This will ensure that you avoid making costly mistakes (and there are a lot of those to make) rather than find out about them after you make them and it is sometimes too late to do anything about them.

8. Importance of Developing your Palate

- 8.1. An often neglected component of the whole adventure is making sure you develop your knowledge of the finished product, which is the wine itself.
- 8.2. It is critical that you develop your palate (UC Davis has excellent courses in that area), otherwise you might end up making very mediocre wine without realizing it (and wondering why it is not selling).
- 8.3. You will be making the transition from making wine for yourself to making wines for your customers (more on this later) and they can be much harsher critiques than your friends and relatives have been in the past,
- 8.4. with the ultimate judgment simply being that they will not buy your wines if they do not like them.

9. Engineering Trap

- 9.1. There is a typical trap for technical people who become enamored with the process rather than the end result and I have seen many small wineries fall into that trap.
- 9.1.1. Without good sensory skills for wine evaluation, you would lack a critical quality feedback tool and it would be a bit like flying an airplane without instruments (i.e., you don't know where you are going and if you even get there in the end).
- 9.1.2. Another example would be a pitcher getting so wrapped up in the mechanics of throwing the ball that he forgets to keep his eyes on the ball (who knows where the ball will end up !), which is the wine in this case.
- 9.1.3. Furthermore, wine knowledge (as opposed to winemaking knowledge) will also eventually become critical in your marketing/selling effort.

10. Other Aspects of Winery Operations

- 10.1. If wine production is your interest, finding partners who can handle the crucial marketing/selling part might be a good idea (this cannot be neglected).
- 10.2. This would be to cover: Developing your look/brand (logo, color scheme, label design, etc.), publicity material (brochures, signs, merchandising such as logo cap/shirts etc.), website (possibly a Facebook fan page), tasting room design/operations, wine club, wine description writing (for website, labels, tasting sheets, etc.), special events (both at your winery and at other venues), sales to restaurants/stores, remote sales (i.e, via shipping).
- 10.3. All of these would need to be done at some point or other, and many need to be in place before you even start selling wine.

11. Simple Economics of Growing/Selling Grapes vs Growing/Vinifying/Producing/Selling Wine.

- 11.1. Grape growing => Break-even proposition at best, unless large vineyard (> 50-100 acres, depending on the area)
- 11.2. Revenues from grape growing: ~\$1000 per ton, @ 2-4 tons per acre => \$2000-\$4000 per acre (less cost of growing).
- 11.3. Revenues if making/selling wine from own grapes instead of selling grapes to others:
1 ton of grapes => ~150 gallons of wine => 63 cases of wine x 2-4 tons per acre = 125-250 cases per acre
- 11.4. Typical profit per case => \$100 (\$16/bottle, less ~\$8 production cost) x 125-250 cases/acre => \$12,500-\$25,000/acre (less cost of growing - or buying - grapes)
- 11.5. 6 to 12 time additional profit from producing/selling the wine compared to growing/selling the grapes!
- 11.6. In current grape buyer market (offer larger than demand): Grow hard-to-find grape varieties and buy the rest ! (also provides flexibility of trying new varieties)
- 11.7. Many vineyards have added a winery to their operation to maximize profits from their grapes(e.g., Lodi and here => Sierra Starr, Double Oak, Smith, Naggiar)

12. Parting Thoughts:

- 12.1. Commercial Production => You are no longer making wines for yourself, but for your customers, often the hardest part to realize.
 - 12.1.1. If you have "particular" personal tastes (like high acidity, lots of tannins, sweetness, dryness, lots of oak, etc.) => You reduce your potential market to those who share your particular taste.
 - 12.1.2. Wine range needs to appeal to most people who come to your tasting room, ranging from complete neophytes to experienced tasters (i.e., the wide range of visitors do not necessarily need to like all your wines, but they need to all find a few they like)
 - 12.1.3. Plant what grows best in your area, not what you personally like best (I like Pinot Noir most, but it does not grow well up here).
 - 12.1.4. Expect your "particular taste" wines to be your low sellers.
 - 12.1.5. CA palate (most of your customers):
 - 12.1.5.1. In: Smoothness, boldness & intensity.
 - 12.1.5.2. Niche: High acidity, rustic tannins, sweet wines, etc.
 - 12.1.6. Use a few people in regular tasting focus groups who have what I call a "street" palate, meaning a palate representative of your customer base, especially if your personal palate is not typical of you customer base.
 - 12.1.7. My own bias is that I prefer high acidity in wines, and high acidity is not "appreciated" by the typical CA palate that comes to our tasting room. So, even though I have to account for that personal bias when I craft our wines, I always "sanity-check" the wines with a few other people whose palate is more typical to the CA customer base.
 - 12.1.8. Other part of developing your palate is to discover what your particular tasting biases are (high tolerance to tannins, affinity for oaky wines, etc.) and you might not realize you have.
- 12.2. Get a wine club started:
 - 12.2.1. 100 members x 4 releases per year x \$35 per release = \$14,000 x additional sales multiplication factor (ideal 6 => \$84,000 / year / 100 members).
 - 12.2.2. Develops "brand loyalty".
 - 12.2.3. Overall goal is to get people to visit you on a regular basis.
- 12.3. Following tradition: There is a price tag.
 - 12.3.1. Example: Barrels as marketing tools as opposed to winemaking tools and yearning for new wineries to do like the big boys without the means to do it.
- 12.4. Case of demand determining prices: Whites are more expensive to produce (chilling requirements) than reds but fetch lower price.
- 12.5. Varietal/style prejudices: Rosé, Riesling, Gewurztraminer, Merlot, Chardonnay, sweet wines.
- 12.6. Staffing requirement: Winemaking, sales, customer relations, marketing, accounting (and farming, if you grow grapes).
- 12.7. Expect the unexpected:
 - 12.7.1. Weather/pests (vineyard)
 - 12.7.2. Regulations (federal, state, county, city, ADA)
 - 12.7.3. Economy.
- 12.8. Tasting Room location:

- 12.8.1. Out-of-town location: Main road vs back roads (the further back you are, the more you will need to spend on promotion/marketing for people to discover you).
- 12.8.2. Downtown location. Fruit forward vs more challenging wines ("easy" wines sell much better downtown because downtown tourists are more occasional visitors as opposed to the more focused visitors coming to your winery).
- 12.9. Beware of the big production year trap !
 - 12.9.1. Usually happens when you transition from non-commercial winemaking equipment to higher capacity production equipment.
 - 12.9.2. Produce how much you can sell, not how much you can make (takes a few harvests to sink in).
- 12.10. **In the end: You are in the wine selling/storage business more than in the winemaking business.**