

Freemark abbey winery essay sample



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Wine making is a process dependent upon many different variables. A lot of decisions are made which can affect the overall quality of the wine being produced. It is important that each decision is made to optimize the overall quality of the wine, thus optimizing the market price. In 1976, a business partner of Freemark Abbey Winery, William Jaeger, had to make an important decision that could affect the company's bottom line. A storm was heading towards the vineyard. If the storm produced a heavy rain, it could potentially ruin the crops. However, if the storm produced a light rain, it could create a beneficial mold that would increase the value of the crops. A decision had to be made immediately to either harvest the Riesling grapes or leave them on the vines.

Based on the local weather reports, Jaeger thought there was a fifty-fifty chance that the rainstorm would actually reach the crops at the vineyard. If the rainstorm did reach the crops, he thought there would be a forty percent chance the storm would produce a light rain, possibly helping to create the botrytis mold. This mold is very beneficial for this particular crop. More precipitation than a light rain however, could swell the berries. This would decrease their sugar concentration, making them less valuable, or worse, it could ruin them all together. All of these different variables would affect the selling price of the crops. It is important to note that Riesling wine makes up only four percent of the Winery's total business. The following is an analysis if Jaeger should make the decision to harvest the crops or to leave them on the vines.

Decision Problem:

The ultimate decision is to either immediately harvest the crops or wait. The

simplified assumptions are given: Harvest or wait

Fifty percent chance it will storm

No storm - probabilities of different sugar concentrate levels in the grapes

Storm - probability of mold versus the probability of no mold (diluting) Each of these assumptions affects the selling price of the wine product. It is important to analyze the previous assumptions and pick the option that creates the most value for the company, also keeping in mind that this crop only accounts for four percent of the company's sales.

Decision Alternatives & Evaluation:

The best way to determine the optimum solution is to evaluate the expected value of each scenario. This is done by using the information given from the case study, and Microsoft Excel program to calculate the value for each probability.

Assumptions:

Excel Calculations:

A decision tree helps structure the assumptions and calculations into a framework that is concise and insightful.

Conclusions and Recommendation:

The best logical decision, based on all of the probability factors, would be to wait versus harvesting immediately because the company would obtain a higher value in waiting. All of these decisions are based on having accurate information. If any probabilities are changed unfavorably, it could skew the decision, making it more logical to harvest immediately. Also, there is a

certain level of risk associated with giving up control. Since Jaeger cannot control the weather, he is forgoing control of an immediate harvest price of \$34, 200 for potential higher gains. This is a classic risk/reward scenario.

What should also be considered is that Jaeger is only risking four percent of the company's total business. Since this is a small portion of total revenue, Jaeger should be able to take more of a risk for a higher potential gain.

Based on the calculations and low-level of overall risk, it is my recommendation to wait to harvest and risk the possible amount of rain in order to gain a higher profit for the company.