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Strategic Managementⁱ

by

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Coordination Draft
Comments Welcome

*From the vine comes the grape,
from the grape comes the wine,
from the wine comes a dream to a loverⁱⁱ*

Strategic Decisions

Extraordinary wine is no accident. It is the result of collaborative decisions made and actions taken by members of an enterprise dedicated to excellence in winegrowing, winemaking, and winemarketing.

Strategic management couples long-range planning with development of the organizational flexibility to respond to a reasonable set of future scenarios.

Producing a great wine requires a complex array of decisions that are made months or, in some cases, years before the outcomes. It takes three or more years from planting or replanting a vineyard, and then a year or more before the wine is available to consumers.

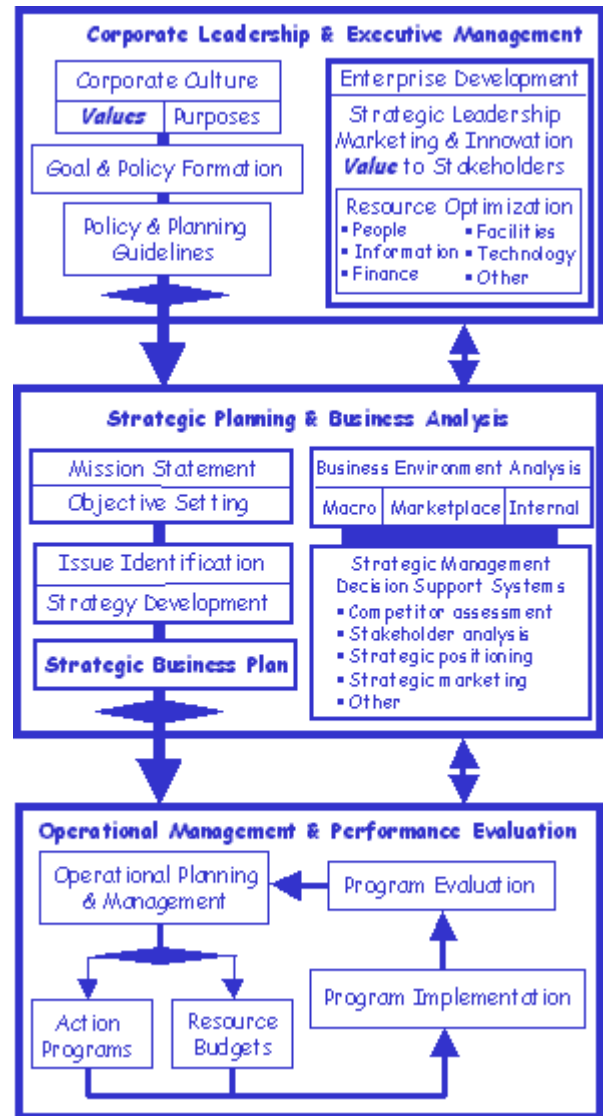
The strategic management process creates a top-down framework within which action programs are implemented from the bottom-up.

The purpose is to deliver value to stakeholders commensurate with the values held by the leaders of the enterprise—leaders at all levels.

WARNING
At least 90 percent of the enterprise's resources should be allocated to Action Programs that yield results important to stakeholders.

Many of the activities suggested by the strategic management model can—and should—be handled informally by leaders of the enterprise so long as they collaborate—communicate, cooperate, and coordinate.

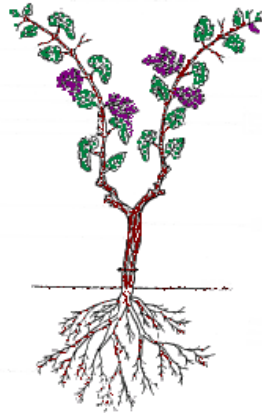
Strategic Management Model



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From the Vine Comes the Grape

Value—Stakeholders in the success of an enterprise include owners, investors, customers, employees, suppliers, neighbors, and others. Although they may define *value* differently most would agree that success begins in the vineyard—that is why viticulture and vineyard operations are increasingly called *winegrowing*.



