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Strategic Management Plan

by

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Coordination Draft
Comments Welcome

Introduction

W^7

VWT 141 Wine Marketing & Sales—This paper represents the final project prepared for Paul Wagner's class during the Spring Semester 2002 (under the auspices of Stephen Krebs' Viticulture & Winery Technology Program at Napa Valley College).

This paper—that differs in format and length from the typical four-page articles contained in the Shiloh Estate Knowledge Base—takes the form of a feasibility study for a very small (hypothetical) enterprise called **W^7**.

Small Business Economics—W^7 is a hypothetical enterprise that integrates **W**inegrowing; **W**inemaking; **W**inemarketing for a very small enterprise under several case output and price point scenarios. The idea is to determine if a very small operation—50, 100, or 200 cases of wine produced annually—is feasible.

Organization—Although a typical business plan format is employed, the emphasis is on marketing. This is because the class was a marketing class; however, the challenges associated with making a very small enterprise a financial success are mostly related to marketing—you must get a high price for every bottle of wine sold.

Strategic Management—Planning over the years has evolved from financial to long-range to strategic to strategic management. The latter places emphasis on developing flexible organizations that can respond to unexpected events.

The ***RWA** StratMan* Knowledge Base Series on the http://www.shilohestate.com web site includes some of the techniques typically used in Reese Wilson & Associates Strategic Management Consulting engagements.

This paper draws on planning techniques such as scenarios analysis, enterprise success factors, SWOT analysis, the industry structure, marketing mix, process flow chart, and financial models.

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The emphasis on marketing coupled with a page limit means that the financials are somewhat abbreviated.

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Executive Summary

W^7 is a hypothetical enterprise that integrates **W**inegrowing; **W**inemaking; **W**inemarketing.

Purpose—This *Strategic Management Plan* (***SMP***) serves the purpose of investigating the strategic and operational feasibility-cum-viability—under several scenarios—of a small business within the City of Napa (or other suitable site) that would operate under the State-imposed upper limit of eight 60-gallon barrels—200 cases—of finished wine per vintage produced at a residence.

	Possible Price Points (per Bottle)		
Scenarios	**\$100** Tera (10^{+12})	**\$75** Giga (10^{+9})	**\$50** Mega (10^{+6})
200-Case Micro (10^{-6})	**Best Case**	Target Scenario	**Test Case**
100-Case Nano (10^{-9})			
50-Case Pico (10^{-12})			**Worst Case**

Assumptions—The following assumptions are incorporated in the ***SMP***:

1. The Vineyard is on the same parcel as the City of Napa (or other city) residence with: (a) vineyard land cost of zero, (b) prevailing vineyard establishment costs, and (c) prevailing vineyard operations and maintenance costs.
2. The Winery is on the same parcel as the residence with: (a) prevailing construction costs and (b) prevailing operations and maintenance costs (e.g., tasting rooms, residential sales, tours prohibited).
3. The Marketing function is on the same parcel at the residence with prevailing BATF, State of California, and City of Napa (or other city) laws and regulations in effect.

Conclusions—This ***SMP***, marketing plan, and feasibility study concludes:

If wine can be sold at \$50/bottle (\$600/case) giga-price under the 200-case micro-scenario—the **Test Case** included in the last section of this plan—the **W**^{7} enterprise will earn an internal rate of return (IRR) of 24% over a 25-year time horizon. The break-even point (ignoring the cost of money) will occur during Year 7. This includes some sweat equity for the owner who wears hats associated with all aspects of the enterprise and assumes no employees *per se* but reliance on handpicked independent contractors when necessary. If the wine can be sold at a price point above \$50, the IRR increases significantly. The \$100/bottle tera-price point is the longer-range goal; at this level, the IRR is 45%, the breakeven point is Year 6, and the sustainable profit is over \$200,000 per year beginning in Year 7. [Note that Helen Turley's 1996 "Marcassin Vineyard" Pinot noir is currently listed at \$495/bottle on a web site under *Specials*; rated 94 by Robert Parker.]

Ideally, the distribution must be direct to consumers in their homes to ensure that revenues are not shared by distributors, brokers, or retailers. The marketing budget contained herein should probably be doubled.

W^7, organized as a limited liability company with three strategic business units (or profit centers)—Winegrowing, Winemaking, and Winemarketing—can achieve an IRR of about 25% profit for all three SBUs at the \$50/bottle price point. The initial pricing objective is \$75/bottle with the longer-range goal \$100/bottle.

Although success is dependent on exceptional grapes, exceptional wine, and exceptional marketing, the marketing function must create and sustain a base of 200 (or more) active customers who each buy a case (or less) of wine for each vintage starting in 2007 (if the vineyard is planted in 2002). For this reason, the **W**^{7} enterprise is considered market-driven (although many strategic decisions once made are not easily changed—the planting of Pinot noir for example).

Key marketing programs include a web site (e.g., www.W7.com), public relations (e.g., placement of articles in target periodicals), packaging (e.g., label), and fulfillment (e.g., customer service and satisfaction). Given that the promotional programs do not really kick in until 2006 (Year 5), reliance on Internet technology and consumers who use the World Wide Web to purchase wine will become much more widespread then it is today.

Marketing efforts will be focused on getting prospects to go the web site and become a case subscriber. At the case-level, only 200 subscribers are required. At the single-bottle-lever, you need 2,400 subscribers.

Many things must be done right to achieve the long-range goal to get 200 consumers to pop for \$1,200/case (plus shipping and handling)—\$900/case initially. Partial-cases sales will likely be permitted.

The grapes and wine must be extraordinary and the value in the eyes, nose, mouth, and belly of the consumer and must be perceived as outstanding.

Section 1.0 The Concept

1.1 General Introduction

W^7 is a hypothetical entity interested in the feasibility of growing, making, and marketing Pinot noir (or other) wine under one of three scenarios:

- Micro-scenario—Grow enough grapes to yield 8 barrels of finished wine (200 cases), the limit for wineries on residential parcels in the City of Napa; note that other locations may make sense.
- Nano-scenario—Grow enough grapes to yield 4 barrels of finished wine (100 cases).
- Pico-scenario—Grow enough grapes to yield 2 barrels of finished wine (50 cases).

