



Journal of Food Distribution Research
Volume 45 Issue 3

Local Food Systems and Interactions with Entrepreneurship

Two Rivers Winery and Event Center: A Key Driver for the Growing Colorado Wine Industry

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Abstract

Two Rivers Winery & Chateau, established in 1999, has rapidly emerged as a key asset to the Colorado winery and regional tourism infrastructure on the West Slope of Colorado. The case study presents evidence of how Two Rivers' entrepreneurship has helped an emerging business flourish, a reinvented Colorado wine industry nurture its brand through cooperative quality improvement, and has added a new tourism destination to the portfolio of attractions for a Western Colorado region. The case concludes that a strong commitment to social capital gains can lead to quality improvements throughout the Colorado wine industry. Two Rivers understands the potential long-term gains to its business and region.¹

Keywords: wine industry, quality assurance, tourism, entrepreneurs

¹ This case study builds on a larger, industry wide report commissioned by the Colorado Wine Industry Development Board in 2012-2013 to assess the economic contributions the Colorado wine industry (Thilmany et al. 2013). This paper was prepared for the National Agricultural & Rural Development Policy Center themed collection on *Local Food Systems and Interactions with Entrepreneurship* and was supported by competitive grant no. 2012-70002-19385 through the U.S. Department of Agriculture, National Institute of Food and Agriculture.

Introduction

Two Rivers Winery & Chateau were built in 1999 on 15 acres of vacant land in the Redlands area of Grand Junction. The owners, Bob and Billie Witham are natives to the Western Slope of Colorado. The winery's key activities are wine production, hosting events and serving as a key tourism asset for the Grand Junction region. The Winery first processed grapes in the fall of 1999, and has released nine wines garnering over 60 different awards in international competitions.

The winery also plays a significant role in the growth of the broader wine and tourism sector because of its focus on improving quality with a new Colorado Quality Assurance Program and investing in joint promotions of the industry through participation in the Colorado Wine Industry Development Board.

Another linkage for this business is serving as an essential cog by drawing food and beverage tourists to the area, in partnership with the Grand Junction Visitors and Convention Bureau. The vineyard and winery are nestled between the gateways of the Colorado National Monument in the Redlands—just west of Grand Junction. Chateau deux Fleuves Vineyards (translated House on Two Rivers) encompasses 11 acres of estate-grown Chardonnay, Cabernet Sauvignon and Merlot grapes. This is unique in a state that has relied on importing a significant share of their grapes to meet the growing demand for Colorado wines relative to supply of wine grapes available. The winery's location and setting are one reason it is a key wine tourism asset for the region—an issue discussed in greater detail later.

Two Rivers' state-of-the-art winery is positioned in the center of the vineyards. Great care and thought have been given to equip the crush area, fermentation room and cellar so that a high level of quality is maintained when taking the grape from harvest, through fermentation, aging and bottling. The Withams are meticulous in managing their winemaking activities and barrel aging process. While these practices have been implemented to enhance the complexity of the wine, innovation is still a priority. This flexibility and process are essential in achieving three goals at Two Rivers Winery: premium wines, consistency and predictability, and customer participation.

The Entrepreneurs

The owners, Bob and Billie Witham, are actively involved in vineyard management, winemaking production, and day-to-day operations. Both are graduates of the University of Northern Colorado—Bob with an MBA (1980), and Billie earning a BS degree in accounting (1982). They spent their first careers in the health care industry. Bob eventually became the president and CEO of a publicly held long-term care company, and Billie was the president and owner of a health care consulting company whose mission was to assist healthcare businesses with reimbursement issues. Later, the Withams developed and constructed two assisted living facilities, which were sold once they became operational. They then returned to northwest Colorado, and their roots. Bob grew up in Craig and Billie was from Meeker. They settled in Grand Junction, and began to explore the opportunities associated with a wine business.

Bob and Billie, along with their two children, Brittany and Brandon, and five full-time employees, run the day-to-day operations of managing a winery. Continuous quality and improvement is a focal point of the winery—benchmarks are set and measured against preset goals. The Withams find this aspect of running the business along with their financial success to be the most rewarding. They hope to grow the business by about 15% a year over the next five years.

