



# **MKF RESEARCH**

## **ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005**

 **MKF RESEARCH LLC**

A joint venture of  
Global Wine Partners US LLC  
Frank, Rimerman + Co. LLP CPAs



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# **ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005**

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This study was commissioned by the  
**Illinois Grape Growers and Vintners Association**

and funded by the  
**Illinois Department of Agriculture**  
and  
**Department of Commerce and Economic Opportunity**

# **ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005**

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# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## HIGHLIGHTS

FULL ECONOMIC IMPACT\* OF WINE AND WINEGRAPES ON THE  
ILLINOIS ECONOMY

**\$ 253.8 Million**

ILLINOIS WINE	ECONOMIC IMPACT
Number of Wineries	68
Number of Grape Growers	450
Winegrape Bearing Acres	1100
Full-time Equivalent Jobs	2,300
Wages Paid	\$59.7 million
Wine Produced	500,000 gallons
Retail Value of Illinois Wine	\$21 million
Tourism Expenditures	\$31 million
Number of Visitors	155,000
Taxes Paid (Illinois/ Total)	\$11.9 million / \$22.9 million

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## EXECUTIVE SUMMARY

### EXECUTIVE SUMMARY

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Although winemaking in Illinois dates from at least 1885, ninety percent of Illinois' vineyards and 83 percent of Illinois' wineries have been established in the last ten years. In just the last three years, the number of wineries and vineyards have doubled, so that today there are 68 wineries and 450 vineyards in the state.

The wineries of Illinois produce 500,000 gallons of wine per year. MKF Research LLC estimates that Illinois wineries' revenues from wine sales total \$21 million, taking into account both direct sales and the wineries' share of revenue for wine sold through the three-tier system. There are approximately 450 grape farmers in the state with 1,100 bearing acres.

Wine and winegrapes and related industries created more than \$253 million<sup>1</sup> of total economic value to the state of Illinois for 2005. The wine and winegrape and sectors paid at least \$22.9 million in state and local taxes in the state in 2005.<sup>2</sup>

Wine and winegrapes and related industries account for nearly 2,300 jobs across the state, for a payroll of more than \$59.6 million.

**Table 1**

<b>Total Employment 2005</b>	
<b>Illinois Wine and Wine Grape Industry Related Sectors</b>	
Distributor	2
Education	2
Retail/Liquor Store	6
Restaurants	25
Vineyard	834
Vineyard Materials	25
Winery	186
Winery Services	3
Winery Tourism	291
Indirect IMPLAN	423
Induced IMPLAN	496
<b>Total Employment</b>	<b>2,293</b>

**Sources: MKF Research LLC, Illinois Department of Employment Security and IMPLAN**

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<sup>1</sup> See **Table 2** below.

<sup>2</sup> IMPLAN, State of Illinois Department of Taxation and Finance and Illinois State Liquor Authority.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## EXECUTIVE SUMMARY

Investing in a vineyard is a long-term commitment to a specific place. Newly planted vineyards need four years to produce a harvest. Another year to three years is needed to turn those grapes into wine. The soil and climate in which grapes are grown define the taste and style of the wine the grapes will become. Wine must contain 75% Illinois grapes to be labeled Illinois wine. Thus, unlike manufacturing or service enterprises, Illinois' vineyards and wineries producing Illinois wine cannot easily be moved to another state which might offer a better business climate or tax incentives.

## CHALLENGES AND OPPORTUNITIES

### *Challenges*

Illinois' wine and winegrape producers face a complex array of challenges.

#### **Trained Labor and Availability of Training**

Illinois has a serious shortage of trained viticulture and enology professionals, a shortage that has constrained the continued expansion of the winegrape industry as well as its continuing efforts to improve grape quality.

Lacking a state enologist and viticulturist, the industry has relied on part-time assistance and agricultural assistance. Viticulture and enology degree programs are also limited. Moreover, most of the states with growing winemaking and grape growing industries supplement their formal degree programs and extension services with extensive in-service, part-time courses for mid-career professionals to continue to improve their skills, including wine business courses as well as technical training. The offerings here too are somewhat limited, primarily one day seminars sponsored by IGGVA and the University of Illinois at Champaign, the Illinois Department of Agriculture and others. Southern Illinois University is another professional source of class and seminar offerings. Continuing to build this institutional infrastructure will help ensure the long-term strength of Illinois' wine and winegrape industry.

#### **Grape Shortage**

Shortage of quality grapes also remains an issue for wineries. Demand for the best grapes has outstripped their supply as wine sales continue to grow. A wine needs to contain at least 75% Illinois grapes to be labeled as an Illinois wine. Crop damage from two freezes in spring 2005 inhibited the growth of Illinois wine production in 2005.

# **ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005**

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## **EXECUTIVE SUMMARY**

Consequently, many wineries, particularly the larger wineries, are importing grapes. New sources of grapes and grape juice from California and Michigan and some other states are helping ease the shortage and providing more variety to wines produced in Illinois. In some cases, grapes brought in from California are less expensive than those grown locally. Some Illinois winemakers use such grapes to make classic vinifera style wines or blend them with native or hybrid varietal grapes to create new blends, although they may not be able to label them as Illinois appellation wines.

