

# Roll out the (wine) barrel

*Winemaking is an emerging niche market in the district*

PHOTOGRAPHY BY MARC NORBERG



By PHIL DAVIES  
Senior Writer

The newest winery in South Dakota is named after a dog. Dave and Sue Greenlee launched Tucker's Walk Vineyard and Winery this summer, securing a farm winery license from the state and installing winemaking equipment on their property near Sioux Falls. The couple plans to produce 100 cases (about 250 gallons) of wine from their own grapes this year for sale at their winery—currently the garage and basement of their home. Within three years, the Greenlees hope to make 10 times that amount of wine and expand sales to local liquor stores and supermarkets.

Dave Greenlee figures the venture—which began as a hobby growing grapes in the backyard—has cost about \$100,000 to date. For now, the Greenlees plan on keeping their day jobs with the U.S. Geological Survey. But if those first 100 cases find buyers, Dave, 60, envisions quitting to run the winery full time. “We’re both sucked into it so far there’s no turning back,” he said.

The Greenlees represent growth in an emerging niche market for local food products: farm wineries, mostly small,

family-owned enterprises that produce wine for sale on the premises and through local retailers. Over the past 15 years, the number of wineries in the Ninth District has increased from about a dozen to more than 70. Wineries exist in every district state and the Upper Peninsula of Michigan, making wines from whatever agricultural produce comes to hand—grapes, apples, plums, cranberries, honey, even rhubarb.

District wine production has surged as well—although the amount is still a drop in the barrel compared with the output of major wine regions such as Northern California and the Pacific Northwest.

Much of this growth stems from a horticultural innovation: the development of cold-hardy grape varieties that have made grape growing in the region a viable—if still precarious—economic activity. New grape varieties bred by university and private nurseries have allowed wineries to satisfy consumer demand for local wines. Government support in the form of legislation that gives small wineries considerable leeway in producing and selling their wares has also fostered winery growth.

Like many other businesses, district

wineries saw reduced traffic and sales during the recession, and a few have closed. Some are now seeing a bounce as the regional economy recovers and consumers spend more freely in the tasting room.

But long-term prospects for this tiny industry are uncertain. Despite the advent of cold-hardy grapes, it’s still difficult to make wines in the region that can compete with offerings from well-established wine areas in the United States and overseas. Startup wineries may find that the market can support only so many businesses trading on the novelty and distinctive taste of local wines.

## Let’s start a winery

Opening a winery is an expensive undertaking, requiring sizable capital outlays and heavy infusions of sweat equity. Equipment alone for a small winery—fruit crushers, fermentation tanks, bottling machinery—can cost \$100,000, said Brad Nilles, owner of Seven Hawks Vineyards, a 3-year-old winery in Fountain City, Wis.

“A lot of people romantically think, ‘I just inherited \$5,000 from my grandmother; let’s start a winery,’” Nilles said.

“It requires a lot of work and a significant investment.” Because of high upfront costs and the challenges of marketing a new product, a startup winery typically takes four to seven years to turn a profit.

These realities haven’t deterred dozens of juice-stained entrepreneurs like Nilles and the Greenlees. Most of the winery growth in the district has occurred since the mid 1990s. In Minnesota, the number of licensed wineries open to the public has grown from seven in 1995 to 25 today, according to figures compiled by WineAmerica, a national wineries association. Fifteen years ago, there were no wineries in North Dakota and South Dakota, and just one in Montana; today those states are home to a total of 31 wineries. The U.P. has five wineries, all founded within the past five years.

As the number of wineries has increased, so has wine output; federal government data show that the combined wine production of four district states tripled between 2000 and 2009 (see Chart 1, page 10). Wisconsin has long been the district leader in wine production (14 wineries lie within the district portion of the state, about a

Continued on page 10

*A lot of people romantically think, 'I just inherited \$5,000 from my grandmother; let's start a winery.' It requires a lot of work and a significant investment.*

Brad Nilles  
Seven Hawks Vineyards



Swamp, Minnesota, somewhere, 150 miles from a population center or anything else to do, it would be far more difficult."

Farm winery laws also permit wineries to sell small amounts of wine over the phone and via the Internet, and in every district state except North Dakota distribute directly to retail outlets in their home state (rather than going through a wholesaler, as other manufacturers of alcoholic beverages are required to do).

