

Expansion: The Accounting Perspective

Part 1

by Mary Brettmann, Beverage Business Builders

You have arrived! People keep asking for your product, and distributors are romancing you, telling you that there's a ready market for your beer in some far off territory. You begin to think that maybe you can be a regional or even a national player. What does that mean from a capital standpoint? Do you have the stomach to increase the bank loan by THAT much? How many people do you need to hire? How does that change the company culture?

Welcome to the phase of expanding company; expanding issues.

Sales Issues

You can't be everywhere all the time. That means that you have to start tracking where the product is and how it's doing. You also have to add a sales force. That means that suddenly you may have employees in a different states. How do you keep track of what they are doing and how your accounts are doing? Most manufacturers do not self-distribute outside of their state. Now you are no longer touching your end-customer and that brings out a whole host of issues. How does that affect the brand? You are starting to enter new markets and are now subject to new taxes. Multi-state taxation is a tricky prospect because each state and taxing entity has different ways of doing things. Some transactions that are tax-free in one place are taxable in another.

- **Sales Plan** – You'll want to draft a sales plan. Is the goal to become a regional player, or even a national player? That sales plan will include territory discussions as well as data discussions. Sales decisions are ultimately driven by data. Therefore, it's imperative to set up sales data collection and analysis.
- **CRM** - Monitoring sales staff means utilizing some sort of Customer Relationship Management (CRM) system. That way you can track the visits to end-user customers and survey placements in each location.
- **VIP (Vermont Information Processing)** - Selling via distribution cuts the manufacturer off from valuable retail data. A VIP subscription will bring that information to your fingertips.
- **Forecasting** - many decisions are based upon a sales plan. Establishing a forecast is critical to long-term success.

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Human Resources Practices

Chances are that you haven't hit the magical number of 50 employees yet. That's the level at which a whole lot of rules and regulations apply, and you need the help of an Human Resources (HR) professional who can navigate the complicated HR world. For now, it is enough to setup the basics so that you have good archival practices and can survive any audit.

- **Policies and Procedures.** Now is the time to write out what the HR policies are. You don't have to invest in an employee manual just yet (but it's not a bad idea).
- **Document, Document.** Employment is a contract between the employer and the employee. Now is the time to properly document the beginning of the relationship (via offer letter), status of the relationship (review), and the ending of the relationship (termination process).
- **Good filing system.** Make sure that you have good filing system. Will your employee records stand up to scrutiny?
- **Benefits.** Take a hard look at your philosophy regarding your employees. What kind of company are you? Do you want your employees to remain with you long-term? Who is your competition for benefits and employees? Most companies at this stage begin to offer a more complete benefits package. How do you want to weather the coming increases in healthcare costs? Is the monthly allocation of beer to employees a real benefit? What about merchandise/food/beer gift cards?
- **HRIS (Human Resources Information System).** At some point it makes sense to invest in an HR information system. That is a fancy word for cool, connected databases and a sleek employee web login.

Do You Need an Audit?

Expansion financing typically leads an owner to ask this question. As the company increases debt on the books, the bank will typically want to have some assurance that the financial statements will stand up to an auditor's inspection. Don't panic. You will see the need for an audit two or three years before a public accountant knocks on your door. That being said, there are things that need to be looked at and addressed as you grow from you preparing the financials, to a compilation, to a review, and finally to an audit.

- **What do the stakeholders want?** With growth comes additional stakeholders. As they invest in your company, they will want increasing assurance that the books and records are correct.

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- **Setting up the books and records for review or audit.** Making changes to the accounting system before an auditor knocks on your door will eliminate a ton of stress.
- **Policies and Procedures.** If you have not documented your policies and procedures, now is the time.

*For additional information about Logistics, Materials Resource Planning, Coordinated Forecasting, and Long-range Planning, look for **Expansion: The Accounting Perspective - Part 2.***

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