

DRAFT MINUTES

Virginia Winery Distribution Company (VWDC)
Republic National Distributing Co. – Virginia
14038 Washington Highway
Ashland Virginia 23005

December 14, 2021

This meeting was held in person with access electronically via WebEx on Tuesday, December 14, 2021, with participants practicing social distancing protocols. A recording of the meeting is available:

[VWDC Board Meeting-20211214 1745-1](#) [View](#) Password - VnD7QTNZ

Call to Order

Ms. Mailey asked Ms. Robin Hill to call the roll. All Board members were present in person. With a quorum achieved, Courtney Mailey called the VWDC Board meeting to order at 12:46 p.m. Ms. Mailey introduced herself to participants attending the meeting via WebEx and asked the other Board members and in person meeting participants to introduce themselves as well.

Roll Call

Members Present in Person

Courtney Mailey, VWDC Chairman and Blue Bee Cider
Jay Colston, Virginia Imports
Stan Joynes, Valley Road Vineyards
Doug Zerbst, RNDC
Bradley Copenhaver, VDACS Commissioner

Others Present in Person

Carol Brown, VDACS
Edward Cowdrey – Castle Glen Estates Farm and Winery
Dallas Gaskill, Virginia ABC
Robin Hill, VWDC and VDACS
Kevin McNally - Attorney
Tripp Perrin, Virginia Wine Wholesalers Association
John Sanderson, Virginia Interactive
Kendra Shifflett, VDACS
Rachael Zilic, Virginia Interactive

Others Present via WebEx

Laurie Aldrich, Virginia Wine Wholesalers Association
Justin Bell, OAG
Annette Boyd, Virginia Wine Marketing

Erin Brown, Big Spoon Co.
Erin Brunner, Big Spoon Co.
Kimberly Brown, Big Spoon Co.
Morgan Guthridge, Virginia Wine Wholesalers Association
Anne Leigh Kerr, Virginia Wine Wholesalers Association
Enrique Mendez, Big Spoon Co.
Anna Pendleton, Virginia Wine Marketing
Kate Pyle, Big Spoon Co.

Approval of Draft Minutes

Copies of the agenda and draft minutes were distributed in advance to all board members. Ms. Mailey asked if there were questions about the minutes. There being none, Ms. Mailey called for a vote to adopt the minutes as presented. Stan Joynes moved to approve the minutes as presented. Doug Zerbst seconded. After the roll call for votes and all present members voting yes, the minutes were approved as presented.

Operations Report

Ms. Hill provided the Operations budget and expense report as of November 30, 2021. Ms. Hill reported that expenses thus far total \$98,353. Larger expense included \$20,299 to Big Spoon Inc. for marketing; \$10,000 to Virginia Interactive for software development and the incorporation of iControl into VWDC's web application; \$4,493 for new and renewal licenses; \$5,552 for system maintenance fees; and \$54,049 for Operations Manager salary and benefits. Ms. Hill noted VWDC's committed expenses include \$49,507 for new licenses and renewals; \$19,701 for additional marketing costs; \$40,000 for administrative fees to VDACS, and \$73,951 for the Operations Manager salary for the remainder of the fiscal year. Non-General funds include transaction fees of \$25,974 and \$740 for license fees recovered. License fee renewal recoveries are ongoing through December as wineries reimburse VWDC for the payments of their annual licensing fees. Ms. Hill asked if there were questions. There were none.

Licensing Update

Ms. Hill continued with the licensing update. Ms. Hill reported VWDC currently has 240 active licenses and 15 pending licenses for a total of 255 winery partners. VWDC applications that are non-active for six months are withdrawn. Ms. Hill asked if there were questions. Mr. Joynes asked about the annual renewal process and if there is grace for winery partners who don't pay on time. Ms. Hill explained she provides a grace period to winery partners who are delinquent. The winery is not deactivated immediately because once the license is surrendered, the winery partner will have to repeat the VWDC application process to become active again. Repeating the process can take from four to six weeks.

Financial Highlights

Ms. Hill provided financial highlights as of November 30, 2021 of the 2021-2022 fiscal year. The report shows trends over the past five year period of Sales, cases sold, and transactions. Ms. Hill reported VWDC is achieving a larger amount of sales with fewer transactions. Thus far in this fiscal year, VEDC has sales of \$2.7 million, with 21,000 cases sold with 4,000 transactions. Large sales to buyers like Costco and The Wine of the Month Club makes the pictorial representation look wonky. VWDC sales comprised of 78% wine, 15% cider, and 7% mead. Sales by varietal include \$726,235 in Blend, \$434,149 in Apple, \$249,788 in other, \$222,159 in Chardonnay, and \$169,173 in Cabernet Franc.

