

Sunday, March 30, 2008

## MORE SPECIFICS ON “MY PRESENT TAKE” ON THE CURRENT WINE INDUSTRY

Again, I can only **offer my opinions based on my past experiences since the beginning of the 1970's**. Others can disagree. They may have had other experiences.

**The wine industry has been very good to me and many people were very generous to me in my quest to learn about wine in my early years.** I feel a debt to them and the industry to at least continue to offer my opinions based on my past experiences since about 1970, when I am asked.

We do not need any more bad wine on the market. It severely hurts those who are producing very good wine.

I view my function as providing information and asking specific questions that **only you** can answer about what you are trying to accomplish in the wine industry. I am not into arguing or debating.

Successful small farm wineries can be done, have been done and will be done in the future.

However, you must determine very specifically **why** you feel you can do this and why others cannot and have not.

**Romance and the art of winemaking** can be very seductive. Funds can quickly and continually be consumed – the “bottomless pit” syndrome. Your own personal life and the lives of others who depend on you will also be consumed. If that is what you are prepared for and want, then fine. But you must think it thru very carefully and be fully committed, both in good times and bad times.

**You also have to know when to “cut it off” and move on, when it becomes clear you are not going to make it.** Some specific agreed upon **concrete goals and specific dates for completion** may help when things get cloudy in bad times. If they are not met, you **stop**, no matter what.

**Success can also be very seductive!** When you do well, the temptation is to expand and even do “more well!” But expanding is very tricky in so many ways. Success **now** does not mean success **in the future**, if you expand.

Also another very important factor concerns just what you are investing for your “dream winery?”

Is it just some disposable “play money?” Then fine, go and have some fun. If you succeed you can enjoy it. If you are not successful, then you can move on to other interests and projects with more of your “play money.”

However, if it is your life savings, retirement, home, etc., then it is a much more serious matter if you do not succeed.

Will your family and other obligations significantly depend on the level of your success? Will they be seriously negatively impacted by your failure?

Again, over more than 30 years in the industry, there have been some very gratifying success stories, but there also have been some very tragic outcomes, some of which could have been very easily avoided.

## **SIMPLE BACK OF ENVELOPE CALCULATION**

If you have not done at least a very simple “back of the envelope calculation” that is realistic and truthful, based on facts, not just wishful thinking, then you should do it now.

It will save you a lot of time and money before you actually get to hiring the experts that will be needed to devise more professional estimates.

It does not have to be very sophisticated – just a pencil and paper [envelope?] and list the simple details of what you want to do and how you will specifically be able to do them – **detailed implementation!**

Some have not even done this with tragic consequences.

Others have and then reassessed their thoughts and goals. Some even then just moved on to other endeavors.

I have found that such a very simple basic approach to be very effective with many people to help them **“think it thru”** in their **very individualistic** situation.

**No two wineries are the same, nor should they be!**

A very simple example to start with might be using very round figures and some very basic, practical and obvious assumptions – detailed implementation - on the “most elementary” level:

[PLEASE CHECK MY MATH AND LET ME KNOW IF THERE ARE ANY SIGNIFICANT ERRORS!]

**VERY SIMPLY –**

# bottles of wine to make and sell per year so you can make enough money to pay you and whoever you will need to help you with all the work + expenses.

100,000 bottles of wine at \$1 profit on each = **\$100,000** to work with

\$20,000 pay for you

\$20,000 pay for an assistant – many times this is a spouse or close friend / partner

\$60,000 for expenses

You will have to sell about **300 bottles of wine every day for 300 days** of the year [not 365 since you may want to take some days off and there will be slow periods for sales – e.g. January / February, etc]. If you are open 10 hours a day everyday, that is about 30 bottles / hour or **1 bottle every 2 minutes**. How are you going to do this?

How about **storage** of 100,000 bottles – 12 / case – case dimensions 1' x 1' x 1' = 8000 square feet of space – but if put on pallets 4 cases high, that would be 2000 square feet or an area of 100' x 20' – insulated, air conditioned, heated, etc. At \$100 / square foot for building that is **\$200,000**.

But you will **not** want to sell all of your wine each year for many reasons. So you may want to double or triple this storage space cost.

Note you must also leave room to be able to conveniently get at this wine and that increase the storage space. How much? That is a question you only can answer.

