

■ ANDY STARR

Start Planning Equipment Purchases Now

January in the winery. Harvest is in the rearview mirror, and wines are aging or getting ready for bottling. You had some time over the holidays to get reacquainted with your family and resume a normal sleep schedule. The last thing you want to think about is next harvest, but if you plan to buy new crush equipment, now is the time.

You may already know that your crusher isn't going to survive another harvest—either because it's too old, or it doesn't have the capacity to keep up with your winery's growth, or both. Or maybe you think a piece of new technology would improve wine quality, like a berry sorter or cross-flow filter. It's easy to develop a list of needs and wants. Since you don't have an infinite supply of money, your challenge is to evaluate the relative merits of each type of equipment you may want, compare the various manufacturers and then come up with a list of what you will acquire.

If there is a common theme to my columns, it would be: It's OK to plan. I state this because planning skills matter, yet the wine industry undervalues them. Typically, a winemaker is hired for their ability to make great wines that get high scores and medals. Winery/brand owners tend to have a vision and passion. No wine reviewer ever wrote, "This delicious wine comes from a well-organized winery whose new fermentation tanks arrived eight weeks prior to harvest, allowing their planning team plenty of time to stage crane operators, electricians and HVAC technicians, and get final permit approvals."

How do well-run operations prioritize and plan their equipment purchases? The following is what a few of them shared with me. I asked for their insights about:

- Their decision-making process
- How they justify equipment when the primary benefit is improved quality
 - Buying new vs. used
 - Service contracts
 - Negotiating tactics.

Safety first: prioritizing needs
Clay Brock is the director of winemaking for



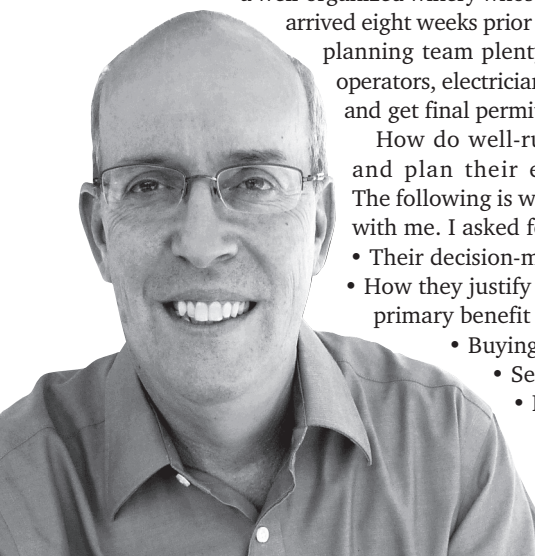
Central Coast Wine Services and Paso Robles Wine Services, two custom-crush wineries in California. Both are part of the Thornhill companies and Turn Key Wine Brands owned by the Miller family, who also own vineyards and other farmland including Bien Nacido Vineyards in the California's Santa Maria Valley and French Camp Vineyards near Paso Robles, Calif. Combined, the two facilities crush approximately 10,000 tons of grapes for roughly 40 clients. Brock has extensive experience, having worked for 300,000-case Edna Valley Vineyard and 40,000-case Zaca Mesa, as well as Constellation Brands' Estancia and Wild Horse facilities.

Decision-making process: Brock has been brought into a winery as an outsider many times, making him a pro at evaluating operations and assessing equipment. He starts by walking through the winery with the cellar master and learning the process from start to finish. Taking copious notes, he evaluates what's working and what isn't, and he asks everyone where improvements could be made over time. Some things are obvious, others are not. From that he creates a list of A, B and C priorities and assembles a meaningful document for management. He advises holding a post-harvest staff meeting as soon as possible, to discuss improvement for the next harvest. Brock puts his trust in the front-line staff who operate the equipment.

"I rely on the folks in the cellar (to advise me) on what works, what doesn't, what needs to be replaced," he said.