The top sellers include True Heritage Coyote Hole Ciderworks LLC, CrossKeys Vineyard, Bluestone Vineyard, and Cave Ridge Vineyard. Top buyer include Merrie Mill Farm), Wegmans Charlottesville, Firefly Cellars, Well Hung Vineyard, and Virginia Wine Merchants.

Ms. Hill directed the meeting participants to review the VWDC Sales by Winery. She advised the Sales by Winery Report is in alphabetical order not in order by sales dollars and shows the number of purchase orders processed by the wineries, the number of cases sold and total sales. Next, Ms. Hill reviewed the Sales by Case Report presented by calendar year. Ms. Hill noted that some of the wineries have met the 3,000 case limit including Blue Toad Hard Cider, Coyote Hole Ciderworks LLC, and Showalters – Old Hill Cider. Wineries close to the 3,000 case limit include The Winery at Bull Run, and Prince Michel LLC. Ms. Hill explained the wineries have been notified. Those who have reached the 3,000 case limit have been inactivated in the VWDC system to prohibit sales opportunities.

Ms. Mailey asked if there were any questions about the operations report or if participants wanted specific details about any item. Commissioner Copenhagen asked how winery partners reimburse VWDC for license renewals. Ms. Hill explained the Board determined two years ago that the wineries would reimburse VWDC for license renewal. VWDC receives the annual invoice from Virginia ABC. A notice is sent to winery partners asking if they want to continue with VWDC or if they want to surrender their VWDC licenses. VWDC pays the invoices for winery partners who have not communicated the desire to surrender their licenses. The payment is due by June 30. VWDC pays the invoice. Winery partners send checks to cover their license fees. The fees are counted as an expenses until the reimbursements are received. Reimbursements are usually received in the current year, but sometimes some reimbursement fees are received from the prior year.

Mr. Joynes asked a question about VWDC's compliance with the two meeting requirement. Ms. Hill explained that statutorily VWDC is required to meet in June and December with June being the annual meeting. Ms. Hill assured she would check to confirm the information is correct.

Mr. Zerbst asked how winery partners who have reached the case limit are cut off. Ms. Hill explained runs a monthly report to check the case limit status of the winery partners. Notification is sent to affected winery partners in advance to make them aware of their case limit status.

Mr. McNally asked how case limits are determined. Ms. Hill explained case limits are determined by cases sold per calendar year.

Ms. Mailey commented, sales are going up. Ms. Mailey asked what the transaction volume is for November 2021. Ms. Hill advised she paid winery partners on yesterday the amount of \$560,000 which is more than VWDC has ever in sales for one month. Usually payments total \$200,000. Ms. Mailey commented sales seem to be accelerating.

Ms. Mailey asked if there were additional questions regarding the operations report. There were none.

Old Business

Meetings by Electronic Means - Ms. Mailey asked that the group review the policy language Mr. Joynes developed regarding VWDC virtual meeting. After a brief discussion, Stan Joynes made the motion and Doug Zerbst seconded the motion to adopt the Policy on Individual Participation in VWDC Meetings by Electronic Means under Va. Code § 2.2-3708.2. After the roll call for votes and all present members voting yes, the motion carried.

Virginia Interactive – John Sanderson with Virginia Interactive provided information about electronic payments/electronic ACH. Virginia Interactive will turn over the electronic payments process to Ms. Hill for user acceptance testing. Virginia Interactive will be working with Ms. Hill to make sure the correct bank information is entered for the winery partners. Additionally, Virginia Interactive will be working on a communication strategy not only for Ms. Hill but also for VDACS to understand the process change associated with electronic checks as opposed to paper checks. There also needs to be an external communication strategy to work with the buyers to make sure they know how to input their information and how to make changes and updates to their information. The expectation is to be ready to go live with electronic payments in late January or early February of 2022. Ms. Hill commented that electronic payments will be great for VWDC. VWDC currently uses lockbox services but continues to manually post payments. With electronic payments, funds will post directly to the invoice. Processing time will be lessened. With electronic payments, the lockbox step can be eliminated. The checks will be deposited and posted directly to the invoice.

Mr. Sanderson reported Virginia Interactive is working on surfacing the operations for invoices and orders for on the dashboard to reduce the number of clicks needed to place an order and walk the invoice through the process. Action items will be placed on the dashboard. Virginia Interactive is also working with Ms. Hill to explore different metrics and updating the VWDC dashboard to include information of importance to the winery partners, such as case limits. This topic will be revisited in the future. Ms. Mailey suggested that any testing of new processes be geared towards new or infrequent system users because seasoned users are familiar with the current process

Mr. Joynes asked if there will be fees associated with ACH transactions. Mr. Sanderson explained there would be transaction fees for VWDC. The contract calls for two dollar fee per transaction. However, due to the volume of transactions from additional work for VDACS, VWDC will be billed one dollar per transaction. Ms. Hill commented there will be savings because the current \$2,000 monthly lockbox fees will be reduced significantly. The work on improving the sales and ordering screens will be ongoing.

