CASE: SM-266
DATE: 10/12/16

KINGSTON FAMILY VINEYARDS

Nearly 20 years ago our family planted grapevines in the far hills of Chile's Casablanca Valley. Our goal was to try to ensure that "the Farm" remain a valuable agricultural asset for generations to come. Today Kingston Family Vineyards is a successful international operation that produces and markets high-quality wines and grapes. We consider our Chilean-American family and our land to be our biggest assets. Today we find ourselves at a crossroads, one that feels as significant as that of my great-grandfather when he arrived in Chile almost a century ago.

—Courtney Kingston, Founder, Kingston Family Vineyards[1]

In 1998, Courtney Kingston persuaded her family to expand their ranch in Chile from dairy and cattle into wine. By March 2016, Kingston Family Vineyards had a strong international brand for its small-production wines and successfully sold the remaining top-tier grapes to other Chilean winemakers. But they faced key choices regarding focus and growth. As Courtney packed her bags for Chile to attend the annual meeting of the family business, she considered three diverging paths.

One option was to increase production of their highly rated, handcrafted wines, which had established the vineyard's reputation for quality, pursuing sufficient scale to turn a profit on the winery. Alternatively, the Kingstons could refocus on the vineyard, as they had originally planned, playing to their strengths in farming expertise and leveraging their primary asset – the land. A third possibility was to Invest in Chile's burgeoning tourism market, and open a

[1] Interview with Courtney Kingston, Kingston Family Vineyards, May 17, 2016. Subsequent quotations are from the author's interviews unless otherwise indicated.

Kaitlin Malloy and Professor Alyssa Rapp prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective management.

boutique hotel in Casablanca's wine country. Courtney wondered how best to preserve the family's land for the next generation while contributing to the greater Casablanca Valley community.

HISTORY OF THE KINGSTON FAMILY BUSINESS

Carl John Kingston moved to Chile in 1906 from the Upper Peninsula of Michigan in pursuit of copper and gold. In 1918 he arrived in the Casablanca Valley, 50 miles northwest of Santiago, with his wife Caroline and settled on a remote ranch that would become known to the family as "the Farm" (see **Exhibit 1**). C.J. and Caroline's eldest son, John C. Kingston, returned to the United States as a young man to attend Harvard University, and upon graduation in 1935 returned to the Farm with his new wife, Janet. John and Janet raised five children in Casablanca. For three generations, the Kingston family focused primarily on the cattle and dairy businesses, becoming a major Chilean producer of high-quality milk and beef.

Michael Kingston, John and Janet's third child, left Chile to attend Princeton University, where he met and married his wife, Louise. They settled near Princeton, New Jersey, and raised their three children: Tim, David, and Courtney (see **Exhibit 2**). The third generation of Kingstons traveled during school vacations back to the Farm to be with family and maintained a strong connection to Chile and the Casablanca Valley.

Courtney Kingston attended Princeton University and worked as a consultant at Deloitte in San Francisco before getting her MBA at the Stanford Graduate School of Business in 1997. While at Stanford, Courtney evaluated alternatives to diversify and secure a more solid footing for the Farm beyond the increasingly unattractive economics of the commodity dairy business.

A Plan to Diversify: Wine

Throughout the 1990s the price of raw milk in Chile declined steadily, putting pressure on the Farm's operating margins (see **Exhibit 3**). They sold cattle for beef to cover short-term cash flow needs and developed additional revenue streams, including equipment rentals and forestry services for nearby farms. By the mid-1990s, the family was beginning to consider options for greater diversification that would leverage their land and farming expertise.

At Deloitte, Courtney worked in the firm's wine industry practice, and began to learn the ins and outs of the California wine business. The Chilean wine industry was then experiencing strong growth, and Kingston neighbors in the Casablanca Valley had recently planted Sauvignon Blanc and Chardonnay vines on the valley floor.

Larger U.S.-based wineries like Seagram, Beringer, Robert Mondavi, and Kendall Jackson were expanding into Chile to meet growing global demand for their wine and to take advantage of the lower costs of land and labor abroad. Smaller, entrepreneurial "flying winemakers" explored smaller production ventures working two harvests a year in the northern and southern hemispheres, but the challenging nature of starting a business in a developing economy sent many American and European entrepreneurs back home. The Kingston Farm's roots and connections in Chile and California put them in a strong position to grow grapes in Chile and market premium wines in the United States. It was clear to Courtney that they were in the best position to enter the market as an independent vineyard. "We knew the old adage 'You make a small fortune in wine by starting with a large one' quite well," she explained. "Our family had neither. Our background was in farming, not winemaking or sales and distribution. We decided to stick to what we knew best."

While most vineyards in Casablanca were planting warm climate white grapes in the flats of the valley, the Kingston property covered more mountainous areas on the western edge. Due to the terrain and interest in pursuing higher-quality, more unusual grapes than what Chile was typically know for, the Kingston family, with encouragement from consulting winemakers from California, decided to plant Pinot Noir and Syrah grapes. This was a bold choice given the association of Chile with the highly commoditized grapes used in the large-production, entry-level wines commonly exported to the U.S. market. However, the Kingstons were interested in a niche play that might protect them from the volatility of the commodity markets.

> We were particularly interested in high-end grape growing, having dealt with the vagaries of commodity pricing for dairy and beef for the past two generations. We wanted to find a business that was stable and sustainable, and if we got it right, it could be something that could differentiate us and insulate us a bit from the inevitable booms and busts of Chile's commodity export economy.

At Stanford, Courtney wrote a business plan to develop the vineyard and began working with her father Michael and her older brother, Tim, to get the rest of the family on board. Extended family buy-in for the new venture was critical. Not only did they know the local agriculture market well, but they also gave the Kingstons their firm footing operationally in Chile. Some family was initially skeptical of the economics of independent vineyards due to large, vertically integrated wineries' domination of the Chilean market. At the time, vineyard owners had no leverage and wineries were the market makers. But based on Courtney's projections, the venture was attractive enough to explore seriously (see **Exhibit 4**).

In the late 1990s, Chile was best known for producing large-production wines at low prices. The large players in the Chilean wine industry also created premium brands like Concha y Toro's Don Melchor and Almaviva. Several large California-based wineries were also exploring opportunities to expand into Chile. Courtney initially explored a joint venture with a California winery to produce quality grapes for the label's first expansion to Chile. The Kingstons negotiated a long-term partnership in which the California producer would provide the capital to establish the vineyard as well as expertise in vineyard management. The Kingstons would contribute the land and on-the-ground management. They planned to sell their grapes exclusively to their partner and ownership would be split 50/50. In final negotiations, the California winery pushed for a majority stake, and the Kingstons walked away rather than cede control of the Farm to outsiders.

After that joint venture fell through, the Kingstons regrouped and decided to develop a vineyard independently, to maintain control of the land and to target local Chilean wineries as their customers. In 1997, the family decided to invest in establishing the 120-hectare vineyard over five years. The family's goal was to grow high-quality grapes and sell them to local wine producers like Concha y Toro and San Pedro as inputs to their premium wines, Courtney recalled.

THE CHILEAN WINE INDUSTRY

History of Wine in Chile

Chile's wine industry dated back to the 1500s, when the first Spanish settlers in the region brought vines from Europe. These settlers established early vineyards with cuttings from France and other parts of Europe, brought to Chile before the European phylloxera epidemic in the late 1800s.[2] It was not until the 1990s, after the country had stabilized politically and undergone a period of economic reforms that the wine industry began to grow, modernize, and compete on a global stage.[3] From 1992 to 2014 total production grew from 40 million cases to 140 million cases and the share of exports increased from 20 percent to 80 percent, definitively establishing the strong export focus of the Chilean wine industry (see **Exhibit 5**).

During this time of global expansion, Chile developed a clear reputation with consumers in the United States and Europe for consistent, low-priced wines, particularly Cabernet Sauvignon and Sauvignon Blanc. The price per case for exported wines highlighted this trend. While in the 1990s and 2000s volume grew enormously, the price per case stayed quite low. In 2014 the average price per exported case was $20.76, which would imply a price per bottle in the United States of roughly $5 to $6 in retail stores. In 2016, while high-end Chilean wines of excellent quality definitely existed, premium Chilean wines struggled to overcome the brand and customer perception abroad that wines from Chile were affordable and drinkable, but unsophisticated.

Chile exported its wines to more than 150 countries, but the U.S. was the largest destination and accounted for 18 percent of Chile's wine exports by volume and 14 percent by value in 2014 (see **Exhibit 6**).[4] Other important export destinations for Chile's wines are the U.K., China, Japan, Germany and Canada. In the United States, Chilean wines represent 6.8 percent of the total value of wine imports after Italy, France, New Zealand, and Australia (see **Exhibit 7**). The focus on exports was so prevalent that most Chilean wines were bottled as "shiners," the shiny bottles without labels, so that wineries could apply country-specific labels just prior to export.

