

Direct Costs in a Winery

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Topics

- ◉ Business models
- ◉ Main concerns
 - Cash Flow
 - Profitability
- ◉ Managing costs

Winery Business Models

- ◉ Farming, Production, Sales
- ◉ Purchase, Production, Sales (and Custom Crush)
- ◉ Purchase, Sales

3

How do they compare?

| Business Model | Income Statement | Balance Sheet | Cash Flow |
|-----------------------------|------------------|--|--------------------------|
| Vineyard, Production, Sales | Highest Margins | Heavy Asset investment (land, equipment) | Negative in early years |
| Production, Sales | High Margin | Medium Asset investment (equipment) | More steady |
| Sales | Lower Margins | Light Asset investment (bottled inventory) | Positive cash flow early |

4

Product Mix

| Product | Income Statement | Balance Sheet | Cash Flow |
|---------|------------------|-------------------------|--------------------------------------|
| Red | Price/volume | Higher inventory values | Longer gap between costs and revenue |
| White | Price/volume | Lower inventory values | Faster time to market |

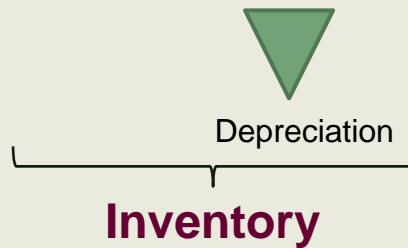
5

Accounting Transactions

| Type | Revenue | Expense | Asset | Liability |
|-------------|---------|---------|-------|-----------|
| Incoming \$ | X | | | X |
| Outgoing \$ | | X | X | |

Winery Transactions

| Type | Revenue | Expense | Asset | Liability |
|-------------|---------|---------|-------|-----------|
| Incoming \$ | X | | | X |
| Outgoing \$ | | X | X | |



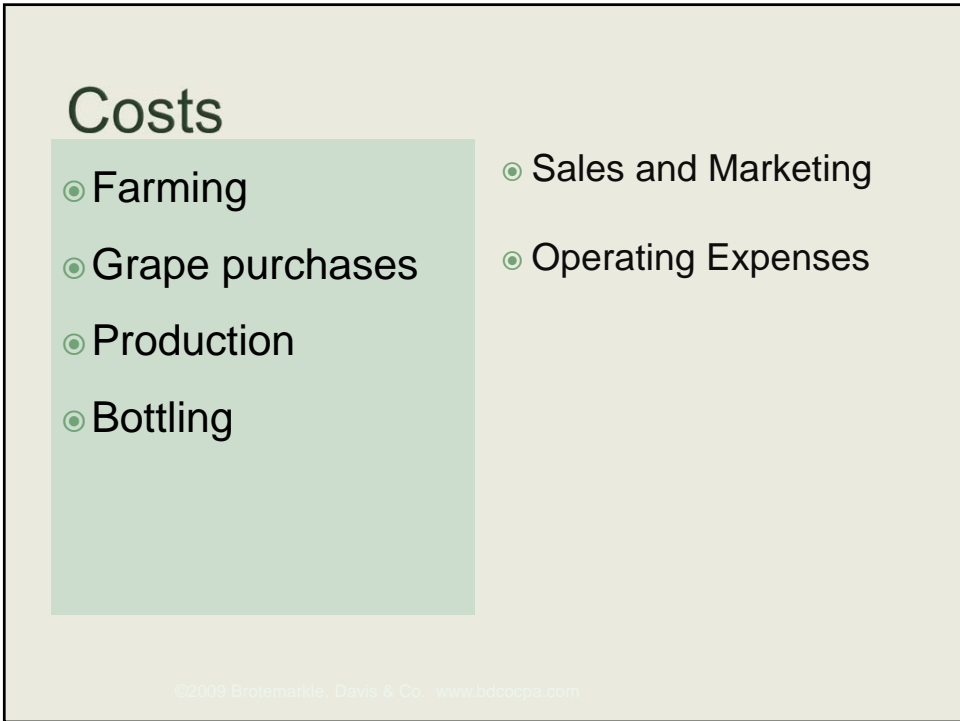
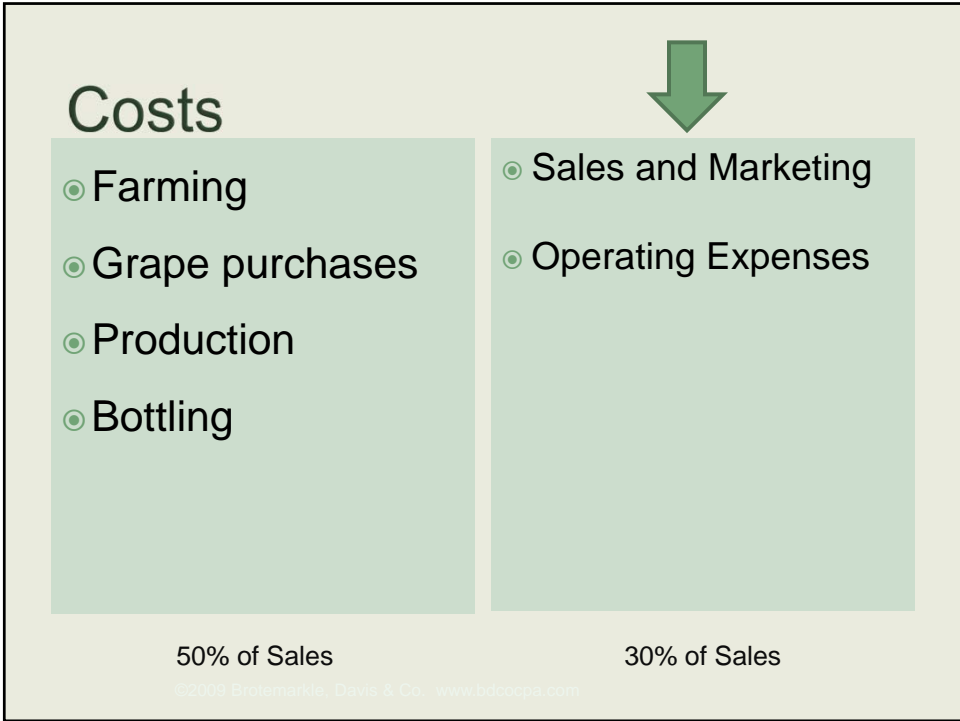
Direct Costs