While it is easy to create a wish list, it's harder to narrow it down to what you will buy this year. I asked Brock *how* he prioritizes. "The 'A' priority items start with anything related to safety or compliance." Those are automatic have-to update items, Brock said, noting, "Safety is the easiest thing" to prioritize. Other A-list items are anything old and/or broken.

Evaluating quality-based equipment: Brock defined 'B' priority items as equipment that improves wine quality, which led to his insights about the inherently difficult problem of justifying a purchase when the payoff is qualitative. Brock tries first to establish the degree of quality improvement before making the case for acquisition, often finding a way to trial the technology. For example, instead of using top feeding to load presses, a winery used an axial-feed system, causing excessive rotations and phenolic extraction. Switching to top loading their four presses meant adding pneumatic valves and infrastructure to move fruit over the top, plus catwalks, a significant capital expense. So Brock and his crew figured out a way to





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—Clay Brock, Central Coast Wine Services
and Paso Robles Wine Services

temporarily demonstrate top feeding at minimal cost. After it showed the expected quality

improvement, he was able to justify the proper long-term solution.



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Negotiating tactics: Brock thinks the best way to know you are getting a fair price is to get multiple quotes and let the suppliers know you are doing that. It's more work, but consider that you have to live with your decision for at least 10 years. He suggests that price quotes should itemize service contract costs and payment terms.

New vs. used: Brock recommends that small wineries consider used equipment, though that doesn't work for his high-volume, custom-crush operations. He does buy used barrels, provided they fit his malolactic-free specifications.

Service contracts: Brock recommends buying service contracts for bigger ticket items like presses, as it extends equipment life. And he recommends ordering as soon as possible to arrive with plenty of time to install.

‘The physical space’

Steve Ryan is the general manager for The Wine Foundry in Napa, Calif. He has many years of experience as both a brewer and winery manager. The Wine Foundry started operations in 2012 and has grown rapidly, crushing 550 tons annually for its own brands and roughly a dozen clients.

Decision-making process: Ryan's approach is that “it all starts with the physical space.” The Wine Foundry took over an existing facility in an industrial park south of downtown Napa. Opportunities to knock out a wall or lease additional space are few, so efficient use of the existing space is paramount. Ryan talked to other general managers and winemakers, seeking the advice of those whose facilities were more like his. In hindsight, he says he would have talked to even more people.

Ryan used the example of sourcing fermentation tanks to illustrate his decision-making process. He knew he needed more tank capacity, though his existing space was limited. Ryan believes shows like the Unified Wine & Grape Symposium are a great place to learn and talk to vendors, and he goes “with a shopping list and an open mind.”

“You may think you need Brand X, but an objective process may convince you that Brand Y is the better fit for your operation.” That said, he recommends you check out actual performance before going with a lesser known brand. He gives preference to those salespeople who were knowledgeable and followed up after the show.

Going into trade shows with an open mind was helpful, as Ryan ended up selecting La Garde's square-shaped fermentation tanks instead of standard cylindrical tanks. They were \$6,000-\$10,000 more expensive than a cylindrical tank, but their square shape allowed him to install roughly 50% more tanks in the same square footage. Ryan compared the scenario to a restaurant being able to fit more tables

into the same dining room space by changing table shape. More tanks equal more fermentation capacity, providing a quick payback for the extra tank expense.

Ryan's ordering process starts with a "live date," the day the asset needs to be in service. For example, tanks require a crane, HVAC technicians, plumbing and electricians, so planning the arrival date is complex. He wants to be

cooling capacity" at the same time, as you may need additional capacity.

Evaluating quality-based equipment: Ryan justifies quality-based expenditures by stating, "Great fruit needs great equipment. There still needs to be a reasonable period of time for payoff, but it could be five years." Being a custom-crush facility, The Wine Foundry's clients are often the ones requiring new purchases,

for new wineries, as long as they have a qualified service technician check the equipment before buying. He also encourages newer and smaller operations to use service providers (custom crush, bottling, filtration) rather than buying their own equipment.