Chilean wine industry major players

The Chilean wine industry was highly concentrated, with the top three players accounting for over 80 percent of production in 2009 (see **Exhibit 8**). Concha y Toro, the largest wine producer in Chile and all of Latin America, was established in 1883 and had grown to $957 million in sales and over 30 million cases in 2013, with a presence in 145 countries worldwide. Concha y Toro produced wines across a broad spectrum of prices—from its premium wines like Don Melchor and Almaviva to cheap bulk wines.[5] Santa Rita, Chile's second-largest producer, was

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[2] Asimov, Eric, "From Chile, History in a Bottle," *The New York Times*, October 17, 2007. http://www.nytimes.com/2007/10/17/dining/reviews/17wine.html?_r=0 (October 1, 2016).

[3] Zunino, Hugo Marcelo, "Global economy case study: How does wine reach the global market - Chile," AAG Center for Global Geography Education.

[4] "Chile Wine Annual: Chilean Wine Production 2015," Global Agricultural Information Network, March 4, 2015. http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Santiago_Chile_3-4-2015.pdf (October 1, 2016).

[5] http://www.conchaytoro.com/concha-y-toro-holding/investors-corporate-profile/ (October 1, 2016).

owned by Grupo Claro, one of Chile's major conglomerates.[6] The third-largest player in Chile's wine industry was Compania Cervercerias Unidas (CCU), a large beverage company that included a variety of wineries, breweries, soft drink brands, and other beverage companies. Through its 65 percent ownership stake in VSPT Group, a major wine group, CCU controlled the third-largest wine producer in Chile as well as the second-largest wine exporter. Major Chilean wineries owned by CCU include San Pedro, Tarapaca, Leyda, and Santa Helena.[7] CCU was a publicly traded company but the majority of shares were owned by the Luksic family and Heineken.[8]

Escaping Chile's Reputation for Low-end Wine

Since the 1990s, Chile had developed a global reputation for "commercial value wines" that were predictable and drinkable. In the United States, this reputation came partly from the limited exposure of U.S. consumers, who generally encountered the wines from a few large producers. Critics of Chilean wine classified the wine industry as being "too industrial and fixated on volume," producing wines that "had quality but lacked character," according to one of Chile's top wine writers, Patricio Tapa.[9]

Over the past decade, however, a small group of independent winemakers, including Kingston Family Vineyards, had sought to change that image by producing small-lot wines that were sophisticated, complex, and able to stand up to great wines from all over the world. (Movimiento de Viñateros Independientes, or MoVI, a trade organization that promotes Chilean independent winemakers, had become a voice for the growing number of small Chilean wineries.) But despite a growing community of high-end winemakers, it was an uphill battle to convince influencers in key markets abroad to buy in to high-end Chilean wines. Courtney Kingston recalled that when she first began marketing Kingston Family Vineyards wine in the United States, many sommeliers were strongly prejudiced against Chilean wines:

> [Many sommeliers] thought Chilean wines were 'cheap and cheerful' and didn't want to taste our wines. I would often lead without specifying where the wines were from to overcome any preconceptions about Chile.

ECONOMICS OF THE WINE VALUE CHAIN

A bottle of wine sold at a restaurant or wine shop travels a convoluted road through a heavily regulated distribution chain from farmer to consumer. In the United States, the 21st Amendment to the Constitution repealed Prohibition and gave each state control over regulation of

[6] Santa Rita Winery, "Historiy of Santa Rita Winery," http://www.santarita.com/international/history/?f=1 (October 1, 2016).

[7] VSPT Wine Group, "About Us," http://www.vsptwinegroup.com/en/relacion-con-inversionistas/quienes-somos-2 (October 1, 2016).

[8] Compania Cervecerias Unidas, "About Us," http://ccuinvestor.com/bienvenidos-inversores/the-company/quienes-somos/ (October 1, 2016).

[9] Henao, Luis Andres, "New wave of bold organic winemakers is challenging Chile's industrial vineyard giants," *Fox News*, February 18, 2014. http://www.foxnews.com/world/2014/02/18/new-wave-bold-organic-winemakers-is-challenging-chile-industrial-vineyard.html

production, distribution, and sales of wine and other alcoholic beverages. Most states adopted a three-tier distribution system designed to mitigate overly aggressive sales tactics common in the pre-prohibition era, ensure collection of tax revenues, increase state control and encourage moderation.[10]

The three-tier system of domestic producers/importers (Tier 1), distributors/wholesalers (Tier 2) and retailers/restauranteurs (Tier 3) introduced forced "double marginalization" into the wine value chain with mark-ups from both tier two and tier three driving up the cost to the final customer. A U.S. Supreme Court case, Granholm v. Beer Wholesalers of Michigan (2005), resulted in opening up of the supply chain for domestic wineries (Tier 1) only. [11] As a result, wineries *with proper state-by-state* permitting could now sell directly to consumers from a winery tasting room or through a wine club to end-consumers in 43 of 50 U.S. states.[12] The main players in the wine value chain operated and interacted with one another within the framework of this three-tier system.

Tier 1 of the Supply Chain: Growers, Wineries, and Importers

Grape growers

Wine grapes were grown either by the winery itself or by independent farmers who sold their grapes to wineries through both long-term contracts and spot markets. In the United States, the average price per ton of wine grapes was $767 in 2014.[13] However, the price that growers received for their grapes varied dramatically based on region, varietal, planting, growing and harvesting techniques, yield, and the reputation of the grower. In California in 2015, the average price per ton of grapes was as low as $296/ton—and as high as $4,336/ton in the Napa Valley (see **Exhibit 9**). The value of the land, initial capital outlays to establish the vineyard, labor costs, labor intensity of farming technique, and yield were the key cost drivers.

Cost of establishing a vineyard

To establish a new vineyard required clearing and preparing the land; installing stakes, trellises, and irrigation systems; planting the initial vines; and training and pruning the vines as they grew to establish the vineyard structure. Most vineyards took two or three years before they could produce a useable harvest, with full target yield only achieved after approximately five years. In California, the first-year cost to establish a vineyard, excluding the cost of the land, could vary from about $5,000/acre to over $30,000/acre.[14]

Planting, growing, and harvesting decisions

Key decisions related to planting, growing, and harvesting techniques determined a vineyard's operating costs. Primary vineyard activities like pruning, thinning and harvesting could be done

[10] Associated Beverage Distributors of Nebraska, "Three-tier system," http://www.abdne.org/resources/the-three-tier-system/ (May 4, 2016).

[11] James Thornton, *American Wine Economics* (University of California Press, 2013) pp. 125-139.

[12] The Wine Institute, http://wineinstitute.shipcompliant.com/Home.aspx?SaleTypeID=1 (June 24, 2016).

[13] National grape and wine initiative, "U.S. Grape Industry Stats" http://www.ngwi.org/us-grape-industry-stats_220.html (May 4, 2016).

[14] U.C. Davis Cost and Return Studies. http://coststudies.ucdavis.edu/en/current/ (May 5, 2016).

in either a manual, labor-intensive way or using technology like a mechanical harvester to reduce costs. Vineyard density, the number of vines planted per acre, drove both quality and cost. Many growers believed that high-density vineyards produced higher-quality grapes because the vines had to compete for resources and were stressed more, creating superior taste. However, high-density vineyards generally were more expensive to establish and cultivate due to a higher number of vines and narrow rows, which required more expensive manual production methods. A high-density vineyard with as many as 2,700 vines per acre could cost 60 percent more to operate than a low-density vineyard with approximately 900 vines per acre. In addition to the density of the vineyard, adopting sustainable, organic, or biodynamic farming could add to the cost of operating the vineyard.[15]

Yield

Many growers believed the yield of a vineyard, measured in tons per acre, correlated negatively to the quality of the grapes. In France these beliefs were codified in laws that limited the maximum yield for high-quality red wine to 3.7 tons per acre. Most ultra-premium California wines were made from grapes with yields between two and five tons/acre, while grapes for lower-end bulk wines might exceed 10 tons/acre.[16] Kingston Family Vineyard's yield varied, but averaged 8.7 tons/hectare from 2012-2016 (excluding 2014, when the crop was severely affected by a bad frost), placing their yield between extremely high-end California wines and the predominantly bulk wines in Chile.

Wineries

Wineries, the producers in the three-tier distribution system, produced their wines either from their own estate-grown grapes or from grapes purchased directly from independent growers. Most wineries would arrange their grape purchases through long-term contracts with growers. For high-end wines, the winery often would be intimately involved with the grower in establishing the yield and vineyard management practices, including growing and harvesting techniques. Some contracts also specified penalties or bonuses for achieving specific grape quality measures. While some contracts could be as short as one year, the majority of growing contracts covered 3- to 10-year periods.[17] Wineries generally sold to distributors at approximately 50 percent gross margin in order to achieve profitability.[18]

Importers

In addition to domestic producers, importers also made up the top tier of the three-tier distribution system in the United States. Licensed importers could import wine produced outside the United States and sell it to distributors just as a winery would.

