Case Question

Princeton Graduate Consulting Club

2016 CASE COMPETITION

Wine I'll never get Bordeaux of wine

For some years, your client has been manufacturing California wines at 50,000 L per year using modern winemaking techniques and vine management. Currently, the wine is selling in the US and Europe.

Your client has recently recognized that there is an increased consumption in African wines and wants to capitalize on this new trend. In an effort to capture this emerging market in Africa, you have been asked to evaluate the manufacture 5,000 L per year of wine in Kenya. This emerging market requires within country manufacture of the wine grapes and the final wine product.

The company's management has demanded to minimize capital cost and the timeline to full production in Kenya without significantly reducing the wine quality. Your client asks to use a complete single process from grapevine to wine bottle.

What are you going to do? Your client requests a thorough analysis and a detailed plan on how to proceed with this new venture.

Assumptions: Assume your new facility will be located close to an international airport. Also, assume electricity is readily available, but not steam.

Team Harvard Ecureuils

Harvard University

Maxence BODDAERT | Jonathan XU | Jules THIERY

Princeton University Graduate Consulting Club
Case Competition 2016

Goals of this presentation

- Provide recommendations and summary of findings
- Consider recent wine market trends
- Design an optimal wine production facility in Kenya
- Examine profitability of this operation
- Develop a go-to-market strategy

Recommendations

1. Build the winery in Kenya

- Buy land and equipment
- Build office and plant
- Hire local labor to reduce expenses
- Adopt simulataneous manufacturing process
  6 batches per year; continuous production

2. Return of Investment is favorable

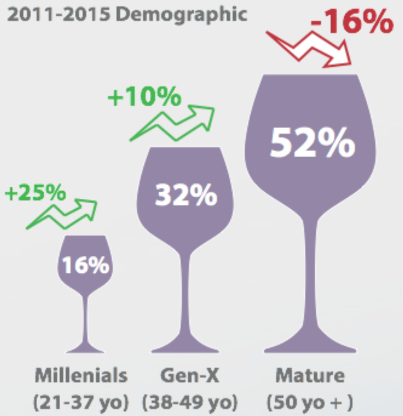
- Breakeven no. of years = 4.2
- Average annual return on investment is 107%
- NPV is highly positive
- Strive for economies of scale
- Effective marketing improves financial returns

3. Implement a defined marketing strategy

- Communicate brand identity: exploration, nature, and uniqueness
- Price: $12; <$15
- Leverage distribution channels: both on and off-premise
- Target geographical market: US
- Target demographic: millennials and Gen-X'ers

Market Research

Consumer



Millenials
x4
sensitive to Labels & place trust in a brand.

Industry

In 2015
> 90% Sales
On & Off Premise Channels
(bars, liquor stores ect.)

2012-2014
^ 25%
Increase in the consumption of South African

Target Market

A new unique wine targeting millennials; made in Kenya

Market Opportunities (low competition)

Strong growth prospects

2014-2016
^ 0.15m -1m
2 years estimated growth

Operations Management

GROW
180 days

HARVEST + MIXTURE OF JUICE, SKIN AND SEEDS
1 day

FERMENTATI ON
21 days

PRESSING + CLARIFICATION
1 day

TANK STORAGE
15 days

BOTTLING
1 day

SHIPPING
18 days

Goal: Maximizing production efficiency

- Stable weather conditions enable continuous production

Difficulty: Entire grapes-to-wine process requires 8 months

Solution: Divide vineyard into 6 sections,
with each section forming a batch of production

Results:

- no down time (continuous production)
- just-in-time inventory
- hedge risk of a bad batch
- faster time to market
- dynamically adjust to market trends

