The Importance of SOP:

Standard Operating Procedures are Critical at Today's Wineries

How Canadian winery owners can avoid losses

Having proper coverage in place and managing risk is key

By Suzanne Yar Khan

More Canadians are opting for a glass of pinot than ever before. In fact, according to Statistics Canada, domestic wine consumption is outpacing that of beer and spirits.

With demand for wine growing, it's important for winery owners to be on top of the production process in order to properly manage risk.

This article will highlight two major risks to winery owners and operators, which can result in significant losses. These are:

1. Product-related, either due to processing or contamination; or
2. Using third-party producers without doing your homework.

Product-related claims

Joe Hannigan, Vice President & Director of Wine at Signature Risk Partners Inc., notes there have been more claims in these areas. For instance, if there is yeast in the finished product, it can cause re-fermentation, which clouds the sentiment and changes the taste, smell and look of the wine.

"The LCBO (Liquor Control Board of Ontario) tested a wine and found re-fermentation," he says. "They returned all cases at the winery's expense, which caused a $50,000 to $100,000 loss. [This caused] not only loss of product, but business-interruption losses as well. There is also the potential long term cost of losing a customer."

Further, he notes the winery may have also had to incur the expense of opening the affected bottles, filtering and then re-bottling.

Another issue that can result in a product loss is contamination. Hannigan says this can happen if the pipes to the vats are not properly cleaned, and can amount to a $25,000 to $50,000 claim. "It could be higher depending on the size and number of tanks involved," he adds.

Using third-party producers

Winery owners may opt to use a third-party producer to bottle their wine. This is usually the case when the owner doesn't have a bottling machine, which is costly.

But the risk of doing so is that the owner does not control the third-party's Standard Operating Procedures ("SOP"), which include the daily cleaning of their wine processing equipment, bottling line, and documentation of when it was done and by whom, explains Hannigan.

“Claims can range from $10,000 to $100,000, depending on the size of the winery and the wine vat’s being used,” he says.

To avoid such losses, wine owners must confirm that the third party bottling their wine has an SOP for cleaning of their equipment including the bottling machine and the pipe fillers from the vats to the bottles so they do not contaminate the wine. Also, having a written contract between both parties, including who will be responsible if a loss occurs and for how much, may avoid disputes between insurance companies.

“Stock may be blanketed on the insurance policy, but disputes can occur as to the amount the third party believes they are responsible for,” he warns.

Coverage options

Wine stock is the most important commodity for a winery, notes Hannigan. “Normally, owners store stock at their own on-site storage, off-site at wine storage facilities, and sometimes at their residential properties, which may not be at the same location as the winery.”

To mitigate this exposure and protect their product, he suggests owners have the following coverages in place.

- Blanket Stock, as stock will move around frequently, going from processing to bottling to storage facilities.
- Product Recall
- Peak Season Endorsement to cover busy season. The endorsement will provide an extra 10% of the stock amount shown on the Declarations for each item. This extension applies to increases in values during the peak wine production season for a six-month term.
- Wine Leakage, Contamination of Product, and Infestation
- Spoilage
- Trellis and Vine
- Collapse of Above Ground Tanks
- Packaging Errors
- Brands and Labels
- BI Profits & Extra Expense
- Boiler and Machinery, also known as equipment breakdown, which must include production machinery. A winery can suffer claims with their chillers or production equipment that may not be covered under property insurance if an accident to an object occurs, like pressure vessels over 15 PSI exploding and electric arching.

Tips to avoid losses

Hannigan offers these five tips to winery owners to mitigate these risks.

1. Buy proper insurance coverages (as described above) from a wine insurance program that has been specifically designed for wineries in Canada. Remember, you get what you pay for.

2. Verify the Standard Operating Procedures ("SOP") of all third parties you are considering doing business with. At a minimum there should be a log book showing the time and date when equipment was cleaned and disinfected.

3. Always research the reputation of the winery, especially the Wine Maker. Inexperienced Wine Makers may cause more hygiene losses than experienced ones. It's your reputation at stake and losses can also affect your insurance premiums and deductibles.

4. Have a written SOP at your winery, an orientation program for new employees, and a yearly review with all employees that includes a risk management seminar. The work areas should be clean and organized; a cluttered and messy workspace causes hygiene issues which can lead to Stock losses.

5. Make sure you use the proper disinfectants to kill bacteria. If using a super yeast, then you may need to use Peroxyacetic Acid (PAA) to disinfect the bacteria. PAA is the cleaning agent used on medical and dental equipment. And don't forget to keep a log book where you record all dates of cleaning and disinfecting.