

Feasibility Study of an Enomatic Wine Bar in San Luis Obispo

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ABSTRACT

The purpose of this project was to determine whether it would be feasible to open an Enomatic Wine Bar in downtown San Luis Obispo.

There were two major costs involved in this project, the development of the facility and the operation of the business. Once all of the costs were determined, they were entered into an Excel spreadsheet providing the Enomatic Wine Bar Budget and the Income Statement. From the Enomatic Wine Bar Budget and the Income Statement a Return on Investment of 27% was realized.

Using the figures from the Enomatic Wine Bar Budget and the Income Statement, it has been concluded that it is feasible to open an Enomatic Wine Bar in downtown San Luis Obispo with expected profitability after six years.

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Chapter 1

INTRODUCTION

Wine consumption throughout history has been one of deep religious, economic, and social significance. Such significance provides the basis for an ever-growing and ever-changing industry. Specifically, the United States has been a main contributor to the wine industry nationally and worldwide. Despite the current economic situation, the United States produced 2.44 billion liters of wine during 2008 (U.S. Wine Industry 2008). Market research shows that the driving force behind the success in the U.S. wine industry is due in part to consumer tastes, personal income, and entertainment trends. California alone accounts for 89.25% of wine production equivalent to 2.18 billion liters. The California wine industry had an annual impact of \$51.8 billion on the state's economy, and an economic impact of \$125.3 billion on the U.S. economy (Wine Institute, 2005).

California's temperate weather and naturally rich soils make the state the fourth leading wine producer in the world. (U.S. Wine Industry 2008). California's emergence in the wine industry is an ongoing evolution and one that retains a great deal of potential for investors. It is estimated that two out of three wine bottles sold in the United States are California wines. (U.S.

Wine Industry 2008). It is this potential coupled with the ever-changing economy that drives the need to provide an efficient, cost effective alternative to traditional wine tasting at the vineyard.

The city of San Luis Obispo lies in the heart of California's Central Coast. San Luis Obispo provides a perfect environment for wine enthusiasts. San Luis Obispo is the third largest wine producing city in California. Consumers enjoy touring local wineries as well as wine tasting. Although wine tasting at one of San Luis Obispo's wineries can be a beautiful experience, it can only provide guests with wine from the winery they visit.

Wine bars are a fairly new spin on wine tasting allowing consumers to taste wines from local, regional, and international wineries. As with any business, cost control is a critical component to profitability. The Enomatic Wine System provides a solution to controlling costs that a typical wine bar would not be able to control.

Problem Statement

Is it feasible to open an Enomatic Wine Bar in the City of San Luis Obispo, California?

Hypothesis

Opening an Enomatic Wine Bar in San Luis Obispo will provide an internal rate of return on investment of five percent or greater.

Objectives

- 1.) To determine the costs involved in starting an Enomatic Wine Bar in the City of San Luis Obispo.
- 2.) To determine the feasibility of owning and operating an Enomatic Wine Bar using Net Present Value and Return on Investment analysis.

Justification

The implementation of an Enomatic Wine Bar in San Luis Obispo, California would be beneficial to the community of San Luis Obispo County. It would offer residents as well as tourists the ability to utilize the facility at their leisure. The business would provide individuals with the opportunity to gain knowledge as well as taste local, regional, and foreign wines.

Once the facility is developed, it will transform the ability to wine taste. Consumers can taste multiple wines, rather than buy an entire bottle of wine. With the Enomatic Wine system, consumers are free to try the wines offered at the facility and acquire knowledge about the wine from professional sommeliers who are working on site. The facility also provides a relaxing lounge type setting where customers are welcome to pay a small fee and enjoy the wines provided. The facility becomes a destination for friends and family.

Using this project as a starting point, investors can truly see if this venture is a lucrative one. If the study shows profitability over a period of time, investors and entrepreneurs will be more inclined to go through with this project. Using return on investment figures, entrepreneurs

will have the financial knowledge necessary in order to move forward with an Enomatic Wine Bar.

Chapter 2

REVIEW OF THE LITERATURE

In order to determine the profitability of opening an Enomatic Wine Bar, financial information must be gathered and analyzed. The information will summarize the wine industry in San Luis Obispo, as well as obtaining the proper facility, and implementing the Enomatic Wine System. The actual profitability of the venture will require an Income Statement and Return on Investment calculations in order to determine the overall feasibility of the business.

