

Department of Agriculture, Trade and Consumer Protection
Division of Agricultural Development
Agricultural Development & Diversification Program (ADD)
Grant Project Final Report

Contract Number: 23061

Grant Project Title: Feasibility Study for the Development of a Cooperative Distribution Structure for the Wisconsin Wine Industry

Amount of Funding Awarded: \$45,000

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Report Submitted on: August 17, 2011

Please focus on the Wisconsin Agricultural Industry as the primary audience for your grant project final report. The following questions are meant to be a guide for writing your grant project final report. Your final report will be shared with the Agricultural Industry and can serve as a template for further growth and development for the State of Wisconsin. Please provide them with the best report possible. If we can help in some way, please let us know.

1) What was the original intent of the grant?

Recent Wisconsin legislation has made fundamental changes in the rules governing how wineries situated in the state are able to distribute their products within the State. This legislation, Senate Bill 485, has eliminated the authorization of wineries, and other producers classified as wineries under the statute, to sell wine at wholesale. Under the Bill an exemption is allowed for wineries that produce and bottle less than 25,000 gallons of wine in a calendar year to organize, with other small wineries, cooperative wholesalers to sell and distribute wine produced by their members.

It was the purpose of this proposal to determine if and how all small producers classified as wineries in Wisconsin can use this "Small Winery Cooperatives" exemption to return themselves to the same or similar economic position they enjoyed prior to the passage of this legislation.

Steps proposed to accomplish this are as follows:

1. Survey all producers operating as wineries in the Wisconsin to determine the details of their distribution structures and margins prior to the legislation and the key factors for success needed to create a substitute co-op distribution structure.
2. Evaluate the two available co-op structures to determine which will best accommodate the critical success factors needed to establish small winery distribution co-ops as allowed under the cooperative exemption of Senate Bill 485.
 - a. Compare and examine the current laws regarding the two legal co-op structures available under the Senate Bill, Chapter 125 alcohol rules, and Chapter 185 and 193 cooperatives rules.
 - b. Identify the key factors to distribution success needed by Wisconsin wineries meeting the criteria of the small winery exemption.
 - c. Develop a set of recommendations as to which of the two structures best meets the broadest array of key success factors required by the target class of wineries.
3. Work with legal counsel, the University of Wisconsin-Extension Center for Co-operatives and the Wisconsin Federation of Cooperatives to develop a detailed plan to establish a co-operative legal entity based on data and information gathered by this study.
 - a. Evaluate the various legal entities and their application to the small winery exemption class of wineries.
 - b. Choose a cooperative structure and legal entity based on this analysis.
4. Evaluate various business models so as to identify the optimal business structure, key operational issues and potential obstacles to success in launching and operating a small winery co-op.
 - a. Identify and evaluate the small alcohol producer distribution models being utilized in the United States
 - b. Select a model and configuration best suited to Wisconsin's small wineries.

- c. Develop a comprehensive plan of distribution to present to DOR
5. Utilizing the suggested legal entity and business model, form the required number of co-ops resulting from the work of this proposal.

It is estimated that there are approximately 720 acres of wine grapes planted in Wisconsin at this writing. Of course many Wisconsin wineries use fruits other than grape to make wine. Other fruit utilization includes apples, cherries, blueberries, black currants, raspberries to name just a few. The survey completed using grant funds indicate the following (WI Winery Cider Survey 2008):

- Entrepreneurs in Wisconsin produce wine/cider using a variety of non-grape sources of sugar – apples (33% of the sample made apple cider), pears (about one-quarter of the respondents), honey (20% of the sample), and other fruits (cranberries, blueberries, cherries, etc.).
 - Fewer than half of these non-grape producers of wine and cider produce their own fruit. Other Wisconsin growers supplied half of the fruits purchased for wine/cider production, wineries/cideries produced slightly less than 40% of the fruit they needed. The remainder of this fruit came from out of state growers. More than 80% of purchased fruit uses on the spot market.
 - In 2007, the 24 respondents reported producing 117,797 cases of wine, 1,250 cases of cider, and 5,052 cases of mead. Five of the 22 wineries are so new that they produced no wine in 2007. Of those producing wine in 2007, 75% produced fewer than 2,500 cases and almost all said that their production had expanded over the previous 4 years and that they expect further expansions over the next 4 years.
 - Median direct sales (\$163,079) account for the bulk of estimated total sales (\$212,325) at a typical Wisconsin winery/cider.
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- What did you want to accomplish with the grant?
 - How was it expected to benefit Wisconsin Agriculture?
 - What steps did you take to reach your goal?
 - What makes this project work important or significant to the State of Wisconsin or Wisconsin Agriculture?

2) What were you able to accomplish?

We did complete the feasibility study and a survey. The study made specific recommendations for coop development and structure. In addition contacts were made with the Center for Cooperative Development to assist in coop set-up. Report is attached

This grant was originally intended to investigate the feasibility of small winery cooperatives in the state of Wisconsin. This led to further investigation and development of a system of accounting which would be cost effective and efficient in order to satisfy the Wisconsin's Statutory requirements for small winery cooperatives. In order to accomplish the intent of the grant, a feasibility study was initially sought which outlined the statutory requirements along with fiscal limitations that a cooperative could operate within. This study was followed by a subsequent development project to assist in developing the operations of the small winery cooperatives in order to overcome some of the special limitations associated with a statewide cooperative organization.

Once the cooperatives were set up it was discovered that the fiscal and statutory requirements burdened these small winery cooperative disproportionately compared to their distributor competitors in the market. These limitations were found to be, financial and geographic in nature due to; small wineries lower sales volume and hence revenue and the geographic separation of cooperative's members hindering efficient operations. Thus, a cost effective system of accounting for a statewide organization would help to reduce the effects of geography and revenue in hindering these cooperatives.

This grant assisted in deferring some of the fiscal burdens of developing an efficient system of accounting which is a statutory requirement of these small winery cooperatives. A system of accounting was developed to allow easy access to all of the cooperatives members from all around the state, the

cooperative's financial institution and accounting professionals. The system implements a number of tools on a web-based system; a universal invoicing system, an automated financial accounting report and a volume report designed around the Department of Revenue's monthly reporting requirements. The universal invoicing system was designed to be universal for all the members but separates each member's account to protect each member's intellectual property. The financial portion of the system accumulates all of the financial data and generates a report for each member's account as well as accumulating financial information for the cooperative as a whole for use by the cooperative's financial institution and accounting professionals. The system's interface with the financial institution also streamlines the notification of accounts payable to each of the members directly through the web-based system. The system also tabulates the total volume of products sold into each of the DOR's alcoholic beverage classes which is required to be reported to the DOR on a monthly basis. The two most significant portions of this system are its web base and its automation to the accounting functions that it generates. The web-based system makes it easily accessible to all of our members as well as the institutions that assist the cooperative. This allows for a significant reduction in accounting personnel costs as well as flexibility in choosing the most economical institution to assist the cooperative no matter where they may be located. The flexibility and automation of this system is an integral part of giving these agricultural-based cooperatives the competitive ability to operate increasingly competitive global economy.

We have found that the system that was developed has significantly reduced the labor required to operate the cooperatives accounting system. The system has also reduced the occurrence of human errors associated with conventional account bookkeeping. Our financial institution has also been able to reduce labor costs associated with accounts payable which will be beneficial to the cooperative to defer increases in labor costs. This system will also allow the cooperative to negotiate lower fees with the financial institution and accounting professionals as they realize the lower labor associated with the implementation of this system.

This grant was intended to aid these new cooperatives operations and subsequently the Wisconsin's agribusinesses that support them. The members of the cooperatives are wineries which either have their own fruit farm or directly support fruit farms where they purchase their raw materials, which subsequently helps a myriad of agribusinesses that support the wine industry. Grape growers, apple growers, berry growers, are direct examples with peripheral industries that support these agricultural industries of lumber and steel manufacturers for trellising supplies, equipment manufacturers for vineyard and orchard maintenance equipment and fertilizer and agricultural manufactures.

This system could act as a model for other agribusiness cooperatives around the state to help improve efficiency and competitiveness. The economic efficiency of the web-based system is obvious but the competitive advantage that it provides not as apparent. One of the main functions of this system was to reduce the geographic impact of distance on the operation of a small winery cooperative. By the system reducing the "functioning distance" between members it is more attractive for more distant members to participate. This will increase participation in a cooperative due to the economy of scale, allowing these cooperatives to be more competitive and effective.

3) What conclusions can you make based on project work the analysis of collected data?

The coops are feasible but as the law is written have some structural flaws that will need to be addressed to make them more efficient for greater likelihood of success

4) What do you plan to do in the future as a result of this project?

Continue to assist the coops for the successful transition to this new selling environment. Request changes in the rules and laws to make the coops more efficient and cost effective

5) What information or additional resources are needed to commercially develop this enterprise?

None at this time

6) How should the agricultural industry use the results from your grant project?

Legally there is no ability to set up new coops. The best we can do is to lobby the legislature to change the most onerous parts of the law and ask for review of the rules as implemented by the DOR to make meeting the letter of the law less onerous to comply with.

Grape Production in Wisconsin:

Results of the 2008 Statewide Grape Growers Survey

Prepared by:

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March 2009



Acknowledgements

The 2008 WI Grape Growers Survey is the result of a collaborative effort between the University of Wisconsin Extension Fruit Crop Team, the Wisconsin Wineries Association, and the Wisconsin Grape Growers Association. The survey was funded in part by the Wisconsin Wineries Association through grant funding received from the Agricultural Development and Diversification Program of the Wisconsin Department of Agriculture, Trade, and Consumer Protection. The report could not have been possible without the participation of the 105 grape growers that responded to the survey.

