

VIRGINIA WINE BOARD

Annual Report for 2010-2011

Narrative

The Virginia Wine Board was created by the General Assembly in 2004 to replace the original Wine Advisory Board. The Board is established within the Virginia Department of Agriculture and Consumer Services. The purpose of the Board is to allocate funds to projects that expand viticultural and enological research, education, and promotion of the growing of grapes and the production of wine in the Commonwealth. According to the Code, not less than one third of the monies appropriated shall be spent on projects that advance viticultural and enological research concerning the growing of grapes and the production of wine in Virginia.

The Board is comprised of ten members, nine of whom are nonlegislative citizens appointed by the Governor. The Commissioner of Agriculture serves as a nonvoting ex officio member. The Board consists of six members who are owners or operators of wineries or farm wineries in Virginia and three members who are grape growers with no controlling financial interest in a winery or farm winery.

Projects, Accomplishments, and Challenges

The Board received \$1,325,679.00 for FY11. The Board is tasked with spending one-third of the allotted money (\$441,893.00) on research projects related to growing grapes and making wine. The other two-thirds of the budget is for promotion, marketing and Board expenses. The Virginia Vineyards Association (VVA) solicited and evaluated all the research proposals. The VVA rated and ranked the projects and brought their recommendations to the Board. The Board funded eleven (11) research projects through Virginia Tech totaling \$420,848.00. Virginia Tech billed the Board \$420,489.57. When the research projects are concluded, all data, projections, and analysis will be available to the industry.

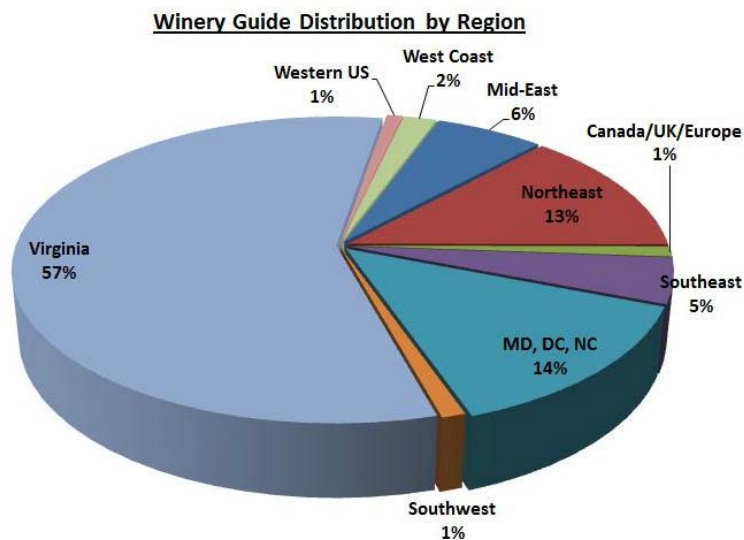
The Board also funded the Virginia Vineyards Association \$2,370.00 for the administrative costs associated with RFP process. The VVA also requested and received funding in the amount of \$12,500 to conduct a series of technical education meetings around the state.

Marketing

The Wine Marketing Office completed their third full year of operations. During the year the Wine Marketing Office hired another full time employee to assist with marketing, focusing on the retail trade. Below are some of the highlights of their marketing efforts.

For 2011 there were 500,000 Virginia Winery Guides printed. All shipments (even individual consumer requests) are tracked and recorded. 100 percent have been distributed. *** You will notice the total percentage of distributed guides is greater than 100% due to approximately 15,000 overages from our printer.

| | Total | % of Total (500k guides) printed |
|-------------------------|----------------|---|
| Wineries | 134,050 | 26.81% |
| Wine Shops or Retailers | 112,050 | 22.41% |
| Tourism Centers | 116,250 | 23.25% |
| B&B or Resort | 45,150 | 9.03% |
| Restaurants | 12,150 | 2.43% |
| Office Delivery | 8,750 | 1.75% |
| Misc. Industry Requests | 69,800 | 13.96% |
| Single Consumers | 14,391 | 2.88% |
| Multiple Consumer | 2,361 | 0.47% |
| Total shipped | 514,952 | 102.99% |



There were seven Virginia Wine Fund Marketing Matching Grant applications submitted for FY 2010-2011. Of the seven, three were approved by the grant committee. The committee voted to appropriate \$25,000 toward the matching grants, totaling \$50,000 in total statewide marketing initiatives. The second round of grant applications (in July) saw a significant increase in applicants.

