

Bring Back the Fun...Bring Back the Funds

**Using the 5-Step Brewing Financial
Excellence Process**

CraftBreweryFinancialTraining.com



Free Mini-Course: 5-Step Brewing Financial Excellence Process

What's Included:

- Short video tutorials for each step of the process
- Models and templates to project financial results
- Sample brewery chart of accounts
- Month end procedure checklist



Introduction to Kary

- Kary Shumway, CPA, CFO
- Partner and CFO for Wormtown Brewery, 15 years as CFO for a Beer Wholesaler
- Founder of Craft Brewery Financial Training.com and the Beer Business Finance Association

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Two Questions



DO YOU HAVE A
PROCESS TO
MAKE YOUR
BEER?



DO YOU HAVE A
PROCESS TO
MAKE YOUR
FINANCIALS?

Outline



How did we get here...



5-Step Brewing Financial Excellence Process



3 Case Studies



The only way this works...



How Did We Get Here?

- Declining sales, increasing expenses
- Flat sales, margins down, expenses about the same
- Business model changes, wholesale distribution
- Business model changes, food in the taproom
- Expansion, taking on more debt
- Growth, the silent cash flow killer...
- **Was there a time we were profitable? What changed...**

5-Step Brewing Financial Excellence Process

- 1. Review the state of the financials**
2. Define the goals, requirements, stakeholders
3. Document standard operating procedures
4. Build your financial road map
5. Use financial check-ins





Step 1: Review the State of the Financials

- How have the numbers changed over the years?
- What causes can we identify?
- Was there a time when the numbers looked good?

Historical Income Statements

	Year 1		Year 2		Year 3
Sales	\$ 525,000		\$ 675,000		\$ 725,000
Cost of Goods Sold	\$ 131,250		\$ 270,000		\$ 369,750
Gross Margin	\$ 393,750 75%		\$ 405,000 60%		\$ 355,250 49%
Operating Expenses	\$ 315,000 60%		\$ 425,250 63%		\$ 442,250 61%
Net Income	\$ 78,750 15%		\$ (20,250) -3%		\$ (87,000) -12%

Historical Balance Sheets

	Year 1	Year 2	Year 3
Cash	\$ 50,000	\$ 26,000	\$ 6,000
Accounts Receivable	\$ -	\$ 34,000	\$ 38,000
Inventory	\$ 25,000	\$ 40,000	\$ 65,000
Fixed Assets	\$ 275,000	\$ 275,000	\$ 275,000
Accumulated Depreciation	<u>\$ (27,500)</u>	<u>\$ (55,000)</u>	<u>\$ (82,500)</u>
Total Assets	\$ 322,500	\$ 320,000	\$ 301,500
Accounts Payable	\$ 18,750	\$ 32,000	\$ 49,000
Keg Deposits	\$ -	\$ 9,500	\$ 12,500
Long Term Debt	<u>\$ 150,000</u>	<u>\$ 145,000</u>	<u>\$ 193,500</u>
Total Liabilities	\$ 168,750	\$ 186,500	\$ 255,000
Equity: Partner 1	\$ 75,000	\$ 75,000	\$ 75,000
Distributions: Partner 1	\$ -	\$ -	\$ -
Retained Earnings (Deficit)	<u>\$ 78,750</u>	<u>\$ 58,500</u>	<u>\$ (28,500)</u>
Total Equity (Defecit)	\$ 153,750	\$ 133,500	\$ 46,500



5-Step Brewing Financial Excellence Process

1. Review the state of the financials
2. **Define the goals, requirements, stakeholders**
3. Document standard operating procedures
4. Build your financial road map
5. Use financial check-ins



