



Economics Realities of MICHIGAN WINE PRODUCERS

Tips and Tricks for Starting and
Operating a Successful Winery

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Introductions

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- Owner of *AlcheMae, Wine and Craft Beverage Consulting*
- Managing Partner of the 1855 Project, a start-up winery
- VESTA Instructor
- Michigan Wine Collaborative Board Member
- Masters of Agricultural Economics, Michigan State University



The First Harvest, Liter and Bottle Sold



Where to start on the continuum?

Overview of Successful Approaches

Key to success:

- Start with a small vineyard and winery
- Differentiate and/or Diversify
- Invest in equipment and buildings wisely
- Know the value of the fruit and wine
- Offer ample opportunities for Guests
- Distribute when big enough
- Collect a lot of Data

Recipe For Success

Ingredients:

- 1 Teaspoon of Ideas
- 1/2 Cup of Goodwill
- 1 Pinch of Positivity
- 3/4 Cup of Imagination
- 1 lb of leadership
- 2 Spoonfuls of Teamwork
- 1 Cup of Market vision
- 3 Tablespoons of Challenge
- and 1 Bag of Hope!

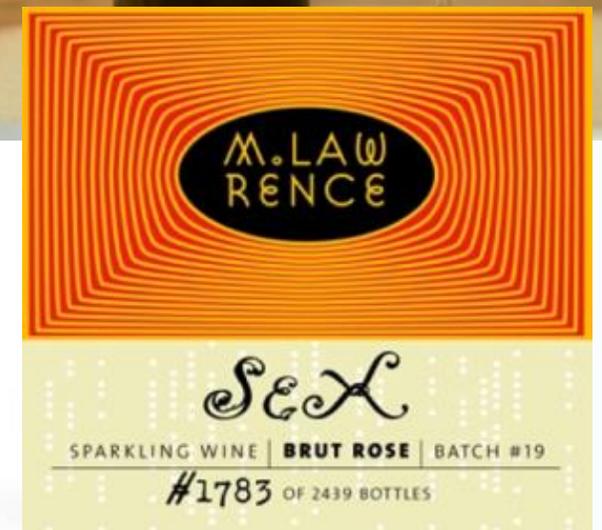


MI Wine Producer Differentiation Strategies

Distinguish the type of products

Change the character and develop unique wines or locations

- Larry Mawby, produces all bubbles
- Eclectic brand at Chateau Grand Traverse, high end Riesling
- Left Foot Charley, Urban Winery at the Commons



MI Wine Producer Diversification Strategies

Produce and offer many products

Create multiple income streams and opportunities

- Bel Lago grows over 100 varieties in three vineyards and produces over 50 products annually, some for custom crush clients
- Black Star Farms are an Agricultural Destination with incubator businesses, an Inn, and multiple locations



