



# WINE INDUSTRY

## BUSINESS UPDATE

### WINERY VALUES - Has the Bubble Burst?

Mike Fisher

In the past year there have been a number of articles in the press painting a gloomy picture of the premium wine business. The basis for much of this negative press is related to recent winery sales at depressed prices. Since the 1980's, selling prices have dropped substantially. What does this really say about the health of the wine industry? What has changed?

#### Traditional Value

The value of a winery includes tangible assets (receivables, inventory, facilities and related real estate) as well as the *intangible* value related to the brand, winery permits, goodwill, etc. When analyzing comparable winery sales, the value of tangible assets is compared to the total price paid for the winery. In a normal market, the *intangible* value can add a substantial amount depending on the winery's earning potential.

As in the stock market, the intangible value is based on the buyer's *prediction* of earning potential. This explains why premiums are often paid in excess of tangible value. If the mood of the market is negative, even strong current earnings may have little positive influence on the value. Conversely, in a positive market, a business that is losing money may sell for a premium if the buyer sees potential.

#### Supply And Demand

In the 1980's there were relatively few wineries for sale. Many new wineries were being started, and many were seeking to enter the industry. Today, due to polarization, consolidation, and a more competitive business, the traffic is going in the opposite direction. We have changed from a surplus of buyers to a surplus of sellers.

#### Then and Now

Looking closer at the market for wineries of the mid to late 1980's reveals something completely different from today's market. The buyers were very different then, and the sellers had very different motives.

#### Sellers Then

Generally the sellers then, were those who were "cashing out". They received offers they couldn't refuse. In most instances the wineries were profitable and not in trouble financially.

#### Buyers Then

The Buyers were investors from out of the wine industry. In many cases they were lured by the romance and/or the expansion of the industry. A majority of buyers were foreign.



In general it was a classic seller's market due to a strong interest nationally and internationally in California's premium wine industry. Some examples of winery sales that occurred during the optimistic period of 1987 through 1989 are:

1980's SALES			
Winery	Sales Price	Tangible Value	PREMIUM PAID
A	\$4.5	\$3.7	22%
B	3.8	2.7	41%
C	36.0	28.5	26%
D	20.0	16.0	25%
E	4.7	3.5	34%
F	9.0	8.0	13%

\$ Millions

#### Sellers Now

All recent sales have been of a depressed nature. This is either due to bankruptcy, bank pressure or wineries selling excess capacity. In many instances brands and inventories are being sold separately from facilities, or brands are simply being discontinued. Obviously, when someone *must* sell and there are no buyers, it has a major impact on price.

#### Buyers Now

In most instances the buyers are those within the industry who are taking advantage of opportunities to expand

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## HIGH-TECH SELLING



Vic Motto

*High-Tech Selling.* It's not a full-fledged trend. It's more like

a growing collection of creative marketing tools. But a common theme is beginning to emerge: More wineries are using technology in very creative ways to sell wine. The methods vary. Some wineries are using *information* (market intelligence); some are using high-tech *analysis* (make money or make changes); and others use technology for sheer *speed* (in customer service and cash flow). The best are using it *all* for a real competitive advantage.

**Information-**

Information is power! And, today there are powerful tools to get information. In the old days, you sold the wine and that was it. Today there are more informed customers and more informed wine marketers. Now, some wineries are tracking their wine all the way through the distribution channel. Somewhat like Federal Express, they don't lose sight of the product until it gets to the customer. That's powerful! They know where it is, where it isn't, and why. They can respond to both opportunities *and* problems. This helps them to make more sales, have happier customers, and make more money . . . or know why not!

Impossible? Well, not easy, but getting easier; not cheap or simple, but certainly becoming necessary for survival in a shrinking, competitive distribution system.

**Analysis-**

Not every market is worth pursuing. Not every product is sufficiently profitable. The retail trade has adopted high-technology to analyze profitability *out of necessity*. The wine industry is following for the same reasons. In this era of intense competition and value-oriented consumers, it's a requirement.