The feasibility of each scenario and the enterprise success factors critical to the success of each scenario will be investigated (emphasis on 200 cases).

Success may be dependent only in part on profits.

Winegrowing—and therefore winemaking and winemarketing—are strategic activities in at least two senses:

1) **Time to Market**—Many decisions made today will not have a measurable outcome for quite some time. Vineyards are considered non-bearing for the first thee years. Wines are not released for months—or even years—after they are produced.
2) **Uncertainty & Risk**—Some variables are sometimes outside the control of decision makers (e.g., the economy, crop size).

Enterprise Success Factors

Winemarketing

Demand for wine(s)
Target market(s)
Product mix
Marketing mix
Customer satisfaction
Marketing & sales practices

Winemaking

Wine quality
Finished wine volume
Winemaking practices

Winegrowing

Grape quality
Vineyard yield(s)
Location
Climate
Topography
Soils
Irrigation
Trellis system
Rootstock(s)
Varietal(s) & clone(s)
Cultural practices

W^7, or any other (small) enterprise, should be market-driven. In order to achieve strategic and economic viability, there must be a market for the wine produced—each vintage must sell out and generate the sales revenues needed to cover costs as well as yield an acceptable return on investment.

1.2 Winegrowing

Although this ***SMP*** assumes a vineyard situated on a residential parcel in the City of Napa and further assumes that Pinot noir is the best bet due to climate, the analyses contained herein likely apply to other locations and other varieties.

Under the three scenarios, the vineyard must produce 3.43, 1.71, and 0.86 tons, respectively, of quality grapes (using 140 gallons of finished wine per ton as a planning factor)—or 6,857, 3,429, and 1,714 pounds. If more than 140 gallons/ton can be achieved, then less tonnage is required (but quality could suffer).

1.3 Winemaking

The product mix (technically, "mix" does not apply to one product) should be determined by the marketplace (e.g., varieties or blends, quality). However, with such small outputs, the quality and the price point must be as high as feasible—and costs must be controlled—if adequate ROI is to be achieved. Yet, the cultivars planted must be compatible with the site location (e.g., climate, soil, topography); this negates some options.

1.4 Winemarketing

Given promising target markets (creating customers in lucrative target markets represents the primary marketing challenge), there must be a distinct marketing mix for each market—product, price, promotion, physical distribution (or placement), and packaging.

Section 2.0 Goals & Objectives

2.1 Purpose, Values & Goals

The value statement shown to the right generally applies to **W**^{7} with the exception of 3; **W**^{7} will be organized as a Limited Liability Company (LLC) with potential contractors but no employees.

The LLC will be organized into three highly interdependent strategic business units (SBUs); the mission, long-range goals, and near-term objectives for each function are outlined below:

Value Statement

1. Grow, make, and market an extraordinary wine.
2. Create and serve satisfied customers.
3. Recognize that our employees are our most valuable assets.
4. Respect and sustain the environment through thoughtful winegrowing and winemaking practices.
5. Serve as active members of the communities in which we operate.
6. Generate the profits needed to sustain the enterprise and provide value to stakeholders.

2.2 Winegrowing SBU

2.2.1 **Mission Statement**—Grow extraordinary Pinot noir.

2.2.2 **Goals**—Grow Pinot noir crops of quality that qualifies for top Napa Valley grape sales prices per ton and respect and sustain the environment through thoughtful winegrowing practices. Contribute to profits.

2.2.3 **Objectives**—Achieve the following objectives:

1. Plant a field blend of Pinot noir clones 115, 667, and 777 on 101-14 rootstock on a 4' x 5' vertical shoot positioning trellis system; establish unilateral Guyot (i.e., head trained, cane pruned) vineyard.
2. Achieve an equivalent yield of at least 1.2 tons/acre in third leaf (30% of 4 tons/acre).
3. Use internal price transfer mechanisms to treat the Winegrowing SBU as a profit center.
4. Achieve and sustain a yield of about 4.0 tons/acre (*a la* Dominus Winery) in fourth leaf and beyond.
5. As conditions permit (e.g., vine maturity), employ low-water irrigation, and minimize the use of chemicals (i.e., utilize sustainable agriculture practices).

2.3 Winemaking SBU

2.3.1 **Mission Statement**—Make an extraordinary Pinot noir wine. Contribute to profits.

2.3.2 **Goals**—Make a wine for **W**^{7}'s target markets that achieves high enough price points to generate a profit.

2.3.3 **Objectives**—Achieve the following objectives:

1. At harvest and crush, keep each of the three Pinot noir clones in separate lots to the degree feasible.
2. Manage the cold soak (if applicable), fermentation, extended maceration (if applicable), malolactic fermentation, and barrel aging to achieve maximal extraction of color and flavor.
3. Manage the winemaking process to yield wines with the potential for luxury-level price points.
4. User internal price transfer mechanisms to treat the Winemaking SBU as a profit center.

2.4 Winemarketing SBU

2.4.1 **Mission Statement**—Create and serve satisfied customers for **W**^{7}'s Pinot noir wines.

2.4.2 **Goals**—Maximize profits to **W**^{7} by selling wine to target markets through direct channels to the degree feasible (e.g., avoid distributors; even if they would be interested in 50, 100, or 200 cases). Provide a high level of customer service.

2.4.3 **Objectives**—Achieve the following objectives:

1. Define target markets to achieve at least a 25% internal rate of return (for all SBUs).
2. Develop and continually improve a distinct marketing mix for each target market.
3. Provide a high level of service to consumers (and other customers if applicable).
4. User internal price transfer mechanisms to treat the Winemarketing SBU as a profit center.

Section 3.0 Market Analysis

3.1 Marketplace Overview

Although the market for W^7 wines will comprise a few highly-focused target markets, sales will occur in a marketplace growing increasingly global, turbulent, and uncertain. Oversupply in other parts of the world can affect W^7's sales. Members of the human race are becoming more-and-more interconnected.