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[15] Thornton, op. cit., pp. 63-64.

[16] Ibid., p. 62.

[17] Ibid., pp. 72-76.

[18] Wine Curators. http://www.thewinecurators.com/blend/PWCblend0309.shtml#DYK (October 1, 2016).

Tier 2 of the Supply Chain: Distributors

In the United States, the second tier of the three-tier distribution system represented distributors (also called wholesalers). All wine sold by "on-premise" (restaurant) and "off-premise" (retail) accounts came through a wholesaler. Importers and wholesalers typically marked up wines 30 percent from the winery's wholesale price.[19] Some states, including California, allowed a company to be licensed as both an importer (license type 09) and a wholesaler (license type 17), enabling a single entity to import and distribute wine to licensed on- and off-premise accounts in that state.[20]

Tier 3 of the Supply Chain: Retailers

Wine retailers fell into two categories in the United States: "off-premise" accounts (where consumers purchasing the product and took it "off the premises" to consume) such as liquor and grocery stores or specialty wine shops or chains, and "on-premise" accounts like bars and restaurants—where wine purchases were consumed on the premises. Off-premise accounts generally marked up wine by about 50 percent. So if a bottle of wine cost $10 from a wholesaler, the retailer would charge $15. However, the price the consumer saw varied based on state laws and excise taxes as well as the size of the retailer, reflecting the fact that large retailers could secure bulk discounts and sell the same bottle at a lower price than smaller wine shops.
On-premise accounts tended to mark up a wine on the wine list by three times the amount the wholesale price paid by the retailer. [21] Wines by the glass were generally priced at the wholesale cost of the bottle. Thus a restaurant would buy a bottle from a wholesaler at $9 per bottle, then generate $45 in revenues based upon the assumption of $9/glass pricing and an estimated 5 glasses of wine per bottle.[22] See **Exhibit 10** for the mark-up structure of the typical wine value chain.

THE DEVELOPMENT OF KINGSTON FAMILY VINEYARDS

Establishing the vineyard: 1998

Kingston Family Vineyards planted their first 20 hectares of grapevines in 1998, expanding to 60 hectares in 1999 with 33 percent Pinot Noir, 22 percent Chardonnay, 16 percent Merlot, 10 percent Cabernet Sauvignon, and the remainder Syrah, Sauvignon Blanc, and Carmenere. In October 2000, Courtney, who had been working in technology in the Bay Area since graduating from the GSB in 1997, decided to make the leap to work on the vineyard project full time in advance of the first harvest. **Exhibit 11** shows the layout and topography of the vineyards.

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[19] Thornton, op.cit., p. 125.

[20] North Bay Biz, "The ABCs of alcohol licenses." http://www.northbaybiz.com/Monthly_Features/bizTips/The_ABCs_of_Alcohol_Licenses.php (May 5th, 2016).

[21] Gretchen Roberts, "The Lowdown on Restaurant Markups" Wine Enthusiast, May 7, 2010, http://www.winemag.com/2010/05/07/the-lowdown-on-restaurant-markups/ (October 3, 2016).

[22] "Overview of the U.S. Wine Industry 3-Tier Sales Channel." http://www.marketingwine.com/industry_overview.htm (October 3, 2016).

In 2001 Kingston Family Vineyards harvested its first grapes. While the quality of the grapes was high and seemed to validate Kingston Family Vineyards' bet to grow cool climate reds in Chile, the commercial results were disappointing. Few wineries were willing to pay premium prices for Kingston Family Vineyards grapes and their Pinot Noir grapes sold for only $0.55/kilo, more than 20 percent under the projected price of $0.70/kilo.

As they continued to plant new vines, the Kingstons employed several strategies to increase the demand for their grapes and in effect create the market for premium cool climate reds. Courtney introduced consulting winemakers from Burgundy and California to winery clients in Chile to advise on producing Pinot Noir. Kingston Family Vineyards started a fellowship program to send young Chilean winemakers to work the harvest at California wineries and learn from top Pinot Noir winemakers. But without a bottle of wine as proof of concept, the grape prices continued to be lower than expected.

Making the bottle to build the brand: 2002

In 2002, due to the limited success marketing their grapes at the price that the quality seemed to merit, Courtney began drafting a related business plan to produce a small amount of wine to prove the quality and build a brand for the vineyard. She explained:

> We realized the only way to create the market for our premium grapes was to lead it. If we could figure out how to make world-class wine from our vineyard and show the success in a bottle, we could control our own destiny. Before making our own wine, we were stuck given the small size of our vineyard vs. the scale of Chile's industrial production. We struggled to set ourselves apart.

In the 1990s when Courtney was building her first business plan for the vineyard she had met Byron Kosuge, a well-respected California winemaker specializing in Pinot Noir and Syrah who at the time was the winemaker at Saintsbury in Napa. In 2002 she reconnected with Kosuge, who had recently left Saintsbury to make his own wines and consult. Courtney shared with him her idea to grow Kingston Family Vineyards. On a handshake, they agreed to a barter deal: Kosuge would come to Chile and give Kingston Family Vineyards his professional opinion on the potential for making wine, in exchange for Courtney's help with the business plan for his nascent wine label. Kosuge visited the Farm and was impressed with the vineyard establishment and with wines that other winemakers had produced with Kingston Family Vineyards grapes, and he agreed to work with the Kingstons to produce their first wine under their own label.

In 2003 they produced 450 cases in a rented space and released the wine in 2005. After three vintages in a rented facility, they realized their quality was compromised by the lack of control over the rented space. The original business plan did not have them investing in a winery until 5 to 8 years in the market, but with the 2006 vintage the Kingstons invested in building their own winemaking facility adjacent to the vineyard, with capacity of up to 10,000 cases.

Again leveraging her one foot in Chile and the other foot in the United States, Courtney established a U.S.-based import business and began applying for the necessary licenses to import and distribute the wines to U.S. customers. Courtney secured a 091720 license from the California Alcoholic Beverage Control. This license allowed Kingston Family Vineyards to import their wines from Chile (the "09" segment of the license), sell them wholesale to California retailers (17) and sell directly to consumers in California and 14 others states to fulfill a wine club (20).[23]

Courtney's vision was to market the wines directly to sommeliers and other influencers in the United States to build the brand and prove to Chilean winemakers that Kingston Family Vineyards grapes could stand up to high-end wines from around the world. There was an uphill battle against the strong bias against Chilean wines. Courtney leveraged Byron's reputation as a talented winemaker and appealed to sommeliers' intellectual curiosity about a California winemaker's "Chilean project." After months of pounding the pavement and a healthy dose of rejection, Courtney made two big breakthroughs with Raj Parr, the sommelier of San Francisco's Michael Mina and Daniel Johnnes at Jean George in New York, successfully adding Kingston Family Vineyards wines to the by-the-glass lists at these two high-profile restaurants. Courtney marketed her wines directly to restaurant clients and then worked backward to identify their distributors and began establishing relationships to sell Kingston Family Vineyards wine throughout the United States.

Courtney also succeeded in gaining the attention of the American wine press. In October 2004, Kingston Family Vineyards had a profile in *Wine Spectator*'s "New Wines, New Faces" section.[24] In 2005 *Wine Enthusiast* named Kingston Family Vineyards "Sommelier's New Chilean Favorite" describing the Kingston Family Vineyards' Pinot Noirs as "crisp, elegant, firm and real in personality, the best Pinot Noirs I've tried from Chile."[25] The warm reception of Kingston Family Vineyards wines in the U.S. wine press and by high-profile sommeliers succeeded in increasing the value of Kingston Family Vineyards grapes in Chile as well. In 2004 Kingston Family Vineyards grapes sold for an average of $0.85 per kilo. After the release and promotion of the wine, the price per kilo increased, reaching a high of $1.37/kilo in 2008 before prices began to fall again after the financial crisis of 2009 (see **Exhibit 12**). The increase in price saw Kingston Family Vineyards emerge as a leader in the Casablanca Valley in terms of the value of their grapes, which earned a 30 percent premium over other regional producers on their Chardonnay and Sauvignon Blanc grapes in 2016 and a 100 percent premium on Pinot Noir (see **Exhibit 13**).

In 2003 with Kingston Family Vineyards' first vintage, Courtney also launched the Old Corral wine club to allow direct-to-consumer sales in select markets in the United States. The economics of the direct-to-consumer channel were very attractive, with margins of up to 67 percent—largely because this sales approach circumvented the double marginalization of the three-tier distribution system. However, it was also a high-touch selling model that required more time and investment in customer relationships. Direct U.S. sales through the wine club grew slowly but steadily through 2010. Courtney promoted the Old Corral club through social media, using the compelling bicultural family story along with the uniqueness of the wines.

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[23] "Wine retailers can only ship to 14 states," www.shipcompliant.com (June 24, 2016).

