

Delamere vineyard

Business



Delamere Vineyard struggles to generate a consistent net income during the company's quest for quality wine. Richard Richardson, owner, manager, and winemaker is concerned about the long term future of Delamere Vineyard. GOALS/OBJECTIVES: Develop the highest quality of Wine Richardson has been known for developing great wine and is constantly looking for ways to improve the overall quality. In 1994, customers even stated that his Reserve Pinot Noir was amazing and far superior to their competition.

Richardson currently believes in three potential improvements exist and I have outlined his potential projects (highlight below). Option 1: Prevent Excessive Oxidation (Determine optimum SO₂, level) a.)Potential Benefit: Prevent oxidation; improve the consistency and "fruitiness" b.)Risk: Decrease complexity c.) Capital Expenditure: Zero dollars d.)Production: 10%-30% scrap This option would allow Richardson to produce a consistent wine on a year to year basis. Wine that uses SO₂ will still command a high price and sell very well on the market. Less risk can be associated with this method as well.

On the downside, by producing wine using SO₂ you tend to reduce the individual character of the wine. Initially Richardson will risk the chance of losing some of his harvests; given Richardson previous chemistry background, he should be able to develop a formula faster than others. Option 2: Deepen Red Wine Color (Implement Rotofermenter) a.)Potential Benefit: Improve customer reception; 10% price increase b.)Risk: Altered taste c.) Capital Expenditure: Rotofermenter \$30, 000 d.)Production: 10% Richardson has stated that customer's traveling to his region and surrounding markets prefer wine with darker color. By using the rotofermenter,

Richardson will be able to create a darker wine, which he believes will increase his retail by up to 10%. Based on Richardson's revenue from 1997 this method would generate an additional \$24, 391. 80 in sales. This option does raise the risk of potential oxidation, which in the past has plagued Richardson. The rotofermenter also has a chance of altering the taste the wine. The cost for introducing the rotofermenter is \$30, 000. Option 3: Optimum Fermentation Mix (Whole bunch; Destem: Full Crush) a.)Potential Benefit: Greater complexity, " character" b.)Risk: Customers may reject c.) Capital Expenditure: New fermentation tank .)Production: 20%-40% This method has the potential to produce amazing wine that could sell at a much higher retail. The final product will not be similar to Richardson's competition base and could potentially give him the edge in pinot noir sales; adding complexity to ever bottle. However, the taste and quality will vary from barrel to barrel. Lots of risks are associated with this process. This method would require that the grapes are handpicked and also smashed by feet which would increase labor costs. Consistency would be the largest problem and could potentially lead to decreased customer satisfaction.

Close to 88% of Delamere's customer base tends to purchase's wine based on consistency and price, rather than the complexity and character. Delamere's current customer base is comprised of 58% cellar door purchases, 37% wholesale purchases and 4% to Mail order purchases. The chart below outlines the percentages of business for Delamere Vineyard.

Delamere Vineyard % of sales 1997	Delamere Pinot Noir	Reserve Pinot Noir	Dry Red	Chardonnay	Dollars
	\$179, 424. 00	\$32, 671. 00	\$31, 823. 00	\$36, 118. 00	\$280, 036. 00
Avg. \$ per bottle	12. 75	16. 85	10. 2	Bottles Sold	

1407219393978354123530 % of Business 64. 7% 11. 67% 11. 36% 12. 90%

Delamere Vineyard does have small percentage of his customer's that prefer the complexity and unusual character of Richardson's Reserve label. However, this particular customer accounts for merely 12% of their total wine business. During Richardson's 12 years of winemaking the specter of oxidation has reared its ugly head several times. In 1993, Richardson lost his entire vintage stock of chardonnay and in 1994 his pinot noir which was considered by many as his best but was criticized by Judge James Halliday as "prematurely aged", indicative of oxidation.

Some of Delamere's customers have recently commented about a lack of consistency with Richardson's wine. Below is a comment from one of Delamere's wholesaler's. "Richard, I'm worried about this year's pinot. It's very different to last year's. What are you doing different? I'm worried that if I sell this to restaurants that took last year's they're going to be surprised, and perhaps disappointed" --Wholesaler, commenting on the 1994 whole-bunch reserve Pinot Noir. -- Generate a consistent Income Over the course of 8 years, Delamere Vineyard has struggled to produce a consistent net income.

