

THE ECONOMIC FEASIBILITY OF
SMALL OKLAHOMA WINERIES

By

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CHAPTER I

INTRODUCTION

Background

In the past decade, the number of wineries in America has more than doubled with approximately 2,700 now in operation (Wine Institute). Wineries can be found in all fifty states, and the majority are small operations, producing less than 25,000 cases annually. Oklahoma, at the time of statehood, was home to many vineyards and wineries. However, state and federal prohibition laws reduced the commercial wine industry to nonexistent in the early decades of the twentieth century. In 1917, the “Bone Dry Law” was passed by the state legislature, banning the production or importation of wine or liquors in Oklahoma. Soon after, prohibition, in the form of the 18th Amendment to the Constitution of the United States, became effective on January 16, 1919 and was in effect until December 5, 1933.

While some may have been interested in operating wineries in the state, Oklahoma saw little change or growth in the winemaking industry after prohibition was repealed due to a complex system of state regulations regarding the sale and distribution of wine and spirits which limited winemakers to marketing their products solely to

wholesalers and distributors. However, the industry began to experience dramatic growth as state legislation was updated to expand the rights of winemakers to include the rights to serve winery samples on site or at festivals and trade shows and to sell directly to customers, retail outlets, and restaurants. Since 1992, when state legislation began to trend towards promoting winemaking in Oklahoma (OGGWMA), the numbers of wineries has grown to over forty

Problem Statement

While recent years have proven to be a very exciting time of industry change and growth, there are many challenges facing Oklahoma winery entrepreneurs. The historical lack of commercial winemaking in the state has created a void in technical expertise. A base of experienced winemakers does not exist, and education in enology must be sought outside of the state in areas with more developed industries. In addition, the companion industry of grape growing is experiencing similar needs for greater viticultural expertise and appropriately trained laborers.

There is a basic lack of economic knowledge on a range of Oklahoma winery management issues. An owner or prospective owner would like to know the optimal size, equipment and labor needs, and overall operating costs of a winery. This is difficult to predict in a dynamic market, which does not have a historical trend that can be incorporated into market forecasts and the financial decision-making process.

A winery is a very capital-intensive enterprise. With the high initial investment and the lagged cash flow associated with the time between the purchase of grapes and initial wine sales, many winery owners are forced to seek outside sources of capital. As a non-traditional winemaking area, Oklahomans may face difficulty in acquiring the needed capital because lenders are hesitant to provide funds to an industry in which the lending community does not have much experience.

A greater level of marketing proficiency is also vital to the industry's success. Improved economic and financial information, which could be used to make reliable production and pricing decisions, would be beneficial in determining a winery's market position, competition, and target audience.

Current and prospective winery operators, persons engaged in supporting industries, and sources of investment capital need more information and resources devoted to the commercial operation of wineries in the state of Oklahoma.

Objectives

General Objective

This research was conducted to increase the understanding of factors influencing the economic viability of a small Oklahoma winery.

Specific Objectives

Four specific objectives were identified.

1. Define the business and political environment in which Oklahoma wineries currently operate.
2. Develop economic models to forecast economic viability and profit potential over a ten-year production horizon under different scenarios for a small Oklahoma winery.
3. Address the cash flow implications for a small Oklahoma winery under different operating scenarios.
4. Conduct simulations for the purpose of determining risk sensitivity for input prices changes and output prices changes.

Scope of the Study

The scope of the study is limited to an economic assessment of a “typical” small winery in Oklahoma. However, the model used to assess the feasibility of a winery is unlimited in its application potential – both in terms of winery size and geographic locale.

An end-user of the model may adjust any number of parameters to meet the requirements of a specific winery operation. For example, simple input changes allow one to quickly examine the economic feasibility of a winery based on different capital input scenarios, capacity, equipment scheme, wine selections, and product prices.

CHAPTER II

LITERATURE REVIEW

Business Planning

If a person wishes to start a winery, there is certainly no shortage of literature to guide them through the process. Commercial wineries exist in all fifty states, and publications have been put forth by universities and extension services in many of these states to assist wineries in starting and maintaining a successful business. However, no comprehensive handbook or guide has been developed in the state of Oklahoma, in large part because the industry was relatively small and stagnant until recent changes in state law created a more dynamic business environment for Oklahoma wineries.

There are significant capital, equipment, and expertise differences between a hobbyist making wine at home and a commercial winery. Several handbooks or workbooks for small wineries emphasize the need of a business plan in determining the appropriate financial planning, organization, and marketing strategy of a new or growing winery (Daily; Morris; White). In addition to forcing one to analyze and organize

potential winery operations, a business plan can be a helpful tool in gaining outside investment (Bursen).

Wineries are generally considered to be capital-intensive. Significant initial investment is needed for land, buildings, and equipment, but a lag time exists between annual production and sales. If a wine entrepreneur seeks outside capital, investors typically understand the long-term nature of wineries and will not expect immediate return of their capital; however, investors will expect an equally long-term business plan that outlines the operations of the winery, allowing them to estimate recovery of and return on their investment (White).

A winery should first be concerned with what kind of final product (wine) is desired and where the raw product (grapes and other fruit) can be acquired (Morris). The desired product and available capital will determine the size and equipment of a winery (Morris). It is important to equip a winery with sufficient capacity for initial start-up and continued growth (Morris; White).

An industry and competitor analysis describing the historical patterns, current trends, and industry predictions help to clarify the role of a winery by highlighting opportunities and pitfalls that may exist for a new entity (White). This information can also be incorporated in the marketing plan. The marketing plan should determine the target market, the products needs of the target market, and the associated pricing, promotional activities, and product distribution/placement (White).

In the planning stages of a winery, regulatory approval must be given consideration. All wineries will have to acquire the appropriate federal permits from the U.S. Department of Treasury's Bureau of Alcohol and Tobacco Tax and Trade. In addition, there are local and state laws and regulatory entities that oversee the production and sale of wine (Bursen).

Market Structure

There is significant concentration in the U.S. wine industry (Folwell). In 2001, the largest four wineries accounted for forty-eight percent of the storage capacity in the country, and the largest twenty wineries accounted for approximately seventy-seven percent of the same (Haring). The concentration has remained high despite the growth in the number of 'smaller' (less than 126,000 cases) wineries, which typically concentrate on premium table wines (Folwell). The Oklahoma Grape Growers and Wine Makers Association sites a 'typical' Oklahoma winery as being one that produces 4,000 cases of wine per year from fruit grown locally (OGGWMA).

The U.S. wine industry has generally trended upward in terms of gallons and retail sales over the past three decades, and annual consumption per resident was 2.01 gallons 2001 (Wine Institute). However, Sutter Home Winery reports that sixteen percent of the adult population account for eighty-eight percent of the wine consumed in our country. Also, wine drinkers in the U.S. are aging, "as the percentage of wine

drinkers over the age of thirty-five grew from fifty-three percent to nearly seventy percent, while the percentage of those under thirty-five dropped from forty-seven percent to twenty-eight percent,” between the years of 1985 and 1996 (Libbon).

Recent changes in state laws have changed how wineries in Oklahoma can market their product. Prior to 1992, Oklahoma winemakers were allowed to sell their products to ‘qualified persons’ outside the state and only to licensed wholesalers and manufacturers within the state. (OGGWMA) Due to the structure of the wine and spirits industry and the reluctance of wholesalers to purchase and promote the products of small, unproven wineries, the limited scope of the winemakers’ license was not an inducement to start-up wineries.

However, 1992 brought about important changes to the state legislation and proved to be the beginning of dynamic change to the winemaking industry in the state. Winemakers were given the additional rights to serve free samples and sell bottles of wine directly to consumers. Conversely, all of this had to occur at the winery site, and only from wine produced on the premises. And while wineries were allowed to purchase within the state or import ‘wine, brandy, and fruit spirits’ for the purpose of winemaking, wine made directly from grapes and fruit could only use Oklahoma produce. In 1997 the rights to serve free samples were extended to include the ability to serve free samples at trade shows and festivals. The ability to sell directly to liquor stores and restaurants was achieved in 2001. Even greater flexibility was gained in 2002 when state laws were relaxed to allow the importation of grapes and other fruit into the state for the purpose of

making wine. And while wineries could give away samples of their wine at festivals and trade shows, they were not allowed to sell their product at the same until 2003. The most recent changes regarding the rights of the Oklahoma winemaker allow wineries to charge for samples of their wine, both on the winery premises and at festivals and trade shows. (O.S. 37 § 521) However, it should be noted not all Oklahoma counties allow the sale of alcoholic drinks by the glass, and wineries located in these counties continue to provide their samples free of charge.

Wine sales have recently received considerable attention at the national level due to a case presented before the U.S. Supreme Court regarding the interstate shipment of wine. *Granholm v. Heald* highlighted the three-tier system for liquor sales and distribution in Michigan and New York which allowed direct-to-consumer wine sales and shipments from in-state wineries but not from out-of-state wineries. On May 16, 2005, the Supreme Court ruled in-state wineries and out-of-state wineries must be treated equally in regards to shipping wine directly to consumers. In the 5-4 decision, the Court struck down laws in New York and Michigan deemed to be discriminatory to out-of-state vineyards because consumers could not buy directly from out-of-state vineyards and wineries while doing so from local, in-state entities. The varying treatment under state laws was deemed to be interfering with interstate commerce and in violation of the Commerce Clause of the Constitution. [*Granholm v. Heald* and *Swedenberg v. Kelly*]

California was the first state to allow direct shipment to consumers. As Internet shopping has become more prevalent and the number of small and family-owned

wineries has increased, so has the demand for direct shipping. And while winery owners lauded the Supreme Court's decision, it does not remove all the impediments to wineries direct shipping their product to consumers. Corresponding to the increased demand for direct shipment has been concern from some state liquor authorities on collecting appropriate taxes and restricting access to alcoholic beverages to underage buyers (Nigro).

States are still allowed to determine their laws governing the shipment and purchase of alcoholic beverages, and there are generally three classes of state alcohol shipping laws: reciprocal, limited, and prohibited. Reciprocal states allow consumers to ship wine directly from in-state wineries and from out-of-state wineries as long as the other state allows shipments from the home-state wineries. States with limited laws allow consumers to bring out-of-state wine into the home-state as long as certain conditions are met. And finally, prohibited states ban wineries from shipping directly to consumers. One exception to the prohibition on shipping is "Federal On-Site," shipping. In this case, due to changes in airline policies for carry-on items, eleven states which prohibit shipping but allow for personal transportation across state lines will allow residents to ship a limited quantity to their home (Nigro).

Additionally, it is illegal to ship alcoholic beverages, including wine, through the United States Postal Service (USPS). Private package carriers such as FedEx or the United Postal Service (UPS) can ship wine, but not all package carriers will accept wine for due to state liability laws for carriers (Nigro August 31, 2005).

Oklahoma is considered a prohibited state as it remains one of twenty-three states where the direct sale and shipment of wine to consumers are prohibited. Oklahoma wineries may not ship wine to in-state customers. The Supreme Court ruling does not immediately and directly impact Oklahoma wineries as Oklahoma state laws are not discriminating against out-of-state producers in favor of local producers – neither are allowed off-site sales/shipment of wine to Oklahoma consumers. Granted, the Supreme Court did cite the consolidation of the wholesaler segment of the industry with noted growth in the number of small wineries as making internet sales and direct shipment to consumers an attractive marketing tool for small wineries. Previous attempts to alter state legislation in Oklahoma to allow shipment of wine have not been successful.

Marketing and Wine Tourism

The market structure of the wine industry is trending toward increased numbers of small and medium-sized wineries in areas that are not traditionally known for making wine. Distributors and retailers may be skeptical of the quality of an unknown wine. However, wine tourism creates an opportunity for wineries to educate consumers and develop brand loyalty for their product before general acceptance can be gained in the traditional distribution chains (Dodd 1995). As stated by Getz: “Wine tourism is a form of consumer behavior based on the appeal of wine and wine regions, and a development and marketing strategy for the wine industry and destinations in which wineries and

wine-related experiences are the dominant attractions.” Tasting rooms also allow a winery to market an amount of wine that would not be sufficient to meet the needs of typical retail outlet. However, it should be noted that tasting rooms are an expensive investment for a winery and appropriately-educated and friendly staff will be required to make a tasting room a success (Dodd 1995).

A study of winery visitors in Texas indicates repeat visitors make larger purchases, of both wine and accessories, and are more likely to spread favorable word-of-mouth among other potential visitors or bring other people with them on subsequent visits (Dodd 1999). Dodd (1999) goes on to suggest wineries cultivate repeat visitors by marketing especially to the local audience, maintaining contact with visitors through publication of newsletters, and providing incentive to frequent visitors with recognition or discount.

