Your Brewery Financial Toolkit

A Crash Course about Financial KPIs to Guide Your Brewery to Better Profitability

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Who here feels like they have full visibility into their brewery's financials and profitability?

LEARNING OBJECTIVES

- Understand the profit centers of your brewery
- Learn the key financial metrics you must know to make strong and healthy decisions
- Explore how to build your key performance indicators (KPIs)
- Discuss which benchmarks drive the bottom line
- Learn how to do “back of the envelope” business cases

BREWERY BUSINESS CENTER

Running a Brewery is Hard A$$ Work

Breweries are multiple businesses all in one.

TAPROOM / RETAIL

MANUFACTURING

Breweries are multiple businesses all in one.

CONSUMER PACKAGED GOODS (CPG)

SALES AND DISTRIBUTION

BREWERY BUSINESS CENTER

Unlike most businesses which have 1-2 business centers a brewery has 7.

- Taproom/Retail
- Wholesale
- Inventory
- Manufacturing
- Logistics (self-distro)
- E-commerce

- Contract Brewing

OF ALL THESE BUSINESS CENTERS:

Which are Profit Centers and which are Cost Centers?

TAPROOM/RETAIL **WHOLESALE** **INVENTORY**

MANUFACTURING **LOGISTICS** **E-COMMERCE**

CONTRACT BREWING

PROFIT CENTERS

TAPROOM/RETAIL

WHOLESALE

INVENTORY

MANUFACTURING

LOGISTICS

E-COMMERCE

CONTRACT BREWING

COST CENTERS

TAPROOM/RETAIL

WHOLESALE

INVENTORY

MANUFACTURING

LOGISTICS

E-COMMERCE

CONTRACT BREWING

MARGINS

Gross Margin = Net Revenue - COGS

Gross margin is the net revenue less cogs

What is included in COGS?

Cost of Beer Sold
- including WIP Loss, Inventory Adjustments, Taproom Transfers

Excise Taxes

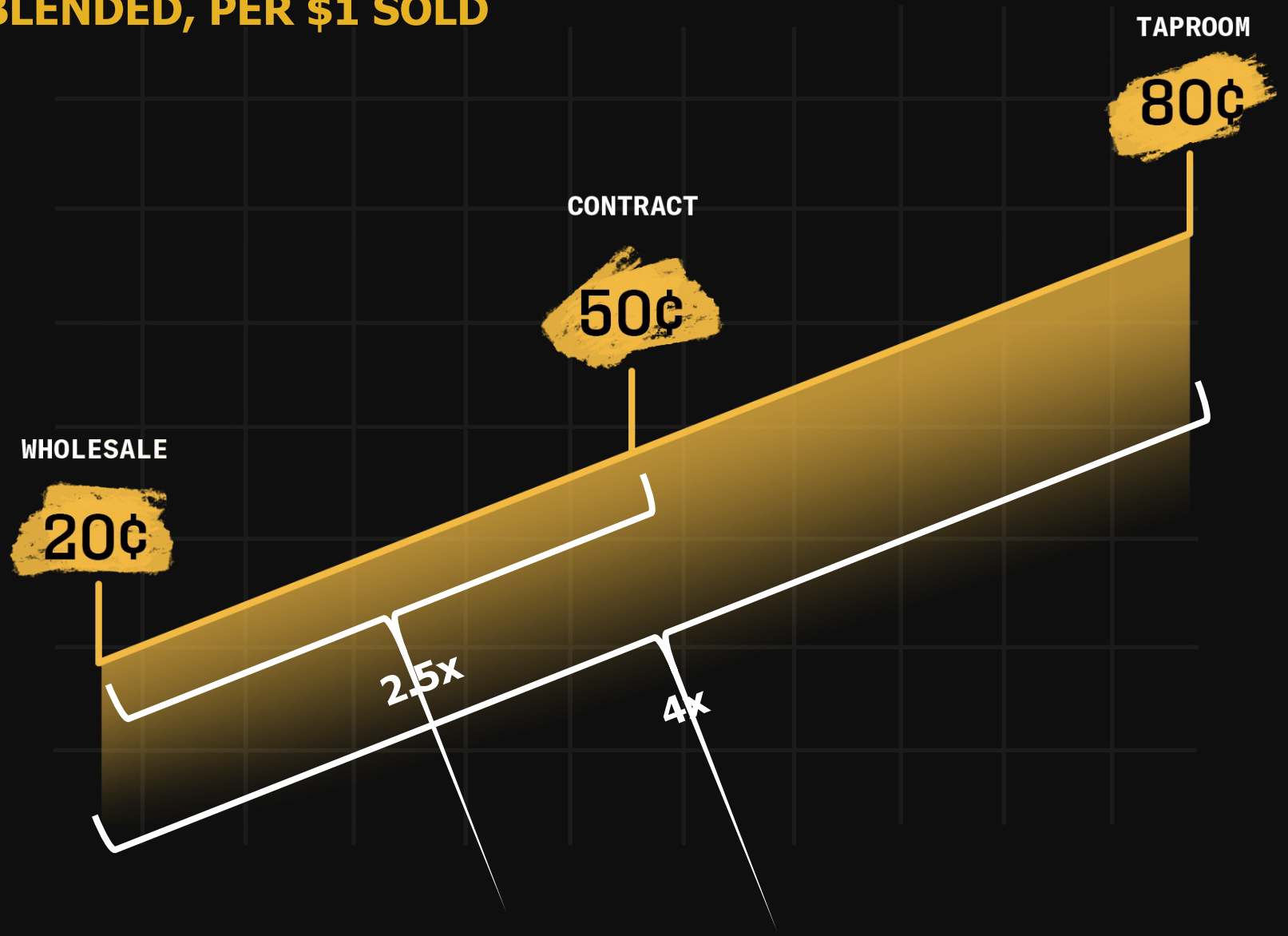
Brewery Expense
- Yeast
- Chemicals
- Gas