[24] "New Wines, New Faces: Kingston Family Vineyards," *Wine Spectator*, October, 31, 2004, http://www.winespectator.com/magazine/show/id/10751 (October 3, 2016).

[25] "Chile's Fresh Faces," *Wine Enthusiast*, November 1, 2005, http://www.winemag.com/2005/11/01/chiles-fresh-faces/ (October 3, 2016).

Sales through the distributor channel had lower margins, but were also lower touch, requiring less time to manage. **Exhibits 14 and 15** show the economics of both the winery and the import business. The winery sold approximately 5 percent of its production locally in Chile and 95 percent to its U.S. importer. Local sales in Chile were predominantly cellar door sales as well as a very small amount of distribution to local high-end restaurants.

Stumbling into the tourism business: 2011

Wine tourism in Chile had begun to flourish in the early 2000s, but the Kingstons had remained focused on growing grapes and making wine. However, as Courtney recalls, in 2011 the tourism business came to them:

> It happened to us. Dad and I were sitting in the dining room at the *casa patronal* and somebody was in the garden. Dad said "do we know them?" They had read about us, and they were in Chile, and they found the house.

In 2012 Kingston Family Vineyards began offering wine tastings and tours. In 2015, they hosted more than 3,400 visitors and became a top-rated "Thing to Do" in Casablanca on TripAdvisor (see **Exhibit 16**). While they did generate some sales in Chile, hosting visitors served one key function: to build the brand and drive U.S. sales and wine club memberships. The wine tastings were priced to essentially break even. The number of visitors coming to the tasting room had grown strongly since it opened in 2012; however, the average purchase value of $45 was still quite low compared to U.S. tasting rooms, where the average was $102 (see **Exhibit 17**). Kingston Family Vineyards' 2.3 percent conversion rate to wine club members was also low compared to more mature wine regions like Napa Valley, where conversion rates were approximately 11 percent in 2015.[26] While conversion rates were lower than desired, Kingston Family Vineyards did find that opening of the winery to visits did help direct sales in United States take off, with direct sales reaching over 50 percent of total U.S. sales in 2015 (see **Exhibit 18**).

NEXT STEPS FOR KINGSTON FAMILY VINEYARDS: REVISING THE BUSINESS PLAN

While the grape growing business was operating profitably and the winery had effectively built a strong brand both in Chile and abroad, in 2016 Courtney and her family had to determine how to grow both businesses more profitably and capitalize on market trends. The Kingston family was aligned on their desire to preserve the cherished family land and to make it a valuable, productive asset in the community. However, it was becoming increasingly clear that to do this they needed to scale and grow the business enough to hire a professional manager to run the business. **Exhibit 19** shows the financial performance of each part of the business from 2012 to 2015.

Several elements of the business seemed to warrant further analysis. These included the following:

[26] "Best Practices Drive Continued Wine Club Growth," *Wine Business Monthly*, July 2016.

Going organic

While the success of the wine brand in the United States had driven up prices for Kingston Family Vineyards grapes, margins in recent years had begun to erode (see **Exhibit 12**). Courtney and Byron believed that to increase the quality and price for the grapes, they needed to go organic. They had been leaders in the movement to grow high-end, cool climate reds in Casablanca and while organic grape growing was still somewhat unusual in Chile, they believed that this was an opportunity to lead the market again and to increase the value of their grapes. However, other family members were more cost conscious and doubted whether the cost of going organic would really be justified by higher grape prices.

The future of the winery

In 2003 the Kingston Family Vineyards' vision had been to make a small amount of wine to serve as a proof of concept for its grapes. This had been a successful strategy and production had grown from just 450 cases in 2003 to nearly 3,000 cases in 2016. However, the winery was operating at a loss and it was time to take stock and establish a strategy for going forward. The Kingstons could continue to operate the winery at current levels, focusing on trying to cut costs, and accepting small losses as a marketing cost for the grapes. Alternatively, they could invest in expanding production to try to achieve sufficient scale to operate profitably. According to winemaker Byron Kosuge, the existing infrastructure would allow Kingston Family Vineyards to expand to 7,000 or 8,000 cases of production with minimal investment or modifications to equipment. And the facility was built to allow for the possibility of additional modules that could add capacity up to 30,000 cases. Kosuge explained:

> If you could produce 8,000 to10,000 cases a year, you could make some money at it. Less than that, it's hard to make the numbers work. But if you could sell the majority of your production direct-to-consumer and at a higher margin, the case volume needed for profitability might be smaller. The inflection point for high-quality winemaking comes around 20,000 to 25,000 cases. At that level it becomes operationally very difficult to run as small winery with a winemaker who is very involved in production. Larger than that, the structure of the production side has to change and it can be difficult to make that jump while maintaining quality. [27]

Courtney's successful efforts in branding and marketing and increasing direct-to-consumer demand in the United States seemed to indicate that there would be demand for increased production of their wines.

Investing in tourism and a hotel

Another area for potential growth was to commit to an aggressive campaign to market wine tourism as a key part of the business, and to pursue a potential joint venture with a boutique hotel

[27] Interview with Byron Kosuge, May 23, 2016. Subsequent quotations are from the author's interviews unless otherwise indicated.

operator to open a small, high-end hotel on the property. The increase in visitors would certainly help drive demand for Kingston Family Vineyards wine, the family believed.

In 2015, a well-regarded Latin American chain of small, luxury hotels approached Courtney. The chain was interested in leasing land from the Kingstons to build a property next to the winery with approximately 50 rooms. While the hotelier would contribute the capital to develop and operate the hotel, Kingston Family Vineyards would have to invest US$2 million to build a larger tasting facility next to the winery to accommodate the increase in visitors.

This opportunity could allow Kingston Family Vineyards to further leverage their main asset, their land, while at the same time driving increased demand for their wines both in Chile and in the United States. The increase in visitors would not only drive additional revenue from the tasting room and onsite purchases, but ideally drive much higher direct sales, both subscriptions to the wine club and one-time sales in the United States, which was the highest margin channel for Kingston Family Vineyards wines.

Thus the Kingston family had a big decision to make. What was their next step, and how could they best preserve their land and get their finances on more stable footing?

DISCUSSION QUESTIONS

1. Where should Kingston Family Vineyards concentrate their efforts to grow the business in the long term?
2. What are the risks and advantages of maintaining a foothold in several parts of the value and supply chain?
3. Should Kingston Family Vineyards invest in building out their wine tourism capability and facilities?
4. Should Kingston Family Vineyards keep the winery as is, increase production, or close the winery since they had proven their reputation for high-quality grapes?

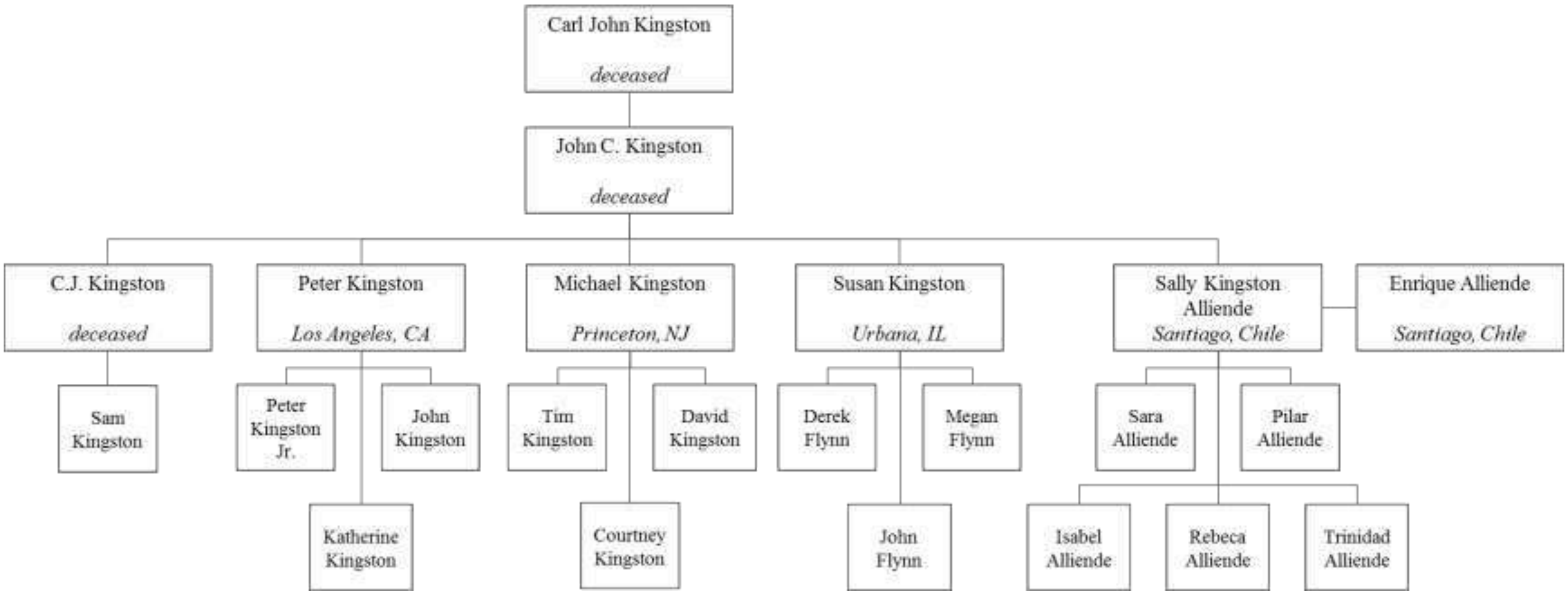
Exhibit 1
Map of Chilean Wine Regions

Source: *Wines of Chile*, August 8, 2016, http://www.winesofchile.org/en/regions-and-vineyards