Introduction

In 2008, the Wisconsin Wineries Association received funding to evaluate how recent legislation governing the distribution of wine and cider produced in WI would impact the fledgling wine and grape industry¹. A key aspect of the project was to generate baseline data as to the economic impact of the Wisconsin grape and wine industry.

In cooperation with the Wisconsin Wineries Association and the Wisconsin Grape Growers Association, UW-Extension developed a survey for the 52 wineries in the State and the grape growers. The wineries survey was conducted by the UW-River Falls Survey Research Center and was completed in November of 2008.²

The grape growers' survey was developed by the UW-Extension Fruit Crop Team. The survey was first distributed directly to attendees of the Grape IPM Field Days held in Viroqua, Somerset, and Kewaunee in August 2008. The survey was then direct mailed in September 2008 to a compiled list of 240 names provided by the WI Grape Growers Association and county-based UW-Extension Agriculture Agents. It was also included in the wineries survey sent to the 52 wineries in the State. The survey was again distributed at the first annual meeting of the WI Grape Growers Association in January of 2009. Finally, a second direct mailing was sent in mid-January to those on the list that had not yet responded.

Ninety-two (92) surveys were returned from the 240 people on the contact list for a response rate of 38%. In addition, 24 of the 52 wineries responded to the wineries survey and, of those, 13 wineries reported growing grapes and completed the grape growers' survey for a total of 105 returned surveys. Unless otherwise specified, the numbers in this report are from the 105 returned surveys.

¹ Feasibility Study for the Development of a Cooperative Distribution Structure for the Wisconsin Wine Industry, 2008 ADD Grant Project, Wisconsin Wineries Association

² Wisconsin Winery and Cider Survey, UW-River Falls Survey Research Center Report 2008/26, Nov 28, David Trechter, Michelle Hadley, Denise Parks

The primary intention of the grape growers' survey was to better understand how many vines are in WI, where they are growing, and how much they are producing. In addition, the survey asked about challenges faced by the growers in order for Extension and the Grape Growers Association to more effectively meet the needs of the growers.

Results

Vines and Acreage

A total of 153,660 grape vines of 67 varieties were reported in the 105 returned surveys. Figure 1a lists the top ten varieties grown in WI. Figure 1b shows the distribution of growers by number of vines. Although the average number of vines grown by WI grape growers is 1463, 69% of the growers have fewer than 1000 vines. If we extrapolate the average number of vines to the total contact list of growers, WI has an estimated 370,000 grape vines.

Grape Variety	Vines
Not Specified	30,505
Foch	26,815
Marquette	14,407
Frontenac	13,403
St Pepin	10,138
Edelweiss	9,171
LaCrosse	9,050
Frontenac Gris	7,434
St Croix	6,946
LaCrescent	6,204

Figure 1a. The number of grape vines for the 9 most popular varieties in WI. N=105

# of Vines	# of growers
5000+	10
3000-4999	8
1000-2999	15
100-999	44
1-99	28

Figure 1b. The number of growers by number of vines grown. (N=105)

District	# of Growers	# of Vines
South	42	77285
West	27	36406
East	13	8947
North	10	8739
Quad	3	311
Central	3	963
Not Specified	7	21,009

Figure 1c. The number of growers by UW-Extension districts in WI. The Quad district includes the 4 counties near Milwaukee. (N=105)

Assuming an average density of 530 vines per acre, the survey respondents report growing 290 acres of grapes. The extrapolated number is nearly 700 acres. For comparison, the 2007 Census of Agriculture reports 479 acres of grapes in WI on 253 farms.³ The survey respondents reported growing grapes in 32 Counties, with most of the respondents growing grapes in the

³ 2007 Census of Agriculture – State Data, USDA-NASS, Table 35. WI Specified Fruits and Nuts by Acres: 2007 and 2002

SW part of the State. Figure 1c shows the location of growers distributed across the UW-Extension districts in WI. There are likely grape growers in every county of WI (especially if you count backyard growers), but the bulk of the commercial grape production is along the western edge of Wisconsin. Vernon County alone had 22 growers respond to the survey.

Figure 2 shows the number of grape vines planted each year in Wisconsin since 2000. Other than year 2000 and year 2007, the number of vines planted has been relatively consistent around 11,500 vines per year. Figure 3 shows how many vines of each of the most common varieties were planted between 2004 and 2008. The spike in planted vines in 2007 is due to the commercial release of Marquette (Figure 3). The interest in Marquette also had a coat-tail effect with an increase in planting of St. Pepin, Edelweiss, and Frontenac Gris compared to previous years. New plantings in 2008 returned to just above average levels, but were still dominated by Marquette.

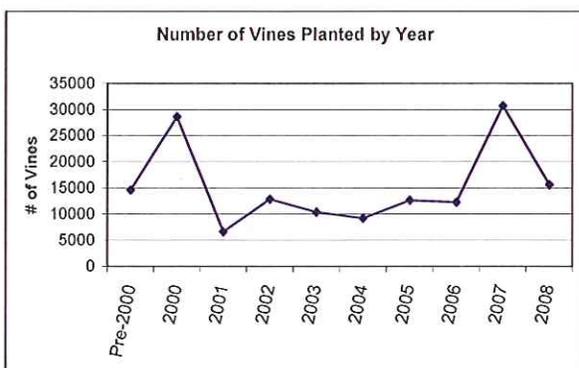


Figure 2. The number of vines planted each year since 2000 as reported in the 105 returned surveys.

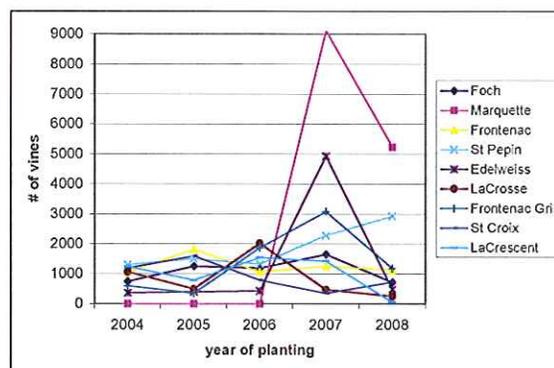


Figure 3. The number of vines planted each year since 2004 for the nine most common cultivars. (N=105)

The survey also asked growers to indicate what grapes they planned to plant in 2009. Figure 4 indicates new plantings in 2009 will be close to average levels and will be dominated by Marquette.

Variety	# of vines
Marquette	4286
Frontenac	1336
St Pepin	1184
LaCrescent	1050
Frontenac Gris	1046
Total	13255

Figure 4. New grape plantings planned for 2009 as reported in the 105 returned surveys.

Growers were asked how much grape production they had for each variety for the years 2004-2007. Many growers reported total production and did not specify yield by variety. Thus, a significant proportion of the production is indicated as "mixed" or "not specified". Figure 5 shows that total grape production rose steadily between 2004 and 2007, despite known production problems and crop loss due to winter injury, frost, disease, and storm damage. Although growers were not asked about their revenue from grape sales, Figure 5 also shows estimated harvested grape value assuming a gate price of \$1200/ton.

Year	Tons	Value*
2007	174	\$ 209,223
2006	138	\$ 165,278
2005	75	\$ 89,427
2004	44	\$ 52,913

Figure 5. Total grape production for the years 2004-2007 as reported in the 105 returned surveys. Value is estimated by multiplying tons by \$1200/ton.

Figure 6 shows the 4-yr grape production for the 6 varieties with the most production. It is likely the "mixed" designation consists primarily of the same 6 varieties. Given the planting trends shown in Figure 3, grape production in WI is likely to continue to consist of a similar mix as shown in Figure 6, until Marquette starts to produce, at which time Marquette will likely become the 2nd most common grape produced in WI. Figure 7 shows how production has changed for each of the 6 most common varieties as reported in the 105 returned surveys.

Variety	4 yr Total (tons)
Foch	345
Frontenac	129
Mixed	105
Edelweiss	55
LaCrosse	54
St. Croix	39
Concord	33

Figure 6. Total grape production over the period 2004-2007 by variety for the six most common varieties. (N=105)

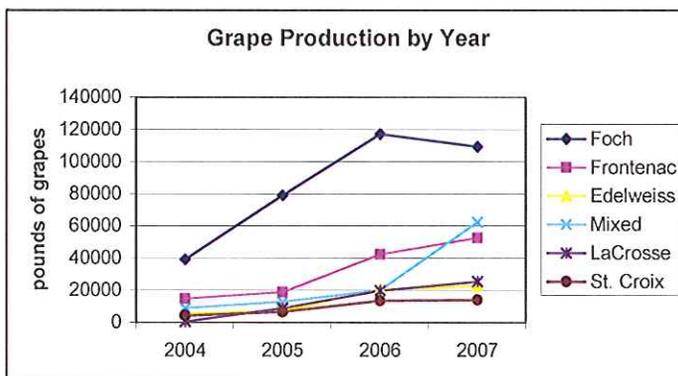


Figure 7. Changes in grape production by variety between 2004 and 2007 as reported in the 105 returned surveys.

Of importance to the future of the wine and grape industry in WI, is both the variety and volume of projected grape production. Figure 8 shows the number of vines in WI and MN that are less than 4 years old and the number that are more than 4 years old⁴. The data suggest a more rapid expansion in grape production in MN than in WI, due likely to the work of the Minnesota Grape Growers Association, the grape research and development program of the University of Minnesota, and the marketing activities by nurseries growing and selling the UMN released cultivars. With 46% of WI vines and 66% of MN vines coming into production in the coming years, there will be a significant increase in grape production in the near future posing both challenges and opportunities for the grape and wine industry.