Service contracts: Ryan advises, "Do the maintenance contract. It's worth it. Pre-harvest checks for all our major pieces cost maybe \$2,000—much less than the cost of a single breakdown during harvest."

Negotiating tactics: Ryan echoes much of what Brock said, adding that you should "point blank ask your colleagues" about what they paid and purchase terms. He may trade best price for better payment terms and a warranty.

Preventing problems and improving quality

A final perspective on quality-based equipment purchase decisions comes from Thomas Duhamneau, chief financial officer for Hahn Estate in Monterey County, Calif. Duhamneau divides these purchases into two types: equipment that either a) prevents problems, or b) improves quality. For evaluating whether preventing a problem is worth the capital expense, he recommends doing a simple statistical analysis: What is the probability of the problem, and what will it cost if it occurs?



Shows like the Unified Symposium are a great place to learn and talk to vendors. It's best to go with a shopping list and an open mind.

—Steve Ryan, The Wine Foundry

ready for harvest in late August and needs six to eight weeks to comfortably schedule the service providers. So the tanks will need to arrive between late June and early July. After conferring with his tank supplier, he knows he must place the tank order in early March to hit the arrival date. When ordering tanks, Ryan recommends looking at "less sexy things like

which makes them easier to justify. Ryan recently acquired an optical sorter to meet client needs. It is paying off quickly, as he was able to add new clients who want sorted fruit, but can't justify the equipment cost.

New vs. used: Ryan prefers to buy new, as he knows he will utilize the equipment for at least 10 years. He thinks used machinery is fine

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For something that provides solely quality improvements, you must look at the long-term ramifications of the decision. “It may or may not allow you to sell that vintage for more, but it changes your benchmarks. Ask yourself, ‘Are you increasing quality so much that you change your benchmarks and take your wine into a new price point?’ Quality is linked to brand positioning.” In other words, you need to adjust your

technology. You can send a lot (maybe just 1 or 2 tons) to their facility and have it run on the equipment you are considering. Or you can bring in a service provider. Cross-flow filters are a big-ticket item, but several companies will bring a unit to your winery. You can then compare quality of the cross-flow filtered wine to your current diatomaceous earth or pad filtration. Depending on the piece of equip-

repositioning program. A payback analysis needs to cover both the equipment expense and other potential expenses (e.g., new French oak barrels, upscale bottles, labels, etc.). You can do a payback analysis, but you’ll need to shift your assumptions toward the expected added value and away from cost savings or yield improvements. For example, optically sorted fruit should improve wine quality and therefore average selling price. So make an estimate of the incremental value. The added value will be the increase in average selling price per case times cases produced with the new technology. If you think you’ll get \$12 more per case and you use the equipment on 4,000 cases worth of grapes, then the expected incremental value is \$48,000 per year.

Start early, do your research, attend trade shows, test drive, talk to your fellow winemakers, come up with numbers (even for improved quality) and consider installation time. In short, make a plan. 

Andy Starr, founder of StarrGreen (starrgreen.com), is an entrepreneur, marketing manager and winemaker who provides strategy, management and business development consulting services. A resident of Napa Valley, Calif., he holds a bachelor’s degree in fermentation science from the University of California, Davis, and an MBA from UCLA.



Ask yourself if you are increasing quality so much that you change your benchmarks and take your wine into a new price point.

—Thomas Duhamneau, Hahn Estate

brand’s positioning at the same time you consider acquiring quality-improving equipment.

In addition to the insights from Brock, Ryan and Duhamneau, I have a few thoughts to share.

Take a test drive: You probably have the ability to “test drive” someone else’s equipment. For example, a winery down the road may have the latest press or optical-sorting

ment, the supplier may have a demonstration unit available for use at little or no cost. If the technology is new, try to at least observe it in action at an early adopter winery. Smart equipment suppliers often arrange this, so get on their invitation list.

Payback for quality: Duhamneau is correct that improving quality is part of a brand-



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