

# How to assess the health of your Wine Business



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Excellent



Average



Poor

# Approach – 70 minutes

## DEB – SETTING THE STAGE

**KEITH - HOW DO YOU KNOW YOU HAVE A HEALTHY BUSINESS?**

**DEB - HOW TO ASSESS THE HEALTH OF YOUR BUSINESS?**

**Q&A**



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# Who is in the audience?

1. Who is over 5k cases?
2. Who is going through transition?
3. How many would like to become more profitable?



# Sobering but provocative headlines

About 28 percent of Oregon wine producers said they were in poor financial health, **compared to 16 percent for the industry overall** (surveyed by Silicon Valley Bank, a wine industry lender), *BY MATEUSZ PERKOWSKI, CAPITAL PRESS*

A quarter of winemakers say the financial health of their operations is poor, and many are considering exiting the business. **More than 40 percent of Oregon winery owners say they may sell** in the next five years. *By Pete Danko, Portland Business Journal.*



# WHAT is keeping you up at night?

1. Understanding **how to drive cash flow**
2. Concerned about **profitability**
3. Understanding whether we are **spending enough**
4. Establishing **realistic sales goals**
5. Do we have the **right people** in place?

How do I know I am healthy?





“You can’t measure what you have **until**  
**you know what you want!**”



# Core concepts

- What is your goal or vision?
- What will it take to sustain it?
- How to measure your progress?





“IT’S NOT ABOUT WHAT YOU  
MAKE, **IT’S WHAT YOU KEEP**”



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# How do you know you have a healthy business?

Keith Meyers, Perkins & Co



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IT BEGINS WITH  
UNDERSTANDING WHAT  
DRIVES VALUE

VALUE STARTS  
WITH CASH FLOW



# Why **CASH FLOW** is important!

1. Fund business expansion (including inventory)
2. Pay down debt
3. Buy out stakeholders
4. Distribute to stakeholders
5. Fund growth of family members in the business

**More flexibility to meet ownership goals**



# Cash flow **directly impacts** VALUE

Cash Flow

----- = VALUE

**Risk** - **Growth**

When you increase cash flow, you elevate the return on your investment in the business and increase the value to a prospective buyer.



# What is CASH FLOW?

Net Operating Profit (after tax) – NOPAT

+

Depreciation and Amortization

+

Change in Working Capital

+

Bought or Sold Assets

+

Borrowed or Paid-Down Debt



# What is NOPAT?

$$\begin{aligned} &+ \text{ Net Revenue (Sales price or FOB – Allowances)} \\ &- \text{ Direct Expenses and Indirect Expenses} \\ &= \text{ EBIT (Earnings before Interest and Taxes)} \\ &- \text{ Taxes} \\ &= \text{ NOPAT} \end{aligned}$$





# What is COGS?

- Grapes/Bulk Wine
  - ✓ Estate = farming costs and depreciation on improvements
  - ✓ Purchased Fruit
  - ✓ Bulk wine purchases
- Bottling Expenses and warehousing
- Overhead allocated to COGS
  - ✓ Production facility, labor, maintenance and repairs for facility/equipment, supplies, etc.



# What is Capital Employed?

- + Net Working Capital (cash, receivables, less payables)
- + Wine (bulk & finished) & Supplies Inventory
- + Net Winery Assets
- Long-term debt
- = Capital Employed

# What is **Return on Investment (ROI)**

$$\frac{\text{Net operating profit after tax (NOPAT)}}{\text{Capital employed}}$$

- > After tax cost of debt
- > 10%
- > Timeframe: within 3 years



# Base Case – 5,000 case producer

## Assumptions:

Cases Produced	5,000
Cases Sold <i>100%</i>	5,000
Sales costs	25%
Overhead	\$ 200,000
Owner Comp.	\$ 50,000

<u>Product Mix</u>	<u>Cost/ton</u>	<u>Ratio</u>	<u>Retail/btl</u>
Hi	\$ 3,500	20%	\$ 35.00
Med	\$ 2,800	40%	\$ 28.00
Lo	\$ 1,800	40%	\$ 18.00

<u>Channel Allocation</u>	<u>Cases</u>
Retail	0.4      2,000
Distribution	0.6      3,000



