

Help in Addressing the Challenges to Entering the Vineyard and Winery Industry

Part 4

**Iowa State University
Value Added Agriculture Program**

**United States Department of Agriculture
Risk Management Agency**

Dr. Murli R. Dharmadhikari

Extension Enologist
Iowa State University
murli@iastate.edu

Planning to Start a Winery



Murli R. Dharmadhikari, Extension Enologist ISU Ames IA, murli@iastate.edu

Key points of successful winery business plan

- Summary of goal and objective
- Understanding regulations and compliance
- General background of the business
- Marketing plan product mix and services
- Operation plan
- Timelines for reaching defined goals
- Funds required for establishment and successful operation
- Financial information

Location

- Location to be large enough for planned facility and future growth.
- Check with zoning or any restriction(winery in a dry county)
- Well drained soil with adequate load bearing capacity
- Close proximity to grape supply and labor supply
- Close to highways, convenient for customers, suppliers and shipping goods.
- Availability of potable water, electricity (3-phase) waste disposal facility
- Consider wine tourism aspect
- Compatible with surroundings and the brand image

Marketing Plan

- Define your target market.
- Identify and analyze your direct and indirect competition
- Develop the market plan to reach target market
- On premise/ cellar door sales (%)
- Retail sales(%)
- Wholesale Sale(%)
- Events: festivals, business meetings, wedding receptions
- Wine and food events
- Concerts, murder mysteries weddings, tourism etc.

Product mix

Types and styles of wines

- White, red, dry, off dry, sweet, Ice wine, late harvest
- Sparkling: bulk process or traditional
- Fortified: port, sherry, others
- Fruit
- Specialty

Packaging

- Bottle size and shape; bordeaux, burgundy, rhine?
- Cork or screw caps
- Label?
- Capsule
- Additional information

Wine bottle sizes

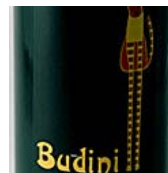


Label designs

- Traditional



- Modern



Price?

- Five key categories:
 - \$ 0.00 - \$ 5.99
 - \$ 6.00 - \$ 8.99
 - \$ 9.00 - \$11.99
 - \$12.00 - \$14.99
 - >\$15.00

Promotion

- Producers may use a combination of advertising, personal selling, sales promotion, public relations, and direct marketing tools to communicate with current and prospective customers.
- Promotion activities to be targeted at both end consumers and middlemen. End consumer promotion events will be intended to bring customers to the winery for fun, non-commercial activities.
- These events include crush and bottling parties, dances, food pairings, tastings, home winemaking seminars, barrel tastings, and winery and vineyard

Promotion

- Additionally, the winery will participate in the appropriate successful wine trail program.
- Events targeting middlemen. These events include regularly visiting restaurants and wine shops, having special dinners and barrel tastings at the winery for top accounts, a regularly sending free wine samples to these accounts.
- A large focus of the promotion campaign will be developing good public relations among customers and the community.





Winery Investment and Cost of Operation

- Issue of winery investment and cost is complicated because of many variables involved in determining cost. Eg. Size of operation, varieties used, types and styles of wine made, capital and labor intensity and the marketing plan
- There are several studies dealing with this topic. The information presented here today is based on a Washington state study by Folwell (2000) .
- This information should be used as guideline, because of they are based on certain assumptions that may or may not be applicable.
- Source: Folwell ,R. J. et al 2000. Cost of investment and operation in various sizes of premium table wine wineries in Washington state
- WSU EXT. Publication # 1909
- A Revised publication # EB1996 is also available

Study Assumptions

- Product mix of 60/40 white and red respectively
- Equipment
- Building
- Tasting room sales
- Grape prices
- Yield 166 gal/ton or 70 cases (750 ml) /ton
- Bottled wine retail and wholesale price
- State taxes
- Fixed cost: interest, depreciation, equity cost, property taxes

Building Cost Estimation

Folwell 2000

Winery size Cases/gal	Square footage	Estimated min. cost/ sf	Estimated min total cost
2000 (4,760)	3,000	\$53	\$158,190
5000 (11,900)	4,000	\$49	\$194,640
10,000 (23,800)	7,500	\$43	\$323,925
50,000 (119,000)	28,000	\$41	\$1,134,569

Assumption: Winery ,30 feet high walls, metal siding, steel frame, no establishment except taste room

Total Variable & Fixed Cost by Winery Size

Cost Category	2,000 Case	5,000 Case	10,000 Case	50,000 Case
Grapes	\$ 22,171	\$ 55,097	\$ 109,571	\$ 545,000
Packaging	\$ 16,560	\$ 41,401	\$ 82,801	\$ 414,006
Taxes & dues	\$ 4,837	\$ 8,513	\$ 12,123	\$ 67,988
Full Time Labor	\$ 48,000	\$ 76,801	\$ 125,200	\$ 314,000
Part Time Labor	\$ 10,440	\$ 21,400	\$ 24,440	\$ 38,080
Marketing	\$ 3,735	\$ 15,563	\$ 35,276	\$ 186,753
Utilities	\$ 2,300	\$ 4,750	\$ 7,500	\$ 22,500
Office Supplies	\$ 640	\$ 1,500	\$ 2,800	\$ 12,000
Other	\$ 1,760	\$ 3,800	\$ 6,500	\$ 20,000