### **Scarcity of Financing**

The capital-intensive nature of the winery and vineyard sectors is often underestimated. It appears that some parts of Illinois's winery and vineyard sectors may be under-capitalized as well as under-served by credit and other financial institutions, especially as few institutions are familiar with the unique characteristics of the business of wine and grapes.

### **Climate and Other Issues**

Illinois grape growers also often face a challenging natural environment, particularly for higher value vinifera grapes. Periodically severe winters and springs damage harvests and increase the difficulty of grape cultivation. Sudden changes in temperature pose the greatest viticultural hazard. Water use constraints, environmental issues, and rising land prices in the spreading metropolitan regions further augment costs and complicate vineyard development as does the use of pesticides in the surrounding agricultural areas.

The University of Illinois Extension is currently working on Integrated Pest Management techniques to assist the winegrape industry. In addition, others are turning to hardier hybrid grape varieties like chambourcin, vignoles and vidal.

### **Building a Reputation for Illinois Wine in a Crowded Wine Market**

Wine is a discretionary consumer good – clear product image and consistent quality are essential to claim a place through distributors, retailers and restaurants to reach the consumer or to build a direct-to-consumer brand. Illinois's wineries need to build a clear profile and reputation for their products to compete in an already crowded wine marketplace.

“Illinois Wine” has made some progress in the market but more work is needed. Increased efforts by the state of Illinois and the Illinois Grape Growers and Vintners Association (IGGVA) will help to build the reputation of Illinois wine.

# **ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005**

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## **EXECUTIVE SUMMARY**

### **Direct Shipping**

Since the enactment of the 21<sup>st</sup> amendment to the US constitution ending Prohibition, regulation of alcohol distribution and sale has been a state responsibility. Within the system that emerged from these regulations, wine has been sold through the “three-tier system”: the wine producer sells the wine to a state licensed distributor who then sells the wine to retailers or restaurants for sale to the consumer. However, the smaller winemakers in Illinois are finding little distributor interest in selling their wine, although three of the largest have been successful working with distributors. The alternative for these smaller wineries has long been to sell directly to consumers, an arrangement permitted to Illinois wineries under Illinois law. However, the Supreme Court’s Granholm decision in 2005 prohibited differential privileges for instate businesses.

Illinois law now permits direct sale by wineries to consumers resident in states that have signed a reciprocity agreement with Illinois but limits such sale to two cases per consumer per year. There is concern by wineries that legislation may be introduced providing still more restrictions which may severely and negatively impact the business prospects of smaller wineries. The direct shipping issue is currently under negotiation.

### ***Opportunities***

#### **A Growing Wine Market**

Illinois winemakers serve one of the major wine markets in the US. The state is the fifth largest wine market in the country, with the city of Chicago the third largest US metropolitan wine market.

Illinois’ wine and grape industry will benefit from America’s steadily rising demand for wine – and for better wine. Although slowing from the peak growth rates of the 1990s, American wine consumption is still rising, increasing overall by 3.8% in 2004 and by more than 6% in 2005.

Interest in agricultural and winery tourism has also grown steadily, bringing visitors and customers to Illinois wineries, as demonstrated by their growing numbers of such guests, totaling more than 150,000 in 2005.

# **ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005**

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## **EXECUTIVE SUMMARY**

### **State Government Support of the Wine and Winegrape Industry**

Illinois state government is showing more support of the industry.

In 2005, the state of Illinois designated \$400,000 to assist the state's wine industry. The funds go to the University of Illinois, Southern Illinois University, the Illinois Grape Growers and Vintners Association, and to hire an enologist. The state also granted \$150,000 to the Illinois Bureau of Tourism for a campaign to highlight wineries and attract visitors. In addition, the Illinois Treasurer's Experience Illinois Tourism Loan program has assisted with financing for eight wineries in Illinois totaling almost \$1.5 million dollars during the last four years.

To promote the grape and wine industry, in 2005, Illinois Governor Rod Blagojevich designated September as "Illinois Wine Month."

### **Rapidly Improving Grape and Wine Quality**

The quality of Illinois wine and viticulture has been steadily increasing and receiving growing recognition, reflected in rising sales on more profitable terms. The Illinois Grape Growers and Vintners Association, established in 1992, has supported training and development with a focus on improving quality and productivity in vineyards and wineries. The growers are continuing to focus on the use of French Hybrids, which have been successful and are ranked as the top six varieties planted in the state.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## EXECUTIVE SUMMARY

**Table 2**  
**Total Economic Impact (Sum of Total Spending) on Wine and Wine Grapes**

<b>Revenue:</b>	
Winery Sales	\$ 20,900,000
Retail and Restaurant Wine Sales	1,254,000
Distributors Sales	1,045,000
Tourism	30,840,000
Wine Grape Sales	1,100,000
Federal Tax Revenues	10,978,000
State Tax Revenues	11,927,000
Vineyard Development (excluding vines)	6,250,000
Charitable Contributions	232,000
Advertising/Marketing	66,000
Winery Services	70,000
Winery Research	400,000
Financing Revenues	105,000
Indirect (IMPLAN)	56,551,000
Induced (IMPLAN)	52,401,000
Total Revenue	<u>\$ 194,119,000</u>
<b>Wages:</b>	
Winery Employees	\$ 2,799,000
Vineyard Employees	8,923,000
Tourism	7,091,000
Vineyard Development - Labor	60,000
Vineyard Materials - Labor	475,000
Distributors Employees	85,000
Retail/Liquor Stores - Wine Specific	112,000
Restaurant Wages	473,000
Winery Services	118,000
Education and Research	122,000
Indirect (IMPLAN)	21,340,000
Induced (IMPLAN)	18,053,000
Total Wages	<u>\$ 59,651,000</u>
<b>Total</b>	<u><u>\$ 253,770,000</u></u>