Purpose—The purpose of a business enterprise is to deliver a product or a service with social and economic utility in the marketplace. Peter Drucker maintains that there “is only one valid definition of business purpose: *to create a customer*.” He goes on to say that because of this the “enterprise has two—and only these two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are ‘costs’.”ⁱⁱⁱ

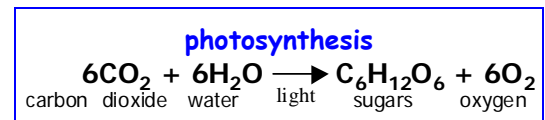
Collaboration—Is a winemaking enterprise grape-driven, wine-driven, or market-driven? If I had to name the most critical individual, it would be the winemaker. Yet a collaborative approach that involves winegrowing, winemaking, and winemarketing—coupled with innovative policies, plans, and programs—is the one most likely to succeed. This is accomplished at the *Corporate Leadership and Executive Management* level of concern where strategic direction is set through the corporate culture, values, purposes, goals and policies.

Winegrowing—Within this framework, winegrowers need to:

1. Articulate a mission statement, for example: *Produce high-quality grapes that sell for a reasonable profit to a winery operation.* Although a statement such as this is at the Motherhood and God level, it can be useful if members of the operation believe in it, understand it, and live it. Obviously, the winery and marketing operations have related missions that focus on wines and customers,

respectively. All three of these missions must be mutually reinforcing. This can occur in vertically-integrated enterprises or through strategic alliances among business partners — formal or informal collaboration at the policy level is critical to enterprise success.

2. Given a mission, specific objectives and strategies to accomplish them can be developed. This usually requires identification, discussion, and resolution of critical issues. As well as a goal such as: Produce ultra-premium grapes for a Bordeaux Blend. Objectives usually relate directly to results that are desired; they should be *measurable*. For example: Produce 173, 22, 11, 5, and 5 tons annually, respectively, of Cabernet Sauvignon, Cabernet Franc, Merlot, Malbec, and Petit Verdot. Strategies to accomplish these objectives may include vineyard site selection, cultural practices, and management practices. Issues include terrior, rootstocks, clones, trellis architecture, vine-row spacing, row orientation, training and pruning, block size, sustainable agriculture and bio-dynamics, water, irrigation, frost protection, worker acquisition and training, safety, permits and compliance, and on and on.



3. Winegrowing policies, plans, and programs—at the three levels of the strategic management model, respectively—should result in action programs, projects, and tasks related to site preparation, infrastructure, vine planting, vine and crop management, vineyard floor management, crop harvest that contribute to values, purposes, goals delineated by the top-down strategic framework.
4. Members of the winegrowing team need to be involved at least in program planning, budgeting, management, implementation, and performance evaluation.

The approach to successful winemaking and winemarketing is similar. The program mix and some policies and plans change. Delivering value to stakeholders remains a shared goal.

From the Grape Comes the Wine

The Deliverable—From the consumer perspective, the finished bottle of wine is the tangible and intangible result of this triad:

- Winegrowing
- Winemaking
- Winemarketing



The winemaker is the nexus. It is he or she that must create the wine.

Effectiveness—Here the concept of effectiveness is critical to enterprise success.

According to Drucker:

“Effectiveness is the foundation of success—efficiency is a minimum condition for survival *after* success has been achieved. Efficiency is concerned with doing things right. Effectiveness is doing the right things.”^{iv}

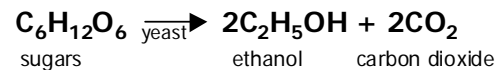
In other words, if you are doing the wrong things—even with great efficiency—the strategic, operational, and economic viability of the enterprise will not be sustainable.

Program Mix—Winemaking programs include:

1. Sensory evaluation of own and competitor products along scientific and hedonistic dimensions. This should involve current and future customers, critics, viticulturists, vintners, and other stakeholders in enterprise success—especially marketing and sales.
2. Pre-harvest analysis of grapes to determine optimal pick dates and to provide feedback to the winegrowing team.
3. Harvest and crush to include size of transport bin, type of crush (*e.g.*, whole cluster), sorting and quality control, SO₂ additions.
4. Maceration and fermentation to support stylistic goals and practical objectives relating to sensory attributes defined by the winemaking team.
5. Blending and finishing to include day-to-day cellar operations, oak aging, and selection of the final blend or blends for the present vintage.