# Base Case – 5,000 case producer

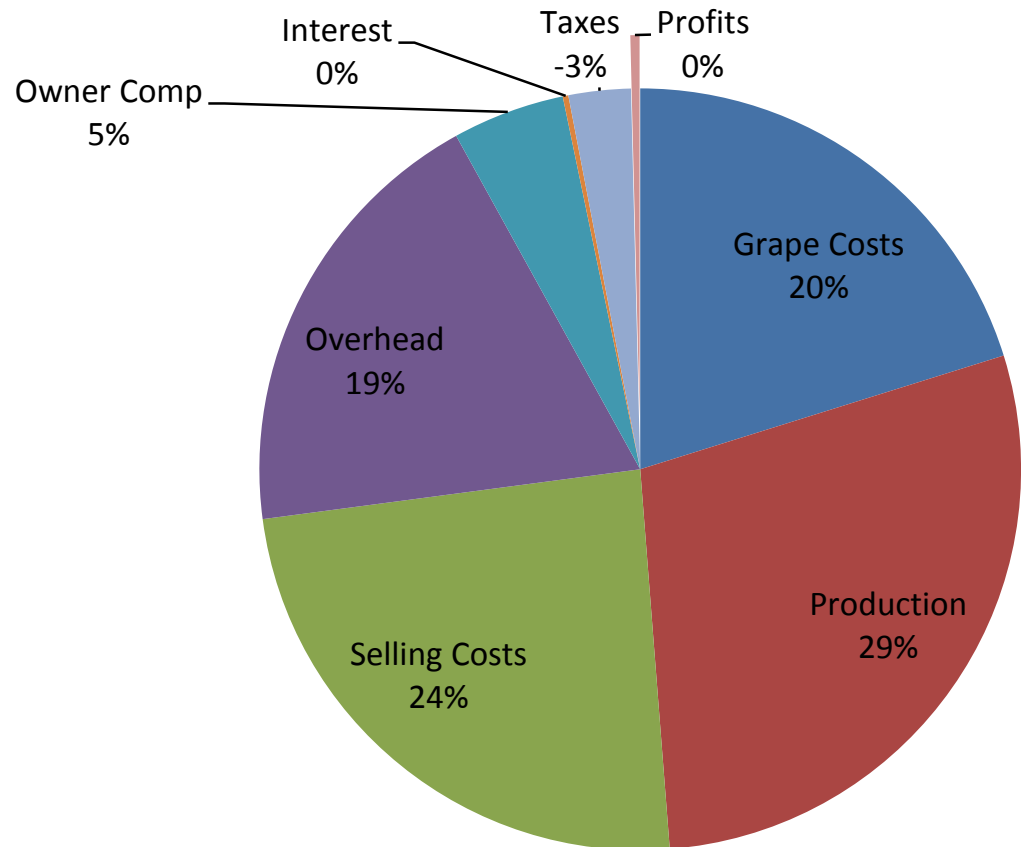
## Breakeven

### Metrics

Average Revenues/cs	\$	203
Average COGS/cs	\$	102
Average GP/cs	\$	100
Gross Margin		50%
Operating Margin		0%

Breakeven	cases	5,016
Revenues	\$	1,013,460
Gross Profit		501,793
Operating Profit		(1,572)
Net Cash Flow	\$	(4,072)

Return on Assets	-0.3%
Return on Equity	-0.5%



# Base Case – 5,000 case producer

## Value Drivers

### Assumptions:

Cases Produced		5,000
Cases Sold	100%	5,000
Sales costs		25%
Overhead	\$	200,000
Owner Comp.	\$	50,000

Product Mix	Cost/ton	Ratio	Retail/btl
Hi	\$ 3,500	20%	\$ 35.00
Med	\$ 2,800	40%	\$ 28.00
Lo	\$ 1,800	40%	\$ 18.00