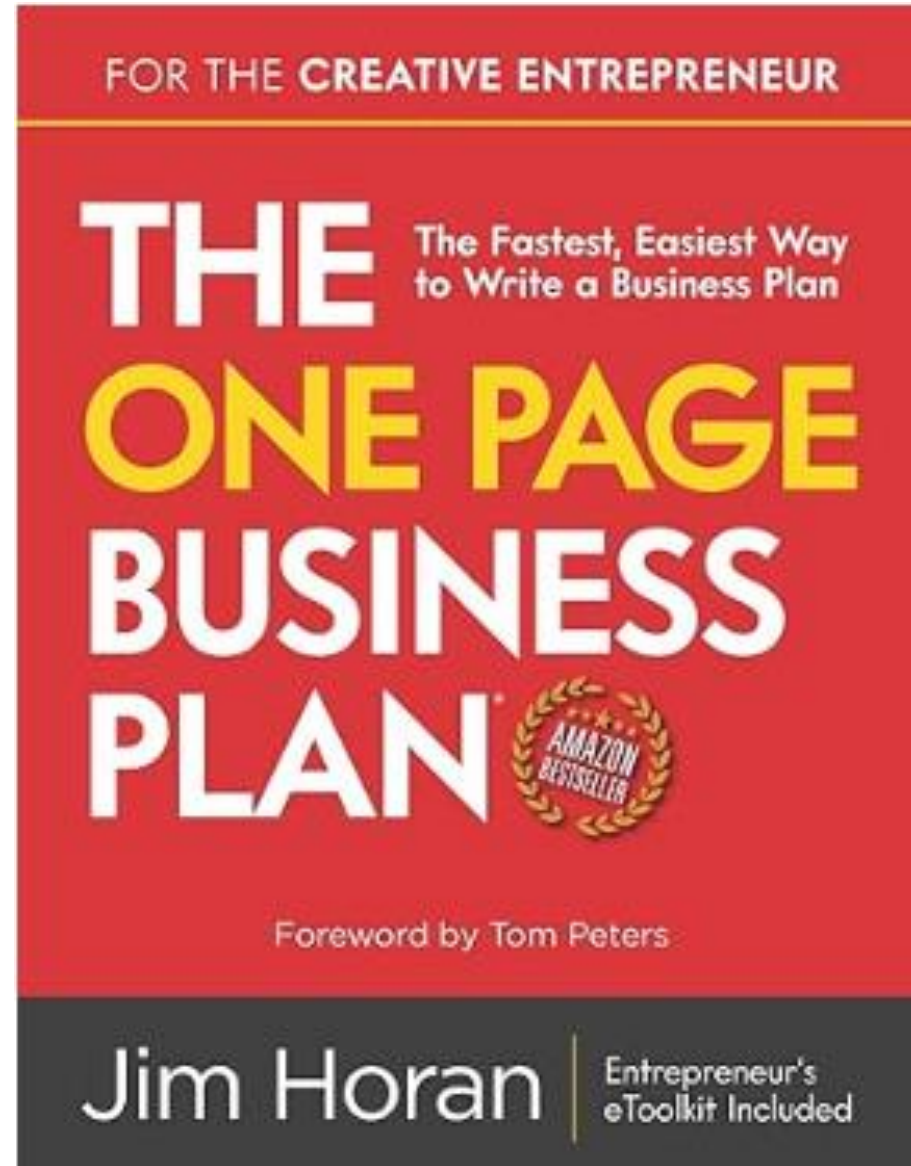
Step 2: Define the Goal

- Goals
 - Sales, margins, profit, cash flow!
- Stakeholders
 - Owner, investors, lenders
- Requirements
 - Bank covenants, returns to investors

Step 2: Define the Goal

- Bank Covenants
 - Debt service coverage $>1.2x$
 - Debt to equity $< 2.0x$
- Net Operating Income
 - 5% of revenue
- Cash Flow
 - Cash flow neutral

Step 2:
Define
the Goal





5-Step Brewing Financial Excellence Process

1. Review the state of the financials
2. Define the goals, requirements, stakeholders
3. **Document standard operating procedures**
4. Build your financial road map
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Step 3: Foundation and Details

- Standard Operating Procedures (SOPs)
- Chart of Accounts
- Professional Team
- Software Stack
- Production capacity