Note that the first release of W^7 estate-bottled wine will be no earlier than 2006 or 2007; wine from purchased grapes could be released earlier (but probably won't). Yet planting decisions need to be made now.

Note that of the top-7 producers, America is the only one that consumes more than it produces. Also, note that although the U.S.A. is the forth-largest producer, in per capita consumption it is 34th at 2.01 gallons per year.

Worldwide Production, Consumption, Per Capita Consumption for Top 7 Producers							
1999	**France**	**Italy**	**Spain**	**U.S.A.**	**Argentina**	**Germany**	**Australia**
Production (1000s of Gallons)	1,591,288	1,534,173	863,314	533,961	419,729	324,836	224,844
Consumption (1000s of Gallons)	937,839	824,242	396,270	553,140	337,067	501,149	98,433
Per Capita Consumption (Gallons)	15.81	14.30	9.91	**2.01**	9.12	6.05	5.14
World Rank (Per Capita)	2	3	7	**34**	8	17	18

Source: Wine Institute (December 2001) from statistics gathered by the Office International de la Vigne et du Vin

America's high total consumption (4th) and low per capita consumption (34th) suggests the 10-90 rule: 10% is drinking 90% of the wine. Religious mores, hostile alcohol beverage laws and, more recently, recession and terrorist attacks are all reasons for poor wine sales in the United States. Plus, wine has never been part of the American culture—it may take a few more generations before Americans are as comfortable with wine as Europeans.

Worldwide, there are many alternatives to wine—Coca Cola and iced tea for example. Additionally, new products backed by huge advertising budgets such as Smirnoff Ice—21 million cases sold in 2001—are grabbing attention and shelf space.

3.2 Market Segmentation

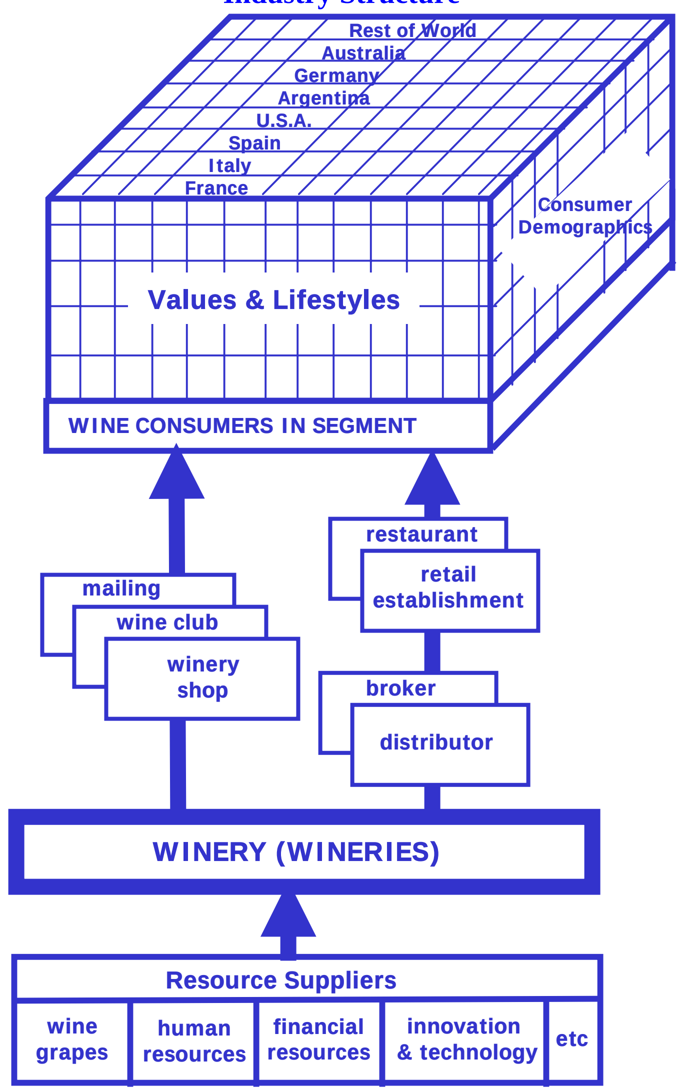
The global marketplace for wine can be segmented in countless ways—geography, lifestyles, education, income, age, sex, religion, ethnicity, and more.

W^7's modest output under the three scenarios—200. 100, and 50 cases—limits target markets having potential. The need to achieve an adequate IRR suggests that direct sales to the consumer makes sense—intermediary costs need to be minimized.

This—coupled with a Napa Valley location—suggests that target markets for the W^7 product are likely among the 10% that drink 90% of the wine and live in the San Diego-to-Vancouver corridor. Effective product-market matchmaking and the specific marketing mix for each target market are critical to the success of the W^7 enterprise.

We will return to Marketing after a discussion of W^7's. three SBUs.

Industry Structure



Section 4.0 SBU Development & Operations

4.1 Introduction to the W^7 Enterprise

W^7 is organized into three strategic business units (SBUs) with each considered a profit center. As **W^7** is a very small business, this is done mostly for financial management reasons. Each SBU should contribute to profits and internal rate of return—and its costs should be known.

The question to be answered is this: Can a small integrated winegrowing, winemaking, and winegrowing enterprise operating from a residential site make money under the 200-, 100-, or 50-case scenarios?