Dillon, Morris, and Price indicate that the location of the winery is the key element of the marketing plan in the success of the small- to medium-sized wineries because most of the sales occur on-site. Their study also highlighted that wineries located in close proximity to each other can benefit from group promotional activities. Getz also found that a ‘critical mass’ of wineries in an area was more likely to generate interest and travel to that area. However, King and Morris suggest that winery tourists visiting multiple locations in a day may not develop loyalty to a particular brand.

Dodd (1995) reports that most winery visitors are of regional origin. Wine tourism will be greatest when a winery is located near a large population, but more

remote wineries can appeal to the tourist by ensuring ease of accessibility and providing sufficient road signs and other travel information (Getz).

Owner Motivation

Neoclassical economics assumes that firms have the goal of maximizing profit. However, this may not be entirely accurate in depicting the commercial wine industry. Many people engaged in owning and operating wineries enjoy non-financial benefits because they like wine and/or the lifestyle associated with winery operation (White). Morton and Podolny analyzed the California wine industry to measure the impact of owner motivation on quality and price of wine. Their study indicated winery owners/operators with utility maximization goals are more concerned with filling the 'high quality' sector of the industry and "charge more for their product on a quality-adjusted basis."

Literature Review Summary

Between 1992 and 2003, several significant changes were made to Oklahoma state laws which had favorable impacts on the business environment for winery development in the state. With these legislative changes, Oklahoma has grown from having an essentially non-existent winery industry to almost fifty operating wineries by 2010. Despite an industry structure and culture that can present challenges to small- and

medium-sized wineries, this class of winery continues to grow throughout much of the country. Recent changes to interstate shipment laws continue to bolster off-site and internet sales of wine from all classes of wineries.

With notable industry growth within the state, there is a need for additional business planning tools specific to Oklahoma wineries. These kinds of business tools could be quite beneficial to the state industry because developing a business plan is considered a key step to differentiate the hobbyist winemaker from a successful winery operation. Careful consideration of a business and marketing plan will also likely be needed if a winery entrepreneur wishes to seek outside capital. Any new winery operation should also consider ultimate owner motivation, as some winery operations seek to maximize owner utility rather than maximize profits.

CHAPTER III

LEGAL REQUIREMENTS

Federal Requirements

The federal regulatory entity for wine production is the U.S. Department of the Treasury's Bureau of Alcohol and Tobacco Tax and Trade (TTB). These functions were formerly carried out by the U.S. Bureau of Alcohol, Tobacco, and Firearms (ATF), but the 2002 Homeland Security Act separated the tax and trade functions from certain law enforcement activities retained by the ATF and transferred to the jurisdiction of the U.S. Department of Justice. An application packet may be acquired from the TTB's National Revenue Center at: 550 Main Street, Suite 8002, Cincinnati OH 45202. The toll free phone number for the Revenue Center is: 877-882-3277, or visit the website: www.ttb.gov/wine/index.shtml. The necessary forms for any new applicant will depend on the exact operations of the winery but generally include the following:

TTB F 5000.29 Environmental Information

This form requires a winery to describe the types of heat and power to be used, the sources of the energy, and any air pollution control equipment to be used in association with "fuel burning equipment, boilers, or smokestacks." The winery must disclose the anticipated amounts and composition of solid and liquid waste and provide

disposal plans for each. Also, any noise pollution greater than levels normally associated with business buildings must be detailed.

TTB F 5000.30 Supplemental Information on Water Quality Consideration

A winery must submit this form if the business operation results in a direct or indirect discharge into navigable waters and requires the winery to detail the monitoring of the discharge.

TTB F 5000.80 Power of Attorney

This form is the appropriate power of attorney form for all business ownership structures. This allows an owner to grant person(s) within the business the ability to perform certain lawful business activities necessary to the day-to-day function of the business.

TTB F 5000.9 Personnel Questionnaire – Alcohol and Tobacco Products

All parties with significant financial interest in a winery must complete this form which requires a considerable amount of personal and financial information, including personal references, residential and employment histories, and arrest and conviction records. The purpose of this form is to prevent inappropriate persons from being involved in the commercial wine industry.

TTB F 5100.24 Application for Basic Permit Under Federal Alcohol Administration Act

This form is required of anyone producing and processing wine for beverage purposes. This form requires much of the same information included in TTB F 5120.25

along with information regarding the owner(s), corporate officers, or director and their residence(s) for the previous five years.

TTB F 5120.25 Application to Establish and Operate Wine Premises

This form consists of ten components. The business serial number, name, address, business type/structure are required along with a description of the winery premises. Each trade name associated with the winery is to be listed, and disclosure will be necessary for non-bonded wineries. Other related business operations such as a restaurant or gift shop are to be described along with any spirits or volatile fruit-flavored concentrate operations. A diagram and a legal description of the winery must also be submitted.

TTB F 5120.36 Wine Bond

The form is required because the TTB must be ensured of the collection of unpaid excise taxes from wineries. The name of the bonding company along with the amount and kind of bond is the primary information required for completing the form.

Corporations must also submit a list of stockholders for all stockholders with more than ten percent ownership, by-laws, corporate resolution, certificate and articles of incorporation, certificate to operate in a foreign state (if applicable), and TTB F 5100.10 providing for the signing authority for corporate officials.

Partnerships must also submit TTB F 5100.10, a corporate resolution, a list of interest holders for all parties with more than ten percent interest, operating agreement, and certificate and article of organization.

The TTB website advises that the application process may take two to four months.

All wineries will have to apply for an Employer Identification Number (EIN) from the U.S. Internal Revenue Service (IRS), and this should be done very early because the EIN will be required during the TTB application process. IRS form SS-4, Application for Employer Identification Number, and the complete instruction for the form can be located on the IRS website: www.irs.gov. For wineries with a principal business address in Oklahoma, the form can also be mailed to the Internal Revenue Service Center, Attn: EIN Operation, Philadelphia, PA 19255, and the appropriate phone number is: 800-829-4933.

Wineries will also have to register with the U.S. Food and Drug Administration (FDA). The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 requires facilities that “manufacture/process, pack, or hold food for human or animal consumption in the United States” to register with the FDA to protect the U.S. food supply from terrorist threat or attack. The FDA website (www.fda.gov/furls) encourages the electronic submission of Form 3537, but one can also mail the form to: U.S. Food and Drug Administration, HFS-681, 5600 Fishers Lane, Rockville, MD 20857. Additionally, information or assistance is available toll free: 800-216-7331. There is no fee for the one-time registration, and the form requires the categories of food production (as defined by FDA regulations), all trade names associated with the facility, and the contact information for owner(s) and operators(s). (U.S. Food and Drug Administration).

ATF F 5630.5 Special Occupational Tax

A winery must submit the aforementioned form to the U.S. Bureau of Alcohol, Tobacco, and Firearms (ATF) after approval from the TTB but before beginning operations. The typical rate of the Special Occupational Tax is \$1,000.00, but small wineries can qualify for a reduced rate of \$500.00 per year if the taxpayer has gross receipts less than \$500,000 per year. The tax is also prorated for the first year of operation if winery operation begins after the beginning of the current tax year. Also, recent legislation has suspended the tax until July of 2008. However, wineries must still file the tax form without a payment. (ATF)

Form TTB F 5100.31 Application for and Certification/Exemption of Label/Bottle Approval

The front label on a wine bottle must contain the following information: brand name, class and/or type, alcohol statement, and appellation of origin, if applicable. The brand name is the name under which the product is sold. If there is no brand name, the name of the bottler becomes the brand name. The classes of wine include: grape, table, light, dessert, red, white, pink, amber, and rose. Types of wine include grape varietals, generic and semi-generic grape names, and grapes of a geographic 'significance.' If the type of wine is listed, then an appellation of origin must also be designated. Appellation of origin refers to the country, state, county, or approved viticultural area where the

grapes were grown. Alcohol content should be stated as a percent of volume of the wine, or “table wine” or “light wine” is appropriate for wines with an alcohol content between seven to fourteen percent. (TTB)

Other mandatory information which must be on the bottle includes the: government warning, sulfites statement, bottling statement, and net contents. The bottling statement is the name and address of the bottling winery. The net contents is the volume of the wine and must be either listed on the label or blown into the bottle or container. Many 750 ml bottles will already have the net contents blown into the bottle. The sulfites warning is “CONTAINS SULFITES,” and the government warning is: “GOVERNMENT WARNING: (1) According to the surgeon general, women should not drink alcoholic beverages during pregnancy because of the risk of birth defects. (2) Consumption of alcoholic beverages impairs your ability to drive a car or operate machinery, and may cause health problems.” One should consult TTB information to ensure the appropriate size of print for the containers used. (TTB)

State and Local Requirements

The state entity of jurisdiction for wine production in Oklahoma is the Alcoholic Beverage Laws Enforcement (ABLE) Commission. ABLE is located at: 4545 North Lincoln Boulevard, Suite 270, Oklahoma City, OK 73105, and can be contacted by phone or fax, respectively, at: 405-521-3484 and 405-521-6578. (See the Appendix for a copy

of the application packet.) The application is fifteen pages long and consists of: a statement of business purpose; location of business; names of owner(s); authorization for disclosure of personal information of the owner(s); extensive background information on owner(s), including personal, financial, criminal, and employment histories; diagram of business; and financial statement and accompanying worksheet. The application also contains a notice of intent to apply for an alcoholic beverage license. This notice of intent must be completed and submitted to a newspaper with a general circulation in the county where the winery is to be located. The notice must be published twice, once every eight days for two consecutive weeks. Once this is done, the original notice of intent and copies of the newspaper must be submitted along with a provided form as proof of publication. The application packet also provides ownership/personnel questionnaires to be used by corporations or partnerships. (ABLE)

Sole proprietorships must also provide a statement about the financing of the business. This is to include the amounts needed and the source(s) of financing needed to establish the business. Additionally, a copy of the lease or deed to the business property must be supplied, along with certificate of compliance stating all zoning, fire, safety, and health codes have been met. Dependent upon the location of the winery, either the city or the county commissioners can provide this documentation. A tax statement verifying the owner(s) do not have any outstanding *ad valorem* taxes in the state of Oklahoma. Both the tax statement and compliance documents are to be no older than sixty days. (ABLE)

Corporations, including cooperative corporations, must submit all of the information required of the sole proprietorship in addition to the certificate of incorporation, certificate of good standing from the Oklahoma Secretary of State, business minutes from the meeting electing the current board of directors and corporation officers, and business minutes from the meeting approving the application for a liquor license. A Limited Liability Company must supply a certificate of good standing from the Oklahoma Secretary of State, articles of organization, company operating agreement, and certificates of membership interest. General and limited partnerships have only to provide the partnership agreement and a list of partners and their respective interest in the company. (ABLE)

The ABLE application fee for an Oklahoma winemaker is \$75.00. The packet of information to be submitted to ABLE for review should include: the fifteen page application and supporting documents, one copy of all the application materials, and a cashier's check or money order in the correct fee amount. (ABLE)

An Oklahoma winemaker must also register with the Oklahoma Tax Commission (OTC). OTC is located at 2501 North Lincoln Boulevard, Oklahoma City, OK 73194. OTC routinely has business registration workshops to aid new businesses in complying with the necessary rules and regulations. A business registration packet can also be obtained from OTC online at: www.oktax.state.ok.us. It is required of Oklahoma wineries to have a sales tax permit, and the cost of this permit is \$20.00 once every three years. A withholdings account must be established for any wineries which will have

employees from whom the winery will withhold Oklahoma income tax. A withholds account will also be necessary for workers' compensation. The OTC estimates thirty to sixty days will be needed to review the business registration application. However, a sales tax permit may be acquired in one day if the forms are submitted to the OTC in person. (OTC)

Wineries planning to have employees will also have to contact the Oklahoma Employment Security Commission (OESC) to establish an account for unemployment insurance. The OESC is located at: will Rogers Memorial Office Building, 2401 North Lincoln Boulevard, Oklahoma City, OK 73105. The OESC phone number is: 405-557-7100. The appropriate form is OES-1, Employer Status Report. (OESC)

Wineries in Oklahoma are also subject to the Food Service Establishment Regulations. The Consumer Protection Division of the Oklahoma Department of Health (ODH) should be contacted early in the planning process because the construction or remodeling plans for a winery must be submitted for review before work begins. One should contact the Health Department of the county in which the winery will be located and speak to the public health specialist to determine exactly what building specifications the winery must achieve. (ODH)

CHAPTER IV

MODEL

A Microsoft Excel workbook was utilized to develop a feasibility template for analyzing the financial potential of a small winery. The workbook consists of ten worksheets and an introduction to the template. Five of the worksheets require the user to input information about the winery. This information includes input capital structure, winery size and capacity, equipment scheme, business and personnel expenses, raw goods data, and wine product(s) selection. Assumptions of the model and the user-supplied information are then used in financial calculations. Market and expense projections, loan amortization, operations summary, and returns on investment are calculated over a ten-year production horizon. Each of these features will be presented in greater detail in this chapter. The workbook can be accessed online at: www.fapc.okstate.edu/files/winerytemplate.xls.