Channel Allocation	Cases
Retail	0.4 2,000
Distribution	0.6 3,000

- Cases Produced/Sold
- Sales Price
- Product Mix
- Channel Allocation



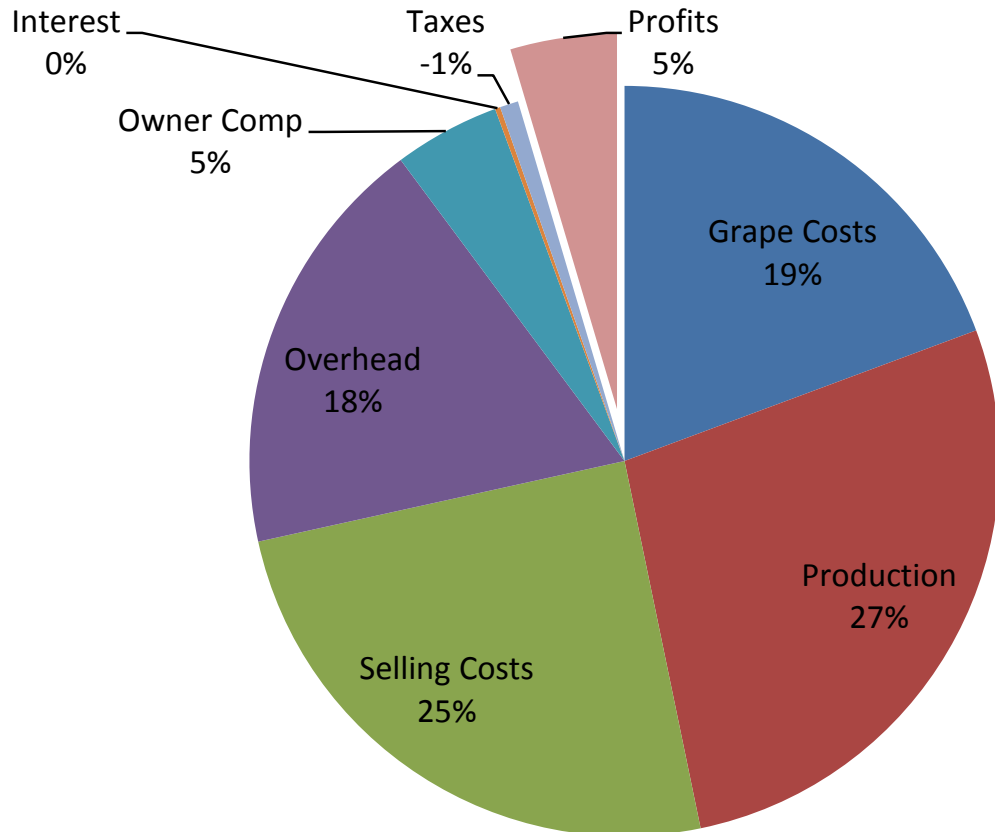
# Scenario 1 – Increase DTC

## Metrics

Average Revenues/cs	\$	217
Average COGS/cs	\$	102
Average GP/cs	\$	115
Gross Margin		53%
Operating Margin		5%

Breakeven	cases	4,541
Revenues	\$	1,085,850
Gross Profit		574,183
Operating Profit		52,721
Net Cash Flow	\$	50,221

