

**Brewers Guild of New Zealand
Treasurers Report
Financial Year Ending 31 March 2016**

Annual Accounts Commentary

The financial year ending March 2016 saw a weakening in the financial position of the organisation as the Committee focused on delivering service to its members, as opposed to accumulating cash reserves. Total income derived across all income streams was \$302,257 and a shortfall income was felt by the inability to attract a principal sponsor to the 2015 awards dinner. Total direct expenditure to the organisation totalled \$259,708 and comprised of expenditure associated with the four key deliverables of the Guild being: the Awards Dinner, Awards judging, Trade Show and Conference, and Education for members. Total operating costs of the ongoing function of the organisation comprised of \$129,107. This resulted in a net deficit of (\$84,878) for the organisation for the financial year.

The Balance Sheet also weakened, with cash reserves decreasing as a result of both the increased spending and the increase in accounts receivable - as members increased the slow speed in which they choose to pay their membership fees to the organisation. The Balance Sheet was further weakened by the writing off of the 'Choice Beer Week' brand and website that was carrying forward on the balance sheet. This was due to this asset now having a \$nil valuation as it is superseded by the 'Road to Beervana,' which the Guild has no ownership of.

In summary, the organisation has felt challenged from a financial perspective for the last financial year, as it needs to spend to show value to its membership but also needs to charge greater membership fees to financially sustain such an increase in value. In this year the organisation made the decision to create value for its members with increased spending in order to showcase the potential it has for its members and the industry as a whole. Moving forward it will need to become better resourced and show a higher level of professionalism to service what is now becoming a significant industry in the New Zealand economy.

Segment Reporting

To further extrapolate how this net deficit was derived, a segmented Profit and Loss statement has also been prepared to give a better understanding of the various income and expenditure segments of organisation.

Awards Dinner

Awards dinner income comprises of two main income streams, being dinner ticket sales and sponsorship, and totals \$113.6k. 'Sponsorship' is made up of all the category sponsors and was down considerably on previous years due to the inability to source a principal sponsor for the 2015 awards. Total direct awards dinner expenses were \$134.3k and are made up of: event management fees, venue hire, catering, audio visual services, MC and speakers fees, design, logistics and all other expenditure incurred to deliver the awards dinner and

ceremony. This expenditure is also slightly overstated this financial year as the first deposit for the 2016 awards dinner of \$7.8k was charged and paid in March 2016. The net result is that this activity segment derived a net loss of (\$20,686).

Awards Judging

Awards judging income was derived from all fees charged for entering beers in the awards and totalled \$92.0k. The direct costs of the awards judging totalled \$62.3k and was made up of: venue hire, accommodation travel and catering for judges and stewards, IT support for awards online application form and all logistics and associated costs with judging the beers entered in the 2015 awards. This resulted in a net surplus for the organisation of \$29,734.

Conference, Trade Show & Mashing In

There were two predominant income streams for this segment as the Committee focused on keeping all of these deliverables complimentary and free of charge to its membership in order to continue to provide value to its members. Sponsorship consisted of Mashing In sponsorship and a new category of sponsorship being Industry Seminar Lead sponsor. The Trade Show/ Conference income was generated from charging exhibitor's fees to exhibit. This income stream is understated compared to the number of exhibitors, as all awards category sponsors were allowed a complimentary trade show space as part of their category sponsor package.

Total expenditure for this segment totalled \$44.5k consisted of: venue hire, catering, speakers' fees and gifts, event management fees, design and merchandise costs.

This segment derived a net deficit of (\$19,702).

Three in One – 'The Awards Weekend'

To an extent the above-mentioned three segments ('Awards Dinner', 'Awards Judging' and 'Conference, Trade Show & Mashing In') need to be viewed as one large segment of the overall delivery of the Brewers Guild of New Zealand Awards weekend, as all functions are largely intertwined as one greater service deliverable and there is a lot of cross over in income and expenditure over these three segments. On aggregate the above three segments derive a net deficit of (\$10,654).

It is the Committee's goal to make this function self-funding and breakeven. Although this was not achieved this year, if the committee organisation had secured a principal sponsor for the 2015 awards dinner then this goal would have been comfortably realised and all of the above segments would have been entirely self-funding.

Core Business

The core business activities of the organisation derived a net deficit of (\$56,639) and is the greatest concern for the financial viability of the organisation. The income generated in this segment is far less than the expenditure derived.

Income is derived from direct membership fees totalling \$67.7k and a small amount of website advertising income and interest income.

Expenditure totalled \$127.2k and is clearly unsustainable compared to income. Thus, I feel this needs a line by line commentary as there are a lot of great deliverables coming from this core function.