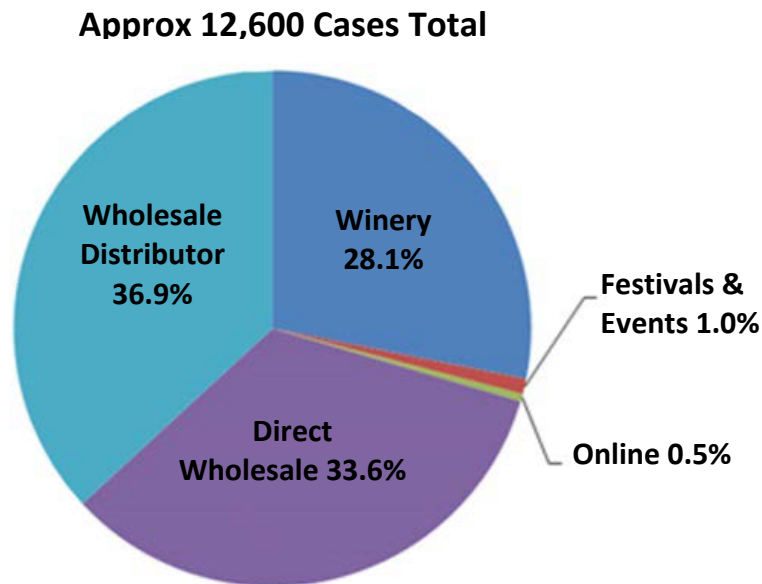


Figure 1. Two Rivers Sales Distribution Channels

A Locally Connected Business Model

The vineyards are capable of producing 44 tons of grapes each year. The Withams recognize that the character of the wine comes from a balanced vineyard and make it a practice to give appropriate and timely attention to the vineyard. In addition to estate grown grapes, local grapes are purchased through contracts with other Colorado growers. In 2013, total production resulted in around 170 tons, and yielded 14,000 cases of wine—up from 1400 cases in 1999, when they started the business. Product volume, combined with a relatively high share of local-input purchases, are the key drivers to increasing the local economic contribution of the winery.

In 2012, Two Rivers winery sold approximately 12,600 cases of wine, the equivalent of about 10% of the Colorado wine industry's total case sales in that year. For its size, the winery sold a surprisingly large share directly (Figure 1) to visitors and consumers.

The high percentage of direct sales may be due to its presence as a tourism destination for the Western Slope of Colorado. Most consumers buy only 10% of their wine directly, whereas this winery sells over 25% in this manner. This is an important contribution to regional vitality as it:

1. Increases the money retained in the region to reinvest in the winery and support its own vineyard and growth in regional grape production.

2. Increases the economic contribution of this business to the surrounding community through payroll and expenditures (Figure 2).
3. Suggests a model of sustainable tourism development, where monies spent on food, beverages, events and lodging can be retained by local businesses and residents.
4. Economic activity in the region is driven by how the winery itself participates in business with other community businesses and households (through payroll). In short, it benefits the region through its expenditures and payments in the community, such as goods sold, people hired and salaries paid.

Figure 2 shows the winery’s total shares of expenditures in various categories. One can see that a significant amount is spent on expenditures likely to directly impact the community surrounding Two Rivers (payroll, grapes, and property taxes).