Return on Assets	3.9%
Return on Equity	6.3%





# Scenario 2 – Change Product Mix

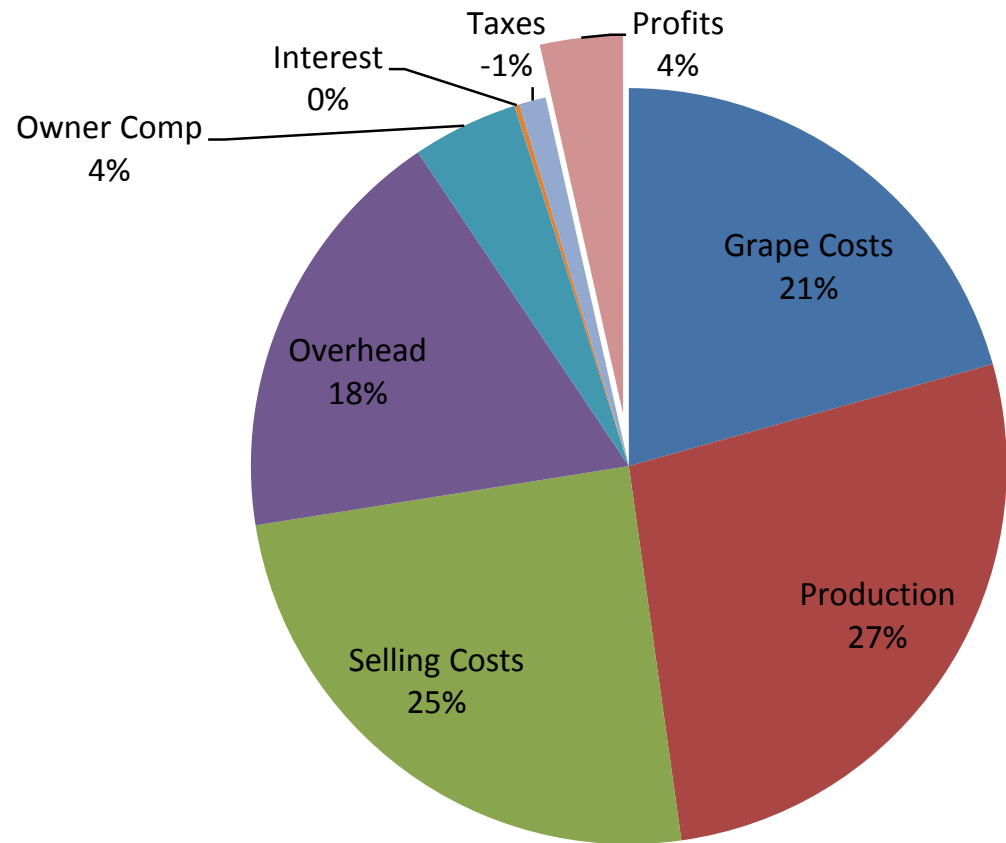
## Increase volumes at mid-range

### Metrics

Average Revenues/cs	\$	219
Average COGS/cs	\$	106
Average GP/cs	\$	113
Gross Margin		52%
Operating Margin		4%

Breakeven	cases	4,632
Revenues	\$	1,093,260
Gross Profit		564,927
Operating Profit		41,612
Net Cash Flow	\$	39,112

Return on Assets	3.0%
Return on Equity	4.9%



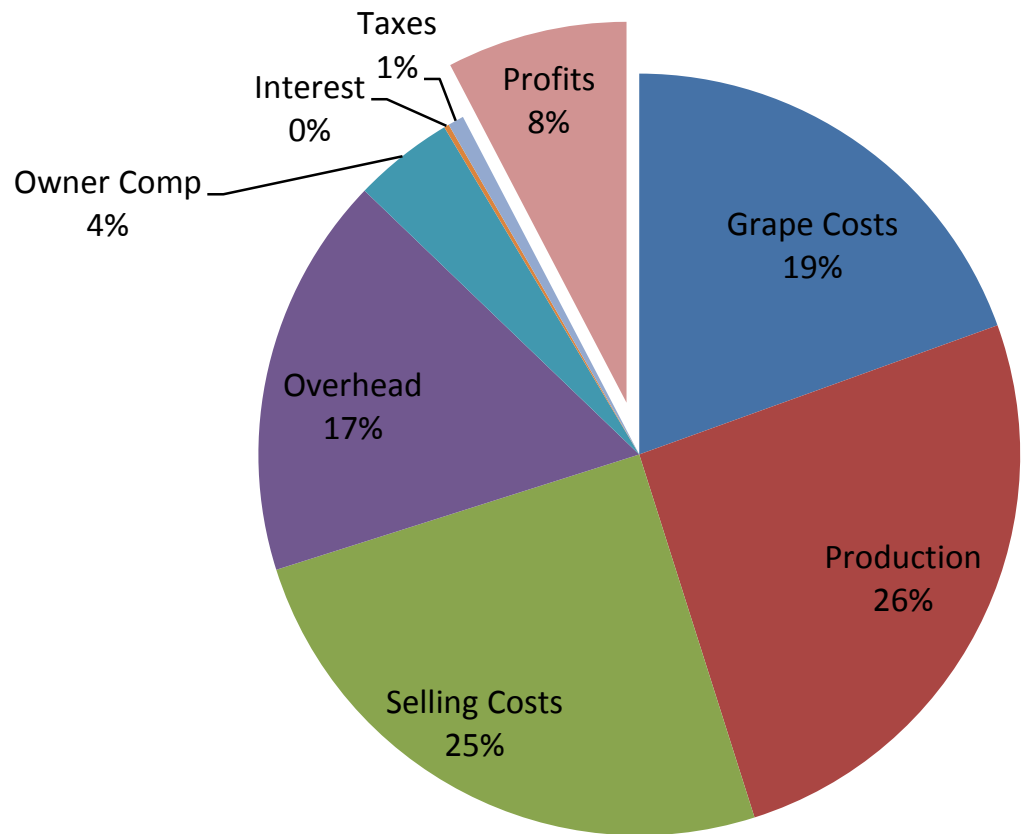
# Scenario 3 – Change Product Mix and Sales Channel

