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## MORE VINO LTD.—EXPANSION PROPOSAL

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*Julie Gosse wrote this case under the supervision of Elizabeth M. A. Grasby solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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It was late March 2017, when Arthur Greenway reviewed the TT\$600,000<sup>1</sup> request for additional funding to help finance the renovation of an outdoor patio area from Christian and David Stone, founders of More Vino Ltd. Greenway was an accomplished businessman, shareholder and silent partner of More Vino, a wine retailer located in Port of Spain, Trinidad. Greenway, along with his investment partner Ross Moore, had provided a major portion of the start-up capital for the Stone brothers to open the business. Since then, More Vino had grown in popularity and was now considered the newest local hot spot for food, drink and entertainment. Greenway believed More Vino was a good investment, and he knew that Christian and David were relying on him and his partner for funding, but he was uncertain whether lending additional capital at this time was the best thing for the business.

### TRINIDAD AND TOBAGO<sup>2</sup>

The Republic of Trinidad and Tobago comprised two islands located at the southern-most end of the Caribbean, 10 kilometres from the east coast of Venezuela (see Exhibit 1). Trinidad, the larger and more populous of the two islands, had an area of 4,800 square kilometres and a population of 1.3 million. Tobago was 32 kilometres off the northeast coast of Trinidad with a substantially smaller area (300 square kilometres) and a population of just over 54,000. The Republic was primarily English speaking, with 40 per cent of the population being of African descent, 40 per cent of Indian descent, and the remaining ethnic mix a combination of European, Chinese or Middle Eastern ancestry.

While Tobago was the centre of the Republic's booming tourism industry, Trinidad was an industrialized island with a diversified economy based, to a large extent, on oil and agriculture. In the past 10 years, the country had shown consistent growth in its tourism and service industries. Trinidad was equally known for its cosmopolitan lifestyle and many festivities. The capital city and centre of government, Port of Spain, was the epicentre of business activity and the Republic's major financial hub. It was also host to Carnival, a ritual over 150 years old, where partygoers (locals and tourists) participated in a widespread week-long

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<sup>1</sup> All funds are expressed in Trinidad & Tobago dollars. CA\$1:TTD\$5.80 (approximately).

<sup>2</sup> The information represented in this paragraph was largely comprised from material accessed from the Trinidad and Tobago Tourism Development Company, [www.tdc.co.tt/index.htm](http://www.tdc.co.tt/index.htm) and Welcome to Trinidad and Tobago [www.visittrnt.com/index.asp](http://www.visittrnt.com/index.asp).

celebration with elaborate parade costumes, dancing and singing to native calypso, soca and steel band music. Overall, the Republic exhibited and celebrated a vibrant cultural heritage, expressed through dance, music, art and cuisine, originating from the mix of different ethnic groups.

## **COMPANY BACKGROUND**

### **The Stone Brothers**

Christian was the eldest of the two Stone brothers. Born and raised in Trinidad, he had always had aspirations to be an entrepreneur. Christian came to Canada to complete his university education, where he graduated with an honors degree in business administration from the Ivey Business School at Western University. Upon graduation, Christian moved back to Trinidad to explore a number of entrepreneurial ventures that he and his brother could pursue as co-owners. David also graduated from The University of Western Ontario with a degree in economics, and he joined Christian in the search for a viable business opportunity.

Although he had lived outside of Trinidad for a number of years, Christian remained interested in returning home to start a business. Through his travels, he had observed that there remained a large disparity in Trinidad's standard of customer service and the service he had experienced in other parts of the world. Consequently, he believed there was a unique opportunity to combine a more advanced concept of service with the traditionally relaxed attitude of the Caribbean, and he therefore sought to incorporate this competitive advantage into his own entrepreneurial venture.

### **The Opportunity**

While in Ontario, Christian had become familiar with the province's beverage alcohol industry and noted that wine sales, in particular, represented a major portion of the market. Christian had also visited a number of Canadian bars and restaurants that specialized in mass selection and specialty vintage wines to accommodate their customers' growing appreciation for wine and wine culture.

In Trinidad, locally made rum and beer tended to dominate sales; however, with rising income levels, premium imported products were gaining in popularity. Individual consumers could purchase wine and other alcohol products at bars, restaurants, grocery stores, variety stores or at one of the few specialty retailers on the islands. Commercial consumers could source their large orders from a few well-established distributors. Although liquor was widely available through these many channels, there were few retail establishments in Trinidad that specialized exclusively in imported wine and wine products. The Trinidad and Tobago retail market for wine was estimated at TT\$48 million with considerable growth anticipated for the next five years.<sup>3</sup> Sensing the opportunity to meet an emerging market need, Christian believed that he and David could build a successful wine-retailing business emphasizing good service and unique entertainment.