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## ILLINOIS' WINE AND WINEGRAPE INDUSTRY

### ILLINOIS' WINE AND WINEGRAPE INDUSTRY

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#### BACKGROUND

Winegrapes were first planted in Illinois state in 1778 by French settlers in La Ville de Maillet (now Peoria), bringing winemaking expertise from their homeland. The village had a wine press and a wine cellar. These vines were not successful due to the challenging climate. Native varieties were next used for wine as these varieties grew well in Illinois.

In 1830, vineyards were planted in western Illinois, near Galena. Emile Baxter of Nauvoo, Illinois planted grapes in 1857 and made and sold wine, continuing until Prohibition. Today the fifth generation of Baxters operate this grape growing and wine production business.

Lynfred Winery in Roselle has been in continuous operation since 1979 and Galena Cellars Winery opened shortly thereafter. In 1984, Guy Renzaglia, a retired southern Illinois professor established Alto Vineyards. He planted five acres of hybrid grapes, Chancellor, Chambourcin, Vidal and Villard Blanc, varieties that are now widely accepted in the midwest.

In 1995, the Shawnee Hills Wine Trail was formed by Alto Vineyards, Owl Creek Vineyard and Pomona Winery and area tourism officials. By 2002, it had 100,000 visitors and grossed over \$2 million dollars. There are currently eight wineries that are part of the trail, also served by bed and breakfasts, antique and other stores and restaurants. In 2005, a Northern Illinois Wine Trail was formed with fifteen wineries. It is coordinating tours and wine events in the area through the participating wineries.

#### WINERIES

Today Illinois has 68 wineries producing 500,000 gallons of wine per year. MKF Research LLC estimates that Illinois wineries' revenues from wine sales total \$21 million, taking into account both direct sales and the wineries' share of revenue for wine sold through the three-tier system.

#### *Illinois Wine Regions*

Of the state's 102 counties, 69 have at least one vineyard and 38 counties have at least one winery. The vast majority of both vineyards and wineries were established within the last ten years. Illinois has four grape growing regions: Northern, Central, South Central and the Southern region.

# ECONOMIC IMPACT OF IWINE AND WINEGRAPES IN ILLINOIS 2005

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## ILLINOIS' WINE AND WINEGRAPE INDUSTRY

In the Northern region, the closest to Chicago, regional produce and native and hybrid grapes are used to craft fruit and grape wine. The state's largest winery, Lynfred Winery, is in the Northern region, in Roselle. Lacking its own vineyards, Lynfred buys its 350 tons of grapes, primarily from California, as the vinifera grapes it prefers are not available in its area.

The Central region grows primarily French-American hybrids, though some vinifera is also grown.

The South Central region is near the intersection of the Illinois and Mississippi Rivers and has climate that is favorable to grow a wide variety of grapes.

The Southern region has rolling hills and sandy soil, very conducive for growing grapes. The climate is more temperate, experiencing little spring or winter frost and constant summer breezes, which keeps the grapes dry despite showers. About half of the state's wineries are located in this region. Because of its distinct climate, Shawnee Hills, which includes areas in eleven counties, has petitioned the Alcohol and Tobacco Tax and Trade Bureau (TTB) last year to be considered a new AVA. The application was recently approved and the AVA will become official on December 27, 2006.

### *Wine Retail Prices*

Prices charged to consumers either at tasting rooms or through retail shops for Illinois white wines range from \$8 a bottle to \$16 with most in the lower to mid range and primarily made from hybrid grapes. Red wines range from \$7 a bottle to \$38 with most around the mid range. The higher priced wines are vinifera and the lower hybrids. Rosés are produced from number of hybrid grapes. These range from \$8 a bottle to \$12. Fortified wines such as ports are produced from Chambourcin, Concord and Vidal grapes and range from \$10 a bottle to \$18. Late harvest dessert wines are made from vinifera, hybrids and native varieties and range in price from \$7.5 a bottle to \$15. Prices charged to wholesalers for wine sold through the three-tier system tend to be 50% of the retail price.

### *Wine Grape Shortage*

A shortage of quality winegrapes remains a concern for wineries, as demand for the best grapes outstrips the supply as wine sales continue to grow. The small vinifera harvest, with some losses from the severe 2005 spring frosts, inhibits the growth of the Illinois wine industry. Wineries are importing grapes, wine and juice from California, Michigan, Indiana, New York and other states at an average price of about \$900 a ton, a comparable price to in-state native and hybrid grapes and much less than that for in-state vinifera grapes, which aren't widely available.