## Metrics

Average Revenues/cs	\$	234
Average COGS/cs	\$	106
Average GP/cs	\$	129
Gross Margin		55%
Operating Margin		9%

Breakeven	cases	4,221
Revenues	\$	1,171,350
Gross Profit		643,017
Operating Profit		100,179
Net Cash Flow	\$	89,741

Return on Assets	6.9%
Return on Equity	11.2%



# Know your GP per channel/variatal

Pinot Noir— 2,000 cases \$35 *GP of \$25 or \$8*

Chardonnay — 1,000 cases \$28 *GP of \$19 or \$5*

Pinot Gris, Blanc — 1,500 cases \$18 *GP of \$11 or \$1.50*



# Recap

	Base	Increase DTC	Product Mix Change	Both
Revenues	\$ 1,013,460	\$ 1,085,850	\$ 1,093,260	\$ 1,171,350
Gross Profit	\$ 501,793	\$ 574,183	\$ 564,927	\$ 643,017
Operating Profit	\$ (1,572)	\$ 52,721	\$ 41,612	\$ 100,179
Net Cash Flow	\$ (4,072)	\$ 48,971	\$ 35,362	\$ 89,741
<b>Channel mix: Case Volume</b>	5,000	5,000	5,000	5,000
Wholesale/National/FOB cases	3,000	2,500	3,000	2,500
DTC	2,000	2,500	2,000	2,500
<b>Key Metrics</b>				
Average Revenues/cs	\$ 203	\$ 217	\$ 219	\$ 234
Average COGS/cs	\$ 102	\$ 102	\$ 106	\$ 106
Average GP/cs	\$ 101	\$ 115	\$ 113	\$ 129
Gross Margin as % of sales	50%	53%	52%	55%
Operating Margin as % of sales	0%	5%	4%	9%



# How to improve **CASH FLOW**

1. Address periphery varietals
2. Keep volume & sales forecasts current
3. Update your profit scenarios
4. Do a realistic CASH FLOW forecast
5. Raise more cash than you think you need
6. Review capital spending and expense plans

**Monitor your winery's health regularly!**



# How to assess the health of your business?

Deborah Steinthal, Scion Advisors



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# Early Warning Signs

- ✓ Complexity and confusion!
- ✓ Financial misses @\$!\*
- ✓ Slow like mud ...

Trouble in Camelot – WHAT CAN I DO?





# Business performance management: need to **diagnose** the issues

- A set of **management** and analytic processes, supported by technology
- Enable businesses to define strategic goals
- **And measure and manage performance against those goals**



# Business health: 5 ways to take your temperature

1. Peer Benchmark analysis
2. Operating gap analysis
3. Scenario planning
4. Market opportunity analysis
5. Business valuations



# PEER BENCHMARK ANALYSIS

Frequency? Annually +  
when you have key  
decision

Sources? 3<sup>rd</sup> party -  
Industry Bank or CPA  
firm or a company like  
Scion Advisors.

