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Analysis of Business Capstone Consulting Report: Willamette Valley Vineyards, Inc

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**Analysis of Business Capstone Consulting Report:
Willamette Valley Vineyards, Inc**

By

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Economics

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Requirements for the Degree of Bachelor of Science
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Abstract

My capstone course consisted of a group consulting report on conceptualizing a business, analyzing the internal and external factors, and implementing potential strategies for said business. There are four milestones that my team, Palmetto Consultants, completed over the course of the semester, delegating out the tasks and tools needed to conclude our report. Our team performed very much like a high-functioning business, as we utilized a written contract and interchanged specific roles for each milestone. Before starting on each section of the report, we planned and recorded the work each team member was responsible for and adhered to these plans as stated in our team contract. Our analyses went smoothly, and we were able to cohesively work together, eliminating any negative obstacles we faced. This thesis will comprise the analyses that I completed individually, reflecting on the achievements and challenges I faced throughout each milestone.

Analysis of Business Capstone Consulting Report: Willamette Valley Vineyards, Inc
Introduction

The capstone business project is a consulting report designed to introduce students to strategic concepts and tools and improve on professional processes and presentation skills. The report consisted of four parts: 1) APPLE Analysis; 2) External Analysis; 3) Internal Analysis; and 4) Analytical Summary. In each segment, I was able to learn much more about the subject firm we were given, but more importantly started to understand how to create an educated, well-informed consulting report. What seemed daunting at first became more straightforward later on, and management became easier. Having a supportive, expressive team was vital for the success of the project, as I learned very early in the semester.

In the beginning of the semester, my work began with a group of five other team members, and we were assigned the company Texas Instruments Inc, a semiconductor manufacturer. Things started off strong, with a high degree of dedication and responsiveness. Slowly however, as the beginnings of the final report started to be assigned, the work ethic began to dissipate. I found that I was the only team member putting in effort to our report. Excuses were made to how we can ask for extensions on our due dates, but even after extensions were granted, the work had yet to be completed. From very early on, I was attempting to research and create an APPLE analysis of a project that was meant for five people. While juggling my other classes, a part-time job, and honors coursework, this was a highly improbable task to complete with little help from my team members.

Luckily being early in the semester and into the project, I had the ability and resources to switch into another group. I was hesitant at first, as I did not want to give up on my team, but after another stressful week of no communication, I decided to continue my semester as part of Team 2, the Palmetto Consultants. Where some assignments had already been completed, including the APPLE analysis and the team contract, much of the final report had yet to be finished. I was welcomed graciously into Team 2, as they had been putting in a lot of effort but had struggled with only 4 team members. A fifth addition to the Palmetto Consultants was just what they needed to put them back on track to a strong semester.

The APPLE Analysis

The APPLE analysis is a strategic tool used to analyze a company's current financial and developmental status. The acronym stands for Areas of Operation, Present Strategic Posture, Performance Summary, Leadership & Governance Approach, and Essential Challenges. As the fifth member of Palmetto Consultants, I had to catch up on the research they had previously done in the APPLE analysis. Willamette Valley Vineyards, Inc was the new subject firm, a wine producer and manufacturer with their own vineyards, headquartered in the state of Oregon. Instead of producing semiconductors, this company focused on selling "premium, super premium, and ultra-premium wines." (Willamette Valley Vineyards Form 10-K).

The main concepts established were the low complexity of the firm due to a strong, value-adding vertical integration chain. They are not reliant on third-party manufacturers as they perform over half of their own raw materials, distillery, and bottling operations. The company generated almost \$25 million in revenue in 2019, utilizing direct and distribution sales through their 2 Estates, 11 vineyards, and 8 brands. The breadth of activities is appropriate based on their current size, owning a market share of around .8%. Founded in 1983 by Jim Bernau, the current CEO, they were incorporated in 1988 and have continuously invested in more vineyards, land, and distilleries. Due to this reinvestment, they have had a declining profit over the past two years, even though revenue generated has increased over the same time. As well as this, the company also holds a low inventory turnover rate compared to competitors. Some other main issues identified include a heavy reliance on the west coast, as they were mainly located in Washington, California, and Oregon (Willamette Valley Form 10-K & Mergent Online Database). They had a sufficient strategy of creating premium, super premium, and ultra-premium wines, but did not produce many other varieties of wine or alcohol. As a team, the Palmetto Consultants determined it was crucial to stabilize the ratio between revenue and profits, utilizing the low range of products offered.