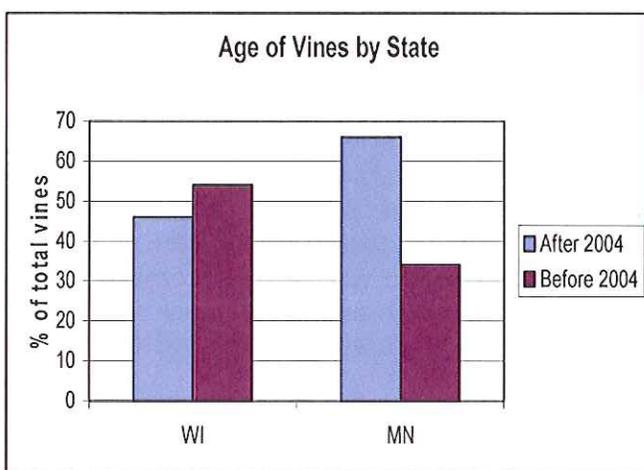


Figure 8. The percent of vines in MN and WI that are older than four years or younger than 4 years.

Grower Challenges	%
Disease Control	50
Insect Control	36
Winter Survival	28
Bird Damage	25
Deer Browse	23
Weed Control	22
Frost Damage	21
Lack of technical assistance	19
Labor	13
Lack of Markets	5
Establishment	5
Poor grape quality	4
Fruit Storage and Transportation	1

Figure 9. The percent of survey respondents that indicated the listed challenges were important to them. (N=105)

Grower Challenges

Growers were given a list of challenges and asked to check the three most important to their operation. Figure 9 shows the percentage of respondents that checked each of the listed grower challenges. Disease and insect control were the two most important challenges faced by growers. Herbicide drift, price of land, and pruning were also mentioned by respondents.

The UW-Extension Fruit Crop Team and Wisconsin Grape Growers Association will use this information to develop programming to assist growers in meeting these challenges.

⁴ Minnesota numbers are from: "Minnesota Grape Growers Profile 2007", Brigid Tuck and William Gartner, September 2008

Conclusion

Like elsewhere in the Upper Midwest grape production continues to increase in WI and is dominated by cold climate varieties developed by Elmer Swenson and/or the University of Minnesota. With estimated production acreage of between 290 and 700 acres, grape production has become an important part of the State's fruit economy.

With the exception of a big increase in grapes planted in 2007 with the release of Marquette, grape production is increasing at a fairly constant rate of between 10K and 15K new vines per year. As Marquette plantings expand and mature, it will be crucial for growers to secure markets for Marquette, and be willing to work with wineries early-on as the wineries develop their expertise working with Marquette.

Grape production continues to increase in WI with an estimated market value of over \$200,000 in 2007. If we assume the production of the survey respondents is a representative sub-sample of all the grape producers and the average value of grapes is \$1200/ton, then total grape production in 2007 was worth nearly \$600,000. Given the continued increase in grape production it will be important for growers and wineries to discuss the future of the industry and take actions to ensure a smooth and mutually beneficial relationship. An over-supply of grapes and a consequent crash in the price of grapes, although good for wineries in the short term, will be disastrous for the heavily-capitalized grape growers. Growers need to be cautious and develop a strong marketing plan for their grapes before significantly expanding production.

The planting and utilization of Marquette deserves careful analysis and forethought. In WI, the survey respondents report currently growing 14,400 vines and planning to plant another 4300 vines in 2009. Minnesota growers are currently growing 109,500 Marquette vines with an unknown number to be planted in 2009⁵. The total number of Marquette vines in MN and WI of 128,200 (242 acres), is almost certainly an underestimation due to the low response rates to the surveys. With a mature 3.4 ton/acre average yield, grape producers will soon be looking for markets for nearly 823 tons of Marquette grapes, perhaps as early as 2011. Again, this estimation is almost certainly at the low end.

It is clear growers need continued education and assistance with pest management. In 2008, the UW-Extension Fruit Crop Team ran three Grape IPM field days around the State. Similar field days are being planned for 2009. Such programming is particularly important given the knowledge intensive nature of pest management and that most growers are relatively new to agriculture and have limited experience working with pesticides.

⁵ "Minnesota Grape Growers Profile 2007", Brigid Tuck and William Gartner, September 2008

Although a 39% response rate for a survey is not ideal, the data from the 105 returned surveys provides a nice snapshot of the grape growers in WI in 2008. Given the range of responses, it is likely the returned surveys are a representative sample of the entire grape growing population in WI. As the Wisconsin Grape Growers Association grows and builds a relationship with its members, it is likely future survey work will yield higher response rates, as has occurred in Minnesota.

Comments and questions regarding this report should be directed to Jason Fischbach at 715-373-6104 ext 5 or jason.fischbach@ces.uwex.edu.



Wisconsin Winery/Cidery Survey

**David Trechter
Michelle Hadley
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**Survey Research Center Report 2008/26
November 2008**

Students working for the Survey Research Center were instrumental in the completion of this study. We would like to thank Bethany Barnett, Mandy Speerstra, Megan Glenn, Megan Keune, Grady Stehr, Ted Cannady, Hannah Stuttgen, Michelle Landherr, Aaron Peterson, and Ashley Julka. We gratefully acknowledge their hard work and dedication. We would like to thank Jon Hamilton, Vice President of the Wisconsin Winery Association, as well as, the Wisconsin Grape Growers Association. In addition, we would like to thank Tim Kane and Jason Fischbach of Bayfield County UW-Extension, Pat Malone of Trempealeau County UW-Extension, Laura Brown of Crawford County UW-Extension, and David Marcouiller, UW-Madison for their input and assistance throughout the survey process. Finally, we thank the Wisconsin wine industry members who filled out the questionnaire.

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Executive Summary

In September and October of 2008, the Survey Research Service (SRC) at the University of Wisconsin at River Falls sent surveys to 52 Wisconsin-based wineries and cideries. The surveys gathered production and economic data about this small but growing sector of the state's economy. A total of 24 surveys (46% response rate) were completed and returned to the SRC. Even though this is a relatively high response rate, the estimates discussed in this report are expected to be accurate to only plus or minus 15%.

Key findings of this survey include:

- Growth of the industry is suggested by the fact that 40% of the respondents have come into existence since 2005.
- Most of the state's wineries and cideries are organized as LLCs or S Corporations.
- Slightly more than half the respondents grow grapes. After rising somewhat sporadically through the early part of this decade, 2008 witnessed a sharp decline in grape vine plantings by this sample of firms.
- Since 2000, the number of grape varieties grown by Wisconsin's vintners has grown as has the pounds of grapes harvested. The grapes they produce appear to satisfy about half of Wisconsin's wineries juice needs. Half of the remainder is purchased from growers in other states or countries and these purchases usually take place on the spot market rather than being governed by a contract.
- The biggest challenge facing Wisconsin's grape producers, as identified in this survey, is controlling diseases. Other significant concerns include dealing with frost damage, winter survival concerns, and insect control.
- Entrepreneurs in Wisconsin produce wine/cider using a variety of non-grape sources of sugar – apples (33% of the sample made apple cider), pears (about one-quarter of the respondents), honey (20% of the sample), and other fruits (cranberries, blueberries, cherries, etc.).
- Fewer than half of these non-grape producers of wine and cider produce their own fruit. Other Wisconsin growers supplied half of the fruits purchased for wine/cider production, wineries/cideries produced slightly less than 40% of the fruit they needed. The remainder of this fruit came from out of state growers. More than 80% of purchased fruit uses on the spot market.
- In 2007, the 24 respondents reported producing 117,797 cases of wine, 1,250 cases of cider, and 5,052 cases of mead. Five of the 22 wineries are so new that they produced no wine in 2007. Of those producing wine in 2007, 75% produced fewer than 2,500 cases and almost all said that their production had expanded over the previous 4 years and that they expect further expansions over the next 4 years.
- Median direct sales (\$163,079) account for the bulk of estimated total sales (\$212,325) at a typical Wisconsin winery/cider.
- About one-third of the firms in our sample sold at least some product via a distributor, including some of the larger wineries/cideries; 60% have not sold products via this

marketing channel. Thus, the new state law regarding sales via distributors seems likely to affect some wineries/cideries much more profoundly than others.