Feasibility Study

A feasibility study was an important step in the business development process. The feasibility study was undertaken to determine the viability of opening the wine bar featuring the Enomatic Wine System. Using the feasibility study would help determine if the venture would generate adequate cash-flow and profits while withstanding the risks that this type of venture would face (Holz-Clause). The feasibility study would be conducted and analyzed prior to approaching potential investors so that an income statement and ROI could be prepared and presented to those investors. If at the conclusion of the study it was determined that the venture

would be unfeasible, the venture would be abandoned and no investors sought out. Conversely, if the study concluded the potential for a successful and profitable venture the process of finding adequate funding from potential investors would proceed. The feasibility study would then become the crucial first step taken to show the profitability or lack thereof, for the opening of an Enomatic Wine Bar in San Luis Obispo.

San Luis Obispo Wine Industry

California's number one finished agricultural product is the wine and wine grape industry. San Luis Obispo is centered in the heart of California's Central Coast. San Luis Obispo County has a \$1.566 billion impact on the state and local economy (SLO EVC). San Luis Obispo County over the past decade has grown to over 217 bonded wineries and 29,000 acres of vineyard. San Luis Obispo wineries employ over 6,300 workers full time, and generate revenues of \$61.5 million for state and local governments (SLO EVC).

Wine tourism is a driving force behind all tourism that occurs in San Luis Obispo. Providing economic fortitude to the City of San Luis Obispo, wine tourism accounts for \$96.5 million in tourist expenditures and attracts nearly 1.1 million visitors to San Luis Obispo each year. Wine tourists are attracted to San Luis Obispo because it offers such a diverse array of local wines. San Luis Obispo inspires tourists to buy wine, dine out in local restaurants, and shop at downtown stores in the city.

Enomatic Wine System

The Enomatic Wine System is a fairly new system for wine tasting. It provides the capability to extend the life of an open bottle of wine for up to 60 days (Napa Technology). It uses an intricate system that allows the bottle of wine to go without spoilage by vacuuming out oxygen and replacing the space in the bottle with nitrogen gas. The key importance of this system is that it cuts down costs dramatically. This a crucial element for a wine tasting business because it allows the consumer to enjoy one ounce pours, half glass pours, and up to full glass pours without compromising the bottle of wine due to spoilage. The Enomatic or wine-preserving and dispensing system has been designed to reduce or eliminate the presence of oxygen in the wine, which degrades the flavor. The system substitutes a more inert gas, like Nitrogen or Argon, to prevent degradation from happening at all (Rinaldini Distribution, inc. 2005, 2006).

Furthermore, it has been determined that the wine-by-the-glass systems increase profits dramatically. Serving premium wines by the glass will pay for the system usually within a few months (Lipinski 1996). The Enomatic Wine System allows for a minimum of 4 bottles to a maximum of 1,000 bottles of wine to be installed (Napa Technology). Lipinski asserted that an average bottle of wine priced at a wholesale amount of \$6.00 can yield 275 percentage of profit. This can be equated with charging an average 5 ounce pour for \$4.50 creating a \$3.30 average profit. Furthermore, the system increases profitability by reducing breakage, spillage, pilferage among other things, reducing refrigeration and storage expenses, bar restocking and employee handling (Lipinski 1996).

Consumers benefit from the Enomatic Wine System as well. Unlike wine tasting at a local vineyard, and simply tasting the offered wines, the Enomatic System provides consumers with an abundance of different wines. Unique or specialty wines could be offered using this system. These wines would have been too expensive to stock, but could now be opened and only as much as is desired drawn-off and served. These customers could be likely to purchase the entire bottle (Lipinski 1996). With such a diverse selection of wines to choose from consumers can enjoy wine from local wineries, as well as regional wines, and foreign made wines all at the press of a button.

Income Statement

The Income Statement, also known as the Profit and Loss Statement shows a company's profitability for a period of time. The Income Statement allowed an opportunity to look at the profitability of an Enomatic Wine Bar in San Luis Obispo. The Income Statement also takes into consideration the Return on Investment. The Return on Investment is a measure of the profitability of assets.

Chapter 3

METHODOLOGY

Procedures for Data Collection

In order to determine the feasibility of opening an Enomatic Wine bar in San Luis Obispo, certain information regarding startup costs as well as inventory costs will be taken into consideration. These costs include the Enomatic Wine System, rental space, and labor in order to successfully run the business. Additional costs include utility costs such as water, gas, and electricity while operating an Enomatic Wine Bar. This information was collected via personal interviews with local wine bars, and distributors of the Enomatic Wine System. Owners of local wine bars provided monthly costs for utilities, labor, and inventory. Distributors of the Enomatic Wine System provided quotes regarding costs based on a seventy-two bottle system. Other information collected were the costs involved for permits and the obtaining a liquor license. The information obtained for permits is presented by the San Luis Obispo County Organization and the Small Business Administration. Information regarding the costs of a liquor license is obtained from the California State Alcohol Beverage Control.

