

OREGON WINE BOARD MEETING MINUTES

MARCH 12, 2013 <<FINAL>>

LOCATION: OREGON STATE UNIVERSITY FOUNDATION, CORVALLIS, OREGON

Attendance

Board: Leigh Bartholomew (Chairwoman), Bill Sweat (Vice Chairman), Michael Donovan (Chairman Emeritus by phone), Ellen Brittan (Treasurer), David Beck, Sam Tannahill (by phone), JP Valot and Steve Thomson

Staff: Tom Danowski, Rose Cervenak, Charles Humble, Dewey Weddington, Karen Walsh

Absent: Doug Tunnell

Call to Order

Bartholomew called the OWB Board meeting to order at 9:00 a.m.

Minutes

Beck moved that minutes from the January 14 meeting be adopted as submitted. Brittan seconded, Sweat abstained and the motion carried, 6-0. (Tunnell, Tannahill and Donovan were absent for the vote).

Communications Update

- Humble provided an update on OWIS coverage to date and mentioned the March 9, 2013 *Wall Street Journal* article by Lettie Teague.
- He also referenced recent media coverage and an *Oregonian* story on acquisitions of Oregon vineyards by Kendall Jackson and suggested that he has reached out to Kendall Jackson's communications team with an offer to assist them in framing the messaging around the acquisition if it does indeed happen.
 - Danowski asked the Board if there were any lessons learned from the Ste. Michelle Wine Estates acquisition of Erath Winery that might help OWB advise Kendall Jackson on how best to frame their messaging.
 - Consensus among Board members present was that the Ste. Michelle Wine Estates acquisition of Erath Winery was handled very professionally and was well-received by the industry.
 - Brittan commented that this news may be perceived by some in the Oregon wine community as potentially negative in that there is some feeling that KJ's entry may pressure grape prices or cheapen the Oregon Pinot noir "brand." So she suggested incorporating language that shows respect for the considerable achievements by the Oregon Wine industry might address such concerns.
 - Beck commented that there was a general feeling that this acquisition is "not going to float all boats upwards."
 - Thomson indicated that the "Jackson Estates" portfolio is a far more nuanced, premium-brand-driven organization than "Kendall Jackson" and hoped that their entrée into the Oregon market would come under that collection of labels. Additionally, he commented that King Estate is making sure that they are on message with their distributors about the

positive aspects of this acquisition and how it ultimately helps build Oregon brands.

- Humble said that he heard the Oregon wine would be under the La Crema label rather than Jackson Estates label.
- Brittan suggested that KJ share their business plan to be as transparent as possible regarding their actions.
- **ACTION: Humble will update the Board after his conversation with KJ later this week.**
- Humble gave a brief description of the Snooth People's Voice Awards being held in NY on March 22-23.
 - He communicated that Snooth is trying to establish itself as a preeminent brand in the social networking space.
 - He gave details of the media events and highlighted the value OWB is receiving for the \$7,500 sponsorship fee.
 - 15 Oregon wineries are pouring and two (Jim Bernau/Willamette Valley Vineyards and Earl Jones/Abacela) will be represented in person.

Marketing Update

- Vintage Oregon
 - Tickets for Vintage Oregon are \$35 this year. OWB's event contractor, Scene Marketing, is managing the event this year and has a database (700 wine enthusiasts) they will solicit for ticket sales.
- Oregon Certified Sustainable Wine
 - As requested by the Board Jan. 14, OWB staff reviewed OCSW's current status and presented forward-looking options for the program.
 - There was discussion of four alternatives:
 1. *Maintain OCSW management as it has been with minimal implementation and focus.*
 2. *Restore OCSW to original structure and focus with dedicated staffing and budget.*
 3. *Dissolve OCSW and strengthen OWB sustainable messaging relevant to all certifiers and systems.*
 4. *Dissolve OCSW and adopt LIVE as the focus of OWB sustainable marketing.*
 - There was extended discussion focused on alternatives #3 and #4. Consensus was built around Option #3: *Dissolve OCSW and strengthen OWB sustainable messaging relevant to all certifiers and systems.*
 - Danowski explained that if OWB were to "dissolve" OCSW over time, there would be some trademark and program administration issues to address as well as the disposal of participation fees currently collected (based on certified bottling lots) and held by OWB. These aspects of OCSW would all need to be managed in conjunction with OCSW's Steering Committee and then communicated to participating wineries.
 - However, the main risk in taking this action would mostly likely be to OWB's reputation among the remaining participating wineries. Many of them viewed OCSW as a long-term OWB marketing commitment.
 - Weddington commented that "sustainability" has been, and is part of, OWB's core messaging and that will remain the same, even if OCSW goes away.
 - Humble commented on the OWB website's treatment of the sustainability message and feels that from a content standpoint, it's weak. On the

website, there is no specific message about OCSW, rather a general sustainability message.

