ANDY STARR

Smart Wineries Use Business Plans

When you hear the phrase "business plan," the first thing you think of is:

A. Those insufferable, preppy, entrepreneurial MBA types in $200 T-shirts that keep showing up at your tasting room (or that you wish would show up because, though insufferable, they do buy a lot of wine) with their talk of value propositions, exit strategies and Series A financing.

B. Hosts on the TV show "Shark Tank," with their incessant references to "I really like/dislike this business plan." (Some of them wear $200 T-shirts as well.)

C. Your old job at a large corporation that could have been the set for the 1999 movie "Office Space," which is why you now work in the wine industry.

D. That thing your CPA does once a year to make your banker happy but, to tell the truth, you've never looked at once.

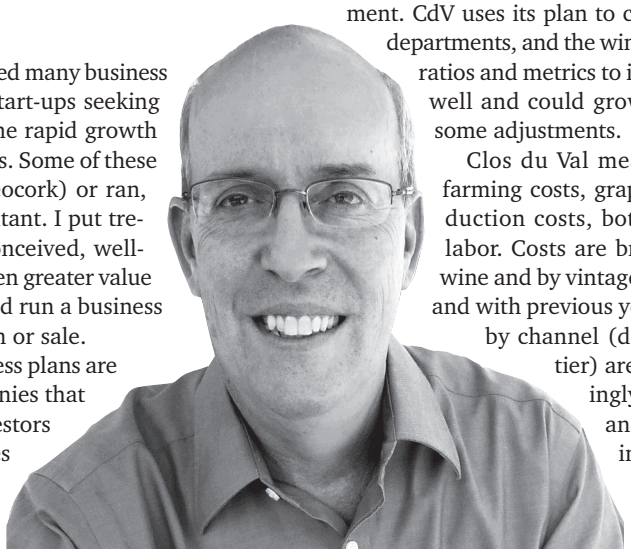
E. An essential tool for understanding how your wine business works, how you manage financial and human resources, how to monitor results versus plans and hold everyone in the organization accountable.

(Note: Your lenders, investors, vendors, employees and heirs hope you picked "E.")

I have written and executed many business plans for companies from start-ups seeking initial funding to those in the rapid growth phase and mature companies. Some of these were companies I built (Neocork) or ran, and at others I was a consultant. I put tremendous value in a well-conceived, well-written business plan and even greater value in using the plan to build and run a business from inception to succession or sale.

Many people think business plans are solely for early stage companies that are raising money from investors and not for artisanal ventures like wineries. I believe every business that uses money—whether it's yours or someone else's—needs a plan. Yes, you might be successful with a business plan of "get high scores" or "I just got offered 18 tons of killer Cab!" (especially if you have rich relatives happy to bail you out every time you run out of cash), but your odds for success aren't high. Yet, a recent survey found that 39% of businesses under $5 million in revenue do not even have an annual budget.

For this column I interviewed three winery principals, a banker and a CFO (chief financial officer) services provider. Based on what I learned from these conversations and my own experience, it appears that wineries using a comprehensive, continuous, shared and transparent business planning process are more profitable, have an easier time acquiring financing or equity capital, have higher valuations and suffer less organizational stress than those that do not.



Clos du Val: 'measure everything'

Lori Felando is the CFO for Clos du Val. She has 15 years of financial management experience at wine companies including Diageo and St. Supéry, and she was named the 2014 CFO of the Year by the *North Bay Business Journal*. Clos du Val is based in Napa, Calif., and the company owns vineyards in the Stags Leap District, Carneros and Yountville, Calif. The company has been making wine since 1972, and it currently produces 80,000 cases annually, according to Wines Vines Analytics.

