

Craft Breweries:
A Step-by-Step Guide to Create Your Own Self-Distribution Pro Forma
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CraftBreweryFinance.com is dedicated to helping you improve the profit, cash flow and value of your brewery. This guide will get you one step closer to achieving these goals.

“Expect the best, plan for the worst, and prepare to be surprised.” Denis Waitly

A financial pro forma is a plan presented in numbers. This short guide will walk you through the steps necessary to create your own self-distribution pro forma for your beer business.

Most of the steps below require that you (or someone you know) is familiar with how to use Excel or another spreadsheet program. I suppose you could use pen, paper and a calculator but that would be a painful process. John Henry lost to the steam engine, and Excel will kick butt over pen and paper. **Learn to use a spreadsheet or trade beer to someone who can do it for you.**

When putting together a plan, I’ve found it helpful to include not only the numbers – income, expense, and cash flows – but the story behind the numbers. Many people glaze over at the sight of a spreadsheet with lots of numbers. **If you want your plan to be read and understood, consider including narrations throughout your work.** Not only will this be more approachable for those reading the plan, it will help explain the strategy and vision.

Four Steps to Create a Self-Distribution pro forma:

1. Sales forecast
2. Gross Profit forecast
3. Operating Expense plan
4. Other cash requirements

Step 1: Prepare the sales forecast

Self-distribution of beer involves warehousing, selling, and delivering products, as well as servicing retail accounts. The first step in creating the pro forma is to forecast expected sales. This can be accomplished any number of ways, but I typically **start with an estimate of sales by package, by customer.** This will help you determine your needed inventory levels as well as how many delivery stops you will have in a given day/week. This information will help you put together your operating expense plan in Step 3.

To begin, **list out the licensed accounts in your planned distribution territory.** You probably know the accounts, but if you don’t know them all, most state liquor control boards publish this information online. Estimate how many of these licensed accounts are currently a customer, or may become one. This will set your targeted account base.

Next, **estimate the sales volume by package for each account.** For this step, use historical sales as a baseline for your forecast. What have accounts bought in the past? Look at the sales trends to project future sales. Are the accounts buying more/less than previous time periods? Use past purchases as a baseline for projecting the future.

If you don't have historical sales data, build up a baseline with the information you do have available. Visit customers and solicit orders in advance – Will they place your products? How much? Which packages?

When complete, your sales forecast will look something like this:

		<i>Forecasted Sales</i>		
<u>Retail Account</u>	<u>Package</u>	<u>1/31/2017</u>	<u>2/28/2017</u>	<u>3/31/</u>
Craft Brewery, LLC				
Self-Distribution Pro Forma				
2017 Sales Forecast				
ABC Restaurant	Pale Ale 1/2 BBL	2		2
	IPA 1/2 BBL		3	3
PDQ Convenience	Pale Ale 4/6		8	8
	IPA 2/12		14	12
FYI Supermart	Pale Ale 2/12		5	7
	IPA 4/6		9	11

Sales Forecast: Other considerations

Determine if you will have a **delivery minimum.** This can be a case minimum, or dollar minimum. As the name implies, a delivery minimum is simply the minimum retail order required for you to deliver to the account.

Ask around if other distributors have a minimum and use this as a starting point. When you begin to forecast out the expenses it will become clear that the profit per stop is a key metric. Delivery minimums can help significantly in improving profit per stop, and the overall profitability of your self-distribution operation.

Step 2: Prepare the Gross Profit Forecast

The equation: Sales minus Cost of Sales equals Gross Profit (GP)

With a self-distribution model, **you get to keep the gross profit dollars on sales to retail accounts.** This is the amount you would otherwise forgo to the beer distributor. Gross profit percentages vary, but a typical distributor gross profit is 25%. This is calculated by taking the gross profit dollars and dividing by the sales price of the product.

For example, a \$30 sale price to retailer, with a gross profit of \$7.50, equals a 25% GP. *Gross profit dollars divided by sales price, equals gross profit percentage.*

<i>Distributor Gross Profit %</i>		
<i>Calculation</i>		
Gross profit	\$	7.50
<i>Divided by</i>		
Sales price	\$	30.00
<i>Equals GP %</i>		25.0%

The **gross profit dollars are what you will use to cover the self-distribution expenses**, which we'll cover in Step 3. The name of the game is to ensure your gross profit dollars equal or exceed the costs of self-distribution.

