

Grapes: Grape Expectations, or Will You *Ever* Get Your Money Back? (Part 2—Add a Winery?)

In the last article, we talked about how long it takes to get your investment back if you put in a vineyard. At least one actual or aspiring grape grower read the article and said, “You know, he *might* be right. But if I just had a winery, then I could really cash in on the true value of my grapes!” In the interest of mental health protection, in this article we’ll consider the case where you not only plant a vineyard, but erect a monument to your former wealth in the form of an actual winery.

The hypothetical ten acres of grapes we used in the previous example will yield an average of 2400 cases of wine per year when mature. If you start with your first full crop in year four, you will be in a position to sell wine in year six (assuming that most of what you grow are the red wine grapes that this area grows best). If you build the building, fill it with the minimum equipment necessary to make that amount of wine, and do all the work yourself (that is, when you’re not on the tractor trying to reduce your investment in the vineyard), you will spend something like \$200,000. If you pay to have it all done, it’s easy to spend \$500,000. However you do it, you should plan on two years from start to finish.

There are two good rules of thumb to use here: you will need about one square foot of winery space for every case of wine you make, and unless you can do a lot of the work yourself, it’s hard to get a winery built today for much less than \$100 per square foot. The equipment you need to operate this size winery will run about \$50,000 minimum (small used press and grape crusher, tanks, barrels, pumps, hoses, etc.), with shiny new equipment costing at least twice that much.

And don’t forget, you have to build the winery in time for the crush of year four in order to sell the wine in year six (you can always try “custom crush,” which means having another winery make your wine for you before you get yours built, but it nearly doubles the cost of the wine and limits your recovery, and it’s getting increasingly hard to find wineries interested in custom crushing), so we’ll add the following investment amounts to the three cases: \$200,000, \$350,000 and \$500,000, split between years three and four. Also, you also have to make wine in year five before you start selling the wine from year four in year six, and this will mean an additional investment of \$10,000 to \$20,000 for barrels and tanks to hold that second year’s wine production. Oh yes—don’t forget that you’re no longer selling your grapes and receiving income during those years. The good thing about this is that you don’t care how low grape prices fall, since you’re not selling any.

When you start selling your wine in year six (at retail, since wholesale returns only 50% as much), you will begin to recover the income you lost from planting the grapes. Being new, you’d probably sell only half a year’s worth the first year, but it’s not unknown for a new winery to sell 2,400 cases in the second year, for gross sales (with an arbitrary but reasonable estimate of \$150 per case) of \$360,000! If everything goes according to plan,

and you have no payroll, you might have a paper profit of (we're being generous, now) of 20% of that amount or \$72,000! The problem, as every businessperson learns to his/her disgust, is that you're still in a negative cash flow situation, so all profits do for you at this stage is run up your tax bill with Uncle Sam and Cousin Gray.

Since you're no longer selling grapes (or buying them for the purpose of this article), and grape prices no longer directly affect your payback time, we'll introduce the idea of wine prices decreasing 5% per year, staying the same, or increasing at 5% per year—just to add a dose of reality. Here are the results after ten years:

	Low Investment	Medium Investment	High Investment
Decreasing wine prices	-185,230	-596,139	-1,120,910
Constant wine prices	-161,642	-572,551	-1,097,322
Increasing wine prices	-136,616	-547,525	-1,072,297

Remember, negative numbers mean that's how much you owe, positive one mean you made that much over the time period. Since these are moderately depressing figures, let's carry it out for another five years, and look at the results after fifteen years:

	Low Investment	Medium Investment	High Investment
Decreasing wine prices	45,747	-559,327	-1,352,854
Constant wine prices	132,606	-467,189	-1,260,716
Increasing wine prices	222,192	-367,106	-1,160,632

Your payback time for the low investment case will be 15 years with decreasing prices, 14 years with constant prices, and 13 years with increasing prices. If you went the medium investment route, you would see a payback in about 30 years, only if wine prices increase, and never with steady or decreasing prices. Sad to say, if you had to borrow money to go the high investment plan, you can never recover your money, no matter how long you keep selling wine.

If you were fortunate to have a rich uncle give you the money so you didn't have to think about interest costs, there's a slightly better story. The low investment case will pay you back in 11, 10 or 9 years, depending on wine prices, the medium in 18, 15 and 13 years, and with the high investment level, it would take something like 40, 23 and 18 years to break even, depending on the selling price of wine. The state of your account after 10 and fifteen years is shown in the interest-free tables below.

After ten years:	Low Investment	Medium Investment	High Investment
Decreasing wine prices	-58,546	-354,122	-719,838

Constant wine prices	8,200	-250,800	-571,800
Increasing wine prices	26,510	-236,130	-562,870

After fifteen years:	Low Investment	Medium Investment	High Investment
Decreasing wine prices	207,109	-113,467	-529,183
Constant wine prices	325,200	41,200	-329,800
Increasing wine prices	400,010	112,370	-264,370

Just like last month's article, you are free to disagree with any or all of the estimates and assumptions. All the numbers are on a special page on the winery's website: <http://www.oakstone-winery.com/vineyardcosts.htm>, and this is the real address—my apologies for getting it wrong in the last article.

Realistically, very few people would stick with a 2,400 case winery for very long; the incremental costs of the next few thousand cases are much lower than the initial cost to get the premises up and running. Most people would find a way to increase production as quickly as funds allow, usually plowing back in any "profits" over the first five to seven years to get to the preferred size of 5,000 to 10,000 cases per year.

However you slice it, though, growing grapes and making wine is certainly not recommended for the impatient, the greedy or the hungry. You need to be prepared to live on smiles, compliments, and expressions of sympathy for quite a long time, and you have to plan on giving up every single weekend for at least the first five years. The worst part comes when you find out that, unlike the Olympics, the "gold medals" you might win aren't even metal in most cases, and never made of real gold, so you can't even pawn them when you're desperate to make payroll one bleak day down the road. The sole balancing consolation is that you always have plenty of wine to drink, and sometimes it can make even *this* kind of calculation seem a little more remote and less intimidating.