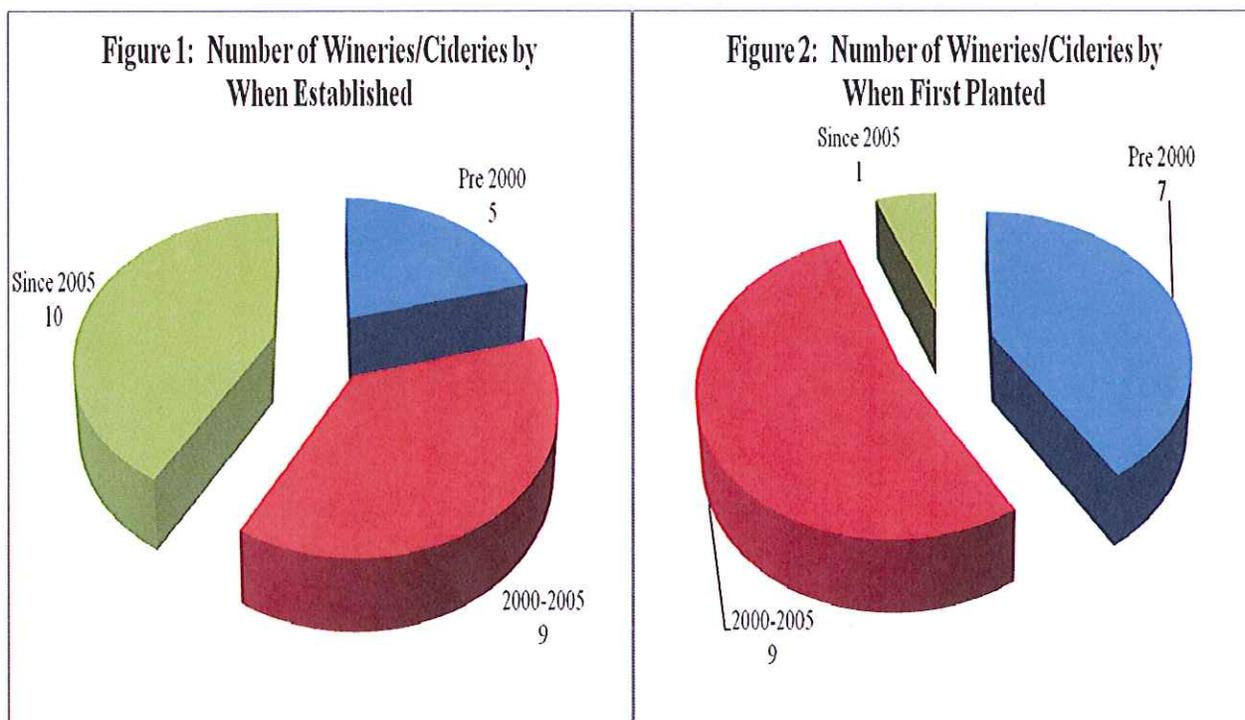
- Nearly 80% of the bottles sold by Wisconsin wineries and cideries cost less than \$15.
- Total expenses are estimated to be about \$92,000 per year for a typical winery/cidery, with about one-third of this paying for labor and management and nearly as much for purchasing juice and bottles, corks and other production expenses. Median tax payments by these firms were slightly more than \$10,000 per firm in 2007.
- A typical Wisconsin winery could expect about 6,600 visitors during the course of a year, most of whom are Badger state residents. These visitors spend between \$25 and \$35 per person or about \$186,000 in annual gross revenue for a typical winery/cidery.

Survey Description

During September and October 2008, the Survey Research Center (SRC) at UW-River Falls sent questionnaires to 52 Wisconsin-based wineries and cideries. The survey sought information from producers of mead, wine made from grapes, and cider from apples, pears, and other fruit. The goal of the survey was to gather information about production, revenues, costs, and visitors at wineries and cideries in the state. A total of 24 surveys were completed for a return rate of 46%. While the response rate was relatively high, given the small total number of wineries/cideries in the state, the estimates reported are only expected to be accurate to within plus or minus 15%.

Basic Winery/Cidery Facts

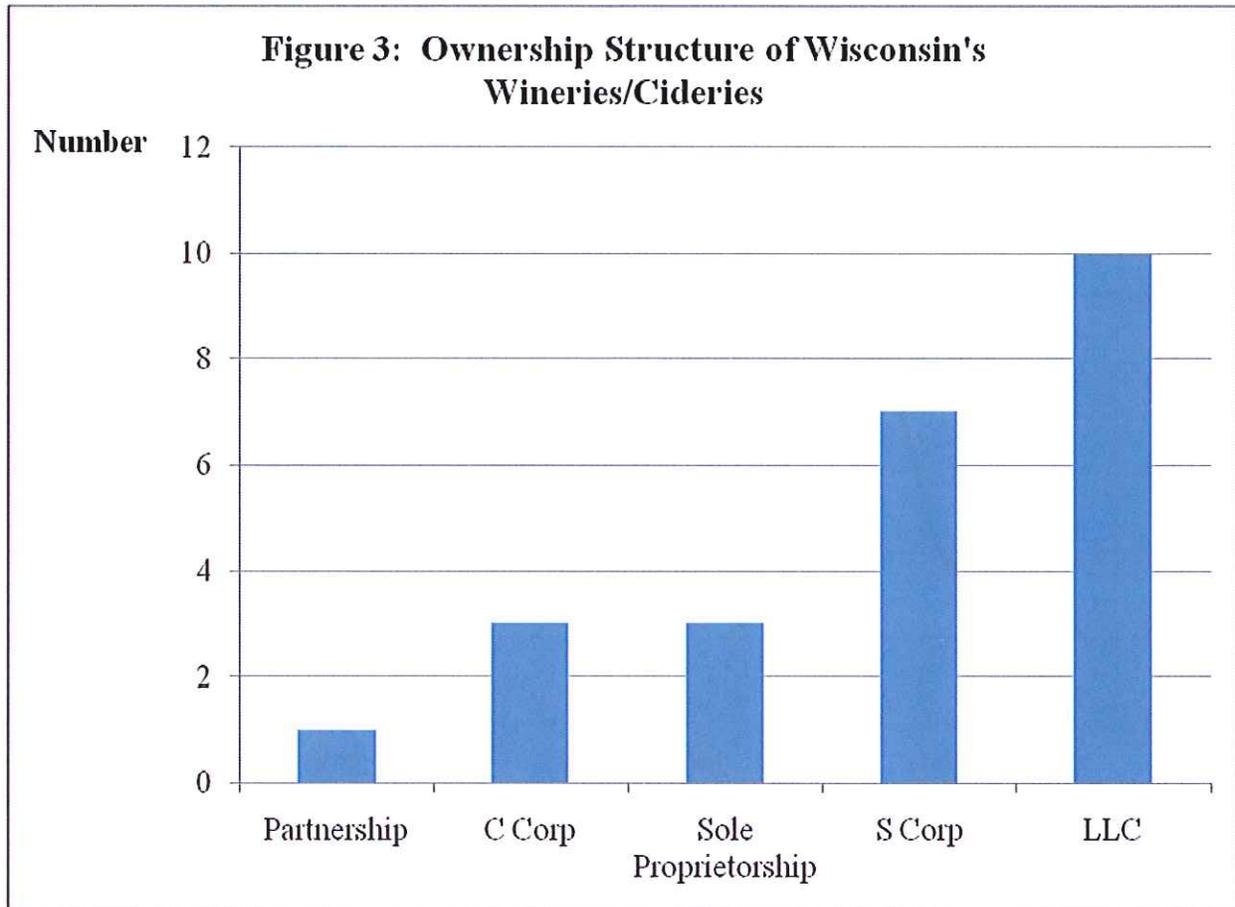
Only about 20% of the wineries/cideries who responded to the survey were established prior to 2000 compared to more than 40% that have come into existence since 2005 (Figure 1). About two-thirds of the firms started selling wine or cider in the same year they were established; the remaining third had their first sales in the year after they were established.



Only about two-thirds of the respondents provided information on the year they first established the vines, trees, or hives they use to produce their beverages. Of those, only one started theirs after 2005 and slightly more than half started between 2000 and 2005 (Figure 2). On average, about 6 years elapsed between the year these firms' first reported plantings and when they started using

their own production in their beverages. More than half first started using their own fruit or honey after 2005.

As Figure 3 shows, most Wisconsin wineries/cideries are organized as limited liability companies or S-Corporations (limited number of partners, no public trading of stock).

