

You Really Don't Have to Lose a Million Dollars a Year

A Cost/Price Analytical Journey Through World of Winemaking



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Itinerary

- Background
 - Why are there so many wineries
- Basics – From Berry to Bottle
- Tracking the wine
- Tracking the costs
- How much does the wine cost and how much should I charge?
- Conclusions

Where would you rather be?

Here?



Or Here?



What would you rather be looking at?

This?



Or This?



Regardless of their motivation between 1986 and the recent financial meltdown droves of city dwellers made the decision to move to “Wine Country”

How did it happen?

- Between 1980 and 2010 the wineries of San Luis Obispo CA increased from around 35 to around 100 or an increase of 186%
- The short answer is that city dweller, who wanted a better life style and went to a wine festival or passed the vineyards as they drove between Los Angeles and San Francisco.
- Many of the new winery/vineyard owners moved their families and worked the winery on weekends, while continuing to keep their “day job.”



Basics, from Berry to Bottle



Tracking the fruit/wine

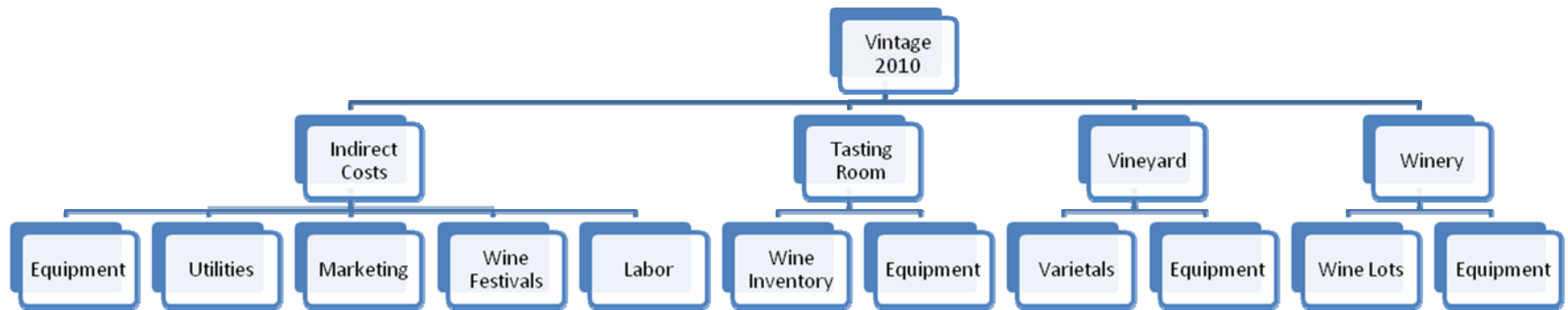
- As the fruit is harvested it is given a **Lot Number**, which identifies:
 - *Year*
 - *Varietal*
 - *Vineyard*
 - *Barrel Number (10ZINSNO01 would be 2010 Zinfandel Snow Vineyard Barrel #1) if applicable*
- Through the winemaking process (all records for each lot are identified by this lot number)



Tracking Costs

- Divide the entire operation into 3 units;
 - Vineyard
 - Winery
 - Tasting Room
- Types of Costs
 - Direct (Labor and Material) costs are charged to a specific lot number
 - Indirect (Labor, Material, ODC) is apportioned for all of the lots

WBS



Work Orders

- Labor is tracked through work orders associated with specific lots
- The work order also tracks tasks associated with both the vineyard and the winery

Work Order Example

Wine Tracker

<i>Work Order #:</i>	<input type="text" value="1"/>	<i>Bond:</i>	<input type="text" value="Saucello Canyon"/>
<i>Lot #:</i>	<input type="text" value="02ZNBVD1"/>	<i>Date Issued:</i>	<input type="text" value="9/13/2002"/>
<i>Operations</i>	<input type="text" value="Top Bbls"/>		
<i>Instructions:</i>	<input type="text" value="Top Off Barrels"/>		
<i>Analysis Performed</i>	<i>Alcohol %</i>	<i>Last Racking</i>	

