Counting grapes: An Accounting Primer for Wineries

By Scott Messick, CPA

While owning and operating a winery may seem somewhat glamorous to most people, the fact remains that it's a business with the same goals and objectives as most other businesses. Those objectives are to:

- **Stabilize cash flow**
- **Balance debt & equity**
- **Maximize profits**
- **Manage growth**

And while winery owners may have be the envy at any cocktail party, they routinely deal with many of the same accounting issues and financial decisions that many business owners deal with on a daily basis -- the view is just better.

Stabilize cash flow: Cash is king

In the wine business, cash is not to be confused with revenue. Because so little of a winery's income comes from immediate cash sales -- a retail customer purchasing wine at the winery or via the mail, instead coming from wine sold "on account" and collected over a period of 30-90 days, cash must be carefully monitored. Since the wine inventory is depleted on an average of 12 to 36 months after harvest, a majority of cash ends up being tied up in inventory every day. And since in accounting for wineries, revenues are recorded at the time an inventory is depleted, this can reek havoc on a balance sheet.

For example, cash is used to build inventory. Lots of cash goes out to buy or grow grapes. Once the grapes have been crushed, more cash is spent on tanks and barrels. Finally, cash goes out for the package: bottles, corks, capsules, cartons, and labels. It takes at least 12 months for white wines and up to 36 months for red wines before cash comes in from that inventory. In the meantime, during that 12-month period, another vintage comes along and consumes another round of cash. As illustrated, careful monitoring of cash is critical.

Balance equity and debt: Buy or rent?

For a winery, much like any business, the cash needed to achieve steady growth comes from three primary sources: cash profits, lenders, and the business' owners. The balance that must be struck

between these sources is a delicate one that is influenced by many decisions. Asset choices are investment decisions: should the winery buy vineyards, or buy grapes and use the cash elsewhere? Liabilities and owners' funds (equity) are financing decisions: how assets paid for (lease, debt, equity)?

Maximize profit: Direct is best

One path toward maximizing cash profit is to sell "direct." Wine sales are either "direct" to consumers and trade accounts or "indirect", to independent wholesalers. Establishing a wholesaler's license will allow a winery to sell wine directly to trade accounts (restaurants and retail stores). By choosing to sell direct, a winery can increase its gross sales revenues because there is no wholesaler markup. In exchange for that markup, the winery assumes responsibility for the risk of nonpayment as opposed to payment from a large wholesaler, miles of paperwork and extra staff to service the accounts, the responsibility for timely delivery, and staying in frequent contact with direct accounts.

Selling wines directly to the consumer can provide a winery with the highest per case dollar sales, but more importantly, it will allow the winery to maintain greater direct customer contact.

Manage growth: Diversification is key

Winery management should consider choosing a strategy of growth through new brands over marketing additional wines under the winery's established brand. Establishing different brands and facilities gives the company greater financial diversification.

Management should also emphasize the consolidation of administrative costs to allow them to allocate funds to vineyards, equipment, and facilities, which enhance wine quality. Further enhancing quality by retaining specialized personnel is key, with each brand's winemaking staff operating separately with limited production.

Scott is a partner at Kelly Brown & Associates and specializes in the wine industry.