**WHAT?** Compare **your financial results** against peers and your own progress

**WHY?** To make strategic decisions about growth.



# Benchmark example

	Base	Peer group	Your Region	Another region
Revenues	\$ 1,013,460	\$ 1,171,350	\$ 1,013,460	\$ 1,653,671
Gross Profit	\$ 501,793	\$ 643,017	\$ 501,793	\$ 1,125,337
Operating Profit	\$ (1,572)	\$ 100,179	\$ (1,572)	\$ 461,920
Net Cash Flow	\$ (4,072)	\$ 89,741	\$ (4,072)	\$ 324,873
<b>Channel mix: Case Volume</b>	5,000	5,000	5,000	5,000
Wholesale/National/FOB cases	3,000	2,500	3,000	\$ 1,000
DTC	2,000	2,500	2,000	\$ 4,000
<b>Key Metrics</b>				
Average Revenues/cs	\$ 203	\$ 234	\$ 203	\$ 331
Average COGS/cs	\$ 102	\$ 106	\$ 102	\$ 106
Average GP/cs	\$ 101	\$ 129	\$ 101	\$ 225
Gross Margin as % of sales	50%	55%	50%	68%
Operating Margin as % of sales	0%	9%	0%	28%

Where are opportunities to improve things?

- Operating expenses
- Price, Product and Channel Mix!

# Rules of thumb

- Gross margin targets
  - \$50-100 segment 70%
  - \$25-50 segment 60-65%
  - \$15-25 segment 50-55%
- Marketing, Sales and G&A expense targets 30-35%
- Operating profit (EBIT) targets
  - \$50-100 segment 40%
  - \$25-50 segment 35%
  - \$15-25 segment 25%



# OPERATIONS GAP ANALYSIS

**Frequency?** Ongoing

**Sources?** 3rd party -  
CPA firm or a  
company like Scion  
Advisors.

**WHAT?** Measure **your practices**  
against peers or leading  
practitioner.

**WHY?** To reduce costs and  
improve effectiveness.



# How do I measure up?

1. Strategic planning?
2. Operations planning?
3. Financial planning?
4. Accounting practices?
5. Market and sales practices?
6. Brand equity?
7. Production planning?
8. Organization and Leadership?
9. Bench strength and Succession?
10. Governance?



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Key Performance Indicators			JANUARY			FEBRUARY		
			Act	Target	% of	Act	Target	
Finance								
Critical Success Factor - Cash Flows								
AV	Collection Days		45	45	100%			
AV	Vineyard Equipment Purchases		-		0%	-		
AV	Vineyard Development		-		0%	-		
AV	Barrel Purchases		-		0%	-		
AV	Winery Equipment Purchases		-		0%	-		
Marketing and Sales								
Critical Success Factor - Increasing Brand Awareness								
JV	Letters to Distributors		-		na	-		
JV	Letters to Trade		-		na	-		
JV	Letters to Consumer		-		na	-		
VM	Emails to Distributors		-		na	-		
JV	Emails to Trade		-		na	-		
JV	Emails to Consumer		-		na	-		
VM	Telephone Contacts to Distributors		-		na	-		
JV	Telephone Contacts to Trade		-		na	-		
CS	Events at Winery for Trade		-		na	-		
JV	Events at Winery for Reps		-		na	-		
Critical Success Factor - Consistent Message								
DV	# of Trainings for all employees / closing, etc.		-		na	-		
Critical Success Factor - Leverage of Reps								
JV	% of Depletions Reports in Top 10 Markets		0%		na	0%		
JV	% of Depletions Reports Analyzed		0%		na	0%		
JV	% of Placement Reports in Top 10 Markets		0%		na	0%		
JV	% of Reports Analyzed for California Market - qrtly		0%		na	0%		
JV	% On/Off Premise Sales Reports by Rep Analyzed - qrtly		0%		na	0%		
Customers								
Critical Success Factor - Increase Sales Revenue								
DV	% of Cases Allocated to Retail		0%		na	0%		
DV	% of Sales at Retail		0%		na	0%		
VM	Mailing List - Direct Sales		-		na	-		
VM	Mailing List - Indirect Sales		-		na	-		
CS	Wine Club - Direct Sales		-		na	-		
CS	Wine Club - Indirect Sales		-		na	-		
CS	Average Customer Sale - Retail		-		na	-		
CS	Attachments to Sales Conversion % - Retail		-		na	-		
Critical Success Factor - Hospitality								
CS	# of Consumers Tasting at the Winery		-		na	-		
VM	# of New Members Added to Mailing List		-		na	-		
DV	Avg Sales from Members Signed-up in Current Year		-		na	-		
VM	# of Members on Mailing List		-		na	-		
DV	Avg Sales per Member on Mailing List		-		na	-		
VM	# of New Members Added to Wine Club		-		na	-		
VM	# of Members from Wine Club		-		na	-		
DV	Avg Sales from New Wine Club Members in Current Year		-		na	-		
CS	# of Consumers Attending Event		-		na	-		
CS	Avg Sales per Consumer Attending Event		-		na	-		
Vineyards								
Consistent Grape Quality								
AV	Training of Crew - Pruning		-		na	-		
AV	Training of Crew - Canopy mgmt		-		na	-		
AV	Training of Crew - Training the vine		-		na	-		
AV	Quality Rating - Pruning		-		na	-		
AV	Quality Rating - Canopy mgmt		-		na	-		
AV	Quality Rating - Training the vine		-		na	-		
Labor Efficiency								
AV	# of Vines Pruned per Hour (by location)		-		na	-		
AV	# of Vines Tied and Trained per hour (by location)		-		na	-		
AV	Tool and Equipment Organization		-		na	-		
Cellar								
Wine Quality								
AV	% of Barrels Cleaned Correctly		0%		na	0%		
AV	Cleanliness of Cellar		-		na	-		