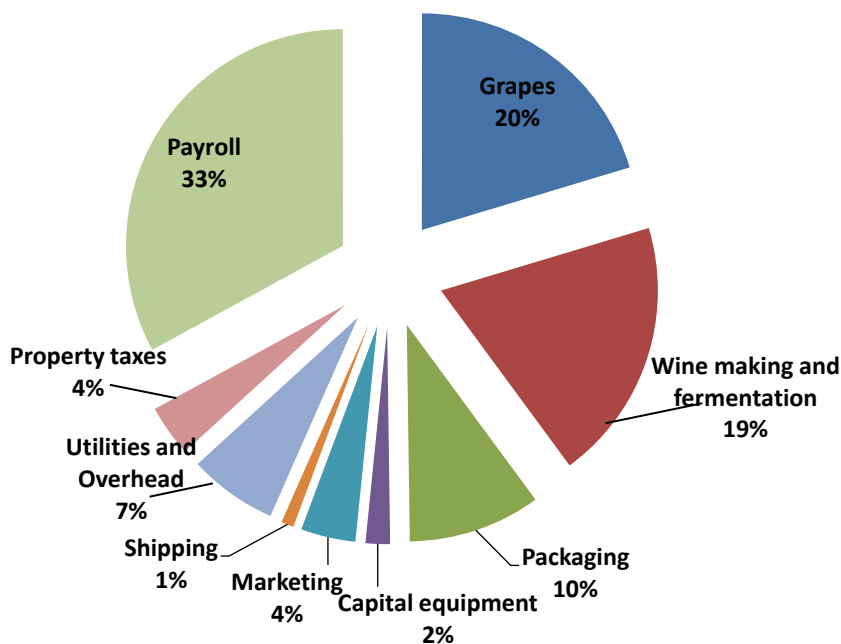


Figure 2. Two Rivers Payroll, Purchases and Expenditures

Building Social Capital among Colorado’s Grand Mesa American Viticultural Area

As leaders in the Colorado wine industry and active members in wine-based trade associations, Bob Witham helped grow the capacity and reputation of Colorado’s wine industry, which also complements the state’s emerging culinary, craft beverage and agritourism sectors. Looking beyond their own winery to the health of the Colorado wine industry, Bob Witham was the founding member of the Colorado Wine Quality Alliance that now includes 12 wineries from throughout Colorado with intentions to add another 12 member wineries in 2014.

The program is intended to provide peer-to-peer, constructive feedback and mentoring to improve the consistency and quality of Colorado wines. Working under the assumption that increasing the perceived quality of the whole set of Colorado wines will improve the marketing power of each individual winery, the success of this industry-led initiative will be demonstrated through improved consumer confidence, market awareness and awards/recognitions that can be measured for those involved in this program. Two Rivers' participation is key because it is a relatively large winery with an event center that has the capacity to introduce many out-of-region visitors to their first Colorado wine experience.

Stam et al (2014) compiled a number of studies on social capital to analyze how it has been used at various times to explain the growth of entrepreneurial firms, through improved performance of diverse actors within a sector, the effectiveness of strategic alliances, and managing transaction costs within supply chain relations. One could argue that Two Rivers has played a key role in building social capital among what others might see as competitors (nearby wineries). Their investments in these alliances and growing firms is because they understand that the growth of their wine alliances may lead the region and sector to have the critical mass and quality reputation needed for all of that "community" to succeed. Although hard to quantify, the continued double digit growth in sales and retail price for Colorado wines is a strong indicator of joint success (Thilmany et al. 2013).

Two Rivers as a Driver of Colorado's Wine and Agritourism Industries

As leaders in the Colorado Wine industry and active members in wine-based trade associations, the Withams have helped grow the capacity and reputation of a state wine industry that complements the emerging culinary, craft beverage and agritourism sectors of the state of Colorado. The size and influence of Two Rivers on wine-related tourism make it particularly interesting to examine as a case study on a growing agritourism and beverage segment.

According to Thilmany et al. (2013), the Colorado wine industry now accounts for almost \$25 million of the state's beverage sector, and \$41 million in economic activity spread throughout the wine regions and population centers of Colorado. This higher number is based on the activity Colorado's wine industry and its expenditures create in business for other sectors as well. On average, for every \$1 in direct wine sales, there is \$1.68 worth of economic activity from grape growers' expenses for maintaining their fields, vineyard workers' payroll, plus wineries' spending on supplies, utilities and business expenses with nearby businesses in their communities.

Two Rivers Winery: A Key Asset in the State's Industry

In 2012, Two Rivers produced almost 10% of the state's total production. The 2013 Economic Contribution Report commissioned by the Colorado Wine Industry Development Board estimated scale-dependent multipliers, so it is possible to estimate the impact of key individual wineries to their surrounding economies and tourism (Thilmany et al. 2013). Beyond these expenditures, indirect effects occur because the input suppliers (sellers of wine bottles and wine grapes for wine production, and sellers of locally produced foods for the event center) with whom Two Rivers does business will increase their own economic activity because of increased

sales of their products to Two Rivers. This is the ripple effect that economic development professionals are looking to amplify with *Buy Local* activities (estimated in the middle column of Table 1). Finally, there is an induced contribution associated with household spending that is a result of households earning money from working in wineries or with those businesses associated with the wine industry (final column contributing to total effects).

