

## How Growers Turn Profits



The philosophy of an organization often reveals a lot about how it operates. The philosophy of Beckstoffer Vineyards, as explained by President and majority owner Andrew Beckstoffer, shows why this fruit growing concern goes about its business in an atypical way.

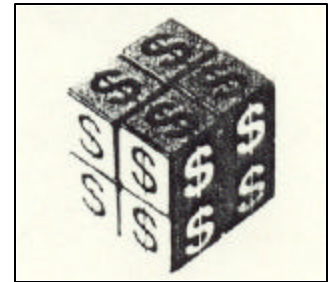
"We are clearly in the farming business," related Beckstoffer, "but we like to think of ourselves as being in the technology business. We are in the technology of applying all the new viticultural methods and procedures that have been developed. We analyze these operations from a business point of view, using the latest techniques."

Beckstoffer Vineyards is involved in the production of nearly 4000 acres of wine grapes in Napa, Mendocino, and Sonoma counties in California. The company owns 1000 of those acres

and provides custom farm management services for the remainder through two subsidiary companies - Napa Valley Vineyard Company and Mendocino Vineyard Company. Over 30 farms are included in the operation. This year the operation will handle 8000 tons of grapes, which translates to 8% to 9% of the Napa Valley total.

The operation also reflects the background and education of Andrew Beckstoffer. Beckstoffer, who has degrees in engineering and business, was an executive in Heublein, Inc. for many years. When Heublein decided to sell its subsidiary, the Vinifera Development Corporation in 1973, Beckstoffer purchased it and Beckstoffer Vineyards was born.

Sound financial management is a part of good over-all management, and Beckstoffer pointed out that tight control is an essential part of good management in his operation. "We have a business – let's say it's less than \$10 million in total sales – but it comes in \$9.95 slugs. The control aspects of that are great."



According to Beckstoffer, a computer plays a big part in supplying information that helps track finances efficiently. "We have a system that we call our cost and budget reporting system, which is a detailed computerized system that allows us to do zero-based budgeting every year," he explained. "In other words, we look at every operation by the hours that are needed for that particular parcel of ground, then we put labor rates on that and work it up. We report against that monthly. All the operators have this kind of monthly report to look at and use."

He further pointed out that a clear idea of what is going on in the field and how uncontrollable forces like weather can change things is necessary. "Most viticulturists and even businessmen are trained to handle good grapes and clear weather. It's only in the field where you learn to handle the bad grapes and to handle the cash flow projections that don't come true."

The quickly changing conditions in agriculture also influence the type of planning used. "What we do," said Beckstoffer, "is called strategic planning, which is planning the over-all goals for the corporation, setting a framework in which they can be accomplished, and also establishing some alternative actions that will not be totally reactive but will be planned responses as we go through life with this corporate plan."

The computer is also used to help plan for the future. "With our computer, we take all of our

properties and enterprise and model them out for 10 years," he said. Included in the model are grape revenues, farming costs, interest rates, and much more. "The bottom line is cash flow – free cash that we have to spend and build the business with.

"With this model, we can do our tax planning and plan several years out for developing the vineyards. Tax planning comes off it, tax strategy comes off it, and the cash available in the company for emergencies, for building the business, and for profitability comes off it."

All the planning and analyzing have led to several cultural changes that increased profit. Beckstoffer vineyards have pioneered closer vine spacing and increasing the number of vines per acre. This has led to increased production per acre, as has drip irrigation, which the company introduced to the Napa Valley about 10 years ago. Extensive soil and plant analyses to identify nutrient deficiencies have also paid off, as has adapting certain vineyards for mechanical harvesting.

Beckstoffer listed a number of areas or concepts that demand close attention for good money management.

"The first thing," he related, "is that you must control your operation on dollars, and not on the sun. Everything that is being done should have a dollar number on it.

"Secondly, this business runs on cash, not on profitability. We look at cash flow on a weekly basis in great detail.

"Thirdly, we have established a credit relationship with the bank that is bigger than farming costs. In other words, we have a line of credit rather than a relationship that says you get this much by operation. That relationship is built on trust and a lot of communication so the bank knows exactly what we are doing.

"We also pay attention to our equipment on a daily basis. We probably have less breakdowns per unit than anyone around. Mechanical downtime is very expensive, and we are very conscious of it."

Beckstoffer is "cautiously bullish" on the future of farming in his area, but noted that the growers who succeed must change with the times. "You are not going to do it (succeed) with high buckle boots and bib overalls, and you're not going to do it by being a speculator. But," he concluded, "the real farmer, if he's tight on his money management and relates risks to potential rewards, can succeed."