Bill's Recommendations for treatment

<i>From:Bldg</i>	<input type="text"/>	<i>To:Bldg</i>	<input type="text"/>
<i>From:Row</i>	<input type="text"/>	<i>To:Row</i>	<input type="text"/>
<i>From:Tank(s) / Barrels/Bins</i>	<input type="text"/>	<i>To:Tank(s) / Barrels/Bins</i>	<input type="text"/>
<i>Before Volume</i>	<input type="text" value="0.00"/>	<i>After Volume</i>	<input type="text" value="0.00"/>
<i>Work Issued By:</i>	<input type="text"/>	<i>Date Completed:</i>	<input type="text"/>

Barrel Program

Cost Drivers - Vineyard

- Cost of land (initial start up cost)
- Cost of vines (initial start up cost)
 - Maturity of vines before producing mature fruit (3 to 5 years)
 - Decision for irrigation or dry farming
- Cost of chemicals
- Cost of labor (vineyard maintenance and seasonal harvest labor)
- Cost of equipment

Cost Drivers - Winery

- Building
- Equipment
 - Tanks (start up)
 - Laboratory (start up)
 - Barrels (recurring, depending on the barrel life)
- Chemicals
- Labor (maintenance and seasonal)
- Product (fruit)

Cost Drivers – Retail

- Wine
- Glassware
- Cash Register (start up)
- Tasting Bar (start up)
- Labor (regular and seasonal)
- Breakage

Cost Drivers - Overhead

- Equipment
- Marketing
 - Wine Festivals
 - Association Dues
 - Travel
 - Wine
- Labor
- Utilities
 - Water
 - Electric
 - Gas
 - Phone
 - Waste
 - Sewer/Septic

What pays for all of this?



How you price your wine.....

