

# Example of report on social responsibility strategy and operating practices

[Business](#), [Company](#)



## **Report on Frog's Leap Winery:**

### - Company Overview

Frog's Leap Winery motto, "Time's Fun when You're Having Flies" and a visit to their website resonates the mantra of having fun while making wine, of John Williams, the co-founder, owner, and CEO/wine maker of Frog's Leap Winery. The company produces some of the best wines from Napa Valley, which John started producing commercially in 1981 and named the winery Frog's Leap. The name was inspired from the location, on a spot along the creek in Napa Valley, Rutherford, California known as Frog Farm. As Frog's Leap and its team strived to produce wines that deeply reflects the soils and climate from which they came, they adopted the process of organically growing grapes and the most traditional winemaking techniques.

The company has evolved to the present state where it manufactures an annual production of about 60, 000 cases composed of Varietal brands inclusive of white wines made from Sauvignon Blanc and Chardonnay grapes. They also produce red wines from Zinfandel, Merlot, plus two more wines made from Cabernet Sauvignon and Petite Sirah. Additionally, Frog's Leap also produces the comically named Frogenbeerenauslese, which is a 100% Riesling and La Grenouille Rougante. In addition, the winery manufactures its own olive oil and honey.

Frog's leap employs approximately 50 people, who enjoy a "healthy work environment, reasonable compensation, and vacation time and health benefits" (Armand Gilinsky, Jr.). Employees have a sense of job security as the company's employee turnover is minimal, and staff has no need to worry about being laid off. Since there are times during the production cycle where

labour is miniscule, but with the adoption of the Environmental Management Systems (EMS), employees have more than enough work to keep them gainfully employed full time. However, with all that the company has accomplished it still has much work to do to ensure its sustainability, increase its revenues and service its debt. In an effort to accomplish these tasks, sustainability is foremost on the list.

Frog's Leap has completed many EMS projects including organic and biodynamic growing techniques, both methods primarily involve increasing soil health by using cover crops and compost. From implementing these techniques they started to create their own source of compost and also moved towards being energy self-sufficient by investing in geothermal and solar power. These systems produce approximately 450, 000 KW-hours of electricity, which according to (Armand Gilinsky, Jr.) " will save CO2 emissions equal to not driving four million miles". From the various EMS investments, the company now has one of the lowest operation costs of any manufacturing company. They will continue to reduce expenses and have higher returns from these initiatives.

#### - Social Responsibility and the Triple Bottom Line

Frog's leap in its passion to make awesome wine from the best environment has automatically displayed their social responsibility without much consideration when they adopted the use of an Environmental Management Systems (EMS). Social responsibility as stated by Investopedia " is the relationship businesses have to the society and environment in which they operate". However, the building of a sustainable business is more than environmentally and socially responsible, and must also address the possible

combined effect of humanitarian responsibilities and the goal of profit maximization, which is the triple bottom line.

Frog's Leap has a triple bottom line strategy in demonstrating its social/environmental responsibility. They are tackling the issue of sustainability in three aspects, which Titan Consulting says, include a strong brand/customer loyalty, environmental/social responsibility and financial stability/health. 'Triple bottom line,' simple means that manufacturers need to consider the effects of their various actions on 'people, planet, and profit,' that is, creating social, environmental, and economic value. Frog's Leap in an effort to confront survival threats from the world's natural influences, such as the constant rise in energy prices, scarcity of water. As well as increasing worries of chemical exposure, and the effects of climate change is manifesting within the company.

Internally, they are creating sustainability from the varying investments of numerous amounts spent on transforming the production and operational methods to a system that enables the company to save money in various aspects, while protecting the environment. Adopting the EMS has been a money saver for Frog's Leap in ways such as, elimination of paying someone to haul away waste because they make and use their own compost (Armand Gilinsky, Jr.). Using natural soil fertility to control the potency of the grapevine, and the health and stability of the fruit, and is therefore more beneficial to the fermenting wine. Thereby avoiding many of the glitches that would have otherwise been a challenge in the wine cellar at a later stage of the production process, which would have cost much to correct at the later stage (Armand Gilinsky, Jr., Sonoma State University).

Armand Gilinsky, Jr., says, the savings from the solar and geothermal system are obvious even though it has cost a great deal more than other EMS that have been implemented. The system is said to have a warranty of 25-year, and the cost of repayment surmounts to six years, therefore the company will have free electricity for 18 years. On the flip side, the monthly loan repayment is far less than what they were paying for the electric bill. According to Armand Gilinsky, Jr., the implementation of the various EMS, in the short run reduced the company's income, increased their debt and added significantly to the operating costs. But these first few steps leads to a future, which seems to be heading in the direction that is in keeping with the principles of sustainable farming.

