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

A Cost/Price Analytical Journey Through World of Winemaking

Michael Thompson

Washington Metro SCEA Chapter

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Itinerary

- Background
  - 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 number of wineries of San Luis Obispo CA increased from around 35 to around 100 or an increase of 186%
- The short answer is city dwellers wanting a better life style. They 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."
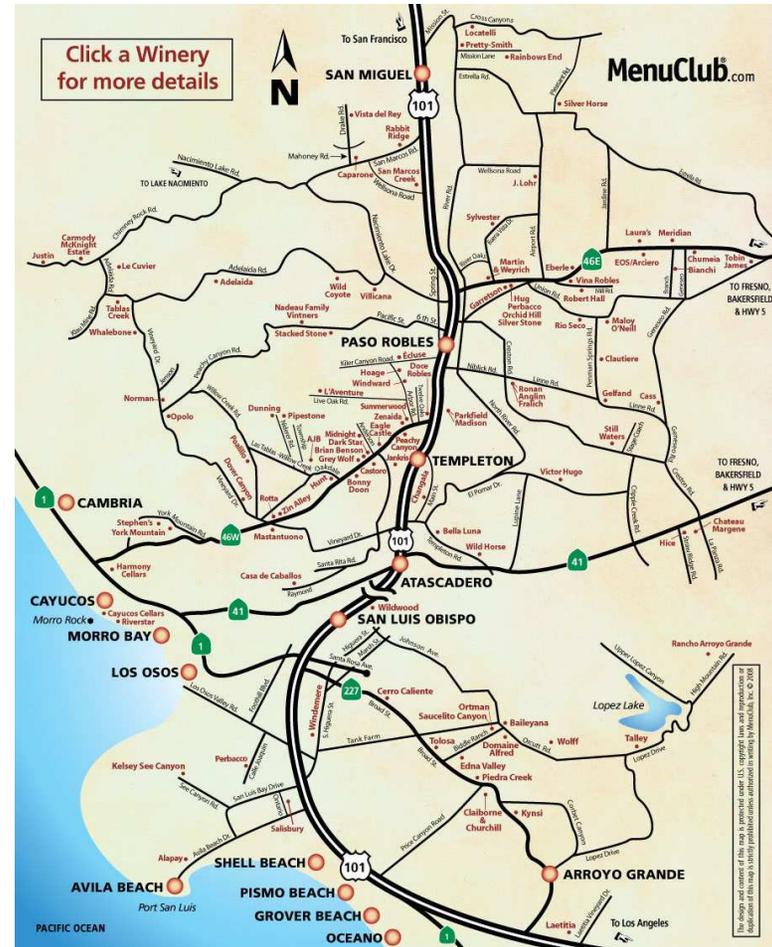
Basics, from Berry to Bottle
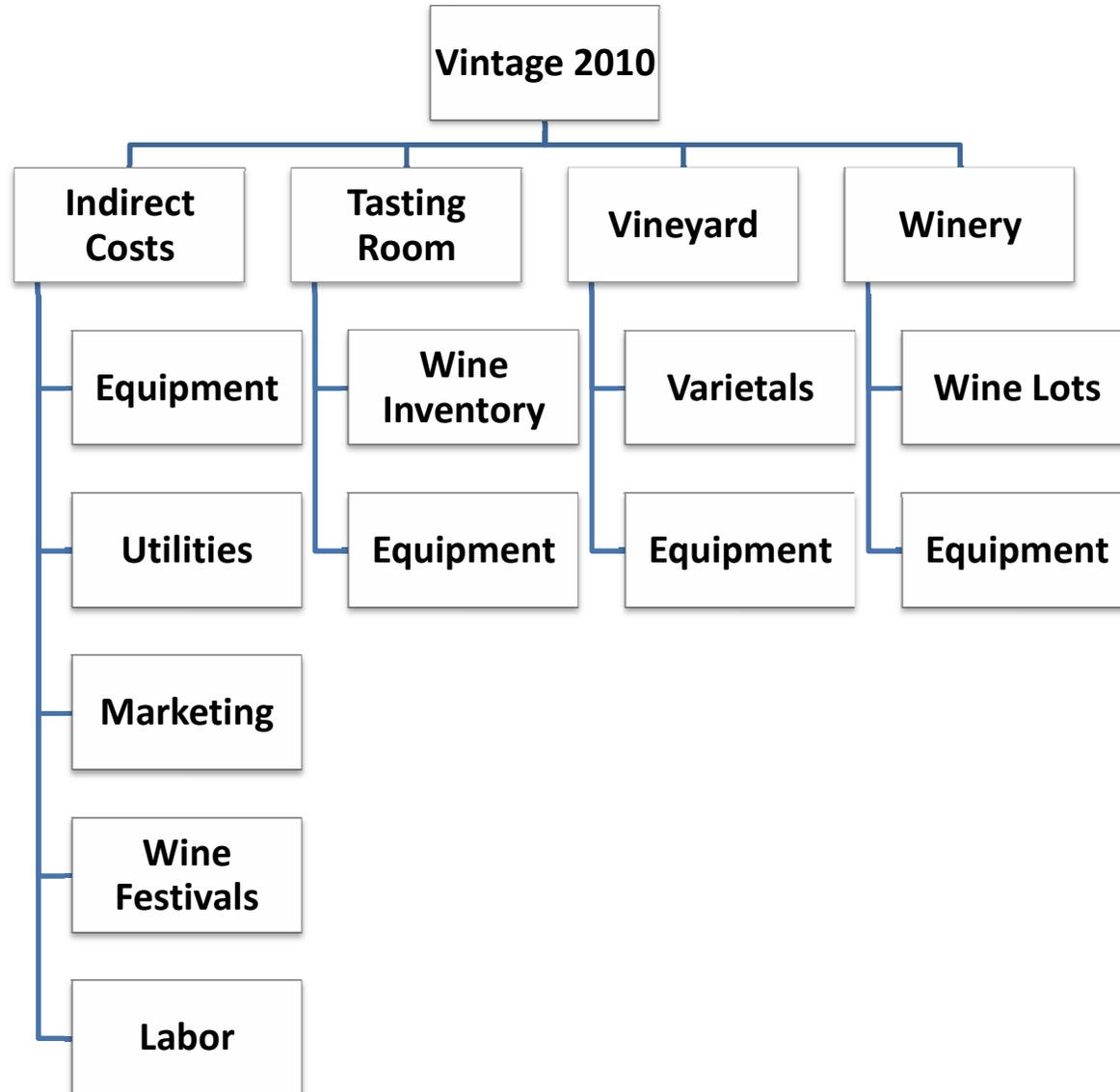
Tracking the fruit/wine