# ECONOMIC IMPACT OF IWINE AND WINEGRAPES IN ILLINOIS 2005

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## ILLINOIS' WINE AND WINEGRAPE INDUSTRY

New York and Michigan lead in supplying juice and Michigan and Indiana in supplying bulk wine.

### **WINEGRAPES**

There are approximately 450 grape farmers in the state with 1,200 bearing acres. About 90% of these grapes are processed for wine. Vineyards typically produce about three tons of grapes per acre.

83 percent of all wine made in Illinois was made with Illinois fruit and 53% of the wineries, particularly the smaller wineries, use Illinois fruit exclusively.

### *Grape Production*

French Hybrid grapes developed by crossing French grapes with Native American (Chardoneel, Chambourcin, Vignoles, Traminette, Marchal Foch and Frontenac) are planted in at least 75 percent of Illinois' total grape acreage.

Beginning in the 1990s growers and winemakers increasingly experimented with vinifera. Thanks to advances in vine research and vineyard management practices, Vinifera grapes were more successfully planted in Illinois regions, especially in the warmer Southern region. Vinifera production still remains challenging. At least one winegrape grower buries his vinifera vines in the fall to protect them from the cold Illinois winter. Viniferas and hybrids sometime also grow too quickly in the Illinois soil and the canopy has to be effectively managed. Nevertheless, the production of vinifera, such as Cabernet Sauvignon, Merlot and Chardonnay, has been growing gradually.

However, vinifera continue to represent barely 10% of the winegrapes produced in the state and a growing shortage of quality vinifera is becoming a significant constraint on the growth of Illinois's winemaking industry.

# ECONOMIC IMPACT OF IWINE AND WINEGRAPES IN ILLINOIS 2005

## ILLINOIS' WINE AND WINEGRAPE INDUSTRY

**Table 1.1**  
**Major Varieties of Grapes Grown in Illinois State, 2005**

	Acres
<i>American (Native) Varieties</i>	
Catawba	8
Concord	39
Niagara	20
Norton	46
<i>French Hybrids</i>	
Cayuga	11
Chambourcin	94
Chancellor	10
Chardonel	110
De Chaunac	3
Edelwiess	5
Fredonia	5
Frontenac	45
La Crosse	9
Leon Millot	13
Marchal Foch	66
Seyval Blanc	36
St. Croix	18
St. Pepin	8
Traminette	57
Vidal Blanc	33
Vignoles	72
Villard	4
<i>Vitis Vinifera</i>	
Chardonnay	2
<b>Subtotal</b>	712
<b>All Others</b>	388
<b>TOTAL</b>	1100

Source: Illinois Department of Agriculture Survey and MKF Research LLC

The different varieties also reflect quite different viticulture practices. Improving vinifera quality to produce higher quality wines increasingly means reducing yields to 2.5 tons per acre or less, careful pruning and trellis investment and management. A drinkable wine from hybrid or native grapes is easily achieved with yields of six to nine tons per acre with little additional investment. Thus, these are all very different businesses.

In southern Illinois, the Shawnee Winery Cooperative has been formed to create a market for southern Illinois Grapes. Thirteen growers with forty acres of grapes are involved. Members pool their grapes and resources and also pool their labor.

# ECONOMIC IMPACT OF IWINE AND WINEGRAPES IN ILLINOIS 2005

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## ILLINOIS' WINE AND WINEGRAPE INDUSTRY

### *Grape Prices*

The regions and products face quite different business and economic conditions, clearly reflected in the widely differing market prices received by these products, as shown in the **Tables** below.

**Table 1.2**  
**Average 2005 Grape Prices by Varietal Category**

<b>Variety</b>	<b>Average Price</b>
Major Native	\$ 750
Red Hybrid	\$ 1000
White Hybrid	\$ 850
Red Vinifera	\$ 2000
White Vinifera	\$ 1700

Source: MKF Research LLC

While vinifera grapes claim higher prices than natives and hybrids, it would be a mistake to assume their production ensures higher returns for farmers. Far higher farming costs due to greater handwork and sensitivity to climate often make vinifera far less profitable than the low maintenance and hardy native and hybrid grapes.

### *Improving Viticulture Practices*

Given advancements in viticulture – the quality of the plantings, matching rootstock and clone type to location, and improved trellis systems – the vineyards of today are of a much higher quality than even ten years ago. Research on vine propagation and management has advanced significantly. In the last ten years there has been improved drainage and irrigation methods. Growers and winemakers are learning to work together to produce higher quality fruit, which is resulting in a larger variety of wines of competitive quality.

More resources will be needed to provide growers and producers newer techniques of vineyard management that will improve profitability and sustained growth.

## **SHORTAGE OF TRAINED LABOR FORCE**

To meet the rising standards for wine quality in the state the scarcity of skilled viticulture and winemaking staff becomes an increasing constraint on Illinois winemaking.

The University of Illinois at Champaign, its extension program and Shawnee Community College provide some resources to Illinois grape growers and wine

# **ECONOMIC IMPACT OF IWINE AND WINEGRAPES IN ILLINOIS 2005**

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## **ILLINOIS' WINE AND WINEGRAPE INDUSTRY**

makers. In 2005, a Viticulture and Enology Science and Technology Alliance partnership has developed between Illinois' Shawnee Community College, Southwest Missouri State University, Northeast Iowa Community College, state agriculture agencies, vineyards and wineries to teach high school agriculture students how to establish and maintain a vineyard.