The External Analysis

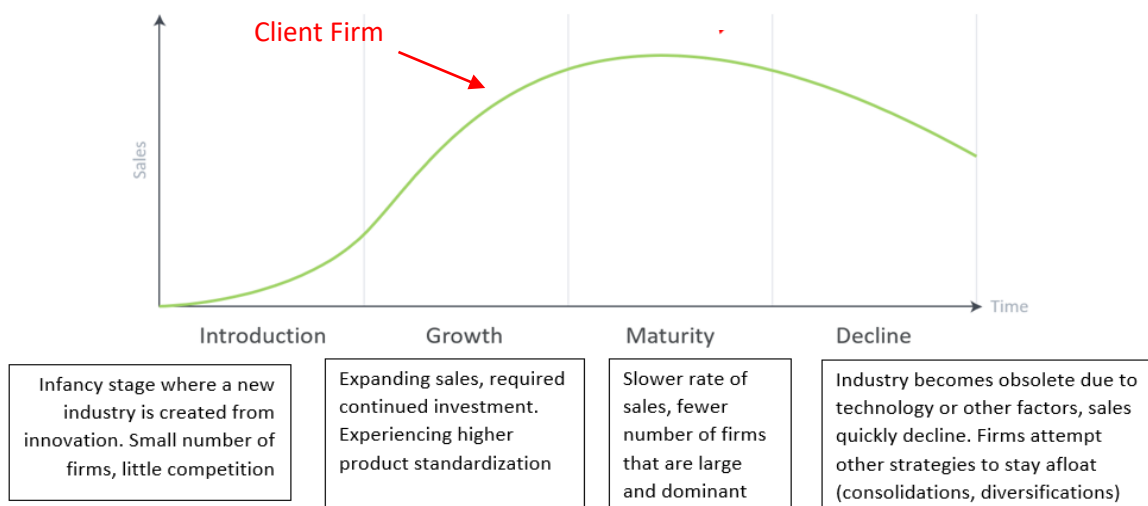
My work with the Palmetto Consultants officially began with the second part of the project, the External Analysis. As each segment contained multiple parts, each team member

focused on one or two, as well as proofread and editing at the end. The External Analysis includes the Current Industry Framework, Five Forces Analysis, Key Success Factors, Strategic Group Map, Close Competitor Analysis, PESTLE Analysis, And Opportunities and Threats. I focused on the Current Industry Framework, Strategic Group Map, and Close Competitor Analysis. Instead of focusing on the subject firm, the analysis studies the industry in which the company competes.

The Current Industry Framework includes six topics evaluating market growth, profitability, competitive scope, vertical integration, and economies of scale. Willamette Valley Vineyards is currently operating in the wineries industry (NAICS 312130), which, according to the United States Census Bureau, comprises establishments primarily engaged in one or more of the following: 1) growing grapes and manufacturing wines and brandies; 2) manufacturing wines and brandies from grapes and other fruits grown elsewhere; and 3) blending wines and brandies (Mergent Online).

Revenue generated has steadily been increasing since 2012, and Willamette Valley Vineyards 2019 10-K Report states that “the United States wine industry has seen a rapid increase in the number of wineries that are being established throughout the country. From 2009 to 2020, U.S. wineries grew in number from 6,357 to 10,742, according to Statistica, and are one of the fastest growing segments in agriculture. U.S. wineries increased production in 2017, the most recent year such data is available, by 7.5% compared to 2016 according to The Wine Institute” (Willamette Valley Vineyards Form 10-K). This increase in establishments signifies a growth in the United States wineries industry, indicating a growing industry despite its long history. Exhibit A illustrates this life cycle.

Exhibit A: Life Cycle of The Wineries Industry



Based on the life cycle and increasing number of firms, the wineries industry was found to have a strong degree of competition. Many large companies dominate the market, such as Constellation Brands and Altaria Group, who own a combined market share amount of over 95%. The other 1.56% of the market currently belongs to numerous other small wine companies (Mergent Online). Willamette Valley realizes their small market share, as they have continuously been increasing their assets in the forms of vineyards, lands, and distilleries. The major issue identified is the highly competitive market of the wineries industry.