# SCENARIO PLANNING

**Frequency?** Annually +  
whenever making a  
key decision

**Sources?** Strong CFO or  
CPA firm or a  
company like Scion  
Advisors.

**WHAT?** Test out concepts  
**BEFORE** moving to action.

**WHY?** Avoid making costly  
decisions, by understanding how  
profitability is affected by your  
concepts.



# 'What if I .... want to grow profits?'

	Base	Increase DTC	Product Mix Change	Both
Revenues	\$ 1,013,460	\$ 1,085,850	\$ 1,093,260	\$ 1,171,350
Gross Profit	\$ 501,793	\$ 574,183	\$ 564,927	\$ 643,017
Operating Profit	\$ (1,572)	\$ 52,721	\$ 41,612	\$ 100,179
Net Cash Flow	\$ (4,072)	\$ 48,971	\$ 35,362	\$ 89,741
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Gross Margin as % of sales	50%	53%	52%	55%
Operating Margin as % of sales	0%	5%	4%	9%

	Total Volume	retail \$\$/case	Average GP/case	GP %sales
Pinot Noir	1000	\$35	\$279	66%
Pinot Noir	1000	\$28	\$159	47%
Chardonnay	1000	\$28	\$142	42%
Pinot Gris	1000	\$18	\$33	15%
Viognier	1000	\$18	\$33	15%
	5000			

# Rationalize your portfolio: Options

1. Decrease costs across the company
2. Reduce assets by varietal (*inventory management*)
3. Increase price or change channel

How to drive more profitability?



# Increase price **or** shift channel

	Total Volume	DTC channel	FOB channel	retail \$\$/case	Average GP/case	GP %sales
Pinot Noir	1000	900	100	\$35	\$279	66%
Pinot Noir	1000	600	400	\$28	\$159	47%
Chardonnay	1000	500	500	\$28	\$142	42%
Pinot Gris	1000	-	1,000	\$18	\$33	15%
Viognier	1000	-	1,000	\$18	\$33	15%
	5000	2,000	3,000			
					57%	GP %Sales
	Volume	DTC channel	FOB channel	retail \$/Case	Average GP/case	GP %sales
Pinot Noir	1000	900	100	\$35	\$279	66%
Pinot Noir	1000	600	400	\$31	\$188	50%
Chardonnay	1000	700	300	\$28	\$176	52%
Pinot Gris	1000	1,000	-	\$18	\$141	65%
Viognier	1000	1,000	-	\$18	\$141	65%
	5000	4,200	800			



# What now? Fill the gaps!

## Benchmarking

- ✓ Fix impacts of underperforming
- ✓ Prune some products, increase price or change channel
- ✓ Decrease costs across the company

## Gap Analyses

- ✓ Invest in optics: Finance, sales, production
- ✓ Implement performance management
- ✓ Develop/hire stronger managers
- ✓ Manage costs & risks
- ✓ Get outside-in perspectives

Run best and worst case  
Scenarios!



# “RUN YOUR BUSINESS AS IF YOU ARE GOING TO SELL”

Enables you ...

- ✓ To maximize the value of your business
- ✓ To achieve the highest price possible

By adopting best practices!







Questions?