To prepare the gross profit forecast, take the Sales Forecast created in Step 1, and make a few modifications:

- Take your sales forecast, and list out the total projected sales by package in units (cases/kegs)
- List the gross profit per unit for each package, and multiply by total projected units
- This will give you projected gross profit by package, and in total for the operation

The example below is an annual gross profit summary. You can expand on this forecast by projecting the sales by month, and multiplying by the gross profit of each package. This will give you a monthly estimate of expected gross profit dollars to cover expenses.

1	Craft Brewery, LLC				
2	<i>Self-Distribution Pro Forma</i>				
3	2017 Gross Profit Forecast				
4					
5		Projected Sales (Units)	Gross Profit \$ Per Unit	Total Gross Profit \$	
6			<i>Sales - Cost of Goods</i>		
7	Package				
8	Pale Ale 4/6	1,040	\$ 6.50	\$	6,760.00
9	Pale Ale 2/12	1,560	\$ 6.00	\$	9,360.00
10	IPA 4/6	1,300	\$ 6.50	\$	8,450.00
11	IPA 2/12	1,820	\$ 6.00	\$	10,920.00
12	Draft				
13	Pale Ale 1/6	260	\$ 20.00	\$	5,200.00
14	Pale Ale 1/2	156	\$ 45.00	\$	7,020.00
15	IPA 1/6	364	\$ 20.00	\$	7,280.00
16	IPA 1/2	308	\$ 45.00	\$	13,860.00

In addition to the annual and monthly gross profit plan, it's helpful to **calculate the gross profit per delivery stop**. The financial pro forma will determine whether the operation as a whole can make money, and the gross profit per stop measurement will shed light on profitable vs. unprofitable deliveries.

Until you get a good handle on your fixed and variable costs, this metric will be a best estimate. I've found it helpful to **use a minimum required gross profit per stop as a starting point.**

For instance, if the pro forma calls for \$250,000 of gross profit annually, and you intend to service 100 accounts, project the GP across the accounts you will service. This works out to \$2,500 of gross profit per account, or \$50 of gross profit per stop, assuming weekly deliveries. The \$50 gross profit works out to a sale price of \$200 per stop ($\$200 \times 25\%$ gross profit percentage).

When I build a financial pro forma, the profit per stop metric is very helpful to **identify profitable/unprofitable stops**, and also to establish a delivery minimum. Make the best estimates you can, ask around for numbers if others are self-distributing, and build these metrics into your plan.

Step 3: Prepare the Operating Expense Plan

The sales and gross profit forecasts are fun to create. You get to play with the numbers and dream about all those sales and gross profit dollars that will come rolling in. It's easy to change a few digits on the spreadsheet and make the gross profit look good and plenty. Be careful though, those are just dollars on a *spreadsheet*, and represent a best guess at this point.

The operating expense plan, on the other hand, is reality. Once you establish the plan, and commit to spending the money, that money goes out the door fast. For this reason, the expense plan is not as much fun to create, but it is arguably the most critical portion of your pro forma.

The #1 Rule in Business: Don't Run Out of Cash. The operating expense plan will help you project the cash needed to run the self-distribution business, and help you avoid violating the #1 Rule in Business.

The operating expense plan will detail all the money that is going to be spent to support your self-distribution business. To begin, identify the major categories of expense: sales, delivery, and warehouse will top the list.

Next, **identify all the specific expense items that will fall under each category:** payroll, payroll tax, lease expense, fuel, utilities, etc. Don't worry about the specific numbers at this point, just focus on making a comprehensive list of all the things you will need to pay for to support the operation.