- Accounting Fees – Standard annual accounts fee and Xero fees.
- Bank Fees – Predominantly Paypal fees and an area where efficiency could be gained.
- Benevolent Fund - We proudly made benevolent advances to a number of members who had either been in accidents or had suffered personal loss. A number of these donations were in support of established 'Give a Little' campaigns.
- Development Fund – One successful development fund application was 'advanced funds'. This was to Cryer Malt to assist in their efforts to send NZ brewers to the Oregon Beer Festival to grow the awareness of NZ beers in the United States market.
- Executive Committee Expenses – All meeting costs including travel, accommodation, catering, conference call fees etc.
- Executive Officer Fees – All costs incurred for one paid administrator including time charged and all disbursements.
- Keg Amnesty – Fees incurred in Keg Amnesty program.
- Legal and Advocacy Expenses – Contribution to 'Cheers' (Responsible Drinking Campaign) and the ability for our Members to use the 'Cheers' brand and website on their packaging/marketing materials.
Contribution to costs incurred for a joint legal opinion with the Brewers Association on the topic of "Beer Composition and Innovative Ingredients – Compliance with Legislation."
- Market Survey Fees – Survey Monkey costs for campaign with immaterial membership contribution.
- Other Beer Festival / Awards Expenses – All costs incurred to send 115 Entries to the AIBA awards complimentary to their membership, and assistance to Dunedin Beer Fest to reference BGNZ medal in their festival programme.
- PR Consultancy – All public relations carried out throughout the financial year to increase the awareness and positive story of the beer industry. The Chairman's report will discuss this material cost at more depth. An amount of this should really be attributed to the awards segment as a large piece of this cost is around leveraging the public knowledge of the BGNZ Awards.
- Sponsorship – Sponsoring the New Zealand Homebrewer's Conference to benefit the growth of the industry.
- Website, Graphic Design and General Marketing – Ongoing brand and website costs.

Education

This is an area that the Committee decided to invest heavily in to attempt to turn the increasing cash reserves as at March 2015 into delivered value to the members.

The segment resulted in a net deficit of (\$17,586) after a small amount of income was generated - this being \$2.9k from food safety courses, and total expenditure derived across all deliverables was \$20.5k. I feel the best way to explain this deficit is to discuss all the education pieces that were developed and delivered. At times it was disappointing to see

the low take up and engagement received by the membership as considerable time and costs was incurred in developing these offerings.

- Sensory Analysis & Awards Judging Seminars – Held by Craig Bowen & Brian Watson in in Christchurch, Wellington and Auckland and complimentary to members.
- Food Safety Programme Courses – These were held by Barbara Harnett, and the Guild attempted to run courses across Christchurch, Wellington, Nelson, Auckland and Rotorua. We received engagement to run these in Christchurch, Nelson and Auckland and we had close to 20 members partake. This was an excellent introduction to our members regarding our regulatory requirements. Since then the Food Safety Programme Template has been amended to reflect the regulatory requirements of the new Food Act 2014 which came into force in March this year. The template has also been reviewed by an MPI approved National Programme assessor to ensure it meets all the requirements of the new Act. Members should be aware that the Brewers Guild NZ National Programme Level 3 Template is available to them for no charge. Should members require further assistance in the implementation of this programme, the template development consultant, Barbara Harnett (bharnett@xtrao.co.nz) can be engaged to help. Members will receive a 10% discount on consultancy fees.
- Development of Labelling Guide – Commissioned consulting and legal providers to develop a labelling guide that was circulated complimentary to all members to be used when developing new labels.
- Arranged discount scheme for Members to attend the 2015 Australian Craft Brewers Conference.
- Circulation of ‘Selling Beer Online’ Guide – Prepared by Rodney Craig and Minter Ellison Rudd Watts circulated to all members from the Guild.
- NZ Hops Tour – The Guild arranged an educational tour of NZ Hops processing plant in March.
- Yeast Q & A with Chris White – Seminar in Nelson before Marchfest with Chris White exclusively addressing the Guild Membership.

Since the *Health and Safety at Work Act 2015* came into force on 4th April 2016, the Guild have held a number of nation-wide Health and Safety workshops which has been a major Health and Safety initiative for the Guild during the 2017 financial year.

The Guild has engaged Kay Bradley, a health and safety consultant based in Nelson. To date, workshops have been held in Auckland, Christchurch and Nelson with 23 breweries represented by approximately 50 management and workers who attended the workshops. Kay is currently working with another two breweries.

In addition to these workshops, Kay provided a Health and Safety Management System for each brewery, with coaching on the use of it either over the phone or at the workshops. The Brewery Health and Safety Management System is available on request to current members free of charge. Kay is also available to answer any Health and Safety questions from members.

Education as an extension of Core Business

To an extent education should really be considered as an extension of the Brewer’s Guild’s core business. If these two segments were considered together as the organisations core

business then it would, on aggregate, derive a net deficit of (\$74,224) and is currently unsustainable.

Summary

In summary, from a financial perspective the level of services being delivered is not financially viable for the ongoing sustainability of the organisation given the current level of income. However, I feel this level of service and delivery was required throughout this financial year to showcase to the membership the potential the organisation has to be of benefit to its membership if it was fully resourced.

The membership needs to derive increased levels of revenue if it wishes to continue to deliver the current level of core services. If the membership wishes to continue to receive this level of deliverables, then the membership fee rates have to increase to a point where they are at least covering the core business running costs of the organisation.

I also feel there is a level of financial efficiencies to be gained in the organisation, however this can only begin to be explored once the organisation is at a level of financial viability where it can appoint at least one full time staff member to begin to address and explore these opportunities. Finally, it is my observation that there is a considerable amount of intangible value being derived from the organisation via the donation of the Executive Committee's voluntary time. It is apparent that the committee (in particular the Chairman and President) are contributing significant amounts of their personal time to the ongoing viability of this organisation. If the organisation was to quantify this intangible cost into an hourly consulting fee, then the financial viability of the organisation would be a considerable concern. I feel the organisation's current ability to operate has too much reliance on attracting and retaining volunteer committee members to carry large workloads free of charge in their personal time and that this is a significant risk factor for the organisation and should be brought into consideration when determining the future direction of the Guild.

Matt Stevens CA

Treasurer

Brewers Guild of New Zealand