Tempesta Blending Trail



*Black Star Vineyard
and Pasture*

Appealing to the Key Wine Buying Population Segments



Boomers

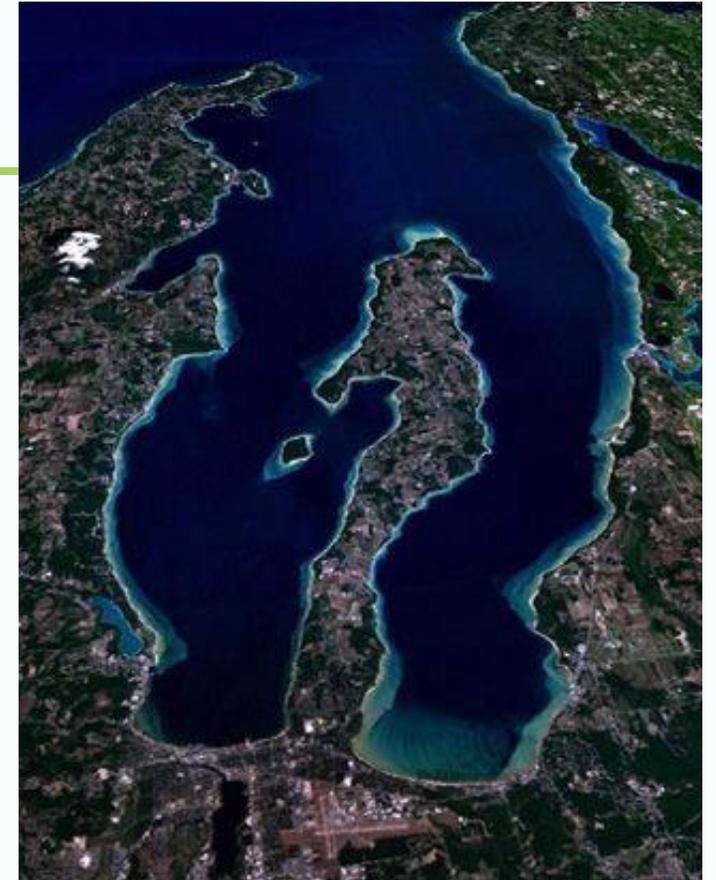
- Largest segment of the wine buying public
- Frequently travel
- Travel for wine
- Will visit wineries they hear about from friends
- High Educational Attainment
- Loyal to the brand or a product

Millennials

- Fastest Growing segment
- Like to experience new things
- Travel for a purpose
- Are more likely to use social media and Trip Advisor to plan a trip
- More likely to travel in larger groups and use tour services

The BEST Wines start in the Vineyard

- Where should I grow grapes in Michigan?
- How much will land cost?
- How much will it cost to establish and maintain the vineyard?
- Keeping in mind that it will take 7 years to reach the full fruiting capacity and the learning curve....
- Vineyards Service Companies are available
- The best wines are made from grower/owners
- Separate Vineyard and Winery companies for Liability reasons



*Old Mission Peninsula,
Aerial Image*

When it comes to Wine we are Selling a Place, *We are tied to the land...*



*Manigold Farm,
Gewurztraminer planting*

- It starts with the soil, the places where the grapes are grown
- The climate
- The varieties
- People want to hear the stories of Vines and Orchards
- The Local Lore

Economic Realities of Wine Manufacturing

Large Up Front Investment: \$2-3M

- *Equipment*
- *Tanks and Barrels*
- *Building*

Large Learning Curve

Labor Shortages



Dylan Punching Down

Crush Equipment

- One harvest a year lasting 6 weeks
- Highly specialized crush pad and winemaking equipment is manufactured and shipped among a tightly regulated world wide supply chain
- Winemakers must be prepared to maintain and fix things on the fly
- Most equipment is in metric
- Power supply is a huge issue