Step 3: Standard Operating Procedures

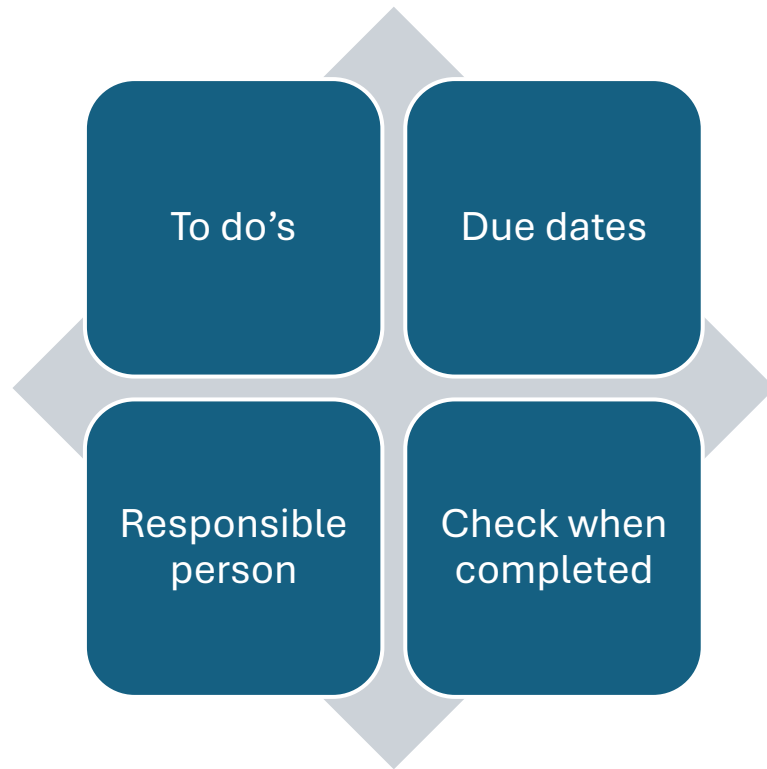
1. Month End Financial Process
2. Monthly Financial Review
3. Budgeting and Forecasting
4. Cash Management
5. Revenue and Receivables
6. Purchases and Payables
7. Inventory Management
8. Tax Reporting



Step 3: Standard Operating Procedures

- Month end procedures
- Common issue, numbers aren't complete, timely, accurate
- Use this checklist....

Step 3: Standard Operating Procedures



Month End Checklist			
Date:			
<u>To Do List</u>	<u>Due Date</u>	<u>Person Responsible</u>	<u>Check When Completed</u>
Prepare and Record Journal Entries			
Payroll Accrual	1st day of month		
Prepaid Expense Adjustment	1st day of month		
Depreciation Expense Adjustment	1st day of month		
Properly Record Fixed Asset Additions	1st day of month		
Firm Cut-off Dates for Transactions			
Invoicing Cut-off	2nd day of month		
Accounts Payable Cut-off	5th day of month		
Close General Ledger - No More Entries	10th day of month		
Reconcile Bank Statements			
Bank 1 - Checking	5th day of month		
Bank 2 - Checking	5th day of month		
Bank 3 - Checking	5th day of month		
Reconcile General Ledger Accounts			
Accounts Receivable	5th-7th day of month		
Accounts Payable	5th-7th day of month		
Accrued Expenses	5th-7th day of month		
Bank Loans	5th-7th day of month		
Prepaid Expenses	5th-7th day of month		
Prepaid Expense	5th-7th day of month		
Tax Returns: Prepare and File			
State Sales Tax	Due 10th of month		
State Excise Tax	Due 10th of month		
State Bottle Bill Reporting	Due 10th of month		
Federal Excise Tax	Due 10th of month		
Final Review of General Ledger	10th day of month		
Create and Finalize Monthly Financial Statements	10th day of month		

