

#13 What Might the Future Bring?

(This was written originally in 1999 and predicted a possible scenario that might take place in, say, 2005. It has been updated with actual figures)

This is a fictional but not unlikely scenario. It is rated 'MA' for mature audiences because it describes possible unpleasant financial consequences, and should not be shown to small children or those planning to plant grapes.

Those grapevines you planted way back in 1997, together with thousands of other farmers-come-lately who wanted to get in on the great wine grape boom of the nineties, are producing nicely. You prepared the land carefully, you survived the difficult years of little to no production, you established the optimum trellising system for your vines and soil, you put in high-quality stakes, fencing and drip hose, you're ready to finally receive some return for your substantial investment and—the bottom has dropped out of the wine grape market! Zindandel, which peaked at \$1,044 per ton in 2001, is selling for \$400, and merlot, which dropped slowly but ominously from \$1,399 per ton in 2000, is now down to a mere \$650! What can you do?

If you had enough foresight, back in '96 or '97 when grapes were scarce and prices were high, you cultivated a relationship with a winery and signed a long-term contract that protected you from this disaster (but never forget that all agreements can be re-negotiated if conditions change enough—a long-term contract with a bankrupt winery isn't very valuable). If you didn't lock in a favorable price during the gravy days, there are still a few options you can pursue.

A lot depends on the demand for wine. If it stays high, wineries may be delighted to accept your bargain-priced grapes and turn them into additional product that the public is clamoring for. But more than just oversupply can affect the price of grapes. If the economy softens, or if the healthy glow currently attached to wine consumption begins to fade, it's conceivable that the demand for wine will weaken (remember, consumer trends can change quickly and wine is no exception). It will only make matters worse if the star winery to which you hitched your viticultural wagon succumbed to the attraction of raising its wine prices out of sight during the boom of the nineties, and can't sustain its lavish lifestyle during hard times.

Do it Yourself?

More than once, grapegrowers have been placed in the awkward position of visiting their favorite winery, hat in hand, with the sad spiel, "Hi, Sam, I know you don't really need any more grapes, but why don't you take mine, make them into some good wine, and pay me when you sell the wine? After all, prices may be back up in a couple of years." This is not only demeaning, but it delays any income for another two years or longer. How can you recover your costs and reap the benefits of all your hard work? Of course! You can open your own winery, convert the grapes to wine, and gain the additional income from

selling the wine! (This is a primary symptom of the incurable disease we have alerted you to in the past: “ownerus winerium.”) You begin to research the cost of building a winery building (hopefully, you already meet the zoning requirements and have reasonable public access to your land), the cost of equipment, and—oh, yes—how to acquire the knowledge to make good wine that people will want to buy? (As informative as this series of articles has been, it’s not a fair substitute for winemaking experience.) You quickly learn that the investment is huge, the payback from a winery may be even longer than that nineties vineyard you planted, and you start to ask yourself, “Why would anyone ever want to do this?”

The Custom Approach

There is another approach, but one that brings its own set of opportunities and difficulties. Remember those who weakened before you and opened new wineries around the turn of the century? They’re still trying to recover the cost of their buildings and equipment, seeking other sources of income until their wine sales rebound, and they might be willing to work with you in an arrangement called “custom crush.” In this scenario, the winery crushes your grapes, makes all the adjustments, performs all the necessary winemaking miracles and matures the wine into (hopefully) a quality product on your behalf. This is a mutually beneficial arrangement, since the young winery expends little besides labor and expertise while gaining income sooner than it would by selling its own wine, while you get wine without having to make the enormous investment in bricks, mortar and stainless steel. Costs for this service can have wide variations, depending on capacity, reputation of the winemaker and greed, but in the late nineties many small wineries in the foothills were charging amounts like \$14 per case for white wines, and \$16 per case for reds, which normally stay in the barrel an extra year. This is the charge to produce the wine, care for it and make it ready for bottling. The terms of payment normally start with an initial payment of 25-50% of the total, followed by monthly or quarterly installments. This cost structure usually required that the grower buy his own barrels, barrel racks and possibly tanks for the storage of the wine, but there are many variations that were worked out the parties. Bottling costs are extra, and used to run about \$10.00 to \$12.00 per case for normal bottling materials—empty bottles, corks, capsules, labels and charges for the winery’s own or a mobile bottling line (2005 note—it now runs closer to \$18 per case for the entire bottling process).

Why Doesn’t Everybody Do It?

This seems like the ideal arrangement: For \$24 to \$30 per case (note--that was back then; it’s more like \$40-50 now), plus the cost of your grapes, you could have your own wine, your own label, and be in business in as little as six months after the harvest. To be sure, there are some regulations involved—you need a permit from the Feds (Alcohol, Tobacco & Firearms), a special tax stamp, a license from the State (Alcoholic Beverage Control), a couple of security bonds to make sure you don’t run off without paying your taxes and the necessary licenses for retail or wholesale distribution of the wine. These are tedious to obtain, but not particularly expensive. The real difficulties come in marketing

the wine after you get it, deciding how you are going to sell (tasting room, direct to consumers, wholesale, through brokers, etc.); competing with all those established brands with their huge retail presence, fancy labels and even television commercials; arranging for delivery and collection of accounts payable—all the joys of owning your own small business.

You also need to consider the reliability of the custom crush arrangement. There will always be facilities that provide the custom crush services, but they may not be conveniently located, or perhaps even not capable of providing the quality you have trained your customers to expect. If your chosen winery goes out of business, changes ownership (or winemaker), or becomes highly successful and doesn't need your cash flow anymore, you may find yourself with an established business and no easy source of product. It's probably best to consider custom crush as a short-term arrangement while you develop your own facilities (or just wait for prices to improve), but under any circumstances you should understand the risks and uncertainties that go with a custom crush arrangement. And the one thing that the future is sure to bring is additional uncertainty!