### **ACCELERATING GROWTH IN THE NUMBER OF WINERIES**

There seem to be many reasons why winegrape growing and winemaking are increasing so rapidly in the Illinois State Appellation. These include the appeal of farming a new crop, improving knowledge of the grape varieties that grow more easily in Illinois, the ease of obtaining grapes and juice from other areas and states and the increasing consumer demand for wine. Winegrapes are also more profitable per acre than corn or soybeans: revenue from grapes can range from \$4,000 to \$6,000 an acre, far more than the \$300 to \$400 an acre for soybeans or corn, even when the added labor needed for grape production is considered.

Wineries and vineyards support a broad network of suppliers and services. Currently, most of these goods and services are being purchased from suppliers outside the state. As has happened in other winemaking regions, increasing density in the number of wineries and vineyards will stimulate the emergence of such suppliers in the local market.

### **DISTRIBUTION CHANNELS FOR ILLINOIS STATE WINE**

The vast majority of wine from Illinois wineries is sold direct to consumers at the wineries. Nearly all the wine sold through licensed distributors (under the three-tier system) comes from three wineries and is primarily sold within the state through retailers and restaurants. In 2005, over \$1M of total winery wine sales of \$21M was sold through licensed distributors.

It is generally not economical for distributors to serve small producer wineries or wineries unable to build strong on-premise and chain store demand. By contrast, demand for most Illinois wine is concentrated outside the three-tier system, in the winery visitor/tourist community. Moreover, wineries sell direct to consumers at their full retail price. Sales to distributors are usually made at about 50% of the full retail price to accommodate distributor and retailer markups. Thus, should wineries be required to sell through the three-tier market, they would either need to raise their prices or reduce their already modest incomes – and would still be neglecting their core, visitor market.

# **ECONOMIC IMPACT OF IWINE AND WINEGRAPES IN ILLINOIS 2005**

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## **ILLINOIS' WINE AND WINEGRAPE INDUSTRY**

### ***Direct Shipping***

Illinois wineries can ship a limited amount of wine outside the state and people from Illinois can purchase a limited amount of wine from other states according to the shipping regulations in those states. Currently the amount is limited to two cases per customer per year.

However, there is concern that legislation may be introduced that would make direct shipping much more restrictive than currently and would greatly impact wine sales from Illinois' smaller wineries.

Several states have complex compliance obligations, which may be a challenge to some smaller wineries although training is being offered by several winery organizations.

## **THE ILLINOIS GRAPE GROWERS AND VINTNERS ASSOCIATION**

The Illinois Grape Growers and Vintners Association (IGGVA) was created in 1992 as a not-for-profit corporation, supported by a combination of state, private, special consumer events and dues funding. Its legislative mandate is to foster cooperation among the industry, and to centralize and coordinate comprehensive programs of promotion and research to advance the industry, including keeping legislative representatives up to date on industry issues. It is now the central organization for the wine and winegrape industry in Illinois.

The Illinois Grape Growers and Vintners Association is trying to increase public awareness of the Illinois wine industry by using public relations and marketing firms, showcasing Illinois wines at fairs and festivals and working on wine trails like the popular Shawnee Trail in southern Illinois and the much newer Northern Illinois Wine Trail.

## **STATE GOVERNMENT SUPPORT OF THE WINE AND WINEGRAPE INDUSTRY**

The Illinois Council on Food and Agricultural Research (C-Far) investigated market opportunities for organic and other value added agricultural products. Based on its research, the Council believes there are additional opportunities in the wine and winegrape industries.

# ECONOMIC IMPACT OF IWINE AND WINEGRAPES IN ILLINOIS 2005

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## ILLINOIS' WINE AND WINEGRAPE INDUSTRY

In 2005, the state of Illinois designated \$400,000 to assist the state's wine industry. The funds go to the University of Illinois, Southern Illinois University, the Illinois Grape Growers and Vintners Association, and to hire an enologist. The state also granted \$150,000 to the Illinois Bureau of Tourism for a campaign to highlight wineries and attract visitors. In addition, there is the Illinois Treasurer's Experience Illinois Tourism Loan program which has assisted with financing for eight wineries in Illinois totaling almost \$1.5 million dollars during the last four years.

### WINE RELATED EMPLOYMENT

The Illinois wine and winegrape sectors and allied industries provide employment, directly and indirectly, for nearly 2,300 full-time equivalent jobs, spread across many industries and representing a total payroll of more than \$59.6 million.

#### *Winery Employment*

Wineries employ full and part-time workers labor for bottling, storage, maintenance, and winemaking needs as well as hospitality, finance, sales and marketing functions. Some wineries also employ seasonal labor.

Employment at wineries, in vineyard work, production, tasting rooms, sales and other areas, has grown tenfold since 1985.