Table 1. Scale-dependent Economic Contribution Multipliers

	Direct Effect	Indirect	Induced	Total Effects
Large	1	0.522259	0.209069	1.731328
Midsize	1	0.454403	0.188889	1.643293
Small	1	0.365748	0.166221	1.53197

Together, the direct, indirect and induced contributions comprise the total economic contribution of the wine industry, normally expressed as a multiplier of the direct sales. For the Colorado study, the multiplier described above was estimated at 1.68, but in 2012, they also estimated scale-dependent multipliers, shared in Table 1. Two Rivers' sales volume places it into the large category.

Given Two Rivers' reported sales of \$1,129,046 in 2012, and using the multipliers from Table 1, the winery contributed an estimated \$1.95 million to the Colorado economy, with a high share of that likely filtering into surrounding communities. However, this number does not yet reflect the impacts that visitors to the winery may have on the broader tourism sector, and the numbers from a broader Colorado economic report completed in 2012.

The Role of Tourism to Two Rivers and the Economy

For the state of Colorado, considering both wine-based events and visits to Colorado wineries by out-of-state visitors, the industry contributed an additional \$27 million of economic activity related to tourism in 2012—in addition to wine purchases (Thilmany et al. 2013). Given economic activity within the tourism sector, this expands to \$47 million once indirect effects are considered. This is nearly the same amount driven by wine sales but represents spending in nearby communities adjacent to the winery and is in addition to wine sales. The industry also has attracted more in-state residents to their events and wineries since 2005. This has generated almost \$33 million in direct tourism activity, or more than \$56 million when indirect effects are considered.

Two Rivers Winery & Chateau is a well-known landmark on the West Slope. Architecturally designed as a French country chateau, the theme is carried throughout the interior of the chateau, outer buildings and the winery. The fermentation room is available for intimate catered dinner parties. A fully equipped catering kitchen appeals to discerning chefs and caterers. The outdoor pavilion and grounds are surrounded by the Colorado National Monument to the west, the Bookcliff mountain range to the north, and the Grand Mesa to the east. This unique landscape has attracted an increasing number of large events, from corporate retreats to food media tours—many drawing out of area visitors. An important recognition for the Two Rivers team came when Two Rivers Winery was designated by *USA Today* as a top five destination winery to visit in the United States.

The Chateau is a key driver operating as both as a conference and event center. Often used for weddings and social events, it also accommodates large corporate retreats. In 2012, almost 5,400 visitors attended an event at the center, and approximately 75% were out-of-state. The event center is also unique for a Colorado winery because they provide upscale lodging which captures some of the tourism dollars they help bring to the region. The Chateau's revenues generate a little over \$250,000 annually to support operations and fully employ staff for the operation.

Although it would be impossible to gauge the impact of Two Rivers' presence and participation in industry-wide events (a large share of the tourism impact reported for the industry), it is possible to estimate how winery and event center visitors have contributed to tourism activity in the region.

Two Rivers reported hosting about 16,000 visitors at its winery and event center, and 8,000 more at remote, off-site venues it participates in throughout the year (wine festivals and fundraisers throughout Colorado) in 2012. Of those 24,000 visitors, they estimate that about 48% were from outside of Colorado. As a comparison, the entire Colorado wine industry hosted 265,000 visitors, with approximately 35% being from out-of-state. Two Rivers saw about 10% of the visitors for the total industry (similar to their share of sales), but a greater share of the visitors were from out-of-state. This designation is important for a couple of reasons. First, out-of-state visitors reflect a true "impact" of new dollars flowing into the state; and second, those traveling from farther distances would likely designate their winery activities as a key component of their trip (allowing us to confidently take credit for their expenditures as being the result of the winery's activities and destination appeal).