More Vino's original entry into the market was the establishment of a dedicated liquor store to serve both retail and wholesale customers with exclusive brands and the widest variety of wines available in the country. The business would operate four subunits: wholesaling and distribution, a retail store, a bar and restaurant, and a delivery service. The retail store business was deemed necessary to appeal to individual consumers, but the brothers believed that the greatest portion of revenue would come from wholesale accounts, such as hotels and restaurants, that carried extensive inventories of wine and required large quantity orders.

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<sup>3</sup> Information obtained from the More Vino business case, prepared by David Simpson, for Ivey Management Services, 2007. Source: The Trinidad and Tobago Central Statistical Office.

## Arthur Greenway

Arthur Greenway, a family friend to the Stones, was the vice-president of a global consumer beverage firm and an accomplished businessman. Given his breadth of knowledge and experience, the brothers were grateful for Greenway's input on their venture and were overjoyed when their concept was met with great favor from Greenway and his investment partner, Ross Moore. With the help of Greenway's expertise in strategic planning and access to regional contacts in the beverage industry, the brothers prepared a business plan for the project. They sought and secured seed funding and bank financing of over TT\$1,500,000 in loans, but also approached Greenway and Moore for a portion of the start-up capital. After reviewing the brothers' proposal, Greenway provided funding to open the bar but remained a silent partner and split his two-thirds controlling ownership in the business with Moore. Christian and David invested their own money, taking ownership of the remaining one-third of the company.

With financing in place and a workable business plan set for implementation, the brothers had to choose a location for More Vino. They rented a building that was a former residence adjacent to Ariapita Avenue, a strip well known as home to many of the island's finer restaurants. The building's interior was large enough to display hundreds of wine vintages and accommodate a warehouse and office space. A large garden area that could be renovated for future expansions also surrounded the property.

## RESTAURANT AND BAR EXPANSION

Christian expected to have an even sales split between wholesale and retail consumers when More Vino opened; however, the brothers soon discovered that the majority of More Vino's sales had come from on-site consumption (see Exhibits 2 to 6 for fiscal 2016 and fiscal 2017 information), with the remaining sales divided equally among wholesale and distribution, the retail store and delivery service. Although little headway had been made in the wholesale and distribution market, it became clear that More Vino's small bar operation was growing in popularity as an after-work destination for young professionals. In response to this unexpected outcome, the brothers produced a plan to expand More Vino's bar and restaurant area to encourage the momentum of this part of the business.

Approval was granted to renovate the building's exterior garden space into an outdoor patio area and to expand total seating capacity to 250. The brothers soon rearranged the wines displayed in More Vino's retail area to allow some additional seating, resulting in customers' beginning to rely more heavily on More Vino's detailed product catalogue to make their selections. In addition to wine, beer and spirits, the product catalogue was also expanded to include a menu of hors d'oeuvres and appetizers. The bar's operating hours would be maintained from 10 a.m. to 1 a.m., but Christian anticipated after-work hours between 4 p.m. and 7 p.m. to be the busiest, outside of the weekend crowd. Christian had aspirations to sell accessories (such as glasses, gift baskets, wine bottle holders and openers) and to offer wine-tasting events, special promotions and a More Vino wine club to attract and retain a regular clientele.

## Financial Projections

Christian was excited about the potential sales growth that could result from the expansion. He anticipated total sales to increase by 40 per cent for 2018. As the business became more established as a leading competitor in the local bar and restaurant industry, Christian projected total sales to increase by another 20 per cent for 2019. However, Christian was concerned about increases in the cost of goods sold as a percentage of sales for the next two years. Island officials had announced a maximum 15 per cent increase on the excise duty tax charged on locally manufactured alcoholic products, and up to a 30 per cent increase on international and imported alcoholic products. This would mean that most of More Vino's inventory purchases would be subject to a 10 per cent to 15 per cent increase in cost. To counteract these increased

costs, More Vino would have to increase its selling prices at the retail level. Furthermore, with the expansion of More Vino's bar and restaurant business, Christian determined that a 30 per cent price increase on all products could be justified to align More Vino's prices with other competitors in the industry. As a result, Christian anticipated that this price hike would shrink the percentage of cost of goods sold to sales to approximately 55 per cent for 2018 and 2019.