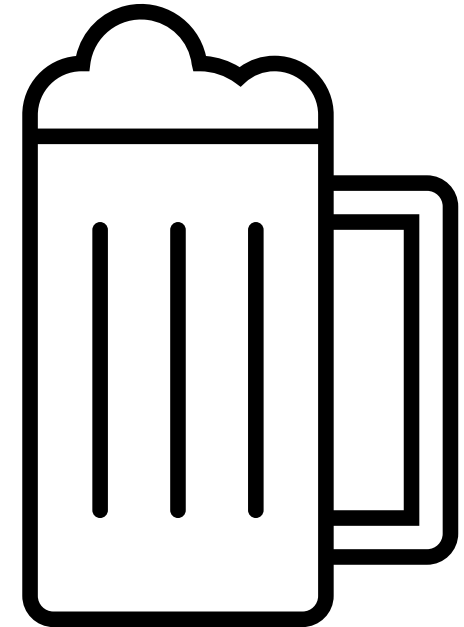
Step 3: Standard Operating Procedures

- **Inventory SOP template**
- **Goal:** Safeguard, control, complete, accurate record of inventory
- **Measurements:** Efficiency measurements are days of inventory, out of stocks, inventory count accuracy
- **Responsible person:** Scott Anderson
- **Outline specific steps:** Receiving, Production, Shipping, Cost Review, Inventory Counts, Keg Tracking

Step 3: Review the Chart of Accounts

4010	Sales - Draft Beer
4020	Sales - Package Beer
4030	Sales - Merchandise
4040	Sales - Events
4050	Sales - Food
4100	Sales - Wholesale - Draft
4110	Sales - Wholesale - Package
4200	Sales - Self Dist - Draft
4210	Sales - Self Dist - Package
5100	COGS - Wholesale - Draft
5110	COGS - Wholesale - Package
5010	COGS - Draft Beer
5020	COGS - Package Beer
5030	COGS - Merchandise
5040	COGS - Events
5050	COGS - Food
5200	COGS - Self Dist - Draft
5210	COGS - Self Dist - Package

4010	Sales - Draft Beer
4020	Sales - Package Beer
4030	Sales - Merchandise
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5050	COGS - Food
5100	COGS - Wholesale - Draft
5110	COGS - Wholesale - Package
5200	COGS - Self Dist - Draft
5210	COGS - Self Dist - Package



Step 3: Review the Chart of Accounts

	<u>Retail</u>		<u>Wholesale</u>		<u>Self-Distribution</u>	
4010	Sales - Draft Beer		4100	Sales - Wholesale - Draft	4200	Sales - Self Dist - Draft
4020	Sales - Package Beer		4110	Sales - Wholesale - Package	4210	Sales - Self Dist - Package
4030	Sales - Merchandise					
4040	Sales - Events					
4050	Sales - Food					
5010	COGS - Draft Beer		5100	COGS - Wholesale - Draft	5200	COGS - Self Dist - Draft
5020	COGS - Package Beer		5110	COGS - Wholesale - Package	5210	COGS - Self Dist - Package
5030	COGS - Merchandise					
5040	COGS - Events					
5050	COGS - Food					



Step 3: Professional Team

- Bookkeeper
 - Blocking and Tackling
- CPA / Tax preparer
 - Compliance, and tax breaks
- Attorney
 - HR, Intellectual Property
- Special Forces
 - Fractional CFO, CMO

Step 3: Software Stack

- Point of sale
- Brewery management system
- General ledger and accounting
- Other



Step 3: Production Capacity

- Current capacity
- Utilization
- Expansion options
- (Production and Taproom)



5-Step Brewing Financial Excellence Process

1. Review the state of the financials
2. Define the goals, requirements, stakeholders
3. Document standard operating procedures
- 4. Build your financial road map**
5. Use financial check-ins



Step 4: Build the Financial Road Map

- Begin with the end in mind: The Goal
- Use the 6 Financial Building Blocks
- Plug in numbers on the models and templates

Step 4: Begin With the End in Mind



Definite chief
aim – The Goal



And a plan to
achieve it



Sense of
urgency



Sense of
possibility



Highly specific

Step 4: Building Blocks of the Financial Road Map

Sales
Forecast(s)

