Signature Wine Information Centre June 2015

Setting Proper Stock Limits is Critical to Protect Wineries

Canadian wineries have successfully demonstrated that fine grape varieties can be grown in our cooler climate and the results have produced world class wines. To achieve this success the established wine regions have specialized by climate, growing the best suited varieties for their particular conditions.

As the quality and global reputation of Canadian wines has improved, retail prices have risen in step. Of course, higher retail prices is good news for the industry but they also have a direct impact on the Stock Values for insurance purposes.

At Signature Risk we recognize there is more to making wine than simply growing grapes. A winery is a unique and complicated business that requires specialized insurance protection and Signature has created a custom wording that addresses these specific needs. There are many commercial insurance options available to winery owners but not all “wine programs” offer meaningful coverage since many insurers have simply rebranded generic “Food & Beverage” programs.

This article will discuss the important factors to consider when calculating limits as well as highlight specific coverages that will protect winery owners and operators against losses.

1) Calculating Values for Wines in Process & Finished Stock

Signature does not apply Bulk Rates to wines and therefore a precise calculation of Stock for Wines in Process, Finished and Estate Wines is critical because these limits are used in the calculation of the annual insurance premium. More importantly, these are also the limits that will be used in the event of a loss.

At Signature we believe that in order to properly calculate Stock Limits the wineries annual sales must be broken down into one of the four major sales channels; Onsite Sales, Wholesale (LCBO, BCLDB, SAQ, etc.), Restaurant Sales and Exports.

Typically the highest margin sales happen **onsite** but the highest volume of sales is usually through a **distributor such as the LCBO**, who only pay the winery a fraction of the final retail selling price.

Restaurant sales and Exports are also important markets to wineries and most will at least have regular sales to local restaurants even if they have not entered the export arena yet.

Every winery is well aware of the split of their sales through these channels which makes this calculation a relatively easy process to complete.

Here is a simplified example which should help clarify the importance of proper valuation:

Example: 10 cases of 2014 Chardonnay

Wholesale price is $6.95 and the Retail Price is $18.95

1) 100% sold onsite the winery would earn: $18.95 x 12 x 10 cases = **$2,274.00**

2) 100% sold to the LCBO the winery would earn: $6.95 x 12 x 10 cases = **$834.00**

If we multiply the production numbers in the above example by 1,000 or 10,000 you can immediately see the importance of defining the sales channel for the finished wines and its impact on the overall value of the Stock to be insured.

A total loss of Stock in example 2 and the winery will only be entitled to replacement cost or the selling price they would receive from the LCBO ($6.95 per bottle) and not the retail price the LCBO sells the Chardonnay for ($18.95 per bottle). As you can see the Stock Limit in this example is $834 and not $2,274.

Overall wine industry numbers indicate that a typical inventory turnover is in the 0.5 to 0.85 times range. This suggests that a winery with $2 million in annual sales would be expected to have no more than $3 to $4 million dollars in stock.

2) Valuation of Stock in the Event of a Claim

The proper valuation of Stock and Wines in Process is also critical in order to protect the Business Interruption of the winery in the event of a claim. The Signature package includes special provisions for the Valuation of Stock and provides coverage based on the wineries three (3) year average market price of finished stock for wines in process. This coverage is unique to Signature Wine.

Additionally, Signature Wine provides coverage for Vintage, Library and Estate Wines which may be deemed to be irreplaceable by averaging the market listing price of these declared wines from reputable, third party wine merchants.

Coverage from Signature Wine also includes Brands & Labels coverage which provides recovery options to the winery that are not available anywhere else. Our goal is to get the winery back up and running as quickly as possible after a loss.

3) Conclusion

At Signature we understand the unique needs of a winery and built an insurance package that protects the entire operation through all the stages – growing, making and selling wine.

We conducted focused research and worked with leading operators and associations to create a custom policy that will respond when coverage is needed most.

Our team of specialists are here to help.

For More Information

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