Total Variable & Fixed Cost by Winery Size continued

Cost Category	2,000 Case	5,000 Case	10,000 Case	50,000 Case
Total Variable Cost	\$ 110,444	\$ 228,825	\$ 406,210	\$ 1,620,326
Insurance	\$ 2,000	\$ 4,250	\$ 7,000	\$ 20,000
Interest	\$ 34,729	\$ 53,060	\$ 87,109	\$ 268,820
Depreciation	\$ 34,012	\$ 59,074	\$ 96,650	\$ 287,325
Cost of Equity	\$ 18,526	\$ 34,621	\$ 56,799	\$ 168,337
Property Tax	\$ 2,637	\$ 3,177	\$ 5,238	\$ 17,679
Maintenance	\$ 1,000	\$ 2,250	\$ 4,000	\$ 16,000
Total Fixed Costs	\$ 92,904	\$ 156,432	\$ 256,796	\$ 778,161
TOTAL COSTS	\$ 203,348	\$ 385,256	\$ 663,006	\$ 2,398,488

Total Investment Cost by Category and Winery Size

Category (Cases)	2,000	5,000	10,000	50,000
Receiving Equipment	\$ 30,320	\$ 31,800	\$ 64,825	\$ 180,940
Cellar Equipment	\$ 33,592	\$ 39,762	\$ 60,650	\$ 119,430
Refrigeration	\$ 20,000	\$ 38	\$ 60,000	\$ 75,000
Bottling	\$ 25,000	\$ 120,000	\$ 120,000	\$ 250,000
Fermentation & Storage	\$ 55,995	\$ 89,605	\$ 185,875	\$ 420,290
Oak Cooperage	\$ 56,383	\$ 130,362	\$ 265,598	\$ 1,306,734
Material handling	\$ 41,690	\$ 43,675	\$ 67,675	\$ 82,675
Plant & Office	\$ 188,190	\$ 225,640	\$ 368,925	\$ 1,234,560
Total	\$ 451,170	\$ 727,344	\$ 1,193,848	\$ 3,669,629
Per unit				
\$/case	\$ 225.59	\$ 145.47	\$ 119.38	\$ 73.79
\$/Gallon	\$ 94.79	\$ 61.12	\$ 50.16	\$ 30.84
\$/750 ml	\$ 18.80	\$ 12.12	\$ 9.95	\$ 6.12

Key Points of the Study

- Total investment cost ranged from \$451,170 for 2000 case winery, to \$3,669,629 for 50,000 case winery
- Total investment cost on per case basis came to be: \$225.59 & \$73.39 per case for 2000 and 50,000 case winery respectively.
- Of the total investment, the tow categories with major cost were Winery building and cooperage.
- The construction cost would vary based on business plan.
- Building cost ranged from \$188,190 (41% of total) to \$1,234,560 (34% of total) for 2000 and 50,000 case winery respectively.
- Cooperage cost were \$57,00 and \$1,200,000 for 2000 & 50,000 Case wineries respectively

Winery Design Considerations

Winery is a unique processing operation and the design and layout of the winery depends on many variables. From grape to glass one may enter the business at any point.

Some of the important factors to consider include:

1. Business and market plan,
2. Types and styles of wines produced (product mix) and the amounts.
3. Processing and storage of wine,
4. Processing equipment,

Winery Design Considerations

continued

5. Winery utilities, waste disposal ,
6. Retail and wholesale marketing plan,
7. Events space, tourism,
8. Aesthetic appeal and brand image.

In designing and building winery you will need a team of qualified architect, structural engineer, Winemaker/consultant.

Visit other successful wineries and talk to owners.

Goals of the winery design

- Establish a positive brand image
- Have a desirable location
- Produce high quality wines of consistent quality
- Efficiently use raw material, labor, energy
- Create a functional and expandable design
- Desirable /safe work environment
- Acceptable environmental impact
- A good corporate citizen
- Be customer friendly(parking, lights, restrooms)

Winery Business planning

Sources of Information:

1. Winery Planning and Design workshop Sponsored by Virginia Tech Enology-Grape Chemistry Group
2. Napa Valley College, Small business Development Center
3. Vineyard business plan workbook, SIU Illinois
4. Small winery investment and operating costs, extension bulletin 1996 by Fickle, Le Ann A. Raymond J. Folwell, Trent Ball, and Carter Clary
5. Cost of investment and operation in various sizes of premium table wine wineries in Washington State, EB 1909 by Raymond J. Folwell, Timothy A. Bales and C. Edwards
6. An appraisal of economic feasibility of wine and juice production in AK by Carl R. Dillon, Carter Price , Justin Morris and David Ward
7. Writing a business plan by Mark E. Pisoni and Gerald B. White Cornell University EB#2002-07