The Illinois Department of Employment Security compiles data on industry employment and payrolls in Illinois quarterly, identifying specific employment in specific industries using the North American Industry Classification System (NAICS) codes<sup>3</sup>. Department of Labor statistics do not include income to owners of businesses not eligible for unemployment compensation such as family owners. For certain family-owned wineries, significant numbers of individuals working in the industry and earning substantial income may therefore be omitted from these data. In 2005, the Department of Employment Security reported that state wineries had 186 employees and paid gross wages of nearly \$2.8 million.

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<sup>3</sup> All firms conducting the same business, regardless of size, have the same NAICS code. The first two numbers identify the industrial sector, and the final four numbers identify the specific job in that sector. Since NAFTA was initiated in 1992, there was a movement to classify all jobs by specific codes within the North American Free Trade Area to compare and contrast wages differentials. The NAICS codes are the fruit of that process. The main NAICS codes for the wine industry represent Vineyard workers (NAICS 111332), Winery workers (NAICS 312130), and Distributors and Wholesale Trade<sup>3</sup> (NAICS 424820) jobs for wine and spirits only.

# **ECONOMIC IMPACT OF IWINE AND WINEGRAPES IN ILLINOIS 2005**

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## ILLINOIS' WINE AND WINEGRAPE INDUSTRY

### *Vineyard Employment*

Winegrape production uses seasonal labor for harvests and vineyard development and full-time positions for maintenance of currently bearing acres and development of new vineyards yet to bear fruit, as well business management staff for finance, sales and other functions.

A total of 834 persons were employed by vineyards in Illinois state in 2005, according to the Illinois State Department of Labor, with wages totaling \$8.9 million.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## ALLIED INDUSTRIES

### ALLIED INDUSTRIES

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A variety of industries either provide products or services to the wine industry or benefit directly from the presence of related facilities and services. These include: distribution, trucking, tourism, equipment and supplies, testing, education and research, restaurants and liquor retailers. However, given the still small size of Illinois' wine and winegrape industry, few such suppliers are currently based within the state. The major allied industries and services for Illinois' wine and winegrape industry are therefore tourism and education and research, as discussed below.

### TOURISM

**Table 2.1**

<b>Direct Employment</b>	<b>291 Employees</b>
<b>Total Wages</b>	<b>7,091,000</b>
<b>Total Revenues</b>	<b>30,840,000</b>

Source: MKF Research LLC

The number of tourist visits to Illinois wineries has increased rapidly in the last ten years, with a few wineries just outside of Chicago and a large number of wineries in the Southern region accounting for the majority of the visitors. This rapid growth of agri-tourism is generating new bed and breakfasts, upscale restaurants, farm and craft markets and festivals.

The Carbondale Convention and Tourism Bureau estimates the total spending per winery visitor per day is approximately \$198. Other than that, there are few wine-specific tourism industry statistics available to give us a picture of the rest of the Illinois wine regions and the growth of tourism.

Currently, little Illinois wine is sold in restaurants. This may be changing due to IGGVA marketing efforts as well as its partnership with the Illinois Bureau of Tourism. Marketing campaigns and three-day packages promote Illinois wine destinations. Wine events and festivals are being held in Chicago and around the state to further promote the industry. In addition, the Northern Illinois Tourism Development Office formed the Northern Illinois Wine Trail, of twenty locations north of Interstate 80. The Shawnee Hills Wine Trail was formed in 1995 and has since grown the number of participating wineries from three to eight.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## ALLIED INDUSTRIES

### EDUCATION AND WINE INDUSTRY RESEARCH

The industry does a lot of self education at seminars and conferences. Some limited research is conducted at local Shawnee Community College and at the University of Illinois at Champaign. Southern Illinois University provides programs and seminars utilizing its research vineyards at its campus in Carbondale.

**Table 2.2**

<b>Direct Employment</b>	<b>2 Employees</b>
<b>Total Wages</b>	<b>\$122,000</b>
<b>Research Expenditures</b>	<b>\$400,000</b>

Source: MKF Research LLC

### WINERY SERVICES

Limited winery-specific services are provided within the state of Illinois. Two examples of these types of services include trucking and laboratory services.

Trucks provide services through the entire wine production and warehouse and distribution process. Trucks also haul grapes and juice from one part of the state to another and from other states. Most Illinois wineries utilize carriers based out of state. Major distribution houses generally own their own trucking.

Most Illinois wineries store wine on premise and do not require warehousing services. However, if somehow they are at capacity, they may store excess wine and materials at another winery. Thus, warehousing is not a major factor for wineries. Distributors own their own warehouse facilities.

Most complex lab work is currently sent out of state and more basic labor work is done at the winery. However, this may change shortly. The University of Illinois, Champaign has a lab that is fully equipped and they will start to offer lab work when a new enologist is hired this year. In August, 2006, Bradley Beam was hired by the University of Illinois as the full time enologist for the state of Illinois.

**Table 2.3**

<b>Direct Employment</b>	<b>3 Employees</b>
<b>Total Wages</b>	<b>118,000</b>
<b>Total Revenues</b>	<b>70,000</b>

Source: MKF Research LLC

# **ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005**

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## **ALLIED INDUSTRIES**

### **VINEYARD DEVELOPMENT**

Vineyard development is the process of converting land into a developed vineyard. The land must be prepared to plant vines. Once the vine is planted it must be trellised and trained, and from the time a vine is planted in the ground, it can take between two and four years before the vine bears fruit. During this time, pre-productive (non-fruit bearing) vines must be tended and cared for in accordance with sound viticultural practices to ensure healthy productive (fruit bearing) vines.