Merchant Fees

This is important because it lets you know how much you need to pay all the other expenses.

You must know your Margins for each income generating business function.

TYPICAL MARGINS PER BUSINESS UNIT, BLENDED, PER $1 SOLD



TYPICAL MARGINS PER PACKAGING SKU IN

DISTRIBUTION

½ bbl	20% - 30%
⅙ bbl	50%+
12oz cases	25% - 35%
16oz cases	40% - 50%

OVERVIEW

What does this tell us about your business centers?

TAPROOM
is and has always been just great

CONTRACT BREWING
is more appealing

SIXTEL
is your most profitable SKU in Distro

I believe these distro margins are going to be harder to accomplish with rising cost.

How can FOB keep up?

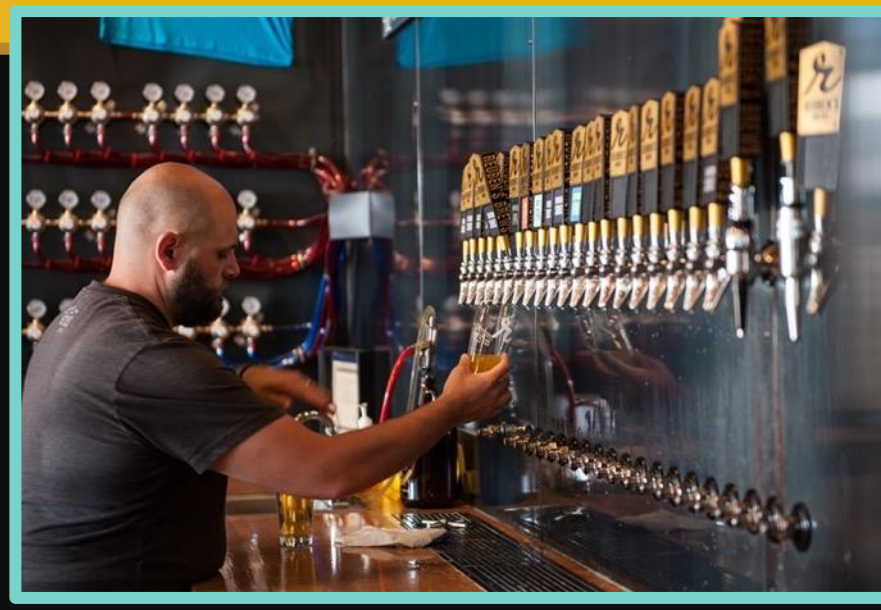
PROFIT/COST CENTERS

Understand the Profit Centers of your Brewery

BREWERY PROFIT CENTERS

definition of *Brewery Profit Centers [n.]*
a part of an organization with assignable revenues and costs and hence ascertainable profitability

definition of *Brewery Cost Centers [n.]*
a part of an organization not directly related to sales



Brewery Profit Centers

- Taproom / Retail
- Distribution

Brewery Cost Centers

- Manufacturing
- CPG – hard to allocate revenues to marketing plans

KEY PERFORMANCE INDICATORS (KPI)

Explore How to Build Your Key Performance Indicators

IF YOU WERE ALONE ON A DESERT ISLAND...

What stats would you need to know whether your brewery has won the week?