- Danowski referenced a 2013 wine consumer study that Dr. Sharon Wagner, Business Professor at Linfield College recently conducted, which indicates that many consumers generally associate Oregon wines with small-family farms, handcrafted wines and “sustainable or organic farming.”
- In reference to Option #4: *Dissolve OCSW and adopt LIVE as the focus of OWB sustainable marketing*, Sweat commented that the OCSW conversation has dominated OWB Board meetings for nearly two years with technical issues (dimethyl dicarbonate and the development of a winery chemical evaluation tool funded in large part by OWB in 2012). Sweat asked if there was research on the difference and/or value placed on the different certifications (USDA Organic, LIVE, Demeter, Oregon Tilth). He further commented that, in his judgment, the LIVE brand is meaningless in the marketplace and is uncomfortable with OWB choosing a single certification behind which to put its limited marketing resources. He believes it would be better to create an overall marketing buzz around sustainability, in general.
- Brittan agreed that OWB should take the broader sustainability approach.
- Thomson also agreed and commented that the move would “challenge” wineries to go out and do more legwork to promote their own sustainability story
- Sweat commented that he would not be opposed to licensing the OCSW name to LIVE or anyone else.
 - Danowski commented that LIVE’s staff was clear that licensing OCSW is not of interest to them, but perhaps there would be other parties that may consider licensing.
- Beck asked if there was any reason why anyone who makes wine under any of the certifications might just be allowed to use the OCSW insignia.
 - In other words, how do we get OWB out of the “certification” process?
- <<*Michael Donovan, Chair Emeritus joined the call*>>
- Danowski said that if OWB adopts Option #3, it may be seen by some OCSW participants as a broken covenant, so any wind-down of the program requested by the Board needs to be executed in partnership with OCSW’s Steering Committee and that communication will be critical.
 - Humble commented that OWB would message the change as having a positive impact on the industry and getting out in front of the decision would be important.
 - Danowski agreed that market research indicates a need for a broader dialogue around sustainability than when OCSW was started.
- Donovan asked if there had been adequate outreach to participating wineries, in order to anticipate where they will come out with the announcement.
- <<*Sam Tannahill, Director joined the call*>>
- There was discussion about what to do with the .01/bottle fee that is collected each time a winery uses the OCSW insignia on their label.

- It was suggested that perhaps the money be used to position the broader sustainability message (through the website and other outreach).
- **ACTION: Bartholomew and/or Danowski to have a conversation with OCSW's acting Steering Committee Chair, Pat Dudley following the Board vote about the direction OWB is taking with OCSW. OWB will invite OCSW Steering Committee involvement in winding the program down and identifying the best use of bottling lot fees already collected.**
 - After much discussion the Board is inclined to move forward with Option #3.
 - **ACTION: OWB staff will craft the messaging platform about this transition, including the commitment to honor the 2012 vintage with bottling lot certifications. OWB will also work with OCSW's Steering Committee to determine the best use of OCSW bottling fees previously collected.**
 - **ACTION: OWB staff will explore the next steps required to allow OCSW to go dormant, allowing participating wineries to use the trademark after the 2012 vintage without OWB certifying bottling lots, invoicing participating wineries or providing administrative support.**
 - Donovan indicated concern about how OWB will implement this change, in terms of the fees that have already been paid. He suggested that perhaps OWB refund the bottling lot fees so participating wineries can use those funds to market themselves.

Beck moved to adopt Option #3 to dissolve OCSW for an expanded, more-robust sustainability platform across all certifications, which reflects the broader Oregon Wine industry. Sweat seconded, with some additional discussion:

- Beck indicated that in the future, he would like OWB to look for programs that are “catalytic” in nature, with the intent to get back more than we (OWB) give/spend.
- Additionally, Sweat commented that there is not a mandate in this motion, but a broader message of sustainability that OWB should weave throughout all marketing programs.
- Tannahill commented that perhaps OWB should clarify what is meant by “expanded, more-robust.”
- Donovan reminded the Board that the collected funds need to be addressed to the satisfaction of the participating wineries.

After the additional discussion, the motion carried, 8-0.

2012-13 Financial Review

- Brittan commented that the grape tax assessments are ahead of projection by \$56k.
- Wine tax forecasts are right on target.
- Better than expected results from OWIS (over last year) of \$37k, due to higher attendance.
 - On the topic of OWIS net proceeds, Sweat commented that the Finance Committee had a discussion about it and that there is an historical agreement to share revenues between OWB and OWA due to the contribution each organization makes to the event, but the split criteria are unclear. Danowski and Walsh recommend 60%(OWB)/40%(OWA) which is the percentage used for 2012.

