

I WISH I DID NOT HAVE TO WRITE THIS SERIES. At Thoroughbred, we receive on average 4-5 inquiries per month from distilleries that are stuck, and 1-2 that are on the verge of collapsing. While we can often be helpful, sometimes it is simply too late. As someone who has personally experienced both a failed and a successful spirits business, I am sharing this with the hope that it will be helpful for at least one company or individual.

Companies tend to be tripped up from at least one of four root causes:

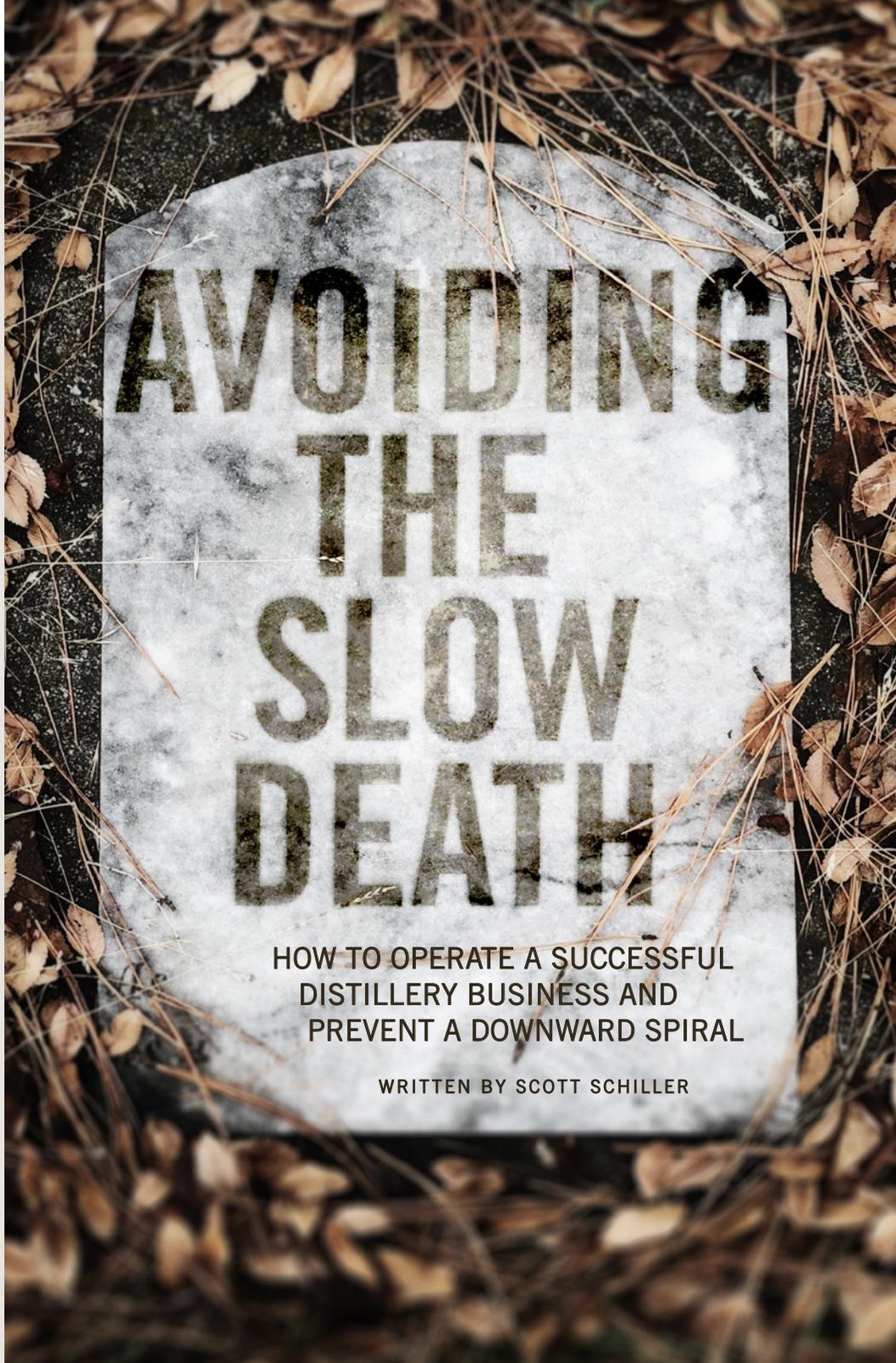
- 👉 Underfunded from the start
- 👉 Product weaknesses
- 👉 Poor distributor relationships
- 👉 Human capital deficiencies

In this initial article, I will focus on the financial piece, which is the most common scenario.

One of the biggest mistakes distillery owners make is that they didn't fully plan before they began. Going on a distillery trail and spending lots of time in liquor aisles is not proper planning no matter how diverse your home bar looks afterward. It is troubling how many operators never put a financial forecast and operating model in place. Having a solid path and understanding of what your capital needs are for both optimistic and pessimistic circumstances is critical. Of course, like most things, what you place in these models must be validated, not just educated guesses or tidbits from chat rooms. Also, the admiration you have of a distillery that started five or 10 years ago cannot be used as a model for one started in today's environment. The capital, resources, or strategic plan they utilized when they launched likely won't suffice in the greater competitive landscape of today.