For the Colorado state-level estimate of wine-based tourism, Thilmany et al. (2013) calculated the daily average expenses of tourists per day including: hotel, regional transportation, food, Colorado produced goods, shopping, entertainment and spending on other goods. Total expenditures were calculated by multiplying the total number of visitors by the number of self-reported travel days and then by the average daily expenses. These expenditures were significantly higher (\$283) for out-of-state visitors than for those visiting from within Colorado (\$153).

Using these estimates, and the number of visitors that Two Rivers reported seeing in 2012, we estimate the total potential tourism impact in Table 2. These estimates draw extensively from the Colorado-wide tourism estimates, and can be fine-tuned based on information shared from the winery. First, it should be noted that visitors to Two Rivers are more likely to be from out-of-state (which may impact spending and new dollars brought into Colorado), because the Two Rivers' event center documents that 5,400 visitors are at the location as a primary focus of their trip, it increases the "credit" that can be given to this enterprise's contribution to total tourism. These changes are reflected in Table 2.

Table 2. Impact of Two Rivers Visitors to Colorado Tourism

<u>In-State Impact- Two Rivers</u>					
Impact Type	Employment	Labor Income	Value Added	Output	
Direct Effect	12	\$324,161	\$491,953	\$763,776	
Indirect Effect	1	\$79,402	\$134,340	\$229,557	
Induced Effect	2	\$102,140	\$185,241	\$312,706	
Total Effect	16	\$505,703	\$811,534	<u>\$1,306,039</u>	
<u>Out-of-State Impact-Two Rivers</u>					
Impact Type	Employment	Labor Income	Value Added	Output	
Direct Effect	19	\$534,308	\$852,579	\$1,304,064	
Indirect Effect	3	\$140,499	\$233,966	\$392,144	
Induced Effect	4	\$170,696	\$309,592	\$517,865	
Total Effect	25	\$845,504	\$1,396,136	<u>\$2,214,073</u>	

Note: Adjusted by per tourist expenditures and share of primary visitors.

Also, because some of the tourism expenditures are “captured” by the winery’s Chateau, rather than contributing to other potentially corporate-owned hotel chains, this could help to make a case for these dollars contributing an even greater amount to the local economy (since expenditures, payroll and owners’ returns are all dollars that are more likely to remain in the region with this locally-owned model). All of these issues should be considered as one carefully interprets the economic contribution estimates.

Two Rivers Entrepreneur Connecting Local Systems

Two Rivers emerged as an interesting case for a few reasons:

1. It is a longstanding member, supporter and innovator among the Colorado Wine Industry Development Board and regional tourism efforts.
2. Their vision to integrate an events and lodging enterprise within the business cleverly leverages the tourism activity already drawn to the Western Slope of Colorado.
3. The time and energy they invested in developing the Colorado Wine Quality Alliance.

This model implies an understanding that “joint reputation” is an attribute that the state’s industry must improve and promote in order to achieve the same kind of recognition, benefits and growth seen in the state’s microbrewery and local foods movement. Colorado wine leaders must provide consistent, high quality wines.

These factors also highlight the connection between tourism and local regional food systems as joint marketing and promotional strategies across these emerging sub-sectors leverage the word-of-mouth and social connections commonly driving each sector's growth. For example, a visit to the winery may have led some consumers to become more loyal buyers, or request Two Rivers wines at their local restaurant or liquor store. Consequently, Two Rivers may recommend those eating establishments and retailers to their visitors and guests, thus illustrating the reconnecting and cross promotion strategies seen happening across food and beverage systems nationwide. Although the winery has not developed processes to evaluate these linkages, it is an effort they plan to make in the future.

This winery also provided us an opportunity to look at the economic development dimensions of relocalized food and beverage sectors. By sharing sales and visitor information and building upon the Colorado's wine industry study (Thilmany et al. 2013), we were able to estimate how this enterprise contributes to the regional economy of Colorado's Western Slope. The owners of Two Rivers believe that by better understanding the region's or industry's other economic development goals they can guide a discussion on how to use Two Rivers as a key asset in future economic development and tourism planning. Key partners in those efforts include the Grand Junction Visitors and Convention Bureau, Colorado Proud and the Colorado Wine Industry Development Board.

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