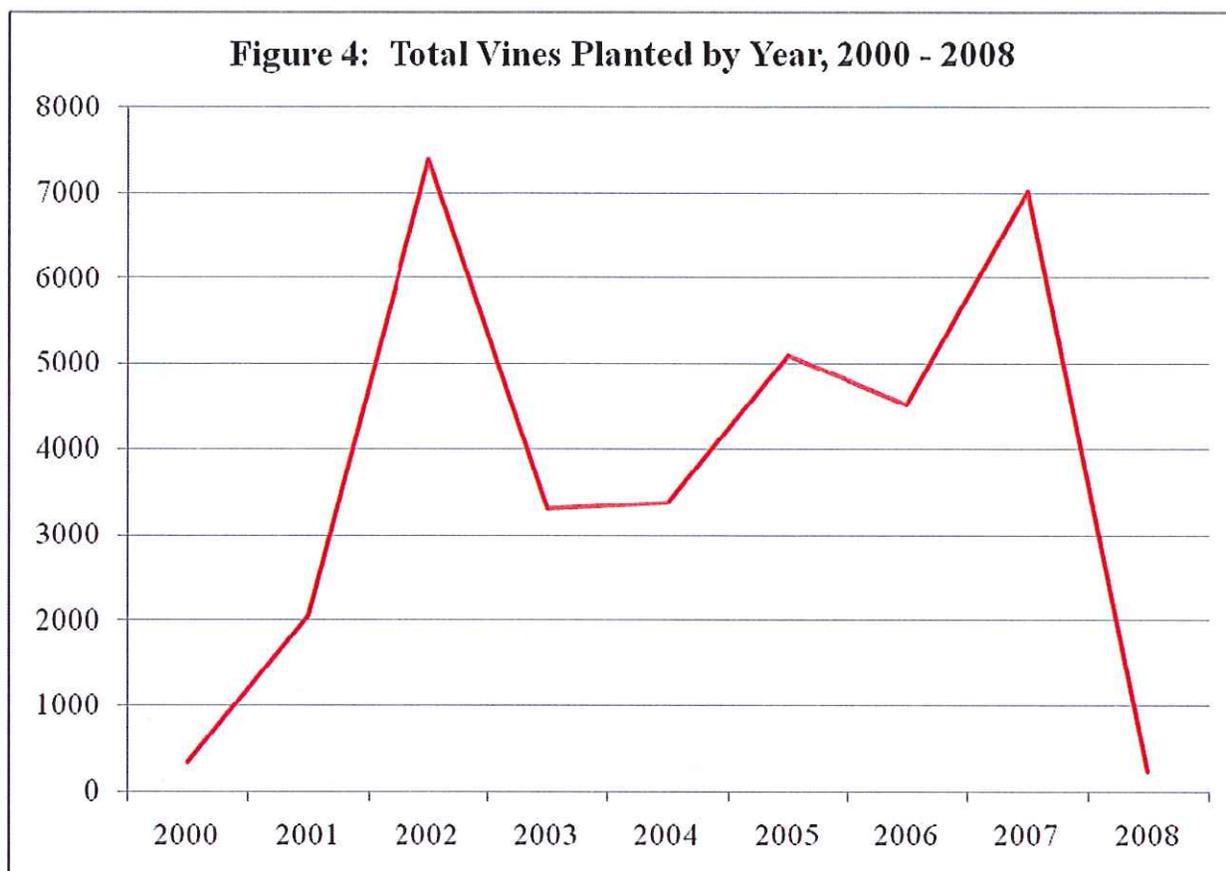


Production

Data were gathered on both grape production and production of other fruits and honey used by Wisconsin's wineries and cideries. This section of the report will be split into a discussion of grape production and one focused on the production of other fruits and honey.

Grape Production. When asked the number of vines they currently have planted, 13 of the 24 respondents reported that they are growing grapes. In total, these 13 businesses have slightly less than 70,000 vines planted (69,566). Respondents were also asked to record their plantings of grapes, by year and variety, between 2000 and 2008. Twelve of the 13 respondents with grapes report having planted vines since 2000 and these plantings (39,304 vines) account for nearly 60% of the total number of vines reported. Figure 4 shows that, while somewhat variable, annual plantings were trending upward until 2008. Perhaps reflective of the very uncertain economy that was

becoming apparent by early 2008, responding wineries reported planting fewer than 300 vines in the current year. This is the fewest vines planted since 2000 and is dramatically lower than in 2007.



The varieties planted by wineries since 2000 are shown in Table 1. Frontenac, St. Croix, St. Pepin, Marquette, LaCrosse and LeCrescent are varieties that appear in multiple years. There is a wide variation in the number of vines of a given variety planted by wineries each year. Most plantings are of a relatively small scale (a few hundred vines). In only 10 cases (out of a total of 75 reported plantings) were more than 1,000 vines of a given variety planted in a year. Frontenac accounted for four of the 10 instances in which at least 1,000 vines of a single variety were planted in a single year.

Respondents were asked to indicate what they are planning on planting during 2009. They said they expect to plant 3,175 vines and half an acre each of Marquette and Sabrevois (without specifying the number of vines). While this is a partial return to pre-2008 levels, it falls far short of the levels of 2005-2007. About two-thirds of the anticipated plantings are of Marquette, Frontenac, and St. Pepin.

Table 1: Grape Varieties Planted by Year	
Year	Variety Planted (number if greater than 1 winery planting a given variety)
2000	Alden, Leon Millot
2001	Fredonia, St. Croix, Foch, Frontenac, Condree, Concord, Marquis
2002	Frontenac (2), LaCrosse (2), St. Croix, Foch, Leon Millot, Concord, Edelweis
2003	Duchdndl, LaCrosse, Concord, Frontenac Gris, LeCrescent, Marchal, Foch, St. Pepin, Sabrevois
2004	St. Pepin (2), St. Croix (2), LaCrosse, Frontenac, Worden, LeCrescent
2005	St. Croix (3), St. Pepin (2), Frontenac (2), Edelweis, Foch, Hanistar, Kay Gray, LeCrescent, LaCrosse, Louise Swenson, Wild
2006	St. Croix (3), LeCrescent (2), Brianna (2), Frontenac, Frontenac Gris, LaCrosse, Nignites, Sabrevois, St. Pepin
2007	Marquette (4), Frontenac Gris (3), St. Pepin (2), Bluebell, Brianna, Cockokal, ES6-16-30, Foch, Frontenac, LeCrescent, NY20, Prairie Star
2008	Marquette, Edelweis, Frontenac, Kay Gray, St. Croix

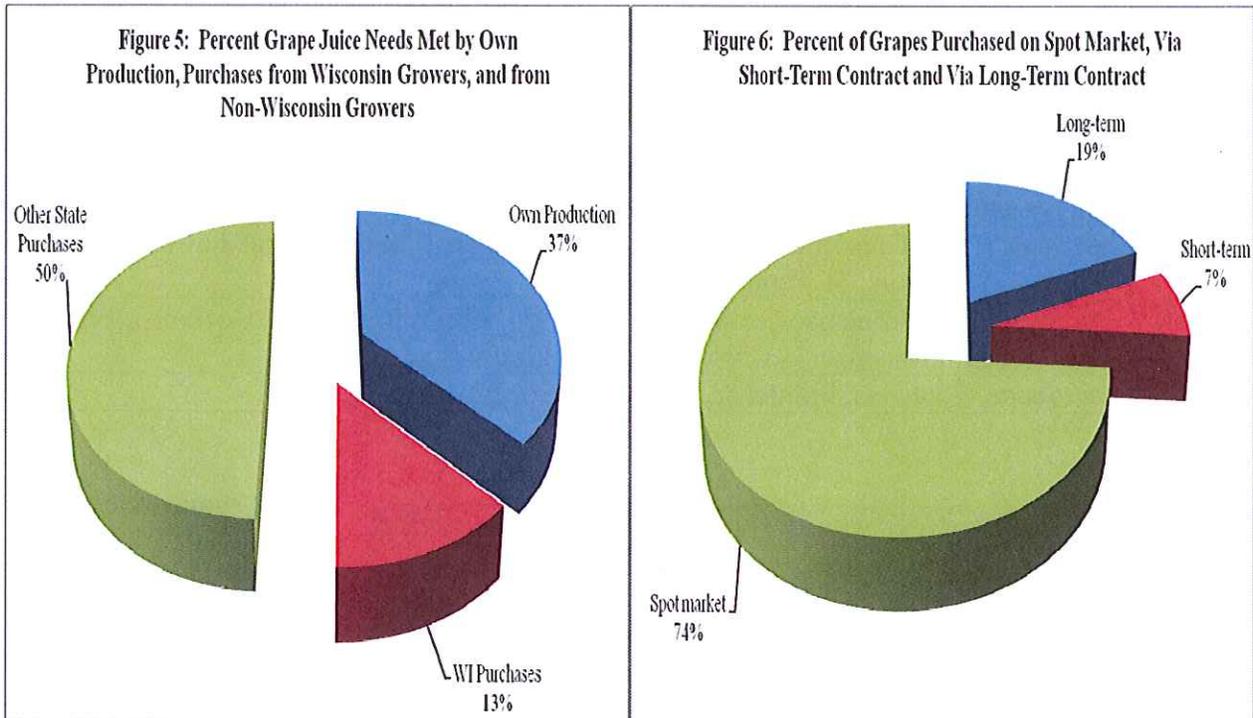
Table 2: Pounds of Grapes Produced by Variety, 2004 – 2007				
Varieties	2004	2005	2006	2007
Beta	775		875	1,000
Blend	8,000	10,000	14,000	52,000
Concord				1,700
Foch*	20,000	44,000	60,000	53,000
Frontenac			8,000	22,000
Lacrosse*		1,000	2,000	5,000
Leon Millot*	1,000	1,000	1,000	1,000
Louise Swenson				500
St. Croix	4,100	4,000	4,175	5,850
St. Pepin*	4,000	6,000	6,000	7,000
Valiant	750		900	1,100
Worden	100		175	225
* = Some wineries reported producing grapes but didn't report pounds produced				

Table 2 summarizes the production of grapes in the reporting wineries by variety from 2004 to 2006. In some cases, a winery reported producing a specific variety of grape but didn't indicate the pounds produced. Varieties with an asterisk denote instances when the grape was identified but not the amount of output. The general story line suggested by the data in Table 2 is that the number of varieties grown in Wisconsin has expanded over this time period as has the total pounds of grapes harvested.

In addition to their own production, wineries were asked to provide information on the amount and type of juice they have purchased from other producers during the past 4 years. The data in this portion of the questionnaire is quite sparse except for 2007. In that year, the 13 wineries reported purchasing a total of 11,175 gallons of juice from other producers. About one-quarter of the gallons purchased were a blend of grape varieties. At least 1,000 gallons of Seyval, Rougheon, Concord, unspecified "fruit", and Hybreo juice were purchased in 2007.

Figure 5 indicates that these Wisconsin wineries satisfied half of their juice needs from out of state purchases, a bit more than one-third of those needs from their own production, and the remaining

13% from Wisconsin-based grape growers. There is a wide range of experiences with respect to the source of juice used by Wisconsin wineries. Some Wisconsin wineries produce as much as 95% of the juice they use, others produce none of their own juice.