Computer analysis can automatically answer many important questions, including:

- How profitable is each distributor?
- What is the bottom-line effect of various programs, promotions, and sales activities *in each market*?
- How is each market doing against our plan, and compared to the competition?
- How is each trade account doing? In which important trade accounts do we *not* have placements?
- What is the *true* profitability of each product?

The technology exists today to track and report these answers *automatically* as part of a good winery information system. The result is better-informed and more timely decisions.

**Speed-**

This is the age of instant gratification. Fast food. High speed. Push a button. The consumer demands it. Today, the technology used by some wineries is faster than the humans who use it. The wine is where it's needed when it's needed. The check is in the *bank*, not in the mail. Fast orders, fast shipments, fast money make very happy vintners (and accountants). Speedy communication creates business opportunities.

**Examples-**

There are many examples of High-Tech

Selling. Most of them are part of a modern, sophisticated winery information system. Most of these systems use an integrated database running on a client/server system, accessible by modem. Recent advances have motivated even the very largest companies to switch from mainframes to new systems based on what was originally called the *personal* computer. That's downsizing, and it really works!

The technology is available today for *very* sophisticated systems. Several wineries are working on some of the pieces. We're working on the next level to combine all of the best marketing ideas together with the best technology. The result will be an advanced wine marketing system with the following major features:

- **Allocations-**

Every product released is first allocated in total among distributors. Then major allocations are made to individual key accounts. This is all in the master database. All allocations are tracked automatically against sales, with exception reporting. Re-allocations are made periodically as required.

- **Sales-**

All sales orders are part of the same database, and are automatically compared against credit limits and past due receivables. Pricing is automatic, depending on the customer class and current programs in effect. Orders are tracked until shipped, and are reported against allocations..

- **Depletions-**

Depletions are reported to the winery by each distributor. Some wineries get depletions for individual trade accounts. Depletion information is added to the master database, and tracked against sales and alloca-

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## ARE YOUR PROPERTY TAXES TOO HIGH?



*Pat Fetzer*

Anyone who has purchased or sold California real estate

in the past few years is well aware of the general decline in value that has and is still occurring. The wine industry is certainly not immune to this occurrence. In fact, other problems, such as phylloxera may magnify the situation.

A consideration which is often overlooked during periods of declining values is that of property taxes. In general, a decrease in the fair market value of your real property may equate to potential savings via a reduction in your property taxes. For those who purchased real property in the late 1980's and early 1990's this may be especially true.


County assessors are required to recognize declines in value. However, due to time constraints and other factors, you should not assume that it will happen automatically. Even if it does happen without a request from you, you should not assume that the reassessed value determined by the county is necessarily the correct amount. There are a variety of acceptable valuation methods, including comparative sales, cost, and income approaches.

Declines in fair market value in the Napa and Sonoma counties are perhaps best indicated by some recent sales of vineyard land in the Carneros

District. As recently as 1990, vineyard land in this area was commanding prices as high as \$30,000 per acre. Transactions in late 1992 and 1993 would seem to indicate that the fair market value of comparable property has fallen to the \$15,000-\$20,000 per acre range.

Assuming the county were to agree to a reassessment based on the comparative sales in the area for similar property, significant savings could be ob-

tained. For instance, if 100 acres were purchased at \$30,000 an acre, and the property were reassessed at \$15,000 per acre, an *annual* savings of \$15,000 in property taxes would occur.

The request for assessment review is a fairly straightforward process. It begins with a call to your county assessor or business advisor. The official period for appealing an assessment ends September 15 for the normal March 1 property tax assessment. 

## FARM LABOR - Focus of IRS attention



*Karen Kryla*

The IRS is focusing their attention on farm labor

in Northern California. IRS agents are currently interviewing members of the communities, custom farmers, farm bureau members and any sources that they are able to find to provide them with information concerning farm labor in vineyard operations. They seem particularly interested in farm labor that is used during harvest.