6. Bottling and storage to preserve and protect the wine and the package that will be delivered to customers—present and future—for profits.
7. Management and winemaking practices for sanitation, safety, quality control, continual process improvement, employee capacity-building, and cost control—all within the framework of policies, plans, longer-range goals and near-term, measurable objectives.

alcoholic fermentation



Continual Process Improvement—Winemaking is an exceedingly complex process—an art with science underpinings. It is important that members of the enterprise—and I define enterprise to embrace consumers and customers, winegrowing, winemaking, and winemarketing programs, suppliers, and other partners and stakeholders—continually strive for quality in policies, plans, processes, programs, projects, tasks, people, etc.

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 asset.
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.

Innovation—Thoughtful innovation can and should be encouraged among members of the winegrowing, winemaking, and winemarketing teams.

New techniques and technologies, new practices and procedures should be carefully analyzed as existing ones are evaluated and improved to help the enterprise reach its goals over time.

From the Wine Comes a Dream to a Lover

The Dream—Wine is much more than colored and flavored ethanol. It is surrounded by myth, romance, food, merriment, and other lifestyle related aspects of human existence.

Of course, this is where marketing comes in—to package and promote and deliver what the winegrowing and winemaking teams have created. Marketing must make good on the promises of the enterprise.

Profits, Uncertainty & Risk—Again, Drucker:

“Profit is not a cause but a result—the result of the performance of the business in marketing, innovation, and productivity. It is a needed result, serving essential economic functions. Profit is, first, the test of performance—the only effective test.... Profit has a second function which is equally important. It is the premium for the risk of uncertainty.”^v

Uncertainty and risk are not unknown in the wine industry.

Mixes—Effective winemarketing involves a program mix, product mix, marketing mix, and promotional mix.

The program mix considers some of the items that thread their way down the right side of the strategic management model:

- Marketing and innovation with emphasis on the four mixes.
- Business environment analysis with emphasis on the macro-environment (*e.g.*, government regulations) and marketplace (*e.g.* customers, competitors, cooperators).
- Competitor assessment within target markets.
- Strategic positioning within market segments defined along geographic, consumer lines.



- Strategic marketing
- Operational planning and management, program implementation and improvement.

The product mix often includes more than one product—different varietals, blends, target markets, price points.

The marketing mix includes product, price, place, promotion, packaging, physical distribution.

The promotional mix can include word-of-mouth, advertising, wine club, press releases, articles.

WOW

In the nose, the wine is like a lush garden scented by ripe berry, cassis and crushed violets. A honeyed texture luxuriously flavored by currant and black cherry is embroidered by French oak accents. Flavors recede slowly over a framework of gentle tannins. This is the wine to accompany grilled rib-eye steaks served in Cabernet butter or a Gruyère and herb soufflé.^{vi}

In Conclusion—The achievement of values important to stakeholders in enterprise success demands effective collaboration between and within the winegrowing, winemaking and wine-marketing teams.

The strategic management model can help at the policy, planning, and action levels.

Scenario analysis techniques can help the teams consider reasonable futures and potential strategies that are robust enough to deal with them (and with uncertainty and risk).

Decisions, actions, and results should all move the enterprise toward its goals.

Well-considered decisions and actions at all levels are critical to enterprise success—this is true of global multi-national enterprises as well as gentleman farmers. And, although the strategic management process itself is important, active *participation* in the process is more so.

ⁱ Parts of this article and other articles represent a synthesis and summary of knowledge gained through Stephen Krebs' Viticulture & Winery Technology Program at Napa Valley College.

ⁱⁱ From a song of the 1950s, title, composer, artist long forgotten.

ⁱⁱⁱ Peter F. Drucker, *Management: Tasks, Responsibilities, Practices*, Harper & Row (1973/74)

^{iv} *ibid*

^v *ibid*

^{vi} From http://www.cask23.com/then-now/release_letters/csf960.html