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Rethinking Oak Budgets The Real Cost of Barrels

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I've run barrel programs of all sizes, from small wineries with only a half-dozen barrels, up to multi-national brands with several tens of thousands of barrels. At the small end, each barrel seems significant. Each barrel purchased can represent a substantial portion of the winery's available funds. In a large winery's barrel program, the "personality" of any individual barrel can be lost among the high volume of barrels, but they still represent a significant expense.

Winemaking at the large end of the industry does give one an appreciation for the cost of labor. In a small, one-person winery, it's easy to overlook just how much time and labor one spends taking care of barrels. I guess that's pretty typical of any sole-proprietorship: the proprietor makes the mistake of undervaluing his or her own labor. Long hours and overtime are seen as the price of entrepreneurship.

When one moves from a small winery to a large one, the cost of labor becomes something that can no longer be ignored. Every winery operation takes labor. Scheduling labor can become a fine art, an obsession. What needs to be done? Are people available? Are they trained and/or experienced enough that they can work without constant supervision? Will the task require overtime? If so, can it be deferred to avoid the cost of overtime?

Whither the Barrels? What About the Workers?

The reason I'm preoccupied with labor costs isn't that I'm against barrels or cellar workers. Quite the opposite, in fact. I think that as winemakers, we overvalue the barrel as an abstract, almost mystical, artifact while undervaluing both the fragility of a barrel as a winemaking tool and the labor needed to keep a barrel in a condition fit for winemaking. A barrel isn't something merely to be bought once. Barrels are expensive to buy, yes, but they also require constant maintenance—maintenance that is necessary to maintain their value as a useful winemaking tool.

All too often I see wineries that buy barrels and then proceed to make one of two mistakes:

(1) Wineries fail to consider just how much it will cost to maintain their barrels and cut corners to the point where their barrel program becomes a detriment to the final wine quality and therefore to the overall long-term viability of their businesses.

(2) Wineries attempt to keep costs down by buying barrels more with an eye to price than suitability to the wine that they are making.

Thinking About the Cost of a Barrel

There are several ways to think about the “cost” of a barrel: (1) One can think of barrels as a capital investment. (2) One can think of them as an annual expense. (3) One can consider the remaining value of a barrel after each fill. (4) One can subtract the cost of labor needed to keep the barrel in usable condition from the remaining value of the barrel.

Most wineries think of barrels as a capital investment. This means that, usually, the “cost” of a barrel is not accounted for all at once but is depreciated over a predetermined schedule. In theory, the depreciation schedule either should match or be shorter than the useful life of the barrel or length of time the barrel is in the cellar. This also means that the pool of funds used to buy barrels is the same one from which the money for tanks, crushpad and bottling equipment is drawn.

For barrels bought as a capital expenditure, a $1,500 barrel is booked at $214.35 per year for a seven-year depreciation schedule, $150 per year for a 10-year depreciation schedule or $300 per year for a five-year depreciation schedule. This all depends on the particular depreciation schedule that the winery uses.

On one level this is just an accounting gimmick. A barrel will be the same barrel, and the cooper still has to be paid, no matter how one thinks about assigning the cost.

A standard capital depreciation schedule, as described above, is a lousy way to figure out and assign a value to a barrel. When I am looking to buy or sell used barrels, or otherwise assign a value to them, I use my own method. This is more oriented around assigning a value to a barrel according to how many times it has been filled.

For example, the “value” remaining in a $1,500 barrel would be reduced to $750 after the first fill, $375 after the second fill, $187.50 after the third fill and so on. One can play around with the actual percentage, maybe giving the value a steeper fall-off and a longer tail but, in my experience, the sell-value of a barrel is roughly halved each time it is filled, only tailing off to a static $10 or so when the barrel is more than seven years old but still sound. That said, this is only a notational value. One still has to pay $1,500 to buy the barrel in the first place. If the winery sells off their used barrels, then the sell-value is not quite the same as the intrinsic winemaking value. It is whatever the market will bear, according to the current condition of the barrel. An old, neutral, but otherwise sound, barrel should be assigned a value that exceeds the $30 per year required to keep it that way.