As seen in the graph below, Delamere Vineyard's net income was as low as -\$41, 124 in 1993, and as high as \$70, 218 in 1997. The lack of consistency makes it very hard for any business owner or manager to manage their business. Richardson has stated that wine making has its peaks and valleys and that your goal as a wine maker is to minimize the valleys and capitalize on the peaks. As you take a closer look at the graph, you will notice that that

Delamere's income never really spikes during its so called peaks and plummets during its so called valleys.

What is most concerning is Richardson's inability to capitalize on what many have stated as being his best Pinot Noir wine in 1994. Following this harvest Richardson produced good profits, but not records numbers. Profitability has not been a focal point of Richardson business in previous years. However, it should be something Richardson looks to improve given the statistics above. Relying on the peaks of Delamere is like hoping one gets lucky. Expand current operations: Option 1: Plant more grapes Richardson is currently only using up 8.1 acres of the available 21.3 acres, which accounts for only 38% of his land suitable for vineyards.

Below is an example of how much Richardson could increase production by merely doubling his operations.

1997 Delamere Vineyard Production	pinot noir chardonnaytotal	Estimated production	Acres of vines currently planted
6.91	28.116	2	Yield per acre (Tonnes)
3.363	366.721	13.44	Liters of wine produced
16.2682	9052921.2685	842.536	Casks (barrels)
721385	170		Evaporation and scrap (liters)
976174	11502300		% of scrap
0			Total Liters wine (net)
15,292	2731180	2336046	Cases
1699303	20024004		Bottles
20,389	3641240304	8060	Library and Owners Use
400100500	1000		% of grape type
0			Total Bottles (net)
19,989	3541235304	7060	

Option 2: Expand the Cellar Door Sales As stated above, Richardson is currently using 38% of his 21.3 acres. The "Cellar Door" has become a unique experience for many of Richardson's customers and also been a great source of revenue—roughly 58 % of Richardson business. The vast majority of the Cellar Door customer's our tourist to the Tasmania region and <https://assignbuster.com/delamere-vineyard/>

Richardson should consider adding lodging accommodations for these guests. Richardson could possibly encompass one night's lodging, wine seminar, and a case of wine. The obvious downsides would be the building cost and also additional employee help.

Hire Additional Help: Add an additional employee that oversees the daily operations of the vineyard. This would be an added expense, but it will give Richardson the ability to focus on perfecting the wine making process. This will also help aid in future growth of the vineyard. **Recommendation** Given the fact that it will take time for planted grapes to harvest, I've broken down my recommendations based on years of operation. **Year 1** In year one I'm recommending that Richardson start adding SO₂ to his wine. Given Richardson's chemistry background this should be relatively easy to implement.

This change can be completed with very little start up cost and will help produce a consistent wine on a yearly basis; improving the overall quality of Richardson's wine. The new wine consistency will pay dividends with Delamere's wholesale customers—which accounts for 38% of his yearly business—where consistency has been critical. The addition of SO₂ has been instituted by other vineyards already and has been received well throughout the market place. Over/under oxidation will also not be as prevalent as in the previous years and should allow Richardson to increase the retail on his wine, increasing his gross margin.

Richardson will need to research his competitors pricing to see how big of an increase is justified. I'm also recommending that you plant an additional 8.1 acres of grapes. Given the fact that nearly 62% of your vineyard lays vacant, <https://assignbuster.com/delamere-vineyard/>

you will more than double your GMROI in future years to come. Year 3 Once the newly planted crop is ready for harvest I'm suggesting that Richardson hire an additional employee that can manage your daily operations of the vineyard. It is during this time that I'm suggesting that Richardson also consider pursuing optimum fermentation.

This would require the purchase of a fermentation tank but would allow Richardson to express his creativity and focus on the overall quality/complexity of your pinot noir. I recommended that Richardson only devote 4 acres of his vineyard to this method given the risk associated with this practice which I have highlighted above. Year 8 The last improvement is one that will have to be based on the over success of the other improvements mentioned above. By this time Richardson should have a grasp on whole bunch fermentation and mastered the art of adding SO₂ to his wine.

Richardson will have created a successful vineyard and more likely will be looking for other ways to improve creativity of his vineyard. It is at this time I that I suggest Richardson look into developing the remaining 5.1 acres into a bed and breakfast lodge. More than 50% of his business already comes from cellar door customers that are visiting the Tasmania region. This could become a popular venue for tourists interested in wine making, wine tasting events, weddings, and other special events. The initial cost of this recommendation would be extremely high; however, it has the potential to increase sales dramatically.