Intent on helping fledgling industries tied to both agriculture (increased demand for local produce) and tourism, some district states have relaxed regulation of wineries. In 2007, the Minnesota Legislature amended the state's long-standing farm winery law to allow wineries to operate a restaurant on the premises. In 2008, South Dakota lawmakers raised the annual production ceiling for wineries from 50,000 gallons to 150,000 gallons.

## Grapes with a winter coat

For all the consumer appeal of local wineries, and the regulatory forbearance they've enjoyed, the industry would not have grown as rapidly as it has without the invention of grape vines that don't curl up and die from the winter cold.

Until the late 1990s, prospective vintners struggled to grow their own grapes. Marketable wines can be made from other fermentable produce, including apples, raspberries, honey and rhubarb. Several district wineries, including Prairie Berry and Scenic Valley Winery in Lanesboro, Minn., make the bulk of

their wine from such ingredients. But grapes have been the fruit of choice for winemakers for centuries, and most people prefer the taste of grape wine.

Pioneering winemakers found that traditional European grape varieties and early French-American hybrids could not survive the region's severe winters without extraordinary intervention—taking vines off the trellis and burying them. Some wineries resorted to trucking in grapes from warmer climes such as California, Washington state or western Michigan.

New hybrids developed by university and private grape breeders over the past 15 years "have really cut down on the amount of cost and labor involved in producing good-quality grapes," said William Gartner, a professor of applied economics at the University of Minnesota who has done research on regional wineries.

Grapes bred at the University of Minnesota, such as Frontenac, La Crescent and Marquette—crosses of European grape varieties with native, wild grapes—can survive temperatures as low as -35 F, ripen early in the region's short summers and, by many accounts, make palatable wines.

Most district wineries founded in the past five years are primarily grape wineries using the new grape types. Dave Greenlee of Tucker's Walk said that the availability of the new grapes was the impetus for starting the winery. "All of these cold-hardy grapes that have just really started to take off in the last 10 or 12 years have gotten a lot of people excited," he said.

The Greenlees have about six acres of cold-hardy vines on their property—part of an upsurge in district grape production by wineries and independent growers over the past decade. The amount of grapes grown in the district still is tiny compared with big wine producing areas with tens of thousands of acres of grapes. But between 2002 and 2007, grape acreage in the region more than doubled, according to the U.S. Census of Agriculture. Every district state reported increases in grape acres during that period (see Chart 2). Minnesota saw a threefold increase in grape acreage.

The new varieties have even allowed a few vineyards to take root in North Dakota, Montana and the U.P., although grape growing there remains a risky proposition—winters can be too frigid (or summers too cool) even for the new hybrids.

The overall growth of vineyards in the district has boosted business for

## Wine from page 9

third of the total). In Minnesota, the next biggest producer, wine output almost quadrupled to over 114,000 gallons during the decade. However, the district's wine output is minuscule compared with that of the nation, dominated by big wine states such as California, Washington and New York. Last year, the entire wine output of district states amounted to less than one-tenth of 1 percent of U.S. production.

Most district wineries are small operations that make a few thousand cases of wine annually, although some established wineries have expanded their output over time to become relatively large producers. Prairie Berry Winery, a 12-year-old operation in the Black Hills of South Dakota that makes wine from grapes and other fruits, produced 60,000 gallons last year, making it the state's largest winery. That's bigger than most wineries across the country; in 2007, according to WineAmerica, 63 percent of U.S. wineries made less than 25,000 gallons of wine annually.

## The lure of local

Wineries are a form of agritourism—rural attractions that exploit rising consumer interest in locally produced foods—the same movement that has fueled the growth of community sup-