More than 55 media partners attended the 2011 Governor’s Cup for Red Wines announcement at the Governor’s Cup Grand Tasting, held Friday, February 25. Guest speakers included Chairman of the Virginia Wine Board Rock Stephens, President of the Agribusiness Council Donna Pugh Johnson, Secretary of Agriculture Todd Haymore, President of the Virginia Wineries Association Ann Heidig and the First Lady of Virginia Maureen McDonnell. Awards were given to: Gabrielle Rausse for Distinguished Service, Matt Conrad for Virginia Wine Person of the Year, Delegate Steve Landis for Legislator of the Year and Dennis Horton for the Gordon Murchie Lifetime Achievement Award. More than 60 wineries participated in pouring reserve wines for guests throughout the remainder of the Governor’s Cup Grand Tasting.

Virginia Wine Week was created as a spring focus point to promote Virginia wines. It created a counterweight to October Virginia Wine Month and has found enthusiastic supporters in its first two years. More than 340 trade partners signed up (an increase of 75 accounts over 2010) to receive supporting point-of-sales materials, such as case cards, shelf tags, bottle neck tags, chalkboards, floor decals, coasters, etc.



VIRGINIA WINE WEEK

Total Virginia wine sales (direct and indirect) increased by 17 percent during March 2011 over March 2010. Virginia wine sales increases were also found in January and February of 2011. The sales analysis is below. In addition, *Love by the Glass: Virginia Wine Week* will probably become a month-long promotion in 2012.

| Month | Total 2010 VA Sales Units (Cases) | Total 2011 VA Sales Units (Cases) | 2011 Direct Sales (through winery) | % of Total 2011 Sales | 2011 Indirect Sales (through distribution) | % of Total 2011 Sales | 2011 Over 2010 Total Unit Increase | 2011 Over 2010 Total % Increase | 2010 Total Wine Sales in VA | 2011 Total Wine Sales in VA | 2010 VA Wine Market Share in VA | 2011 VA Wine Market Share in VA |
|----------|-----------------------------------|-----------------------------------|------------------------------------|-----------------------|--|-----------------------|------------------------------------|---------------------------------|-----------------------------|-----------------------------|---------------------------------|---------------------------------|
| January | 18,317 | 22,009 | 12,251 | 55.7% | 9,758 | 44.3% | 3,692 | 20.2% | 608,923 | 651,970 | 3.0% | 3.4% |
| February | 20,110 | 30,148 | 18,612 | 61.7% | 11,536 | 38.3% | 10,038 | 49.9% | 671,586 | 711,465 | 3.0% | 4.2% |
| March | 27,511 | 32,227 | 17,409 | 54.0% | 14,818 | 46.0% | 4,716 | 17.1% | 795,034 | 824,722 | 3.5% | 3.9% |

With the support of Governor McDonnell, Secretary Haymore, and the Virginia Wine Board, the VWBMO was able to help successfully recruit Wineries Unlimited to Richmond for 2011 and 2012. Attendance for 2011 surpassed 2010, and all vendor

booths were sold out in 2011. Governor McDonnell was the keynote speaker at the “Best of the East” dinner.

The VWBMO along with First Lady Maureen McDonnell hosted 2 tours of Virginia wineries. There were more than 30 restaurant/retail and media partners on the first tour of three Central Virginia wineries (Pollak, Barboursville and Keswick). The second tour was in Southwest Virginia and more than 30 restaurant/retail and media partners on a tour of three Southwest Virginia wineries (Chateau Morrisette, Villa Appalaccia and Foggy Ridge Cidery).

The VWBMO finalized the initial draft of the Virginia Wine Industry Marketing Plan in May. The draft was sent out to all wineries and the Virginia Wine Board for feedback. Revisions are being implemented and the final document will be made public late this fall. The strategic plan outlines a template for the Virginia Wine Board, and other important industry trade associations, to manage, monitor and fund, where needed, the work that moves major industry objectives forward. A copy of the draft Virginia Wine Industry Strategic Plan can be found on www.virginiawine.org

Governor McDonnell toured four cities in three countries (China, Japan and South Korea) during his trade mission to Asia in May. The Governor included Virginia wines in his continuing effort to increase international sales. Seven Virginia wineries were represented on the tour.

Seven Virginia wineries participated in the SUSTA (Southern United States Trade Association)-funded booth at the London International Wine Fair in May. The trade-specific fair featured more than 18,000 wines from around the world – and Virginia wines were a part of the mix. The only other states in the US featured at the LIWF were California, Oregon, Washington and New York. Several notable members of the wine media stopped by the booth, including Steven Spurrier, Neville Blech, Peter May, Quentin Sadler, Christos Ioannou, Susan Hulme and David Copp.

The 2010 Commercial Grape Report (CGR) was finalized in June and distributed to the industry in July. The report details tonnage, acreage and pricing by variety and by county. The 2010 CGR can be found on www.virginiawine.org, under Industry, and then under Downloadable Documents. The 2011 CGR surveys will go out in mid-November.