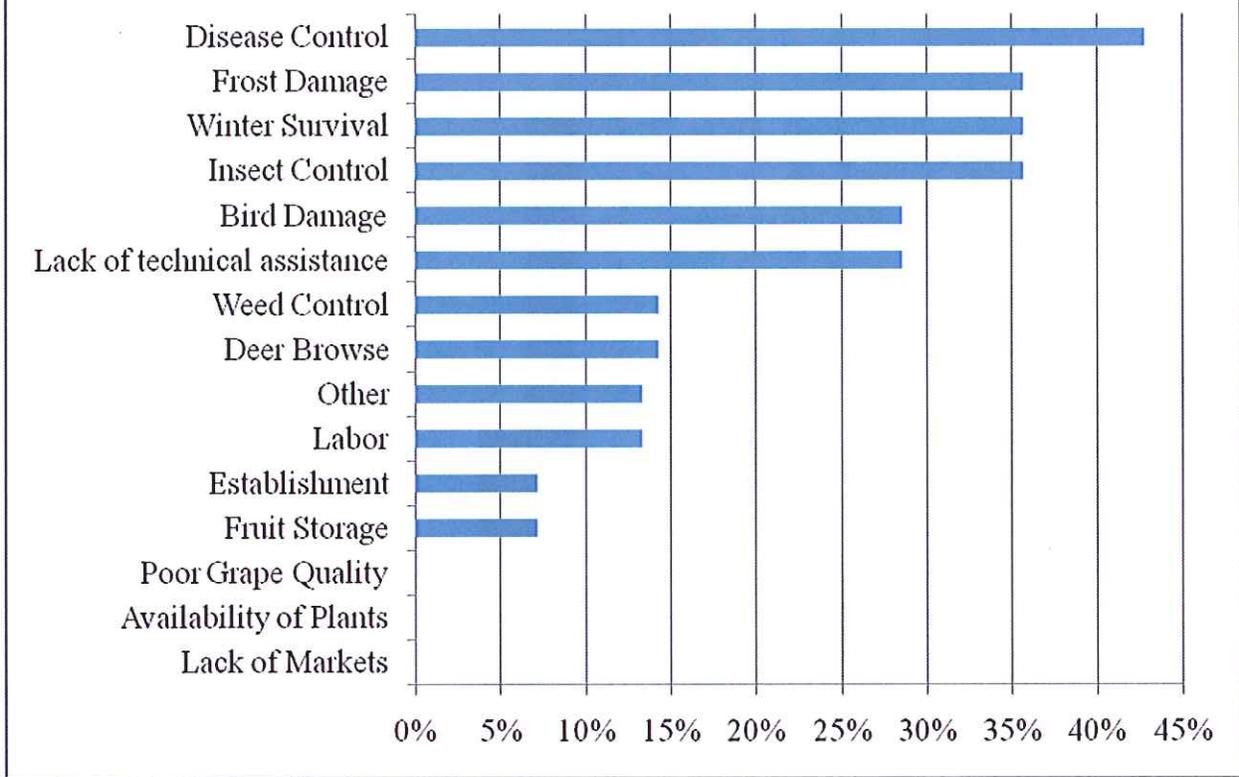


Out of state purchases came from near (Michigan), far (Chile, Germany, France, Italy), and in between (New York, California, Washington, Oregon). New York was mentioned most frequently as an out-of-state source for juice.

Figure 6 indicates that about three-quarters of the juice purchased is acquired on the spot market, nearly 20% is covered by a long-term contract and the remaining 7% by a short-term contract.

Grape producers were provided a list of potential challenges and asked to identify the three most important to them. Forty-three percent of the respondents identified controlling diseases as one of the three biggest challenges they face. Frost damage, winter survival, and insect control were all tied with 36% of respondents listing these as one of the three biggest challenges they face. Slightly less than one-third of the grape growers said bird damage and a lack of technical assistance are key challenges they face.

Figure 7: Percent Identifying Problem as One of Top Three They Face



None of the respondents said that poor grape quality, a lack of plants, or inadequate markets were among their top concerns.

Other Fruit/Honey Production

One-third of the respondents said that they produce apple cider and one-quarter produce pear-based beverages (Figure 8). Slightly more than one-fifth of the 25 respondents said they make mead. Nearly 4 in 10 said they make wine from fruit other than grapes, including: cranberries, blueberries, blackberries, pineapple, raspberries, peaches, plums, currants, strawberries, lemons, cherries, and rhubarb.

Figure 8 also indicates that most Wisconsin wineries/cideries purchase at least some of the fruit they use to make their wine and/or cider. For instance, while 33% of respondents said they make cider from apples, only 17% said they produce apples for their own operation. Comparable figures are shown for pear cider and meed; 25% make pear cider but only 8% produce their own pears, and none of the 21% who produce mead own their own hives.

Figure 8: Percent Respondents Producing Wine/Mead from Fruits Other Than Grapes and Percent Producing for Own Winery/Cidery

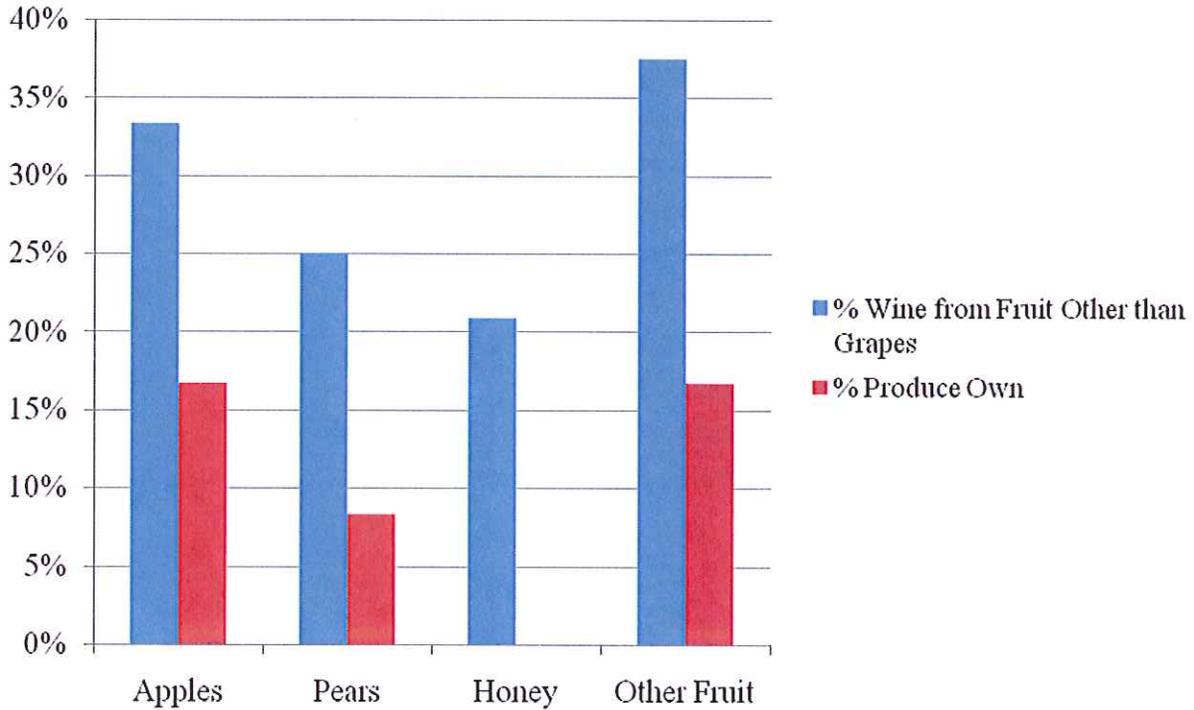


Table 3: Number of Plants and Acres, Other Fruit Used in Wine/Cider Production

	Plants	Acres
Apples	5,222	16.6
Pears	112	3.5
Other	6,138	8.7

Apples dominate the non-grape portion of Wisconsin’s wine and cider sector, both in terms of the total number of trees owned by producers of apple cider and in terms of the total acres used to grow apple trees (Table 3). Only five of the 25 respondents reported owning apple trees and the number varied greatly, from a single tree to 5,000. Likewise, the acreage used in apple production showed a large variability (from much less than an acre to 14 acres). Only two respondents reported having their own pear trees and three reported owning other fruit-bearing plants used in their operation.

Table 4: Production and Purchase of Fruit

	Tons Produced	Gallons Purchased
Apples	101	8,650
Pears	1	1,200
Honey	-	2,021
Other	7	2,160

Apples dominate the scene with respect to the production and purchase of juice used to produce beverages in Wisconsin’s fruit wine sector. Two of the five cideries who purchased apple juice produce none of their own juice, two use only juice they produce, and three used both juice from their own trees and purchased

product. Two of the three producers who use pears purchase all of their juice from others; the third uses only pears they produce (from a quite small acreage in pear trees). As noted, none of the respondents reported producing their own honey, but three reported purchasing honey. One producer accounted for most of the 2,021 gallons of purchased honey noted in Table 4.

Of the nine respondents who answered the question, all but one said that their production of fruit and honey has increased during the past 4 years. All nine expect their production to expand over the next 4 years.

Figure 9 indicates that half of the juice and honey used by Wisconsin’s cideries and mead producers comes from other growers in the state, slightly less than 40 percent from their own production, and the remainder from out of state producers. Compared to grape wine producers, cideries and mead producers produce a very similar proportion of their own juice but the proportion of in-state versus out-of-state purchases are almost exactly reversed; 50% of the grape growers’ purchases come from outside of Wisconsin and 13% from within Wisconsin. The out-of-state sources of fruit, juice and honey tend to be from neighboring states (Michigan and Minnesota were frequently mentioned with South Dakota, New York and Missouri also identified).