Pricing Philosophy

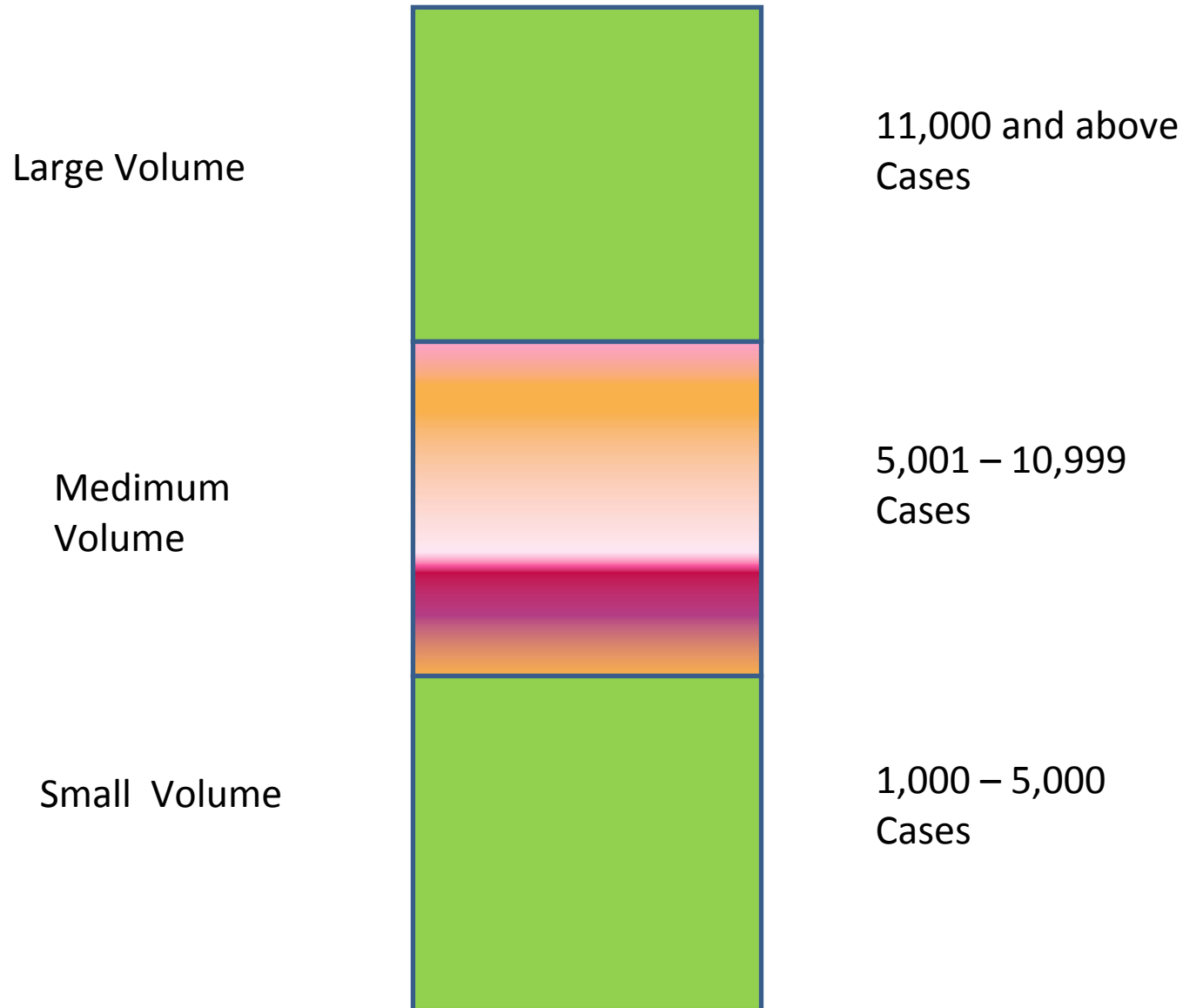
Large Wineries

- Have a corporate office
 - Provide professional accounting staff to determine whether or not a profit is being made
 - Corporate guidelines as to the product and price
 - Ability to use custom crush facilities where winery staff and laboratory services are provided in the cost of the lease.

Small Boutique Wineries

- Be competitive with other wineries in the area
- Price the product to cover all costs
- Small staff, usually family or friends

What is the ideal size?



Analysis - Vineyard



Varietal	Cases	Gallons	Gallons per Ton	% of Total	Cost Per Ton	Fruit in Tons	Fruit/Bulk
09CHDWIL	50.0	118.9	1.486	8%	\$ 67.79	80.00	\$5,423.20
09ZINWIL	63.0	149.8	4.678	11%	\$ 65.50	32.02	\$2,097.31
10WBLWIL	84.1	200	2.000	14%	\$ 50.00	100.00	\$5,000.00
10RBLWIL	77.8	185	3.700	13%	\$ 40.00	50.00	\$2,000.00
09MERWIL	79.9	190	2.533	13%	\$ 50.00	75.00	\$3,750.00
09CAFWIL	89.2	212	1.843	15%	\$ 40.00	115.00	\$4,600.00
09SYRWIL	79.9	190	2.111	13%	\$ 40.00	90.00	\$3,600.00
09CABWIL	75.7	180	1.800	13%	\$ 75.00	100.00	\$7,500.00
	599.5374	1425.7					32.015267
Cost of Fruit							
	Zin			\$ 14.00			1.0000000
	Chard			\$ 12.00			
	SVB			\$ 10.00			
	CabS			\$ 15.00			
	Mer			\$ 12.00			
	Syr			\$ 12.00			