On June 26 the Restaurant Association of Metropolitan Washington hosted their annual gala, the RAMMYs. It is an event where more than 1,700 members of the Washington, DC, trade restaurant industry gather to taste and explore new food and beverage concepts. The VWB, along with VDACS, sponsored a Virginia wine table. Four Virginia wineries participated. The VWB is considering the idea on sponsoring a “pavilion” at the event next year, which will allow additional wineries to participate.

Twenty-three wineries developed 32 special labels as a part of the Virginia Sesquicentennial Winery Passport program. The hard-copy passport was released to

participating wineries and statewide historical sites in June. A special landing page was developed on www.virginiawine.org as part of the promotion. It will be a four-year-long promotion, spanning from 2011 to 2014.

Phase 4 of www.virginiawine.org was launched in June. This launch included a mobile website for smart-phone users, a special landing page for the Sesquicentennial promotion and forward-facing user pages. Users (consumers specifically) can now log in through their existing Facebook / Twitter accounts.

The VWBMO is conducting a brand survey about consumer and influencer attitudes and perceptions of Virginia wines. From this input, the VWBMO will develop key messaging that can be incorporated in any public relations and advertising for the Virginia wine industry. This project is slated to wrap up this winter/spring.

Summary

The Virginia Winery Distribution Company continued to have a positive impact and benefit for many Virginia wineries. This entity allows wineries that produce less than 3,000 cases of wine per year the opportunity to distribute wine using the VWDC as the wholesaler. It is expected that the use of the distribution corporation will increase in the coming years.

Wineries and county governments continue to work through zoning and other regulatory issues. Weddings, meetings, festivals, and tasting rooms are all essential elements to the financial success of the wineries, but it is precisely these activities that some counties are trying to regulate. The General Assembly passed new legislation dealing with these issues, but problems continue to arise.

The Wine Board received increased funding for this year. The additional funds will allow for continued research into growing and making world class wines. The increased funding will also allow the WMO to develop marketing strategies to carry the industry into the next decade. Despite the slow economic recovery, the Virginia wine industry is poised for a period of sustained growth. The number of wineries and vineyards continues to increase and today Virginia has approximately 200 wineries open or waiting to open. The Virginia wine industry needs the support of consumers, wholesalers, retailers, and state and local government to remain successful.

Respectfully submitted,

J. H. "Rock" Stephens, Chairman

David Robishaw, Secretary

Board Meeting and Member Attendance

| Date | Location | Attendance |
|--|---|------------|
| August 4, 2010 | Richmond, VA | 7 |
| John Stephens Diane Flynt Dean Triplett Todd Haymore | William Moses Jennifer McCloud Marcie Siegel | |
| December 04, 2010 | Richmond, VA | 10 |
| William Moses Dean Triplett Jennifer McCloud Diane Flynt Luca Paschina | Marcie Siegel Ruth Saunders John Stephens Mills Wehner Todd Haymore | |
| March 30, 2011 | Richmond, Va | 9 |
| John Stephens Dean Triplett Jennifer McCloud Mills Wehner Todd Haymore | Diane Flynt Marcie Siegel Luca Paschina Ruth Saunders | |
| May 04, 2011 | Charlottesville, VA | 8 |
| Marcie Siegel Diane Flynt Ruth Saunders Jennifer McCloud | John Stephens Luca Paschina Dean Triplett Mills Wehner | |
| June 08, 2011 | Richmond, VA | 9 |
| Marcie Siegel Dean Triplett Mills Wehner Diane Flynt Todd Haymore | John Stephens Luca Paschina Jennifer McCloud David King | |

Financial Summary

***The original appropriation was\$1,325,679. During FY 11, there was a transfer of funds from cc 604 to cc 605. The transfer is reflected in the reduced assessment receipts.

Cost Code 604

| | Actual Expenditures |
|--|---------------------|
| Cash Balance: June 30, 2010: | 0 |
| Assessment Receipts: July 1, 2010 to June 30, 2011 | 1,003,660.00 |
| Other Receipts: July 1, 2010 to June 30, 2011 | 0 |
| Total Cash Balance and Receipts | 1,003,660.00 |
| Total Actual Expenditures | 1,003,659.16 |
| Cash Balance: June 30, 2011 | .84 |

***During FY 11, miscellaneous revenues, General Fund, and non General Funds transfers totaling \$452,047.00 were made into cc 605

Cost Code 605

| | Actual Expenditures |
|--|---------------------|
| Cash Balance: June 30, 2010 | \$14,628.38 |
| Assessment Receipts: July 1, 2010 to June 30, 2011 | 0 |
| Other Receipts: July 1, 2010 to June 30, 2011 | 452,727.00 |
| Total Cash Balance and Receipts: | 466,675.38 |
| Total Actual Expenditures | 168,102.19 |
| Cash Balance: June 30, 2010 | <u>\$298,573.19</u> |

