

# teaching note

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## Case Summary

Having travelled all over the world, tasting and savoring different kinds of wine, Yvan and Joyce Beliveau work hard at realizing their dream to own their own winery. They find the perfect spot of land in The Blue Ridge region of Virginia amidst the Appalachian mountains where they have lived for over two decades, and open a bed and breakfast inn to generate income for setting up a winery. While Yvan devotes time and energy to learn to produce wine, his wife Joyce builds relationships with other wineries and serves as the business manager. As they work at turning their passion for fine wine into an operational business, they face a few setbacks and learn lessons as they go along.

The case discusses the motivations and strategic business decisions, like choice of location, product and marketing mix, methods of production, meeting regulatory standards, hiring staff, and financial planning that the Beliveaus implement as they get ready to open the winery to the public and begin sale of their bottled wines. The case study provides a brief overview of the Virginia wine industry and the Blue Ridge region where the winery is located.

## Learning Objectives

After studying and analyzing the case, students should be able to:

- gain an understanding of the motivation of the founders in setting up a winery business.
- gain an understanding of the Virginia wine industry, trends in the industry, and State efforts to encourage winery tourism.
- gain an understanding of the strategic decisions and the consequences of their implementation before the opening of the winery.
- analyze the strengths, weaknesses, opportunities and threats along with the challenges and setbacks faced in the process of setting up the winery.
- anticipate and recommend a plan for the future, keeping in mind strategic alternatives available.

The case can be used as an illustration to teach the following concepts as a supplement to textbook material:

1. Sustained competitive advantage in the winery industry (Question 1)
2. Size of operation and local versus national markets (Question 2)
3. Keeping current with consumer insights (Question 3)
4. Operational challenges and risk planning (4 and 5)
5. Concepts of strategy planning and formulation using frameworks like SWOT, Porter's Five Forces, and Resource Based View (Overall case analysis)

## Target Audience

The case is intended to initiate discussion on business operation, entrepreneurship, and marketing. It is suitable for use at the undergraduate and graduate levels for courses in business, hospitality, and tourism.

## Teaching Approach

The case should be distributed ahead of class discussion time so that students can get a chance to get some background research done before discussion in class.

The case can be assigned individually or in groups as an open ended case analysis where students are asked to prepare a report to be submitted to the owners regarding future recommended steps for the winery to ensure sustainability and profitability. Since there are not many details given in the case, students can be encouraged to research the growing trends in the wine industry, the price point at which most wines sell, and even develop a business plan if the winery were to go organic. Students could also be assigned to conduct research on how State and local authorities can and do support and help the wine industry and tourism derived from such visits, and how effective such expenditures can be over the long term.

Alternatively, the class can be divided into groups of 3-4 students (depending upon class size), and each group can be asked to focus on specific aspects of the winery (for e.g. see questions below) and present their answers to the rest of the class.

## Teaching Plan

The discussion can be phased in three stages, a brief introduction, a discussion of major points, and wrap up section. Depending upon the objectives of the case and how much depth is desired by the instructor, time for discussion can vary from 75 minutes (one session) to 150 minutes (spread over two sessions).

### Class introduction

- Virginia's wine industry is growing rapidly
- The Governor names the wine industry as the source of economic development
- New wineries are being set up all over the State of Virginia
- The Blue Ridge Region affords opportunities for new wineries to open due to favorable weather conditions, including Beliveau Estate Winery

### Assignment Questions

1. What are some options that Beliveau Estate Winery can implement in order to create a competitive advantage?
2. How can Beliveau Estate Winery market to Virginia Tech faculty/alumni?

3. How can the winery ascertain consumer likes and preferences?
4. What could Joyce and Yvan have done when they were not able to serve their wine at the wedding?
5. If the wine maker, Yvan, is unable to perform his duties, how can Beliveau Estate Winery make sure that changes to the wine are being monitored throughout the production process?

## Motivation of Owners

As mentioned in the case, the founders Joyce and Yvan Beliveau set up their winery following a passion for fine wine. They already had a running bed and breakfast business that predated the winery and which was established as a precursor to the vineyard and winery. The Beliveaus had no experience in owning a winery before this venture but simply “wanted to make fine wine”. While the goal is to make profits it is also a labor of love for the Virginia Tech professor and his wife who provide the bulk of the human and financial capital required to start and run the operation. Since the operation is still new, the owners have not thought through any exit strategy, and their management style is purely informal although as they grow they will need to put policies and procedures to ensure the smooth running of the winery.