Sales Department
SALARIES AND WAGES
PAYROLL TAX
MILEAGE REIMBURSEMENT
DEPARTMENT SUPPLIES
UNIFORMS
DEPRECIATION
MARKETING AND ADVERTISING / POS
PRODUCT SAMPLING
FUEL
VEHICLE MAINTENANCE & REPAIR
CONVENTIONS AND MEETINGS
TRAVEL
MEALS AND ENTERTAINMENT
TELEPHONE
VEHICLE RENT
TRUCK PAINTING AND DECALING
PERMITS
Total Selling Department Expenses

Continue this process for each department until you have a complete list of the anticipated expenses you will incur. For inspiration, check out the list of distribution operating expenses above.

Next to each expense line item, I like to add a note with describes the expense in more detail. For example, the payroll and payroll taxes line items should reference a supporting payroll schedule. This supporting schedule should build up the details of the payroll line item. If you intend to have two employees, the schedule should reflect the wages you intend to pay each employee and the related payroll taxes (FICA, FUTA, SUTA).

The number of employees needed will depend on how many accounts you intend to service, and the frequency of delivery. The **Delivery Stops per Day** metric is useful for personnel planning. Key questions: How many accounts do you need to service in a given week, what is the travel time between stops and how long does each stop take? Answer these questions and you can back into the number of trucks and drivers you will need.

For example, if you plan to deliver 100 accounts in a week, and the average drive time between accounts is 20 minutes and average service time at each account is 25 minutes, you'll need about 80 hours per week of delivery labor. However, take into account that deliveries are not always spread out evenly throughout the week. You may have 40 accounts that want delivery on a Friday but only 10 on a Monday. This complicates the scheduling and staffing.

The numbers in this example can vary a great deal depending on the density of the account base, and level of service that will be provided. However, **this process will help you plan for personnel and to build the delivery and sales routes.**

Aside from payroll, the other major expenses you will incur are lease costs for trucks, equipment and warehouse space. The Delivery Stops per Day analysis will help you determine how many drivers you will

need, and relatedly, how many trucks you will need. To determine the amount of warehouse space needed, you will look to your sales forecast and required inventory on hand.

For trucks, equipment and warehouse space, you will need to examine the option to either lease or buy the assets. There are advantages and disadvantages, pros and cons to either approach. In general, a lease is going to cost more money compared to buying. However, a lease will allow you to get what you need (trucks, warehouse space) without spending a lot of capital up front. This capital can then be used to build your core business (brewing beer).

Truck Lease vs Buy

Leasing trucks or equipment provides an affordable way to get the tools you need to start self-distribution without putting up a ton of cash. There are many truck leasing companies out there – Ryder, Penske and KrisWay to name a few – each is in the business of buying trucks, structuring leases, and maintaining the vehicles for you.

A typical lease includes a base monthly charge, and a flat cents per mile charge to cover maintenance. Costs will vary, but let's say a typical 20 foot box truck with a lift gate goes for \$2,000/month with a charge of 8.5 cents per mile for maintenance. The term of the lease will vary as well, but let's use a 7year, or 84 month lease in this example.

If you use the truck the full 84 months, and drive the vehicle a total of 200,000 miles, your total costs for the truck will be \$185,000. This works out to \$168,000 in lease payments and \$17,000 in maintenance costs on the vehicle.

The benefit of the lease arrangement is that you'll know the exact monthly base fee (\$2,000/month) and you won't have to worry about maintenance, break-downs or issues with the truck – the cents-per-mile maintenance fee will cover any of those hassles. At the end of the lease you turn in the truck, and lease a new one.

Now, let's compare this to a purchase arrangement. Let's say a similar truck as in the above example costs \$95,000 to buy. If you finance the purchase amount over 7 years (same as the lease term above) at a 5% interest rate, your monthly payments will be \$1,350. The total payments over the life of the loan will be just short of \$113,000.

Most lenders are going to ask you to put down 20% of the purchase price, so in this example you may need to fork over 20% of \$95,000 or \$19,000. If you don't have that kind of cash, a purchase may not be an option. The maintenance costs on the vehicle will be up to you. With a lease, you may get a fixed cents-per-mile cost which covers maintenance. However, with a purchase option, any repairs will be your responsibility.

Since you own the vehicle, you can trade it in or sell it when you no longer need it, or want to upgrade to a new truck. You have built up equity in the truck which is yours to benefit from.