Start up costs totaling \$252,900.00 would need to be borrowed. Start up costs include the purchase of the Enomatic 72 bottle Wine System: \$82,000.00, Construction costs of approximately \$75.00 per square foot times 1612 square feet equaling \$120,900.00. In addition the cost of fixtures and furniture in the amount of \$50,000.00 would be included in the loan request. Research on-line found that a loan for \$252,000.00 could be financed at a rate of 9% annually. If re-paid over a period of 5 years the monthly payment would equal \$62,998.00 per year. At the beginning of year six there would be no loan/interest payment due and this would add to the positive cash flow for the investor.

In order to obtain information regarding Return on Investment, data will be collected for returns and future costs of the Enomatic Wine Bar. Information regarding costs for the rental space, and necessary equipment, will be determined by locating a potential rental space in San Luis Obispo and calculating rental payments based on the site chosen, as well as contacting the Enomatic distributor for system pricing. Also, contacting a local wine bar in Pismo Beach, Tastes of the Valleys for information on start up costs including but not limited to permit fees, liquor license, furniture and fixture expenses, employee costs, and monthly utility expenses. These figures will be incorporated in the Income Statement on a monthly basis for a full year time period to determine the annual expenses involved in this venture, and this will be repeatedly yearly until a profit is shown.

Procedures for Data Analysis

An Income Statement would need to be generated in order to determine all of the assets and liabilities identified in establishing the Enomatic Wine Bar. The Income Statement would help to identify the future projections for a potential investor based on estimates so an investor would be able to determine if the proposed venture would be profitable.

Assumptions

This study assumes the start-up and pricing costs of opening an Enomatic Wine Bar in San Luis Obispo are standard figures for anyone involved in such a venture. Collected financial data is assumed to be correct and obtained from reliable sources. This study also assumes that the Income Statement, Net Present Value, and Return on Investment are the correct and accurate calculations for determining the profitability of the proposed investment. It is assumed that the potential investor would be able to qualify for a small business loan in the amount of \$252,900.00 at a fixed interest rate of 9.00%. The loan will be amortized over 5 years. It is further assumed that the economic future of San Luis Obispo and California as a whole will maintain its current level and will not falter.

Chapter 4

DEVELOPMENT OF THE STUDY

The gathering of information necessary to conduct this feasibility study was much more difficult than expected. It was not enough to research books in the library or conduct internet searches. It required numerous phone calls in order to attempt personal interviews with current wine bar owners, the president of the Enomatic Wine Bar System, the owner of Tastes of the Valleys, and discussions with the Chamber of Commerce in San Luis Obispo. It was very hard to gain actual figures. A potential site to open the Enomatic Wine bar was identified at the location of 778 Higuera Street in San Luis Obispo. The minimum space available is 1612 square feet and is priced at \$13.80 per square foot per year and includes a net lease cost of an additional \$.060 per square foot per month. Calculations were made to estimate the monthly and annual expenses involved in the rental portion of the venture. These figures were included in the Income Statement and were used to calculate the ROI. This site was chosen because of its location to the downtown area of San Luis Obispo with the expectation that it would draw upon the local residents, students and tourists that flock to the downtown area.

A seventy-bottle Enomatic Wine system would cost the investor \$1,150.00 per unit, for a total of \$82,000.00. This would be an expense above and beyond what a normal wine bar

owner/investor would expect to pay. The expectation is however, that the savings recognized by using this system, such as accuracy of pours, ability to serve more expensive wines without risking spoilage, and the ability to open a larger quantity of wine bottles for consumer consumption and increase its shelf life from a few days to up to 60 days without risking the quality of the wine, would be worth the added expense of the system. Revenue would be realized by charging the consumer from as little as \$6.00 per 5 ounce pours to as much as \$10.00 per pour for a higher quality of wine. The cost of pours would be in line with other local wine bars in the area but would possibly be more profitable due to the fact that the Enomatic System would prolong the shelf life of the individual bottles of wine once opened.

Ash Mehta, of Tastes of the Valley indicated that on average he sold anywhere from 800-1000 bottles of wine per month. For the sake of this study the figure of 800 bottles sold per month were used to calculate revenue and ultimately the Internal Rate of Investment, IRR.

