

In Wine There Is Value... *A Single Brand is Worth a Thousand Mass-Produced Wines*

By Joseph Ingrassia

One niche wine company solved its "cash crunch," tripled sales and built brand equity with a little help from its lender: Capstone Business Credit. The lender's affiliate Capstone Trade Partners was able to provide a purchase order finance/trade finance agreement with the small wine company, which boosted its sales and customer base in no time.

In 2003, Peter Matt & Company, Inc was a national wine marketing company dedicated to building brands with distribution in a handful of states. Prior to a recent Supreme Court ruling, the interstate sale of wine was strictly prohibited. This barrier to competition limited the number of brands a distributor in a given state could offer. Only the most popular brands, which had significant capital support, could penetrate all 50 markets and comply with state regulations.

Barrier to Competition: Build a Niche Business

This had a chilling effect on niche brands, which are grown on smaller estates or blended at smaller wineries throughout the world. As a solution, Peter and Barry Matt, the founders of Peter Matt & Co., believed that by focusing their energies on a limited number of product lines from smaller estates, they could build brand equity for the company and its suppliers over the long term. The company's strategy for long-term growth included offering greater security to its suppliers through the promotion of their production in large metropolitan markets in the U.S. A larger wine distributor could not take the time and resources to commit the same effort as Peter Matt & Co. could in promoting these smaller brands.

The market for the limited edition wine products remains with smaller restaurants and liquor stores, which focus a good portion of their sales on unique wines from smaller estates. This focus separates the wine products offered through both the restaurants and the selected liquor stores

from large chain rivals, which offer a variety of well-known brands. In most cases, a smaller section of their stores are dedicated to smaller brands.

Non-Traditional Wine Regions: Selection and Tailor-Made Marketing

The smaller suppliers and wine estates are carefully chosen based upon their ability to fill a niche in Peter Matt's wine products portfolio. This focuses the company's marketing efforts by eliminating domestic competition and builds trust with the various wineries, estates and suppliers. This supports the company's philosophy that a single brand is worth a thousand mass-produced wines.

Peter Matt & Co. was astute enough to capitalize on the trend of consumers experimenting with wines from non-traditional wine producing regions of the world, while other consumers were trying wine for the first time, and others were becoming more familiar with exploring wine drinking. Creative marketing focused on these trends and was directed at bringing specific vari-

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eties and wine products to these groups. The company not only carries top quality, value-oriented wine, but also supports them by investment in comprehensive marketing programs. Each marketing program is designed in collaboration with the company's chosen distributor and their representatives to be sure customers get what they need to establish the brands in their market.

Expand Distribution to Create 'Cash Crunch'

In January 2004, Peter Matt was approached by Monarchia International, Inc, to consider a business combination. The strategic alliance was clearly in line with Peter Matt's business and marketing approach. Monarchia is a Hungarian-based winery with several niche products suitable for distribution in the U.S. and had the capital to support the niche marketing strategy of the Monarchia brands.

In April, Joern Tittel was hired as CEO of the newly merged, Monarchia International, Inc & Peter Matt & Co., Inc to oversee and strategically lead the global, vertically integrated wine production, import/export and distribution facilities under the Monarchia International umbrella. As CEO, his focus was on brand building in order to facilitate equity return for investors. The challenge Tittel faced immediately was the need for capital from all aspects of his supply chain.

Because of the niche focus of the Peter Matt strategy, Tittel was now dealing with smaller suppliers with niche brands, any of which needed financing to produce their product and bottle them for sale in the future. This similar problem severely limits the estate or winery's ability to sell their wine because smaller wine distributors are the target market for these smaller brands. Most small wine distributors are also thinly capitalized, a major problem for Tittel in organizing supply and promoting the various portfolio products in the U.S.

He had two challenges, which needed to be addressed immediately before the Peter Matt strategy imploded on itself. The first

challenge was to establish distribution in more than the handful of states Peter Matt had developed. The second was to figure out how to pay the wineries and estates for their production, have it delivered to the U.S. and distribute it to those customers who developed markets for the niche products.

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Working Capital Infusion: Supports Supply Chain

In July, Tittel met John Rice of Capstone Business Credit at a wine tasting event in Westchester, NY. Capstone Business Credit has an affiliate — Capstone Trade Partners, Ltd. — that acts as a trading company. Capstone Trade has an ATF license to import wines and spirits, and had established a license agreement with an Argentinean winery, which produced a Malbec and a Cabernet Sauvignon. Tittel, while working for a previous company, agreed to distribute the wine in the U.S. Once he joined Monarchia and Peter Matt, Tittel integrated the Simonassi brand into his portfolio. He then asked Rice if he would consider providing supply chain financing to Peter Matt and Monarchia. From Capstone's point of view, the business plan had a lot of merit.

By November, Capstone had underwritten a purchase order and trade finance facility complemented by a factoring facility for Monarchia and Peter Matt. Sales for calendar year 2004 for Peter Matt totaled \$2.1 million and \$5 million for Monarchia. With the assistance of the PO funding facility and the factoring facility, sales more than doubled for Peter Matt reaching \$2.7 million and \$10

million for Monarchia for calendar year 2005. Results were even better in 2006 with Peter Matt increasing sales to \$7.6 million and Monarchia doubling its sales to \$21 million.

As a cash buyer, Tittel was able to structure a series of discounts off of the cost of goods with his suppliers and estates for all products he purchased. Peter Matt, in the past, had to work out payment arrangements with the wineries, which is often the case when smaller companies are selling a third-parties' product. The wineries realized the benefit of receiving a cash payment for their product early in the sales cycle, and Tittel was able to pass on the cost of the PO finance/trade finance facility to the supplier through the discount to the cost of goods he received as a cash buyer.

The sale of wine and spirits is a highly regulated business, and the states have very specific rules regarding payment for goods. The rules in place are a factor's dream. No consignment sales and all accounts must pay their bills in 30 days or less, or they risk being placed on COD statewide with all of their suppliers — a death knell to their business. Collection risk is limited and dilution is minor, and is only a result of damage to a case of wine.

Monarchia and Peter Matt are further proof of the benefits smaller companies gain by working with a vertically integrated merchant bank such as Capstone Business Credit. Its clients are able to access capital to support their supply chain financing needs and marketing efforts, which result in impressive, continuous growth in a measurable way. **abfj**

Joseph Ingrassia is managing member of Capstone Business Credit, a New York City-based venture merchant banking firm, which provides working capital and structured financing to small businesses — with typical sales of less than \$100 million — that are involved in the domestic and international trade of finished consumer and industrial products. For more information, visit www.capstonetrade.com.