The vineyard development process is very capital and labor intensive, with development costs in Illinois State averaging \$15,000 per acre, depending on the specific location of the vineyard and planting layout, not including land acquisition costs. The most important determinant of the cost of planting a vineyard is the vine spacing. Grape growing regions use various vine spacing based upon environmental site attributes, desired grape flavors, and development cost considerations. Regardless of the ultimate development plan selected, the investment required is significant.

Illinois state vineyards tend to use relatively few outside vineyard development contractors, undertaking the work instead with their own employees.

### **OTHER INDUSTRIES**

As of 2005, there were no significant producers of wine bottles, wine bottle closures, case boxes for wine, stainless steel tanks or coopers (barrel makers) in Illinois. There was at least one company targeting the wine label industry beginning in 2006. There are no commercial nurseries in Illinois providing grape vines. Illinois grape growers purchase grape vines from out of state. As the wine and winegrape industries grow, more local suppliers are likely to emerge to support them.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## OTHER ECONOMIC BENEFITS

### OTHER ECONOMIC BENEFITS

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This chapter discusses other benefits derived from the wine industry, including tax revenues, financing revenues, charitable contributions, and other indirect and induced economic benefits not specifically addressed elsewhere in this report.

### TAX REVENUES

The wine juice industry generates significant tax dollars, benefiting federal, state and local governments. However, agricultural equipment and supplies are not taxable in Illinois. Tax is paid on anything sold to non-farmers. Tax dollars are raised through sales taxes, excise taxes, income taxes, estate and gift taxes, payroll taxes, property taxes and other business taxes and fees, such as occupational taxes, licenses, and import duties. Increased wine production generated increased federal and state tax revenue.

**Table 3.1**  
**Estimated Tax Revenues**

Federal tax revenues	\$10,978,000
State tax revenues	\$11,927,000

Source: IMPLAN

### FINANCING REVENUES

The capital-intensive nature of the winery and vineyard sectors is often underestimated. Yet it also appears that some parts of Illinois' winery and vineyard sectors, particularly older wineries, may be under-capitalized as well as under-served by credit and other financial institutions, especially institutions which understand the business of wine and grapes.

No doubt substantial financing revenues and capital investments were incurred by Illinois' wine distribution, retail and restaurant industries, which are not included in these numbers.

The Illinois Treasurer's office has an alternative Agriculture program for specialty products like grapes and wine. Loans are made for one to five years for grape and vineyard production. This program works through local financial institutions but is administered centrally in the State Treasurers office. Additionally, financing revenue from loans provided to wineries under the aforementioned Experience Illinois Tourism Loan program is estimated at \$105,000.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## OTHER ECONOMIC BENEFITS

### CHARITABLE CONTRIBUTIONS

The wineries and vineyards throughout the state of Illinois routinely donate wine, employee time and cash to many charities and worthy causes throughout the state of Illinois. For industry and non-industry alike, wine has become an increasing attractive fundraising vehicle. One example is the Illinois Wine Auction, a portion of whose proceeds go to a community charity. Individual wineries also contribute to charitable events. The amount of charitable contributions from wineries is estimated to be \$209,000 for 2005.

### DIRECT, INDIRECT AND INDUCED EFFECTS (IMPLAN)

Illinois' wine and grape industry has a "multiplier" effect, extending across the state in a broad network of economic benefits to Illinois. The wine and grape industry becomes income for other workers and firms, who spend more money on other goods and services.

Economic impact studies estimate the impact of an industry in a defined geographic region by identifying and measuring specific concrete and economic events, such as the purchase of goods and services.

IMPLAN is the acronym for "IMpact analysis for PLANing." IMPLAN is a well established and widely used economic model that uses input-output analyses and tables for over 500 industries to estimate regional and industry-specific economic impacts of a specific industry.

The IMPLAN model and methodology classifies these effects into three categories, Direct Effects, Indirect Effects and Induced Effects.

Direct Effects are economic changes in industries *directly* associated with the product's final demand. Thus, direct effects consider the direct employment and spending of wineries, vineyards, distributors and immediately allied industries.

Indirect Effects are economic changes – income created through job creation in industries that supply goods and services to the directly affected industries noted above. For example, the purchases of electricity and gasoline by wineries and of cash registers purchased for a tasting room.

Induced Effects are the effects of these new workers spending their new incomes, creating a still further flow of income in their communities and a flow of new jobs and services. Examples are spending in grocery and retail stores, medical offices, insurance companies, and other non-wine and grape related industries.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## ABOUT MKF RESEARCH LLC

### ABOUT MKF RESEARCH LLC

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The mission of MKF Research LLC is to help our clients make confident decisions that improve their business performance and help them attain their goals.

MKF Research LLC is the leading research source on the US wine industry. We continue to strive to raise the bar on the quality of information and analysis available to the wine industry.