Analysis - Winery

\$ 0.0130 \$ 0.0550 \$ 0.9130 \$ 0.5000 \$ 20,000.00														
Varietal	Cases	Gallons	Gallons per Ton	% of Total	Corks	Caps	Glass	Labels	Indirect Costs	Total Costs	Indirect Cost Per Case	Indirect Cost Per Bottle	Cost Per Case	Cost Per Bottle
09CHDWIL	50.0	118.9	1.486	8%	\$ 7.80	\$ 33.00	\$ 547.80	\$ 300.00	\$ 1,667.95	\$ 7,979.75	\$ 33.36	\$ 2.78	\$ 159.60	\$ 13.30
09ZINWIL	63.0	149.8	4.678	11%	\$ 9.83	\$ 41.58	\$ 690.16	\$ 377.96	\$ 2,101.42	\$ 5,318.27	\$ 33.36	\$ 2.78	\$ 84.42	\$ 7.04
10WBLWIL	84.1	200	2.000	14%	\$ 13.12	\$ 55.51	\$ 921.45	\$ 504.63	\$ 2,805.64	\$ 9,300.34	\$ 33.36	\$ 2.78	\$ 110.58	\$ 9.22
10RBLWIL	77.8	185	3.700	13%	\$ 12.14	\$ 51.35	\$ 852.34	\$ 466.78	\$ 2,595.22	\$ 5,977.82	\$ 33.36	\$ 2.78	\$ 76.84	\$ 6.40
09MERWIL	79.9	190	2.533	13%	\$ 12.46	\$ 52.73	\$ 875.37	\$ 479.39	\$ 2,665.36	\$ 7,835.32	\$ 33.36	\$ 2.78	\$ 98.07	\$ 8.17
09CAFWIL	89.2	212	1.843	15%	\$ 13.91	\$ 58.84	\$ 976.73	\$ 534.90	\$ 2,973.98	\$ 9,158.36	\$ 33.36	\$ 2.78	\$ 102.73	\$ 8.56
09SYRWIL	79.9	190	2.111	13%	\$ 12.46	\$ 52.73	\$ 875.37	\$ 479.39	\$ 2,665.36	\$ 7,685.32	\$ 33.36	\$ 2.78	\$ 96.19	\$ 8.02
09CABWIL	75.7	180	1.800	13%	\$ 11.81	\$ 49.96	\$ 829.30	\$ 454.16	\$ 2,525.08	\$11,370.31	\$ 33.36	\$ 2.78	\$ 150.21	\$ 12.52
	599.5374	1425.7												
Cost of Fruit							2.378	gallons per case						
Zin				\$ 14.00			\$ 108.46	price per case					\$ 149.80	\$ 2,097.20
Chard				\$ 12.00			\$5,423.20	50 Cases						
SVB				\$ 10.00			\$ 108.46	cost per case						
CabS				\$ 15.00			\$ 45.61	cost per gallon						
Mer				\$ 12.00			118.9	# gallons						
Syr				\$ 12.00			\$ 45.61							



Analysis - Retail

Varietal	Cases	Retail Bottle	Profit Per Bottle	Profit % per bottle	Retail Case (20% Discount)	Profit Per Case	Profit % per Case	Lot Retail	Profit for Lot	
09CHDWIL	50.0	\$ 25.00	\$ 11.70	47%	\$ 240.00	\$ 80.40	34%	\$ 12,000.00	\$ 4,020.25	34%
09ZINWIL	63.0	\$ 30.00	\$ 22.96	77%	\$ 288.00	\$ 203.58	71%	\$ 18,142.30	\$ 12,824.04	71%
10WBLWIL	84.1	\$ 25.00	\$ 15.78	63%	\$ 240.00	\$ 129.42	54%	\$ 20,185.03	\$ 10,884.69	54%
10RBLWIL	77.8	\$ 30.00	\$ 23.60	79%	\$ 288.00	\$ 211.16	73%	\$ 22,405.38	\$ 16,427.57	73%
09MERWIL	79.9	\$ 35.00	\$ 26.83	77%	\$ 336.00	\$ 237.93	71%	\$ 26,846.09	\$ 19,010.77	71%
09CAFWIL	89.2	\$ 30.00	\$ 21.44	71%	\$ 288.00	\$ 185.27	64%	\$ 25,675.36	\$ 16,517.00	64%
09SYRWIL	79.9	\$ 30.00	\$ 21.98	73%	\$ 288.00	\$ 191.81	67%	\$ 23,010.93	\$ 15,325.61	67%
09CABWIL	75.7	\$ 45.00	\$ 32.48	72%	\$ 432.00	\$ 281.79	65%	\$ 32,699.75	\$ 21,329.44	65%
	599.5374							\$ 180,964.84	\$ 116,339.36	64%



Conclusions

- Start up wineries should:
 - Have 2 - 4 years cash reserves
 - Stagger capital equipment costs over the first 4 years
 - Anticipate purchasing bulk juice years 1 -3, at least
 - Remember that from Day 1 you don't need to look like a Beringer Tasting Room
- All wineries should:
 - Track operations and labor costs
 - Maximize capital equipment life cycle
 - Distribute all overhead costs proportionally to all lots of wine
 - Temper the pricing with not only what the market will bear, but also what you can afford to charge.