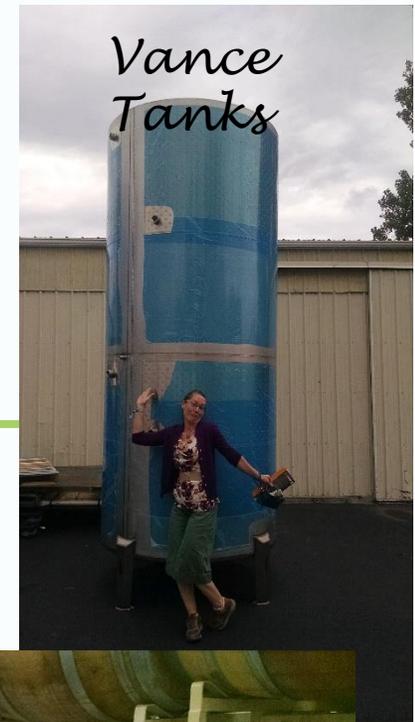
Tanks & Barrels

Stainless Steel Tanks & Bins

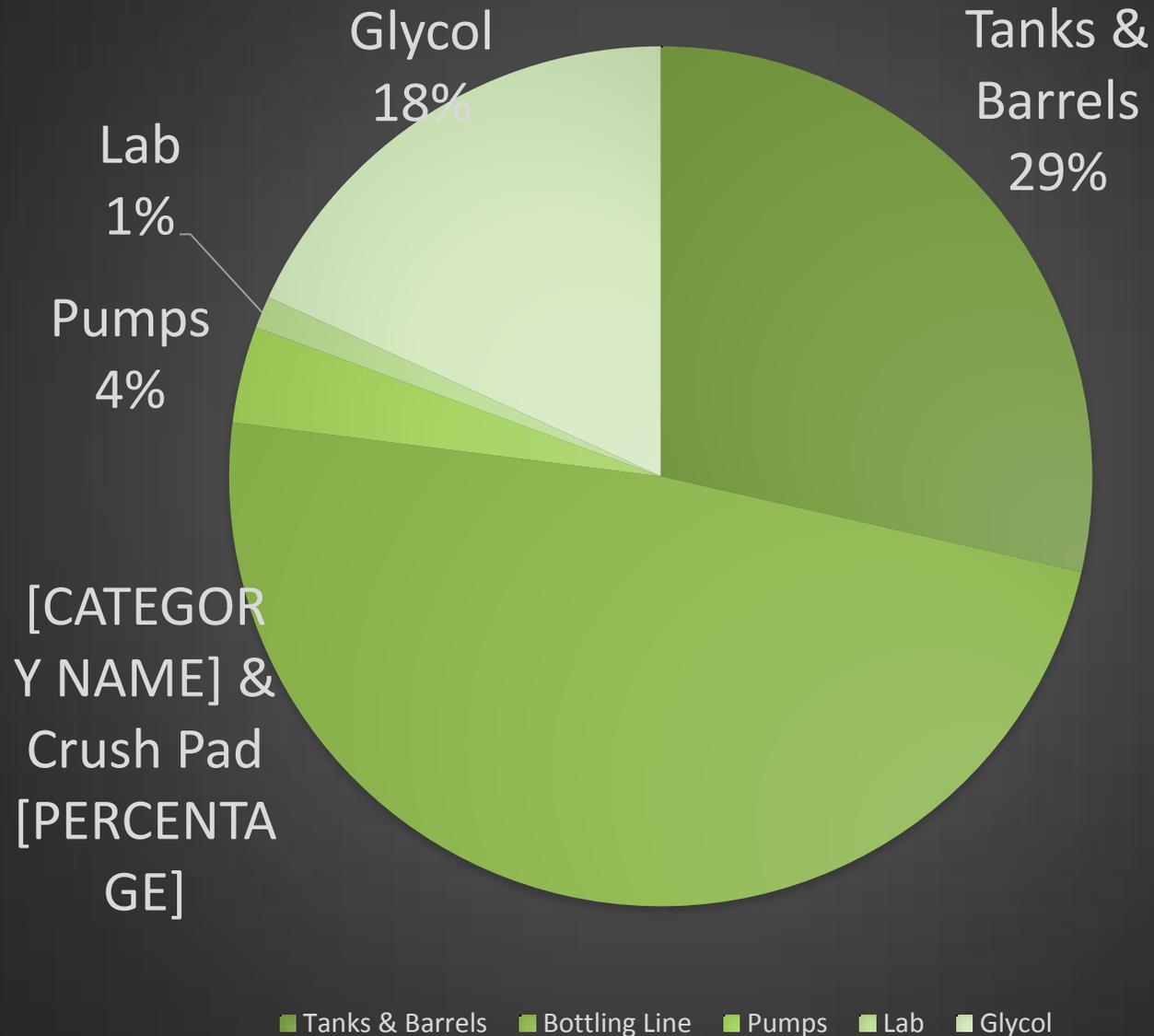
- Vance Metal Fabricators: Geneva, NY
- Considerations: Cleanliness, Cost and Size of lots for Fermentation and Aging

Barrels

- Seguin Moreau, Radoux, Mercurey
- Considerations: French, American, Toast, Grain, shipping, size and racks



Equipment Budget for a Small Winery



Equipment

\$700,000 Initial Budget

Large incremental growth in equipment

Economies of scale are hard to achieve in the manufacturing process

Financing options are available with most large equipment suppliers

Building

- Anticipate the needs for:
 - Current and future production and finished goods space
 - Tasting Room and Event Space
 - Restrooms!
- Wastewater is a looming issue
- Permitting process can take up to a year: TTB, MLCC, MDARD, MDEQ, TWP
- You only get one chance at a 1st Impression!



