

Costing and Production Decisions

Geni Whitehouse
Craig Underhill



Introductions

- ◉ Name
- ◉ Winery
- ◉ Role
- ◉ Goal for this class?



Agenda

- ⦿ Costs to consider
- ⦿ Evaluation tools
- ⦿ Scenario modeling

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Costs to consider

Grow

- ⦿ Vineyard
- ⦿ Production
- ⦿ Bottling

- ⦿ Capacity
- ⦿ Resources
- ⦿ Marketing
- ⦿ Sales

- ⦿ Cash Flow

Buy

- ⦿ Grapes
- ⦿ Production
- ⦿ Bottling

- ⦿ Capacity
- ⦿ Resources
- ⦿ Marketing
- ⦿ Sales

- ⦿ Cash Flow

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Vineyard, Production, Bottling

FIXED

- ⊙ Farming costs
- ⊙ Production
 - Equipment
 - Building
 - Utilities?

VARIABLE

- ⊙ Grapes purchased
- ⊙ Bottling
 - Labels
 - Bottles
 - Corks
 - Labor

Direct Costs

FIXED

- ⊙ Farming costs
- ⊙ Production
 - Equipment
 - Building
 - Utilities?



VARIABLE

- ⊙ Grapes purchased
- ⊙ Bottling
 - Labels
 - Bottles
 - Corks
 - Bottling Labor



SKU Production Planning

- ◉ Price per Case – for each channel
- ◉ Direct Cost per Case

- ◉ Compute profit per Case

- ◉ Determine sales and marketing costs
 - Are they fixed or variable?

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Le Cou Rouge Data

- ◉ 10,000 cases
 - 60% Cab @ \$60/bottle
 - 40% Chardonnay @ \$20/bottle

- ◉ 10% DTC (Tasting Room)

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Varietal _____

	Trade	DTC	Total
# Cases			
Price per Case	a.		
Variable Direct Costs			
Cost per Case	b.		
Profit per Case	a.-b.		Average
Sales & Marketing Budget \$			



Varietal _____

Net Investment	
Profit Per Case	
Break Even Number of Units	
Profit Potential	
Investment	
ROI	



1. Calculate the Break Even Point

$$\frac{\text{Net Investment}}{\text{Profit per Case}} = \# \text{ Cases to Break Even}$$

or

$$\frac{\text{Fixed Costs}}{\text{Price per case} - \text{Variable Costs per Case}}$$

How many cases must we sell to cover our costs / recoup our investment?

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2. ROI

$$\frac{\text{Profit potential}}{\text{Investment needed}} = \%$$

Considerations:

- *How many cases will you sell?*
- *Over what period?*
- *How much will I make per case?*

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What's the risk?

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Scenario Modeling

- ◉ What are the possible outcomes?
- ◉ Best and worse case scenarios?

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Scenarios

- ◉ Case count stays the same
 - Mix changes – revenue impact
 - +
 - -
- ◉ Increase total cases sold
 - Incremental revenue

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What stood out for you?

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Thank you

- ◉ geni@bdcocpa.com
- ◉ craig@bdcocpa.com

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