The study used the calculations that an average 5 ounce pour equates to the equivalent of a 750 ml. bottle or approximately 26 ounces; taking into account that one ounce is equal to 29.57 ml. Therefore, at the cost of one 5 ounce pour, at \$6.00, realizes the equivalent of \$30.00 per bottle. At a purchase price to the owner of \$10.00 per bottle the net profit is \$20.00. A potential profit of 66.66% could be realized on each bottle of wine that is sold, based on 25 pours.

Chapter 5

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

In order to determine the feasibility of opening an Enomatic Wine Bar in San Luis Obispo all costs involved in the development of the facility were determined. Then, all the revenues and costs were entered in an excel spreadsheet. From the data shown in Appendix B the business endeavor provided a Return on Investment of 27% after 6 years.

Conclusions

After developing the excel spreadsheet and Enomatic Wine Bar Budget the business exceeded the original hypothesis of a Return on Investment of 2%, providing a Return on Investment of 27%, meaning that the requirements for determining the feasibility of this operation were met.

Recommendations

With a positive Return on Investment of 27% after 6 years this venture is deemed feasible. Therefore, the investment is recommended to any investor willing to conduct such a business. However, it is recommended that an investor consider different ways to increase profitability early on. In order to accomplish early profitability an investor might consider relocating the facility to a lower rent district, amortizing their loan for longer period of time in order to lower annual payments. Investors could consider buying fewer Enomatic Wine Systems during the beginning of their business, and increase the amount of systems as profits increase.

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APPENDIX A

ENOMATIC WINE BAR BUDGET

	PRICE PER UNIT	Number of Items	Total Revenue Per Day	Average number of Days open/Month	Average Revenue Per Month	Average Annual Revenue
REVENUES						
5 ounce pours	\$6	30	\$180.00	20	\$3,600.00	
5 ounce pours	\$10	20	\$200.00	20	\$4,000.00	
8 ounce pours	\$12	10	\$120.00	20	\$2,400.00	
750 ml. bottle of wine	\$30	10	\$300.00	20	\$6,000.00	
750 ml. bottle of wine	\$60	5	\$300.00	20	\$6,000.00	
TOTAL REVENUES:		75	\$1,100.00		\$22,000.00	\$264,000.00

	Cost	Number of Units	Cost Per Month	Cost Annually
VARIABLE COSTS				
Sales Tax	8.75%	22,000	\$1,925.00	\$23,100.00
Wine (Average cost of \$6.00 low end and \$20.00 high end)	\$13.00 per bottle	800	\$10,400.00	\$124,800.00
Wages(4 part time people each working an average of 60 hours per month)	\$10.00	240	\$2,400.00	\$28,800.00
TOTAL MONTHLY VARIABLE EXPENSES			\$12,800.00	\$176,700.00

	Amortize over 5 years			
ONE TIME COSTS				
72 bottle Enomatic Wine System	\$1,150.00	72	\$6,900.00	\$82,000.00
Construction Costs (Including permits and fees)	\$120,900.00			
Furniture & Fixtures (Onetime expense)	\$50,000.00	1		

FIXED COSTS	PRICE PER UNIT	Total number of units	MONTHLY	ANNUALLY
Base rent (per SF)	\$13.80	1612	\$1,853.80	\$22,245.60
NNN (TRIPLE NET) LEASE (per SF) Includes, property taxes, utilities and maintenance	\$0.60	1612	\$967.20	\$11,606.40
Liquor License	\$300.00	1	\$25.00	\$300.00
TOTAL FIXED COSTS			\$2,846.00	\$34,152.00

APPENDIX B

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
<u>Revenues</u>						
Income	\$264,000	\$269,280	\$274,666	\$280,159	\$285,762	\$291,477
<u>Variable Costs</u>						
Sales Tax	\$23,100	\$23,562	\$24,033	\$24,514	\$25,004	\$25,504
Wine	\$124,800	\$127,296	\$129,842	\$132,439	\$135,088	\$137,790
Wages	\$28,800	\$29,376	\$29,964	\$30,563	\$31,174	\$31,797
<u>Fixed Costs</u>						
Rent	\$22,245	\$22,245	\$22,245	\$22,245	\$22,245	\$22,245
Utilities	\$11,606	\$11,606	\$11,606	\$11,606	\$11,606	\$11,606
Liquor License	\$300	\$275	\$275	\$275	\$275	\$275
Loan	\$62,998	\$62,998	\$62,998	\$62,998	\$62,998	\$0
Total Costs	(\$273,849)	(\$277,358)	(\$280,963)	(\$284,640)	(\$288,390)	(\$229,217)
Total Revenue	\$264,000	\$269,280	\$274,666	\$280,159	\$285,762	\$291,477
IRR	-4%	-3%	-2%	-2%	-1%	27%