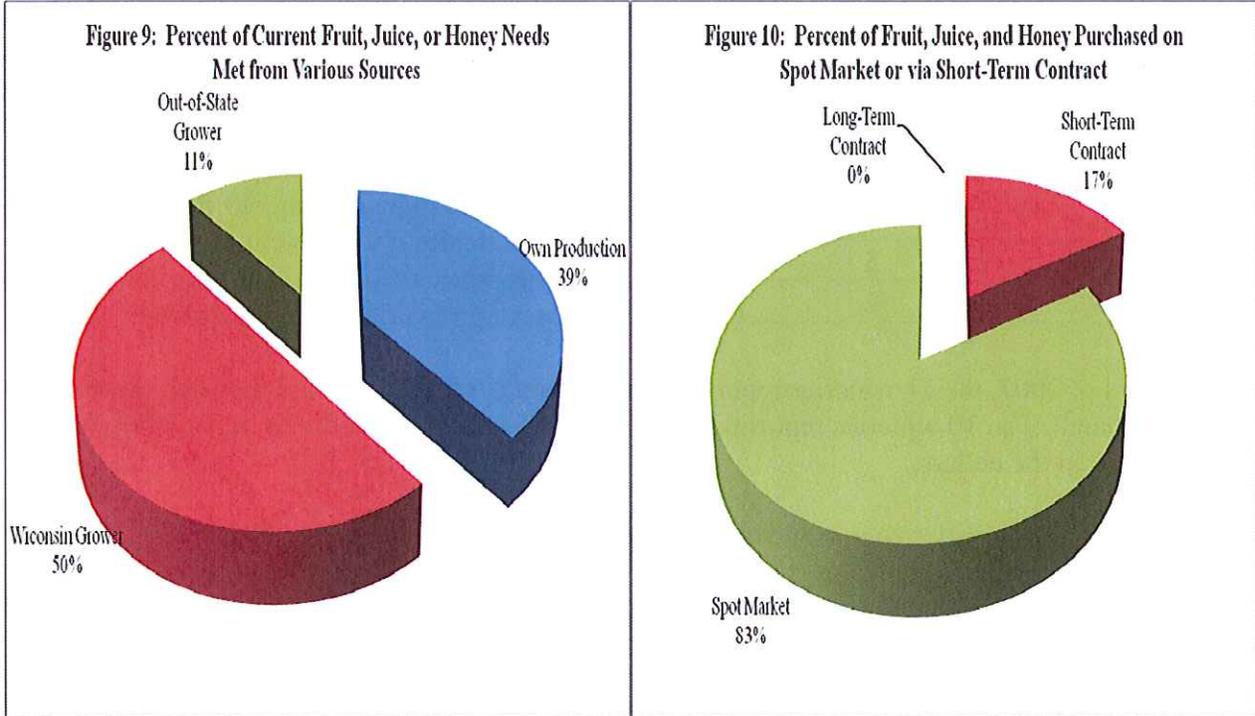


Figure 10 indicates that none of the wineries and cideries purchasing fruit, juice or honey use long-term contracts to secure their supply. A very large majority of these firms rely on the spot market for these products.

Wine, Cider, and Mead Production

In 2007, the 24 respondents reported producing 117,797 cases of wine, 1,250 cases of cider, and 5,052 cases of mead.

Wine Production. Five of the 22 respondents who reported being involved in the production of wine produced no cases of wine in 2007. All but one of these was founded in 2006 or later. Of the 17 firms that reported producing some wine in 2007, about a third produced fewer than 1,000 cases, about 40% produced between 1,001 and 2,500 cases, and only a quarter produced more than 2,000 cases. More than 80% of the wine produced by respondents to this survey came from two producers.

Over the past 4 years, 18 of 23 who answered the question said that their production of wine had expanded, two said it had remained the same, and three said the question was not applicable because they had not been in existence 4 years ago. Over the next 4 years, all but two of the 23 said they expect their production to increase; two expect production to remain the same.

Table 5: Number of Varieties Produced by Winery		
	Red	White
2 Varieties	2	5
4 Varieties	7	6
6 Varieties	5	2
8 Varieties	2	3

As Table 5 indicates, 20 of 32 Wisconsin wineries produce 4 or fewer varieties of both red and white wines. On average, wineries in Wisconsin produce about five varieties of red and two of white wine. There appears to be no wineries that specialize in either red or white wine exclusively. Generally if a winery produces more varieties of red wine, it also produces more varieties of white wine.

At the end of 2007, the 11 wineries reporting on their stock of red wine said they had about 4,500 cases on hand. The 10 wineries reporting on their white wine stock said they had slightly less than 3,000 cases in the cellars.

Cider Production. Only two respondents reported producing cases of cider during 2007, but two more said they expect to do so over the next 4 years. All of those involved in cider production said their output had increased during the past 4 years and they expect it to continue to increase over the next 4 years.

Six firms answered a question asking about the number of varieties of cider that they produce. The six firms fall into two distinct groups. Four of the six produce only one or two varieties of cider; the other two each produce more than 10 different varieties.

The six cider producers had 3,272 cases on hand at the end of 2007 and two producers held more than 70% of this total. Probably not surprisingly, firms with the largest variety of ciders produced also had the largest inventories at the end of 2007.

Mead Production. Three respondents reported producing cases of mead during 2007 and 3 indicated that they expect to produce mead over the next 4 years. As was true with the other

beverages, most of the production of mead represented in this data set comes from a single producer. Four respondents said that mead production has, over the past four years, expanded at their firms. Five of the six who expect to be involved in mead production over the next 4 years expect production to increase; the sixth firm expects production to stay constant over the next 4 years.

Three respondents specified the number of varieties of mead produced. Two produce a single variety and the third produces several. Collectively, the three producers had slightly more than 300 cases of mead on hand at the end of 2007, most of which was held by one producer.

Other Fruit Wine Production. Ten of the 24 respondents said that they produce other varieties of wine. Most of these producers focus on one or two other varieties of fruit wine, but several produce eight or more different varieties. The half-dozen firms who responded hold more than 700 cases of various types of fruit wines (berry, cherry, peach, plum, cranberry, raspberry, and, generically, fruit). We did not ask about trends in production of other fruit wines in this survey.

Revenue and Cost Information

Revenue. Table 6 summarizes the data gathered about the value and volume of sales by responding wineries/cideries. It includes data on the value of sales that the SRC imputed for the two largest producers in the sample. These producers provided information about the number of cases sold, but not the value of those sales. Together, these two producers accounted for 89% of the cases sold by responding firms, so the absence of their sales data is a major concern. The SRC imputed a value

Table 6: Revenues and Distribution Channels		
Value of:	Count	Median
Direct Sales	14	\$163,079
Mail/Internet Sales	10	\$4,250
Sales to Businesses	12	\$12,000
Sales to Distributor	6	\$27,091
Private Label Sales	2	\$5,905
Total		\$212,325
Cases Sold Via:	Count	Median
Direct Sales	12	1,200
Mail/Internet Sales	10	37
Sales to Businesses	9	129
Sales to Distributor	4	4,094
Private Label Sales	2	51
Total		5,511

for the sales from these two wineries based on information they provided about the percentage of their bottles that sell for \$10 or less, \$10.01- \$15 and so on.¹

In addition, because the sample contains a few large producers and many smaller ones, the median values (50% of the observations are greater than the median and 50% are less) are better representations of the “typical” Wisconsin’s winery and cidery businesses and these values are shown in Table 6.

Clearly, the primary source of revenue for the wineries/cideries in this sample is direct sales. Direct sales account for more than three-quarters of median total sales. Ten of 11 firms who responded said that direct sales had

¹ The questionnaire asked the percentage of bottles a firm sold for \$10 and under, between \$10.01 and \$15, between \$15.01 and \$25 and for more than \$25. To impute the value of sales for producers who did not include this information we assumed bottles sold for \$10 or less averaged \$8.00/bottle, those in the \$10-\$15 range sold for an average of \$12.50, those in the \$15-\$25 sold for an average of \$20, and those sold for more than \$25 had an average price of \$30.

increased over the past 4 years; the 11th said direct sales had remained the same. The importance of direct sales is dramatically less when we consider the volume (number of cases) rather than the value. Direct sales account for only about a fifth of the cases sold. Largely, this is because one of the two relatively large firms, markets relatively little of its wine directly to consumers.

For this set of respondents, mail or internet sales tend to be relatively low, particularly for firms with direct sales of less than \$100,000 per year. Six of eight firms that completed this segment of the questionnaire said that internet/mail sales have remained constant over the past 4 years.

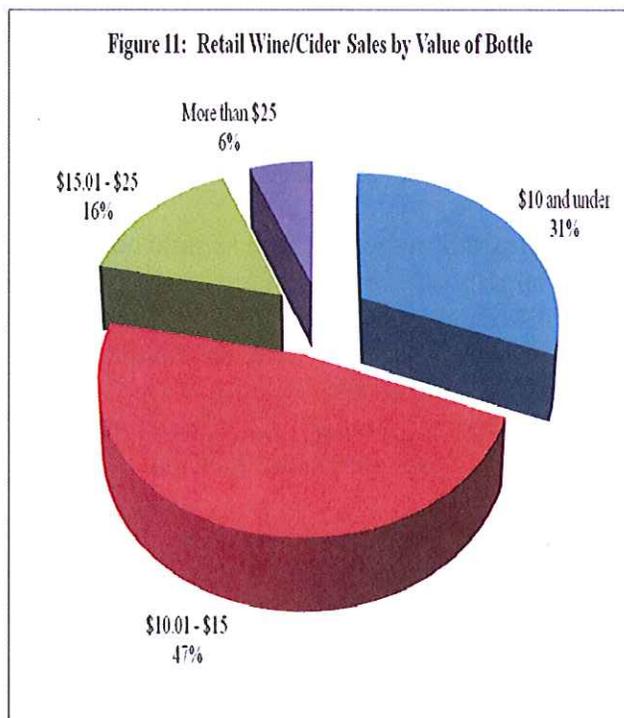
No clear link exists between the volume of direct sales and the volume of sales to other businesses. Some firms with robust sales to other businesses have relatively low direct sales. Others, with large direct sales, have strong sales to other businesses. The importance of sales to local businesses may be more dependent upon the business climate in the winery's area and/or the marketing preferences and abilities of the business owner. Six of nine said that direct sales to businesses had improved during the past 4 years, two said they had been constant, and one said they declined.