Winemaking Wisdom And the Learning Curve

- Usually starts with a love of wine
- Home winemaking
- Travel
- Schooling in the viticulture and enology
- On the job training with skilled winemakers
- Constantly engaging peers and others for professional development
- Willingness to experiment in difficult vintages

Great Resources: Michigan Grape and Wine Annual Conference, VESTA, Michigan State University, Community College Partners



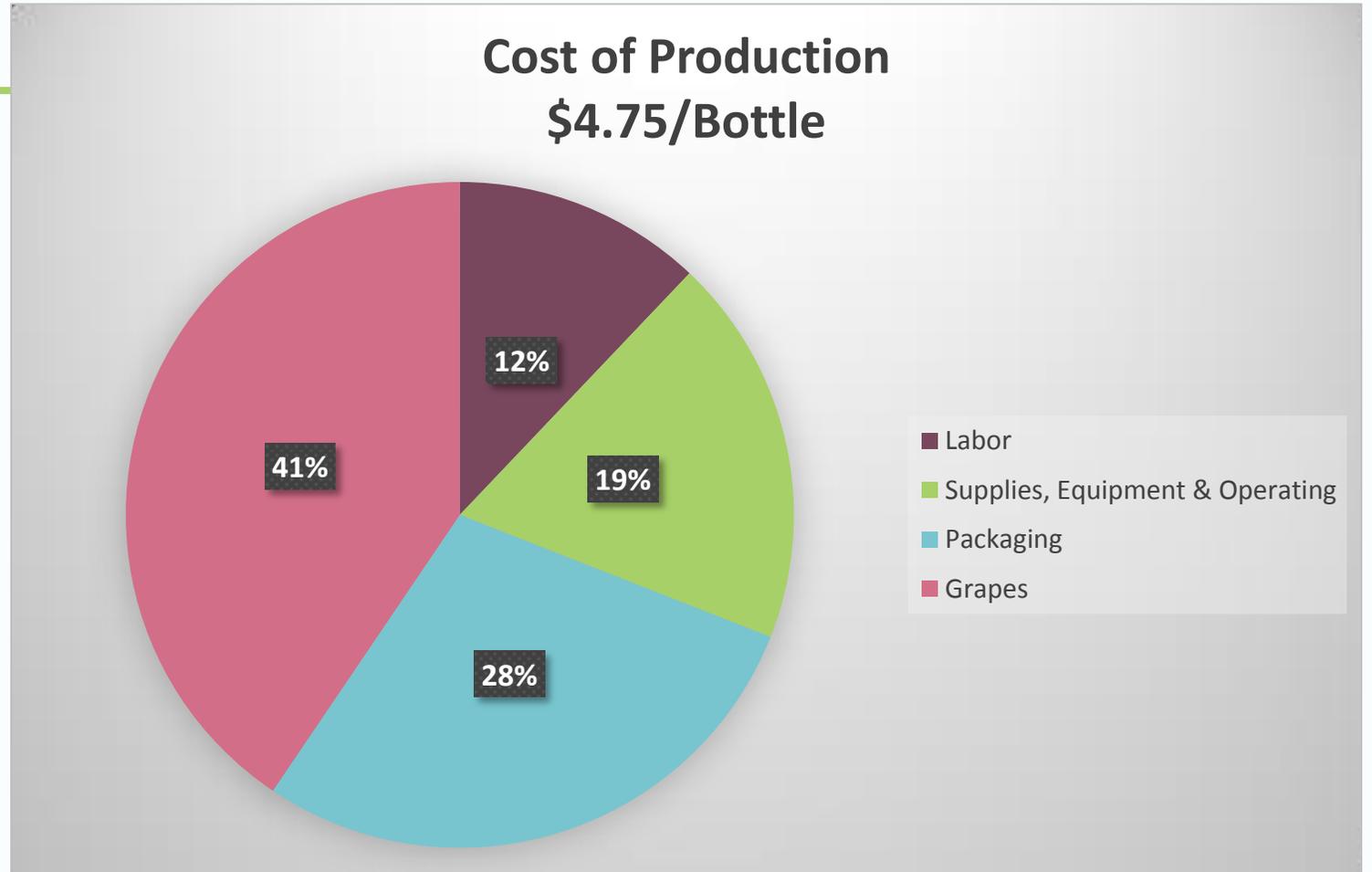
MI Grape & Wine
Industry
Annual Meeting
February
Kalamazoo, MI