Input Capital Structure Information

The basic financing assumption for the model is a loan for fifty percent of the total cost of the plant, property, and equipment acquired at an interest rate of eight percent for the term of ten years. Short-term loans may be needed to meet the working capital needs. A six percent interest rate is applied to the short-term loans.

Property taxes are calculated as a percentage of the value of the winery and the property and will be used in projecting expenses. The income tax rate is assumed to be thirty percent and will be applied to the estimation of profit/loss. This, in turn, will be used in calculating the return on investing and the return on equity.

An annual inflation rate of one percent will be applied to the utilities, maintenance, and insurance expenses. The maintenance and insurance expenses will be calculated as a percentage of the value of the winery facility and equipment, three percent and two percent, respectively. A discount rate for net present value calculations is included and will be utilized in calculating the net present value of income and expenses and determining the benefit/cost ratio.

Variable Costs Excluding Grape Cost

The variable costs excluding the grape cost will be calculated on the inputs page and used in the determining the production expenses and working capital needs. This section includes excise taxes and the materials (bottles, corks, labels, and capsules) used in bottling wine. For the purposes of this model, it is assumed that all wine will be packaged in 750 ml glass bottles.

Bottles are typically bought in very large quantities and delivery and handling costs should be considered when estimating price. However, proper planning may enable a winery to avoid some or all handling and delivery costs because some wholesalers will

waive such costs if sufficient amounts of bottles are purchased at one time. This model uses an estimate of \$0.60 per bottle, which is based on price quotes for bottles purchased from an Oklahoma City-based supplier and delivered to a winery in central Oklahoma.

Both synthetic and natural corks are used in wineries in Oklahoma. Depending on the quality grade, a review of regional suppliers indicates a typical range of \$0.10 to \$0.30 per cork for corks of either material purchased in bulk. The \$0.18 used in the model represents the cost of a natural cork of the first grade.

The cost of self-adhesive labels can vary greatly depending on size, design, and the number of colors used. Capsules come in two styles: PVC shrink wraps and Aluminum foil. Upright/table- mounted versions of the applicators for either style are similarly priced at approximately \$1,100. However, more inexpensive hand-held shrink wrap applicators can be purchased for less than \$200. PVC shrink wraps can be purchased for approximately \$0.05, but aluminum foil capsules cost twice as much.

The Oklahoma excise tax on wine is \$0.72 per gallon; therefore, there is a \$0.1425 excise tax per 750 ml bottle. The federal excise tax on table wine is \$1.07 per gallon. However, small producers receive a credit of \$0.90 which yields an effective federal excise tax rate of \$0.17 per gallon, or approximately \$0.0337 per bottle.

Working Capital

Working capital for input purchases is the amount of money required to buy the variable inputs for wine production and merchandise sold in the tasting room. Additional working capital can be included as a percentage of sales. The dollar amount is then calculated from the gross sales of wine and other merchandise. Also, additional working capital can be included for a contingency plan. Ten percent of projected sales receipts is the only additional working capital included for the purposes of this simulation. The short term interest rate of six percent will be applied to the total working capital and included in the total interest expense of the business.

Production Equipment

To maintain a certain level of quality in the production process and to ensure adherence to food and beverage processing regulations, stainless steel products are used when possible.

Unless a vintner is purchasing fruit which has already been crushed and destemmed, equipment associated with these activities will be required. Vine states a 'good-quality' combined crusher/destemmer with a must pump and a one-ton-per-hour capacity can be purchased for approximately \$2,000. A stainless steel crusher/destemmer

with a must pump and the capacity of 3.5 tons per hour was included in this model at the price of \$1,735 (St. Patrick's of Texas).

Presses come in an array of styles, but small wineries can utilize bladder presses (Dillon et al.). These are vertical basket presses with an internal bladder, which is inflated with water to press the grapes against the basket. Metz suggests small wineries using two presses, allowing the winery to operate one while emptying and refilling the other. This model includes an eighty-five gallon bladder press with a wooden basket at the price of \$2,695 (St. Patrick's of Texas).

Any winery will have to have the ability to pump both wine and must, and it is assumed in this model that two different pumps will be utilized. Both pumps are positive displacement pumps and have hydraulic transmissions for variable speed control. The primary difference between the two pumps is the size of the outlets and accompanying accessories of 1.5 inches and 2.5 inches for the wine/juice and must pump, respectively. These pumps respectively cost \$1,725 and \$2,625.

For a winery of this size, Vine suggests a plate-and-frame filter may be the best choice, and Dillon et al. states small wineries can use the less expensive cartridge filters. A plate-and-frame filter with twenty-by-twenty centimeter plates was chosen for this model. The price for this filter was also taken from St. Patrick's of Texas, along with \$200 for miscellaneous filter accessories. Additionally, the cost of fifty feet of hose of both pump outlet sizes was included (St. Patrick's of Texas).

Table 1. Production Equipment Costs

Equipment	Value
Stainless Steel, 3.5 ton/hr Crusher/Destemmer	\$1,735.00
85 Gal Wooden Basket Bladder Press	\$2,695.00
Various-speed, Hydraulic Must Pump with 2.5" Outlet	\$2,625.00
Various-speed, Hydraulic Must Pump with 1.5" Outlet	\$1,725.00
20*20 Plate and Frame Filter	\$1,375.00
Various Filter Accessories	\$200.00
50 ft of 2.5" and 1.5" Hose	\$625.00
Total	\$10,980.00

Storage Equipment

A 5,000 gallon winery could use an almost innumerable combination of varying styles and sizes of tanks to attain its capacity goal. Planning is especially critical in this step of the winery design and a winery operator must consider what kinds of wine to make, how much of each to produce, and what other storage containers will be utilized.

Containers made of several kinds of materials are employed in making wine. Wood, plastic, cement, glass, and steel containers are all options; however, stainless steel is becoming a more predominant choice for wine making as it is easy to clean and maintain, and does not directly influence the flavor of the wine (Boulton).

For purposes of simplicity, this model assumes ten stainless steel tanks, 530 gallons each, are utilized. Sloped-bottom, variable capacity tanks, mounted on legs and encased in cooling jackets, were chosen due to their flexibility of use and suitability for fermenting, processing, storing, and blending wine. The sloped bottom allows for ease of cleaning, and the cooling jackets eliminate the need to house the tanks in a refrigeration

unit. Mounting tanks on legs, instead of concrete bases, allow a new winery to modify the layout as changes or growth in production necessitate. (Vine)

The prices of tanks with these parameters were taken from St. Patrick's of Texas, a winery supplier located in Austin, Texas. Ten stainless steel drums were also included for additional storage, at a price of fifty-five dollars each (Cowie Wine Cellars). Wooden cooperage is historically tied to wine making and still holds romantic significance to wine makers and consumers. However, it should be noted that wood is more complicated to use, requiring additional knowledge and skill to properly care for barrels or kegs and attain the desired effect upon the wine.

Plastic containers certainly have appeal as a storage choice due to their availability and inexpensive cost. However, plastics can affect wine in a negative way by allowing light and/or oxygen to pass into the container, as well as directly adding 'off' flavors of the plastic itself (Boulton). Due to these reasons, both Vine and Boulton suggest only using plastic containers for short-term storage. The model assumes several food grade plastic drums, at a price of \$10.00 each, will be used for processing and short-term storage (Cowie Wine Cellars).

Due to the ease of cleaning and maintenance and lack of direct effects on flavoring, one might also consider glass containers for storage. Again, flexibility and ease in handling is important to small wineries which will not have the space or equipment for handling very large storage containers. Vine suggests five-gallon glass carboys for small wineries as a filled carboy of this size would weigh approximately fifty

pounds. (Vine) This model includes five three-gallon and ten five-gallon glass carboys, with prices of \$15.50 and \$19.50 each (Cowie Wine Cellars).

Table 2. Storage Equipment

Container	Value of Each	Quantity	Value
530 Gal Stainless Steel Tanks	\$4,995.00	10	\$49,950.00
3 Gal Glass Carboy	\$15.50	5	\$77.50
5 Gal Glass Carboy	\$19.50	10	\$195.00
55 Gal Stainless Steel Drums	\$55.00	10	\$550.00
55 Gal Plastic Drums	\$10.00	15	\$150.00
Total			\$50,923.00

Bottling and Packaging Equipment

As the winemaker prepares to bottle the finished wine, the bottles are prepared for use with a thorough cleaning and rinsing. Bottle washing accessories and bottle trees for drying are included in the miscellaneous supplies of the winery. Vine and Price et al (1993) both state stainless steel manual fillers are adequate for a winery of this size. A manual bench model four-spout stainless steel filler with the capacity to fill four hundred to six hundred bottles per hour is included in the model at the cost of \$1,150 (St. Patrick's of Texas). This model assumes bottles will be sealed with corks instead of screw caps; therefore, a corker is needed in the bottling process. Depending on size, expected growth, and labor resources, a winery may choose to use a manual or semiautomatic corker. Semiautomatic corks can cost several thousand dollars, and manual corks

cost significantly less. The model includes a manual Portuguese floor corker at a cost of \$69.50.

Wineries may choose to apply self-adhesive labels manually to eliminate the need for a labeling machine. However, to insure a uniform and professional application of labels, a semiautomatic labeler was included in this model. A labeler costing \$3,395 can apply both front and back labels on up to six hundred bottles per hour (St. Patrick’s of Texas). To complete the packaging process, a capsule is typically placed over the mouth of the bottle. The two major categories of capsules are foil and PVC shrink wrap. PVC shrink wrap capsules were chosen for this model because ease of application and the lower cost of shrink wrap capsules may be appealing to small wineries. An upright table-mounted heat shrink applicator can be purchased for \$995 (St. Patrick’s of Texas).

Table 3. Bottling and Packaging Equipment

Equipment	Value
4 Spout Gravity-fed Manual Filler	\$1,150.00
Manual Portuguese Floor Corker	\$69.50
MEP Semiautomatic Labeler	\$3,395.00
Upright Heat Shrink Applicator	\$995.00
Total	\$5,609.50

Tasting Room Equipment

Vine et al recommend the style and design of the tasting room should reflect the image and style of the winery.

Wineries have a wide range of stemware styles from which to choose. Vine et al recommends the use of tulip-shaped glass stemware for the sampling of table wines. On

this basis, a 6.5 ounce wine glass was selected at a price of \$141.84 per 36-piece case. It was assumed approximately one hundred glasses would provide enough stemware to meet the demand of a constant supply of clean glasses for tastings while not overburdening a small winery with excessive need for storage space.

A table mounted cork remover was included because this would allow tasting room personnel to open all bottles of wine in front of the customers with an easy and efficient manner.

A computer and printer in the tasting room can serve both as a company tool to track sales and inventory and as the cash register. A quality printer can be used to print receipts and can additionally serve as the copier and fax machine for the winery. A desktop computer configured for a small business and an all-in-one printer were chosen at the approximate costs of \$1,204 and \$256, respectively.

A dishwasher is necessary to clean glasses and any other dishes, and a refrigerator is needed to keep chilled wines readily available. A winery might consider the needed capacity, style of the tasting room, size limitations, and noise reduction along with the price of the appliance. The prices a twenty-four inch stainless steel dishwasher and a wine refrigerator were taken from a local Sears® store. Again, there is an almost limitless choice for wineries, and the selections made here reflect basic models from a company available in many areas.

Table 4. Tasting Room Equipment

Equipment	Value
3 Cases (36 each) Glass Stemware	\$425.00
Bench Model Cork Remover	\$60.00
Workstation Configured for Small Business	\$1,204.00
All-in-One Printer	\$256.00
24" Dishwasher	\$550.00
48-Bottle Wine Cellar Refrigerator	\$330.00
Furnishings/Decorations	\$1,000.00
Total	\$3,825.00

Office Equipment

Unless a new small winery has little to no financial constraint, the office may be more functional than stylish. An end-user of the model can adjust the budget accordingly, and the basic office furniture included in this version serves merely as an example of what it may cost a winery to furnish an office.

The prices for the chairs and file cabinets come from a local Staples® store. Two leather office chairs are \$70 each, and two twenty-five inch four-drawer letter-size file cabinets are \$129 each. A desktop computer, identical to the one used in the tasting room, is \$1,204. An executive style desk available from Wal-Mart® is \$319.