COGS /
Margin Plan

Operating
Expense Plan

Capital
Expense
Schedule

Debt Service /
Loan Schedule

Cash Flow
Drivers

Step 4: Use a Simple Model

	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Total
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Wholesale	125,000	120,000	40,000	25,000	75,000	110,000	140,000	180,000	170,000	150,000	150,000	150,000	1,435,000
Self-Distribution	25,000	25,000	5,000	5,000	15,000	20,000	30,000	40,000	35,000	35,000	30,000	30,000	295,000
Taproom	35,000	30,000	15,000	0	25,000	30,000	45,000	50,000	40,000	40,000	40,000	45,000	395,000
Total Sales	185,000	175,000	60,000	30,000	115,000	160,000	215,000	270,000	245,000	225,000	220,000	225,000	2,125,000
Cost of Sales	98,000	94,000	45,000	25,000	70,000	85,000	105,000	125,000	115,000	105,000	100,000	105,000	1,072,000
	53.0%	53.7%	75.0%	83.3%	60.9%	53.1%	48.8%	46.3%	46.9%	46.7%	45.5%	46.7%	50.4%
Margin	87,000	81,000	15,000	5,000	45,000	75,000	110,000	145,000	130,000	120,000	120,000	120,000	1,053,000
	47.0%	46.3%	25.0%	16.7%	39.1%	46.9%	51.2%	53.7%	53.1%	53.3%	54.5%	53.3%	49.6%
OPEX	70,000	70,000	55,000	35,000	60,000	70,000	75,000	85,000	80,000	80,000	75,000	75,000	830,000
	37.8%	40.0%	91.7%	116.7%	52.2%	43.8%	34.9%	31.5%	32.7%	35.6%	34.1%	33.3%	39.1%
Other Rev/Exp	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	17,000	11,000	(40,000)	(30,000)	(15,000)	5,000	35,000	60,000	50,000	40,000	45,000	45,000	223,000
	9.2%	6.3%	-66.7%	-100.0%	-13.0%	3.1%	16.3%	22.2%	20.4%	17.8%	20.5%	20.0%	10.5%
Interest, D&A	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
EBITDA	27,000	21,000	(30,000)	(20,000)	(5,000)	15,000	45,000	70,000	60,000	50,000	55,000	55,000	343,000
	14.6%	12.0%	-50.0%	-66.7%	-4.3%	9.4%	20.9%	25.9%	24.5%	22.2%	25.0%	24.4%	16.1%
EBITDA	\$ 27,000	\$ 21,000	\$ (30,000)	\$ (20,000)	\$ (5,000)	\$ 15,000	\$ 45,000	\$ 70,000	\$ 60,000	\$ 50,000	\$ 55,000	\$ 55,000	\$ 343,000
Debt Service	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (15,000)	\$ (180,000)
Estimated Cash Flow from Ops	\$ 12,000	\$ 6,000	\$ (45,000)	\$ (35,000)	\$ (20,000)	\$ -	\$ 30,000	\$ 55,000	\$ 45,000	\$ 35,000	\$ 40,000	\$ 40,000	\$ 163,000



Step 5: Use Financial Check-Ins

- **Financial Huddles:** Repeating weekly / monthly reviews, analysis of numbers, game planning, key metrics
- Quarterly or bi-annual deep dive, balance sheet review, re-visit budget

Financial Huddles and Scorecards

- Model for the financial huddle
- Responsibility: Names and numbers
- Information flow and preparation
- Continuous training and re-forecasting
- People report their numbers but also the story of how they came to be and the action they will take to continue to improve



Financial Scorecards

Open Book Management Brewery		
P&L Scorecard		
For the month of:	March 20X1	
Sell days this year	22	
Sell days last year	21	
Responsibility	Account	Forecast Week 1
Sales - COGs - Margins		
Mark	Sales - Self Distribution	
Steve	Sales - Taproom	
	<i>Total Sales</i>	
Amy	Cost of Goods Sold - Self Distribution	-
Amy	Cost of Goods Sold - Taproom	
	<i>Total COGs</i>	
Amy	Margin - Self-Distribution	-
Amy	Margin - Taproom	
	<i>Total Margin</i>	
Amy	Margin % - Self-Distribution	
Amy	Margin % - Taproom	
	<i>Total Margin %</i>	



Case Studies

- Jason (Start Up)
 - Start off on the right foot
- Erika (5+/- years)
 - Edit the business, hard reset
- Chris (Sell / close)
 - Get out clean



The only way it
works

- Commit, you gotta want it
- Look in the mirror, behavior change needed
- Set deadlines
- Use accountability



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Thank You!

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Learn More About the Beer
Business Finance Association