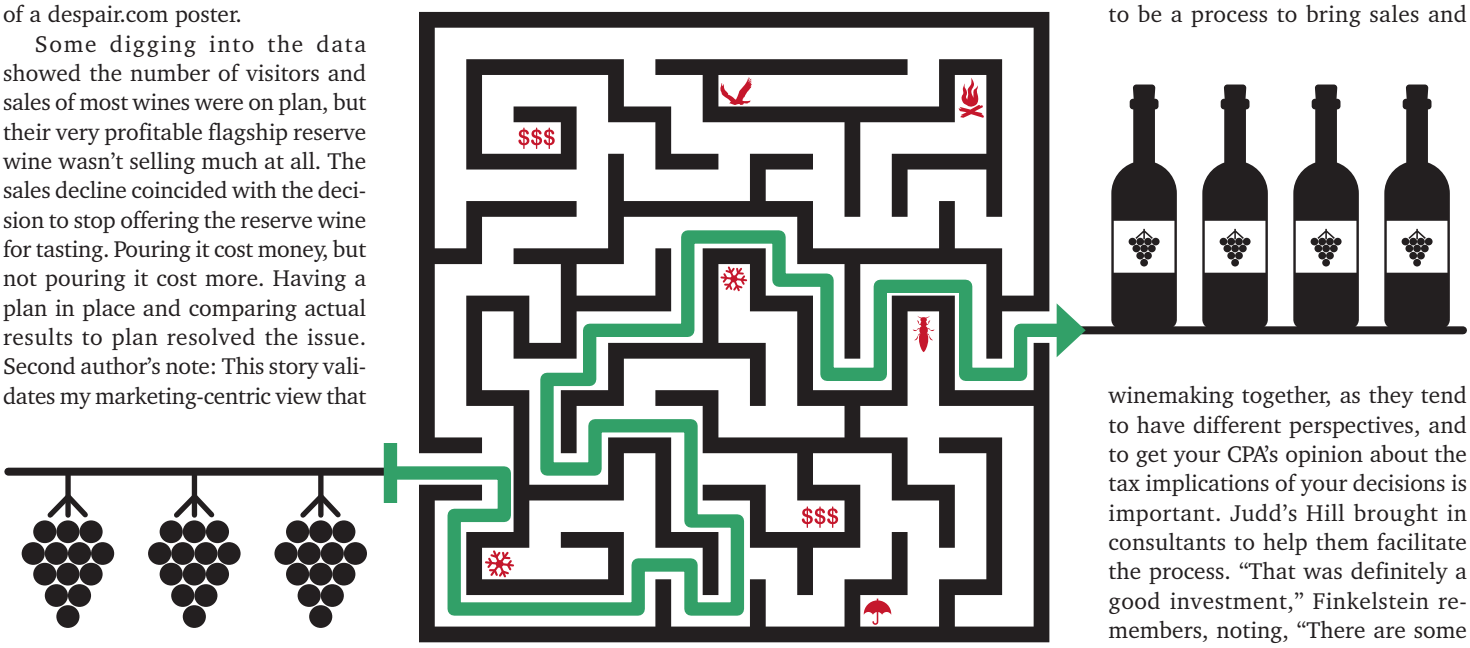
Clos du Val has a very sophisticated planning process that looks at the long-term and short-term in the form of a 10-year strategic plan and a one-year detailed annual plan. Felando notes that it is critical these two plans be in alignment. CdV uses its plan to create goals for managers and departments, and the winery uses many sources of data, ratios and metrics to identify areas that are working well and could grow, as well as areas that need some adjustments.

Clos du Val measures everything: vineyard farming costs, grape yields, cost of grapes, production costs, bottling materials and bottling labor. Costs are broken out by department, by wine and by vintage, and compared with the plan and with previous years. Sales revenues and costs by channel (direct to consumer and three-tier) are also broken out. Not surprisingly, DtC has the highest margins and the most associated metrics including visitor count, conver-

sion rate (how many visitors make a purchase), average order value, average discount rate (are consumers only buying what's on sale?), wine club conversion and attrition rates, payroll/tasting room sales ratio and others.

Felando provided an excellent example of the benefits of using granular data collection to solve a mystery at a different (and unnamed) winery where she worked earlier in her career. Their tasting room sales revenue and profitability had decreased over a few months, even though it appeared the tasting room was as busy as usual. Author's note: I have worked at companies where this would have been met with, "You idiots need to learn to sell!" or some other demotivating comment worthy of a despair.com poster.

Some digging into the data showed the number of visitors and sales of most wines were on plan, but their very profitable flagship reserve wine wasn't selling much at all. The sales decline coincided with the decision to stop offering the reserve wine for tasting. Pouring it cost money, but not pouring it cost more. Having a plan in place and comparing actual results to plan resolved the issue. Second author's note: This story validates my marketing-centric view that pouring your most expensive wine is a marketing "investment" that should provide a return, rather than a "waste of good wine," as many cost accountants would argue.



Felando feels it is critical that every winery—even small ones—have a business plan. As a first step, she urges companies to get buy-in from all departments. Second, have the bookkeeper provide templates for budgeting that show previous year spending by expense class. Department managers should own their budgets, so ask them to create drafts of annual budgets and goals, and then review them with CEO/owner.

Felando points out that the first year will likely be a learning curve toward clean data, as expenses are often miscoded. She also recommended that a winery benchmark with other wineries and said it is worth investing in a consultant to facilitate the process, as the payback will likely be significant.

Judd's Hill: 'our family's livelihood'

Holly Finkelstein is the CEO of Judd's Hill Winery, with 11 years of wine industry experience. Based in Napa, Judd's Hill has been making wine since 1989, and it currently produces roughly 3,000 cases, according to Wines Vines Analytics. The winery's Custom MicroCrush unit is well-known for producing artisan-quality custom-crush lots for growers and emerging wine brands, offering quantities down to a single barrel, if needed. The Finkelstein family owns the winery.

Finkelstein notes that planning is hugely important. "This is our family's livelihood. We don't have other businesses, so we need to make sure we are successful and profitable," she says.