- Farming
- Grape purchases
- Production
- Bottling



-
- Sales and Marketing
 - Direct to Consumer
 - Wholesale
 - Operating Expenses





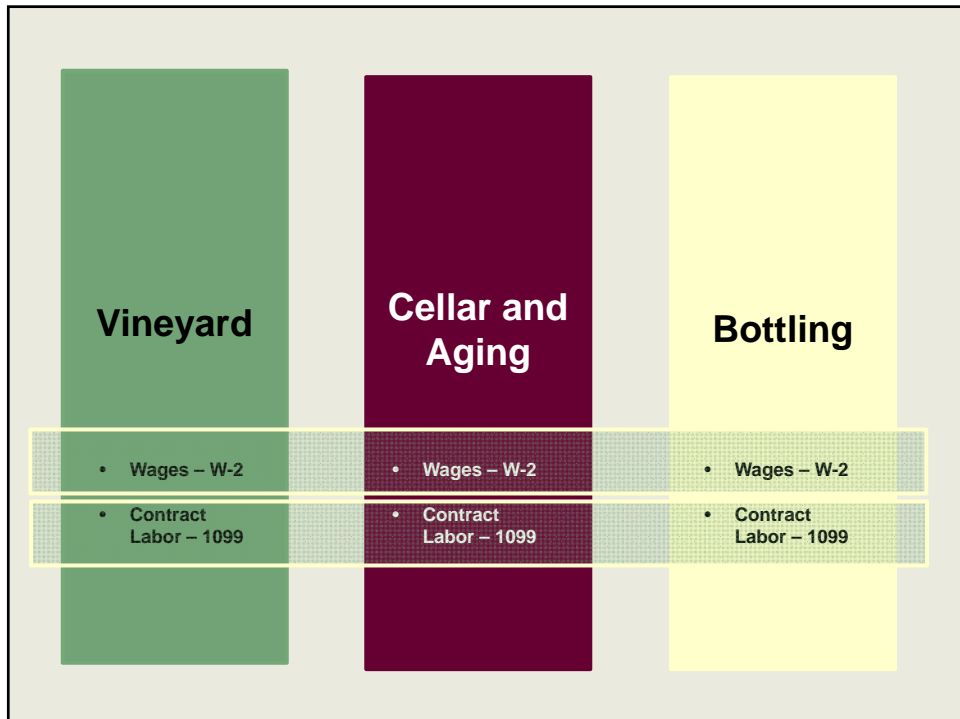
How much detail is best?

- ◉ Managerial needs
- ◉ Dashboards
- ◉ Reporting
- ◉ Planning



versus

- ◉ Data entry – ease of use



4:21 PM
03/12/14
Accrual Basis

Le Cou Rouge Winery (for class)
Profit & Loss
January through December 2013

| | | Jan - Dec 13 |
|--|--------------|---------------------|
| Ordinary Income/Expense | | |
| Income | | |
| 4000 - Sales - Wine | | 2,618,470.34 |
| Total Income | | 2,618,470.34 |
| Cost of Goods Sold | | |
| 5000 - Cost of Sales - Bottled | 1,304,815.00 | 49.83% |
| 5200 - Cost of Sales - Merchandise | | 2,500.00 |
| 5600 - CELLAR & AGING COSTS | | |
| 5625 - Grape Purchases | 510,600.00 | |
| 5630 - Consulting | 2,500.00 | |
| 5631 - Repairs & Maintenance | 2,789.63 | |
| 5632 - Utilities | 3,881.97 | |
| 5633 - Winemaker | 125,000.00 | |
| 5635 - Storage - Bulk Wine | 11,905.12 | |
| Total 5600 - CELLAR & AGING COSTS | | 656,656.72 |
| 5700 - BOTTLING COSTS | | |
| 5750 - Contract Bottling | 36,895.00 | |
| 5753 - Glass | 102,497.63 | |
| 5755 - Capsules | 6,750.00 | |
| 5756 - Labels | 5,235.69 | |
| Total 5700 - BOTTLING COSTS | | 151,178.32 |
| 5800 - FARMING COSTS | | |
| 5830 - Fertilizers | 1,539.12 | |
| 5845 - Utilities - Port-o-Potty | 2,536.99 | |
| 5850 - Equipment Rental | 9,850.78 | |
| 5865 - Vineyard Mgmt Fee | 96,752.34 | |
| Total 5800 - FARMING COSTS | | 110,479.23 |

Sample Winery P&L

Step 1

| | | |
|--|-------------------|---------------------|
| 5600 - CELLAR & AGING COSTS | | |
| 5625 - Grape Purchases | 510,600.00 | |
| 5630 - Consulting | 2,500.00 | |
| 5631 - Repairs & Maintenance | 2,789.63 | |
| 5632 - Utilities | 3,881.97 | |
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| 5850 - Equipment Rental | 9,850.78 | |
| 5865 - Vineyard Mgmt Fee | 96,752.34 | |
| Total 5800 - FARMING COSTS | | 110,479.23 |
| Total COGS | | 2,225,629.27 |
| Gross Profit | 392,841.07 | 15.0% |

Sample Winery P&L

Step 1

Capture costs on your monthly *income statement*

| | | | |
|--|--|---|--------|
| <p>Sample Winery P&L</p> <p>Step 2</p> | 4:21 PM 03/12/14 Accrual Basis | Le Cou Rouge Winery (for class) Profit & Loss January through December 2013 | |
| | | Jan - Dec 13 | |
| | Ordinary Income/Expense | | |
| | Income | | |
| | 4000 - Sales - Wine | 2,618,470.34 | |
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| | 5600 - CELLAR & AGING COSTS | | |
| | 5699 - XFR Cellar/Aging Costs to Bulk | -656,656.72 | |
| | 5625 - Grape Purchases | 510,600.00 | |
| | 5630 - Consulting | 2,500.00 | |
| | 5631 - Repairs & Maintenance | 2,789.63 | |
| | 5632 - Utilities | 3,861.97 | |
| | 5633 - Winemaker | 125,000.00 | |
| | 5635 - Storage - Bulk Wine | 11,905.12 | |
| | Total 5600 - CELLAR & AGING COSTS | 0.00 | |
| | 5700 - BOTTLING COSTS | | |
| | 5799 - XFR Costs to Bottled Wine | -151,178.32 | |
| | 5750 - Contract Bottling | 36,695.00 | |
| | 5753 - Glass | 102,497.63 | |
| | 5755 - Capsules | 6,750.00 | |
| | 5756 - Labels | 5,235.69 | |
| | Total 5700 - BOTTLING COSTS | 0.00 | |
| | 5800 - FARMING COSTS | | |
| | 5899 - XFR Farming Costs to Bulk Wine | -110,479.23 | |
| | 5830 - Fertilizers | 1,539.12 | |
| | 5845 - Utilities - Port-o-Potty | 2,536.99 | |