Labor and a Growing Winery

- Highly specified and seasonal labor force
 - Migrant Workers and Interns
 - *Housing*
 - *H2A Guest Workers*
- Long hours, strenuous work, low wages
- 1st yr (\$350K) vs. 5 yr (\$700K) payroll estimates with benefits for FT



How much does it really cost to produce?



Custom Crush Alternative

Mutually beneficial relationship between a winery and a custom client

Very cost effective way to make wine with out the up front investment

Very Common

Can be tailored to fit the needs of the client

Custom Crush	Cost per Case w/o Grapes
White Wine	\$35
Red Wine	\$45
Sparkling Wine	\$65
Fruit Wines	\$25



Bel Lago Crush Pad Pressing Reds

I want what your selling...

Successful Sales!



Kemmeter Winery, Finger Lakes NY

- Most people purchase wine for the relaxation and social benefits
- Key Price Points \$10-15 & \$15-\$20 (WBM)
- Most people talk dry but drink semi-dry or sweet
- Tasting Room Educators are selling more than wine, they are selling an experience, a lifestyle, the nectar of the gods

DTC: Selling in the Tasting Room

Realistic DTC Sales Goals: 2,000 cases per year

Pros

- Highest profit margins
- Ability to hand sell

Cons

- The customer may have to travel long distances
- Highly dependent on the season and tourist traffic

Other Considerations

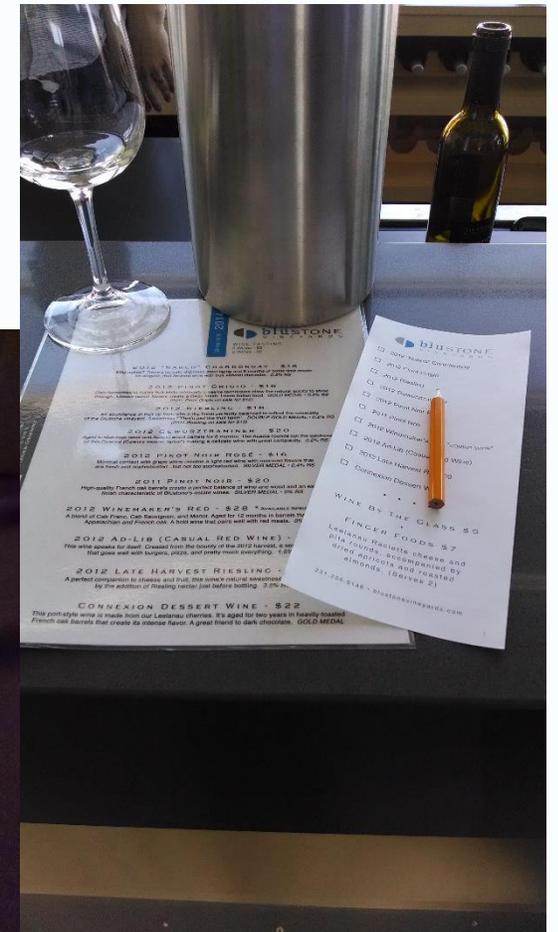
- Customer Service is extremely important
- Creative ways to make money by selling merchandise, tours, events

Front of the House Considerations

- Labor
- Permits, Training and Certifications
- Marketing & Social Media
- POS & Website
- Glassware
- Kitchen Items
- Furnishings
- Merchandise
- Shipping