## Competitive Advantages

It is important to think strategically and create competitive advantages for the future. Question one seeks to anticipate future challenges the winery may encounter and what are the implications of the decisions already made. One future business goal being considered is to transform the winery from a traditional one into an organic one. This could potentially be a great choice for the future as global awareness of environmentally friendly and sustainable wine growing practices take root. Waste management, and green practices are preferred by consumers in a niche market, where price competition may be low. Beliveau Estate Winery could stand out in the Blue Ridge Region and give them a competitive advantage because not many wineries have implemented organic processes. However, there are downsides, setting up an organic winery will be time-consuming, costly, require further inspections and certifications, as well as face risks associated with unknown, exotic pests. Production materials, products, and processes would all have to be learned and changed from the current style to produce truly organic wine. However, if Yvan and Joyce believe the benefits outweigh the costs, they should take advantage of being the first mover for this wine product in the area.

## Marketing

Currently, the marketing strategy of Beliveau Estate Winery seems to center around word-of-mouth techniques. Besides giving the wine glasses away to those who participate in tastings, Beliveau Estate Winery’s goal is to brand the blue gates as well as the “B” you see as you

enter the property. However, branding and having consumers recognize their logo / emblem takes several years. Just as McDonalds has branded the big yellow “M” so as to have consumers relate that back to their restaurant without seeing the restaurant name itself, Beliveau Estate Winery hopes to accomplish the same goal.

Giving away glasses may be a good idea, on the other hand, some wine enthusiasts may not want yet another glass from another winery. Wine glasses tend to take up a lot of kitchen cabinet space and are perhaps just another “tourist” item to collect. An alternative giveaway would be to provide something to the consumer that takes up less space such as a coaster or a magnet that displays a winery’s brand or logo /emblem. This way, consumers can keep track of all the wineries they have visited without having to worry about finding space for the wine glass or even traveling back without breaking or cracking it.

Marketing to faculty and alumni through football tailgate events and parent’s weekend activities is a great idea. The only disadvantage could stem from the location of Beliveau Estate Winery. Though the winery is considering providing bus service to the football game, the location is still a little away from the stadium compared to other tailgate events. The question to ask would be...why should Hokie (Virginia Tech football) fans travel out to the vineyard, being separated from the rest of the community to prepare for the football game? Beliveau Estate winery would have to have enticing events and a heavy marketing plan to make this event a success. The use of social media to attract the university demographic can play an important role in marketing efforts.

## Consumer Insight

To get familiar with customer likes and dislikes Yvan and Joyce may have to conduct some primary or secondary research. From the results of the research, they can get an idea for future development of different blends of wine and other product offerings. Yvan and Joyce seem to have a good sense of local consumer preferences. Since their goal is to target Virginia Tech’s faculty and alumni, their business decision to produce sweeter, rather than drier wine is an effective choice.

Other great alternatives would be to use word of mouth techniques or to visit other local wineries around the area. This would determine what consumers prefer as well as gauge what other successful wineries are producing. Yvan and Joyce can bring in volunteers to taste samples of their wine to determine the proper sugar content (just like one of the authors of the case was invited). Nothing works better than networking and talking with people around the community.

## Wine Labels

What alternative action could Beliveau Estate Winery have taken when their wine labels were not authorized on time? This is a hard situation to overcome because there is nothing a winery can do to expedite the approval process. Some alternatives might be notifying

the wedding party in advance, letting them bring in their own wine to serve to their guests, or having wine brought in from a nearby winery. By doing so, Joyce and Yvan will still have the guests' business and loyalty to hopefully come back in the future. Another option would be to offer any guest a complimentary bottle of wine upon their next visit to their property. The key point to take away is to attract those customers back in the future without disappointing them during their current visit.

## Monitoring Changes

Because Beliveau Estate Winery has very few employees, issues may arise if the chief and only wine maker cannot for any reason be available at the right time. Who will take over managing the production process and creating the wine? One solution to this scenario is to train the Operations Assistant (Bobby) on the art of wine making. Another option would be to hire a new assistant wine maker all together. Either way, if nobody is in place if Yvan were to say, fall ill, it could be fatal to the winery as a whole. Not only would product quality suffer but this would also create a domino effect with sales and brand image. Developing and training alternative human capital will be key to the winery's success.