| | | | |
|---|--|---------------------|--|
| <p>Sample Winery P&L</p> <p>Step 2</p> <p>Transfer costs at end of month to inventory</p> | 5600 - CELLAR & AGING COSTS | | |
| | 5699 - XFR Cellar/Aging Costs to Bulk | -656,656.72 | |
| | 5625 - Grape Purchases | 510,600.00 | |
| | 5630 - Consulting | 2,500.00 | |
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| | 5632 - Utilities | 3,861.97 | |
| | 5633 - Winemaker | 125,000.00 | |
| | 5635 - Storage - Bulk Wine | 11,905.12 | |
| | Total 5600 - CELLAR & AGING COSTS | 0.00 | |
| | 5700 - BOTTLING COSTS | | |
| | 5799 - XFR Costs to Bottled Wine | -151,178.32 | |
| | 5750 - Contract Bottling | 36,695.00 | |
| | 5753 - Glass | 102,497.63 | |
| | 5755 - Capsules | 6,750.00 | |
| | 5756 - Labels | 5,235.69 | |
| | Total 5700 - BOTTLING COSTS | 0.00 | |
| | 5800 - FARMING COSTS | | |
| | 5899 - XFR Farming Costs to Bulk Wine | -110,479.23 | |
| | 5830 - Fertilizers | 1,539.12 | |
| | 5845 - Utilities - Port-o-Potty | 2,536.99 | |
| | 5850 - Equipment Rental | 9,650.78 | |
| | 5865 - Vineyard Mgmt Fee | 96,752.34 | |
| | Total 5800 - FARMING COSTS | 0.00 | |
| | Total COGS | 1,307,315.00 | |

4:21 PM
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Accrual Basis

Le Cou Rouge Winery (for class)
Profit & Loss
January through December 2013

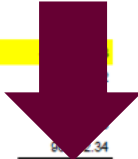
Jan - Dec 13

| Ordinary Income/Expense | | |
|---------------------------------------|---------------------|--------|
| Income | | |
| 4000 - Sales - Wine | 2,618,470.34 | |
| Total Income | 2,618,470.34 | |
| Cost of Goods Sold | | |
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| 5700 - BOTTLING COSTS | | |
| 5799 - XFR Costs to Bottled Wine | -151,178.32 | |
| 5750 - Contract Bottling | 36,095.00 | |
| 5753 - Glass | 102,407.63 | |
| 5755 - Capsules | 6,750.00 | |
| 5756 - Labels | 5,235.09 | |
| Total 5700 - BOTTLING COSTS | 0.00 | |
| 5800 - FARMING COSTS | | |
| 5899 - XFR Farming Costs to Bulk Wine | - | |
| 5830 - Fertilizers | | |
| 5845 - Utilities - Port-o-Potty | | |
| 5850 - Equipment Rental | | |
| 5865 - Vineyard Mgmt Fee | 6,235.34 | |
| Total 5800 - FARMING COSTS | 0.00 | |
| Total COGS | 1,307,315.00 | |

Sample Winery P&L

Result:

True COGS



4:26 PM
03/12/14
Accrual Basis

Le Cou Rouge Winery (for class)
Balance Sheet
As of December 31, 2013

Dec 31, 13

| ASSETS | |
|-----------------------------------|---------------------|
| Current Assets | |
| Checking/Savings | |
| 1000 - Checking | 137,587.00 |
| Total Checking/Savings | 137,587.00 |
| Accounts Receivable | |
| 1100 - Accounts Receivable | 665,503.00 |
| Total Accounts Receivable | 665,503.00 |
| Other Current Assets | |
| 1200 - INVENTORY | |
| 1201 - Inventory - Bulk Wine | 1,329,116.45 |
| 1205 - Inventory - Bottled Wine | 2,151,597.82 |
| Total 1200 - INVENTORY | 3,480,714.27 |
| 1300 - Prepaid Expenses | 1,385.00 |
| 1301 - Investments | 10,000.00 |
| Total Other Current Assets | 3,492,109.27 |
| Total Current Assets | 4,195,199.27 |
| Fixed Assets | |
| 15000 - Furniture and Equipment | |
| 1510 - Barrels | 1,125,000.00 |
| Total Fixed Assets | 1,250,000.00 |
| Other Assets | |
| 1800 - Design Costs | |
| 1850 - Organizational Costs | 185,000.00 |
| 1850 - Organizational Costs | 11,000.00 |
| Total Other Assets | 196,000.00 |
| TOTAL ASSETS | 5,641,199.27 |

Balance Sheet

Assets

| | | |
|---|-----------------------------------|----------------------------|
| <p style="font-size: 24pt; margin: 0;">Balance Sheet</p> <p style="font-size: 24pt; margin: 20px 0 0 0;">Assets</p> | Other Current Assets | |
| | 1200 - INVENTORY | |
| | 1201 - Inventory - Bulk Wine | 1,329,116.45 |
| | 1205 - Inventory - Bottled Wine | <u>2,151,597.82</u> |
| | Total 1200 - INVENTORY | 3,480,714.27 |
| | 1300 - Prepaid Expenses | 1,395.00 |
| | 1301 - Investments | <u>10,000.00</u> |
| | Total Other Current Assets | <u>3,492,109.27</u> |
| | Total Current Assets | 4,195,199.27 |
| | Fixed Assets | |
| | 15000 - Furniture and Equipment | 1,125,000.00 |
| | 1510 - Barrels | <u>125,000.00</u> |
| | Total Fixed Assets | 1,250,000.00 |
| | Other Assets | |
| | 1800 - Design Costs | 185,000.00 |
| 1850 - Organizational Costs | <u>11,000.00</u> | |
| Total Other Assets | <u>196,000.00</u> | |
| TOTAL ASSETS | <u><u>5,641,199.27</u></u> | |