The industry was overall profitable, with a gross margin premium of 56.8%. In 2020, the industry had negative sales growth for the first time in ten years due to the coronavirus pandemic. Despite this set back, wineries within the industry were able to post pre-tax profits similar to the previous year (McMillan, 2021).

The major insight into the external analysis was the State of the US Wine Industry 2021 report from Silicon Valley Bank by Robert McMillian. McMillian states “with boomers accelerating their retirement due to Covid-19, the need to attract young consumers is more pressing than ever.” Research showed that e-commerce trends in alcohol experienced an explosive growth through the Covid-19 period. This was found to be directly coordinated with the younger generation as well, not just because of government lockdowns. The younger generation spends more time online, therefore a stronger online presence was necessary for Willamette Valley in order to meet their new potential target demographic.

The Internal Analysis

The Internal Analysis involves analyzing the inner workings of the subject firm to evaluate strengths, weakness, resources, and capabilities. The analysis consists of the Strategy Diamond, Balanced Scorecard, Resources and Capabilities, Creating Value, and the Competitive Strength Assessment. My contributions included the Strategy Diamond and the Balanced Scorecard.

The purpose of the Strategy Diamond Analysis is to provide specific reference points to show how other internal analysis components correlate with one another, or if they are unrelated. It presents a visual summary of a business’s strategic efforts, answering questions such as “What

will distinguish the firm and make it successful in the marketplace?” and “How will the firm make its money?”. The Strategy Diamond is illustrated in Exhibit B.

Exhibit B: The Strategy Diamond

| Diamond Element | Question Answered | Strategy Description |
|------------------------|---|--|
| Arenas | What region is the firm active in? Are they involved in international markets? | Current regional market strategy and expansion strategies |
| | What is the current extent of product and sales channels, and the target demographic? | Cleanliness strategies to entice new and repeat customers to wineries |
| Vehicles | Does the firm have any subsidiaries, history of acquisitions, or expansions? | Previously acquired land for growing, as well as hosting numerous events |
| Differentiators | How does the firm seek to win sales? | Premium, super premium, an ultra premium wines through four key attributes |
| Economic Logic | How does the firm obtain their returns? | Product and price differentiation strategy of m brands and range of prices |
| Staging | How quickly and aggressively does the firm make strategic moves? | Fast and aggressive follower |

Willamette Valley Vineyards is currently only active in the American market with future goals of international expansion. A national presence has almost been achieved with WVVI shipping to all states except nine (Willamette Valley Vineyards). The current extent of their sales and distribution channels are stable with new cleanliness strategies attempting to entice customers to participate in direct sales. WVVI obtains their revenue by product and price differentiation of premium, super premium, and ultra-premium wines, generating sales from a multitude of brand names and differences in price. They base their business on four key attributes that the firm believes will differentiate them from their competition and highlight these features throughout their marketing advances.

The Balanced Scorecard is a highly popular analytical tool used by more than 70% of Fortune 500 companies to manage and assess the strategic performance of a firm. The scorecard focuses on the company’s stakeholder groups, acknowledging that a firm cannot only provide for one group, but must maintain a clear commitment to all groups in order to positively impact the company’s future. The Balanced Scorecard allows for multiple perspectives that bear important complementary or contradictory insights into the performance of the firm. Exhibit C illustrates the Balanced Scorecard.