4.1 Winegrowing SBU

Assumption	Micro-Scenario	Nano-Scenario	Pico-Scenario
Tons/pounds harvest required[1]	3.43 tons/6,857 lbs	1.71 tons/3,429 lbs	0.86 tons/1,714 pounds
Yield/vine w/ 4' x 5' spacing	4 lbs	4 lbs	4 lbs
Number of vines required	1,715 vines	857 vines	429 vines
Plantable acres/square feet required	0.79 acres/34,286 ft^2	0.39 acres/17,153 ft^2	0.20 acres/8,572 ft^2
Price to Winery @ $2,839 /ton[2]	$9,737	$4,854	$2,441
Price to Winery @ $2,137/ton[3]	$7,330	$3,654	$1,838
Price to Winery @ $3,708/ton[4]	$12,718	$6,341	$3,189

1. Using 140 gallons of finished wine per ton grapes as a planning factor (this is fairly accurate for very small wineries)
2. Average price for all Napa County grapes per ton in 2001 according to the California Agricultural Statistics Service (CASS)
3. Average price for Napa County Pinot noir grapes per ton in 2001 according to CASS
4. Average price for Napa County Cabernet Sauvignon grapes per ton in 2001 according to CASS

To simplify the various analyses done in this ***SMP***, today's costs and prices will be used. For the Winegrowing SBU, a 25% internal rate of return (IRR) occurs when grapes are sold at $3,800 per ton under the 200-case scenario (see Section 6.0, Page 11); this is close to the Cabernet Sauvignon price in 2001 of $3,708 per ton.

4.3 Winemaking SBU

Using the planning factor in the box to the right, the minimum price point for a bottle of wine would be:

- $28.39 for a blend of all NV grapes
- $21.37 for NV Pinot noir
- $37.08 for NV Cabernet Sauvignon

> Planning Factor
>
> *To make an adequate profit, the price point for a bottle of wine must be at least 0.01 times the grape cost/ton.*

This price includes winemarketing as well; however, for **W^7**, marketing will be required to do much more. The $3,800 per ton price equates to $38 per bottle (the Cabernet Sauvignon price point). If the Winemaking SBU sells the wine to marketing at $26 per bottle, the IRR is 25% (under the 200-case scenario).

4.4 Winemarketing SBU

The revenue potential under nine scenarios is shown to the right. If, under the 200-case scenarios, the marketing SBU buys the wine for $26 per bottle (pays $62,400), there is room for maneuver under all three price-point scenarios. The IRR under the $50-Price/200-Case scenario depends on the costs of marketing and sales programs (but can be at least 25%).

Annual Sales Revenues (2007 & Beyond)			
Price & Case Scenarios	**$100** Tera ($10^{+12}$)	**$75** Giga ($10^{+9}$)	**$50** Mega ($10^{+6}$)
200-Case Micro (10^{-6})	**$240,000**	**$180,000**	**$120,000**
100-Case Nano (10^{-9})	**$120,000**	**$90,000**	**$60,000**
50-Case Pico (10^{-12})	**$60,000**	**$45,000**	**$30,000**

In Section 6.0, it will be shown that at the $50 price point, the Marketing SBU can earn a sufficient IRR as can the **W^7** enterprise. The breakeven point does not occur until Year 7.

Section 5.0 Marketing

5.1 Product Mix

W[7] has only one product—a luxury-priced Pinot noir (it is recognized that ROI objectives might be better served by a killer Cab; **W**[7] leaves this to others). [Yet, Helen Turley's "cult" Pinot noirs are sold to those fortunate enough to get an allocation for $90 or more, with over 5,000 supplicants on the waiting list; these can resell for more than $400.]

"W[7] Delicious … before, during, or after."

5.2 SWOT Analysis

W[7]				
Macro-Environment				
SWOT Checklist	***Strengths***	***Weaknesses***	***Opportunities***	***Threats***
Acts of God Religious beliefs Political Economy Laws & Regulations Values & Lifestyles	*Hillside vineyard in Napa Valley can likely withstand late freeze.*	*Global marketplace more suited to large firms that can serve it.*	*Increasing market for luxury goods, information systems with global reach (e.g., Internet).*	*Pierce's disease, anti-alcohol initiatives, trade barriers.*
Marketplace Environment				
SWOT Checklist	***Strengths***	***Weaknesses***	***Opportunities***	***Threats***
Product Mix	*One product (luxury Pinot noir).*	*One product (luxury Pinot noir).*	*Focused marketing and sales strategy, increase in luxury wine sales.*	*Bigger wineries with deep pockets.*
Product	*Napa Valley wine, hand-crafted artisan wine, very rare*	*Limited expansion space in estate vineyard, it's a Pinot noir (not Cabernet).*	*Growing market for premium, ultra-premium, and luxury wines.*	*Alternate beverage, luxury Cabernet Sauvignons.*
Price	*Priced lower than some cult wine, yet rarity equates to high price equates to high quality*	*Wine per bottle $50-100 price point limits potential consumers.*	*Given loyal customer base, price increases are feasible; only need 200 customers.*	*Quality wines at low prices, quality wines at moderate prices.*
Sales & Distribution (and Placement)	*Demand could outpace supply.*	*Small volume output (no distribution).*	*200 cases are not many to sell.*	*Strong competition in target markets.*
Promotional Mix	*PR, Word-of-mouth, Web site.*	*Limited budgets for any promotion.*	*Small, loyal customer base, not many luxury Pinot noirs*	*Strong competition from larger firm, smaller firms.*
Packaging	*Upscale wine & wine glass packages.*	*No economies of scale for production (or anything else).*	*Special gift packages (and samplers).*	*Unnecessary BATF labeling regulations.*
Target Markets	*High quality product, need only 200 buyers at one case each.*	*Low volume precludes most target markets. May have to sell by bottle (less than case).*	*Customer list Wine club Direct shipments Restaurants*	*State laws that prevent direct shipping; many boutique wineries, alternate beverages.*
Internal Environment				
SWOT Checklist	***Strengths***	***Weaknesses***	***Opportunities***	***Threats***
Ownership & Leadership	*Owned by family that owns residence.*	*Family may not have requisite talents.*	*Build strong family team.*	*Management succession.*
Finance & Capitalization	*No land cost for vineyard site.*	*Limited capital to expand operation.*	*At some point, sell brand.*	*Bankruptcy.*
Stakeholders	*Some may be motivated to help such a small enterprise.*	*Many may not get excited about such a small enterprise.*	*Support from others having an interest in the success of the enterprise.*	*By definition, no threats from "friends."*
Strategic Partnerships	*Larger players could easily help.*	*Larger players too busy to care.*	*Piggyback on stronger players.*	*No strategic benefit from one so small.*

5.3 Target Markets

5.3.1 Major U.S. Segments—The Wine Market Council (WMC) estimates that 10 % of the U.S. adult population drinks 86% of the wine sold in America—see http://www.winemarketcouncil.com.

