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How smaller wineries can get financially fit


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It is becoming increasingly more difficult for small wineries to navigate the business terrain in light of the continued consolidation that is taking place among wholesalers, and the escalating operating-cost structures that have resulted from a supply shortage of grapes and bulk wine.

Before jumping ahead with the purchase of a large acre estate in Napa Valley, it is essential to assess the marketplace for your potential brand. The vast majority of business in the U.S. wine industry is dominated by larger wine companies. Approximately 90 percent of U.S. wine production is controlled by the 20 largest wine companies.

Given that competitive landscape and other potential contenders, how do you hope to stand out? How robust is your business plan, and do you have trusted partners? Are you utilizing the banks resources and knowledge of the industry? And finally, how do you plan to roll out your wines to turn a sale and make a profit?

These are all questions small-winery owners should be asking – and finding the right answers – if they hope to succeed.

COMMAND THE BRAND

Define and embrace a core brand identity. The reality of the marketplace is that a wine brand is first identified by its primary varietal category and then by other factors such as retail price point, vineyard appellation and brand personality.

In order to build value in a winery, an owner should envision the business as one wine bottle among many on a retail store shelf. Why would a consumer purchase your wine as opposed to other competing brands that are available, some of which may be offering attractive discounts or price-to-quality value propositions?

For every varietal category, there are highly successful small- to mid-sized wineries that command distinction in a varietal category that large wineries cannot emulate. For example, Screaming Eagle with Napa Valley cabernet sauvignon wines, William Selyem with pinot noir wines from Sonoma County's Russian River Valley, and Kistler with Russian River Valley chardonnay wines.

A winery is better able to identify its customer base if it is aware of its brand identity and characteristics. The incidental benefit is that it permits a winery owner to have a more realistic understanding of how best to spend a limited marketing budget.

PLAN FOR ACTION

Create an action-oriented business plan. It may sound simplistic, but having a clean and well-thought-out business plan is the equivalent of having a map that will enable a winery to track the path to its desired destination. The challenge is that a business plan needs to be reasonable and measurable in order to be effective.

A "reasonable" business plan will have realistic growth rates, account for operating capital requirements that are necessary to achieve the business objectives, and incorporate an average sales cycle for marketing and selling its wine product. Also, the business plan should be measurable so that performance can be monitored and, if necessary, adjusted if unanticipated conditions interfere with the desired goals.

Most importantly, if a winery wants to increase the effectiveness of its business plan, then the plan should be regularly reviewed and adjusted, as opposed to being put in a drawer until the end of the year for annual review.

EXPERTISE UNLOCKS STRATEGY

Surround yourself with a trusted network of advisers. Larger wine companies have access to extensive finance, operations, sales, marketing and legal resources. While a smaller winery cannot possibly duplicate the depth of access to these resources, it can still model such a network on a smaller scale. In particular, access to objective and informed professional expertise is key so that the winery can make better business decisions.

Larger wine companies make regular use of boards of directors and advisory boards to review general policy, goals and decisions, as well as to provide feedback on the implementation and results of the same. In contrast, as often happens in businesses where ownership is heavily engaged in the tactical day-to-day operations, such strategic decision-making is effected only on occasion, perhaps during an annual review or once something goes awry.

Therefore, a starting point for a smaller winery may be to assemble a board or directors or advisers who meet on a quarterly or semi-annual basis. Enlisting the help of outside advisers can enable poor strategies and performance to be identified earlier if unbiased professionals are given access to review such information.

A board is also an efficient way to bring complementary skills and business expertise to a small winery. It is best to start with two to three outside board members with backgrounds ranging from finance, sales and marketing, operations and law. Although most boards are traditionally paid, a smaller winery with limited resources may be able to offer gratis wine club membership to enlist board participation.

Yet, be forewarned – the quickest way to lose board members is to ignore their professional advice, particularly if they are not being paid for their participation.

BANK ON OPEN COMMUNICATION

Encourage open and frequent communication with your lender. Most banks that lend to wineries have a deep knowledge of the wine industry and its unique challenges. In fact, several banks have dedicated wine divisions and industry resources to assist its clientele. A banker, in effect, is a de facto financial adviser to the businesses to whom he or she is lending.

It is in the best interest of a bank to make good loans, thus, it is only logical for the bank to have an interest in advising its borrower beforehand about the wisdom of its business model, its plan for growth, and its use of resources for investment in infrastructure.

Conflict of interest rules may prohibit a banker from participating on a winery client's board of advisers, but it should not discourage a winery from engaging its banker in open and frequent communications about its business operations.

SELLING BEFORE ESTATE-BUILDING

Master the art of selling before the art of estate-building. A common misconception of new entrants into the wine industry is that they must own a winery facility, vineyards and state-of-the-art equipment in order to launch a profitable business venture.

While these may be sound investments in and of themselves, it may not be in the best interest of a small winery to tie up limited capital resources during its initial stages of operation.

A winery might be better suited to redeploy such capital toward brand development. That amounts to the revenue-producing engine for the winery and ultimately a better return on investment. Some of the most successful small wineries are in their current positions not because of large investments in fixed assets, but because they focused their use of capital on the development and sale of their brands.

OUTLOOK

Looking ahead, the marketplace is unlikely to change, and larger wine companies will continue to consolidate the industry. For small wineries looking to succeed, it is crucial to occasionally take a step back from the day-to-day pressures of running a business and evaluate the bigger picture.

Owners must operate more efficiently to compete in this rapidly evolving environment and although daunting, small wineries can rise to the challenge.

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