Big Spoon – Ms. Erin Brunner, Big Spoon Co. provided a recap of the services Big Spoon Co. provides to VWDC. Big Spoon Co. continues to manage the VWDC website, including updating the monthly blog post, email newsletters, and posting on the social media accounts. Ms. Brunner, Big Spoon Co. provided details about the tasting event scheduled for March 31, 2022, from 3-7 p.m. at Common House. The logo has been decided and the event will be promoted in the next issue of the VWDC newsletter.

The first part of the event from 3-5 p.m. will be industry based. Wineries and vendors will have two hours to set up before the event. Wineries will provide order forms and have at least two winery representatives to help pass out samples. The second part of the event from 5-7 p.m. will be ticketed. Tickets will be sold in

advance and at the door. Common House will provide concierge bottle pick up. Attendees will be able to pick up their wine as they leave the event.

When asked how wineries will be selected to participate, Ms. Brunner, Big Spoon Co. said Big Spoon Co. is hoping to hold such events several times a year to accommodate those wineries who may not have the opportunity to participate in the March event. It was suggested the participants be selected on a first come, first serve basis.

Virginia Wine Marketing – Ms. Mailey asked Ms. Annette Boyd of Virginia Wine Marketing if SevenFifty is a success. Ms. Boyd and Ms. Anna Pendleton, Virginia Wine Marketing, shared presentations and provided VWDC data from the SevenFifty platform. SevenFifty provides Virginia Wine Marketing with a buyer code which allows access to see all ads and all products. Additionally, Virginia Wine Marketing pays to receive quarterly reports from SevenFifty so Virginia Wine Marketing knows what Virginia wine products are being sold. Ms. Boyd shared VWDC's quarters two and quarter three data from the SevenFifty platform. VWDC has 56 sales which was 7.3 percent of total Virginia sales. VWDC had \$7,240.39 GMV (Gross Merchandise Value) which is 10.5 percent of the total Virginia GMV. VWDC had \$129 average GMV per line item, 14 producers, and 38 percent of sales were off premises. The monthly breakdown in sales for VWDC include six in April, six in May, eight in June, 18 in August and 18 in September. October information will be reported in January and will be shared with VWDC. Ms. Boyd indicated sometimes people see the information on the SevenFifty platform and call the winery directly to make the purchase. This can result in the appearance of lower stats.

During the spring promotion and the Virginia Wine Month promotion on the SevenFifty platform, there were 67,000 homepage impressions and 101,000 search ad impressions for Virginia wines. There were 320 items ordered through the platform resulting in \$12,000 GMV during the incentive contest. Sales were across Virginia, New York, District of Columbia, and Maryland. There were nine first-time buyers. Ms. Boyd shared she is very pleased with those stats. Ms. Boyd shared samples of the advertisements Virginia Wine Market runs on the SevenFifty platform as well as some other ads. In response to the question is SevenFifty a success? Ms. Boyd responded, SevenFifty is growing. Sales are doubled since a year ago. Virginia Wine Market is happy with the growth and want to continue with SevenFifty at this time.

Ms. Anna Pendleton showed the SevenFifty platform from a buyer's point of view. Ms. Pendleton showed how buyers can use filters for the products available for sale in Virginia with multiple ways to filter. Ms. Pendleton also shared the data used for Virginia stats including VWDC stats. Mr. Zerbst asked if the prices for VWDC wines show during the searches on the SevenFifty platform. It was determined that VWDC wine prices were not showing on SevenFifty. Ms. Hill will work with Virginia Interactive to make sure VWDC wine prices are added to the SevenFifty platform. Including the prices will reduce that barrier. Ms. Mailey thanked Ms. Boyd and Ms. Pendleton for the information they provided.

New Business

Organizational Growth and Development – Ms. Mailey spoke about ways to explore organizational growth and development for VWDC. The growth of VWDC is exponential and the transaction amount in terms of dollars just for November out strip the original vision for the entire years' worth of sales since VWDC was first created. VWDC is more successful than originally envisioned. The fact that Ms. Hill has

been able to work with Virginia Interactive to automate the paperwork has been helpful with growing capacity but there is a concern about VWDC's ability to continue on this trajectory without the capacity to receive the growth. The budget has not significantly changes since the beginning and there has to be some consideration. Ms. Hill stated some things with the web application need to be corrected, but there is no funding. Ms. Hill added, we make changes that make processes more effective to keep the application useable for everyone. But, the system needs an overhaul to keep it as useful as it currently is.

