



## CHAPTER 9

Establishing overall business management plans - including succession plans for the future - can help considerably to reduce risks and to also assure you are successful into the future.

# Insurance and Business Management Planning

Growers have several options for addressing risks through the purchase of crop insurance and establishing overall business management plans, including succession plans for the future. Both can help considerably to reduce risks and to assure you are successful into the future. This chapter gives an overview of insurance options as well as a few key business planning aspects that may help vineyard owners/managers prevent or reduce risk while ensuring sustainability over time.

### A. Insurance Options\*

Insurance policies provide several options to growers who are seeking protection against risks. Some of the main options for insurance include the following (RMA, USDA, 2008, and Vinewise, Washington Association of Winegrape Growers, 2008, [http://www.vinewise.org/files/documents/Crop\\_Insurance.pdf](http://www.vinewise.org/files/documents/Crop_Insurance.pdf)):

- **AGR** – Adjusted Gross Revenue insurance policy – insures revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. This product is a pilot program and only available in the following California counties: Fresno, Kern, Riverside, San Diego, San Joaquin, San Luis Obispo, and Tulare.
- **MPCI** – Multi-peril Crop Insurance Policy provides comprehensive protection against weather-related causes of loss and certain unavoidable perils. Coverage is available on over 76 crops through the U.S. at 50% to 75% of the Actual Production History for the farm. MCPI coverage provides protection against low yields and poor quality.
- **CAT** – Catastrophic Coverage – pays 55% of the established price of the commodity on crop losses in excess of 50%. The premium on CAT cover-

*\* Information for this section on insurance is partly from the Washington Association of Wine Grape Growers' "VineWise" website and Risk Busters project, which was funded by the Risk Management Agency. We appreciate the WAWGGs' willingness to share this information. For more information visit: [http://www.washingtonwinefoundation.org/index.php?page\\_id=8](http://www.washingtonwinefoundation.org/index.php?page_id=8).*

## Examples of Scenarios for Deciding Insurance Options\*:

**Loss Scenario #1** – When AGR may be the best answer:

- The grower has contracts with winery for substantially higher amount than the price election offered. Can the grower mitigate the risk of \$ loss with MPCCI grape policy?
- Diversification/Multiple crops (some not insurable under MPCCI) – Look at the bottom line for the farm/insuring income from non-insurable crops.

**Loss Scenario #2** – When AGR may not be the best answer:

- Single commodity grower – all income from grapes. AGR has higher deductible for single commodity grower.
- Entity life – New entity does not have 5 years Schedule F equivalent.

**Loss Scenario #3** – When MPCCI may be the best answer:

- Risk Averse – How much financial risk can the grower take with his crop production?
- What are the chances that he will lose the vineyard/farm without protection?
- Minimal crop diversity.

*\*Excerpts from Washington Wine Industry Foundation Risk Busters project*

age is paid by the Federal Government; however, producers must pay a \$300 administrative fee for each crop insured in each county. Limited-resource farmers may have this fee waived. CAT coverage is not available on all types of policies; contact a crop insurance agent for more information. See <http://www3.rma.usda.gov/tools/agents/companies/>.

The choice of an insurance policy depends on the objectives of the grower.

### Possible Objectives of Purchasing Insurance:

- What do I want my crop insurance to do in a bad year? For example:
  - Cover production costs
  - Give security to make marketing decisions even with low/no crop to harvest
  - Provide peace of mind
- What do I want my crop insurance to do in a good year? For example:
  - Guarantee loan collateral
  - Provide security to make marketing decisions
  - Add confidence to my farming decisions
  - Increase my opportunity for profit

A grower should develop his/her own scenarios of situations that might happen in the future, as noted in the **Box 9.1**, and apply the proposed insurance package to the scenarios, to see if the outcome is adequate to meet needs.

The Supplemental Revenue Assistance Payments (SURE) Program was created in the 2008 Farm Bill. In order to qualify for any disaster payments, should such funds be authorized by Congress, producers need to have all crops insured under one of the crop insurance options available through RMA or have coverage under Farm Service Agency's Non-insured Assistance Program (NAP). (See: [http://www.fsa.usda.gov/FSA/newsReleases?area=newsroom&subject=landing&topic=pfs&newstype=prfactsheet&type=detail&item=pf\\_20080716\\_distr\\_en\\_buyin.html](http://www.fsa.usda.gov/FSA/newsReleases?area=newsroom&subject=landing&topic=pfs&newstype=prfactsheet&type=detail&item=pf_20080716_distr_en_buyin.html).)

For more information regarding crop insurance, or to find a crop insurance agent in your area, please visit the RMA website: [www.rma.usda.gov](http://www.rma.usda.gov).