The expansion of More Vino's bar and restaurant would also increase other expenses. One of these would be an additional TT\$300,000 in wages. As well, the store's rent expense would increase by 20 per cent for 2018. Christian also projected an increase in the marketing and advertising budget to 3.5 per cent of sales. The additional expenditure would promote the bar's new patio area and would more effectively reach the intended target market. Finally, to reflect the changing mix of stock that would be carried in the store, it was expected that there would be a change in the days of inventory to 90 days. No change in accounts payable was anticipated since the business had recently been rewarded with extended payment terms from its suppliers going forward. Other items on the statement of earnings would remain roughly the same percentage of sales as was experienced in 2017.

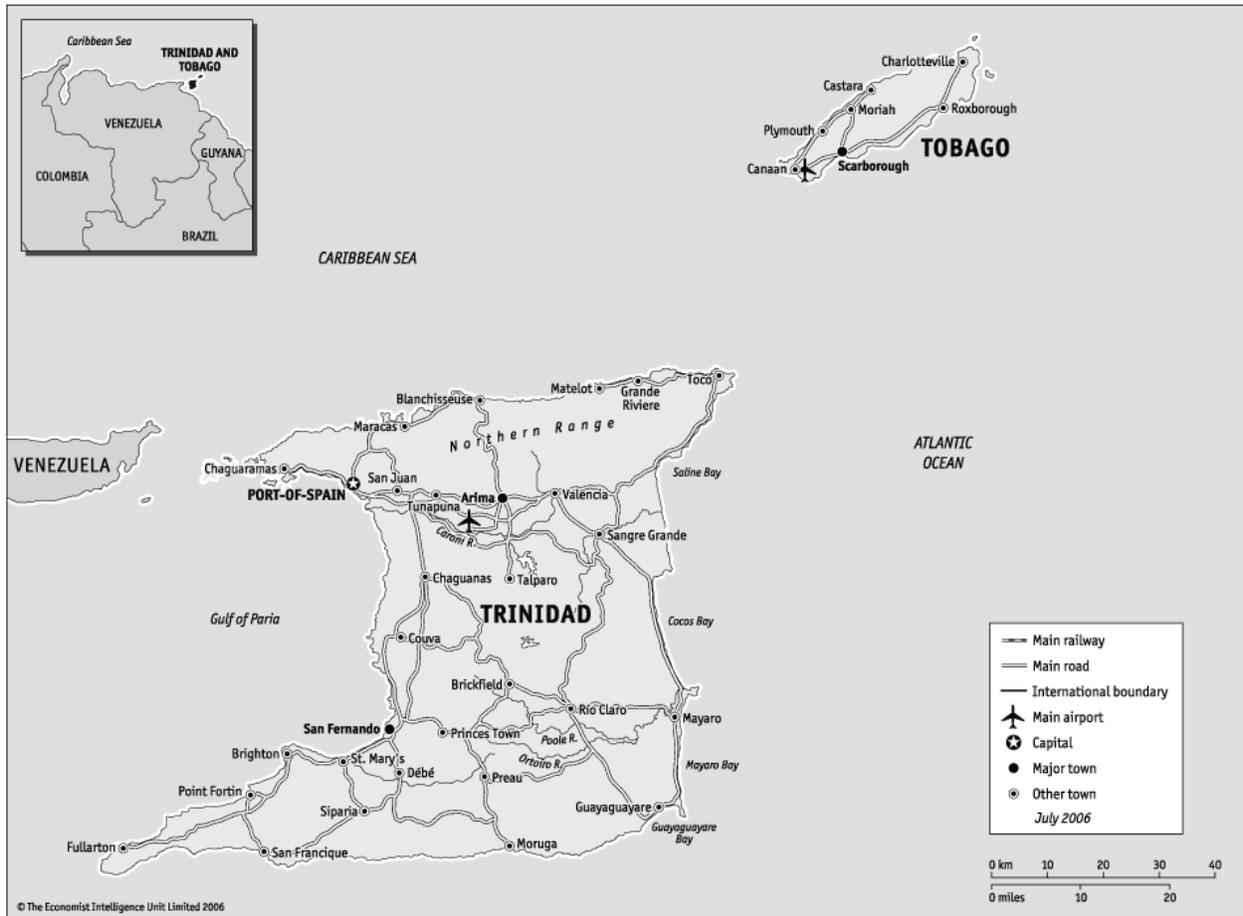
The brothers' line of credit of TT\$1,500,000 covered the working capital needs and seasonal peak purchases of inventory made in May and November, prior to the busy summer and winter periods. During the busy summer and winter months, working capital needs generally increased by another TT\$120,000 to accommodate additional inventory purchases. The brothers were uncertain whether an increase on the line of credit would be needed to accommodate growth in the coming years.