| | | |
|---|--|---|
| <p style="font-size: 24pt; margin: 0;">Balance Sheet</p> <p style="font-size: 24pt; margin: 20px 0 0 0;">Liabilities and Equity</p> <p style="font-size: 24pt; margin: 20px 0 0 0;">No impact</p> | 4:26 PM 03/12/14 Accrual Basis | <p>Le Cou Rouge Winery (for class)</p> <p>Balance Sheet</p> <p>As of December 31, 2013</p> <p><u>Dec 31, 13</u></p> |
| | LIABILITIES & EQUITY | |
| | Liabilities | |
| | Current Liabilities | |
| | Accounts Payable | |
| | 2000 - Accounts Payable | 436,184.93 |
| | Total Accounts Payable | <u>436,184.93</u> |
| | Other Current Liabilities | |
| | 2200 - Accrued Expenses | 74,756.00 |
| | 2500 - Line of Credit | <u>2,112,164.00</u> |
| | Total Other Current Liabilities | <u>2,186,940.00</u> |
| | Total Current Liabilities | 2,623,124.93 |
| | Long Term Liabilities | |
| | 2510 - Notes Payable | 1,240,256.00 |
| | 2520 - Note payable members | <u>46,696.00</u> |
| | Total Long Term Liabilities | <u>1,286,952.00</u> |
| | Total Liabilities | 3,910,076.93 |
| | Equity | |
| | 3000 - Member's Capital | 800,000.00 |
| | 3005 - Opening Balance Equity | -53,002.00 |
| | 3900 - Retained Earnings | 596,388.92 |
| | Net Income | <u>387,735.42</u> |
| | Total Equity | <u>1,731,122.34</u> |
| | TOTAL LIABILITIES & EQUITY | <u><u>5,641,199.27</u></u> |

Vineyard and Farming

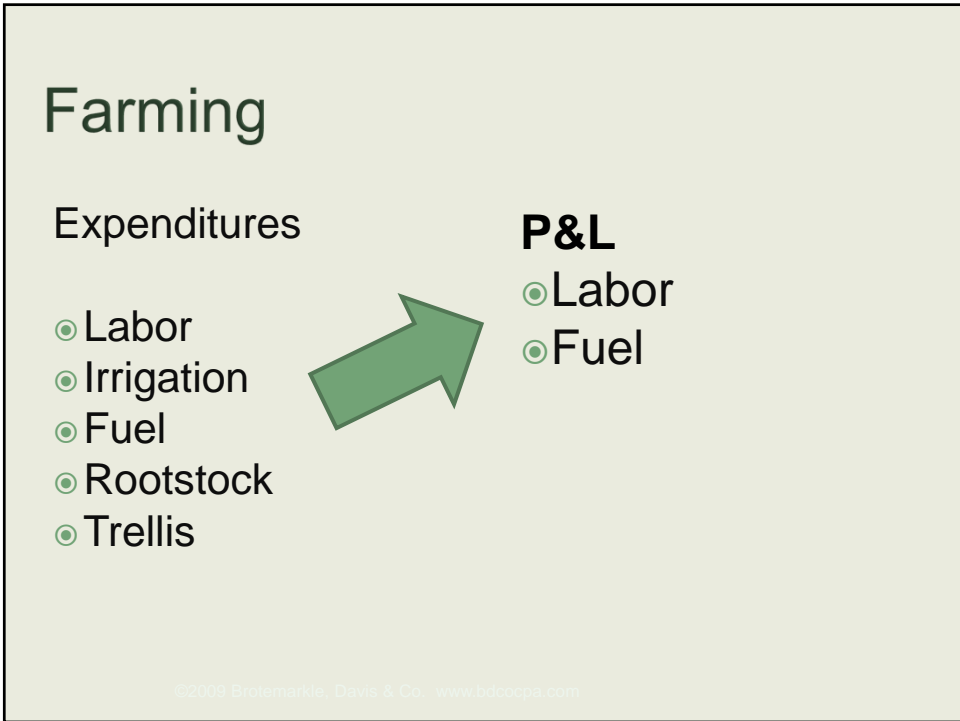
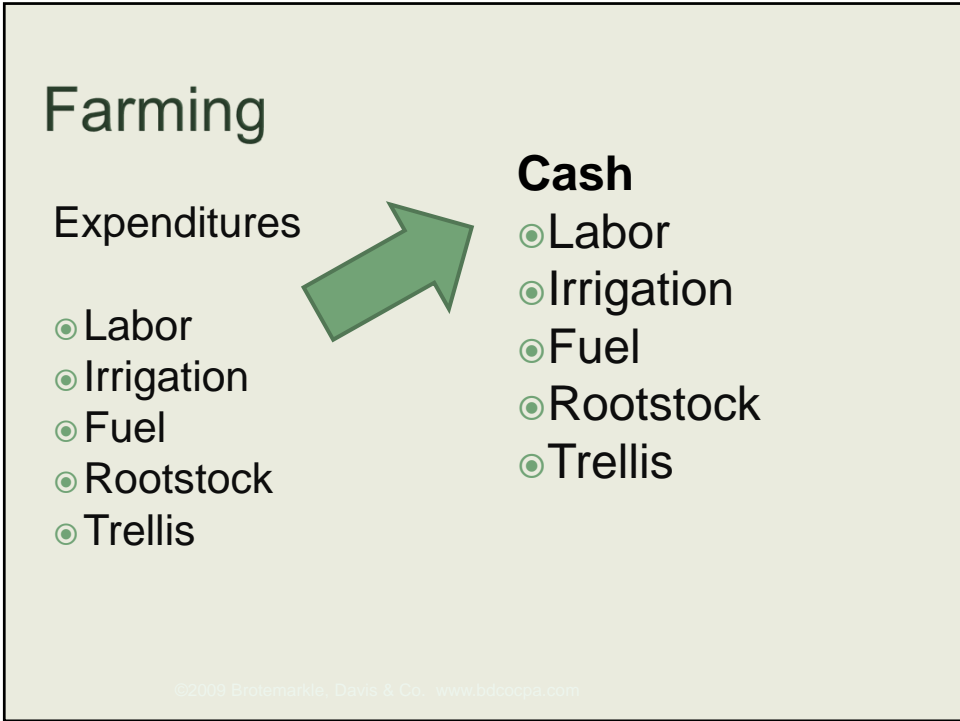