Table 5. Office Furniture and Equipment

Equipment	Value
Desk	\$319.00
2 Chairs	\$140.00
Computer and Software	\$1,204.00
File Cabinets	\$258.00
Total	\$1,921.00

Plant, Property, Equipment, and Land

The total equipment cost of the winery and tasting room is \$71,494.00, and this is the figure used for calculating depreciation. Installation costs can be estimated from a percentage of the equipment cost. In this case, the cost of installation is assumed to be one hundred percent of the equipment cost. The total equipment cost of \$142,988.00 is incorporated into the total cost of plant, property, and equipment and is used in calculating capital investment and returns.

Table 6. Total Equipment Cost and Installation

Production Equipment	\$10,980.00
Laboratory Equipment	\$700.00
Storage Equipment	\$50,923.00
Packaging/Bottling Equipment	\$5,609.50
Tasting Room Equipment	\$3,825.00
Office Furniture and Equipment	\$1,921.00
Equipment Cost	\$74,023.00
Installation	\$74,023.00
Total Equipment Cost	\$148,046.00

It is assumed two acres of land would be adequate for the winery and tasting room facilities and the accompanying parking area. Because land values vary greatly depending on location, a price of \$1,000.00 per acre is assumed. Some wineries may have substantially more property if they operate their own vineyard, but this model is concerned only with the winery operations and does not include vineyard considerations.

If one travels to various Oklahoma wineries, very different styles of building are encountered. A winery entrepreneur may choose to construct a new building or modify

an existing structure. Old barns, farmhouses, schools, and churches have all been converted into wineries in Oklahoma. Because the construction or remodeling cost of a winery can vary so greatly, this model relies on a previous work for an estimate of the cost of a winery/tasting room facility. Price et al (1993) estimated the cost of a five thousand gallon winery structure of 2,400 square feet to be \$74,000. Adjusting this price for year and location using the 1999 RS Means indices for commercial construction, the cost of a small winery in Oklahoma is \$35.92 per square foot. For the hypothetical winery of two thousand square feet, the cost of construction would be \$71,844.66.

Table 7. Value of Plant, Property, Equipment and Land

Plant, Property, and Equipment	\$222,987.00
Land	\$2,000.00
Total	\$224,987.00

Equipment and Depreciation

The model contains a page which calculates depreciation. There are four categories of depreciation: buildings; special purpose buildings; equipment; and light trucks and vehicles. Buildings depreciate on a thirty-nine year, straight line schedule. Any special-purpose buildings also depreciate on a straight-line schedule, but at an advanced rate of ten years and assuming no salvage value. The two remaining categories of depreciation utilize MACRS (Modified Accelerated Cost Recovery System) formulas, the current U.S. tax methodology which can be applied to depreciable tangible property.

Equipment depreciates on a seven-year schedule with a half year convention, and the light trucks and vehicles depreciate on a five-year MACRS schedule with a half year convention.

Personnel and Labor

For the purpose of the test case winery, it is assumed that three kinds of labor expenses will be incurred: managerial, part-time, and seasonal labor. It is assumed that the owner/operator of the winery will be the manager of the winery and will provide most of the day-to-day oversight of the operation of the winery as well as oversight of the tasting room. A base salary of \$30,000 was included in the model for this role. It is also assumed that two part-time employees will be needed throughout the year, primarily to assist with the tasting room. The part-time employees are assumed to be employed at 20 hours per week each for 50 weeks out of the year. This results in a part-time labor expense of \$14,000. Additionally, the model allows for one to input the cost of benefits to the managerial/administrative workers and part-time/seasonal workers as a percentage of their salary. For this model, it is assumed the managerial benefits are thirty percent, and part-time benefits are equal to fifteen percent of the employees' wages. This results in a total salary and wage expense of \$39,000 and \$16,100, respectively. It is also assumed that seasonal labor will be required for approximately the eight-week period surrounding the harvest. This labor would assist in the cleaning and preparation of the

facility prior to harvest, the actual harvest activities, and the cleaning and initial storage activities that are required after harvest. Two seasonal laborers, working for forty hours per week for eight weeks, results in a seasonal labor cost of \$5, 152.

Table 8. Personnel and Labor

Personnel	Cost
Managerial and Administrative	\$39,000.00
Part-time	\$16,100.00
Seasonal	\$5,152.00
Total	\$60,252.00

CHAPTER V

FINDINGS

The purpose of this research was to better understand the factors influencing the economic viability of a small winery in Oklahoma. First, a review of the political environment was conducted because Oklahoma's winery industry has been positively impacted by changes in state laws over the last two decades such that the industry went from almost non-existent to currently 47 wineries operating in the state. This also included information on direct shipping of wine to consumers outside of the state of Oklahoma because a recent Supreme Court case ruling requires states to not discriminate against out-of-state wineries. Then, a review of regulatory requirements for starting an Oklahoma winery was provided, which shows that advanced business planning is needed to bring an Oklahoma winery into being because there are significant local, state, and federal regulations governing a winery operation. However, the significant finding of this research was an economic model in the form of a Microsoft Excel workbook that can analyze the financial feasibility of a winery, allowing for flexibility in size of winery, capital structures, fixed and variable inputs, and finished products.

Using the model and the assumptions made in the previous chapters regarding a 'typical' Oklahoma winery, several key business variables were considered as a measure of business viability and feasibility. Then, the same key business variables were modeled for risk analysis utilizing Simetar©. Simetar©, which is an acronym for Simulation for

Excel to Analyze Risk, is a Microsoft Excel spreadsheet add-in. To better understand how price fluctuations on grape prices (a primary input) and wine prices (the primary output) could affect a winery, each was allowed to fluctuate ten percent. Holding all other variables constant, one thousand iterations were run on Simetar©, first allowing wine prices to vary ten percent and then allowing grape prices to vary ten percent. Due to limited information on Oklahoma grape prices and a limited number of published Oklahoma wine lists, the price information was constrained to three varietals: Cabernet Sauvignon, Merlot, and Chardonnay.

Net Present Value

Net Present Value (NPV) is the present value of future cash flows of an investment minus the cost of the investment. The present value of future cash flows are determined by discounting the expected cash flows at a required rate of return. With a discount rate of nine percent, the model predicted a Net Present Value of \$380, 773. Allowing wine prices to fluctuate by ten percent, the average NPV of this venture is \$402,713.56, with a minimum NPV of \$27,357.93 and a maximum NPV of \$548,980. When grape prices were allowed to fluctuate by ten percent, the Net Present Value of the model winery is much less volatile. The Average NPV is approximately \$380,885, with a minimum NPV of \$366,774.34 and a maximum NPV of \$395,914.38.

Figure 1. Simulation of Net Present Value with Ten Percent Wine Price Fluctuation

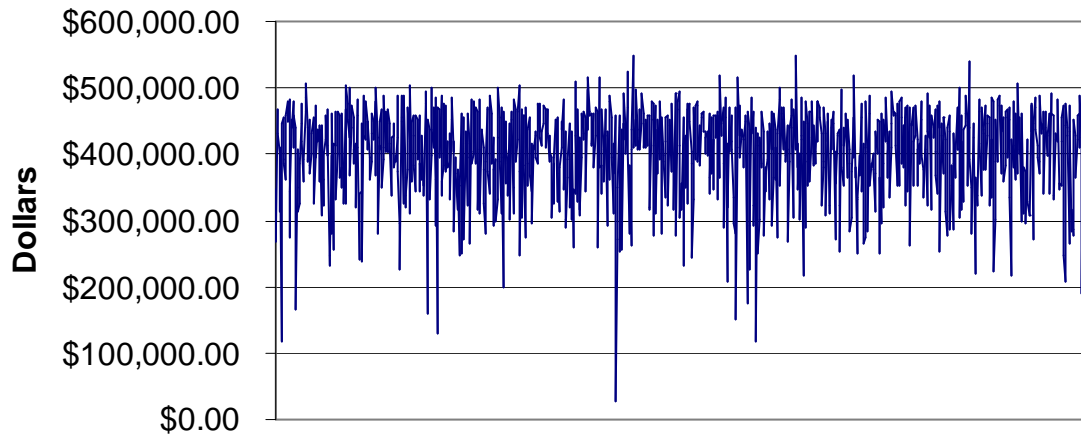
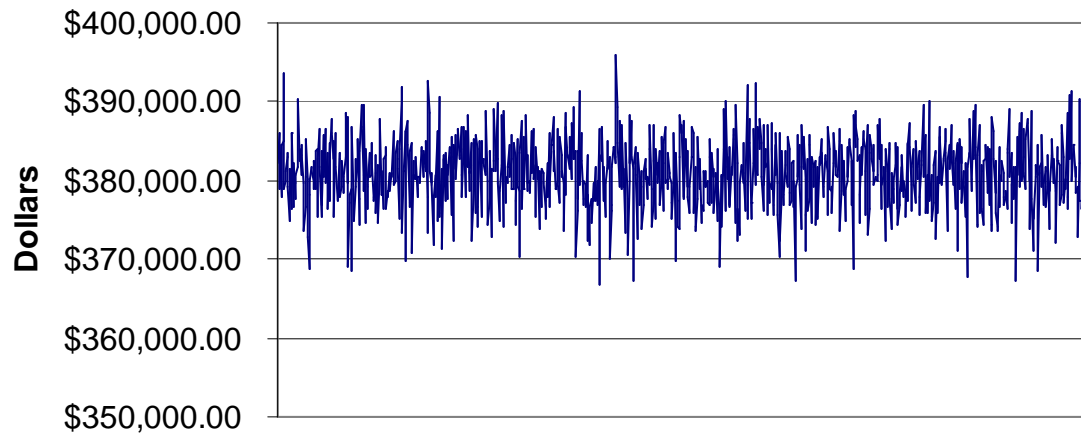


Figure 2. Simulation of Net Present Value with Ten Percent Grape Price Fluctuation



Internal Rate of Return

The Internal Rate of Return (IRR) determines if the present value of the model winery plus the market value of the winery are equal to the current market value of the model winery. Using this test case winery, the Internal Rate of Return was determined to be 36.09%. Assuming a ten percent fluctuation of wine prices, the IRR average is

approximately 37.4 percent, varying anywhere from 11.3 percent to 46.6 percent. If the grape prices are allowed to vary by ten percent, then the IRR average is a similar 36.1 percent, but the variation between high (37.1 percent) and low (35.2 percent) is much smaller.

Figure 3. Simulation of Internal Rate of Return with Ten Percent Wine Price Fluctuation

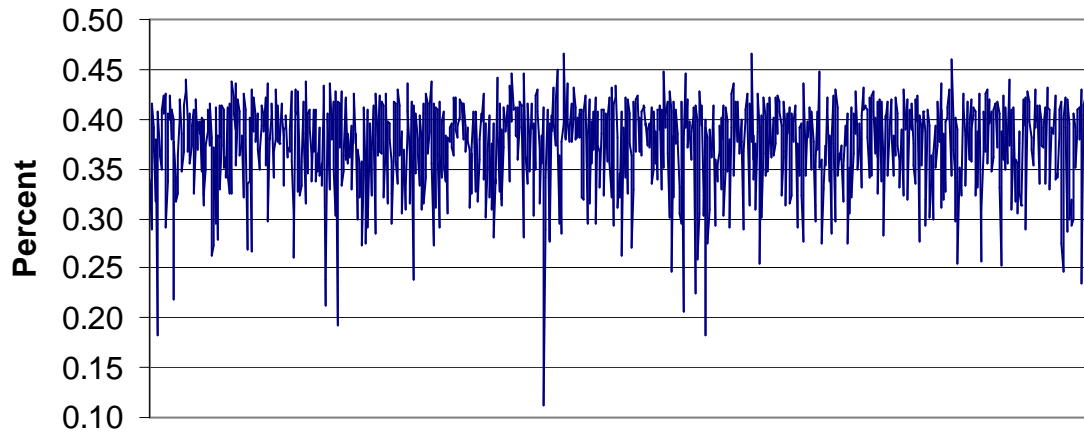
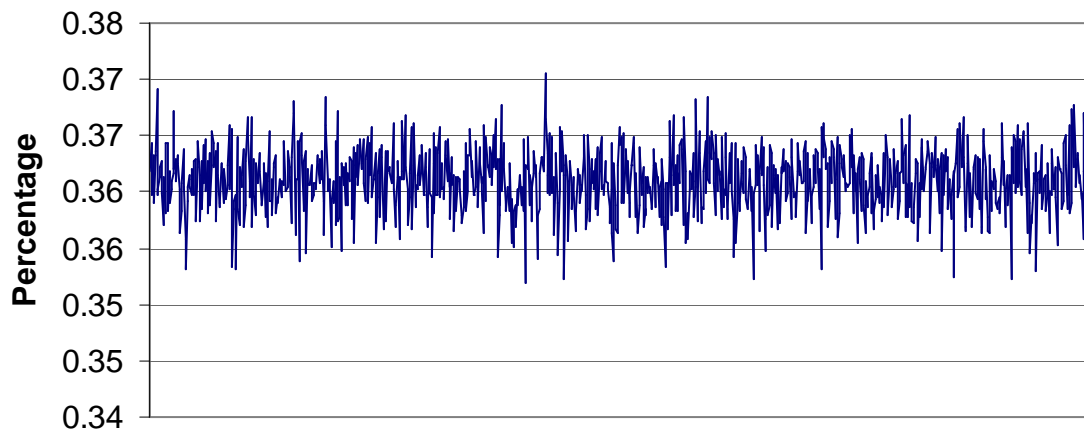


Figure 4. Simulation of Internal Rate of Return with Ten Percent Grape Price Fluctuation



Return on Assets

The Return on Assets (ROA) is a measure of the model winery's profitability as a function of the total revenues divided by the total assets. The ROA for the test case winery is 29.05%. When allowing for a ten percent variation in wine prices, the ROA can be as low as 12.2 percent or as high as 37.8 percent, and an average ROA of 30.6 percent. As grape prices are allowed to vary by ten percent, the average Return on Assets is 29.5 percent, with a range of ROA of 28.9 to 30.1 percent.

