Virtual vineyards essay

CA, faced a problem many online retailers struggled with in the asses: how to reach profitability. Founders Peter Granola and Robert Olsen, 10 months after launching Virtual Vineyards in January of 1995, looked at their company's financial information from the year. The numbers looked good for the most part: high rate of website traffic, revenue was Increasing every month, and consumer demand In the US for wine was on the up. Yet, Virtual Vineyards was not profitable.

Based on our analysis of the case and using outside research, we have determined why Virtual Vineyards was not profitable and how they could have been with a new managerial approach and strategy. What they were doing well: Utilizing Core competencies Grandsons knowledge of wines was a unique value add. He used his expertise and background in viticulture to educate customers on the front end of the business and mitigate well Informed buying decisions on the back end. Understanding the market Customers demanded no hassle buying of wines and at a low price.

Online retail, which was just picking up at the time, was the perfect medium.

Else's technological vim; y and background in computing was crucial in creating an easy to use and secure website to sell low price wine. Problems: Excessive Startup costs Developing a website, establishing relationships with suppliers and setting up warehouses were all very costly prerequisites before Virtual Vineyards could start selling wine. Initial fixed costs swelled to over a million dollars, pushing break even far down the road- a dangerous path for an online-based business.

Large investment in automation Olsen wanted the best technology for Virtual Vineyards right from the beginning and incurred very high capital investment costs. Build consumer database Become more aware of customer needs and reduce marketing costs through better targeting and segmentation. CRM technology will help track opportunities Expansion Building off their current website and using existing resources, they can benefit from economies of scope by entering similar industries.

Key Issues Since it's opening in 1995, Virtual Vineyards has become " one of the most popular wine buying sites on the Internet" (Rapport, 1).

The site hosts over 1, 500 visitors a day and shortly after its launch was increasing revenue up to 20% per month (Rapport, 1). Yet, like many online companies, Virtual Vineyards was struggling to break even . The company has not yet reached profitability. This was a common problem at that time for many start up Internet companies, and still remains a problem for Internet companies today. The company instead invests a lot of capital in automation technology, resulting in a lack of solely company profit.

Another problem the company faces is its lack of customer data. The company does not Just lack demographic data about their customers, but also data about specific items purchases, and specific tastes in wine and related products. With this problem also comes the problem W faces solely from being a company whose product is sold through the barrier of a computer screen. The company needs to be able to build and sustain long-term customer relationships which is hard to do when business is not done face to face.

Lastly, a broader problem Net Contents faces is not knowing the best way to increase their sales volume.

They are unsure whether to begin offering specialty foods and fresh produce or Just stick to wine, even though their technology infrastructure supports a larger traffic volume than W accounts for on its own. Supporting Argument Virtual Vineyard's lack of profitability is a large problem the company faces because people are in business for profit. If the company continues to not create profitability, from the point of view of management, there will be no reason for its existence.

The company must begin to create profit so it can become a value driver for its owners and for Net Contents. In addition, the lack of customer data W has on its customers and the difficulty they face in building long term relationships with their customer through a computer screen, are great problems that threaten Was survival.

W needs to learn more about heir customers to further customize their offerings, whether it be through recommendations or pairings, but the customers need to feel valued by the company in order for a long term relationship to be sustained (Hill, 147). Maintain, and not knowing what type of buyer your customers are (innovators, early, adopters, early majority, or late majority) makes it difficult to know why customers are staying or leaving (Lamb). This uncertainty also makes personalization of products and marketing even more difficult, especially since Olson and Granola have no knowledge " about the specific items purchased" by the customers or what

percent of ales " were from people who had bought from the company before" (Rapport 13).

Finally, Net Contents issue of further differentiating their products is a great issue for the company because it would change their business model completely. If Net Contents chooses to expand its product line it would greatly affect the company because Olson and Granola would have to decide if they wanted to create brand recognition for the company as a whole or for individual sites.

This move would affect W through an increase or decrease in customers that had either good or bad experiences with Net Content's other companies.

It would also alter the ways W maintained user satisfaction and retention with current users. Alternative Strategies Virtual Vineyards has yet to reach profitability, due to its high costs in automation and technology, leaving a need for the business to either acquire more revenue, or cut costs dramatically. Like many Internet start up companies, they have the possibility of losing relevancy without gaining profitability. Virtual Vineyards also struggles with tracking their customers' interests and wine buying habits.

While the proposal to build a new database that enables customer and inventory tracking costs he company an additional $900, 000, the new database has to the potential to increase revenue while cutting costs over time, as well as provide the company with much needed customer information.

By building a new database, the company will rely less on manual work to update and maintain the website, cutting costs significantly. By tracking customer information and purchases, the company will be able to provide product suggestions to the customer, encouraging them to buy more wine more often.

This could potentially lead to an upward spike in sales, especially considering the success of impasses such as Amazon that have utilized similar customer management systems. From the use of this type of system Virtual Vineyards can better understand their clients needs and have the ability to keep their hold in competitive advantage in the marketplace (Appendix A). Because Net Content wishes to differentiate its product to lines of businesses beyond the wine industry, they face a major issue of whether or not to build their virtual stores off of Virtual Vineyards, an established brand name, or to make each organization unique.

Both strategies have a high risk- reward element attached to them.