Do you have sufficient, suitable, properly zoned, etc. **land** for such a storage facility?

What about the **winery**? How big does it have to be to make 100,000 bottles each year? That would be about **20,000 gallons** [5 bottles / gallon].

Where will you get the **grapes / fruit** or are you going to grow your own [that is another big back of the envelope calculations]?

What grapes can you get and what grapes do you want?

Mix of white and red grapes / wine?

If you sell your wine at **\$15 / bottle**, what will the cost of the grapes + processing and other costs - have to be to let you make \$1 profit on each bottle?

What is your **market** so you can sell your wine at this price in sufficient quantities to survive at a reasonable and sustainable profit?

What will you need in the winery to make 20,000 gallons of wine each year? Buy new or used?

What will be the **split** of volume - red, white & rose – sugar levels, oak aging, etc. What wine storage tanks will you need – volume, sizes, types, etc.

What about quality control / quality assurance – your own lab or a mix of outside lab and in house lab services, etc.

What about **other related costs** – supplies, office expenses, utilities, legal, accounting, sales, pay off loan, contingency, taxes, consultants, etc.

[So you can see where this is headed.](#)

If you choose to proceed, now you can more productively, efficiently and effectively approach the many organizations in the wine industry that can help you, on a more detailed and practical level, to make your goals a reality.

## **MY RATES** –

A web site is **not** the place to present these and naturally they will vary greatly depending on many circumstances.

However, so we do not waste our time on both sides, my rates will be comparable to what you will be paying your lawyer, accountant and other professionals that you will hire for your business.

In the early years of the small farm type wineries in the early 1970's, there was a spirit of “sharing” in this new adventure. Some of this may carry over today, but today is a very different era in so many ways.

As one of the more famous PA winemakers said many years ago, the most important thing you make in a winery is **money!** Without sufficient profitability, you cannot survive no matter how idealistic you are.

Based on my over 30 years of experience in the industry, even a brief consulting session during the **first few months** of a new winery can easily be **\$20,000 to \$30,000**. If you cannot budget around \$100,000 for consulting, in just the winemaking area, for the first year, you do not have the necessary resources to seriously play the game.

Just a quick “**back of the envelope**” calculation by me – first week to learn about your operation, second week to develop specific plans / strategies for your particular operation and third week to assist in implementing them – 120 hours x \$200 / hour = **\$24,000**.

Assume 40 hours / week + expenses.

Certainly your lawyer and accountant fees will be in this range. Even car mechanics today get \$60 on up per hour.

In addition, **I will have to be convinced** that you have a reasonable chance of success. If you do not, it is not in my best interest [nor yours] to invest my time in an operation that is doomed to failure, despite the income that I could earn with such situations.

**Please note that there are a lot of winery consultants out there to pick from. I may not be your best choice. It is a very personal matter – you both have to get along in some very tense and intense activities, where there is a lot at stake.**

## **SELF LEARNING**

However, you do have the option of **learning yourself** from the enormous amount of resources that are now available, compared to when the farm wineries started in the late 1960's.

If you **can and will** do this, then this is a significant advantage you have for a successful business. You will be in much better control and will significantly reduce your expenses, but at the expense of a great deal of your personal time.

How much of your personal time are you willing to invest and for how long?

**Certainly, 10 – 20 hours / week for several years would not be unreasonable. Or in essence another 1/4 or 1/2 time job!**

## **The choice is yours.**

I will put on this website some downloads on where to start on trying to learn yourself and some other pertinent information.

An **initial plan** for your **“self education”** could begin with trade journals, attending conferences / short courses, books, interacting with consultants, visiting wineries, making your own wine, internet searches, interaction with others of similar interests, etc.

You must budget in also several years to bring all this information together in formulating **a specific plan** for your winery. Education theory indicates that just knowing “facts” [“factoids”] is a lot different from being able to make practical use of them for a particular project. This process can take a great deal of time for some people.

In addition, I will offer a free phone “chat” at your expense for about 1 hour about what your plans are and my initial reaction to them. I am always interested in what is going on in the wine industry.

I offer the above since it is something I have been thru many times with many different types of people. The above will save us both a lot of initial effort, if you are serious and determined to pursue a commercial winery.

So all the best!