As it relates to social responsibility domestically, Frog's leap strategy is commendable but it is detrimental to its revenues and profitability. They have initiated many EMS projects which lower cost, and this is good, but the returns for all their efforts are minimal because according to Armand Gilinsky, Jr, 80% of their net sales for wine in the US have been earned by resellers. Wines to resellers typically are sold at 50 percent off the retail price, in order to provide markup incentives for moving products along the chain. The company only has about 12 percent net sales from direct consumers, when direct consumers have generated higher gross profit margins for wineries than sales to resellers, as wineries could charge consumers full retail prices (or provide a slight discount for wine club members).

Regardless of the painstaking, malnourished returns they have been receiving from the continuous transformation of the business to a fully

functioning EMS to ensure their sustainability. They have managed to have great social impacts, as illustrated by Armand Gilinsky, Jr., the workers receive stable wages, and they don't need to be worried about proper housing and good quality healthcare, nor where their children attend school. There are fewer problems with documentation as most fieldworkers are immigrants, superior health, fewer crimes and use of the community's safety net. The Mexican workforce has been beneficial for the company, hence Frog's Leap have no qualms about returning that favor in terms of a good compensation package - they get paid, three-week vacations, 401(k) plans and health benefits and healthy work environment with full time employment.

Armand Gilinsky, Jr., also states that the company benefits from its measures to induce its social responsibility to its environment and community, they have well-trained and experienced workers, which amounts to fewer safety issues. They endeavor to have an engaged, and highly motivated workforce, which has increased to over the years by 50 field workers and other staff including three managers. Frog's Leap recognizes that the adoption of EMS not only produces better quality wine, but it is overall sensible decision for giving back to the community and the society, while enhancing the quality of life for the employees, plus it is better for the environment. 'Respect where the grapes are grown,' is what everyone has been saying for decades.

In addition to all their social efforts, Frog's Leap have hosted a Sustainable Wine Growers conference each year since 2006, the purpose of these conferences was to share information and best practices. Attendance had grown from ten to over 250 California wineries out of 329 members of the

California Sustainable Winegrowing Alliance in just five years (Armand Gilinsky, Jr.). It is evident that the loyalty of their consumers stems not just from the great tasting wine they produce. But also from the company's commitment to its social responsibility to the community it does its various business activities in, and its unrelenting consideration for the environment. The company has minimal impact internationally as the company has only 7 percent sales from exports to Japan, and no real commitment to social responsibility is in effect.

#### - Operational Practices

Operational practice is the process of developing and following a standard way or method that has consistently shown superior results. There are many benefits derived from operational best practices, and growing grapes organically has its advantages as well. Frog's Leap is wholeheartedly committed to dry-farming, from the Healthy Beginnings lifestyle Magazine, this method means irrigation is pointless because to the soils capacity to retain its own water, another plus for the environment as well as conservation. Instead of using weed killers and the tilling methods, vines can be protected from pest by using cover, which causes the soil to be healthy and the grapes are provided with nutrients and winter water. The wines character is also improved by using cover crops, which allows vines to be deeply rooted (Healthy Beginnings lifestyle Magazine, 2006). It has been said, that a pound of healthy soil retains as much as nine nine pounds of water, whereas irrigated water will run off desiccated, dry soil, which causes erosion (Armand Gilinsky, Jr.).

As stated by Healthy Beginnings lifestyle Magazine, 2006, unlike industrial

farming, Frog's Leap organic vineyard is naturally impervious to disease, therefore, it does not need herbicides or pesticides, which leads to nutrient-deficiency or 'dead soil'. According to Healthy Beginnings lifestyle Magazine, an inorganic vineyard has an average lifespan of 13 years, but Frog's Leap CEO wishes that is vineyard out lives him since he has no intention of replanting but wants to allow the way of nature to rejuvenate the vines to as they develops. Frog's Leap incorporates Biodynamic growing into their farming practices, and the farms composting methods is in alignment with the biodynamic practices.

Frog's Leap's Vineyard House is L. E. E. D (Leadership in Energy and Environmental Design) certified, denoting that all material used to construct the facility, is recycled. The building also utilizes geothermal heating and paints that are low-emitting and fabrics that are non-toxic. The farm host an enormous two-story warehouse with all of the wood recycled from a condemned bridge, a Vineyard House and an organic garden, grown specifically for employees and family behind the vineyard house to enable privacy. Frog's Leap believe "The first step is to conserve, the second is to produce" for this belief the farm utilizes all available recycling services.