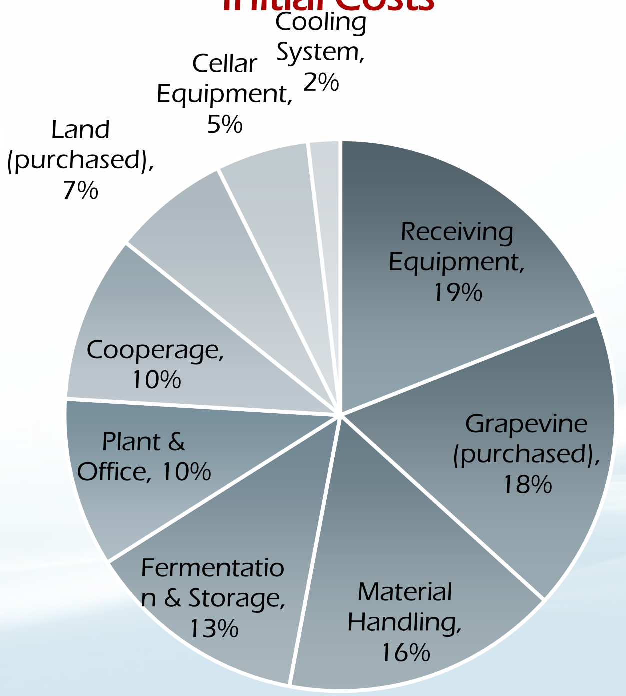
Overall Operations Timeline

	Month	1 (year n)	2	3	4	5	6	7	8	9	10	11	12	1 (n+1)
Batch 1	Grow plants													
	Harvest and manufacture													
	Ship to distributor													
Batch 2	Grow plants													
	Harvest and manufacture													
	Ship to distributor													
Batch 3	Grow plants													
	Harvest and manufacture													
	Ship to distributor													
Batch 4	Grow plants													
	Harvest and manufacture													
	Ship to distributor													
Batch 5	Grow plants													
	Harvest and manufacture													
	Ship to distributor													
Batch 6	Grow plants													
	Harvest and manufacture													
	Ship to distributor													

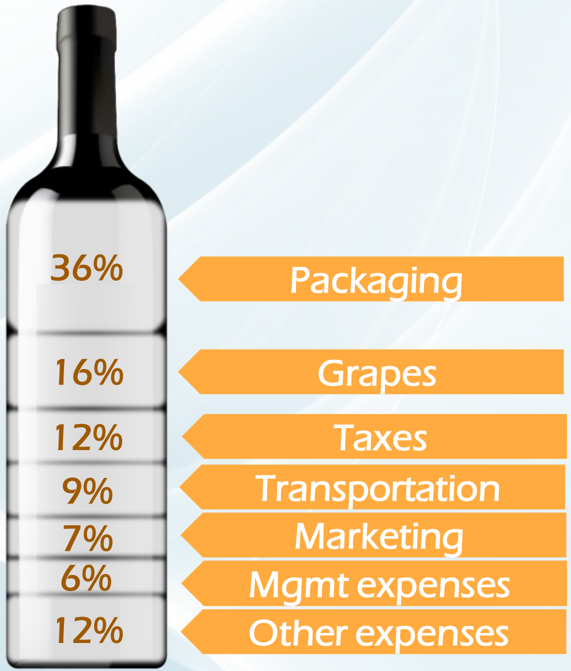
Financials: Expenses

Producing in Kenya results in significant cost savings vs in the US [1]

