

# BEER BUSINESS FINANCE

FINANCIAL INTEL FOR BEER WHOLESALERS

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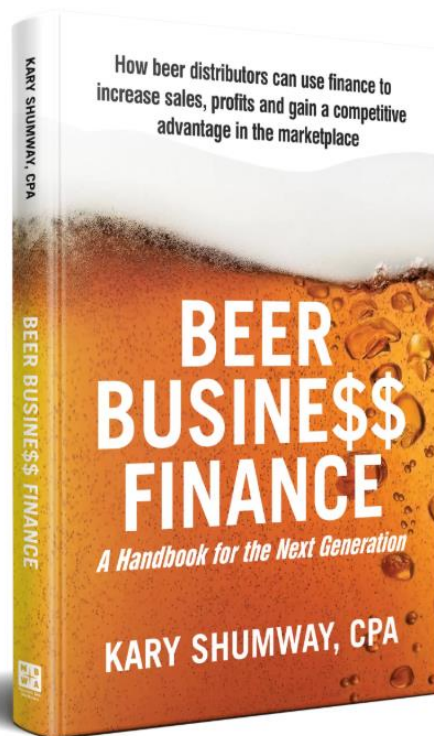
**How to Improve Wholesaler Gross Profit**

# Quick Intro

- Kary Shumway, CPA, CFO
- 15 years as CFO for Beer Distributor in Northeast
- Partner and CFO for Wormtown Brewery
- Founder of BeerBusinessFinance.com for Beer Wholesalers
- CraftBreweryFinance.com for Brewery owners
- **My Purpose: Share what I've learned. Shorten the learning curve for you so that you can create a financially successful beer business.**



# Beer Business Finance Book



## What's Inside:

- Wholesaler Operations
- Compensation Planning
- How to Grow Sales
- Inventory Management
- Cash Flow Planning
- Beer Finance Basics
- And more...

# Housekeeping

- **Questions...**
- Chat area
- Email me: [Kary@BeerBusinessFinance.com](mailto:Kary@BeerBusinessFinance.com)
- Set up a call
  
- **Resources and materials...**
- Replays...
- Gross Profit Checklist
- BeerBusinessFinance.com for Gross Profit resources

# Presentation Overview

1. **Gross Profit Fundamentals**
  - Calculations, Items Included / Excluded
2. **Practical Uses of Gross Profit Knowledge**
  - Decision Making Tool, Cost per delivery, Hot Shots
3. **Common Errors in Gross Profit**
  - How to identify and correct
4. **How to Reconcile Gross Profit to P&L**
  - Monthly routines to ensure good numbers
5. **Planning and Monitoring Gross Profit**
  - Combining the Sales Forecast and GP plan, Monthly reports

# Quick Story...

- We held classes to teach basic finance to non-financial managers...Sales, Delivery, Admin, etc.
- Asked Sales Managers: How much do you think we make in gross profit on an average sale?
- Some didn't know the difference between sales and gross profit...Others guessed a very high number...
- We had a real need to teach Gross Profit

# Gross Profit Fundamentals

- Sales is first on the Income Statement, followed by Cost of Sales and Gross Profit

Summary Income Statement
Sales
Cost of Sales
Gross Profit
Operating Expenses
Net Income (Loss)

# Gross Profit Fundamentals

- *Gross Sales – Returns = Net Sales*
- *Net Sales – Cost of Goods Sold = Gross Profit*



# Gross Profit Fundamentals

- Cost of Goods Sold. What's included:
  - FOB: Cost of product
    - Invoice cost of the packages, fixed for a period of time
  - Freight: Shipping
    - 3<sup>rd</sup> party carrier invoice, or from the supplier
  - Taxes: State Taxes
    - Statutory beer tax from state regulatory agency
  - Redemption fee: Bottle Deposit and Handling
    - Vermont example

# Gross Profit Fundamentals

- Route accounting system has a product master for every SKU. Typical Product Cost might look like below

