



CONFIDENTIAL AND PROPRIETARY INFORMATION



Commercializing Your Wine in the US
Private Vineyards Owners Conference - 2013

2 Kinds of Owners

2 Solutions

Casual Commercializers:

- Small production
> 600 bottles annually
- Primary focus is on personal consumption, sharing with friends and family
- Considering building a brand or leaving that option open

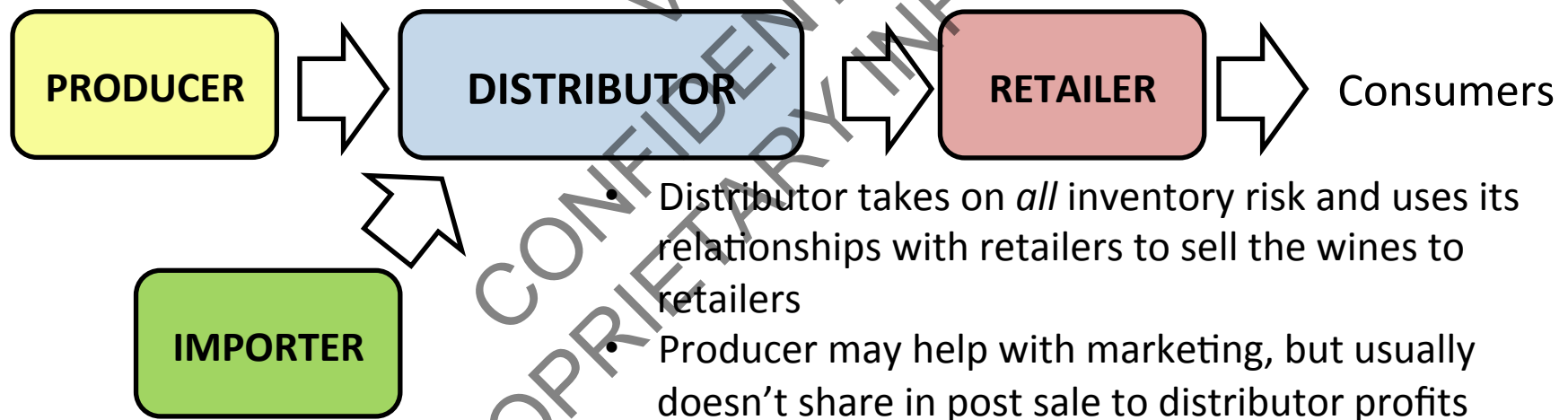


Commercial Commercializers:

- Large production
<2000 bottles annually
- Primary focus is on making money in the sale of wine
- Plans to dedicate significant time, money and energy to develop this business

How does a winemaker usually commercialize his/her wines?

- Signs a contract with a distributor who agrees to buy the wine
- Sale occurs *ex cellar* from the winery to the distributor
- Producer is required to produce the wine bottled and packed
- Distributor is responsible for arranging for import and paying for all other costs of distribution, transportation, taxes, etc.



Why is this so hard?

- Wine sales and distribution are regulated by federal, state and local laws.
- The legal structure is byzantine in its complexity.
- Your wine sales and distribution need to be thought of in the same context as the sale and distribution of a controlled substance.
- Commercializing wine not a hobby and entering the market takes a real commitment to understanding the specific laws and regulations that apply in your particular situation.
- Do not try to sell your wines out of your garage!

Casual Commercializing

Two options that fall short of full-blown commercialization and don't require that you get your own licenses, etc.:

- The Online Store Option
- The Vines Commercialization Option



The Online Store Option

- Sell your wines direct to consumers in select states
- Pick between collective website with other owners' wines or create a custom website.
- Customers visit the site, order and pay for their wines online and their wines are delivered to their homes.
- We use our back-office system and fulfillment agent to process the orders and we will settle up with you on a quarterly basis.



States for Online Store

Alaska
Arizona
California
Colorado
Connecticut
District of Columbia
Florida
Idaho
Illinois
Louisiana
Massachusetts
Missouri
Nebraska
New Hampshire
New Jersey
New Mexico
Nevada
Oregon
Wyoming

The Online Store Options

PVE Owners' Collective Store	Personal Website	Customized Individual Store
<p>Set up fee \$250 Additional wines \$50 Compliance (depending the state) Monthly Maintenance Fee \$25 Monthly storage \$0.50/ case Variable costs related to each sale (sales tax, shipping, etc)</p>	<p>Same costs as PVE Owners' Collective Store Monthly maintenance to domain host (Squarespace \$8-\$16) paid directly to domain host</p>	<p>Set up fee \$2000 (two hours of design, three wines) Additional wines \$50 Additional design \$75/ hour Compliance (depending the state) Monthly Maintenance Fee \$249 Monthly storage \$0.50/ case Variable costs related to each sale (sales tax, shipping, etc)</p>

Fees for Online Operations

- **How much will The Vines charge me for using The Vines' Owner Stores?** We charge a 15% fee on revenues from the wine sale price or \$1 per bottle, whichever is greater, for our services.
- **What are you charging for?** This service fee includes administration of orders in your store and coordination of initial store setup (SKU setup and management, DNS setup, uploading content (tasting notes, categories, varietals, creating promotional codes) and making reasonable changes thereto, customer service, inventory and fulfillment management, credit card processing).
- **Additional Services?** Additional services will be available at an additional charge from time to time on a case-by-case basis. These include:
 - designing and performing e-mail blasts to customer database;
 - generating and implementing promotional codes,
 - making frequent changes to site content including text, photos and product descriptions.

Commercial Commercializing

Once you are ready to enter into the wine business in earnest, your best option is to get one or more licenses and remove some of the middle men.