Exhibit C: Balanced Scorecard

| Stakeholders | BSC Type | Key Goals | Measures of Success | Outcomes | Assessment of Success |
|---------------------------------|--------------------|----------------------------------|-------------------------------------|--|--|
| Stockholders ²⁰ | Capital Market | Wealth | Increased Stock Prices | 2019->\$7.07 2020->\$6.85 2021->\$8.81 | Stock Price Increased; Goal Met |
| | Capital Market | Income | Dividends Distributed | \$1,116,378 Distributed in 2020 | Dividends distributed; Goal Met |
| Employees ²¹ | Internal Processes | Job Security | Sales Growth | 2019-> \$24,749,263 2020-> \$27,314,852 | Sales Increased; Goal Met |
| | Internal Processes | Job Security | Positive Net Income | 2019-> \$2,858,600 2020-> \$2,510,000 | Positive Income; Goal Met |
| Customers ²² | Market Place | Attracting New Customers | Sales Growth | 2019-> \$24,749,263 2020-> \$27,314,852 | Sales Increased; Goal Met |
| Learning & Growth ²³ | Sustainability | Positioning to expand operations | \$ invested in vineyard development | 2020-> \$8,020,074 | Invested in vineyard development; Goal Met |
| | Sustainability | Continuing to stay profitable | Positive Net Income | 2019-> \$2,858,600 2020-> \$2,510,000 | Positive Income; Goal Met |

²⁰ Stockholder Source: Yahoo! Finance

²¹ Employee Source: Mergent: Online

²² Customer Source: Mergent: Online

²³ Learning and Growth Source: Mergent: Online

Strengths presented through these strategic tools shows that they have many available assets at their disposal and meets all the goals for the Balanced Scorecard. The Strategy Diamond revealed that Willamette Valley is a fast and aggressive follower, extremely beneficial given the competitive nature of the industry. These tools provided a detailed look into the company’s strategic efforts through a visual summary.

Analytical Summary

The Analytical summary uses the information gathered in the previous analyses to create recommendations determining the future direction of the firm. Strategic issues are identified and sets of implementation and execution plans or formulated.

A SWOT/TOWS Analysis was performed (strengths, weaknesses, opportunities, and threats), acknowledging that Willamette Valley has plentiful land and is capable of expansion, but also has a limited product line and established competitors. The industry is highly competitive with a wide market of potential customers. For the future of winemaking, Willamette Valley’s use of biodiesel, wind and solar powered energy, and biodynamic farming practices is a major strength. The critical issue identified was the narrow product line currently offered. Exhibit D illustrates the SWOT Analysis.

Exhibit D: SWOT Analysis

| | |
|--|--|
| <p style="text-align: center;">STRENGTHS</p> <p>S1 Top Rated Customer Service S2 Better Product Quality S3 Engaged Supply Chain Relationships S4 Innovation Investments</p> | <p style="text-align: center;">WEAKNESSES</p> <p>W1 Narrow Product Line W2 Limited market share W3 COVID-19 Unknowns W4 CFO Stepped Down</p> |
| <p style="text-align: center;">OPPORTUNITIES</p> <p>O1 Expand to New Geographic Areas O2 Enter new markets with Expanded Product Line O3 Openings to Exploit New Technology O4 Broaden Customer Groups</p> | <p style="text-align: center;">THREATS</p> <p>T1 Entry of New Competitors T2 Adverse Shifts in Trade Policy T3 Loss of Sales to Substitutes T4 Demographic Changes</p> |

Recommendations for Willamette Valley Vineyards are 1) to diversify the product line; and 2) expand to new regions. Beginning with wine alternatives such as sparkling, seltzer, or non-alcoholic would be able to create a new customer base leading to increased revenues. Once profitability is stabilized, the winery can begin to establish themselves in another region. The success of the project will be measured by profit margins. The recommendation project would begin in the third quarter of 2021 with production of the new product line, with direct sales beginning in the fourth quarter in time for the holidays. The project would officially be completed in the third quarter of 2023. Expansion will be assessed based on increasing revenues and market share.

Conclusion

Throughout this analysis, I have focused on the most relevant aspects of the entire capstone project, focusing on and including only the parts I helped accomplished or accomplished on my own. Although the research project is a group effort, my goal in this report was to provide a clear evaluation of Willamette Valley Vineyards, Inc through my own detailed research. Some aspects I helped complete were not included due to irrelevancy to the team recommendations. In conclusion, Willamette Valley Vineyards is a profitable company with many assets and ambitions. CEO and founder Jim Bernau has a strong vision for the company with a dependable set of strategies. Although profits have decreased over the past two years, they are continuing to reinvest in themselves, acquiring land and distilleries. The vineyard and winery is recommended to continue this process of reinvestment, as well as expand into different market segments of the wineries industry with new product lines.

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