Adults (21-Plus) Beverage Consumer Segments in United States (Year 2000)			
Market Segment	**Adults (Millions)**	**% of Adult Population**	**% of Wine Volume**
Core Wine Drinkers (Drink weekly of more often)	19.2	10%	86%
Marginal Wine Drinkers (Every 2 or three months)	28.9	15%	14%
Beer and Spirits Drinkers (Not often, don't like wine)	63.5	33%	0%
Non-Drinkers (Don't drink any alcohol)	80.8	42%	0%
Total	192.4	100%	100%

5.3.2 Core Wine Drinkers—The target market for **W^7** Pinot noir comprises core wine drinkers (WMC).

Consumer Segment by Age & Gender		
Segment	**Core**	**Marginal**
Age 21-29	14%	21%
Age 30-39	15%	24%
Age 40-49	25%	25%
Age 50-59	26%	15%
Age 60-Plus	19%	16%
Male	37%	36%
Female	63%	64%

Core wine drinkers in the U.S. consumed 175 million cases in 2000. Wine is the first choice of beverage for a drink at home after work for 66% of core wine consumers, but only 43% of marginals. Likewise, wine is the first choice of beverage for a weekday dinner at home for 69% of core consumers, but again only 43% of marginals. 15% of core wine consumers drink wine daily, 48% drink wine a few times a week, and 37% drink wine weekly. Both core and marginal consumers average about 2.2 glasses per occasion. About 85% of core and marginal wine drinkers are Caucasian/White and have a much higher percentage of college graduates and those with post-graduate educations. Core wine consumers have greater annual household incomes than the other groups with a mean household income of $78,100 ($63,800 for marginal wine drinkers).

Also, note (again the WMC study), among core consumers, red wine consumption as a percent of overall wine consumption increased from 35 percent in 1994 to 42 percent in 1997 and 50 percent in 2000. Part of this is the French Paradox: 91% of core consumers agreed with the statement "Moderate use of wine is actually good for you."

5.3.3 W^7's Primary Target Market—Core 'at home' wine drinkers, ages 40-plus, men and women, educated, affluent, white, and living in or near cities along the West Coast. **W^7** is not an equal opportunity wine.

5.4 Price

The WMC survey established an 'acceptable' price range of wine for everyday use at home of $6.50 to $19.00, and an 'acceptable' price range in restaurants of $12.00 to $29.50. The $50 Mega-price-point comes closest but is much higher—nearly double.

	Possible Price Points (per Bottle)		
Scenarios	**$100** Tera ($10^{+12}$)	**$75** Giga ($10^{+9}$)	**$50** Mega ($10^{+6}$)
200-Case Micro (10^{-6})	**Best Case**		**Test Case**
100-Case Nano (10^{-9})			
50-Case Pico (10^{-12})			**Worst Case**

However, according to the "**MFK** Wine Trends Report," the rise of reds appears to be driven by the popularity of "secondary" varietals—Pinot noir, Zinfandel, and Syrah grew more than 30% in revenues last year.

5.5 Sales & Distribution (& Placement)

5.5.1 Direct Sales to Consumers at Home—This, the preferred channel, allows **W^7** to recover the full per bottle price point (the buyer also pays a shipping and handling charge). With such a small volume output (and no residential-based tasting rooms allowed in the City of Napa), direct sales are just about mandatory.

5.5.2 Direct Sales to Restaurants—Given that on-site wine sales are not permitted from wineries on residential sites, restaurants become the second choice. This, however, is considered a "contingency" target market for **W^7**. Even under the 'fair' sliding-scale markup policy of St. Helena's Martini House, the end-cost to consumers would be somewhat high. The markup is for bottles: (a) less than $50, 2.5 times cost [$25 x 2.5 = $62.50], (b) $50-100, 2 times cost [$50 x 2 = $100], and (c) $100 and more, add $75 to cost [$100 + $75 = $175].

5.6 Promotional Mix

Customer Service Principles

Once a customer subscribes, shipment is guaranteed so long as **W**^{7} is in business as a single entity (if the brand is bought, all bets are off) and at least 200 cases are produced.

Customers must pay one-half when the vintage is in the barrel and the other one-half after release just before it is shipped.

Given at least 200 subscribers, new subscribers will be put on a waiting list and be added to active list only when an existing subscriber removes himself/herself.

5.6.1 General Discussion—In order to realize the best-case scenario, **W**^{7} must sell 200 `````cases of Pinot noir each year by direct mail to consumers in their homes. At start-up, fruit could be purchased for three or four years while the on-site vineyard is established and becomes productive. **W**^{7}, however, will use the three (or four) years required for the on-site vineyard to mature, to build a small winery and engage in selected marketing activities designed to create interest in the upcoming product. The promotional mix will rely heavily on the web with selected public relations techniques (with modest help from a local PR agency). Many traditional marketing approaches, such as advertising, are not affordable to such a small enterprise.

5.6.2 W^7 Web Site—The Internet will be used for highly-targeted direct e-mail campaigns designed to get prospects to go to the web site and become a subscriber. The www.w7.com home page—**W**^{7}, a rare wine from Napa Valley—will provide quick access to other pages including an "order now" page. Other pages would feature the product, winegrowing, winemaking, rules of becoming a **W**^{7} member-cum-subscriber, sign-up for periodic updates and articles, cost set for the 2005 vintage to be released in 2007, newsletters and articles, etc.