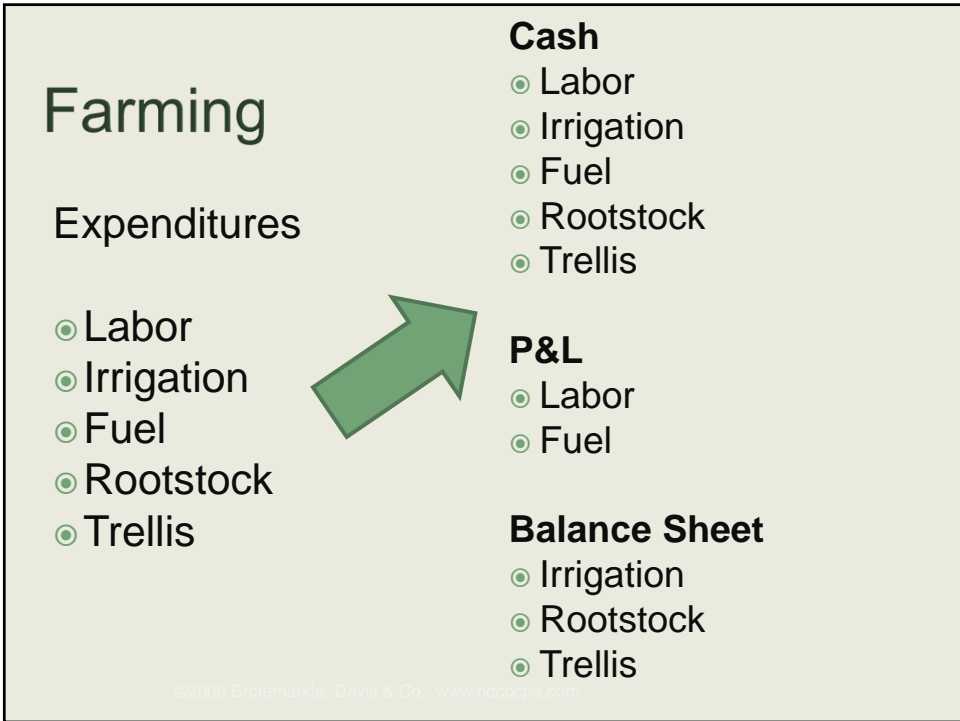
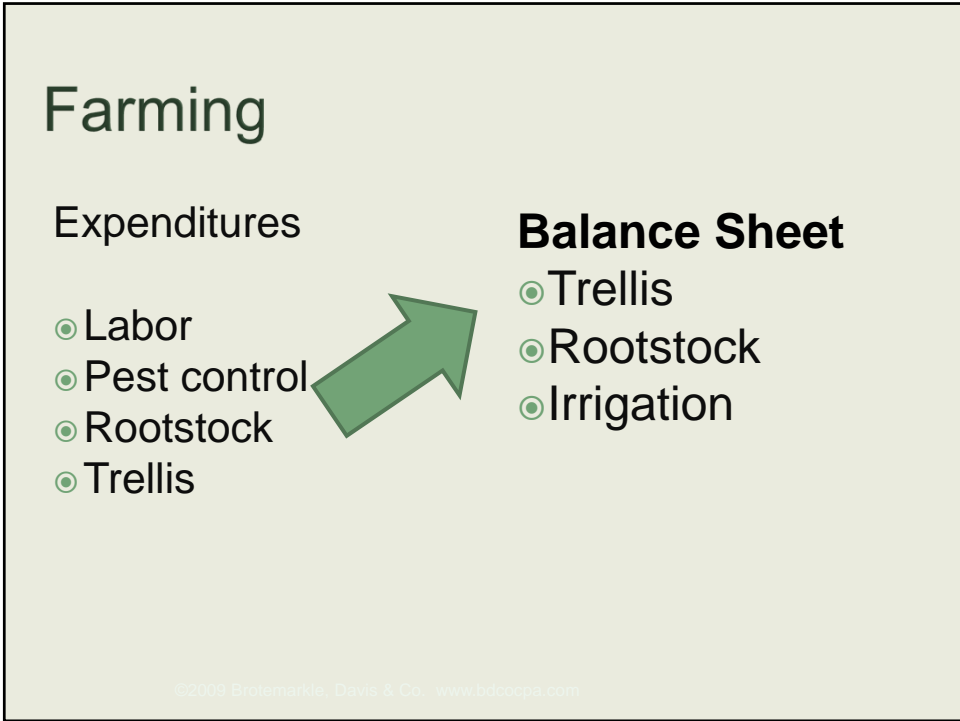
Farming

- Machinery
- Trellis
- Irrigation

- Labor
- Fuel and maintenance
- Supplies







First issue -farming

- Producing versus Non-producing acres
- Require cost allocations

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Second issue - grapes

- Gallons
- Convert to 9 Liter equivalents



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Production



◎ Production

- Harvest
- Fermentation
- Barrel costs
- Winemaker salary
- Labor

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YEAR 1



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YEAR 1

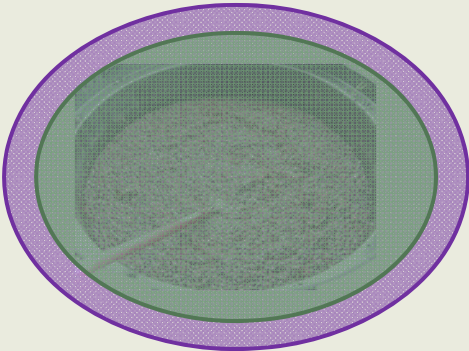
- Facilities
- Labor
- Fixed Assets
- Utilities



