

THINKING ABOUT STARTING A SMALL WINERY?

Here's how a Start-up New England Winery was Pre-planned
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Originally published in the 1993 March/April issue of
Vineyard & Winery Management Magazine
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In 1992, Steven and Catherine Vollweiler purchased a dream piece of Colonial America property in a little corner of Northwestern Connecticut. It had a history dating back to 1799. The Vollweiler's ambitious goal was to establish a world-class vineyard and winery on it.

As anyone who has gone through it knows, establishing a vineyard and winery is a complex and lengthy process. Because some points in the process depend on previous stages, it is important to plan out a time line. Here are some of the considerations we went through at Sharpe Hill.

The Vineyard Came First

The plan called for an estate winery and vineyard. In the northeastern U.S., you can harvest a very small crop in the third leaf of the vineyard. That became the first rung of the time line to opening the winery. Smartly, the Vollweilers hired a vineyard consultant, Paul Hennen, former vineyard manager at Stonington's Crosswoods Vineyards, to guide them through. He was able to supply valuable information on the suitability of Sharpe Hill's soil and climate for winegrape growing, and Paul remains a part of the team as vineyard consultant today. The original vineyard of five acres continues to expand, with approximately 45 more available. The varietal mix includes pinot blanc, muscadet (the true melon de bourgogne) and chardonnay. Also vignoles, which has produced an excellent late harvest wine in the Northeast. We have set our sights on cabernet franc for a top quality barrel-aged red. The Northeast is not always a vinous Garden of Eden, so we also are looking at St. Croix, an excellent quality red hybrid from the Elmer Swenson collection in Wisconsin. It would be made as a nouveau. Several other unusual hybrids will occupy some of the tougher vineyard sites.

In rural Connecticut, to prepare, plant and take care of an acre of vineyard for three years costs about \$6,000 per acre minimum. Variables such as unusual land preparation costs, type of trellis set, high planting density and even grape variety will increase this expense. A planting of vigorous hybrids set 8 feet apart in 9 foot rows might run in the neighborhood of \$1,200 per acre for the vines, but ultra-dense planting of grafted stock might alone run to \$5,000 per acre. Assuming the trellis is established in the first year, a good two thirds of the cost is incurred during that period.

At Sharpe Hill, our trellis is a simple vertical 3-wire system. Planting densities range from a high of 1100 plants per acre for grafted vinifera to under 700 plants per acre for vigorous hybrids.

In 1994 a trial harvest convinced the Vollweilers to push ahead with their plan to build a winery.

As a footnote for the neophyte, some wineries are established when the owner of an established vineyard wishes to create a more secure market for a crop. Others start the vineyard and winery together, or only winery, with plans to purchase a crop from another grower. Obviously, it is crucial to your marketing plan to be guaranteed of this supply, and it's important to know what are your state regulations with respect to vinifying grapes from another in or out-of-state source. No two states' regs are exactly the same. Know them before you start.

The Winery

The sky is the limit when it comes to costing winery buildings. There are, fortunately, plenty of ways to economize. For starters, one of the best is to hire an experienced consultant. A winery design consultant's service fees are usually a bargain. He or she can ensure that you don't pay for a large building when a smaller one will fill the bill. A consultant will help you avoid the purchase of expensive white elephants for your bottling line or press deck, and show you how to plan your development in stages that match your cash flow.

Also, when it is time to build, hiring a general contractor usually turns out to be a good move, as compared to hiring individual contractors yourself. If something goes wrong, it is the general contractor who is responsible for making it right, not you.

Because of the great range of designs and types of building, no single figure can capture the cost of the winery structure, even on a per square foot basis. For simple winery buildings, the costs per square foot can fall into the same range as for residential construction. It is possible—even desirable if you will be retailing from the facility—to spend a great deal more than this. And on the other side, those intrepid spirits who have string wills, unlimited time and limited budgets, have saved money and done well adapting an existing building, doing as much of the work as possible themselves.

In the Vollweilers case, Reverend Sharpe's original house was largely intact. Because this is the heart of the property, it was meant that the winery must harmonize with it. With that decision made, the Vollweilers called in architect Robert Burton, of Bronxville, N.Y., who has an extensive knowledge of both colonial and 19th century architecture.

The winery's proportions are those of a 19th century dairy barn—a long rectangle with a steeply pitched roof. The reception/sales room is an attached structure in the colonial style. Authentic colonial barn beams were rescued from a nearby property, and will be a design element in the reception room. Thus, a visitor to Sharpe Hill will be surrounded by the 18th century while tasting wines made, with the latest techniques, in a 19th century barn.

Apart from the aesthetics, you have to have plumbing to do all this, not to mention driveways, foundations and electricity. To get all these details nailed down took four months of discussions between the architect, the Vollweilers, and me. At the same time, we made contact with three or four general contractors to give us a price on the project. Our schedule calls for work to begin in March, with the winery ready in September for the crush of '96.

Equipment

The amount you spend on winery equipment will vary proportionately with the gallons to be processed:

the larger = the more automated = the more expensive net outlay.

You are paying for labor saving convenience. You can't figure the cost of your equipment intelligently until you determine your size range. Consider: a labeling machine's cost starts with a glue pot and manual roller for about \$50, to a blindingly fast automatic labeler costing more than many a small winery. Here is where a consultant will make sure that you don't undersize or oversize your true needs. Buying used equipment from other wineries or auctions can also help with a budget problem.

Where Will the Money Come from?

It's a rule of thumb that if you have plenty of money, the bank will be glad to lend you some more. If you really need money, the bank will be a reluctant suitor. Using collateral in a house is one way to open the discussion. The bank has to be satisfied that, should your business fail, your last nickel will be used to protect the bank, so see Business Plan, below.

