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Secrets of Growth

Behind an expat's wine startup success FORTUNE

January 25, 2012: 9:31 AM ET

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By Ian Mount, contributor

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PHOTO: DANIEL GARCIA/AFP/GETTY IMAGES

That's the position in which Michael Evans has found himself during the last few years. The Mendoza, Argentina-company he co-founded, Vines of Mendoza, was selling turn-key "vineyard estates" largely to Americans, whose disposable income evaporated following the 2008 collapse of Lehman Brothers and financial crisis. Even worse, as Evans' buyers were disappearing, his costs were rising; Argentina's already high inflation shot past 20% in 2010 and stayed there. Evans knew something would have to be done fast.

BEHIND AN EXPAT'S WINE STARTUP SUCCESS

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"I've been through something like this before in 2000, when I was at a dot-com. When something like that happens, you don't know exactly what's going to pass, but you know things will get worse before they get better," says Evans, 46. Faced with tumbling income and soaring inflation, as 2008 moved into 2009, the company cuts costs by 40% by laying off 30% of its staff ("By far, the worst day of my life," says Evans).

Breeding armchair Mondavis in Mendoza

Vines of Mendoza was born in 2005. At the end of 2004, after a stint on John Kerry's presidential campaign came to naught, Evans visited Argentina with his friend David Garrett, and they ended up touring Mendoza with Pablo Giménez Riili, a member of an old wine family.

At the time, Argentina's economy was recovering from its 2001-2002 collapse and peso devaluation. While it had been disastrous for most Argentines, the collapse was great news for the local wine industry, because it lowered production costs and made the wine regions attractive to tourists and investors.

Seeing that tourism was set to soar, Evans, Garrett, and Giménez Riili banged out a business plan for a company that would have a tasting room, a hotel, a mail order wine club and, most importantly, a vineyard estate business.

The vineyard estate idea was simple: people would pay Vines of Mendoza an upfront per-acre fee to buy, plant, and oversee a vineyard. After the vineyard started producing wine three years later, the buyers would start receiving bills for maintenance (today about $3,000/year per acre, including a 25% markup for Vines of Mendoza) and either sell their grapes or pay the Vines to make their wine (now about $5-12/bottle). In that way, they could become vintners -- armchair Mondavis -- without the expense, time, or expertise required of going in full-bore.

"These estates appeal to people's interest in owning a vineyard without it becoming such a big ticket item that it excludes most people. It's like buying a timeshare," says Chuck Bedsole, managing director of the hospitality and leisure group at Alvarez & Marsal in Dallas, a consultancy that works extensively in Latin America.

With some of the $3.1 million they raised, Evans, Garrett, and Giménez Riili set up the wine club and bought or optioned 1,500 acres of land. To start, they offered land at $25,000/acre (including planting and three years of maintenance). The partners had chosen a propitious moment to launch their venture: the U.S. housing and stock markets were bubbling in 2006 and 2007, and Americans were looking to put their wealth into something fun, reasonably priced and, at least in theory, potentially profitable.

Argentine wine's growing fame, coupled with prohibitively high land prices in California and Europe, and the project's ease of use helped the partners sell 50 lots covering 250 acres by the end of 2008. They raised their per-acre price over the same period, to $55,000. Vines of Mendoza also pushed ahead on other plans: In 2006, they opened a wine bar around the corner from Mendoza's Park Hyatt hotel, and in 2008, they opened another wine shop and bar inside the Park Hyatt itself.

Weathering an economic storm

The events of late 2008 threatened to destroy everything Evans and Giménez Riili had created (Garrett left the project in 2008 and now has several ventures, including the Entaste iPad restaurant wine list). Vineyard sales plunged, from 127 acres in 2008 to 87 acres in 2009. But Vines of Mendoza survived 2009 and 2010, and 2011 was a record year: revenues rose from $4.8 million in 2009 to an all-time high of $8 million in 2011 as 27 clients bought 110 acres, which today go for $73,000 per acre (now with two years of maintenance).

So how did Vines of Mendoza survive its perfect storm? Here are some creative maneuvers that helped:

Expanding the customer base

The first thing the Evans and Giménez Riili did after the crash in U.S. and Europe was aim at new markets, specifically Brazil, which was largely immune from the financial crisis.

"The U.S. and Europe are the big engines, but there are always new powers. And, luckily, we are close to one of them," says Giménez Riili, 39.

Since 2008, Giménez Riili has travelled to Brazil 20 times to learn the business culture and find clients. As of early 2009, only one of the Vines of Mendoza vineyard owners was from Latin America, but today, 16 of the 100 owners are Brazilian and, says Giménez Riili, a third of the company's business came from Brazil in 2011.

Discounting aggressively

As they searched for new clients in Brazil, the Vines of Mendoza partners aimed to keep revenues coming in by discounting their vineyard price by about 30%, from $55,000/acre to as low as $35,000/acre, to entice existing clients to buy more. While this sacrificed profitability in 2009, it saved the top line from an abrupt crash and covered ongoing costs. "We were very aggressive in offering special pricing for friends and family -- our owners -- to generate cash," says Evans.

Making deals

Having a local co-founder was indispensible when it came to dealing with inflation of more than 20% in 2010 and 2011. "Pablo and his family have been through this for years. They know how to manage in Argentina," says Evans.

The company started to price shop much more actively, because Giménez Riili knew from experience that during inflationary spikes some suppliers would raise prices before others. "When the economy is stable, almost all providers have the same price. But when it's unstable, there's lot of variation," he says.

The company also started paying up front to get discounts from suppliers who were worried about inflation. "When they sell on credit and have to wait for payment for eight months, they lose 15% of the value. So they prefer cash in hand," says Giménez Riili. "If you come with $300,000 in cash, they've give you a discount up to 20%." According to Evans, this saved the company over $100,000 on vineyard costs alone in 2011.

Cutting ongoing costs

To avoid further layoffs, the company cut back what it spent on its daily operations. To lessen the need to buy new tractors when it planted new vineyards, the company expanded its farming day from 6 a.m. to 8 p.m. to 24 hours. While this meant spending on lights and night shift bonuses, those costs were less than buying new equipment. Giménez Riili says that this allows the company to work with six tractors instead of the 10 it would need with a shorter workday. Similarly, the company is converting four of its 10 company vehicles from gasoline to less expensive compressed natural gas.