- Federal Importer
- Distributor in one or more states

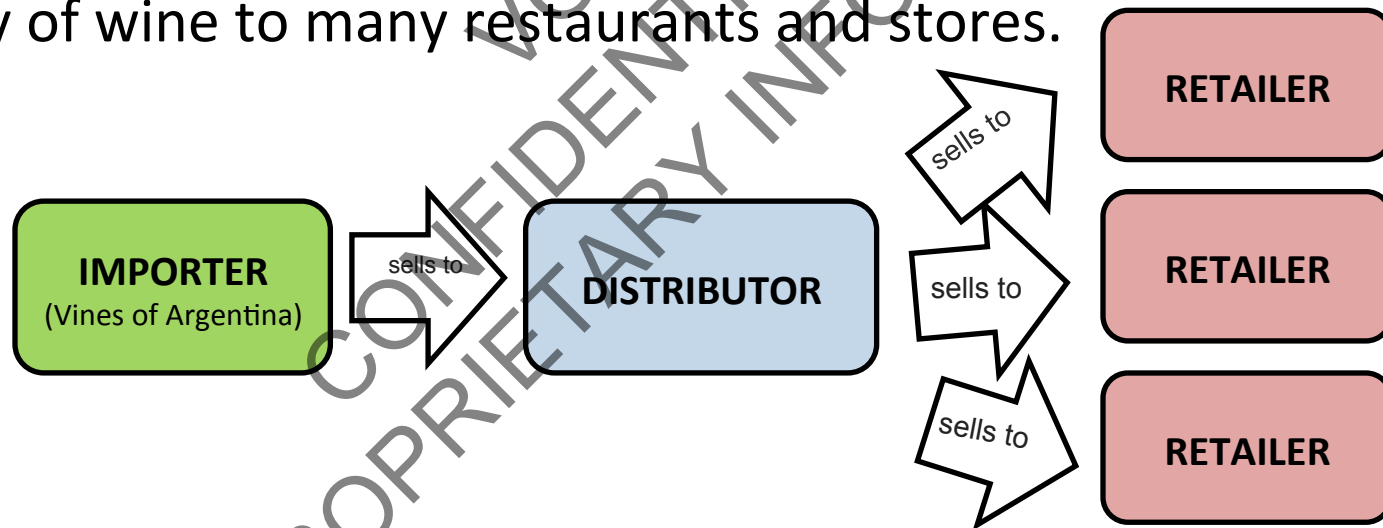
Vines Distribution Facts – Behind the Scenes

- Last year, it took an average of about **17 hours per owner** to set up our distribution network and successfully coordinate the wine shipments.
- The amount of time dedicated to researching state laws and searching for distributors/retailers will decrease for future shipments, but time dedicated filing compliance and coordinating the shipments should be the same.
- There is no correlation between the amount of wine an owner is shipping and the amount of work on our end, unless if they are shipping to various locations.

Become Your Own Distributor

How: As a distributor, you will buy your wine from the importer for the price of import and then sell your wine to licensed retailers for a profit.

For Whom: Owners who you are looking to sell a significant quantity of wine to many restaurants and stores.



Costs to Become a Distributor

Differs in every state, but let's use NY as an example:

- \$1,253.33/year for the distributor's license (\$3,760 for three years)
- \$1,000 (approx.) (a percentage of surety bond for \$10,000)
- \$0.41/bottle transport from MHW to the distributor
- The price of import – varies on each shipment
- \$8,000/year - The price of commercial space for storage. You must store your wine at a licensed facility. While this can be almost any space, the TTB is allowed to search the licensed premises at any time. Based on quotes for 500 ft² of commercial space in Brooklyn, we estimate that you would pay roughly \$8,000/year for a storage facility.
- The fee to the retailer for moving wine for personal consumption - Because distributors cannot sell wine directly to consumers, you will need a retailer to receive your wine and sell it back to you if you want your wine for personal consumption. We currently work with a retailer in Brooklyn who charges us \$0.42/bottle to receive the wine and sell it back to our owners.
- Any legal fees associated with getting a distribution license – estimated to be \$8,000-\$10,000. Our recommendation for legal services in NY is included at the end of this memo.

Break Even

- If an owner already had a place to store the wines and did not use a lawyer to get the distributor's license, he/she would need to move 160 cases of wine (1,920 bottles) per year to break even versus the Vines/MHW system.
- Without a premises to serve as an office, using quotes for storage in Brooklyn, the number of cases goes up to 480 cases and if you add on legal fees its more than 650 cases per year.
- Distributor needs to take care of price posting and reporting requirements.

Pricing Your wines

- Laid-in cost = FOB price (*Free on Board*) + shipping/handling/tax
- Wholesale price = laid-in cost + distributor margin
- Shelf price = wholesale price + retailer margin + excise/sales taxes (some states)

Wine Brands Economics Example

**U.S. DRINKS
CONFERENCE**



750ML / 12 Bottle Case Imported \$ 9.99 Retail Bottle Price

Supplier FOB (Varies-Packaging etc.)	\$ 29.00
Ocean Freight	4.50
Fed Tax/Duty (80 Proof)	3.30
PPU/BF/INS	1.40
Importers Margin (24% Margin)	\$ 12.14
Price to Distributor	\$50.34
State Tax	.71
Freight	2.50
Distributor Margin (50% Mark Up/33% Margin)	26.37
Distrib. Price To Retail	\$79.92
Retailer Margin (50% Mark Up/33%Margin)	39.96
Retail Case Price	\$119.88
Bottle Price	\$9.99



Conclusions

- The system isn't designed for small producers
- But we are creative, determined and...

NADA ES IMPOSSIBLE

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