MKF Research LLC conducts original research on the business of wine and wine market trends, publishes a number of industry studies and provides business advisory services and custom business research for individual companies and investors. MKF Research LLC also conducts a number of industry seminars on its research work including the annual invitation-only MKF Research Executive Wine Summit as well as various smaller open workshops on key industry issues.

### MKF RESEARCH LLC CUSTOM PROJECTS

The major part of MKF Research LLC's business is providing confidential custom consulting to wine industry enterprises, investors and suppliers. Recently, MKF Research LLC consulting projects have included:

- Feasibility, market studies and due diligence;
- Consumer and trade surveys and focus groups;
- Market analyses, marketing strategy development and market, brand and financial and operational benchmarking;
- Economic impact studies for a variety of wine and vineyard related businesses and public and private organizations in the industry; and
- Market and strategic studies of potential new import and export products.

MKF Research LLC conducts the leading research on Winery Direct Sales and Winery Direct consumers and the benchmarking of winery direct activities and has expanded its consumer and trade research capabilities to among the best in the industry.

In 2005 MKF Research LLC was the principal consultant on the Wine Institute's first consumer research in twenty years, a large scale survey of wine consumers conducted by Yankelovich Inc., whom MKF Research introduced to the wine industry. The report produced by MKF Research LLC, *Wine Institute Market Research: Implications for California Wineries*, is available to members of the Wine Institute.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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ABOUT MKF RESEARCH LLC

## MKF RESEARCH LLC PUBLICATIONS

### *MKF Research Monthly*

The *MKF Research Monthly* provides in-depth analysis of the critical business challenges facing the wine industry today. Available by subscription at \$195/8 issues per year, this targeted, concise report reflects the questions and concerns MKF Research LLC hears daily from its wine business clients and industry analysts.

### *MKF Grape Trends (annual)*

By combining the crush and acreage reports into one easy-to-use quick reference guide, MKF Research LLC's *Grape Trends* provides, in one source, all the information needed to make informed decisions about grape supply for production planning. Provided in electronic form, *Grape Trends* includes a complete summary of current, past (since 1997) and projected tons, prices, and bearing acres for all major grape growing regions and counties for seven major varieties: *Chardonnay, Sauvignon Blanc, Cabernet Sauvignon, Merlot, Syrah, Zinfandel,* and *Pinot Noir*.

### *Economic Impact Reports*

MKF Research LLC is currently conducting the study of the Impact of Wine and Grapes on the American Economy, sponsored by Wine America, the Wine Institute, National Grape and Wine Initiative, as well as the first wine and grape impact studies for Texas, Michigan, Illinois, North Carolina, Virginia, Tennessee and Missouri, all expected to be completed and published by mid-January 2007.

Existing Economic Impact Studies published by MKF Research LLC include the following, all available for purchase from MKF Research LLC:

- *Economic Impact of California Wine 2006*
- *Economic Impact of Wine and Vineyards in Sonoma County, 2005*
- *Economic Impact of Wine and Vineyards in Napa County, 2005*
- *Economic Impact of New York Grapes, Grape Juice and Wine 2005*
- *Economic Impact of Pennsylvania Wine and Winegrapes 2005*
- *Economic Impact of California Wine 2004*
- *Economic Impact of the Washington State Wine and Wine Grape Industries*
- *Economic Impact of the Wine and Wine Grape Industries in Santa Barbara County*

Visit our website at [www.mkfresearch.com](http://www.mkfresearch.com) to stay informed of our new research projects.

# ECONOMIC IMPACT OF WINE AND WINEGRAPES IN ILLINOIS 2005

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## ABOUT MKF RESEARCH LLC

### **MKF RESEARCH LLC OWNERSHIP**

MKF Research LLC is jointly owned by Global Wine Partners US, LLC and Frank, Rimerman + Co. LLP, CPAs.

#### *Global Wine Partners US, LLC*

**Global Wine Partners**, The Global Wine Investment Bank, with offices in Napa, Paris and Sydney, is the only investment bank dedicated exclusively to the wine industry.

Specialists in wine industry mergers and acquisitions, valuation and corporate finance, the firm provides clients with a wide range of corporate advisory services related to wine industry mergers, acquisitions, joint ventures, strategic alliances, distribution arrangements, winery valuation services and fairness opinions related to M&A and financing. They also provide corporate finance services including wine industry debt and equity-raising and underwriting and investment management services with wine investment funds and trading in wine investments.

#### *Frank, Rimerman + Co. LLP, CPAs*

**Frank, Rimerman + Co. LLP**, founded in 1949, is the largest, locally-owned provider of accounting and consulting services in California. With offices in San Jose, Palo Alto, San Francisco and St. Helena and over 170 professionals, Frank, Rimerman + Co. LLP offers strategic business and information consulting services, tax consulting and planning, audit and financial reporting, accounting services, litigation and valuation services.

Frank, Rimerman + Co. LLP continues to build its wine industry practice, based in St. Helena (formerly the CPA practice of Motto, Kryla and Fisher), committing the full resources of this major professional services firm to the industry.

MKF Research Economic Impact Reports are published by MKF Research. As leading wine business advisors, MKF Research provides deep and broad analysis of U.S. wine and grape market trends so business executives can manage the present and plan for the future with confidence.

 **MKF RESEARCH LLC**

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