Warehouse Lease vs. Buy

Warehouse leases are structured as either Gross or Triple Net. A Gross lease typically includes all of the costs associated with the space – property taxes, maintenance, utilities, etc. A Triple Net lease, means that you pay a rate for the space, plus the cost of the taxes, maintenance and utilities.

Lease rates are expressed in terms of a cost per square foot (sq ft). For example, if you need 10,000 square feet, and are looking at a gross rate of \$5/sq ft, the annual expense would be \$50,000, and the monthly expense would be \$4,167 (\$50,000 divided by 12). In the same situation, with a Triple Net lease, you will pay the rate above plus the cost of property taxes, maintenance and utilities for the space.

Annual increases are built into long term leases, so the \$5/ft rate might include 3% annual increases. At the end of a 10 year lease term, the per sq ft rate will be over \$6.50/ft.

Let’s say you need 10,000 square feet and enter into a 10 year lease at \$5/ft Gross, with 3% annual increases. The total lease cost over those 10 years will total \$575,000.

Now let’s compare this to a purchase scenario. A 10,000 sq ft warehouse, with a purchase price of \$575,000, is going to require a 10 to 20% down payment (\$57,500 to \$115,000). However, if you finance the building over 10 years, at a 5% interest rate, with \$115,000 down, your total payments over the life of the loan will be \$585,000 and you will own the building outright. The value of the building, the equity, is accrues to your benefit.

Just like the sales and gross profit plan, the operating expense plan should provide a monthly look at expected expenses. This will allow you to see the seasonality of the business, and plan your cash needs accordingly.

Self-Distribution Pro Forma	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET	BUD
	January	February	March	April	May	Ju
	1	2	3	4	5	€
Warehouse Department Expenses						
› SALARIES AND WAGES	7,755	7,050	7,755	7,755	7,402	;
› PAYROLL TAX	713	560	559	544	578	
› MILEAGE REIMBURSEMENT	0	0	0	0	0	
› DEPARTMENTAL EXPENSE	1,167	1,167	1,167	1,167	1,167	;
› UNIFORMS	25	25	25	25	25	
› DEPRECIATION	200	200	200	200	200	
› AMORTIZATION	417	417	417	417	417	
› FUEL	167	167	167	167	167	
› VEHICLE MAINTENANCE & REPAIR	100	100	100	100	100	

Step 4: Other Cash Requirements

The final step in your financial pro forma, after projecting sales, gross profit and operating expenses, is to outline your other cash requirements.

Other cash requirements include items like cash purchases of capital assets (equipment, for example), principal payments on loans, purchase of inventory, and an increase in accounts receivable. All of these affect cash, but don't otherwise show up in your operating expense schedule.

The financial statements include an income statement, balance sheet and statement of cash flows. The financial pro forma described in this guide relates mostly to the income statement – revenues and expenses. The purpose of outlining your other cash requirements is to bring in elements of the balance sheet and statement of cash flows. Again, these present items that do not show up on the income statement, but do affect cash.

Self-Distribution Pro Forma			
	<i>BUDGET</i>	<i>BUDGET</i>	<i>BUDGET</i>
	January	February	March
	1	2	3
Net Income/(Loss)	7,500	8,500	8,500
Other Cash Requirements			
Principal payments on truck loans	1200	1200	1200
Principal payments on equipment loans	450	450	450
Expected increase in Inventory	15000	5000	5000
Expected increase in Accounts Receivable	5000	3500	3500

Wrap Up

A financial pro forma is a plan presented in numbers. Creating a financial pro forma is an important first step in determining whether self-distribution makes sense for your craft brewery. The four steps to creating your pro forma:

1. Sales forecast
2. Gross Profit forecast
3. Operating Expense plan
4. Other cash requirements

Tell the story behind the numbers. You want your plan to be read, understood, and followed. Include narrations throughout your work. This will make the plan more approachable for your team, and will help explain the strategy and vision.

Follow the steps, learn to love your spreadsheet (or find someone that does) and create a self-distribution financial pro forma today.

For more details, and instructions on creating a Craft Brewery Self-Distribution financial pro forma, visit www.CraftBreweryFinance.com. We could talk numbers all day.