Glassware



*Spittoons,
menus,
pencils...*

On-Farm Event Opportunities

- Helps bring people to the winery
- Substantial income opportunities
- Staffing Considerations
- Connecting with vendors
- Weddings are big business
- Marketing and getting the word out about events can be difficult

*Yoga in the Vines,
Chateau Grand
Traverse*



Yoga in the Vines

- Weekly for 12 Weeks
- \$40 Class x 15 Students

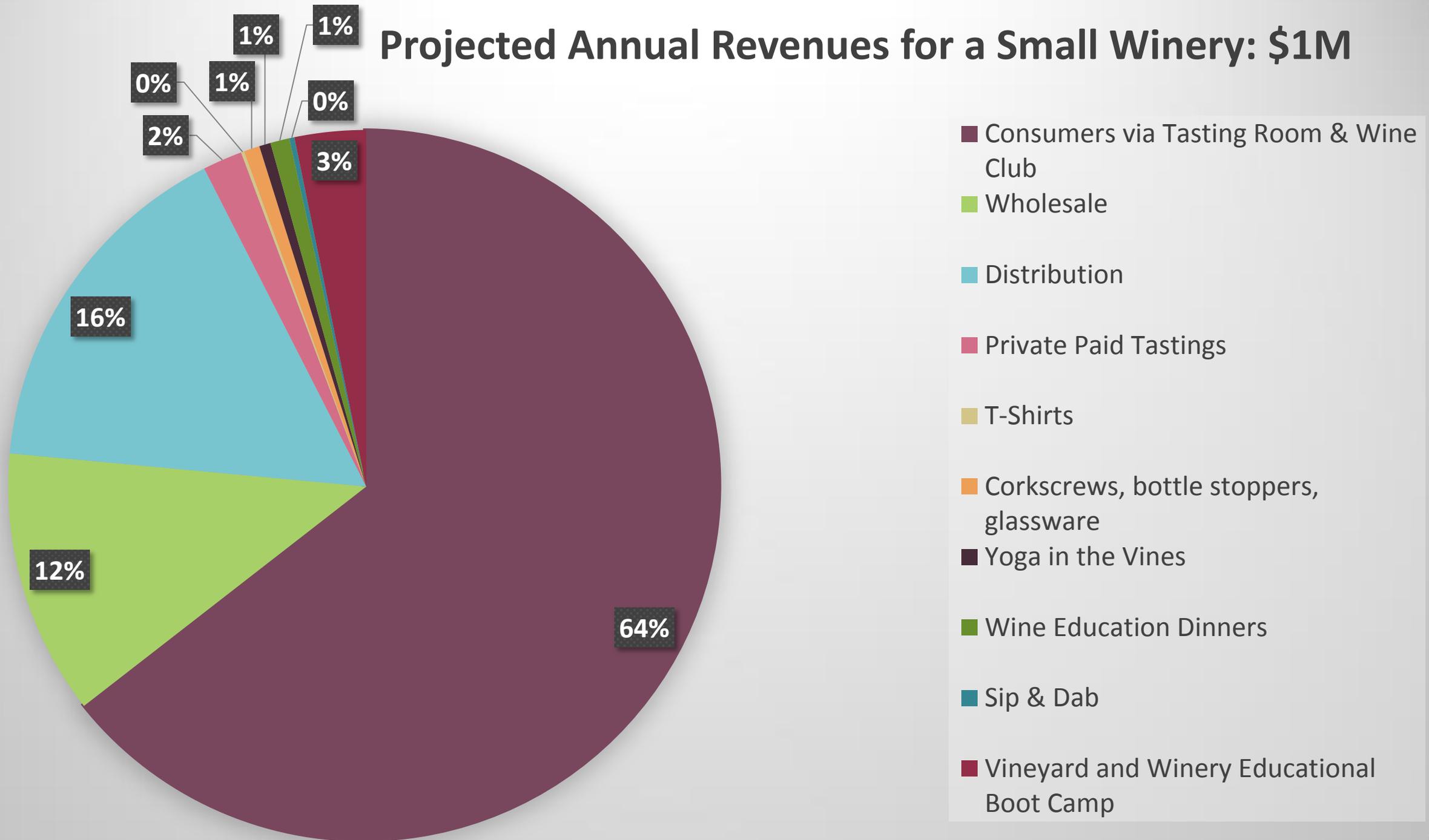
Wine Education Dinners

- Weekly for 15 Weeks
- \$100 class x 8 students

Sip & Dab

- Monthly for 4 months
- \$40 class x 20 students

Projected Annual Revenues for a Small Winery: \$1M



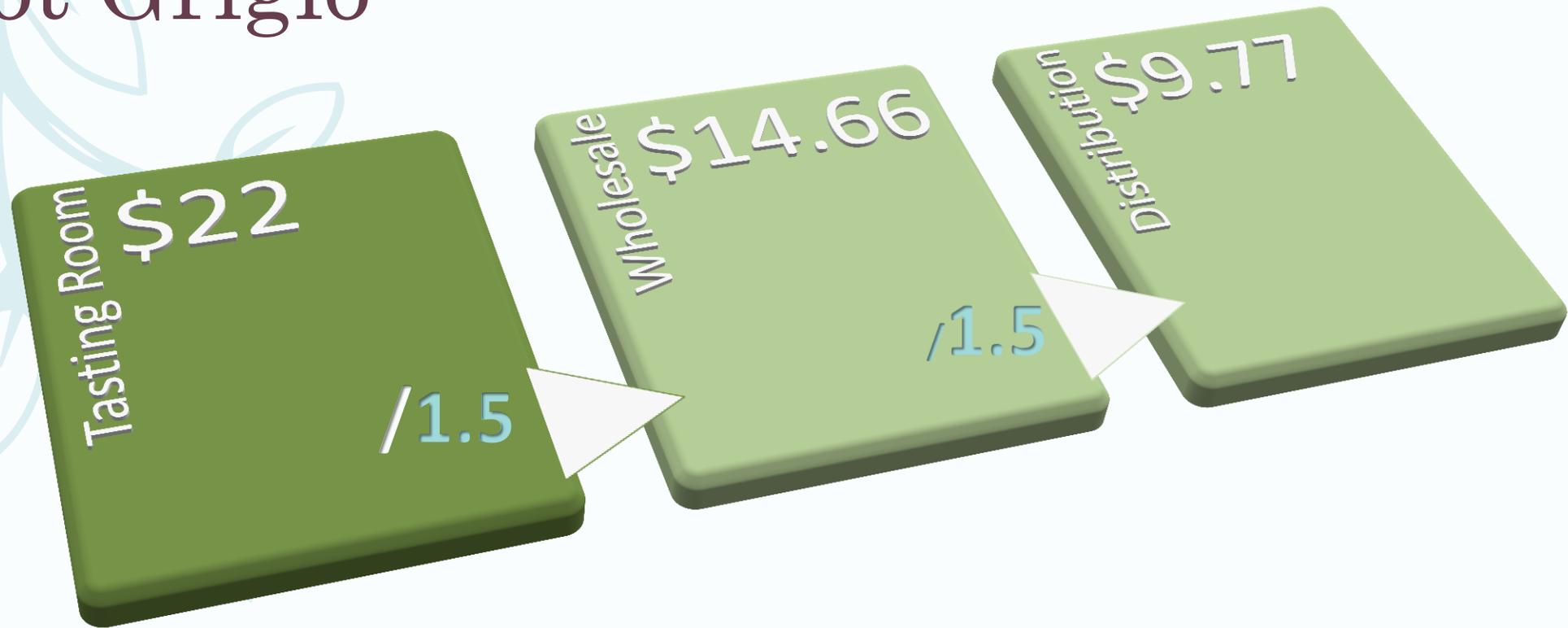
*Great way to
grow a wine
brand and
get wine on a
Retail Shelf*