Figure 5. Simulation of Return on Assets with Ten Percent Wine Price Fluctuation

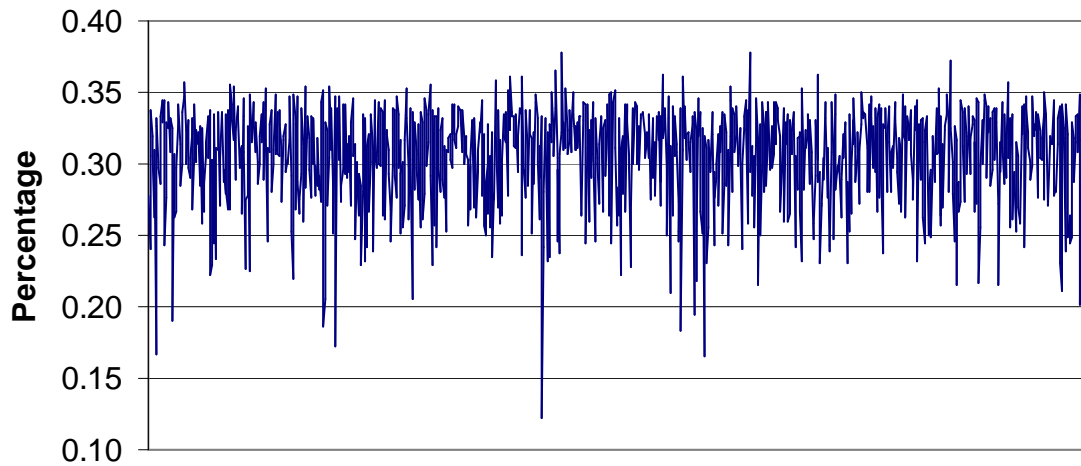
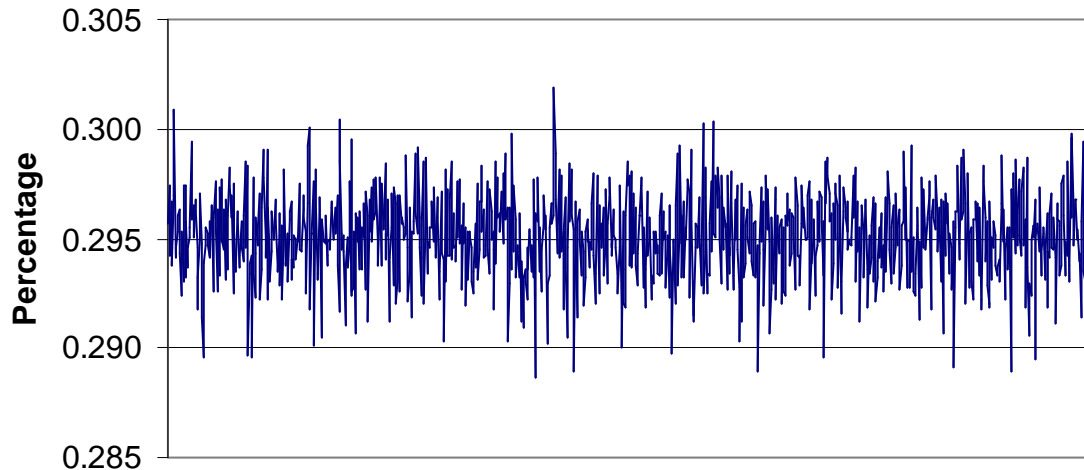


Figure 6. Simulation of Return on Assets with Ten Percent Grape Price Fluctuation



Return on Equity

The Return on Equity (ROE) provides a measure of how well the model winery would use capital to generate earnings. The ROE predicted by this model is 59.01%. It should also be noted the ROE will be impacted by how a winery structures its debt. Consideration should be given to how leveraged a winery proposes to be as part of the business model. In comparison to this, the Internal Rate of Return will not be impacted by debt structure and the two variables can be compared for a potential winery operator to have a better understanding of their potential business profitability. Given the relatively high initial investment in property, equipment and land, the average Return on Equity is still quite high (61.2 percent and 59.1 percent, respectively) whether the assumption is made that wine or grapes prices fluctuate by ten percent. If wine prices are

allowed to vary by ten percent, the ROE is predicted to be anywhere from 24.3 percent to 75.5 percent. Given the same assumption for grape prices, and the ROE is predicted to be between 57.7 percent and 60.4 percent.

Figure 7. Simulation of Return on Equity with Ten Percent Wine Price Fluctuation

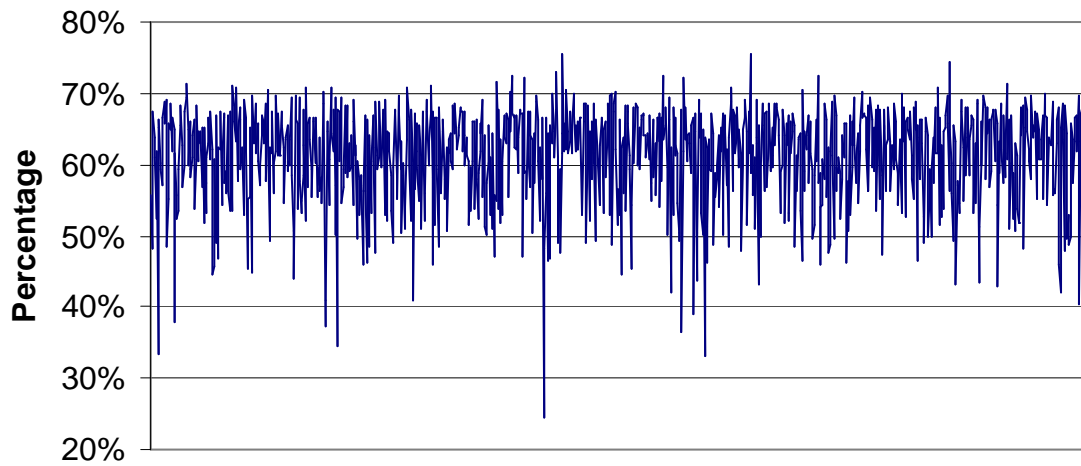
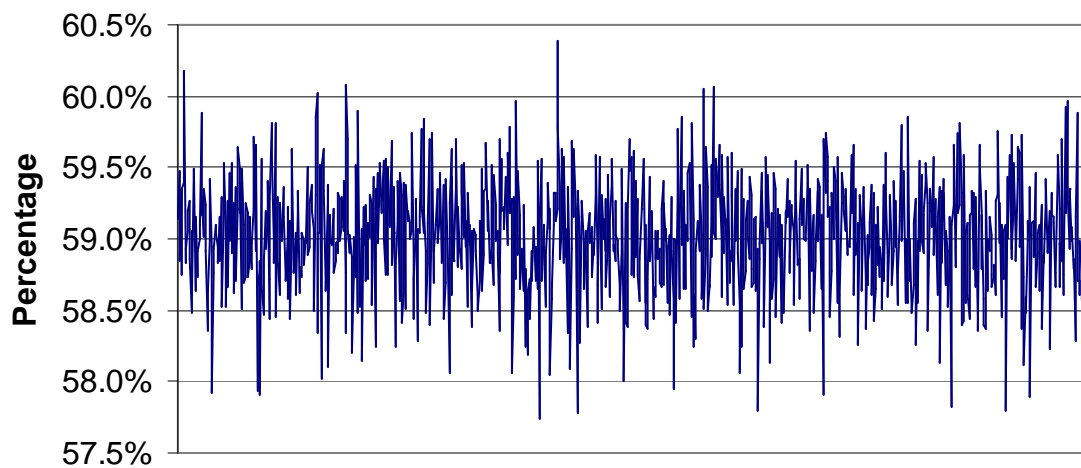


Figure 8. Simulation of Return on Equity with Ten Percent Grape Price Fluctuation



CHAPTER VI

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

The purpose of this work is to contribute to the understanding of factors influencing the economic viability of small Oklahoma wineries. The Oklahoma wine-making industry has seen significant growth over the last two decades. The legislative/political environment has become increasingly favorable to the state industry as it has become less restrictive in both the manufacturing and distribution/sales of locally-made wine. With this industry growth, there becomes an increased need for business planning tools to support the start-up of new winery operations. An economic model was developed to assess the feasibility of a "typical" small winery in Oklahoma. The model is a ten-page Microsoft Excel workbook which allows an end-user to adjust a variety of parameters to a specific winery operation. The model allows a potential winery entrepreneur to consider different capital scenarios, varying winery size/capacity, equipment schemes, desired rate of returns, growth forecasts, and an array of wine products produced from numerous grape and/or fruit raw products.

The Oklahoma Grape Growers and Wine Makers Association considers a "typical" winery to be one which produces approximately 4,000 cases of wine per year. Using this size as a starting point, other winery handbooks and articles were reviewed for

recommendations on business start-up needs. Along with information gathered from interviews with Oklahoma winery owners, the model was then configured to represent a hypothetical small Oklahoma winery. A review of legal requirements - local, state and federal - for business start-up was also conducted.

The winery model allows the end-user to forecast business operations over a ten-year time period. Given the business assumptions made for this hypothetical winery (which are detailed in Chapter IV), a small Oklahoma winery is projected to be a successful business operation. Furthermore, risk analysis was conducted using the Excel add-in, Simetar©, which allowed one to consider risk sensitivity of a winery operation. Even allowing grape prices and then wine prices to fluctuate by ten percent, the hypothetical winery remained a financially sound operation.

Conclusions

The goal of this research was to determine if a small Oklahoma winery can be an economically feasible business operation. To this end, an economic model based on a "typical" small Oklahoma winery was developed which allows one to consider the start-up and subsequent ten-year winery business operation. For the hypothetical winery used in this model, the model predicts it to be a successful business operation with positive profit potential starting with the first year of full production.

To better understand the hypothetical business operation, a pro forma Statement of Cash Flows was prepared for Year 3 of business. The business model proved to be profitable starting in Year 1; however, due to the capital-intensive nature of a winery start-up, it might be more useful to consider business operations once a winery is more established and one could make assumptions that the winery has been able to establish a customer base and work through any initial difficulties associated with bringing a business into full operation.

Year 2 is estimated to produce a profit of \$62,077. A winery owner could use these monies in multiple ways. For example, the owner could pay off long-term debt ahead of schedule; reinvest in more modern equipment; enhance marketing scheme in effort to boost sales; make improvements to the tasting/sales room. Because this model does not seek to capture those kinds of business decisions, the Year 3 Statement of Cash Flows assumes that no cash is carried forward from the prior year. Several other assumptions are made in this statement. It is assumed that a winery's business year is July 31 – June 30 and that it will sell its entire inventory over the course of the business year, with wine sales remaining relatively constant over twelve months. The cost of grapes is incurred in the month of September, when grape harvest is common in Oklahoma. The grape cost is computed as the cost of a ton of a given varietal of grape divided by the average volume of grape juice per varietal ton. Additionally, the model allows for grape cost to be based off of exact production numbers and raw grape juice needs. Actual winery production would instead likely be tied to ton or half-ton

increments of grapes purchased and production levels would be determined accordingly. Seasonal labor is assumed to be utilized in August and September as a winery is preparing and carrying out harvest and the initial production phase of processing the grapes and grape juice. Other variable wine production costs are assumed to be incurred during the months of December through March, while all other production costs are held constant throughout the year. Permits and licenses fees are assumed to be paid in January, and income taxes are assumed to be paid quarterly.

In this model, the hypothetical small Oklahoma winery is profitable in all months of the year, with an ultimate cash profit of \$69,392 at the end of Year 3.