In times past, the Farm Credit organization, created to assist farmers in their credit needs, was able and willing to offer more liberal terms than the banks on agricultural matters. Competition among banking institutions has mitigated this to some extent. It is worth checking as many banking leads as you can, however, and Farm Credit should be on your list. Government organizations such as the Farmers Home Administration or the Small Business Administration should also be on your list. Lately the SBA has been making an effort to be more helpful to small businesses with their Guaranteed Loan Program. They also have a program for women and minority-owned businesses.

On a more local scale, state and regional development agencies sometimes make non-secured loans to wineries. Depending on the agency and on your location, you can fit in either under agricultural programs, or tourism. The common thread is usually this: The lending agency wants its loan to create jobs in the community. You will need to convince them that your business will do that. Your best tool is a well thought out business plan, including profit and loss and cash flow projections. This demonstrates your ability to plan ahead.

The wild card in winery/vineyard financing is a single investor with a bottomless checkbook, or a large group of subscribers, each of whom has paid a modest sum to receive a small amount of custom bottled wine each year, and the privilege of getting first crack at new releases or small bottlings. The subscriber group is a laborious way to raise capital. However, it does have the important advantage of creating a base of loyal retail customers, each of whom has a personal and emotional stake in seeing your winery succeed.

The Business Plan

This document is, first of all, a guide to strategic planning. In the process of creating it, the entrepreneur is forced to consider what must be done to realize the goal. How much money is needed at what stages? How much wine will have to be sold during

the first few years? Where will the grapes come from? etc., etc., etc., But the business plan is no mere organizational exercise; it is also a key document in obtaining financing. Any financial institution will want to see that the potential loan customer has a grasp on the details of the business. The best way to demonstrate this is to produce a reasonable and convincing business plan, including cash flow and financial projections for the first 3-5 years of operation.

Compliance and Permits: A Paper Blizzard

All U.S. wineries must obtain an asset of permits from the Bureau of Alcohol, Tobacco and Firearms, the BATF. Call or write for the application forms. Chances are you already know someone in the wine business and you can ask them for the right number. (*Vineyard & Winery Management's Desktop Products Guide* lists the state and federal offices in your area.) You will receive a little pile of forms, instructions and regulations. The latest application packet has, by my count, 62 pages. At the bottom of some of them you will find the cherry little Paperwork Reduction Act notice.

Each state has its own agency or agencies that have regulatory jurisdiction over wine production and sales, also. In my experience, their attitudes vary from genuinely helpful, to downright obstructionist. When we recently requested Connecticut Liquor Control Commission application for Sharpe Hill, we were amazed to receive an encouraging and welcoming letter from the Commissioner himself. Hallelujah!

Virtually every state has laws regulating discharge of wastes. In Connecticut, a winery is regulated by both the Department of Health (for toilet septic systems) and the Department of Environmental Protection (for the winery waste). It's probably similar in your state. If you are in a region where wineries are still unfamiliar to the bureaucracy, it may be helpful to stress that a winery is an agricultural, not a manufacturing enterprise. In Connecticut, if the amount of wastewater is limited to 500 gallons per day, the local Health Department office can handle the application, without review at the state level. In addition, you will probably have to satisfy local zoning, which will have put you in touch with these agencies, and maybe also other land use and wetlands agencies. If you are inside a municipal area, expect to find yet another tier of permit-requiring agencies.

If you are in a new winegrowing area, be prepared for weird things. In 1980, when I filed Hamlet Hill's application with the Connecticut DEP, I was told that, since they had had little experience with wineries, they would place a call to California for guidance. A few weeks later, the well-meaning DEP official informed me that he had consulted with Gallo. We would need a series of aerated wastewater ponds, just like the ones at Modesto. The cost for this inappropriate system would have been equal to half the cost of the winery building. We spent some time in negotiation, and together we came up with an inexpensive alternative that performed flawlessly.

Sequence

In Connecticut, as in some other states, the first requirement of the state application is to submit a valid federal permit. In other words, the state is relying on the BATF to check you out first. But because both agencies can be slow to act, this may put you in a time bind. In practice, it is a good idea to write to both state and federal agencies at the beginning of the process, informing them of your intention. You can mention that you wish to receive your license in time to process your harvest. In some cases, when the

BATF hasn't acted in a timely manner, people have written a second letter, informing the BATF that they are preceding with harvest. Try to address the letter to the official in charge of your region, and always keep copies of the correspondence. Registered return receipts are an inexpensive way to prove that you have been acting in good faith. While none of this frees you from the legal requirement of obtaining licenses first, it has sometimes been helpful in the past. Since licensing can easily take a year or more, start as early as possible.

Shortening the Time Line

In some states a winery can sell another winery's wine. You can get your venture off the ground with wine you didn't make to get cash flow going. Of course, most of the visitors are interested in tasting your wines, not someone else's. This suggests that a better option is to sep up a temporary winery, make wine for the fist year's sales, and then switch your license from the temporary winery to the permanent one. Garages are popular locations for this kind of activity, if not ideal ones.

Another possibility is to share the premises of an existing winery, if state law allows. A variant of this theme is to have the first harvest processed at a nearby winery. The refrigerated grape juice can be stored for a while and then transported to the new winery, where it will be made into wine. That may put off the need to purchase a press and crusher until the second year.

At Sharpe Hill, we are making wine in temporary premises, after having the grapes pressed nearby. When the winery opens, we will have 10,000 bottles of wine in stock. Good Luck with your own operation!