### B. Business Planning: Helping to Reduce Risk and Ensure Sustainability

Business planning is an important part of owning and/or managing a vineyard operation. It is an on-going problem-solving process that can be used to identify challenges and opportunities. New and experienced business owners and managers, regardless of their history or current status, can benefit from business planning. Producers generally prepare business plans to: a) evaluate production alternatives; b) identify new market opportunities; and c) communicate their ideas to lenders, business partners, employees and family (SARE/MISA, 2003). Business planning can also help ensure that potential risks are understood and practices are in place to reduce risks.

As agricultural entrepreneurs become more involved in “sustainable” farming, business planning is more important than ever. Producers considering innovative management practices use business plans to map-out strategies for taking advantage of new opportunities in the market, and to manage financial risk (SAN/MISA, 2003).

“Business planning is a critical component of any operation. Even though a

## Examples of Scenarios for Deciding Insurance Options\* (Continued):

**Loss Scenario #4** – When MPCCI may not be the best answer:

- The grower has contracts with winery for substantially higher amount than the price election offered. Can the grower mitigate the risk of \$ loss with MPCCI grape policy?
- High diversity of crop income (some from non-insurable crops).

**Loss Scenario #5** – When CAT may be the best answer:

- When the grower absolutely cannot afford any insurance premium payment.

**Loss Scenario #6** – When CAT may not be the best answer:

- If a grower cannot accept 27.5 percent coverage for a total loss.

*\*Excerpts from Washington Wine Industry Foundation Risk Busters project*

‘seat-of-the-pants’ approach to farming might work, it takes too long to figure out if a decision is a poor one; you can waste years doing the wrong thing when you could have been doing the right thing,” as stated by Greg Reynolds, Riverbend Farm Owner/operator (quoted in SAN/MISA, 2003).

Before starting to develop a business plan, it is helpful to determine what you want to accomplish from your planning process, and also who will be involved. Generally, business planning is done by a team of key people involved in any operation. A team approach can enrich the effort, and garner support for the plan. People involved in developing business plans often include family members, partners, employees (especially managers or directors), customers, board members, lenders, and/or other experts who may be viewed collectively as stakeholders.

The planning process for an agricultural operation can be categorized in five major tasks which are summarized below (SAN/MISA, 2003). All of these business planning tasks are also important for managing risk and ensuring sustainability in vineyard operations:

1. Identify values – What is important to you?
  - What does it mean for you to be successful?
  - What community, financial, and environmental values are important to you?
2. Review history and assess your current situation – What do you have?
  - Market situation (your products, customers, unique features, pricing, promotion, etc.); cycles and fluctuations in the wine and winegrape market which affect pricing and sales opportunities. (See **Figure 9.1**)
  - Operations situation (physical resources, production systems, management and information systems, etc.)
  - Natural resources (your land/soil, water, air, energy sources, habitat, etc.)
  - Human resources situation (current work force, skills, expected changes)
  - Financial situation (financial needs, performance, and risks)
  - Identify current Strengths, Weaknesses, Opportunities, and Threats (SWOT)



*Courtesy of Bonterra Vineyards.*

## Board of Directors and their Roles in Succession Planning

Professionals with experience in succession planning often advise creating a board of directors, or a formal advisory board for family businesses, which can help provide a forum for communication and strategic planning, and to help solve problems or build stability. The roles of boards vary in different businesses; there is not “one size fits all” for board responsibilities. A winery might choose to have a relatively informal board consisting of a few key advisors who address business issues, or on the other hand, can create a more formal traditional board with legal, advisory, and fiduciary responsibility. In succession planning processes, a board may be able to assist in successor selection, equity discussions among family members and generations, setting policies about family member compensation, performance reviews, and career development. The board may also help to select a bridge CEO in the event of the sudden incapacitation of a key family employee, dispute resolution, and guidance and support. It is also helpful to establish board oversight early in the succession planning process.

3. Identify your vision, and mission, and goals – Where do you want to go?
  - Develop a future vision, mission statement, and goals
  - Set and prioritize goals
4. Develop and communicate your strategic business plan – what routes will you take to reach your goals?
  - Develop a marketing strategy: identify markets, products, competition, pricing, and promotion
  - Develop an operations strategy for production, management, regulations, natural resource management, resource needs, etc.
  - Develop a human resources strategy (see Chapter 6)
  - Develop a financial strategy, including financial risk management, organizational structure, means of achieving financial requirements, long term financial plans, contingency plans, etc.
  - Communicate the plan and strategies to others in your operation and to others who work closely with you (such as lenders)
5. Ensure effective implementation of the strategic plan and evaluation
  - Develop steps for implementing the plan
  - Establish monitoring methods and record keeping
  - Review your plan annually and evaluate progress, strengths, weaknesses, risks, and opportunities, and adjust practices and plans as needed

This list of tasks provides only a general overview of business planning for a farming operation. Yet, carrying out these basic steps in business planning can contribute to a successful and sustainable business, and can also help manage and reduce risks in business. More detail and specific templates for business planning can be obtained from the resources listed at the end of the chapter.