<b><u>Cost of Goods Sold</u></b>	
FOB	\$ 20.00
Freight	\$ 0.50
Taxes	\$ 0.60
Duty	\$ 0.25
Redemption fee	<u>\$ 0.08</u>
Total	\$ 21.43

# Gross Profit Fundamentals

- Standard Costing
  - Weighted Average Costs
  - Actual Costs
- 
- Difference between Standard and Actual = Variance

# Gross Profit Fundamentals

- Cost of Goods Sold. What's not included:
  - Sales
  - Marketing
  - Delivery
  - Warehouse
  - Admin

# Gross Profit Fundamentals

- Sales – Cost of Goods Sold = Gross Profit
- *Gross Profit divided by Sales = Gross Profit %*
- % = Useful way to communicate GP goals and results

<u>Summary Income Statement</u>	
Sales	\$ 1,000,000
Cost of Sales	\$ 750,000
Gross Profit	\$ 250,000
<i>GP %</i>	25.0%
Operating Expenses	<u>\$ 200,000</u>
Net Income (Loss)	\$ 50,000

# Gross Profit: Practical Uses

- Understand the components:
  - Price (Sales)
  - Cost (FOB, Freight, Taxes, etc.)
  - Gross Profit (Sales – Cost of Goods)
  - GP % (Gross Profit divided by Sales)
- Use the information to make better...more profitable decisions

# Beer Business Finance Subscription

- *Online Course: Finance for Non-Financial Beer Wholesaler Managers*
- **Class #1. How to Build a Pro Sales Forecast to Drive Revenue.** Proven, profitable strategies to build a winning sales plan. Videos, templates and step-by-step instructions
- **Class #2. Gross Profit 101.** A deep-dive into what Gross Profit is, why it's important, and how your managers can improve this critical number in your beer business
- **Class #3. Inventory and SKU Management.** What it means, what inventory really costs, and how every manager can make a big difference in managing this asset

# Gross Profit: Practical Uses

- Gross Profit is the \$ we have available to cover operating expenses (everything that isn't in COGs)
- *What do we make on a case, a keg? How does this compare to the Cost to Deliver*
- *Decision making for Hot Shots / Special Deliveries*
- *Decision making for Delivery Minimums*



# Gross Profit: Common Errors

- These Cause Fluctuations in monthly GP...leads to questions about accuracy
  1. Inventory Received but Purchase expense not recorded
  2. Inventory Value doesn't match actual costs
  3. Empty barrels and pallets returned (out of inventory) but credit from supplier is not recorded

# Gross Profit: Common Errors

- Errors can cause fluctuations in monthly gross profit percentages...

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>
Sales	\$ 950,000	\$ 920,000	\$ 935,000	\$ 1,050,000	\$ 1,150,000	\$ 1,275,000
Cost of Goods Sold	\$ 706,800	\$ 663,320	\$ 715,275	\$ 769,650	\$ 825,700	\$ 966,450
Gross Profit	\$ 243,200	\$ 256,680	\$ 219,725	\$ 280,350	\$ 324,300	\$ 308,550
<b>GP %</b>	<b>25.6%</b>	<b>27.9%</b>	<b>23.5%</b>	<b>26.7%</b>	<b>28.2%</b>	<b>24.2%</b>

# Gross Profit: Common Errors

- #1 Inventory Received, Purchase Expense not Recorded
- Test inventory receipts / match to supplier invoices.
- Test when the inventory receipts and related purchase expenses are recorded

# Gross Profit: Common Errors

- #2 Inventory Value Doesn't Match Actual Costs
- Test actual costs compared to standard product costs.
- Start with top five or ten selling SKUs and pulling the related supplier invoices.

# Gross Profit: Common Errors

- #3 Empty barrels and pallets returned (out of inventory) but credit from supplier is not recorded
- Test the timing of when kegs/pallets are removed from inventory and when the credit from the brewery is recorded.
- If the deduction occurs in one month and the credit occurs in another, you'll have an issue with gross profit.