The patio expansion would cost TT\$1,060,000, and Christian hoped to raise debt financing from three different sources. His mother, who had been a major source of funding over the past two years, had agreed to lend More Vino another TT\$200,000. The brothers themselves were prepared to contribute an additional TT\$130,000 each. Finally, Christian had approached Greenway and Moore for the remaining TT\$600,000. All lenders agreed to lend these funds at an annual rate of nine per cent, and principal payments would not commence until 2020 when the business would be in a better position to reduce the balances. The current loan payable account would also not be reduced until 2020, leaving the bank loan as More Vino's only long-term debt obligation requiring payments in 2018 and 2019.

## THE DECISION

More Vino had shown strong growth results in the past two years, but Greenway was concerned about providing more financing in addition to the original funds he and his partner had invested during the business's startup. When he initially became involved with More Vino, Greenway had anticipated it to be a short-term arrangement, and he had not considered the prospect of participating in a second round of financing. Did he want to remain financially committed to the business? Would it be a better move to encourage the Stone brothers to look elsewhere for the TT\$600,000 to fund the expansion? Finally, Greenway was also mindful of his personal relationship with Christian and David and the Stone family, should he elect to reject their financing proposal.

EXHIBIT 1: MAP OF TRINIDAD AND TOBAGO<sup>1</sup>



<sup>1</sup> Map obtained from the More Vino business case, prepared by David Simpson, for Ivey Management Services, 2007. Source: Economist Intelligence Unit

**EXHIBIT 2: STATEMENTS OF EARNINGS**  
**(for years ending February 28)**

	<b>2017</b>	<b>2016</b>
Net sales	\$8,662,734	\$4,316,036
Cost of goods sold	<u>5,639,622</u>	<u>3,332,702</u>
Gross profit	\$3,023,112	\$ 983,334
Operating expenses		
Administrative expenses	\$ 245,324	\$ 99,480
Amortization	232,104	88,888
Insurance	43,594	70,444
Marketing and advertising	250,950	147,516
Miscellaneous	188,578	133,634
Rent	519,906	654,330
Repairs and maintenance	298,442	122,922
Security	138,058	60,944
Supplies and expenses	176,530	100,022
Telephone	142,680	118,546
Travel and entertainment	65,894	81,962
Utilities	53,010	33,438
Vehicle expenses	62,024	54,314
Wages	<u>921,768</u>	<u>793,612</u>
Total operating expenses	\$3,338,862	\$2,560,052
Operating income	\$ (315,750)	\$(1,576,718)
Other income	<u>31,884</u>	<u>—</u>
Interest expense	\$ (283,866)	\$(1,576,718)
Net income (loss) <sup>1</sup>	703,256	438,316
	<u>\$ (987,122)</u>	<u>\$(2,015,034)</u>

<sup>1</sup> Previous losses were carried forward, offsetting all taxes owing for 2017. Estimated tax rate was 23 per cent.  
Source: Company Files

**EXHIBIT 3: STATEMENTS OF RETAINED EARNINGS**  
**(for years ending February 28)**

	<b>2017</b>	<b>2016</b>
Beginning retained earnings	\$(2,015,034)	\$ —
Add: net income	(987,122)	(2,015,034)
Less: dividends	<u>—</u>	<u>—</u>
Ending retained earnings	<u>\$(3,002,156)</u>	<u>\$(2,015,034)</u>