Limitations of Study

In the development of this work, the most notable limitation one should consider is the lack of information on the key raw ingredient for wine production: grapes and/or grape juice. This work focuses on the economic feasibility of a small Oklahoma winery, and while one can operate a winery without owning/operating a vineyard, many Oklahoma wineries are choosing to do both and would consider them to be a single business operation. This work also assumes a winery operator has access to a quality and consistently available supply of grapes or grape juice. Just as wineries have experienced significant growth in the last two decades, so have vineyards in Oklahoma. At one time, Oklahoma wineries were required by state law to use state-grown fruit. While that is no

longer a legal requirement, some wineries do choose to have a vineyard because it is part of the business model or to maximize the owner's utility in operating a winery business. However, vineyards are a long-term investments which can take several years to reach full production, thus they are a significant capital investment. Oklahoma vineyards are also still experimenting with varieties of grapes to determine which are suitable long-term to Oklahoma weather. Furthermore, varieties which are suitable to Oklahoma weather patterns may or may not be the preferred varieties of winemakers. For example, hardier American hybrid grapes which have proven to be a more consistent product in the same climate zone as Oklahoma than traditional French varieties do not have the same flavor and varietal name recognition with winery customers.

Additionally, price information for Oklahoma grapes was also limited. A review of grape prices from 1993 to 2002 yielded limited actual price information on three varieties for seven of the ten years. Due to the small number of vineyards and competitive market nature of vineyards and wineries in Oklahoma, price information is not readily available. Furthermore, the economic model calculates the variable grape input price per bottle by computing the grape price per ton divided by the anticipated bottle produced by ton. This calculation does provide an exact variable grape price per bottle of wine; however, the model does not capture the reality that grapes are purchased by the ton or half-ton. For instance, if a winery operation grows from needing three tons of chardonnay grapes one year to needing 3.10 tons of grapes the next year, the model assumes one could buy one-tenth of a ton of grapes and computes the grape input price

per bottle accordingly. A more realistic business scenario might be that grapes can only be bought in increments of one ton or half-ton volumes, and a winery would need to plan to grow or constrain its production of a wine given that reality. The ability of Oklahoma wineries to purchase grape juice and utilize smaller production runs does allow some operational flexibility to account for this business reality.

Recommendations for Further Research

As noted in the previous section, more research and information is needed on the interaction of Oklahoma wineries and a key wine input, grapes. A comprehensive survey of Oklahoma wineries which includes source and price information for grapes, fruit, and/or juice is recommended. An extension of this work could also include a feasibility study of an Oklahoma winery/vineyard business operation.

The business and political environment for Oklahoma wineries continues to be a dynamic one. As such, it is also recommended that any further research include a review and business plan adjustments in accordance with changes in state or federal law. For example, Oklahoma is currently a "restricted" state, meaning it does not allow the direct shipment of wine to Oklahomans from either out-of-state or in-state wineries. If state laws were changed to allow direct shipment of wine, off-site sales and sales via the internet could impact a winery projected sales and sales growth.

Lastly, it is recommended a survey of wineries and their customers be conducted to better understand the marketing and marketing potential of Oklahoma wineries. As noted in the literature review, a marketing plan can be key to a winery operation. Dillon, Morris and Price and Dodd all note the importance of winery tourism to the industry. With additional research, Oklahoma wineries could benefit from better understanding their clientele and might use this information to focus their product offerings; develop marketing incentives to boost new and repeat customers; or pool marketing resources with other local wineries to enhance regional winery tourism.

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APPENDICES



STATE OF OKLAHOMA

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

CHECK LIST FOR

MIXED BEVERAGE, BOTTLE CLUB, CATERER, CATERER/MIXED BEVERAGE COMBO, BEER & WINE, BREWER, DISTILLER, OKLAHOMA WINEMAKER, RECTIFIER, SACRAMENTAL WINE, AND WINEMAKER LICENSE APPLICANTS

GENERAL APPLICATION INSTRUCTIONS:

Complete all items on Check List page 1 and applicable items on Check List page 2. The documents requested below are required for a license application. ALL documents indicated must be provided. All documents must be legible and complete. Applicant may be an Individual, a General or Limited Partnership, a Corporation, or a Limited Liability Company. When applicant's signature is required individuals sign for themselves. If the applicant is: a Partnership, each partner must sign; Limited Partnership, general partner must sign; Corporation, a corporate officer must sign; Limited Liability Company, a manager must sign.

Mail original application and supporting documents with one additional copy to: Oklahoma ABLE Commission, 4545 North Lincoln Blvd., Suite 270, Oklahoma City, OK 73105. Walk-in application are accepted 7:30 a.m. to 4:00 p.m. Monday - Friday. Questions concerning this application or application process should be directed to the Licensing Division at the above address, Telephone (405) 521-3484; Fax (405) 521-6578.

I. Application packet supplied by the Commission to be completed by Applicant.

- 1. Application Page 1. Complete the top of the page. Mark the license for which you are applying. Only one license per application. Complete and sign the oath in the middle of the page and have signature notarized.
2. Application Page 2. Complete both sections: Statement of Main Purpose and Location Affidavit to include the signature of applicant. To complete the Location Affidavit you must circle is or is not in two places.
3. Application Page 3. Complete all questions.
4. Application Page 4. Applicant signs.
5. Application Pages 5, 6, 7, 8, 9. Each Individual must complete separate pages. Complete all questions, sign and notarize in appropriate places. The individuals required to complete are individual sole proprietors, each partner, limited partner, corporate officers, corporate directors, corporate stockholders owning 1% or more of the issued stock, and limited liability company managers and members.
6. Application Page 10A. Corporations must complete. Limited partnerships must complete on a corporate general partner and any corporate limited partner. If a stockholder in the corporation is another corporation, the corporation which owns the stock must submit a page 10A, Corporate Questionnaire, and a financial statement. If a stockholder in the corporation is a limited liability company, the company which owns the stock must submit a page 10B, Limited Liability Company Questionnaire, and a financial statement.
7. Application Page 10B. Limited Liability Companies must complete. If a member is a corporation the corporation which holds the membership must submit a page 10A, Corporate Questionnaire, and a financial statement. If a member is another limited liability company the limited liability company which holds the membership must submit a page 10B, Limited Liability Company Questionnaire, and a financial statement.
8. Application Page 11. Hand sketch a diagram of the premise that is to be licensed. Do not submit oversized blueprints.
9. Application Pages 12 & 13. Complete all sections. Individuals and each partner must complete a personal financial statement, including business. Corporations, limited partnerships, limited liability companies complete for the entity being licensed. Limited partnerships must also submit financial statements for the general partner and any limited partner in the partnership. Bank addresses, account numbers, account signers, and account types must be listed.
10. Application Page 14. Complete and take a copy to newspaper. Submit original to Commission. Directions on bottom of page 14.
11. Application Page 15. Complete and attach original publication. Directions on bottom of page 15. Application must be received within sixty (60) days of the first publication.
12. License Fee. Enclose a cashier's check or money order in the correct amount with the application made payable to the ABLE Commission. Fee amounts are listed on the back of the check list. Personal checks are not accepted.
13. Copies. The original, completed application (Pages 1 - 15) and the required supporting documents with ONE ADDITIONAL COPY OF ALL will be submitted to the Commission. Additional documentation may be required during the investigation.

CONTINUED ON CHECK LIST PAGE 2

CHECK LIST PAGE 2

- II. Documentation Supplied by Applicant (complete applicable section only).**
- INDIVIDUAL SOLE PROPRIETORS MUST PROVIDE:**
1. Statement of Financing. Written verification of the amount and source of finances used to start the business. Documentation of source is required. If borrowing funds, you must provide detailed loan information.
 2. Deed or Lease. A copy of a deed; a lease; a purchase agreement; or a sales contract must be provided for the proposed licensed premise. Documentation must be in the name of the individual.
 3. Certificate of Compliance. Written verification of zoning, fire, safety, and health code compliance from the city. If there are no zoning, fire, safety or health codes, a statement from the city is needed stating no such codes exist. If proposed premise is outside city limits, verification of code compliance must be provided by the Board of County Commissioners. Cannot be over sixty (60) days old.
 4. Tax statement. Statement or receipt proving payment of ad valorem taxes, including real and personal, on ANY property owned in the state and from the county where the premise to be licensed is located stating no taxes are owed. Receipts or statements must be in the name of the individual. Cannot be over sixty (60) days old.
- CORPORATIONS MUST PROVIDE:**
1. Corporate Documents.
 - A. Certificate of Incorporation
 - B. Certificate of Good Standing from the Secretary of State. (Must be original. Cannot be over sixty days old.)
 - C. Minutes designating current officers and directors.
 - D. Minutes authorizing application for liquor license.
 2. Statement of Financing. Written verification of the amount and source of finances used to start the business. Documentation of source is required. If borrowing funds, you must provide detailed loan information.
 3. Deed or Lease. A copy of a deed; a lease; a purchase agreement; or a sales contract must be provided for the proposed licensed premise. Documentation must be in the name of the corporation.
 4. Certificate of Compliance. Written verification of zoning, fire, safety, and health code compliance from the city. If there are no zoning, fire, safety or health codes, a statement from the city is needed stating no such codes exist. If proposed premise is outside city limits, verification of code compliance must be provided by the Board of County Commissioners. Cannot be over sixty (60) days old.
 5. Tax statement. Statement or receipt proving payment of ad valorem taxes, including real and personal, on ANY property owned in the state and from the county where the premise to be licensed is located stating no taxes are owed. Receipts or statements must be in the name of the corporation. Cannot be over sixty (60) days old.
- GENERAL & LIMITED PARTNERSHIPS MUST PROVIDE:**
1. Partnership Agreement. Agreement listing all partners and/or limited partners and detailing each partner's ownership interest in the business.
 2. Statement of Financing. Written verification of the amount and source of finances used to start the business. Documentation of source is required. If borrowing funds, you must provide detailed loan information.
 3. Deed or Lease. A copy of a deed; a lease; a purchase agreement; or a sales contract must be provided for the proposed licensed premise. Documentation provided must be in all partner's names in a general partnership or the partnership name of a limited partnership.
 4. Certificate of Compliance. Written verification of zoning, fire, safety, and health code compliance from the city. If there are no zoning, fire, safety or health codes, a statement from the city is needed stating no such codes exist. If proposed premise is outside city limits, verification of code compliance must be provided by the Board of County Commissioners. Cannot be over sixty (60) days old.
 5. Tax statement. Statement or receipt proving payment of ad valorem taxes, including real and personal, on ANY property owned in the state and from the county where the premise to be licensed is located stating no taxes are owed. All partners must have tax statements for themselves. Limited partnerships must have statements for the partnership, the general partner, and all limited partners who own 15% or more interest in the partnership. Cannot be over sixty (60) days old.
- LIMITED LIABILITY COMPANIES MUST PROVIDE:**
1. Certificate of Good Standing. Issued by the Secretary of State. (Must be original. Cannot be over sixty days old.)
 2. Articles of Organization. Filed with the Secretary of State with all amendments and corrections.
 3. Limited Liability Company Operating Agreement.
 4. Issued Certificates of Membership Interest. Copies issued to each member.
 5. Statement of Financing. Written verification of the amount and source of finances used to start the business. Documentation of source is required. If borrowing funds, you must provide detailed loan information.
 6. Deed or Lease. A copy of a deed; a lease; a purchase agreement; or a sales contract must be provided for the proposed licensed premise. Documentation provided must be in the name of the Limited Liability Company.
 7. Certificate of Compliance. Written verification of zoning, fire, safety, and health code compliance from the city. If there are no zoning, fire, safety or health codes, a statement from the city is needed stating no such codes exist. If proposed premise is outside city limits, verification of code compliance must be provided by the Board of County Commissioners. Cannot be over sixty (60) days old.
 8. Tax statement. Statement or receipt proving payment of ad valorem taxes, including real and personal, on ANY property owned in the state and from the county where the premise to be licensed is located stating no taxes are owed. Limited Liability Companies must have statements for the company. Cannot be over sixty (60) days old.

**OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION
SCHEDULE OF LICENSE FEES**

TYPE OF LICENSE	AMOUNT
Add-A-Partner	10% of Amount of Original License Fee
Additional Hours*	\$ 25.00/day
Agent	55.00
Airline	1,005.00 905.00 Renewal
Beer & Wine	500.00 450.00 Renewal
Bonded Warehouse	190.00
Bottle Club**	1,000.00 900.00 Renewal
Brewer***	1,250.00
Carrier	23.00
Caterer	1,005.00 905.00 Renewal
Caterer/Mixed Beverage Combination	1,250.00 Annually
Administrative Fee for Caterer/Mixed Beverage Combo	250.00/250.00 New/Renewal
Change of Corporate Officers****	100.00
Change of Managers or Members****	100.00
Change of Location*****	100.00
Charity Wine Auction	1.00
Class B Wholesaler***	625.00
Distiller	3,125.00
Employee	30.00/2 years
Hotel Beverage	1,005.00 905.00 Renewal
Industrial	23.00
Manufacturers Agent	55.00
Mixed Beverage**	1,005.00/905.00 Renewal
Administrative Fee	500.00/500.00 New/Renewal
Non-Resident Seller	75.00 prorated 7/1 through 6/30
Oklahoma Winemaker	75.00
Oklahoma Brewer	125.00
Railroad	75.00
Rectifier	3,125.00
Retail (Population as recorded in the last Federal Decennial Census)	
A - 200 to 2,500 population	305.00
B - 2,500 to 5,000 population	605.00
C - Over 5,000 population	905.00
Sacramental Wine Supplier	100.00
Special Event	55.00/Annually or Quarterly
Storage	23.00
Wholesaler	3,500.00
Winemaker	625.00

- * Additional Hours License to be issued to Caterers and Special Event Licensees only.
 - ** The license fee for those service organizations or fraternal beneficiary societies which are exempt under Section 501(c) (19), (8), and (10) of the Internal Revenue Code for Mixed Beverage or Bottle Club Licenses shall be \$500.00 per year.
 - *** The fee for a Class B Wholesaler License and a Brewer License shall be reduced by 75% if the applicant therefore is also the holder of a license to manufacture or wholesale any nonintoxicating malt beverages as provided in Title 37, Oklahoma Statutes.
 - **** For Mixed Beverage, Beer and Wine, Bottle Club, and Caterer licenses. Fraternal and Service organizations are exempt from a fee.
 - ***** For Mixed Beverage and Bottle Club licenses only.
- LICENSES ARE RENEWABLE ONE YEAR FROM EFFECTIVE DATE EXCEPT EMPLOYEE LICENSES WHICH WILL BE RENEWABLE TWO YEARS FROM EFFECTIVE DATE.

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION APPLICATION

The filing of this application does not commit the Commission to the granting of the license that you are applying for, nor does it permit you to operate the business named below before the granting of the license. If a license is granted by the Commission you will receive a LICENSE CERTIFICATE.

LICENSEE NAME _____ DOING BUSINESS AS NAME _____

PREMISE LOCATION _____

Check the type of application:

- Add-A-Partner, Airline/Railroad, Beer & Wine, Bonded Warehouse, Bottle Club, Brewer, Carrier, Caterer, Change of Corporate Officers, Change of Managers or Members, Class B Wholesaler, Distiller, Industrial, Mixed Beverage, NonResident Seller, Oklahoma Winemaker, Rectifier, Caterer/Mixed Beverage Combo, Retail Store, Sacramental Wine, Storage, Wholesaler, Winemaker

OATH

State of Oklahoma)
County of _____) ss.

and says: That he is the applicant who makes the above and foregoing application; that he has read and signed the same, knows the contents thereof and that all statements therein contained are true. Applicant(s) certifies that the statements and representations made herein are true and correct and consents that if any statements or representations herein are found to be false or omitted, that the Director may refuse to issue said license or may cause such license to be revoked forthwith at any time. He further agrees that he has filed all appropriate property with the County Assessor and that all ad valorem taxes assessed on his property, both real and personal, and wherever situated in the State of Oklahoma, have been paid.

Signature of Applicant(s)

Subscribed in my presence and sworn to before me this ___ day of ___, 19__.

My commission expires: _____ Notary Public

DO NOT WRITE IN THIS SECTION - CITY/COUNTY USE ONLY

In accordance with Title 37, Section 517, this notice is being mailed to you for recommendations as to whether or not this applicant should be issued a license in your city/county, by the ABLE Commission. You have twenty (20) days to respond. Please complete the following and submit a notarized copy of this page only to: ABLE COMMISSION, 4545 North Lincoln, Suite 270, Oklahoma City, OK 73105.

(Attach additional page, if necessary.)

Grant _____ Deny _____ Reasons for denial _____

Signature of City/County Official

Title

Subscribed and sworn to before me this ___ day of ___, 19__.

My commission expires: _____ Notary Public

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

STATEMENT OF MAIN PURPOSE AFFIDAVIT

I, _____, certify that the main purpose of the business for which a liquor license is being requested is: (State the type of business or sale which will produce the majority of the income, ie. restaurant, bar, retail store, etc. Terms such as "recreation" or "entertainment" are too vague.)

LOCATION AFFIDAVIT
(circle correct responses)

I, _____, certify that the business location for which a license is being requested is/is not within three hundred(300') feet of a church or public school. I further certify that the business location is/is not within the same linear block of a church or public school.

Signature of Applicant (if sole proprietor), all partners, Manager
(if applicant is an LLC) or Corporate Officer (if applicant is corporation).

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

1. Name(s) of Individual Applicant, Partners, Limited Partnership, Corporation, or Limited Liability Company (include social security number or federal employer identification number):

- 1. (Name) (Address) (City, State) (Zip) (SSN/FEI)
2.
3.
4.

2. Is License to be Issued to: Individual Partnership Corporation Limited Liability Company

3. Doing Business Name of Premises:

4. Premises Address: (Number, Street, Rural Route) (City) (County) (State) (Zip)

5. Business Mailing Address: (If different than #4 above) (P.O.Box, No., Street, R.R.) (City) (State) (Zip)

6. Was Premises Previously Licensed by the Commission: Yes No

7. If Yes, to Whom? Type of License:

8. Former Premises Name:

9. The Local Governing Body Where the Premises is Located: (Name of City or County)

10. Authorized Contact Person:

(Address) (Tel.No: Home/Business/Message)

SIGNATURE OF APPLICANT(S) 1. (Individual, Partners, General Partner of a Limited Partnership, Authorized Corporate Officer, 2. Manager of a Limited Liability Company) 3. 4.

DATE

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

CONFIDENTIAL DISCLOSURE

I, _____ (PLEASE PRINT) hereby authorize any person or organization listed in this application to provide information about me to an Agent of the Oklahoma Alcoholic Beverage Laws Enforcement Commission on a confidential basis, including bank and financial records, criminal history records, driving records, tax records and any other information relating to character or fitness for a liquor license.

Authorized Signature of Applicant

Title

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION
INDIVIDUAL HISTORY

ALL BLANKS MUST BE FILLED IN. PLEASE PRINT. IF THE QUESTION DOES NOT APPLY TO YOU, PLACE N/A (NOT APPLICABLE) IN THE SPACE.

1. Name _____
(Last) (First) (Middle)
2. Other Names Used _____
(Maiden) (Other)
3. Address _____
(Number and Street) (City) (State) (zip)
4. SSN _____ Date of Birth _____ Age _____
5. Drivers Lic.No./State _____ Place of Birth _____
(City/State/Country)
6. Height _____ Weight _____ Hair Color _____ Eyes _____
7. Sex _____ Name of Spouse _____
8. Spouses Place of Employment _____
9. Spouse Licensed by the Commission? Yes _____ No _____
10. Home Phone () _____ Business Phone () _____
11. U.S. Citizen Yes _____ No _____ If "No" List Alien Reg. No. _____
12. If a Naturalized Citizen _____
(When and Where)

CRIMINAL RECORD

Note: A criminal records check is made on all license applicants in the normal processing of a license application. The information provided in Questions 1 through 12 below can protect you from an error in the criminal records check.

- 12A. Have you ever been convicted of, pled guilty to, or nolo contendere to a felony? Yes _____ No _____
- 12B. Have you been convicted of any crime, violation, or infraction of any law? (Do not include minor traffic violations for which a fine or bail forfeiture of \$50 or less was imposed.) Yes _____ No _____
- 12C. Are there presently pending against you any criminal charges? (Do not include minor traffic violations for which a fine or bail forfeiture of \$50 or less was imposed.) Yes _____ No _____
- 12D. Have you ever been convicted of a violation of any state or federal law relating to alcoholic beverages, or forfeited any bond while any such charge was pending against you? Yes _____ No _____
- 12E. If you have answered "Yes" to 12A through 12D, list below:

Offense	Date	City/County/State	Disposition (Fine, Probation, Incarceration)

(Attach additional sheet if necessary.)

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

APPLICANT AFFIDAVIT

I, _____, being first duly sworn, upon oath depose and say: that I am the applicant for a liquor license under the Oklahoma Alcoholic Beverage Control Act. I do hereby swear or affirm that I have read and do understand the current laws of the State of Oklahoma and the Rules and Regulations of the Oklahoma Alcoholic Beverage Laws Enforcement Commission, which pertain to the type of license for which I have made application. I further agree that if I am granted the license, I shall continue to familiarize myself with such laws, rules, and regulations, and any amendments and/or additions thereto.

I further agree that if at any time I have employees working for me under my license I will insure that they familiarize themselves with the aforementioned laws, rules and regulations.

I declare that I have not been convicted of a felony.

I declare that I have not been convicted of a violation of any state or federal law relating to alcoholic beverages, nor have I forfeited a bond while any such charge was pending against me.

I declare that I am not a person who appoints or is a law enforcement official, nor am I a peace officer engaging in law enforcement activities.

I declare that I am not related to any member of the ABLE Commission or to the Director or Assistant Director by affinity or consanguinity within the third degree, nor am I an employee of the ABLE Commission or of the Director.

I declare that I am not a judge, district attorney, or public official who sits in a judicial capacity with jurisdiction over the Oklahoma Alcoholic Beverage Control Act.

I declare that I am not an employee of the Oklahoma Tax Commission engaging in auditing, enforcing, or collecting of alcoholic beverage taxes.

I hereby declare that I will not violate any of the laws of the United States, laws of the State of Oklahoma, or the ordinances of any city in which the licensed premises are located in the conduct of the licensed business.

Signature of Applicant _____

State of Oklahoma)
County of _____)

Subscribed and sworn to before me this ____ day of _____, 19__.

My commission expires: _____

Notary Public _____

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

Note: The following questions refer to activity in the liquor industry in Oklahoma or any other State.

- 1. Are you presently or have you been licensed or employed in the liquor business?
 Yes ___ No ___ License Type _____ License Number _____
 When _____ Location _____
- 2. Have you ever received a warning, a notice of violation, suspension, fine, or revocation as a licensee?
 Yes ___ No ___ When _____ Location _____
- 3. Have you ever been refused a license to sell, serve, or dispense alcoholic beverage?
 Yes ___ No ___ When _____ Location _____
- 4. Have you ever held or do you hold any financial interest in any liquor enterprise (manufacturing, importing, wholesale, or retail)?
 Yes ___ No ___ When _____ Location _____
- 5. Do you owe money to any manufacturer or distributor of wine, beer, or distilled spirits on account of cash or credit advanced?
 Yes ___ No ___ To Whom? _____

Name

Address
City
State
Zip
- 6. Is your spouse or any family member(s) working in any area of the liquor industry?
 Yes ___ No ___ For Whom? _____
- 7. Have you ever held, as an Oklahoma resident, any federal liquor stamp prior to the adoption of Article XXVII of the Oklahoma Constitution?
 Yes ___ No ___ When _____
- 8. Are you related to any member of the Oklahoma Alcoholic Beverage Law Enforcement Commission, Director, or Assistant Director by affinity or consanguinity within the third degree?
 Yes ___ No ___ If "Yes" give name and relationship: _____

- 9. Are you a member of any board or commission, or an agent or an employee of the State of Oklahoma or any political subdivision thereof? (County, City, Town, or School District.)
 Yes ___ No ___ If "Yes" explain _____

CAUTION: FALSIFICATION OR INTENTIONAL OMISSIONS OF INFORMATION MAY BE GROUNDS TO DENY OR REVOKE YOUR APPLICATION FOR A LICENSE!

Signature of Applicant _____ Date _____

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

LIST CURRENT AND FORMER EMPLOYERS OR OCCUPATIONS DURING THE PAST TEN YEARS. (ATTACH ADDITIONAL SHEET IF NECESSARY.)

Dates by Month/Year From To Employer or Business Address Occupation City and State

Dates by Month/Year From To Employer or Business Address Occupation City and State

Dates by Month/Year From To Employer or Business Address Occupation City and State

Dates by Month/Year From To Employer or Business Address Occupation City and State

Dates by Month/Year From To Employer or Business Address Occupation City and State

Dates by Month/Year From To Employer or Business Address Occupation City and State

LIST CURRENT AND FORMER RESIDENCES WHERE YOU HAVE LIVED IN THE PAST TEN YEARS TO INCLUDE ADDRESS (STREET, CITY, STATE).

Dates by Month/Year From To Street, City and State

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

TIED-HOUSE DISCLOSURE

A. TO BE ANSWERED IF APPLICATION IS FOR ANY LICENSE OTHER THAN MANUFACTURER OR WHOLESALER.

1. Has the business to be licensed been financed with money or property by any manufacturer of or wholesale dealer in alcoholic beverages?