KPIs

- Ideally 6-15
- Tracked weekly
- Less is more
- Should be controllable

  able to action when not on track
- Should tie to your strategy + forecast

BALANCED SCORECARD

Customers *"How do customers see us?"*

Employees *"How can we grow our team?"*

Process *"What must we excel at?"*

Financial *"How do we look to shareholders?"*

KPI EXAMPLES

CUSTOMERS

- Social media engagement
- Out of stocks
- Average check size
- % of food sales in taproom

EMPLOYEES

- Satisfaction survey
- Turnover
- Training days
- Overtime

PROCESS

- Inventory levels
- Taproom labor % of sales
- Production labor % of CoGS
- Number of taproom events
- Number of private events

FINANCIAL

- Cash balance
- Gross margin
- Net margin
- BBLs shipped / depleted
- EBITDA

BENCHMARKS

They’re not one size fits all!

BENCHMARKS

Given what we know about the gap in margins, benchmarks need to be customized to your brewery.

The most effective benchmark is comparing two breweries with the same sales split.

Before we get into a detailed example, let's look at some standard benchmarks which all breweries share.

These benchmarks have been developed from the data we have collected over the past decade.

AGGREGATED COMMON RANGES

Margin ranges that we typically see

- **Taproom Revenue per Sq Ft**
  Total taproom revenue divided by taproom square footage, *An acceptable range is $30 - $40*
- **Taproom Revenue per BBL**
  Total taproom beer sales divided by the number of BBL transferred to taproom. *An acceptable range $1,100 - $1,800*
- **Brewpub Food/Beer Revenue Split**
  Percentage of food sales as compared to beer sales. *Aim for 60% food/40% beer*
- **Distribution Revenue per BBL**
  Total wholesale revenue divided by wholesale bbl. *An acceptable range is between $300 - $400.* ($500+ for self distro)
- **Taproom Revenue to GM Salary**
  Monthly taproom revenue should be double the GM annual salary. GM salary is $40,000, Taproom should generate $80,000 per month.

COST BENCHMARKS

COGS	32%-38% of wholesale sales
	6%-8% of taproom sales
Labor	
Outside Sales	8%-12% of wholesales sales
Admin	3%-5% of total sales
Taproom	8%-12% of taproom beer sales
Production	6%-8% of total sales
Advertising	3%-5% of overall sales
Occupancy	9%-12% of overall sales

HEALTHY BENCHMARKS

For a 50/50 brewery

DEBT TO ASSET RATIO
.3 - .5

Earnings (EBITDA)
6%-12% of overall sales

BUSINESS CASES

(On the back of an envelope)

CUSTOMER FOCUS

Always base your decisions on customer need

IDEA VALIDATION

Don’t base your decisions on business cases, use business cases to help validate your ideas

BLACK AND WHITE?

Even something as defined as math is very grey!

SCENARIO

- If you have space and utilities to add tanks, and the demand to fill them, it's a slam dunk to add them
- Scenario estimates it only takes 4 months of production to pay for a new tank

NEW TANK PURCHASE

NEW TANK PURCHASE

10BBL tank	95%
Rigging & shipping	4%
Glycol install parts	1%

Total cost 100%

NEW TANK PURCHASE

Tank turns every 14 days = ***26 batches per year***

Yield of 75%, knock out volume ***11 BBL***

Gross margin of ??

Assume existing infrastructure facilitates additional tank

Tank contributes 26 batches × 11BBLs × 75% yield
TOTAL 214 BBLs / year

LAGER VS. ALE

DRIVERS

Tank turns

Gross margins
(including ingredient costs, yields, draft / package assumptions)

Tank capacity at brewery

If brewed a third less volume, how much could you decrease overhead?

SCENARIO

- Lagers typically have better gross margins – they are a lot cheaper to brew than IPAs – hops / malt / yield
- Longer turn times for lagers reduces brewery capacity
- Could brew 50% more ale than lager!
- But, that 50% more beer only drives less than 20% more gross margin

LAGER VS ALE

EXAMPLE

ALE RESIDENCY *days*	16
LAGER RESIDENCY *days*	25
TOTAL BREWERY TANK CAPACITY	100
GROSS MARGIN per BBL *ale*	***100%***
GROSS MARGIN per BBL *lager*	***133%***

LAGER VS ALE

EXAMPLE

IF 100% ALE, ***total BBLs per year***	2,281
IF 100% ALE; ***gross margin***	2,281 x 100%

cont.

IF 100% LAGER, ***total BBLs per year***	1,460
IF 100% LAGER; ***gross margin***	1,460 x 133%

NEW SALES REP

SALARY + COMMISSION 8%-12% of their annual sales
lower the better

SALARY EXAMPLE Annual sales per rep $480,000,
total compensation should be $48,000 or
10% of annual sales

CE GOAL (PER SALES REP) Self Distro 7,000-11,000
Distributor 20,000+

Check out the calculator.

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Q & A

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