Mr. Sanderson explained Virginia Interactive did not build the original system. Virginia Interactive adopted the system. VWDC and Virginia Interactive have been in a continuous improvement cycle for a while. The original architecture of the system platform is re-scalable. We can continue to grow with what we have now. The problem we run into is the system is not flexible. As VWDC needs to add new products that is easy but if there is a different tax structure to implement for an item that would be very difficult to do because there is no flexibility in the code. With the age of the code in general, making some of the desired changes and making the system mobile friendly more flexibility is necessary. As VWDC looks to grow, now may be a good time to make the investment to upgrade the system. The system in its current state will continue to operate with minor changes, but as VWDC grows you will want a different system with more flexibility. The cost will include a \$150,000 to \$200,000 investment. Ms. Mailey asked if the costs will be one-time or ongoing. Mr. Sanderson explained the initial investment will be a one-time investment with a \$20,000 to \$40,000 annual cost for maintenance and upgrades. There will also be webhosting costs. Mr. Sanderson finished by stating the three items to consider when thinking about system upgrades are people, process, and technology.

Ms. Mailey asked winery partner, Edward Cowdrey, for his perspective regarding what kind of onboarding information is effective to help with system upgrades. Mr. Cowdrey noted the use of the VWDC system is relatable and YouTube videos will be sufficient for onboarding training for system updates.

Commissioner Copenhagen asked if the VWDC system data is owned by Virginia Interactive. Mr. Sanderson explained Virginia Interactive does not have ownership of the data. Any new contract would fall under the e-Government Services Contract with the Commonwealth of Virginia. All intellectual property and code would reside with VWDC. The contract allows for Virginia Interactive to have perpetual use licenses for use of the code in a different way. The only piece that does not fall to the ownership of VWDC is the actual electronic payment transaction. Electronic payments are described as software or service outside of intellectual property.

When asked what the stress points with the VWDC system are Ms. Hill stated there are issues that need to be corrected which would results in a completed change in a process that would be better as an overall change to the system. Reporting for the wineries can be improved. The system was not created by Virginia Interactive and changes to the system may create issues in other areas of the system. There should be an overall change with the web application.

Commissioner Copenhagen inquired if any of the marketing mechanisms Ms. Mailey want to institute for VWDC will be possible with the system as it currently stands. Mr. Sanderson commented regarding marketing for VWDC there was an idea to upload pictures of the wineries and stories around their

products so individual buyers would have more detailed information about products. The code of the current system will not accommodate this. We achieved the integration point with SevenFifty, but the underlying database will require technical gymnastics to integrate with newer web services because the 10 year business logic and database structure will require updating at some point. Mr. Zerbst suggested before we spend \$200,000 on systems upgrades by Virginia Interactive, we need to have discussions. Perhaps a workgroup. Ms. Mailey explained the way VWDC's foundational documents are written, as the Board is so small any working group would have to consist of two people if they are board members plus others from the industry who want to participate. Unless Mr. Bell can give the VWDC Board some kind of special dispensation Board member participation will have to be limited to two members. Ms. Mailey noted the board can draw in others from wineries and Ms. Hill can be part of the workgroup as well.

Mr. Perrin advised the way to obtain funds may be through a budget amendment through legislation. Ms. Mailey suggested the workgroup can work to determine the funds needed in the budget amendment. Mr. Perrin noted the General Assembly will convene in about 30 days and this may be a good time to seek funding. Commissioner Copenhagen suggested another option since the Governor has not yet released his budget other funding opportunities may exist. Mr. Perrin said the Virginia Wine Wholesalers Association will do what they can to help. Ms. Mailey informed the group she would work with Commissioner Copenhagen regarding forming a workgroup and she will seek input from others.

Public Comments

There were no public comments.

Comments and Questions

Meeting participant, Mr. Cowdrey, Owner of Castle Glen Estates Farm and Winery, inquired about the budget for VWDC. He commented with the growth of VWDC, now might be the time to request additional budget funding in support of VWDC initiatives. Commissioner Copenhagen explained industry partners may have to initiate any funding requests for funding for VWDC through the General Assembly. Once the Governor's budget is released we cannot lobby for more money.

Next Meeting Date/s - Tentative

Tuesday, March 15, 2022

Thursday, June 2, 2022

Adjourn

Ms. Mailey adjourned the meeting at 2:35 p.m.