- 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 to all of the lots

WBS

Vintage 2010

- **Indirect Costs**
  - Equipment
  - Utilities
  - Marketing
  - Wine Festivals
  - Labor
- **Tasting Room**
  - Wine Inventory
  - Equipment
- **Vineyard**
  - Varietals
  - Equipment
- **Winery**
  - Wine Lots
  - Equipment

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

Work Order #:	1	**Bond:**	Saucelito Canyon
Lot #:	02ZNBVD1	**Date Issued:**	9/13/2002
Operations	Top Bbls		
Instructions:	Top Off Barrels		

Analysis Performed   **Alcohol %**   **Last Racking**

Bill's Recommendations for treatment

From:Bldg		**To:Bldg**	
From:Row		**To:Row**	
From:Tank(s) / Barrels/Bins		**To:Tank(s) / Barrels/Bins**	
Before Volume	0.00	**After Volume**	0.00

Work Issued By: **Date Completed:**

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?

Large Volume

11,000 and above Cases

Medimum Volume

5,001 – 10,999 Cases

Small Volume
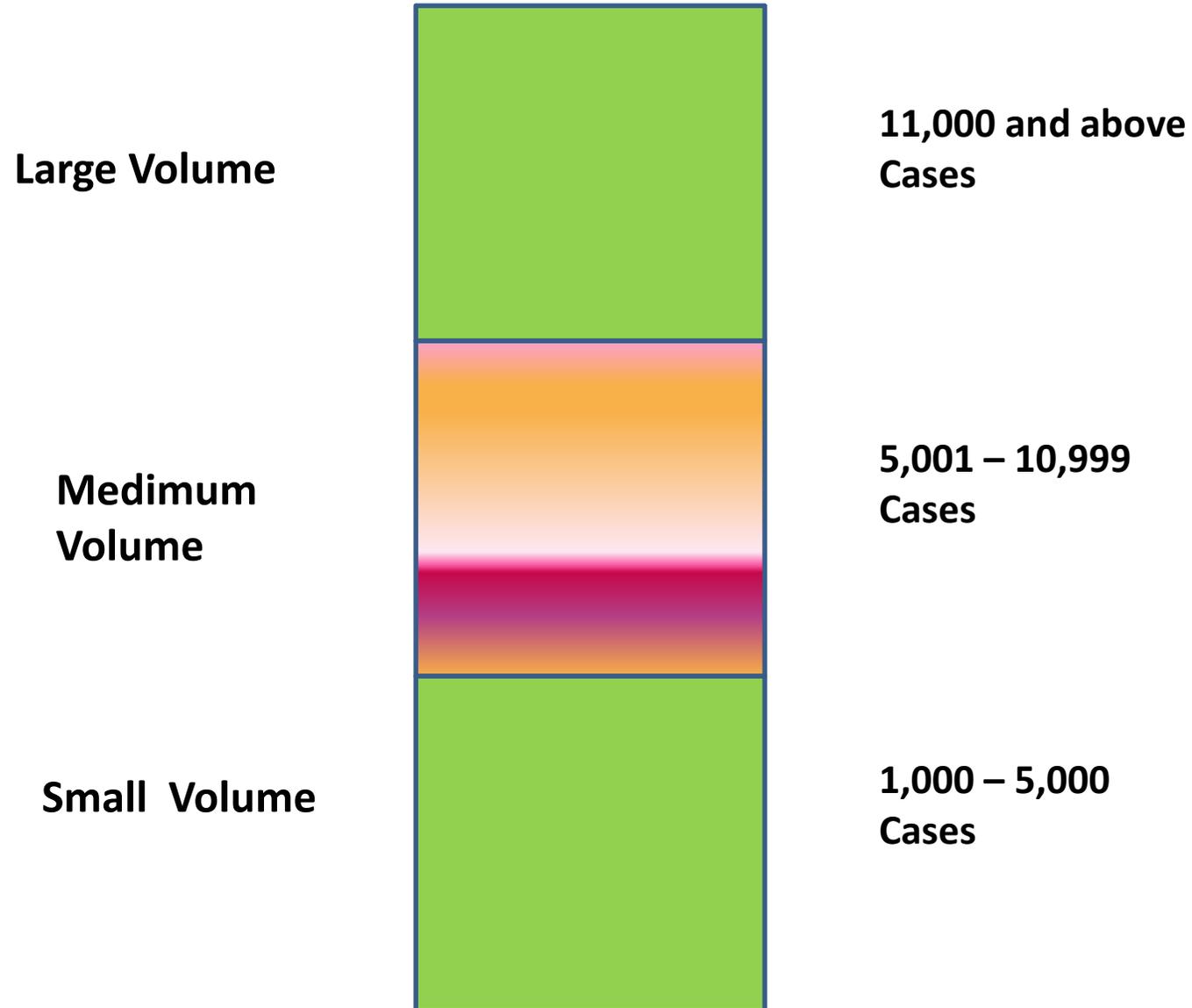
1,000 – 5,000 Cases

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.