Exhibit 1 (continued)
Map of Casablanca Valley and Kingston Family Vineyards

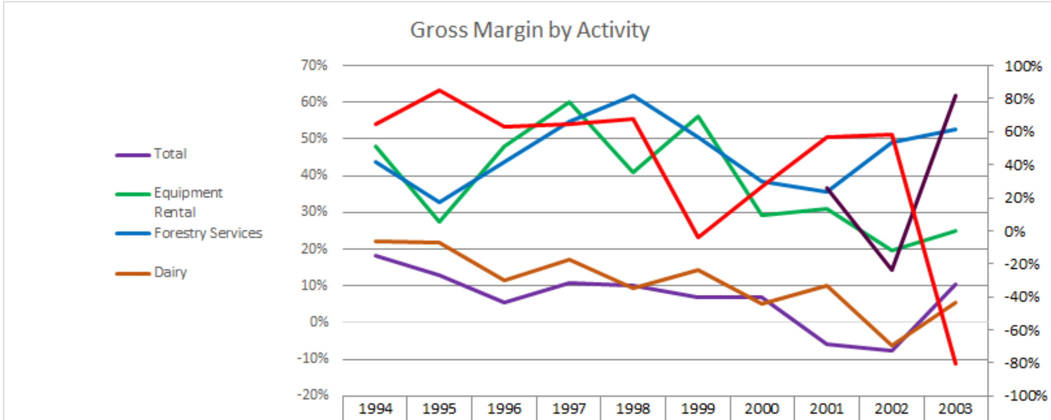
Source: Kingston Family Vineyards.

Exhibit 2
Kingston Family Tree

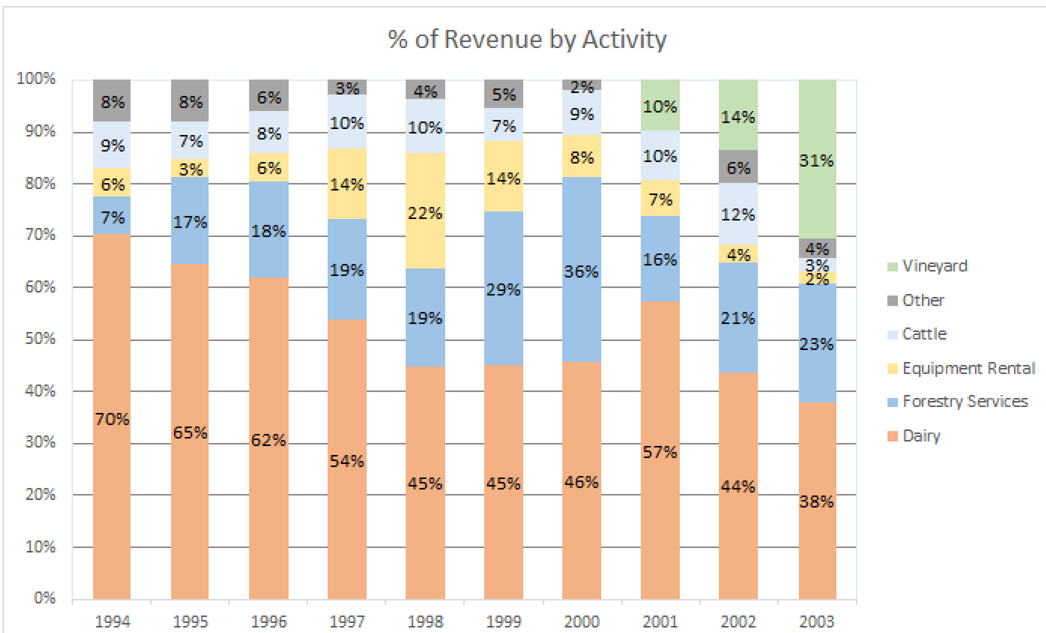


Source: Kingston Family Vineyards.

Exhibit 3
Economics of Kingston Family Farm 1994-2003



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total	18%	13%	6%	11%	10%	7%	7%	-6%	-8%	10%
Equipment Rental	48%	27%	48%	60%	41%	56%	29%	31%	20%	25%
Forestry Services	44%	33%	44%	55%	62%	50%	38%	36%	49%	53%
Dairy	22%	22%	12%	17%	9%	14%	5%	10%	-6%	5%
Vineyard								37%	14%	62%
Cattle	65%	85%	63%	64%	68%	-4%	27%	57%	59%	-80%



Source: Kingston Family Vineyards.

Exhibit 4
Pro Forma Analysis for Vineyard Business Plan

Assumptions

Vineyard yields	**Acres**	**Hectares**
Yield (metric tons)	4.45	11
Yield (short tons)	4.91	12.13
$/Kilo (USD)	$0.70	$0.70
$USD	$3,117	$7,700
Acres/ha	2.47	
Taxes	15%	
Vineyard establishment		
Cost (USD)	$4,453	$11,000
% Sta. Sara	30%	
% Investors	70%	
Annual maintenance cost		
Year 1	$1,190	$2,938
Year 2	$1,030	$2,544
Year 3	$1,018	$2,514
Year 4 and onward	$1,012	$2,500

Cash Flow

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007 +**
Ha planted (this year)	20	40	20	40						
Total hectares planted	20	60	80	120	120	120	120	120	120	120
Production (tons)				66	264	517	858	1111	1254	1320
Revenue				46,200	184,800	361,900	600,600	777,700	877,800	924,000
COGS		58,767	122,219	210,826	318,995	302,060	300,576	300,000	300,000	300,000
Operating Income	0	-58,767	-122,219	-164,626	-134,195	59,840	300,024	477,700	577,800	624,000
Taxes	0	0	0	0	0	0	0	-71,655	-86,670	-93,600
Net Income	0	-58,767	-122,219	-164,626	-134,195	59,840	300,024	406,045	491,130	530,400
Loss Carry Forward	0	-58,767	-180,986	-345,612	-479,807	-419,967	-119,943	0	0	0

IRR Analysis

Investment for planting	-220,000	-440,000	-220,000	-440,000	0	0	0	0	0	0
Investment for cashflow needs	0	-58,767	-122,219	-164,626	-134,195	0	0	0	0	0
Dividends	0	0	0	0	0	59,840	300,024	406,045	491,130	530,400
Total	-220,000	-498,767	-342,219	-604,626	-134,195	59,840	300,024	406,045	491,130	530,400
IRR	***16%***									

Note: These numbers were pro formas and do not represent actual planting schedules and financial results.
Source: Kingston Family Vineyards.

Exhibit 5
Chilean Wine Industry Production and Exports (1992-2014)

	Area Planted (000s Ha)	Production ('000s Cases)	Exports ('000s Cases)	% Exports	Exports (000 USD)	Export Price/ Case (USD)
1992	62	41,111	8,222	20%	$119,000	$14.47
1994	53	45,667	12,333	27%	$143,000	$11.59
1996	56	53,444	20,556	38%	$294,000	$14.30
1998	75	60,778	27,889	46%	$540,000	$19.36
2000	104	75,444	30,667	41%	$585,000	$19.08
2002	109	63,778	39,556	62%	$610,000	$15.42
2004	112	72,778	52,667	72%	$845,000	$16.04
2006	115	93,889	57,778	62%	$965,000	$16.70
2008	118	96,556	65,667	68%	$1,384,000	$21.08
2010	117	101,667	81,444	80%	$1,554,000	$19.08
2012	129	139,444	83,000	60%	$1,808,000	$21.78
2013	129	142,444	98,333	69%	$1,897,000	$19.29
2014	129	111,444	88,667	80%	$1,841,000	$20.76

Source: Global Agricultural Information Network, Chile Wine Annual Report 2015

Exhibit 6
Destination of Chilean Wine Exports by Volume and Value (2012-2014)

Chilean Wine Exports by Country - Volume (000s liters)