Some 70 percent of core consumers and 65 percent of marginal consumers use a PC at home, compared to 60 percent of non-adopters. PC use at work is about the same for all groups. Among those with Internet access, 65 and 64 percent of core and marginal consumers, respectively, have such access at home, compared to 53 percent of non-adopters. At work, 44 percent of cores and 42 percent of marginals have Internet access, compared to only 33 percent of non-adopters. These numbers are going up. Yet, neither core nor marginal wine consumers have–to date–had much contact with wine on the Internet. Only 20 percent of core consumers and 13 percent of marginals have ever visited a wine web site, and only 8 percent of cores and 2 percent of marginals have ever purchased wine on line. The industry faces much work ahead to make the Internet a productive medium for reaching American wine drinkers. By 2005, these numbers should be way up. (Again, the WMC.)

5.6.3 Public Relations (Articles)—At the first vintage—say 2005—it is desirable (yet difficult) to place an article (authored by an expert of some sort) designed to reach audiences in San Diego, Los Angeles, San Francisco, Portland, and Seattle. Although newspapers will be considered, so will local magazines (such as KQED's *San Francisco*). Expert PR input will be required. The "rare" nature of the 200-case output will be highlighted, as will be the web site address—www.w7.com.

5.6.4 PR (Word of Mouth Advertising)—Initially, readers of the article will talk to others and, ultimately, any customer or critic who is pleased with **W**^{7} wine will likely tell friends who become potential customers. Hopefully, they will take a look at the web site.

5.7 Product Packaging

Often the first "look" at a bottle or case of **W**^{7} will be on the web site. So, the packaging decisions must be made well before the wine in the bottle. The label is especially important: it must suggest luxury quality and the value of something rare and exquisite. In addition, the shipping case (for 12 bottles) must support this feeling of rare luxury, class, and quality. Additionally, less-than-case-lot samplers must be available (at least initially).

5.8 Competitor Analysis

In 1997, there were about 1600 commercial wineries in the U.S., a number that had tripled in 20 years—850 were in California, and 400 were in Napa (230) and Sonoma (170) Counties. Half of California's wineries sell less than 5,000 cases, and the largest 25 ship 90 percent of all California wine to markets worldwide. Few sell as little as 200 cases except for very small-quantity releases of special limited production wine.

The new Pinot Report (see http://www.pinotreport.com) offers the following observations:

- $75—Of 22 Carneros Pinot noirs, the most costly was Saintsbury's Brown Ranch 1999 at $75; 794 cases were made; this could be the initial price point for **W**^{7} Pinot noir (so at least a precedent is present).

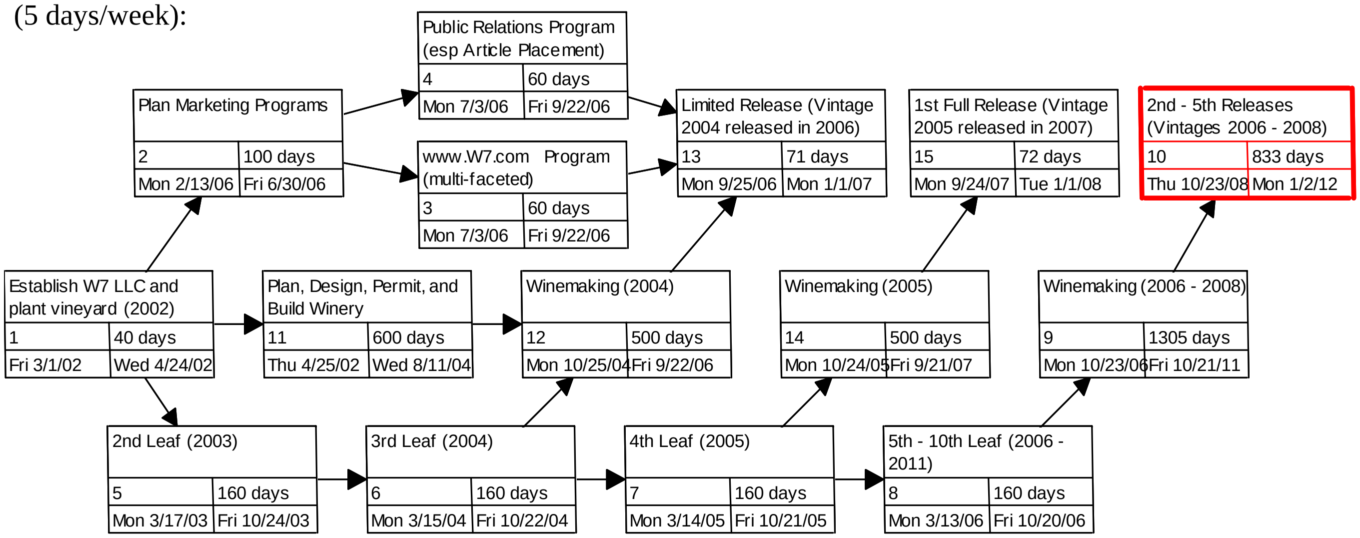
- 500 cases—The lowest case production (not shown for all 22 wines) was 500: for Artesa Winery's Reserve 1999 priced at $40 and for Carneros Creek Winery's Las Piedras Vineyard Mahoney Estate 1999 priced at $28.
- Low output wineries—Ken Wright's Dynamite Dozen—all Oregon Pinot noirs—were all priced at $50 (*Strange!*) with the lowest output 110 cases for Willamette Valley Whistling Ridge Vineyard 2000. Others were at 135, 150, 200, and 220 cases. The biggest of the 12 was at 680 cases.

W^7 is unique in its total smallness; few would consider this a competitive advantage. Yet, perhaps it is.

Much of the West coast market is nearby; the Internet makes **W^7** (information) globally accessible.