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YEAR 2

- Facilities
- Labor
- Fixed Assets
- Utilities



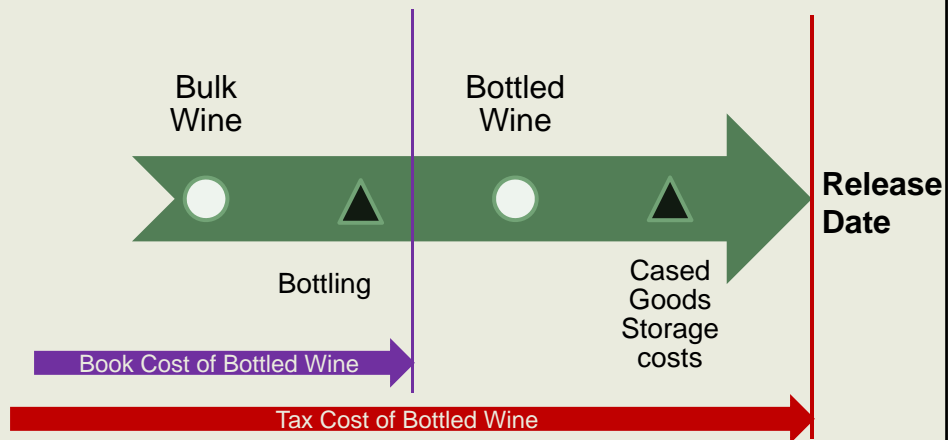
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Bottling

- Packaging material
- Labor
- Equipment

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Financial Statements (Book) Versus Tax

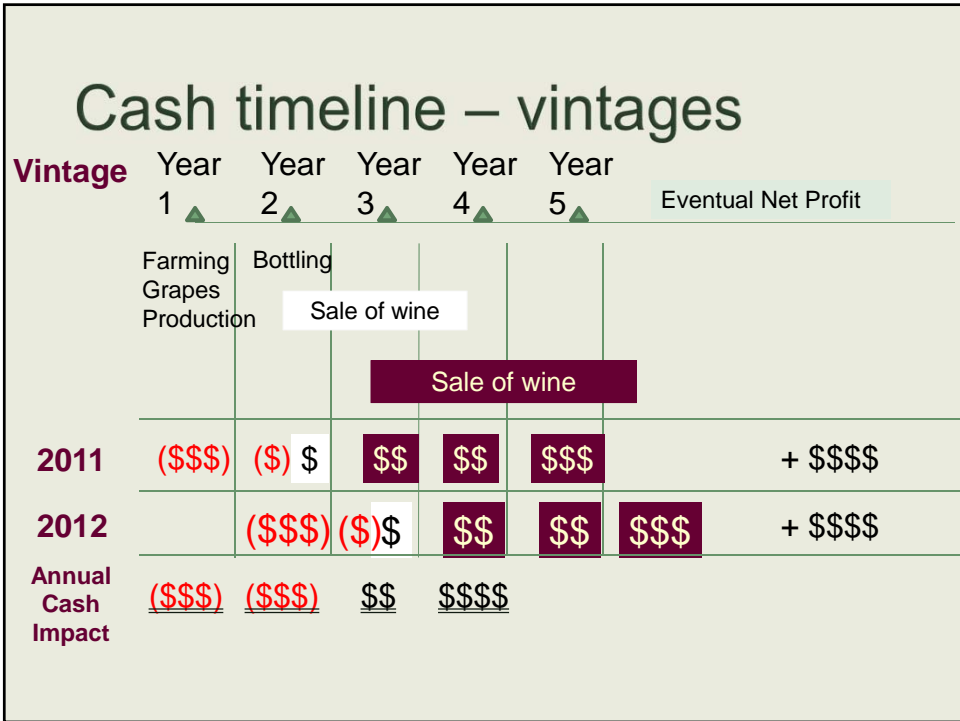


Treatment

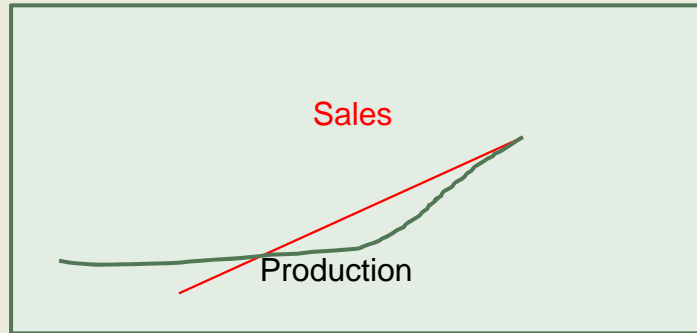
| Cost | Financial Statements | Tax |
|-------------------------------|------------------------|---|
| Farming | Inventory | Expensed < \$1 mill gross receipts, or < \$25 mill family |
| Grape Purchases Production | Bulk Wine Inventory | Inventory + share of other costs + storage |
| Bottling | Bottled Wine Inventory | Inventory |

Cash timeline – single vintage

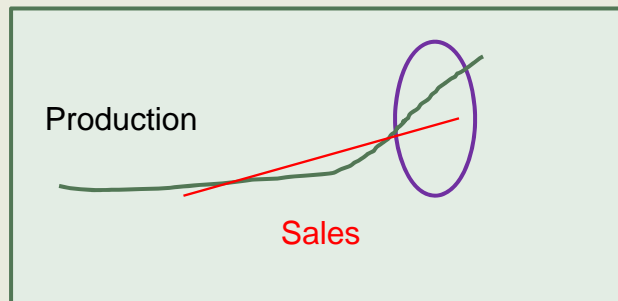




Goal



Cash flow problems



Metrics to consider

Relationship between sales growth (measured in COGS \$) and inventory balance growth

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------|------|------|------|------|------|
| COGS Growth % | +3% | +25% | -5% | -10% | +3 |
| Inventory Growth % | -2% | -5% | -12% | +3% | +7 |

Manage production

| Cases | 2012 | 2013 |
|------------------|----------------|-----------------|
| Beg Inventory | 20,000 | 32,000 |
| Processing | 20,000 | 25,000 |
| Case Sales | <u>(8,000)</u> | <u>(10,000)</u> |
| Ending Inventory | 32,000 | 47,000 |

It takes planning

| Cases | 2012 | 2013 |
|------------------|----------------|-----------------|
| Beg Inventory | 20,000 | 32,000 |
| Processing | 20,000 | 25,000 |
| Case Sales | <u>(8,000)</u> | <u>(10,000)</u> |
| Ending Inventory | 32,000 | 47,000 |