Yes ___ No ___ If yes, explain _____

2. Do you, individually, or the legal entity to be licensed, have any right, title, lien, claim, or other interest, financial or otherwise, in, upon or to the premises, equipment, business, or merchandise of any manufacturer of or wholesale dealer in alcoholic beverages?

Yes ___ No ___ If yes, explain _____

3. Does your interest result in exercise of control over, or participation in the management of the manufacturer's or wholesaler's business or business decisions?

Yes ___ No ___ If yes, explain _____

I will immediately notify the Oklahoma Alcoholic Beverage Laws Enforcement Commission if a LICENSEE-WHOLESALER connection as described above exists or is contemplated in my business. (This notification extends to corporate officers, directors, and substantial stockholders.)

Signature of Applicant for Retail, Mixed Beverage, Bottle Club, or Caterer Certification Date

B. TO BE ANSWERED IF APPLICATION IS FOR A MANUFACTURER OR WHOLESALER LICENSE.

1. Do you, individually, or the legal entity to be licensed, have the right, title, lien, claim or any other interest, financial or otherwise, in, upon or to the premises, equipment, business, or merchandise of any retailer, mixed beverage, bottle club or caterer of alcoholic beverages?

Yes ___ No ___ If yes, explain _____

I will immediately notify the Oklahoma Alcoholic Beverage Laws Enforcement Commission if a WHOLESALER-LICENSEE connection as described above exists or is contemplated in my business. (This notification extends to corporate officers, directors, and substantial stockholders.)

Signature of Applicant for Wholesale or Manufacturer Certification Date

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION
CORPORATE QUESTIONNAIRE

Licensee _____ Type of License _____
Trade Name _____
Address _____
City _____ Zip _____

Corporate Officers:

Title	Name	SSN	Address
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Board of Directors/Trustees/Executive Committee:

Name	SSN	Address
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Stockholders:

Name	SSN	Address	No. of Shares Held
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Total shares authorized to issue _____ No. of shares issued _____ No. of shares unissued _____

Service Agent (if applicable) _____

Address _____

Date _____

Signature of Corporate Officer _____

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION
LIMITED LIABILITY COMPANY QUESTIONNAIRE

Licensee _____ Type of License _____
Trade Name _____
Address _____
City _____ Zip _____

Limited Liability Company Managers:

Title	Name	SSN	Address
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Limited Liability Company Members:

Name	SSN	Address
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Resident Agent Name _____

Address _____

_____ Date

_____ Signature of Manager

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

Draw a diagram of the licensed premises. The diagram should include the following: outside dimensions, rooms, doorways, bars, and liquor storage areas.

_____ Date

_____ Signature of Applicant/Licensee

_____ Signature of Applicant/Licensee

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION
FINANCIAL STATEMENT

NAME _____ DOING BUSINESS NAME _____
(Individual, Partner, Limited Partnership,
Corporation, Limited Liability Company)

ASSETS		AMOUNT	LIABILITIES		AMOUNT
CHECKING AT			TAXES DUE		
Financial Institution			SCHEDULE D		
Name			OTHER		
Address					
Account Signer(s) Name					
Account #					
Financial Institution					
Name					
Address					
Account Signer(s) Name					
Account #					
Financial Institution					
Name					
Address					
Account Signer(s) Name					
Account #					
Financial Institution					
Name					
Address					
Account Signer(s) Name					
Account #					
SAVINGS AT					
Financial Institution					
Name					
Address					
Account #					
Financial Institution					
Name					
Address					
Account #					
EARNEST MONEY					
LEASE DEPOSIT					
OTHER					
CASH VALUE OF:					
Schedule A					
Schedule B					
Inventory					
Fixtures/Equipment					
Vehicles					
Schedule C					
Life Insurance					
Other					
TOTAL ASSETS			TOTAL LIABILITIES		
			NET WORTH		
			TOTAL LIABILITIES		
			& NET WORTH		

- Last year's total income: \$ _____ Source: _____
- Have you any assets or liabilities not listed on this financial statement?
Yes ___ No ___ If yes, explain why not included _____
- Are you a co-signer of any notes or contracts? Yes ___ No ___ If yes, explain _____
- Have you any judgments, suits, liens, or tax warrants filed against you?
Yes ___ No ___ If yes, explain _____
- Have you ever filed a petition of bankruptcy or been adjudged bankrupt? Yes ___ No ___
If yes, explain _____

Applicant Signature _____ Date _____

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

NOTICE OF INTENTION TO APPLY FOR AN ALCOHOLIC BEVERAGE LICENSE

In accordance with Title 37, Section 522, _____

(name & address of individual, partners, limited partnership, corporation, or limited liability company)

an/a _____ (individual, partnership, limited partnership, corporation, limited liability company)

hereby publishes notice of _____ intention to apply within sixty days from this date to the Oklahoma Alcoholic Beverage Laws Enforcement Commission for a _____

(Beer & Wine, Brewer, Distiller, Rectifier, Winemaker, Wholesaler, Class B, Retail Store, Mixed Beverage, Bottle Club, Caterer, or Caterer/Mixed Beverage Combination)

License under authority of and in compliance with the said Act: That _____ intend(s), if granted such license to operate as a (he, she, it, or they)

_____ establishment with business premises located at (Beer & Wine, Brewer, Distiller, Rectifier, Winemaker, Wholesaler, Class B, Retail Store, Mixed Beverage, Bottle Club, Caterer, or Caterer/Mixed Beverage Combination)

(full street address or legal description)

in _____, _____, Oklahoma, under the business (City) (County)

name of _____ (doing business name)

Dated this _____ day of _____, 19_____.

Signature of applicant(s): If partnership, all partners must sign. If corporation an officer of the corporation must sign. If limited liability company a manager must sign.

County of _____, State of Oklahoma.

Before me, the undersigned notary public, personally appeared;

_____ to me known to be the person(s) described in and who executed the foregoing application and acknowledged that _____ executed the same as _____ free act and deed. (his/her/their) (he/she/they)

(Notary Public)

(My commission expires)

Instructions:

- 1. Complete in detail.
2. Copy to Newspaper for publication.
3. Said notice shall be published in not less than two column inches in a legal newspaper of general circulation in the county in which licensed premises are to be located.
4. The notice will be twice published, once every eight (8) days for (2) successive weeks.
5. Submit original with application.

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

PROOF OF PUBLICATION

I do hereby declare, under penalty of perjury, that _____
(name of legal newspaper)
did cause to be published in a legal newspaper of general circulation in
the county of _____ located in the City of _____,
Oklahoma, by causing the same to be published on the ____ day of _____,
19____, and on the ____ day of _____, 19____, a Notice of Intention
to apply for an Alcoholic Beverage License, and that a true copy of said
notice is attached and made a part hereof.

Dated this ____ day of _____, 19____.

(legal representative of the newspaper)

Subscribed and sworn to before me this ____ day of _____, 19____.

My Commission Expires

Notary Public

Instructions:

1. Attach a true copy of each run of the publication.
2. Submit original completed Proof of Publication with application.
3. You may submit the publisher's affidavit form in place of the above affidavit.

CASH FLOW FOR YEAR 3 (EXCLUDING CASH CARRYOVER FROM YEAR 2)

	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Carry Over		\$83,287	\$93,453	\$74,150	\$80,692	\$93,485	\$100,498	\$99,985	\$106,998	\$114,011	\$120,553	\$133,345
CASH IN												
Wine Sales	\$21,804	\$21,804	\$21,804	\$21,804	\$21,804	\$21,804	\$21,804	\$21,804	\$21,804	\$21,804	\$21,804	\$21,804
Merchandise Sales	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225	\$2,225
Sample Sales	\$442	\$442	\$442	\$442	\$442	\$442	\$442	\$442	\$442	\$442	\$442	\$442
TOTAL SALES	\$24,470	\$24,470	\$24,470	\$24,470	\$24,470	\$24,470	\$24,470	\$24,470	\$24,470	\$24,470	\$24,470	\$24,470
WORKING CAP. LOAN	\$76,746	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL CASH	\$101,216	\$107,758	\$117,923	\$98,621	\$105,162	\$117,955	\$124,968	\$124,455	\$131,468	\$138,481	\$145,023	\$157,816
CASH OUT												
LABOR												
Labor - Permanent	\$4,684	\$4,684	\$4,684	\$4,684	\$4,684	\$4,684	\$4,684	\$4,684	\$4,684	\$4,684	\$4,684	\$4,684
Labor - Seasonal	\$0	\$2,628	\$2,628	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
WINE/MERCHANDISE												
Grape	\$0	\$0	\$29,467	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Variable Cost per Bottle	\$0	\$0	\$0	\$0	\$0	\$5,780	\$5,780	\$5,780	\$5,780	\$0	\$0	\$0
Merchandise	\$1,112	\$1,112	\$1,112	\$1,112	\$1,112	\$1,112	\$1,112	\$1,112	\$1,112	\$1,112	\$1,112	\$1,112
OTHER PRODUCTION COSTS												
Mainteneance	\$582	\$582	\$582	\$582	\$582	\$582	\$582	\$582	\$582	\$582	\$582	\$582
Utilities	\$1,352	\$1,352	\$1,352	\$1,352	\$1,352	\$1,352	\$1,352	\$1,352	\$1,352	\$1,352	\$1,352	\$1,352
Insurance	\$388	\$388	\$388	\$388	\$388	\$388	\$388	\$388	\$388	\$388	\$388	\$388
PP&E LOAN PAYMENT	\$1,428	\$1,428	\$1,428	\$1,428	\$1,428	\$1,428	\$1,428	\$1,428	\$1,428	\$1,428	\$1,428	\$1,428
WORKING CAP. INT.	\$384	\$384	\$384	\$384	\$384	\$384	\$384	\$384	\$384	\$384	\$384	\$384
WORKING CAP. REPAY	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$76,746
SUPPLIES/MARKETING	\$532	\$532	\$532	\$532	\$532	\$532	\$532	\$532	\$532	\$532	\$532	\$532
PERMITS/LICENSES	\$0	\$0	\$0	\$0	\$0	\$0	\$1,275	\$0	\$0	\$0	\$0	\$0
MISCELLANEOUS	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43	\$43
TAXES												
Property Taxes	\$1,173	\$1,173	\$1,173	\$1,173	\$1,173	\$1,173	\$1,173	\$1,173	\$1,173	\$1,173	\$1,173	\$1,173
Income Tax	\$6,252	\$0	\$0	\$6,252	\$0	\$0	\$6,252	\$0	\$0	\$6,252	\$0	\$0
TOTAL CASH OUT	\$17,929	\$14,305	\$43,773	\$17,929	\$11,677	\$17,457	\$24,984	\$17,457	\$17,457	\$17,929	\$11,677	\$88,423
CASH FLOW	\$83,287	\$93,453	\$74,150	\$80,692	\$93,485	\$100,498	\$99,985	\$106,998	\$114,011	\$120,553	\$133,345	\$69,392

VITA

Amanda Ruth Hill

Candidate for the Degree of

Master of Science

Thesis: THE ECONOMIC FEASIBILITY OF SMALL OKLAHOMA WINERIES

Major Field: Agriculture Economics

Biographical:

Education: Attended Wilburton Public High School and graduated in May, 1996. Graduated with a Bachelor of Science in Agricultural Economics from Oklahoma State University in July, 2000. Completed the requirements for the Master of Science in Agricultural Economics at Oklahoma State University, Stillwater, Oklahoma in May, 2010.

Experience: Worked on Capitol Hill as a legislative aide to Congressman Wes Watkins from 2000-20002. Was appointed to the Bush Administration in July 2002. Later served as a legislative aide first to Oklahoma Senator James Inhofe and the Environment and Public Works Committee and then later to Senator Susan Collins of Maine. Currently works for the Capitol Hill Consulting Group in Washington, D.C.

Name: Amanda Ruth Hill

Date of Degree: May, 2010

Institution: Oklahoma State University

Location: Stillwater, Oklahoma

Title of Study: THE ECONOMIC FEASIBILITY OF SMALL OKLAHOMA
WINERIES

Pages in Study: 76

Candidate for the Degree of Master of Science

Major Field: Agriculture Economics

Scope and Method of Study: The scope of the study is limited to an economic assessment of a “typical” small winery in Oklahoma, including an assessment of state and federal regulatory requirements for operating a winery. An economic model in the form of a Microsoft Excel spreadsheet was developed based on review of current literature resources and a review of Oklahoma wineries in operation between 2000 and 2004.

Findings and Conclusions: Given adequate business planning, a small winery is economically feasible in Oklahoma, assuming a winery operator is able to sell the majority of their wine production in a given year.

ADVISER'S APPROVAL: Rodney B. Holcomb