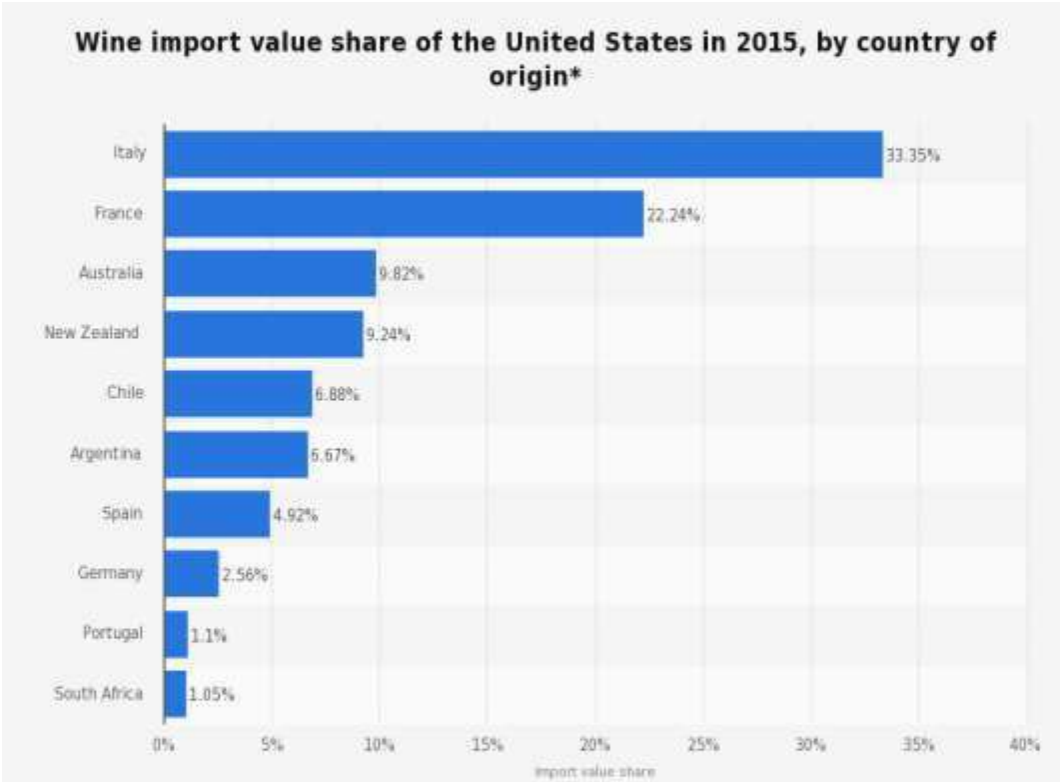
	2012	2013	2014	2014%
United States	156,032	152,036	147,441	18%
U.K.	101,744	111,708	104,274	13%
China	64,091	83,079	88,274	11%
Japan	48,478	61,532	67,049	8%
Germany	34,785	58,368	44,009	6%
Canada	24,066	31,419	40,225	5%
Netherlands	34,338	35,185	37,094	5%
Brazil	31,107	28,764	34,423	4%
Denmark	20,967	24,546	23,037	3%
Other	237,441	298,606	211,996	27%
Total	753,049	885,243	797,822	100%

Chilean Wine Exports by Country - Value (000s USD)

	2012	2013	2014	2014%
United States	$300,599	$287,234	$262,225	14%
U.K.	$228,072	$237,929	$228,867	12%
China	$144,808	$149,824	$148,825	8%
Japan	$127,190	$156,547	$157,453	9%
Germany	$63,256	$78,023	$70,206	4%
Canada	$93,129	$92,181	$94,581	5%
Netherlands	$95,289	$97,599	$105,907	6%
Brazil	$95,252	$93,305	$110,738	6%
Denmark	$52,911	$59,009	$59,316	3%
Other	$607,248	$644,870	$602,871	33%
Total	$1,807,754	$1,896,521	$1,840,989	100%

Source: ODEPA (Chilean Ministry of Agriculture)

Exhibit 7
Share of U.S. Wine Imports by Country (2015)



Source: DISCUS. "Wine Import Value Share of The United States in 2015, by Country of Origin*." Statista - The Statistics Portal. Statista. December 2015. Web. 5 Oct 2016. https://www-statista-com.ezproxy.stanford.edu/statistics/233681/value-of-the-leading-6-wine-import-countries-to-the-us/.

* Import value shares are based on internal calculations. Includes still and table wines.

Exhibit 8
Concentration in the Chilean Wine Industry (2009)

Largest Firms	**Market Share**
Concha y Toro[1]	31%
Santa Rita[2]	29%
Compania Cervecerias Unidas[3]	21%
Total Market Share of top 3	*81%*

1. Concha y Toro is a publicly traded company based in Chile with operations throughout the world. Brands include Concha y Toro, Don Melchor, Casillero del Diablo, Cono Sur, and Viña Maipo, among others.
2. Santa Rita owns many different wineries and labels and is part of the Claro Group. Brands include Viña Carmen, Terra Andina, Nativas, among others.
3. Parent of wineries including San Pedro, Leyenda and Tarapaca, among others

Source: Anderson, Kym and Signe Nelgen, Global *Wine Markets 1961-2009: A statistical compendium* (University of Adelaide Press, 2009).

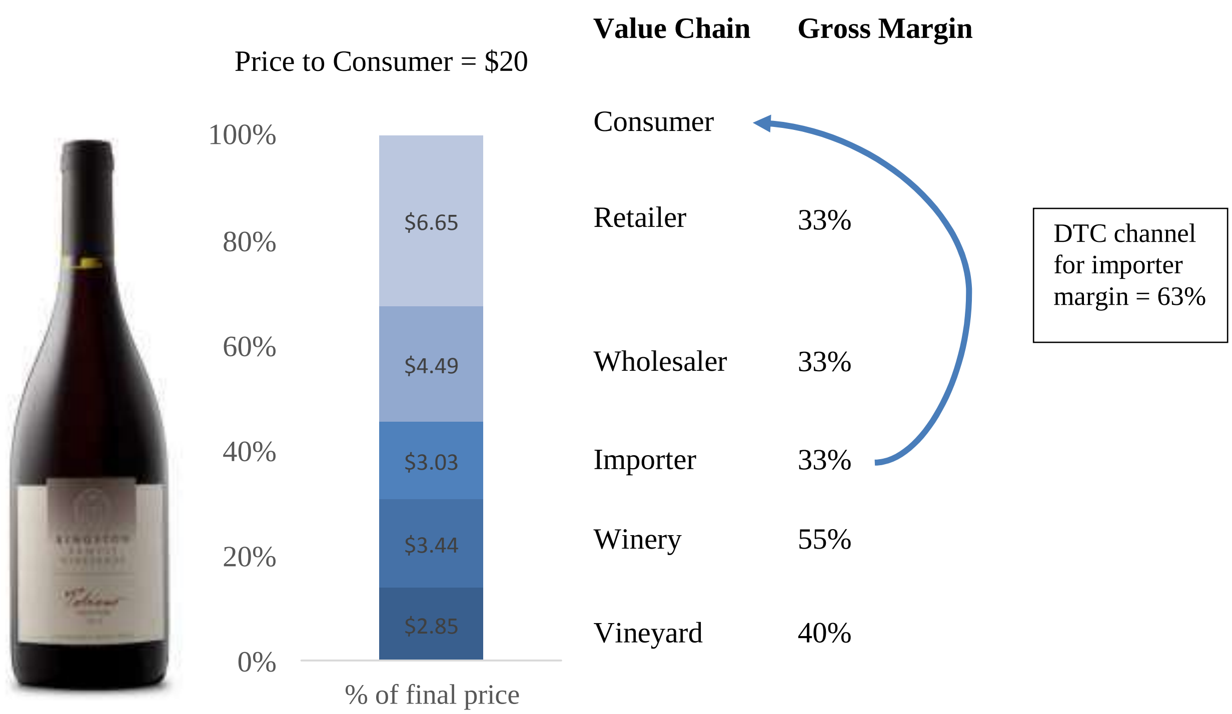
Exhibit 9
Price/ton of California Grapes by Region and Varietal (2015) vs. Kingston Family Vineyards (2016)

District*	Chardonnay	Sauvignon Blanc	Pinot Noir	Merlot	Zinfandel	Cabernet Sauvignon
4: Napa	$2,592	$2,012	$2,713	$3,135	$3,390	$6,289
3: Sonoma and Marin	$2,085	$1,611	$3,525	$1,717	$2,711	$2,724
7: Monterey and San Benito	$1,267	$1,074	$1,807	$1,075	$1,354	$1,235
11: San Joaquin & Sacramento	$470	$497	$654	$548	$720	$656
13: Madera, Fresno, Inyo	$363	$306	$443	$347	$285	$381
Kingston Family Vineyards	$1,075	$845	$1,015			

*District descriptions have been abbreviated. Full district information available at https://www.nass.usda.gov/Statistics_by_State/California/Publications/Grape_Crush/Final/index.php (October 2, 2015).

Sources: United States Department of Agriculture, National Agricultural Statics Service, "Grape Crush Report 2015.", Kingston Family Vineyards.