The reality is that many enthusiastic entrepreneurs who are fueled by an emotional connection to this space often have an irrational sense of the capital needed. The term "bootstrap" in this business is doing it with just a few million, not a few hundred thousand. It's fair to say that it takes a minimum of \$3-\$5M to simply break through to positive cash flow. Once you have your capital needs figured out, we always suggest that entrepreneurs raise all of the capital in a conservative sales model. We also advocate that all of the projected capital required is raised up front. In addition, raising capital is a full-time job and the last thing you'll have time for when you are in the middle of operating a spirits company.

Presuming you are already operating and fall into one of the categories of a stalling or failing business, here are some very high-level suggestions on what to do. Every situation is, of course, unique, and I am certainly not all-knowing, but I offer this information as a guideline that might benefit a business in need.



HOW TO OPERATE A SUCCESSFUL DISTILLERY BUSINESS AND PREVENT A DOWNWARD SPIRAL

WRITTEN BY SCOTT SCHILLER

WHEN TO KEEP GOING

You have fairly steady repeat orders from distributors in at least two core markets. Diving further, it is important to see that these orders are being fueled by more than one key retailer.

Product accolades are very positive, and this does not include the best of show award from your town's annual festival. Be very critical on this. For example, conduct a blind tasting panel against your competitive set.

Aging inventory is growing steadily, and supply is not an overly limiting concern with true demand. Presuming what is in wood is tasty, it is worth a lot to both the trade and investors/banks/buyers, not to mention this is your path forward for growth.

NEXT STEPS:

Your negatives are both identifiable and fixable. You may have SKUs in your portfolio or strategies you are following that are dragging the overall company down. Having the wherewithal to proactively and selectively self-identify lagging products and/or tactics is crucial in the first step to either pruning your portfolio or changing various operating strategies. As a result, time and capital can be utilized on products and areas best positioned to help your brands grow. Don't forget the importance of packaging design/refresh in this equation.

Dedicate at least one individual 100% to business development. Polish up all of your financials, and outline a very detailed and compelling set of next steps of what you will do with the capital raised, and of course how it will solve your current state. Then work the phones non-stop to meet with as many qualified investors and banks as possible. Do not wait to start this and do not dilly-dally; time is not on your side and, on average, it takes six to 12 months to close an investment.

WHEN TO CONSIDER EXITING

You have taken on personal debt to continue funding operations with no clear path to profitability. This is a death spiral, and you are now risking the well-being of your family.

You, your family, or founding members have yet to take a real salary. Don't cheat yourself, you are a cost and need to earn a living.

Your tasting room sales are the only thing keeping the lights on. While the margins are nice, if you are effectively a bar that has a very nice piece of copper artwork, eventually your place will lose its novelty.

You are still self-distributing in your home market. This is often a case where people are supporting your product because they like you/your story, not necessarily the product itself, and as soon as another personable local distiller enters, you are at risk.

Your passion for the spirits business and your portfolio is outweighed by all the daily negatives. It is hard to stay positive and personable when you are under this amount of pressure, and thinking clearly is virtually impossible.

NEXT STEPS:

If you find yourself exhausted and not able to sustain yourself to press forward, it's time to take a pause and personally reflect on what drives you and determine if your business will meet those internal goals.

Step outside of the business physically and mentally. Become very cognizant of what it will mean to your business and yourself/employees/family if things continue as they are. Presuming your business has some physical assets of note, I'd suggest placing the business up for sale, and at a fair price. There is a slew of entrepreneurs out there that are looking to get into this space, and many would certainly explore paying a premium to bypass the start-up phase. In some scenarios, they may even want to keep founders/employees involved in some capacity. Work with business brokers or industry experts to prepare the business for sale and actively market/target buyers. Be mindful, though, to inform key stakeholders such as vendors/distributors in advance of your activities so that they don't end relationships out of fear, but instead work to help you.

Keep in mind, very few investors are interested in backing a down business, and nobody wants to be the investor who keeps the lights on, not even your parents. Whatever you do, please do not stretch your personal finances too thin. That stress is often unbearable, and your personality and relationships with family and employees will be affected. The stories of Tito and

credit card debt and Fred Smith betting on the roulette table are not models to follow.

As is true with most things, be honest with yourself: Are you a serious operator and treat this as a business, or are you a fanatic with a super expensive hobby? To be very clear, I am not suggesting that our industry is in a doomsday scenario, nor bubble, but if you are in this very

unfortunate predicament you need to be realistic as none of the situations listed above are related directly to competition nor the spirits market; they are instead self-inflicted.

Again, as someone who has lost and made money in this space, I am pulling for you. 

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