The operational practices of Frog's Leap are not only about the environs, they also reflect good business. According to Jerry James Stone, 2011, the company's yearly electric bill amounted to \$50, 000 so converting to solar was the best financial decision. Frog's Leap Vineyard as mentioned before is fully solar-powered by many photovoltaic panels positioned on half an acre, which provides power to 150 homes. The environmental benefits are remarkable, as CO2 emissions are reduced by 1600 tons, which is equal to



planting 440-acres of trees. Any unused energy by the winery is sold to the power company, thereby generating energy for others. It is not just the organic wines, nor the green-buildings that make Frog's Leap an exceptional vineyard, but also the employees.

As it relates to employee sustainability, attaining good labor poses a significant challenge within the winemaking industry, because migrant workers are seasonal plus there is fear from workers of using dangerous pesticides. Proposing shared-labor between vineyards in the community is a proactive approach taken by the company in an effort to combat the issue. Sharing the labor force allows winemakers to provide their workers with insurance benefits and stable employment. Through the efforts of John Williams, employees are able to live in the neighborhood, which encourages loyalty and commitment that imparts success on the vineyard. According to Healthy Beginnings lifestyle Magazine, John says " Farming, winemaking and having a family business means to have a longer view, organic is the path to make our wines better and higher quality and not only better for our bodies, but our business and environment."

- Does Financial Performance Match Social and Environmental Performance?

After looking at the company's social and environmental performances on the road to sustainability, it financial performance as yet to match up to its environmental dedication, they are indeed turning profit and making waves in the use of EMS. There is no doubt of that because even in a recession when other companies similar in nature and otherwise were struggling to survive, Frog's Leap made it look easy as according to Armand Gilinsky, Jr., they remained mostly profitable during the 2009-10 recessions. They also

managed to make incremental cash flows from the tasting room via direct sales customers, and members of “ Fellowship of the Frog” wine club, as well as other innovative cash flow reinforcements. However when you compare the company’s approximate net sales of \$12 million per annum to the debt they are servicing of 22 million, it is clear that their financial performance is nowhere near their social and environmental performances.

#### - Sustainability Action Plan Over the Next Ten to Twenty Years

A sustainability action plan for the next ten to twenty years, is very achievable for Frog’s Leap since they have done the ground work to attain longevity. Frog’s Leap still has a long way to go to becoming a truly sustainable winery but have done many of interesting things, and many big projects to be where they are currently. The company as stated by Armand Gilinsky, Jr., is confident that they are now heading to the more exciting and interesting ideas that will propel their philosophy further. Frog’s Leap need to take a three step approach in creating sustainability. They need to look at internal, domestic and international factors.

Internally they need to acquire Certified Benefit Corporation status from B Lab, and track sustainability efforts with transparency. Domestically they need to increase consumers’ direct sales by increasing online direct sales and sales through Fellowship of the Frog club, and establish brand loyalty in the US market. In the international arena, the company needs to increase sales volumes in Japan and China, and mobilize marketing campaigns to gain traction in growth markets. Frog’s Leap Winery has pioneered more than a few sustainability initiatives but has yet to enhance its reputation for sustainability. They should aim to be the leaders or trend settings in the wine

industry for sustainability through the adaptation of EMS; therefore, they need to create a shaping strategy.

A shaping strategy as defined by John Hagel III, John Seely Brown, and Lang Davison, 2008, “ is an effort broadly redefine terms of competition for the market sector through a positive, galvanizing message that promises benefits to all who adopt the new terms”. The company needs to first, make efforts to consolidate sustainability through B Corp as other notable companies like Ben & Jerry’s and Patagonia have done (Titan Consulting). Frog’s Leap applying to become a Certified Benefit Corporation, under B Labs, will help consolidate their initiatives thus far, and leveraging on it for its marketing and brand strategy. Marketing campaigns led by B Lab are done free of cost such as publicity through news articles and publication ads. Thereby saving cost on marketing, plus they offer heavily discounted services like salesforce CRM software and Legal protection against creditors (JC VanBrunt, Camille Sabino, Yuuka Fujimoto, Mark Tang, 2013).

Domestically, there is much that still needs to be accomplished. It was already noted that 80% of net sales for wine in the US have been earned via resellers, EMS projects lower cost but with waning revenues. However, achieving higher profit margins are possible by increasing prices or selling wine through more lucrative networks. It is highly recommend that placing emphasis on direct sales through the Fellowship of the Frog, and online direct sales via social media and email advertising is the way forward.

Launching a marketing campaign will allow Frog’s Leap to continue building its brand by, reaching out to baby boomers and Gen X, and the growing wine customer segment known as LOHAS (Lifestyles of Health and Sustainability).

This segment of 'green' consumers according to Armand Gilinsky, Jr. focusses on "health and fitness, the environment, personal development, sustainable living and social justice. The segment was is at about 38 million people, or 17 percent of the U. S. adult population". These marketing efforts will allow the company to engage the customer, building customer and brand loyalty and driving sales.