# Reconcile GP Reports to P&L

- Gross Profit Report from Route Accounting System vs. Income Statement Gross Profit

<u>Gross Profit Report</u>				
<u>Supplier</u>	<u>Sales</u>	<u>Cost of Goods</u>	<u>Gross Profit</u>	<u>Gross Profit %</u>
Supplier 1	\$ 950,000	\$ 698,250	\$ 251,750	26.5%
Supplier 2	\$ 875,000	\$ 652,750	\$ 222,250	25.4%
Supplier 3	\$ 825,000	\$ 627,825	\$ 197,175	23.9%
Supplier 4	\$ 450,000	\$ 330,300	\$ 119,700	26.6%
Supplier 5	\$ 310,000	\$ 217,620	\$ 92,380	29.8%
Supplier 6	\$ 165,000	\$ 128,040	\$ 36,960	22.4%
Supplier 7	\$ 45,000	\$ 36,675	\$ 8,325	18.5%
Supplier 8	\$ 37,500	\$ 27,188	\$ 10,312	26.7%

# Reconcile GP Reports to P&L

- Route Accounting System Gross Profit \$500,000
- Income Statement Gross Profit \$475,000
- Why the Difference?
  - Check the 3 common errors
    - Inventory write offs...Count variances, breakage, out of code, etc.
    - One time higher freight charges / rush order not in Standard Freight
- Check it monthly, understand the variance

# Reconcile GP Reports to P&L

- Monthly Routine to Ensure Accurate GP Reporting
- Reconcile the Route Accounting GP report to the P&L

<u>Gross Profit Report</u>				
<u>Supplier</u>	<u>Sales</u>	<u>Cost of Goods</u>	<u>Gross Profit</u>	<u>Gross Profit %</u>
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Supplier 7	\$ 45,000	\$ 36,675	\$ 8,325	18.5%
Supplier 8	\$ 37,500	\$ 27,488	\$ 10,013	26.7%
	\$ 3,657,500	\$ 2,718,948	\$ 938,553	25.7%



# Gross Profit Planning

- Forecast Gross Profit / Create an Annual and Monthly Plan to compare against

<i>Measured in \$</i>			
	<u>2020 Projected Volume</u>	<u>2020 Projected GP %</u>	<u>2020 Projected GP Dollars</u>
Supplier 1	\$10,460,000	26.0%	\$ 2,719,600
Supplier 2	\$ 1,605,000	25.5%	\$ 409,275
Supplier 3	\$ 472,500	28.9%	\$ 136,553
Supplier 4	\$ 318,000	23.3%	\$ 74,094
Supplier 5	<u>\$ 165,000</u>	25.8%	<u>\$ 42,570</u>
Total	\$13,020,500		\$ 3,382,092
	5.0%		26.0%

# Monthly Gross Profit Reports

- Standard set of GP Reports:
  - GP by product line vs goal (beer, wine, non-alc if you have them)
  - GP by supplier – actuals vs expectations
  - GP by supplier, by brand, and by item if necessary
  - GP by chain / independent
  - GP by account
- Keep it top line to start, go after the big dollars

# Monthly Gross Profit Review

- The Gross Profit Team...Sales, Inventory, Finance
- Pricing correct?
- Costs correct?
- Are all the depletion allowances / supplier billbacks properly accounted for?

# Monthly Gross Profit Review Process

1. Create an annual Gross Profit Plan
2. Create the monthly Gross Profit Plan
3. Run detailed Gross Profit reports to analyze any variance from expected
4. Create the Gross Profit Team to hunt for GP dollars

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# Beer Business Finance Subscription

Special Webinar Offer:

Use Discount Code `webinar20` at checkout to **save 20%** off  
the Annual Subscription

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# Thank you!

- Questions + Comments + Feedback
- Contact me: [Kary@BeerBusinessFinance.com](mailto:Kary@BeerBusinessFinance.com)
- More Gross Profit Resources BeerBusinessFinance.com