Exhibit 10
Illustrative Economics of a $20 Bottle of Imported Wine

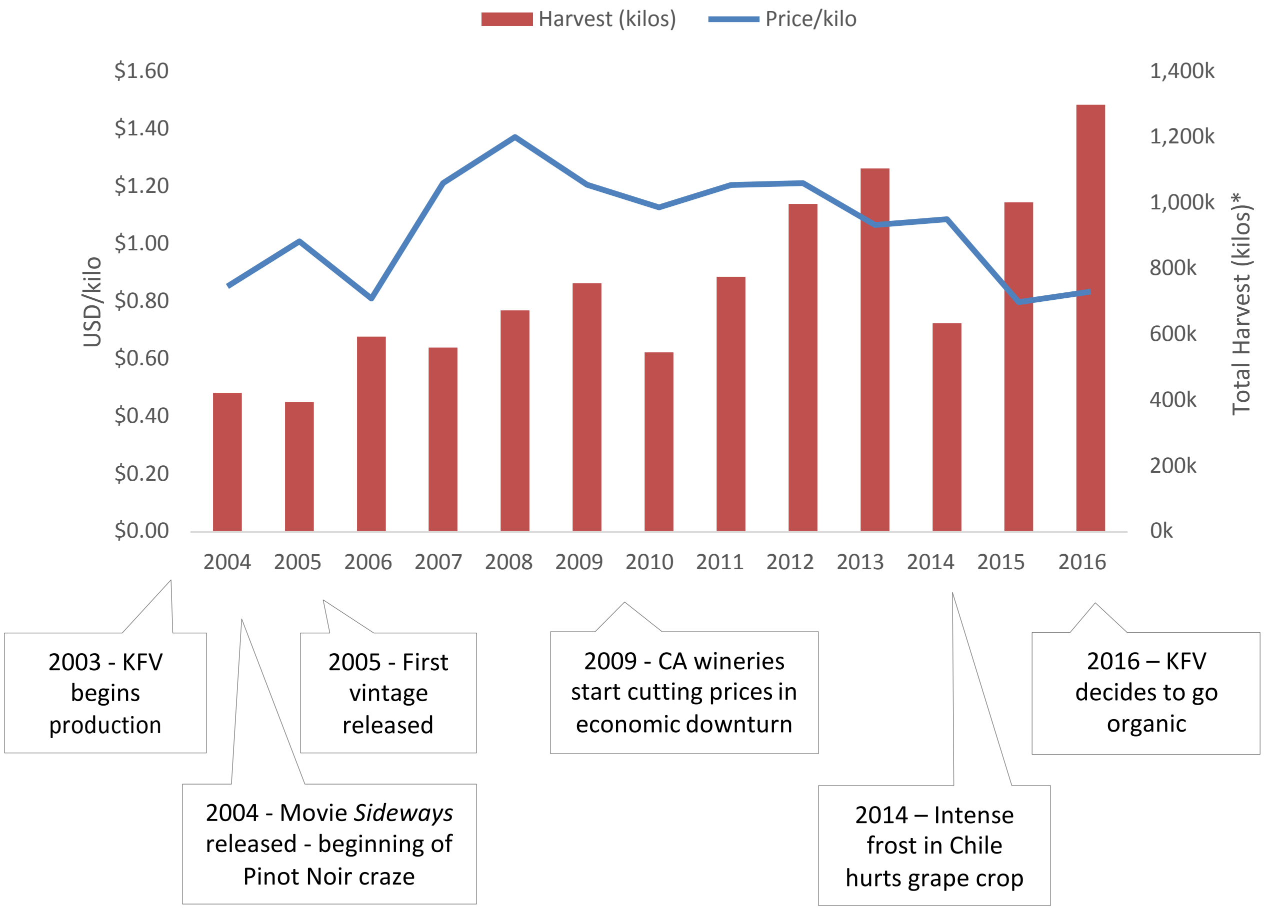


Source: Kingston Family Vineyards.

Exhibit 11
Kingston Family Vineyards Aerial Photograph

Source: Kingston Family Vineyards

Exhibit 12
Kingston Family Vineyards Historic Grape Prices and Yields (2004 – 2016)



*Approximately 10 percent of Kingston Family Vineyards total harvest is used in Kingston Family Vineyards wines; the remainder is sold to other wineries.

Source: Kingston Family Vineyards.

Exhibit 13
Grape Prices
Kingston Family Vineyards and Casablanca Regional Average (2016)

	Chardonnay	Sauvignon Blanc	Pinot Noir
Kingston Family Vineyards average price (USD/kilo)	$1.08	$0.84	$1.01
Other Casablanca producers (USD/kilo)	$0.82	$0.64	$0.49
% KFV premium	32%	30%	105%

Source: Kingston Family Vineyards.

Exhibit 14
Winery Financials (2012-2015)

		2012	2013	2014	2015
Total Cases Produced		2,976	2,497	1,653	1,998
Exchange Rate (CHP/USD)		$486.50	$497.00	$570.01	$654.25
Wine					
	Revenue	$196,106	$323,817	$278,712	$284,227
	COGS	($166,049)	($281,237)	($226,133)	($213,032)
	Operating Income	$30,057	$42,580	$52,579	$71,195
	% Margin	15%	13%	19%	25%
Tourism					
	Revenue	*$12,477*	*$36,009*	*$73,265*	*$103,749*
	COGS	($6,962)	($31,235)	($72,447)	($104,023)
	Operating Income	$5,515	$4,774	$818	($274)
	% Margin	44%	13%	1%	0%
*Expenses**					
	SG&A and other	($86,331)	($85,402)	($83,797)	($83,135)
	Other revenue	$22,194	$42,276	$58,198	$23,393
Total Winery					
	Revenue	*$230,778*	*$402,102*	*$410,175*	*$411,369*
	COGS & Expenses	*($259,342)*	*($397,874)*	*($382,377)*	*($400,190)*
	Operating Income	($28,565)	$4,228	$27,798	$11,179
	% Margin	(12.4%)	1.1%	6.8%	2.7%

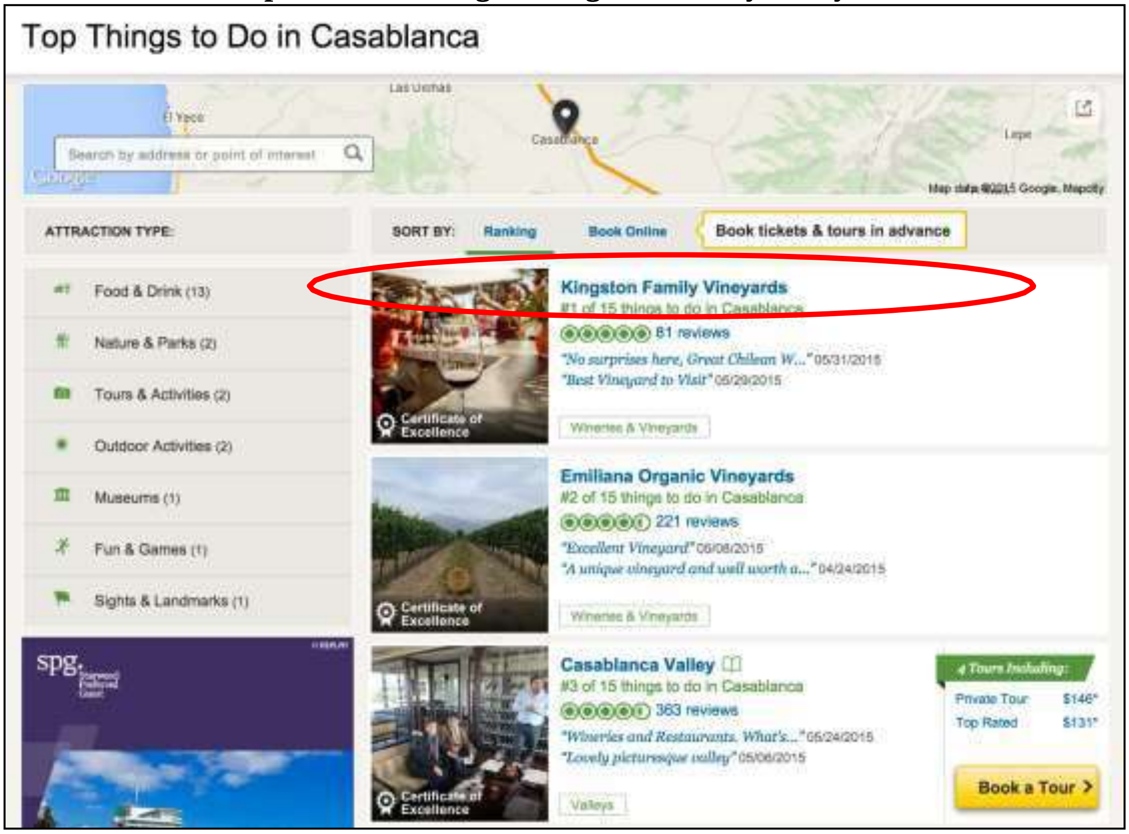
*In 2013 Chile suffered a record frost, damaging 2014 grape crops and winery production throughout the country.
Source: Kingston Family Vineyards.