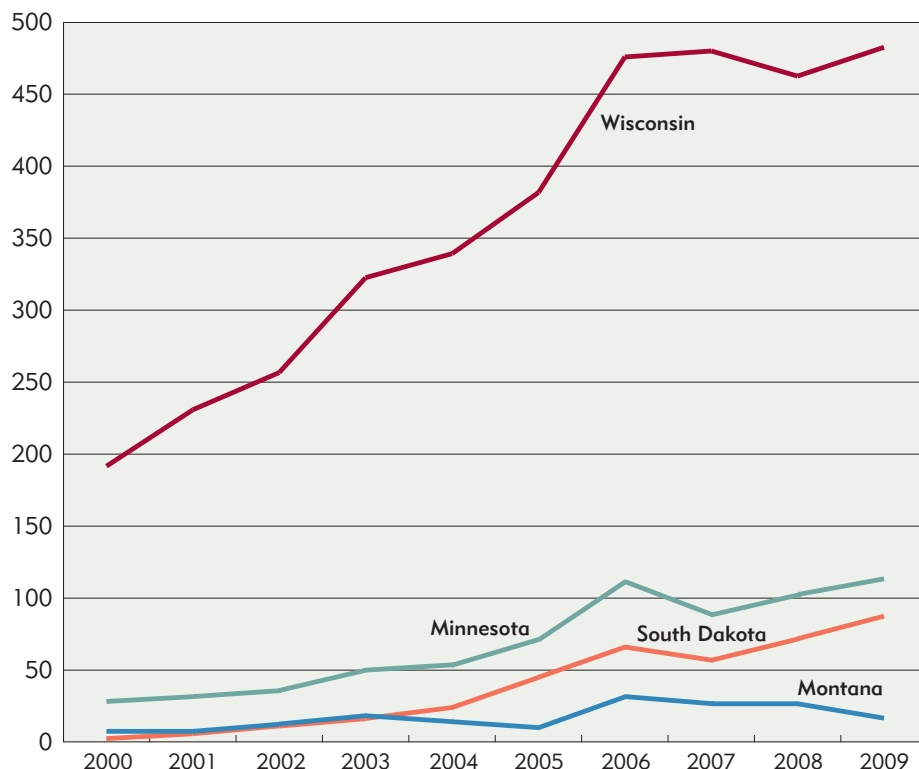
ported agriculture, farmers markets and organic foods. Local wineries also tap into the romance of winemaking, a certain *je ne sais quoi* that sets wine apart from other agricultural products like corn or wheat. One South Dakota winery bills itself as "a little bit of Europe in the Black Hills."

Typically, district wineries garner 60 percent to 80 percent of their revenue in the tasting room, selling wine onsite to visitors rather than through liquor stores, supermarkets or other retail outlets. All district states allow wineries to sell wine and other beverages on the premises, up to an annual limit, which increases the return on each bottle sold because there's no middle party—the wholesaler or the retailer. "As long as I can retail it out of my own door, we're going to do that, because there's certainly a better profit margin there," said Ray Winter, co-founder of Indian Island Winery near Janesville, Minn.

Attracting visitors to the tasting room is crucial; many wineries set up shop in well-trafficked areas frequented by day trippers and tourists. Carlos Creek Winery in Alexandria, Minn., capitalizes on its location in a popular lake resort area.

"Alexandria is a pleasant place to see a winery," said Tami Bredeson, who owns Carlos Creek along with her husband, Kim. "If we were located in Cedar

CHART 1 District wine production has increased ...  
Bulk wine; 1,000 gallons\*



\*Data for North Dakota and the U.P. of Michigan are unavailable.

Source: U.S. Department of the Treasury, Alcohol and Tobacco Tax and Trade Bureau

Plantra Inc., a Twin Cities firm that sells growing tubes for young vines and protective bird netting. Five years ago, all of Plantra's sales were on the West Coast, said CEO Joseph Lais; today new and expanding vineyards in the Upper Midwest account for 20 percent of the firm's \$3 million in annual revenue.

### A glass half full

Like many retail businesses, district wineries are trying to recover from the recession, which put a cork in visitor traffic, tasting room sales and average purchases at many wineries.

Montana wineries seem to have been hit hardest by the economic downturn. While wine production rose in other district states from 2008 to 2009, it fell 38 percent in Montana. At Mission Mountain Winery on Flathead Lake, the state's oldest and largest winery, the recession "took a big bite" out of sales, said owner Tom Campbell Jr. Fewer tourists heading to Glacier National Park and other attractions contributed to an 8 percent drop in sales in 2008 compared with the previous year.

Two years ago, the state had nine farm wineries; since then one has closed, and two others are on the verge of closing. Lake Missoula Cellars in Missoula went out of business in the spring of 2009, a victim of consumer shock in the wake of the financial crisis the previous fall. "With the change in the economy, our walk-in traffic dropped from 500 people a day to 35 people a day, and never came back," said former owner Doug Wagner.

Despite the struggles of some wineries, most operations in the district appear to have survived the recession; indeed, some have thrived. Prairie Berry benefited from a resilient South Dakota economy and the enduring popularity of the Black Hills as a tourist destination; the winery's sales grew more slowly, but didn't fall during the downturn. In 2009, revenues grew 15 percent, said Matt Keck, who owns the winery with his wife, Sandi Vojta.