Judd's Hill has both a five-year and one-year plan. The five-year plan sets bigger goals such as production and profitability levels as well as capital needs. From this five-year perspective, Finkelstein knows where Judd's Hill wants to be in 2020, and she works backward from there to create a map to that point.

Finkelstein believes in including the entire management team in the process, so that it's not just the owner's vision. They have an annual daylong retreat to complete the business plan. "I like to think it's a collaborative process," she says. Every department works on their budget and brings it to the retreat, and then it is locked in for the year. The winery's planning has become more sophisticated and more important over time, as they have grown and added employees.

The planning process makes the business run better at Judd's Hill, "because it's collaborative and we set goals together," Finkelstein shares. "It's transparent, so it makes people aware of why they are doing something. People feel ownership and commitment because they are part of developing the plan and making it successful."

The plan is helpful for setting production levels for the year—even when weather and crop size impact the results. Harvest will be short this year, and putting this into the plan informs what the next year will look like. "We can see now what we will need next year to make up the difference," she says.

Judd's Hill compares plan to actual on a monthly basis and has created a dashboard to simplify the process. Finkelstein feels this is essential and is very proud of the rigor. And she notes that their lender "really appreciates the amount of planning we do."

Finkelstein has the following advice for small wineries: "It doesn't have to be complex. It can be an evolution." There needs to be a process to bring sales and winemaking together, as they tend to have different perspectives, and to get your CPA's opinion about the tax implications of your decisions is important. Judd's Hill brought in consultants to help them facilitate the process. "That was definitely a good investment," Finkelstein remembers, noting, "There are some really good people out there."

Ceritas: from $10,000 to 3,000 cases in 10 years

Phoebe Bass is the co-owner of Ceritas Wines along with husband, winemaker John Raytek. Ceritas started in 2005 on a custom-crush basis, and the company moved to its current home in a "humble Healdsburg warehouse" in 2015. The winery produces 3,000 cases annually, according to Wines Vines Analytics.

Bass and Raytek provide a wonderful blueprint for a successful wine brand start-up, as they began 10 years ago with just $10,000 and no outside investors. They had a long-term plan to get to 3,000 cases and have their own facility. While there was no business plan in the early years, they knew the key was (and still is) to build a mailing list. A few years into the process, they started forecasting and planning more.

Business planning allows the couple to anticipate every expense and sale while managing both wine quality and cash flow. Bass notes that winemaking is a really creative process. It's hard to mix business and creativity, which

is why it's that much more important to do so. They compare plan to actual monthly and do all planning work themselves.

Bass notes that their business plan removes much of the stress. "When we plan well and understand the process, it takes the worry out.

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>
> —Phoebe Bass, Ceritas Wines

Cash is flowing in and out, but you know it's supposed to be doing that," she says. "I can't imagine having a business and not planning. It would be nerve wracking not to plan cash flow."

Bass notes: "When you are starting, planning is really important. A lot of people jump in because you can jump in for cheap—2 tons and a custom-crush agreement—but that doesn't look at bottling costs or product-marketing costs and margins by channel." She recommends some basic financial and cash-flow planning and benchmarking with other wineries. Bass says you will then "know what road you want to hop onto and go for it."

The finance angle

Jim Williams, co-owner of Carbonneau-Williams, a CFO and accounting services firm, assumes you already have a vision of what you want to accomplish with your business. Your business plan is you writing out a realistic narrative of that vision. You are explaining how you intend to make and market the wine, how you compare to and differentiate from competitors. Williams wants you to "be honest with yourself about the hurdles you are facing. You need to be specific about how you are going to do what you plan to do." He believes a good business plan should answer "what will my cash needs be?" because cash flow is what makes or breaks all businesses.

Jason Hinde, vice president at Exchange Bank and a veteran wine industry lender, provided a banker's perspective to business planning. Like Williams, he is most concerned with cash-flow management. "When I evaluate financial statements, the cash-flow statement is the most important one to me, and it's the one I focus on with my clients." He stressed that net income and EBITDA are not true cash flow, because they do not take into account changes in the balance sheet.

Hinde recommends that financial projections have three separate models: optimistic, realistic and downside scenarios. Planning this way allows you to stress your numbers and see how your cash flow is affected. If only a small stress is applied and your plan is in the red, chances are you don't have a good business plan.

Finally, Hinde notes that without a business plan, you may be relying upon a "Field of Dreams" strategy of building it and hoping Shoeless Joe Jackson will appear. While it is a beautiful story, it's also a fictional one. A few businesses can attain success with that strategy, but most businesses need a plan.

Andy Starr, founder of StarrGreen (starrgreen.com), is an entrepreneur, marketing manager and winemaker who provides strategy, management and business development consulting services. A resident of Napa Valley, Calif., he holds a bachelor's degree in fermentation science from the University of California, Davis, and an MBA from UCLA. He lectures about the importance of business plans at Napa Valley College.