One of the factors that initiated this survey is a change in state law that will likely increase the prominence of winery/cider sales via distributors. Table 6 indicates that sales via distributors might already be the second leading source of sales for Wisconsin's wineries and cideries. It appears that at least six of the 15 firms who reported sales (either in terms of value or cases) used a distributor. At least one of the larger firms included in the sample sells a substantial number of cases via distributors. This suggests that for the 6 firms that currently use distributors, the new law

may not alter their standard operating procedures very much. In contrast, most (9) of the 15 firms with sales reported no sales via distributors. About half those who have used distributors said sales had increased, the others said they had remained the same.

Private label sales are generally unimportant to this set of wineries/cideries.

In terms of the amount charged per bottle, Figure 11 indicates that slightly less than one-third of the bottles of wine and cider sold in Wisconsin cost \$10 or less; nearly half cost between \$10.01 and \$15. Only about one bottle in five sold by a Wisconsin winery or cidery brought in more than \$15. In short, most of the wine and cider sold by Wisconsin producers appears to be priced at fairly modest levels.



Expenses. Data is also somewhat sparse with respect to the expenses wineries and cideries incur. One of the larger producers did not provide information for any of the cost categories about which we asked. Because of the differences in size of operation, again, the median value is likely to more accurately reflect Wisconsin's

wineries/cideries expenses. A total of slightly more than \$92,000 in expenses were reported by the roughly 12 firms who responded to this survey.

Table 7: Expenses		
	Count	Median
Winery Labor	15	\$12,000
Vineyard Labor	11	\$4,800
Winery Management	14	\$16,000
Vineyard Management	10	\$500
Grapes, Fruit, Honey	11	\$1,500
Juice	15	\$15,000
Pesticides/Herbicides	11	\$500
Fertilizers	10	\$350
Vines, Plants, Trees, Hives	10	\$275
Utilities	14	\$4,050
Capital Equipment	13	\$3,000
Production Expenses	13	\$12,000
Insurance	13	\$2,000
Marketing	14	\$5,500
Shipping	12	\$1,900
Fermentation Expenses	14	\$1,000
Property Taxes	13	\$2,500
Sales Taxes	12	\$5,600
Income Taxes	7	\$-
WI Excise Taxes	10	\$894
Federal Excise Taxes	10	\$879
License Expenses	13	\$800
Other Expenses	1	\$1,000
Total		\$92,047

Table 7 was in excess of \$10,000 in 2007.

As noted, labor and management tend to be a substantial portion of expenses for the typical Wisconsin winery/cidery. However, the vast majority of these businesses indicated that they hire no full-time, year-round employees (15 of 23 reporting), part-time, year-round workers (13 of 23 reporting) or even seasonal workers (10 of 21 reporting). On average, these businesses hired 1.3 full-time, year-round and seasonal workers and 2.1 part-time, year-round workers. In short, the firms represented in this survey are relatively small in terms of the employment they generate directly.

Based on median expenses, slightly more than one-third of the expenses of a winery or cidery are associated with labor and management. Two other key expenses are purchases of juice (16% of median expenses) and production expenses (13% of median expenses) such as bottles, corks, labels and so on.

In Figure 4, we noted that 2008 was a very poor year in terms of planting new vines. The very low figure (\$275) for Vines, Plants, Trees and Hive expenses in Table 7 is consistent with Figure 4 if these represent expenditures in 2007 for 2008 planting. In addition, a substantial number of wineries/cideries produce little or none of the fruit/honey they use. The median for other production costs (e.g. crop protectants and fertilizer), is also low.

It is also noteworthy that the median amount of income tax paid by the seven wineries reporting this figure was zero. Because some of the larger operations did not answer this question, it is probable that zero underestimates the true amount of income taxes paid by wineries and cideries in the state. The median tax payment by these businesses across all the tax and fee lines in

Customer Information

Respondents were asked to indicate the estimated number of visitors to their winery/cidery during 2007 who were from Wisconsin, from elsewhere in the U.S., and from other countries. They were also asked to indicate how much, on average, each visitor from these three areas spent. Assuming these businesses are open about 260 days a year, the typical Wisconsin winery/cidery would have an average of about 25 visitors per day. Table 8 indicates that most of these visitors come from

Table 8: Visitors to Wisconsin Wineries/Cideries		
From:	Count	Median # Visitors
Wisconsin	14	5,500
Other U.S. States	14	1,000
Other Countries	13	100
From:	Count	Median \$ Spent/Visitor
Wisconsin	11	\$27
Other U.S. States	11	\$35
Other Countries	9	\$25

within the state (83%) and fewer than 2% come from other countries.

It appears that regardless of where they reside, visitors to Wisconsin's vintners spend between \$25 and \$35 per visitor.

Based on the median amount spent per visitor and the median number of visitors, a total of about \$186,000 was spent at a typical Wisconsin winery/cidery in 2007. This is reasonably close to the amount of direct sales estimated in Table 6 (\$163,079), which provides additional credibility to both estimates.

Comments

Respondents were asked to identify the biggest challenge facing the Wisconsin wine and cider sector. The bulk of the comments focused on two related topics – concern about the new law placing new regulations on the distribution of wine in the state and government regulations. A complete list comments is included as Appendix A to this report.

About one-third of the total number of comments focused on the new distribution law. Typical of comments are:

The mess over created by the Distributers in the name of "helping" wineries comply with the Supreme Court shipping order.

Self Distribution-unless law changed many will fail. Co-op will not work because it will place the same distribution cost as a distributor does.

Concern or anger about the distribution legislation and general angst about government are apparent in the comments as well. For instance,

Changing (or existing) regulatory environment that creates hurdles for small producers and protects the middle tier.

Corrupt government, bad legislation. The ability for big business to be able to buy registration is wrong. If you put all the legislators in a bag and hit it with a bat you'd hit the right one every time.

The state thinks we are here to serve government, rather than state government here to serve industry. Pay-to-play culture among state legislators in Madison. They have no interest in our industry unless we buy their interest.

Other concerns focused on growing pains (e.g. how to get shelf space for their products) and quality (improving the image of Wisconsin's wines).

Conclusions

This survey describes conditions in what appears to be an expanding sector of the Wisconsin economy. Most of the businesses that completed a survey were relatively small and many were very new. Virtually all of these businesses had experienced growth over the preceding 4 years and were optimistic about growth during the next 4 years. The variety and volume of production appear to have expanded in recent years.

The challenges identified by these producers were primarily agronomic (controlling diseases and insect pests) or environmental (frost damage and winter kill). Written comments focused very heavily on regulatory changes affecting how they distribute their products.

Most of the businesses included in the sample are relatively small businesses with gross revenues of less than a quarter million dollars per year. Most of this revenue is generated through direct sales to winery/cidery visitors. We estimate that these sales generate between \$163,000 and \$186,000 per year.

Appendix A – Winery/Cider Survey Comments

Q36 What do you see as the biggest challenge facing the Wisconsin wine/cider industry?

Distribution (10 responses)

- Also, we have a new challenge with direct distribution facing us in July of 2009
- The mess over created by the Distributers in the name of ""helping"" wineries comply with the Supreme Court shipping order
- Distribution
- Distribution issues
- Distribution-Wholesale distributors do not want the small winery
- Loss of self distribution
- Mandatory use of distributors
- Self Distributing-if we can't we are not
- Self Distribution-unless law changed many will fail. Co-op will not work because it will place the same dist. cost as a distributor does.
- Law change forcing wineries to use the 3 tier distribution system and lack of statewide promotion of wineries

Government (8 responses)

- Changing (or existing) regulatory environment that creates hurdles for small producers and protects the middle tier.
- Corrupt government, bad legislation. The ability for big business to be able to buy registration is wrong. If you put all the legislators in a bag and hit it with a bat you'd hit the right one every time.
- I only anticipate selling 250 cases a year to bars and restaurants all within 50 mile radius of my location but in 3 states if WI law is compatible with IA and IL
- Legal issues-selling, regulation by federal government
- Legislation to require use of Co-op
- State and Federal regulations
- Taxes
- The state thinks we are here to serve government, rather than state government here to serve industry. Pay-to-play culture among state legislators in Madison. They have no interest in our industry unless we buy their interest.

Growth (4 responses)

- Getting shelving space and getting our wine into major and any food and liquor stores.
- Growing the industry in a non-business atmosphere in this state
- In addition, my winery wants to remain local
- Meeting growing customer demand

Quality (3 responses)

- A general reputation of poor product quality that makes it very hard to get the attention of retailers and restaurants.
- Producing a quality product locally grown!
- Wine quality image.

Miscellaneous (4 responses)

- Galloway Company produces intermediate wine/dairy or spirit/wine/dairy products that are shipped in bulk to bottlers. We purchase bulk OTSW from other sources
- Getting a business manager to lead our association
- Our first sales will be fall 2008, we have 7800 bottles produced in our wine cellar
- This is not applicable to our operation. We do not grow any of our produce.