In the international arena, increasing exports to Japan and infiltrating China is the best option as the company currently exports to Japan, which accounts for 7 percent of its net sales. According to (JC VanBrunt, Camille Sabino, Yuuka Fujimoto, Mark Tang, 2013) these countries are the most accessible international markets for Frog's Leap Winery to take advantage of the higher profit margins and run marketing campaigns in order to start building the brand there. To gain traction in these countries the company has to provide the right solution to overseas consumption problems and educate consumers on wine to give the right perception of the wine's value and benefits, thereby allowing speedy entry into the market.

The company already has a foothold in the Japanese market, and should focus on expanding its customer base. They can start by educating the target segment on how to dilute the alcohol level of the wine by simple methods, as having their wine on the rocks, since most Japanese consumers prefer low alcohol content beverage. On the other hand, they will need to infiltrate the Chinese market, as illustrated by JC VanBrunt, Camille Sabino, Yuuka Fujimoto, Mark Tang, 2013), the Chinese are not fully educated on how to appreciate wines, and therefore, a good educational campaign would suite this target segment - of the upper middle-class, regular wine drinkers,

and aged 34 and under. They are also receptive to educational information, and increasingly willing to try and pay for wines, hence, setting up booths at wine conferences to educate consumers on Frog's Leap wines and its health benefits, is a move in the right direction.

" A well-executed shaping strategy mobilize masses of players to learn from and share risk with one another—creating a profitable future for all" (John Hagel III, John Seely Brown, and Lang Davison, 2008). Frog's Leap is weighed at least in some measure by its social and ecological costs and benefits, which has given them confidence to host a conference on organic vineyards and sustainable farming since 2006. The company has truly been mobilizing the masses because the conference attendance has grown according to Armand Gilinsky, Jr., from 10 to over 250 California wineries out of 329 members. According to Healthy Beginnings lifestyle Magazine, John Williams is a catalyst for change in the Napa region he calls home and is calling all fellow vineyard owners to follow suit because he is not stopping at his own property, his dream extents to the local, and global arena.

#### - Voice Strategy

Frog's Leap in its efforts to implement and enforce the various strategies will have to combat reason and rationalizations from potential skeptical investors, business professionals and regulators. A recommendation is that the company employs the " voice" strategy, which is deal with giving voice to values in an effort to negate any rebuff of his ideas. The voice strategy involves defining your personal and professional purpose explicitly and broadly before conflicts or disagreements arise. The company has to decide, what is the impact Frog's Leap most want to have? And then appeal to a

sense of purpose in others they wish to influence or persuade. Anticipate the typical rationalizations given by skeptical investors and identify counter arguments, and know what has enabled and disabled them in the past, so they can work with and around these factors.

- Conclusion

Frog's Leap has done a marvelous job, thus far in its goals to achieve sustainability, and have accomplished its various projects while indulging in social and environmental responsibility, and keeping with its operational strategy. The co-founder/CEO John Williams is not satisfied with his own property but wishes to expand locally and is also aiming for the global market. All seems possible because they have made a strong foundation that can help them achieve all their goals for every route they can imagine, both domestically and internationally. As long as they continue their operational best practices and maintain a strategy that incorporates people, planet and profit - the triple bottom line, they will over the next 10 to 20 years outlive the competition.

## **Works Cited**

" Company overview". Web. May 15, 2014 < <http://www.frogsleap.com/flash/intro.html>>

" Frog's Leap Winery". Nutrition, Organics, Sustainability, Travel. Healthy BeginningsMagazine. August, 2006 < <http://hbmag.com/frogs-leap-winery/>>

Gilinsky, Armand, Jr. " Frog's Leap Winery in 2011—The Sustainability Agenda [Case andVideo]". Sonoma State University. North American Case

<https://assignbuster.com/example-of-report-on-social-responsibility-strategy-and-operating-practices/>

Research Inc. n. d.

Hagel, John III., Brown, John S. & Davison, Lang". Shaping Strategy in a World of Constant Disruption. Harvard Business Review, the Magazine. Harvard Business Publishing, October 2008

" Harvesting Frog's Leap Winery's Sustainability to Bear Fruit". Titan Consulting. n. d. Web. 15 May, 2014

" Social responsibility". Investopedia. Web. 15 May, 2014

Stone, Jerry J. " Frog's Leap Winery: Saves 10 Million Gallons of Water a Year with Dry Farming". Treehugger. MNN HOLDING COMPANY, LLC, 2 February, 2011. Web. 16 May, 2013

Van Brunt, JC., Sabino, Camille., Fujimoto, Yuuka., & Tang, Mark. " Harvesting Frog's Leap Winery's " Sustainability to Bear Fruit". Titan Consulting, 2013. Web. 16 May, 2014