The wine industry has come a long way since the Monks innovated the art of wine making during the Middle Ages.

With this evolution, Risk Management, as both art and science, has become increasingly more important. By contrast to the early years of viticulture and enology, today’s modern winery must contend with a complex variety of human, economic and natural threats to their survival.

As wine sales and popularity continue to grow in the USA, 'enterprise-wide' risk management becomes a worthy investment in time and money.

Wineries have many unique risk characteristics, spread across their entire enterprise, including

- Agriculture
- Manufacturing
- Retail
- Wholesale
- Hospitality

Yet they often face the dilemma of having to match their individual exposures to packaged insurance products vying for their business. How can they be certain for the proper protection of their businesses? It starts with proper broker selection.

Effective risk management as a process requires a consultative and collaborative environment to thrive. In this process, the broker should thoroughly understand the nature of his clients’ business and be driven towards results. Think ROI, as there is clearly an investment here, in terms of each clients’ time and money. These results should be clearly defined at the onset of the business engagement, and measurable. The broker’s role is to facilitate the resources required for his/her client to meet these key objectives. Today’s business owners should seek to find a broker or risk management consultant who provides a truly consultative risk management approach, rather than merely a transactional insurance process driven primarily by the sale of products. The former is proactive and engaged down the time continuum ... the later resides 'in the moment', and is reactive by comparison.

To be truly effective, the broker will deliver measurable results, utilizing specific metrics like Total Cost of Risk (TCOR) to validate. TCOR is a process taking into account the indirect as well as direct cost drivers to create a ratio of all risk management expenses, against sales. This ratio can be charted over time to illustrate the success of the organizations’ risk management program, and the value the broker has effectively delivered to her clients’ bottom line. To eliminate the inference of bias towards insurance products, the broker may offer a ‘performance based’ compensation arrangement around the TCOR concept, taking commissions out of the equation entirely. Now you’re talking ROI!

Management by Objective (MBO) ... truly fundamental old school thinking ... right? Let’s apply the principles to risk management. Here is a process whereby we identify threats to an organization, Determine how to deal with these risk exposures, Implement a strategy which best fits the risk appetite of the business, Monitor and Modify results over time. Measurement of results is imperative, if we are to achieve ROI.
To best IDENTIFY threats to an organization, the consultative broker will assemble a strategic team from across the insured’s enterprise. CEO, CFO, operations, vineyard, cellar, environmental health & safety, logistics, sales, etc., are all at the table. A risk matrix should be created to develop a hierarchy of risks and to give priority to those threats with the greatest magnitude.

The broker will want to develop a working knowledge of his clients’ operations, taking time to personally inspect and review facilities recognizing workflows, interdependencies, and exposures inherent in the operations. Checklists can be employed as well, for the broker to assure the client of general industry exposures, and help make informed choices around risk management techniques to deal with the totality of risks involved. In summation, the ultimate goal of risk management is the reduction of uncertainty. In a broader sense, the broker is responsible for the sustainability of his client’s enterprise with brand and reputation at stake from a variety of threats.

Some examples of risks for wineries to consider:

- Resources such as power and water
- Product Tampering/Product Recall/Crisis Management
- Earthquake
- Flood
- Cyber- Privacy/Network Security/Crisis Management
- Intellectual Property- Trademarks, Copyrights, Patents
- Media Liability
- Dependent Properties-bottles, corks, labels
- Pollution

DETERMINING how to deal with these risks comes next in the process with insurance recognized as the last step in effective risk management. A variety of mitigating measures come before insurance such as avoidance, separation, retention, or contractual risk transfer. Ideally, the risk management program will blend retention and risk mitigation for routine incidents, with insurance for major issues and catastrophic protection.

IMPLEMENT the desired program ... with ROI in mind! We’ve covered the fundamentals above, and can now move forward to achieve performance based results. The broker should act as a performance coach, to help drive results across all aspects of the program, as previously stated. One area of greatest potential cost, or opportunity, is workers’ compensation. This is likely the most controllable cost within any winery’s risk management program, and yet requires a dedicated approach to be successful... from targeted loss prevention and control activities, through aggressive claims administration. Workplace injuries impact human health and safety, as well as the bottom line -- and yet they are avoidable. We know from empirical data, that workplace accidents are 90 percent or more due to human behavior. Less than 10 percent of workplace accidents are attributable to hazardous conditions or equipment. With this in mind, your business culture will be critical to success over the long term and should be cultivated to ensure success. A roadmap to success will include ongoing leadership training for managers and supervisors, empowerment of the employees through Behavior Based Safety training, and ultimately accountability by all -- as safety is a shared responsibility.

VIOLA, there’s equity to be found for working smart! While a variety of traditional insurance markets specialize in the Winery business, such as CHUBB, Firemans Fund, and Travelers, the larger wineries may choose to look at alternatives to the traditional markets.

Alternative Risk Financing has become increasingly popular for “Best in Class” companies in any industry today. These alternatives are considered loss sensitive, as your loss performance is directly tied to your premiums. The loss sensitive programs most utilized today are Large Deductible programs, and Captive Insurance programs for Workers’ Comp, General Liability and Auto exposures. For the largest companies, there is potentially Self-Insurance as an option as well. Each of these alternative programs offer the insured the unique opportunity to share in the profitability of their success from within their risk management programs, and afford substantial ROI potential if managed effectively. The best candidates will have demonstrated solid financials and a proven track record over time within the performance of their risk management program, such that there is predictability in the loss patterns. Wineries are particularly well suited for these alternatives, and are attractive to many underwriting companies and group captives.
MONITORING AND MODIFYING your program for success are the final steps in the risk management process. Your broker should be keen to seeking out new risk financing opportunities along the way. For example, why not create a profit center out of an ordinary business expense ... the cost of insurance? For years, the Fortune 500 and other large companies have utilized captive insurance programs within their risk management structure. Here’s where employing MBO will achieve ROI for the long term, in a program to improve cash flow, gain certain tax advantages and earn equity for your collective efforts! It’s a paradigm shift from “buying insurance”. Dividends can be utilized for a variety of purposes, including incentives and estate planning. Your broker should be prepared to explore risk financing alternatives beyond the traditional programs, and provide a feasibility study for you to make informed choices.

Finally, there are the ‘bricks and mortar’ issues still within the proverbial box. Here are some of the more generic aspects of the insured’s current or potential insurance program, including:

- Building and Tank values
- Bulk and bottled wine values
- Equipment values- Process equipment/EDP
- Business Interruption/Extra Expense exposure
- Management Protection Liability
- Automobile
- Aviation
- Injury and Illness Prevention programs, etc
- Business Continuity Planning (Emergency Response/Disaster Planning)

These items need to be audited and analyzed periodically, alongside of the current risk matrix, to assure the risk management program is effective in terms of stated management objectives, TCOR, and ultimately yields a positive return on investment.

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