Exhibit 15
Import Financials (2004-2015)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Cases	1,800	2,985	3,575	3,925	5,065	4,690	3,443	3,090	2,976	2,497	1,653	1,998
Sales												
Retail	$23,128	$67,711	$56,639	$69,911	$70,561	$71,862	$111,508	$147,624	$111,887	$135,050	$191,829	$197,586
Wholesale	$21,450	$61,042	$169,970	$319,992	$307,816	$265,415	$439,870	$397,948	$341,165	$270,339	$205,858	$143,588
Total Sales	$44,578	$128,753	$226,609	$389,903	$378,376	$337,276	$551,378	$545,572	$453,052	$405,389	$397,687	$341,174
Adjustments & other	$2,816	$10,018	$6,900	$9,746	$8,585	$8,652	$5,765	$5,715	$4,617	$4,217	$4,153	$3,563
Total Income	$47,394	$138,770	$233,510	$399,649	$386,961	$345,928	$557,143	$551,287	$457,669	$409,606	$401,840	$344,738
Cost of Goods Sold	$62,101	$75,232	$134,852	$188,814	$223,684	$203,435	$384,940	$351,750	$285,769	$262,650	$261,851	$224,753
Gross Profit	($14,707)	$63,538	$98,658	$210,835	$163,277	$142,493	$172,203	$199,537	$171,900	$146,956	$139,989	$119,985
GP %	-33%	49%	44%	54%	43%	42%	31%	37%	38%	36%	35%	35%
Expenses												
Freight out*	$0	$0	$17,371	$26,646	$25,132	$21,336	$25,867	$27,637	$23,445	$20,636	$19,872	$16,678
Insurance & Other	$77	$0	$6,698	$1,299	$0	$0	$801	$856	$726	$639	$616	$517
Inv. Write Down	$0	$0	$0	$42,295	$0	$0	$0	$0	$0	$0	$0	$0
Sales Agents	$0	$0	$0	$0	$10,456	$11,619	$12,034	$12,858	$10,907	$9,601	$9,245	$7,759
SG&A	$165,716	$209,007	$193,936	$266,392	$229,862	$151,886	$152,454	$162,884	$138,177	$121,625	$117,121	$98,294
Storage	$469	$1,635	$802	$3,503	$4,092	$5,519	$4,686	$5,007	$4,247	$3,738	$3,600	$3,021
Taxes	$0	$800	$1,008	$1,107	$1,840	$2,679	$1,692	$1,808	$1,534	$1,350	$1,300	$1,091
Total Expenses	$166,262	$211,442	$219,814	$341,241	$271,383	$193,038	$197,535	$211,050	$179,036	$157,590	$151,755	$127,360
Net Op. Income	($180,969)	($147,904)	($121,156)	($130,407)	($108,106)	($50,545)	($25,332)	($11,513)	($7,136)	($10,634)	($11,766)	($7,375)
Other Income	($5,829)	($2,990)	($1,775)	($1,775)	($3,904)	$13,740	$19,612	$12,902	$10,154	$10,376	$9,045	$8,436
Net Income	($186,798)	($150,894)	($122,931)	($132,182)	($112,009)	($36,805)	($5,720)	$1,389	$3,018	($258)	($2,721)	$1,061

*Costs of offering free shipping on cases – both purchased at the winery for delivery in United States and for online wine club sales.
Source: Kingston Family Vineyards.

Exhibit 16
TripAdvisor Rating of Kingston Family Vineyards



Note: In 2016 TripAdvisor changed their algorithm to increase the weight given to number of reviews versus quality, moving Kingston Family Vineyards to 3rd place due to smaller volume of visitors.

Source: TripAdvisor, June 2015.

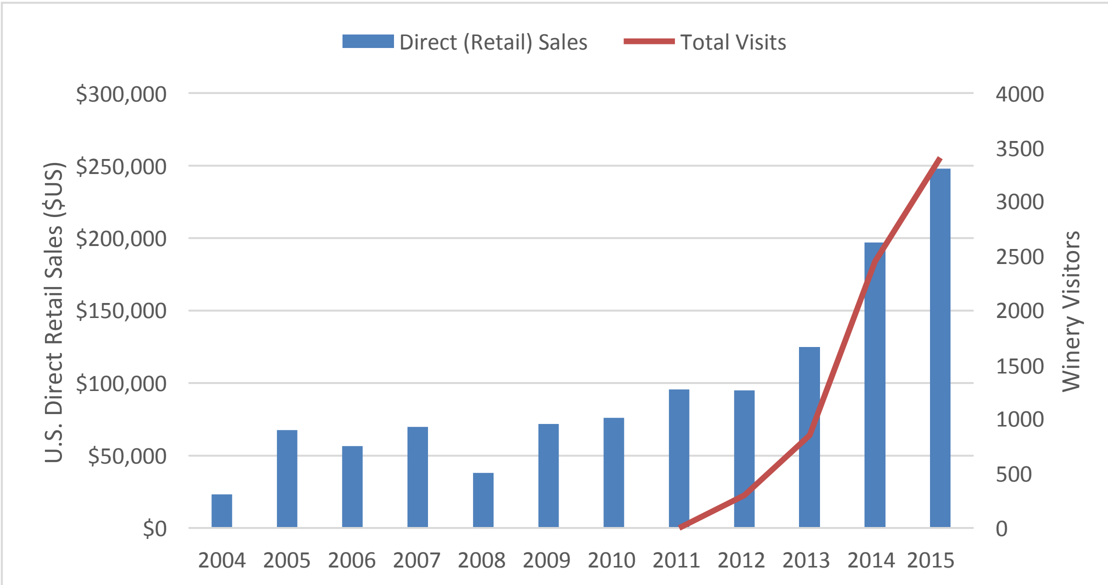
Exhibit 17
Kingston Family Vineyards Tasting Room Visitors and Sales (2013-2015)

	Visitors	Paid Visitors	Wine Club Sign-ups	Conversion Rate*	Purchases
2013	863	591	17	1.97%	$11,380
2014	2,449	2,135	43	1.76%	$27,361
2015	3,406	2,825	77	2.26%	$76,447

*Note: Conversion rate measure the number of wine club sign-ups for visitors. Kingston Family Vineyards also offers free shipping on purchase at the winery of a case to anywhere in the U.S., which is not encompassed in the conversion rate.

Source: Kingston Family Vineyards.

Exhibit 18
Wine Club Sales and Winery Visits



Source: Kingston Family Vineyards.

Exhibit 19
Kingston Family Vineyards Vineyard, Winery and Import Business Overview
(2012-2015)

		2012	2013	2014	2015
Exchange Rate (CHP/USD)		$486.5	$497	$570.01	$654.25
Vineyard* (Chile)	Revenue	$1,417,161	$1,463,591	$735,077	$1,141,758
	COGS	($770,715)	($874,025)	($650,487)	($690,957)
	Gross Profit	$646,446	$589,566	$84,590	$450,801
	Expenses**	($283,432)	($292,718)	($147,015)	($228,352)
	Operating Income	$363,014	$296,848	($62,425)	$222,449
	Net Margin %	26%	20%	(8%)	19%
Winery (Chile)	Revenue	$230,778	$402,102	$410,175	$411,369
	COGS	($173,011)	($312,472)	($298,580)	($317,055)
	Gross Profit	$57,766	$89,630	$111,595	$94,314
	Expenses**	($86,331)	($85,402)	($83,797)	($83,135)
	Operating Income	($28,565)	$4,228	$27,798	$11,179
	Net Margin %	(12%)	1%	7%	3%
Import Business (US)	Revenue	$467,823	$419,982	$410,885	$353,174
	COGS	($285,769)	($262,650)	($261,851)	($224,753)
	Gross Profit	$182,054	$157,332	$149,034	$128,421
	Expenses	($179,036)	($157,590)	($151,755)	($127,360)
	Operating Income	$3,018	($258)	($2,721)	$1,061
	Net Margin %	0.65%	(.06%)	(.66%)	0.30%
Total	Revenue	$2,115,761	$2,285,675	$1,556,137	$1,906,301
	COGS	($1,229,495)	($1,449,147)	($1,210,918)	($1,232,765)
	Gross Profit	$886,266	$836,528	$345,219	$673,536
	Expenses	($548,799)	($535,710)	($382,567)	($438,846)
	Operating Income	$337,467	$300,818	($37,348)	$234,690
	Net Margin %	16%	13%	(2%)	12%

*In 2013 Chile suffered a record frost that damaged grape crops and winery production throughout the country in 2014
**Excluding depreciation.

Source: Kingston Family Vineyards.