- Grape sales
- Bulk wine sales
- Discount bottled wine sales

Sales price
\$50

BOTTLE

Margin

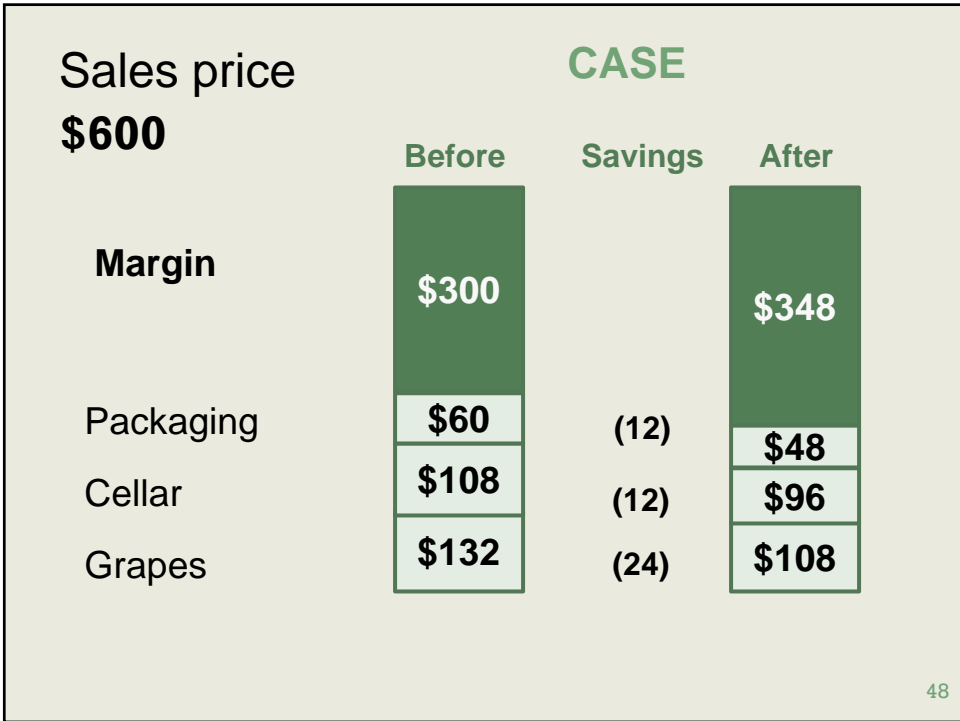
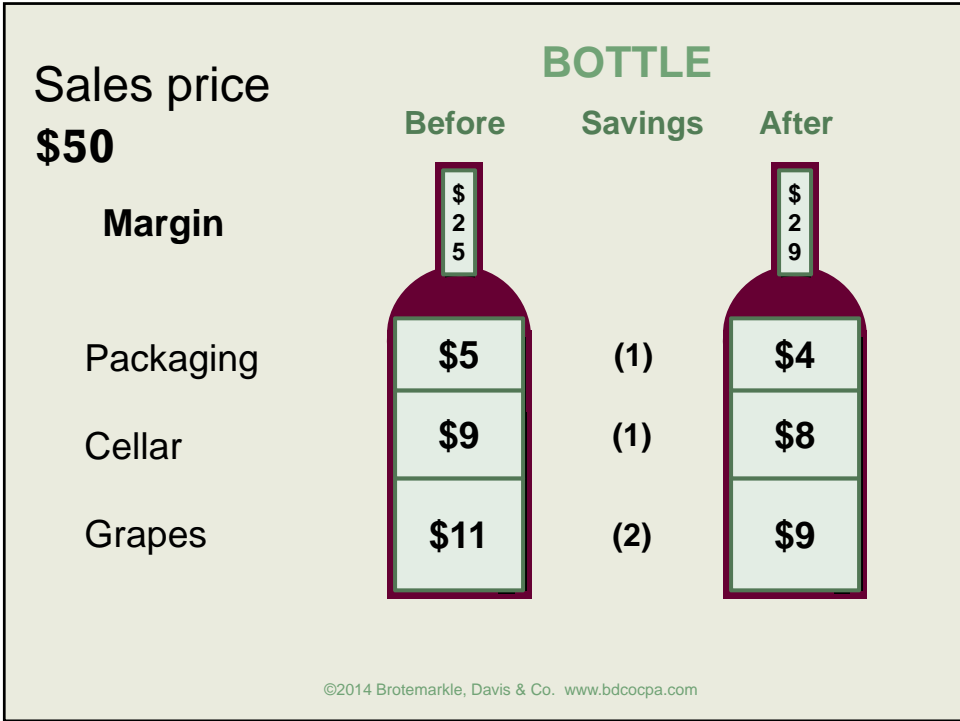
Packaging

Cellar

Grapes



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| Impact of Cost Reduction | | | | | | | | |
|--|--|-------|-------|-------|-------|-------|-------|--|
| Versus sales growth at different margins | | | | | | | | |
| And you reduce your cost by: | If your present margin is: | | | | | | | |
| | 40% | 45% | 50% | 55% | 60% | 65% | 70% | |
| | To produce the same profit your sales volume must increase by: | | | | | | | |
| 2% | 5.0% | 4.4% | 4.0% | 3.6% | 3.3% | 3.1% | 2.9% | |
| 4% | 10.0% | 8.9% | 8.0% | 7.3% | 6.7% | 6.2% | 5.7% | |
| 6% | 15.0% | 13.3% | 12.0% | 10.9% | 10.0% | 9.2% | 8.6% | |
| 8% | 20.0% | 17.8% | 16.0% | 14.5% | 13.3% | 12.3% | 11.4% | |
| 10% | 25.0% | 22.2% | 20.0% | 18.2% | 16.7% | 15.4% | 14.3% | |
| 15% | 37.5% | 33.3% | 30.0% | 27.3% | 25.0% | 23.1% | 21.4% | |
| 20% | 50.0% | 44.4% | 40.0% | 36.4% | 33.3% | 30.8% | 28.6% | |
| 25% | 62.5% | 55.6% | 50.0% | 45.5% | 41.7% | 38.5% | 35.7% | |
| 30% | 75.0% | 66.7% | 60.0% | 54.5% | 50.0% | 46.2% | 42.9% | |
| 35% | 87.5% | 77.8% | 70.0% | 63.6% | 58.3% | 53.8% | 50.0% | |