5.9 Marketing Schedules and Milestones

Before looking at the financials, a PERT overview of activities is shown with emphasis on marketing programs (5 days/week):



Two marketing programs are shown in the PERT chart (some aspects start earlier):

- www.W7.com program with a comprehensive approach that blends sound marketing practices with advanced technology. The site promotes AIDA: Attention, Interest, Desire, and Action (sign-up, pay).
- Public relations program with emphasis on getting articles placed in West Coast periodicals, with substantive assistance from a local PR agency. Note that the articles are placed in 2006 along with the limited "promo" release of Vintage 2004; this release will be relatively small and could be dedicated to promotional activities. Although this PR program and the web program are shown to last 60 workdays before the release date, they both are ongoing programs (although once the pump is primed, the effort can diminish in intensity and cost). Articles and word of mouth steer prospects to www.W7.com.

5.10 Marketing Budget

5. 10.1 Internet Program—The design, development, implementation, and continual improvement of http://www.W7.com will cost much less than the PR program. The initial design cost is estimated to be $4,000 (2003) with continuing monthly costs at $150 ($1,800 per year in 2004 and beyond).

5. 10.2 PR Program—The development and implementation of a PR Plan plus continual improvement is estimated to average about $10,000 per year for the first four years (2002-2005 planning), and then increase to $25,000 for the next two years (2006-2007 implementation), and fall to $10,000 per year thereafter (2008 and beyond). If the $100/bottle price point can be achieved, budgets can be increased somewhat.

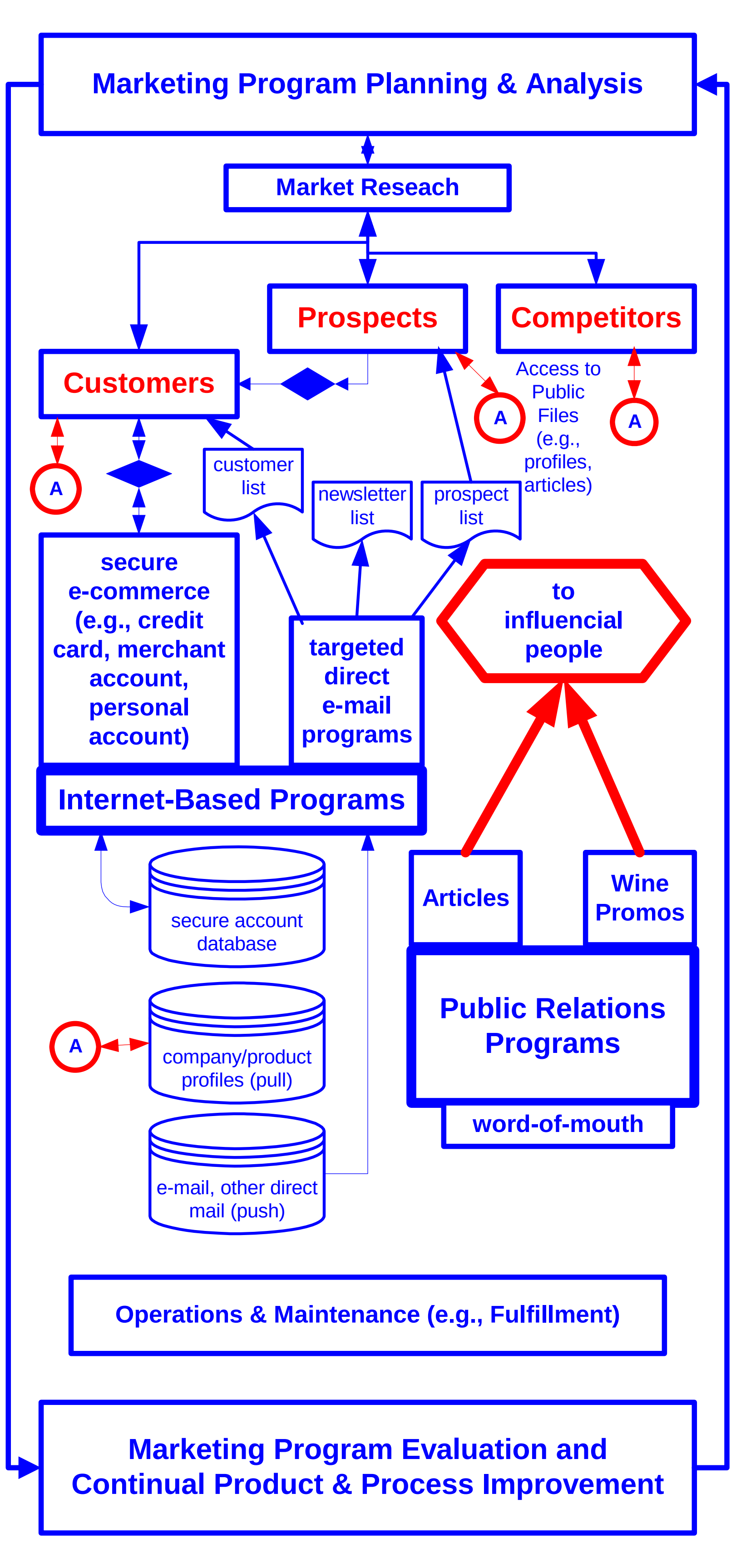
5. 10.3 Packaging Program—Label design costs $5,000 in Year 2003. Perhaps "samplers" design as well.

5. 10.4 Direct Shipping Program—Cost of shipping and handling borne by subscribers-cum-customers.

5. 10.5 Fulfillment Program—This is mostly for adding content to the web site (done by a **W^7** LLC member).

5. 10.6 Human Resources Program (including G&A)—W^7 is a family-based LLC with no employees. All work tasks performed by non-LLC member is by independent contractors. This holds true for the two major marketing programs. In the first case, a web hosting company such as Earthlink or Napanet. In the second case, a PR agency. General and Administrative (G&A) costs are in Marketing's budget at $2,000 per year.

Marketing Programs (Process Flow Chart)



Planning & Analysis—This program, by definition, informs all other programs and receives feedback from all programs via the Evaluation & Improvement program at the bottom of the chart. In early years, while the vineyard is growing, forward planning takes place.

Market Research—Ongoing program that supports Planning & Analysis plus Evaluation & Improvement. Analysis tends to be *a priori*; evaluation tends to be *a posteriori*.