Initial Costs



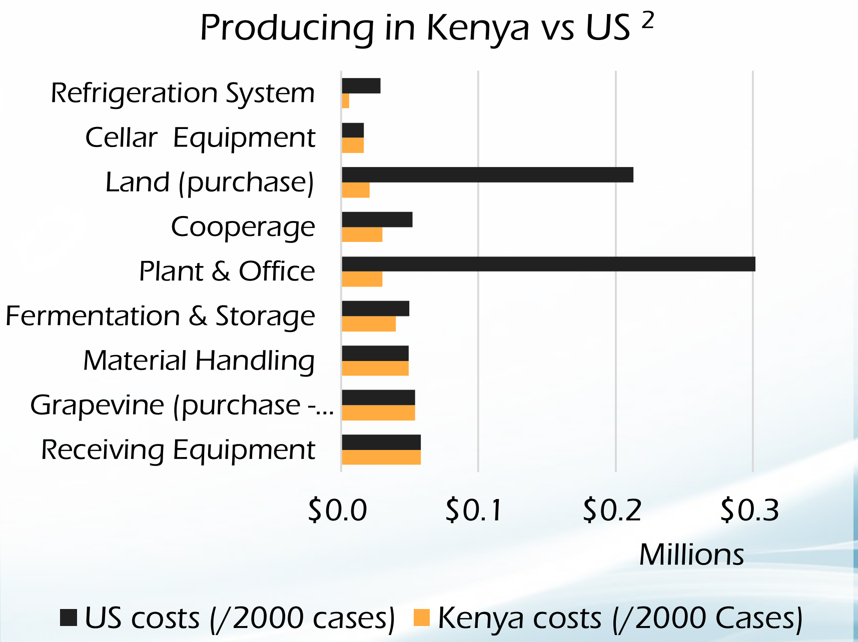
Ongoing Costs



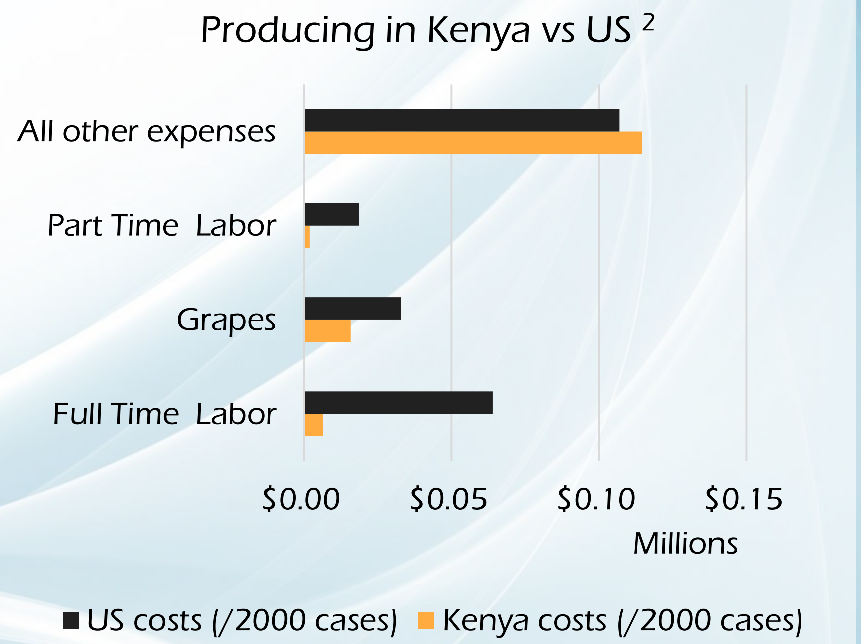
[1] Fickle, et. al. *Small Winery Investment and Operating Costs, 2006*