It should go without saying that any barrel that isn't maintained becomes worthless within a month, but I see so many penny-wise and pound-foolish wineries that, perhaps, I do need to state the obvious. If a barrel is allowed to dry out, if the hoops aren't kept tight or if it isn't gassed with SO_2 every 14 days while empty, not even the guys that buy barrels to make planters are going to want it.

For barrels not booked as capital expenditures: A $1,500 barrel is booked at its full cost when purchased. Any subsequent use is "free" for the winery. This puts the entire cost of a new barrel into the books immediately, which is why most wineries prefer to treat barrels as a capital investment. However, if the winery is spending roughly the same amount on barrels every year, this is really a lot of extra bookkeeping to no good effect since five, seven or 10 years of stacked-up depreciated barrel purchases end up being pretty much the same amount as just treating each year's new barrel purchases as a recurring expense.

I prefer to think in terms of a cost/value for barrels because that's much closer to the actual value of the barrel. While my sliding-scale valuation hews much closer to the true value of a barrel as it is used, it isn't something one can use in actual accounting. One either has to book barrels as a capital expenditure and depreciate their value in a more conventional manner or buy them as an expense and take the entire hit against the bottom line immediately.

Note that, to my knowledge, a sliding scale like this is not an approved method for "real" accounting. It is a convenient tool for valuing used barrels one might be thinking of buying or selling. It's also useful for comparing labor costs against barrel values. However, I don't think one should use it to figure out one's taxes.

With that in mind, I hate having to "pay" for something long after it has left the winery. If a winery is buying new barrels every year, it's simply nonsensical to class them as a capital investment. This is especially true when considering the winemaking style: their real value declines more quickly than their book value. This often leaves the winery in the position where it's "paying" for barrels five to seven years after they have been disposed of. Of course, this is all just bookkeeping stuff, but a lot of old barrels on the balance sheet can end up convincing the winery, or their bank, that true capital investments, like a new press, should be deferred.

Full Barrels are Happy Barrels—Barrel Operational Costs

Fill, empty, clean, stack, top, gas (SO_2), maintain (soaking-up, checking for holes, tightening hoops): these operations all add up to roughly a minimum of 75 minutes per barrel per year, assuming only one fill, minimal time empty and no coopering. The minimum labor cost is then around $30 per barrel per year once worker's compensation liability insurance, Social Security, medical insurance, etc. are all factored in with the cellar worker's wages.

This assumes a single fill and topping with no other barrel operations, like racking off lees or tending to any in-barrel fermentations. The per-barrel labor costs go up slightly if the barrels are topped more frequently than once a month. The labor costs nearly double if the barrels are racked, either off of lees or even if simply moved to tanks for an SO_2 adjustment. Any in-barrel fermentation also increases the labor costs significantly. If $30 per barrel per year doesn't seem too bad, keep in mind that is very much a low-ball estimate of an ideally perfect élevage. A more realistic labor cost is likely to be somewhere between $150 for wines simply aged in barrel and $500 per barrel per year for wines requiring a lot of attention, like barrel-fermented Chardonnays.

Also baked into this number is the assumption that the winery is not using automated barrel-washers, which greatly lower the amount of manual labor required at the cost of a moderate capital investment.

This may not seem like too much, and I may be underestimating things by as much as half for any winery intent on keeping their staff; but as we see from our lowest cost analysis (above), this exceeds the remaining value of a $1,500 barrel after the fourth fill. The high-end estimate of around $500 per barrel per year, simply to maintain that barrel in a condition fit for winemaking, exceeds the value of even a $1,500 barrel after just the second fill.

Don't Cut Corners

Once you've made the decision to use barrels, don't undermine that decision by cutting corners, either on the barrels purchased or on the allocation of labor necessary to take care of the barrels and the wine in them. WBM

Caveats

I'm not an accountant nor did I ever go to business school for more than the Wine Executive Program certification from UC Davis. None of what I've written here is intended to please a bank auditor, a loan officer or even a winery CFO. My focus is on winemaking/winery operations rather than accepted accounting protocols.