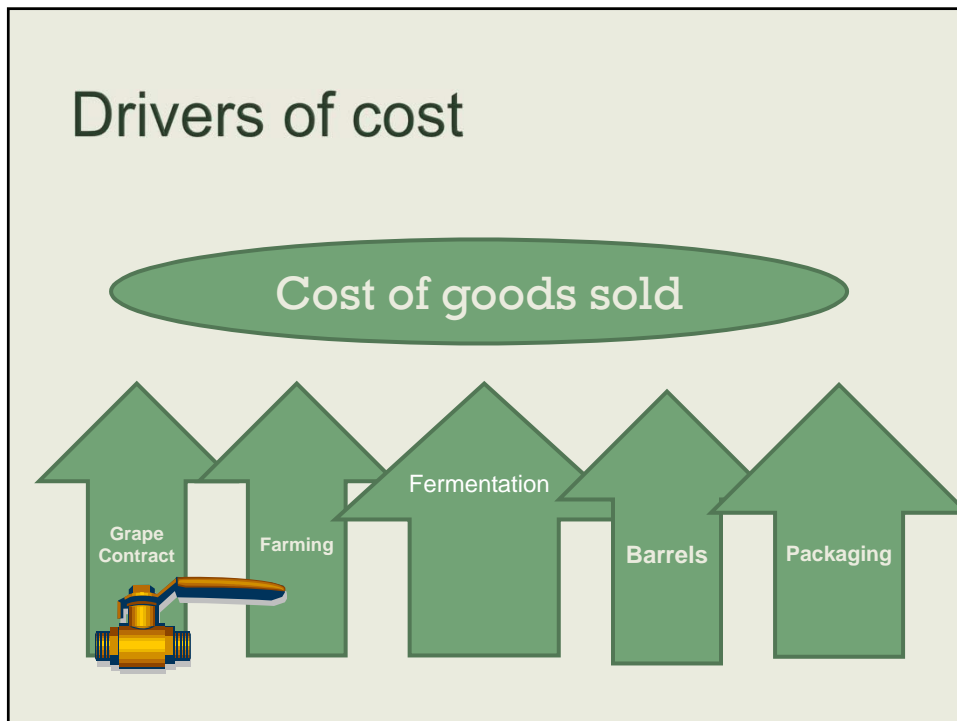
- ## Farming dashboard
- Labor – cost per acre
 - By ranch location
 - By task

 - What can you manage?

Cellar dashboard

- Labor costs per case / Weighted average gallons
- Non-labor costs per case / Weighted average gallons
- Packaging costs per case bottled

Drivers of cost



Goal

- ◉ Understand impact of
 - Over-producing
 - Adding SKUs over time
 - Grape contracts
 - Farming decisions
- ◉ Brand and labeling
- ◉ Packaging
- ◉ Discounting

Budget and plan

- ◉ P&L
- ◉ But more importantly Cash Flow
- ◉ Balance Sheet implications



Information to capture

- Producing versus non-producing acres
- Bulk wine in gallons - blending
 - Beg Bal +/- Ending Bal
- Vineyard and Farming costs
- Cellar and Aging
- Bottling
- Payroll allocations by category
- Innovation in the cellar – special tax treatment

Resources we will send

1. **Bulk wine accumulator**
2. **Cost reduction impact schedule**
3. **Sample P&Ls**



| | A | B | C | D | E | F | G | H | I | J | K |
|----|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1 | Sample Winery | | | | | | | | | | |
| 2 | BULK WINE GALLONS | | | | | | | | | | |
| 3 | 2014 | | | | | | | | | | |
| 4 | | CH 13 | SB 13 | MR 12 | MR 13 | SY 12 | SY 13 | CS 11 | CS 12 | CS 13 | Total |
| 5 | Inventory 12/31/2013 | | | | | | | | | | - |
| 6 | Tank Variance | | | | | | | | | | - |
| 7 | Produced by Fermentation | | | | | | | | | | - |
| 8 | Blended | | | | | | | | | | - |
| 9 | Sold | | | | | | | | | | - |
| 10 | Topping/Lees/Bottling Loss | | | | | | | | | | - |
| 11 | Bottled | | | | | | | | | | - |
| 12 | Inventory 1/31/2014 | - | - | - | - | - | - | - | - | - | - |
| 13 | Tank Variance | | | | | | | | | | - |
| 14 | Produced by Fermentation | | | | | | | | | | - |
| 15 | Blended | | | | | | | | | | - |
| 16 | Sold | | | | | | | | | | - |
| 17 | Topping/Lees/Bottling Loss | | | | | | | | | | - |
| 18 | Bottled | | | | | | | | | | - |
| 19 | Inventory 2/28/2014 | - | - | - | - | - | - | - | - | - | - |
| 20 | Tank Variance | | | | | | | | | | - |
| 21 | Produced by Fermentation | | | | | | | | | | - |
| 22 | Blended | | | | | | | | | | - |
| 23 | Sold | | | | | | | | | | - |
| 24 | Topping/Lees/Bottling Loss | | | | | | | | | | - |
| 25 | Bottled | | | | | | | | | | - |
| 26 | Inventory 3/31/2014 | - | - | - | - | - | - | - | - | - | - |
| 27 | Tank Variance | | | | | | | | | | - |
| 28 | Produced by Fermentation | | | | | | | | | | - |
| 29 | Blended | | | | | | | | | | - |
| 30 | Sold | | | | | | | | | | - |
| 31 | Topping/Lees/Bottling Loss | | | | | | | | | | - |
| 32 | Bottled | | | | | | | | | | - |
| 33 | Inventory 4/30/2014 | - | - | - | - | - | - | - | - | - | - |
| 34 | Tank Variance | | | | | | | | | | - |
| 35 | Produced by Fermentation | | | | | | | | | | - |
| 36 | Blended | | | | | | | | | | - |
| 37 | Sold | | | | | | | | | | - |
| 38 | Topping/Lees/Bottling Loss | | | | | | | | | | - |
| 39 | Bottled | | | | | | | | | | - |
| 40 | Inventory 5/31/2014 | - | - | - | - | - | - | - | - | - | - |

Thank you!

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