Financials: Expenses

Initial Costs



Ongoing Costs

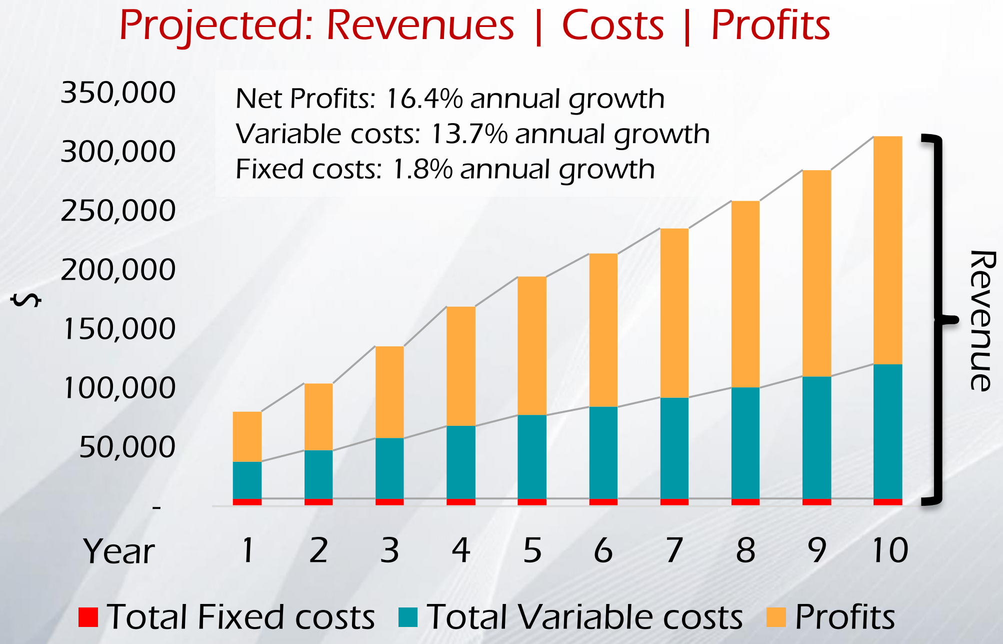


[2] Fickle, et. al. *Small Winery Investment and Operating Costs, 2006*

The most significant cost savings are:

Land, Plant & Office, Labor costs, and **Grapes**

Financials: Profitability



Cost to produce each bottle	$5.67
Selling price per bottle	$12.00
Initial Upfront Investment	$304,992
Breakeven sales (No. of bottles)	48,217
Breakeven years	4.2
Return on Investment (ROI) (average over 10 years)	107%
Net Present Value (NPV) @ 20% discount rate	$86,025
Go ahead with project?	Yes

At a $12/bottle selling price, return on investment is 107%. The operation can expect to break even in 4.2 years assuming steadily growing sales.

Marketing Strategy

Segmentation

- Market consists of US & Europe wine and alcohol drinkers
- Can be segmented across age groups, and grape varietals (eg. Cabernet Sauvignon, Merlot, Chiraz, etc.)

Target Market

- Initially United States
- Millennials (21-37) / Gen-X (38-49)
- Cabernet Sauvignon varietal

Positioning

- $12 a bottle
- Label and branding suggests **exploration, nature and uniqueness**
- Design consists of bright colors on a dark bottle
- Quality beverage
- Easy to drink, slightly sugary
- Waterproof Label
- Sold primarily via on and off-premise channels

Target US millennials and Gen-X customers with a $12 pricing
Brand identity: exploration, nature, uniqueness

Risks and Considerations

Risks

Political
- Political corruption may increase business risks and costs

Economic
- Wine sales will be affected by Millennials and Gen-Xers' financial situations

Social
- Theft and crime rates are higher in Africa than in the US.

Considerations

Operations
- Motivate local employees by creating career advancement opportunities for them to move up the ranks within the firm.

Marketing
- Firm should consider expanding to Europe if this product is well received in the US
- Firm should focus on marketing to young people
- Firm should consider obtaining eco-friendly certification to boost brand image
- Participate in wine competitions to showcase the wine
- Expand grape varietal beyond cabernet sauvignon once sales have picked up

Evaluation Measures

Upon implementation of the recommendations, we propose using the following measures to monitor the effectiveness of the Kenyan facility

Quality	
Qualitative	**Quantitative**
Saturation	Acidity pH (3-4)
Aroma	Turbidity (<1)
Texture	Alcohol (13,5-14)
	Sugar content (21-70cal/glass)

Productivity	
Qualitative	**Quantitative**
Employee engagement surveys	1st year: 5000L
Employee satisfaction	Reduce per unit production costs
	Employee absenteeism

Impact	
Qualitative	**Quantitative**
Education	Increase local employment rate
Promote wine culture	Invest in the local economy
Provide accessibility to Kenyan wine	

Thank you

Jonathan XU | Jules THIERY | Maxence BODDAERT