Source: Company Files

**EXHIBIT 4: BALANCE SHEETS**  
(as at February 28)

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash	\$ 20,706	\$ 26,886
Accounts receivable	11,064	25,380
Inventory	<u>708,984</u>	<u>1,359,144</u>
Total current assets	\$ 740,754	\$1,411,410
Fixed assets:		
Automobiles	\$ 117,126	\$ 85,242
Furniture and fixtures	609,928	254,904
Equipment	429,938	194,202
Leasehold improvements	<u>662,388</u>	<u>293,520</u>
Subtotal	\$1,819,380	\$ 827,868
Less: accumulated amortization	<u>320,992</u>	<u>88,888</u>
Net fixed assets	1,498,388	738,980
<b>TOTAL ASSETS</b>	<b><u>\$2,239,142</u></b>	<b><u>\$2,150,390</u></b>
<b>LIABILITIES<sup>1</sup></b>		
Current liabilities:		
Accounts payable	\$1,209,066	\$ 391,932
Bank line of credit (limit \$1,500,000)	1,586,528	1,518,678
Current portion due on bank loan	<u>78,784</u>	<u>74,388</u>
Total current liabilities	\$2,874,378	\$1,984,998
Long-term liabilities:		
Bank loan	\$ 180,920	\$ 260,426
Loan payable	800,000	1,200,000
Shareholder's loans	<u>666,000</u>	<u>—</u>
Total long-term liabilities	\$1,646,920	\$1,460,426
Equity:		
Common stock	\$ 720,000	\$ 720,000
Retained earnings	<u>(3,002,156)</u>	<u>(2,015,034)</u>
Total equity	\$(2,282,156)	\$(1,295,034)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>\$ 2,239,142</u></b>	<b><u>\$ 2,150,390</u></b>

1 The line of credit and bank loan are secured by personal assets. The loan payable and shareholders loans are unsecured. The line of credit limit was increased to accommodate a temporary cash shortage.  
Source: Company Files

## EXHIBIT 5: FINANCIAL RATIOS

<b>PROFITABILITY</b>	<b>2017</b>	<b>2016</b>
Net sales	100.0%	100.0%
Cost of goods sold	<u>65.1%</u>	<u>77.2%</u>
Gross profit	34.9%	22.8%
Operating expenses		
Administrative expenses	2.8%	2.3%
Amortization	2.7%	2.1%
Insurance	0.5%	1.6%
Marketing and advertising	2.9%	3.4%
Miscellaneous	2.2%	3.1%
Rent	6.0%	15.2%
Repairs and maintenance	3.4%	2.8%
Security	1.6%	1.4%
Supplies and expenses	2.0%	2.3%
Telephone	1.6%	2.7%
Travel and entertainment	0.8%	1.9%
Utilities	0.6%	0.8%
Vehicle expenses	0.7%	1.3%
Wages	<u>10.6%</u>	<u>18.4%</u>
Total operating expenses	38.5%	59.3%
Operating income	-3.6%	-36.5%
Other income	0.4%	-
Interest expense	<u>8.1%</u>	<u>10.2%</u>
Net income (loss)	-11.4%	-46.7%
Return on average equity	n/a	n/a
<b>LIQUIDITY</b>		
Current ratio	0.26 : 1	0.71 : 1
Acid test	0.01 : 1	0.03 : 1
Working capital	\$(2,133,624)	\$(573,588)
<b>EFFICIENCY 365-day year</b>		
Age of receivables	0.47 days	2.1 days
Age of inventory	45.9 days	148.9 days
Age of payables	88.4 days	30.5 days
<b>STABILITY</b>		
Net worth to total assets	n/a	n/a
Interest coverage	n/a	n/a
<b>GROWTH</b>		<b>2016-17</b>
Sales		101%
Net income (loss)		n/a
Total assets		4%
Equity (deficit)		n/a

Source: Company Files

**EXHIBIT 6: STATEMENT OF CASH FLOWS**  
(for years ending February 28)

	2017	2016
<b>OPERATIONS</b>		
Net income	\$(987,122)	\$(2,015,034)
<u>Adjustments to cash basis:</u>		
Amortization	232,104	88,888
Accounts receivable	14,316	(25,380)
Inventory	650,160	(1,359,144)
Accounts payable	<u>817,134</u>	<u>391,932</u>
Net cash flow from operations	\$726,592	\$(2,918,738)
<b>FINANCING ACTIVITIES</b>		
Common stock	\$ —	\$720,000
Bank loan	(79,506)	260,426
Loan payable	(400,000)	1,200,000
Bank line of credit	67,850	1,518,678
Current portion due on bank loan	4,396	74,388
Shareholders loans	<u>666,000</u>	<u>—</u>
Net cash flow from financing	\$ 258,740	\$3,773,492
<b>INVESTING ACTIVITIES</b>		
Fixed assets	<u>\$(991,512)</u>	<u>\$( 827,868)</u>
Net cash flow from investing	(991,512)	(827,868)
Net cash flow	\$ (6,180)	\$ 26,886
Beginning cash	<u>26,886</u>	<u>0</u>
Ending cash	<u>\$ 20,706</u>	<u>\$ 26,886</u>

Source: Company Files