The IRS appears to be concerned that there may be a lack of compliance with **licensing** and **payroll tax reporting** rules.


This effort is part of a new nationwide program called "Compliance 2000". The idea for the program allegedly spawned from the President's reading of the book, "Reinventing Government". The

project's stated goal is to more effectively manage the resources used to protect the government from loss of revenue due to taxpayer noncompliance.

In this endeavor, each IRS District has been given the responsibility to identify a segment of the population that they perceive has the potential for a large amount of noncompliance (and therefore lost revenues).

The Sacramento District, which covers most of the area from Stockton to the Oregon border, currently has six agents assigned to "Compliance 2000". The District has chosen to focus its initial efforts on farm labor.

*At this time*, the IRS professedly is focusing on the education as opposed to auditing. A pilot program in the Albuquerque District conducted a series of seminars with the participation of IRS, OSHA and the Department of Labor. The seminars dealt not only with tax laws but also with licensing and safety laws as well.

Increased IRS attention deserves your attention as well. 

## WINERY VALUES.....

capacity at a low cost. The motives are often to achieve marketing scale. Very few outsiders are currently getting involved in the wine industry.

None of the sales have been of profitable wineries, so the purchasers have been buying assets rather than earnings potential. In comparison to the premiums paid in the earlier years, the table shows some recent sales at major discounts from tangible asset value.

RECENT SALES			
Winery	Sales Price	Tangible Value	DISCOUNT GIVEN
A	\$2.3	\$4.9	53%
B	2.7	5.3	49%
C	4.8	10.0	52%
D	14.0	20.0	30%
E	7.3	12.0	39%
F	6.2	10.0	38%

\$ Millions

What does all this mean? Recent wine industry financial surveys by MKF

## HIGH-TECH....

tions. Exception reports help to monitor situations that need special attention. In some cases, reports include exceptions for key target accounts that are *not* being sold.

### ■ Distributor Effectiveness-

All discounts, allowances, credits and chargebacks are tracked by distributor to generate reports that show the true overall net price paid by each distributor. Direct marketing and selling costs are tracked by market to yield individual distributor profitability reports. Some wineries incorporate scanner data for competitive comparisons. Distributors and trade accounts each have different ways of measuring their success or profitability. Customized reports by distributor and key accounts are used to show the customer how to make more money with your brands.

### ■ Contact Management-


All important marketing contacts are included in a computer database with special management features. All contacts are systematically scheduled, tracked and monitored for automatic follow-up. This is a very effective way to manage a large amount of information on a long list

of important contacts, and to automate regular communication and follow-up.

Some marketers now use this system on notebook or laptop computers while they're traveling. They carry all information on the contacts, including a target list, and a record of all previous contacts. The latest sales data also goes with them. By the time they get home, all of their follow-up correspondence is done (automated), and all orders, notes and action points are recorded. It's a great way to systematically stay on top of the market.


### Conclusion-

Are *wineries* really using this technology? Yes. Many already are, and more will. The technology has become so advanced, and the advantages so crucial, that many successful wineries are making substantial investments to get this competitive advantage.

This is a hot trend in business. The wineries who take advantage of this power will have an edge on the competition. Some of the most successful wineries are developing modern, sophisticated information systems as their secret weapon for *High-Tech Selling*. 

and others continue to show a reasonably healthy premium wine industry overall. The averages do not show much change from 1987 to 1992.


The difference is that today there is a much wider gap between successful and unsuccessful wineries. Averages can be deceiving. The unsuccessful wineries are being squeezed and finding no place to turn. Sale at any price is sometimes the only option. This is undoubtedly another symptom of a maturing industry.

As in most markets, including real estate and stocks, the current depressed market for wineries is cyclical. The wine industry overall is very healthy. Values will stabilize in the future at more realistic levels. Wineries will again be sold at a premium but perhaps only if supported by solid earnings. Of course, there will still be opportunities for those shrewd contrarians who are in the right place at the right time. *Buy low and sell high.* 

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