### C. Succession Planning\*

To avoid future financial risks to your winery or vineyard business and/or to your family, and to help ensure sustainability and success of your business over time, it is important to develop a clear plan for succession. Lack of succession



planning can be a major problem – contributing to significant uncertainties, friction among family members, and/or financial losses for a business. Although many people avoid planning and instead adopt a “wait and see” attitude, this type of unplanned approach can lead to difficulties in any business. Succession plans have proven to be helpful to avoid such concerns - whether you intend to keep the business in the family, or sell it to a third party.

The development of an effective succession plan usually includes the following elements or steps:

- Agree on a formal or informal timeline for succession
- Establish a strategic plan that includes financial plans and guidelines for the transition
- Complete an exit strategy, including estate and tax planning; ensure sufficient liquidity to pay taxes and other expenses
- Establish a board of directors, and successor(s), if appropriate, and identify their roles in the current business, and for the succession process (see Box 9.2)
- Identify and/or hire advisors to help with the succession process (such as a CPA, attorney, M&A advisor, banker or family business advisor), if needed
- Develop family continuity plans, defining family business policies
- Review, identify, and disclose clear roles and responsibilities in the succession plan, including roles of spouses and members of the family who are not involved in the business; and if needed, develop contracts that define those roles

If you plan to sell your winery or vineyard, additional factors identified below need to be analyzed and planned carefully as part of your succession plan, to enable a successful sale with the highest possible return:

- Clean up financial records, such as separating family cash flow from business cash flow
- Realign strategic and non-strategic assets (e.g. some business assets may be separated from the assets for sale; some may be set up to be kept in the family)
- Solidify key relationships (e.g. grape contracts, distribution, consultants, management team)
- Clarify and plan banking arrangements (e.g. loan agreements, covenants, prepayment fees, due on sale clauses)
- Plan tax arrangements (e.g. estate plan, deal structuring, positioning other owners' assets for the best after-tax return)
- Plan licensing (e.g. Alcohol and Tobacco Tax and Trade Bureau (TTB), bounty, zoning ordinances, changes not grandfathered to the next owner)
- Address problematic real estate issues (e.g. vineyards near the end of useful life, not planted to newer clones, inadequately positioned, etc.).

*\*Information in this section is summarized from “Ownership Transitions in the Wine Industry,” Silicon Valley Bank, January 2008.*

Lack of succession planning can be a major problem - contributing to significant uncertainties, friction among family members, and/or financial losses for a business.

## References and Resources

*SAN/MISA, 2003. Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses. Sustainable Sustainable Agriculture Network, and Minnesota Institute for Sustainable Agriculture. Beltsville, MD, and St. Paul, MN. The website for the publication is: <http://www.sare.org/publications/business/business.pdf>*

*[http://attra.ncat.org/attra-pub/agriculture\\_planning.html](http://attra.ncat.org/attra-pub/agriculture_planning.html)*

*[http://www.agmanager.info/farmmgmt/planning/Building\\_a\\_Plan\\_for\\_Your\\_Farm.pdf](http://www.agmanager.info/farmmgmt/planning/Building_a_Plan_for_Your_Farm.pdf)*

*For further details and advising on succession planning, please see: Silicon Valley Bank (SVB), 2008 Ownership Transitions in the Wine Industry: Obstacles and Strategies for Success. SCV Wine Division, 899 Adams St, St. Helena, CA 94574, Phone 707-967-4825 [www.svb.com](http://www.svb.com), Scion Advisors, 1339 Pearl St, Napa, CA 94559 phone 707-258-9130, [www.scionadvisors.com](http://www.scionadvisors.com)*

*For further information on insurance and other risk management tools for farming operations, please refer to the Risk Management Agency website: <http://www.rma.usda.gov/pubs/>*

Figure 9.1 “Wine Market Wheel of Fortune”



It is important for both growers and wineries to understand the fluctuations and cycles in market conditions that are described as “manic and depressive” by Turrentine Brokerage. These cycles are influenced by supply and demand of grapes and wine, and other economic and climate-related factors. These changing conditions can create significant risks in the market for growers and wine buyers. At the same time, recognizing this cyclical situation can help people make effective marketing plans and mitigate risks. (For details, see: <http://turrentinebrokerage.com/index.php?T=Manic%20Depressive%20Wheel>).