Direct E-Mail—Targeted prospect lists will become available; how difficult is it to add an e-mail address to other data elements comprising today's sophisticated direct mail lists. Customer list (and database) is straight forward (given customers). The newsletter list contains prospects who have signed up at the web site (but are not yet customers). Care must be taken to avoid list overlap.

A tasteful invitation to visit www.W7.com can be sent to prospects. The piece will announce the availability of a special limited release. A two-bottle "promo" set will be offered to charter subscribers. This will be from the limited third-leaf vintage. The pricing must not be low.

E-Commerce—Customers will be assigned a user name and password. All wine sales will be via the Internet with the customer's credit card account debited, and the **W**^{7} account credited (except for a few very special promotions).

Public Relations—Special wine promos will be planned in 2005 and implemented in 2006 when the Vintage 2004 is available in limited third-leaf quantities. A few complimentary two-bottle sets will be provided to reviewers (this is an exception to the Web-Site-Only policy). The balance will be reserved for charter subscribers.

Placement of articles in target publications read by customers and prospects in target markets will be attempted. Although difficult, perhaps a freelance author can get something pieces placed.

Operations & Maintenance—Numerous support activities such as database and mailing list maintenance, shipping, and administrative support.

Evaluation & Improvement—Monitoring and evaluation of **W**^{7}, the three SBUs, marketing programs, IRR, customer satisfaction, etc.

Section 6.0 Funds Flow & Financial Projections

6.1 Projected Cash Flows

6.1.1 Revenues—The best-reasonable-case (brc) scenario yields $240,000/year starting in Year 2007; the worst-reasonable-case (wrc) is $30,000 with the Target Scenario (**TS**) at $180,000. Costs vary mostly with case production and hardly at all with the price point.

Annual Sales Revenues (2007 & Beyond)			
Price & Case Scenarios	**$100** Tera ($10^{+12}$)	**$75** Giga ($10^{+9}$)	**$50** Mega ($10^{+6}$)
200-Case Micro (10^{-6})	**$240,000 (brc)**	**$180,000 (TS)**	**$120,000 (tc)**
100-Case Nano (10^{-9})	**$120,000**	**$90,000**	**$60,000**
50-Case Pico (10^{-12})	**$60,000**	**$45,000**	**$30,000 (wrc)**

6.1.2 Test-Case Scenario—If the test case (tc) scenario is 200 cases @ $50 per bottle, the cash flow is:

Cash Flow Projections	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Sales Revenues (200 cases @ $600)	**0**	**0**	**0**	**0**	**0**	**120,000**	**120,000**	**120,000**	**120,000**	**120,000**
Winegrowing (IRR = 25%)	0	0	3,887	12,958	12,958	12,958	12,958	12,958	12,958	12,958
Winemaking (IRR = 25%)	0	0	0	0	14,833	49,442	49,442	49,442	49,442	49,442
Winemarketing (IRR = 25%)	0	0	0	0	-27,791	57,600	57,600	57,600	57,600	57,600
Cost of Goods Sold (COGS)	**13,483**	**5,362**	**59,102**	**12,160**	**26,160**	**26,160**	**26,160**	**26,160**	**26,160**	**26,160**
Vineyard Establishment[1]	13,483	5,362	4,102							
Vineyard Operation & Maintenance[1]	0	0	0	6,160	6,160	6,160	6,160	6,160	6,160	6,160
Winery Establishment[2]	0	0	55,000							
Winery Operations & Maintenance[2]	0	0	0	6,000	20,000	20,000	20,000	20,000	20,000	20,000
Gross Profit	**-13,483**	**-5,362**	**-59,102**	**-12,160**	**-26,160**	**93,840**	**93,840**	**93,840**	**93,840**	**93,840**
Marketing	12,000	21,000	13,800	13,800	28,800	28,800	13,800	13,800	13,800	13,800
Profit before Taxes (IRR = 24%)[3]	**-25,483**	**-26,362**	**-72,902**	**-25,960**	**-54,960**	**65,040**	**80,040**	**80,040**	**80,040**	**80,040**
Accumulated Cash Flow		-51,845	-124,747	-150,707	-205,667	-140,627	-60,587	19,453	99,493	179,533

Notes 1. Vineyard establishment and O&M costs were calculated using Vineyard Planner that is based on a UC-Davis model; see http://www.agecon.ucdavis.edu/outreach/crop/cost-studies/99SONOMAWINE.pdf
2. The winemaking costs, about $100/case, are based in part on Virtual Winery; see http://alondon.com
3. The internal rate of return (IRR) calculations all used a 25-year time horizon.

6.1.3 Best-Case Scenario—If marketing can achieve a price point of $100 per bottle ($1,200 per case), the profits go way up and the breakeven point (in Year 2009 above) moves to Year 2008. The IRR jumps to 45% for the overall **W**^{7} enterprise. The profits before taxes are just over $200,000 for Years 2008 and beyond.

6.14 Target Scenario—The initial objective is $75/bottle ($900/case). Profits are about $140,000.

6.2 Conclusions

It appears feasible to establish a small integrated winemaking operation at the 200-case level if the price point can be maintained at $50 or above. Clearly, a $100 price point is desirable, and with highly effective marketing might be achievable. However, achieving $75/bottle represents a real challenge with suitable rewards.

The 100-case scenario would likely be feasible at the $100 price point. However, if the "free" land available for planting can accommodate the 0.79-acre vineyard needed to support the 200-case level, this is the way to go.

Alternatively, grapes could be purchased from an outside source. This would have the advantage of producing and releasing the wine a few years earlier. The major disadvantage would be the loss of control over the grapes and their quality (such a small purchase would not excite most winegrowers).

Although excellent grapes and wines are mandatory, the ultimate success of such a small enterprise as **W**^{7} is largely dependent on outstanding marketing coupled with increased acceptance and usage of the web by potential **W**^{7} customers.

The importance of marketing suggests that the marketing budget should be increased, perhaps doubled.

"…*from the vine come the grape, from the grape comes the wine, from the wine comes a dream to a lover.*"