The Decision to Sell off Farm

- In Michigan, Wineries have the right to self-distribute to any licensed retailer given that all state sales and taxes laws are obeyed
- Considerations for signing with a distributor:
 - Be prepared to sign Statewide
 - A winery may be locked in for life
 - Realize much of the WORLD of WINE is consolidating

Line Pricing in The Three Tier System

Pinot Grigio



Big Decisions: What & How Much to Make

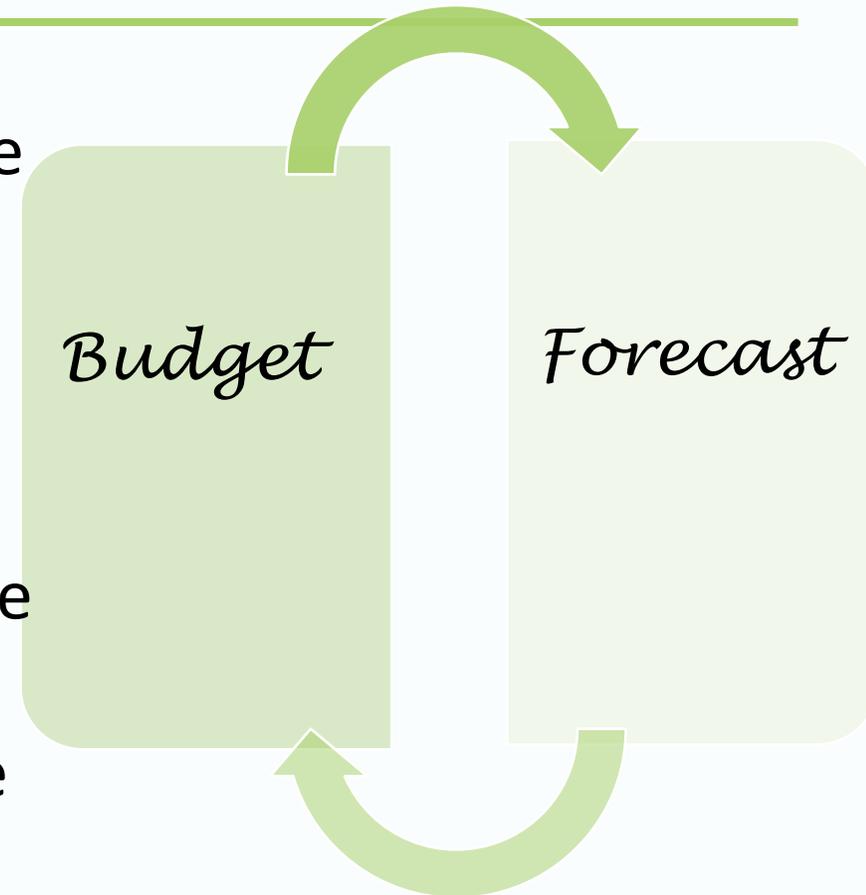
Part 1

1. Use vineyard tonnage to estimate lot size, supplement or sell fruit
2. Take into account the timeline from grape until customer purchase: single harvest per year, the winemaking process, bottle aging
3. Take into account current inventory, sales, distribution and growth strategies
 - Pinot Grigio Example:
 - *2 acres planted, typical harvest 3.5 T/Ac = 7 Tons.*
 - *Assuming a yield of 700 liters/tons = 4,900 liters juice*
 - *Assuming 15% loss = 460 cases of Pinot Grigio*
 - *6 months from grape to bottle*
 - *Sales goal: 300 Cases*
 - *Sell some fruit or make a new product (like Ice Wine!)*



Data Geeks ♥ #'s Part 2

1. Generate an annual winemaking budget and use a weighted average to calculate cost of production per bottle
2. Estimate desired production levels by product based on previous sales, update at bud count
3. Add 20% for reserve to insulate from crop failure and allow for adequate time in the bottle
4. Set or Change prices to reflect the quality of the wine and quantity on hand



Last Words

Successful Wine Producers

1. Start small
2. Never stop learning
3. Collect lots of data

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MichiganWineCollaborative.com

VESTA-USA.org

Michigawines.com

Cheers And Enjoy Michigan Wines!!