"We're still on a pretty steep growth curve," he said. "The recession, as far as sales go, hasn't really affected us."

The winery's biggest problem during the downturn was borrowing money to expand production. Last fall, the winery spent \$1.5 million on new facilities and equipment that increased its annual wine capacity to 100,000 gallons. But Keck said that the winery would have doubled its expansion if it had been able to secure additional financing from its long-time lender.

Prairie Berry was on track to increase sales 20 percent this year—roughly the pace of annual growth before the recession. Keck and Vojta were planning to hire five additional employees, includ-

ing a full-time personnel manager.

Business was also on the rebound at Carlos Creek; Bredeson said that sales have increased by over 10 percent each month since the summer of 2009.

### Too many wineries?

The upward trajectory of district wineries over the past decade and a half raises the question of how many wineries the market can support. At what point will the public have its fill of indigenous wines and rustic charm?

In Minnesota, Gartner of the University of Minnesota sees plenty of opportunity for further winery growth, given that less than 1 percent of the wine purchased in the state is home-grown. "Their market share is relatively insignificant, and I don't think we're anywhere near reaching [saturation] point," he said. "We're at the beginning of the growth stage ... and haven't come close to our peak."

That may also be true in areas that are either close to a large metro area (western Wisconsin, for example) or frequented by tourists, like the Black Hills or western Montana. In such areas, new wineries create "buzz" about local wines, generating more visitor traffic for existing operations. Marketing efforts such as the Great River Road Wine Trail, an online guide to 10 wineries along the Mississippi River south of the Twin Cities, try to leverage this network effect.

New market entrants may find the going tougher in areas with sparse population or relatively low average household income, like the U.P. "I think the market will dictate that," said Dave Anthony, a grape grower in the Escanaba area who sits on the Michigan Grape & Wine Industry Council, a state-sponsored promotional organization. "If people are not staying in business or



finding it very difficult, then the marketplace is telling them that there's saturation."

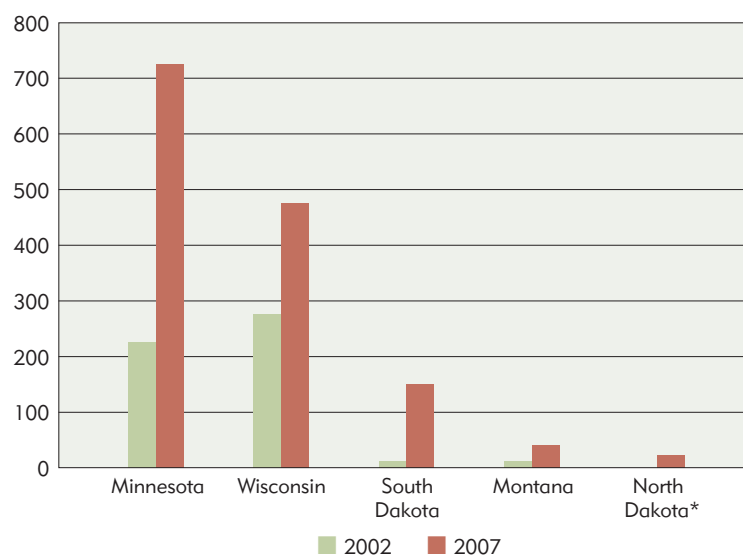
The biggest challenge to large-scale winemaking in the district will continue to be the climate. Prairie Berry's success

and the founding of several other fruit wineries in the district in recent years show that there's demand for wines made from something other than grapes. But whether the industry continues to grow over the long term depends to a large degree on ongoing efforts to breed grapes that can withstand the coldest weather while producing high-quality wines.

A common criticism of regional wines is that they just don't taste as good as those produced from traditional grape varieties such as Chardonnay, Merlot and Riesling. The allure of a local product goes only so far; if vintners cannot consistently produce pleasing wines, consumers will buy wines from California and other mainstream wine areas instead—and the growth of district wineries is likely to falter.

Nilles of Seven Hawks is optimistic, noting that the region's wine industry is young and that grape breeders and winemakers still have much to learn: "There are going to be better [grape] varieties coming along all the time, and people are going to experiment with them, and the wines will get better and better." **f**

CHART 2 ... Along with district grape production  
District grape acres



\*2002 data for North Dakota were withheld to avoid disclosing data for individual growers.

Source: USDA, 2007 and 2002 Census of Agriculture