- **ACTION:** Danowski will work with the state Department of Justice on crafting a document that outlines the agreement between OWB and OWA specifying the sharing of OWIS net profit, (if any).
- Brittan commented that the Committee believes the percentage should be set and not variable each year, as they have been in the past.
- Tannahill suggested that OWA take ownership of the Symposium from OWB in the future, as a service to the industry. The OWIS is rooted in what was once known as “Grape Day” which included active involvement at the time from OWA, since OWB had not yet been legislated.
- Danowski suggested an outside appraiser could determine the value of OWIS for purposes of informing this discussion.
- There was some discussion about how a 50/50 split would affect this year’s budget for each organization.
- Tannahill commented that it seems strange to have an arbitrary percentage.
- Some discussion followed about OWB making a “grant” to OWA like they have to other organizations in the past such as Northwest Center for Small Fruits Research, LIVE or UGMVE, etc.
 - Brittan commented that there was some concern expressed by attendees at Symposium that OWB was “making a profit” on its educational mandate after being funded by grape tax assessments. So, any OWIS profit sharing agreement needs to be crafted equitably and brought for a full Board vote.
 - **ACTION:** Danowski and Walsh will work with Oregon’s D.O.J. on a profit-sharing agreement for Board review, confirming a 60%/40% split of OWIS net profit for 2012-13, and calling for an annual review hereafter.

Sweat moved that Danowski work with D.O.J. to draft an agreement, for future Board approval, between OWB and OWA for the OWIS, recognizing services and other benefits received from OWA; and that net profit be split 60%/40% for 2012-13. Beck seconded and the motion carried.

2013-14 Strategic Budget Review (slide deck)

- Danowski stated that he is seeking Board approval on the OWB’s major spending categories and that staff will come back to the Board in May with specific/tactical program budgets and programs within those categories. OWB’s 2013-14 annual budget is due to the state of Oregon by March 29, 2013.

After going through the proposed “big box” budget items for 2013-14, Beck moved to approve OWBs 2013-14 annual budget proposal and Thomson seconded, with some additional discussion:

- Sweat asked for details surrounding the 17% increase in compensation.
 - Danowski responded that OWB has budgeted for a full-time Financial Manager (versus a part-time contractor currently) in 2013-14 and that he was encouraged previously by Board members to build in a small amount for staff bonuses (if warranted based on performance goal achievement).
- Danowski also clarified that there are no funds for OWRI donations in OWB’s 2013-14 budget nor are there marketing co-op funds (\$22,500 was approved by the Board in 2012-13).
- Someone asked what the “Other” category included.
 - Walsh responded that it includes \$8-\$10k for a state-mandated, bi-annual financial review and generally includes miscellaneous office administration, postage, any legal fees, etc.

- Walsh asked the Board to note that employee compensation is now all in the G&A category for purposes of this proposed budget draft, but will be allocated accordingly across OWB's Education, Research and Marketing categories after May 2013.

After the additional discussion, the motion carried, 8-0.

At 11:30 a.m. Bartholomew temporarily adjourned the OWB Board meeting for lunch over at OSU, where various OWRI researchers gave update presentations on their projects.

Bartholomew re-convened the OWB Board meeting at 1:20 p.m.

Linfield College Grant Request

- The Board discussed a request in the amount of \$15,000 from Linfield College President, Dr. Thomas Hellie to fund an expansion of the College's Oregon Wine History Archive.
 - Bartholomew suggested that the TOWER treasury has \$15k that could be used for exactly this type of gift.
 - Sweat encouraged the Board to support Linfield with this program, stating that they (Linfield College) have been very supportive of the Oregon Wine industry for over 20 years.

Donovan moved to approve the full amount requested from Linfield President, Dr. Thomas Hellie to fund the ongoing expansion of Linfield College's Oregon Wine History Archive (OWHA). Tannahill seconded with some additional discussion:

- The Board was asked to consider amending the motion to approve \$3k for Linfield's recent market research project and funding the OWHA in the amount of \$12k.
- Beck commented that the business department has adequate funding, so he is in favor of funding the OWHA the entire \$15k requested.
- Bartholomew asked if the Board should consider approving funding for the OWHA at 50% with matching from the regional associations/private parties, similar to how Phase 1 of the OWHA was funded.
 - Sweat commented that given the amount they've (Linfield College) already invested in this project, he would not make OWB's donation conditional at all.

After the additional discussion, the motion carried. Tunnell recused himself, as he sits on the Board of Trustees at Linfield College.

- OWB Directors referred final funding approval and gift fulfillment to TOWER's Board.

Bartholomew adjourned the OWB Board meeting at 1:44 p.m. and called for an Executive Session under ORS192.660(2)(a). Under this provision only the Board and press are allowed to participate. Staff and guests were excused from the meeting.