Net Content is attempting to expand into the gourmet food and produce businesses with these two new stores. If Net Content decides to build them off of the Virtual Vineyards, they will have the luxury of a pre- Vineyards brand. However, Net Content would be limited in their gourmet food and produce inventories given that these businesses are built with a wine focus attached. This, in turn could prove the venture to be unsuccessful in maintaining consistent food sales because Virtual Vineyards customers are primarily searching for wine when they visit the W website.

On the other hand, if Net Content decides that alluding the virtual stores outside the W brand is the route they'd like to take, they have an opportunity to establish an entirely new customer base outside of the W marketplace. This could lead to hugely increased profits for the company as a whole due to the opportunity to merge Net Content's differing customer bases from establishing virtual stores to the Virtual Vineyard market.

However, if the company's two new virtual stores fail to establish a footing in the market, they will represent two hugely expensive failures.

Recommendations One strategy that would help Virtual Vineyards would be to create a database for heir website. This would help solve the problem of tracking customer data and would also help them turn a profit. Creating a database would not cause any real ethical problems. It does not contradict any of the values that management or the implementers have. Most of the employees of the company have technical backgrounds so they would definitely support this option.

This may, however, pose an ethical dilemma in consumer online privacy rights.

Many people are afraid of having personal and financial information about them stored on the internet, they would probably not be too eager about the implementation of this database. However, this problem can be easily solved by having people choose to have their information saved. Many, if not most individuals willingly post their information on the internet and may not object to having W store their data. An example of this is how prominent Faceable

has become, so besides a select few, this should not cause any problems for society or any basic universal morals.

Creating a new database would definitely help solve the problems the company is facing.

The only effective way to keep track of customer data is through databases, and for a company to sustain a competitive advantage it must be aware of its customer needs so it is able to respond to any requests (Hill 98). This way they can see what they ordered, give suggestions about other wines they would like or what other users had purchased. They can also send out information about sales and other promotions through this system.

This system could also help generate a profit because it creates the possibility of creating more sales. Suggested items could create bigger orders, making them more money and the promotional items will cause many customers to return. This option will be very effective for the company.

This strategy, while costly up front, will prove to be efficient long term. A database is expensive, costing around $990, 000 as stated above, however it does not take very long to create. Virtual Vineyards could either hire someone to create it for them, or create it.

Many of the employees have the technical background to be able to create the database. This solution is also cost-efficient in the long run. It is expensive to start, however it will help grow their business and it will allow them to continuously grow as they get more and more customers.

This option would give them a competitive advantage. They are already in a niche market that is not perceived as technologically advanced. Using a technology that no other online ordering services use will give them an even further edge in their market.

The combination of leading technology and W management's knowledge of wine will give them an edge over the competition.

This strategy should not cause any disruptions to the rest of the operations of the company. This option is expensive, however it is very feasible. This option solves two of their main problems, and will allow them room to grow. They have a small staff that have technical backgrounds.

Currently, many of the staff members have to do multiple jobs for the website to run. Once the database has been implemented, many of the staff members can begin Just focusing on one Job.

This will make each Job get done faster and the staff member will probably do a better Job at it because they do not have to worry about multiple projects. This project is also consistent with the company. Internally, a database fits with the backgrounds of many of the team members. Externally, the database is essential since almost all online retail stores have them, this option is also dynamic because it is easier to update and change as he company changes.

The other issue facing Virtual Vineyards is expansion: Should they expand off the original site, or should they create two more independent sites?

Both of these options have no ethical ramifications for management, the implementers, society or any universal moral principles. Both of these options also solve the problem that Virtual Vineyards is facing and can be finished in a timely manner. However, if the company chooses to build off of their original website, it will be completed faster since they will be using the same interface that designers are already use to using. Both of these options are also cost efficient.

They would also both cost about the same to implement.

Both of these options also create a competitive advantage for the company because they would be entering into a market where there is not a lot of competition and they already have created websites like this before so they have a knowledge advantage over any new entrants. Neither of these options cause a disruption to the company. Both of these actions are also feasible and they are consistent.

They fit with the internal dynamics of the company, they are in line with he external competition. Both of these options are also dynamic so they are able to change and grow.

Although both of these options benefit the company, the better option for Virtual Vineyards, the better option would be for them to build off of their current website. With this option, they already have a website that has a good reputation and that has engineers are also familiar with this website so it would be easier for them to develop and maintain similar sites.

Another advantage with this option is that W would already have a customer base that would not exist with the other option. They would also be able to recommend food pairings with the wines that were Just bought through the W website.

They would also be able to get more customers to visit their sites because of the gourmet food and produce. These customers may also explore the wine section of the website that they would have known about if they had been browsing a separate website. The better option for W is to build off of their current website. Implementation It will not be very difficult to implement the database.

Virtual Vineyards needs to purchase servers so that they can store all their customer data. They also need to set up a server room so that they are able to store this.

They may already have a room like this set up because they are an online retail company. Once the server is racked they need to purchase a server software to run their database on.

Or they could download Linux, a free operating system that many companies use to run their servers. After this they need to set up their database systems and make sure that they system can handle the incoming data. Now that everything is set up, W Just needs to make sure that they consistently check for updates so that their servers run tit ease.

All of this can either be done by a small team of Virtual Vineyard employees or they could hire an outside contractor to do this for them.

Virtual Vineyards should build off of their current website and the implementation of this will not be very difficult. The engineers are already familiar with the current site so it would take less time and money for them to design the add on to the website. They would need to set up a supply chain to get the gourmet food and produce, and this would be easier to do with already established Virtual Vineyards site.