## Frameworks for Overall Case Analysis

### 1. SWOT Analysis:

Students can be asked to conduct a SWOT analysis for Beliveau Estate Winery. SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is used regularly in business to initially evaluate the opportunities and threats in the business environment as well as strategy planning and formulation considering the strengths and weaknesses of a firm's internal environment. Owners and top management use SWOT to take stock of their company periodically and discuss how their firm can be positioned for success.

Here are some starting points. Students will come up with several of their own.

#### **Strengths:**

- Passion, interest, and involvement of the Beliveaus. Family-owned reputation
- Human Capital: Joyce's marketing and community building skills, and Yvan's technical background
- Location of the winery: proximity to college campuses, geographical region ideal for wine growing
- Support from State Tourism Authorities: Located in Virginia- a state that has declared tourism and wine tourism a priority for economic development

#### **Weaknesses:**

- Lack of formal strategic planning and development objectives
- Lack of training for human resources
- Lack of risk management and emergency planning (frost, labels

not ready)

- Lack of formal exit plan or succession planning

#### **Opportunities**

- Capitalize on the growing reputation for Virginia wine
- Growing population of students in nearby campuses that like to drink wine (Recently, the winery has opened a tasting room in downtown Blacksburg near the Virginia Tech campus to offer wine tasting and lure customers to visit the winery)
- Going organic to capitalize on the growing awareness and preference of ecologically-conscious consumers

#### **Threats**

- Pests, and other natural disasters affecting agriculture especially if going organic
- Frost and change of climatic conditions due to environmental degradation
- Due to small size cannot have large economies of scale and hence become uncompetitive

## 2. Porter's Five Forces Analysis

While the case illustrates the motivation and challenges of setting up a winery, it can also be used as a starting point to ask students to conduct Porter's Five Forces analysis for the wine industry or the winery tourism industry. The instructor can emphasize that the five forces will operate very differently for the global wine industry vis-à-vis the regional wine industry in southwest Virginia. The following Five Forces analysis is illustrative.

#### *Threat of New Entrants (possibly high).*

The threat of new entrants is high when economies of scale are low, product differentiation is low, and incumbent firm's proprietary knowledge and access to raw materials is low. In the case of Beliveau Estate Winery, they have low economies of scale due to their relative small size, and lack of the expertise in wine-making. However, the winery can promote their wine to create product differentiation and hence create brand loyalty that may lower the threat of new entrants. Geographically, land is available and hence potentially the threat of new wineries opening in the region cannot be ruled out.

#### *Bargaining Power of Suppliers (low)*

The bargaining power of suppliers is high when there is threat of forward integration by the supplier, and when the differentiation of the supplier's products and services is high. Wine making and bottling supplies like equipment, storage, tasting glasses, bottles, labels etc. are fairly generic for regular wine-making (different if making organic wine) and hence the bargaining power of suppliers may be rather low. In addition with the rise of e-commerce and internet

ordering there are several hundred suppliers to wineries that has produced ample competition. The only commodity that may be considered difficult to obtain consistently of the required quality is the grape itself and grape suppliers may have a higher bargaining power than suppliers of other material especially since switching costs for grapes are also high. In addition, the threat of forward integration of suppliers of supplies is rather low, except for wine growers but the investment in plant, equipment and manpower may deter agricultural wine growers from establishing a winery unless margins are sustainably high.

#### *Bargaining Power of Buyers (moderate)*

Again the distinction must be made between buying wine as a commodity in a wine shop where the bargaining power of buyers may be high, versus the wine tourism industry where we believe the bargaining power of buyers is only moderate. Buyers/ customers of winery tourism who come to Beliveau Estate Winery are generally looking for an experience, and once on the premises of the winery are unlikely to negotiate prices since they are captive and there are no close substitutes available. On the other hand, since the winery is located in the wine tourism corridor, prices and offerings of the Beliveau Estate winery will have to be competitively priced and unique to ensure visitors are attracted to the winery in the first place.

#### *Threat of Substitute Products (high)*

The threat of substitute products for wine and wine tourism in general is high. Unless there is high customer brand loyalty and product differentiation, the abundant supply of wine and the availability of alcoholic drinks like beer (especially) for the younger demographic makes this threat relevant. In addition, like wineries, breweries attract tourists leading to increased competition.

#### *Intensity of Rivalry among Competitors (moderate to high)*

While on the global scale there is much competition and rivalry among wine producers, winery tourism is local business and a high intensity of rivalry among local wineries will be detrimental to all businesses. The Beliveau Estate Winery recognizes this and strives to cooperate with other wineries in the region. The term to use here would be “coopetition” or “cooperative competition” where competitors can often become suppliers and buyers of grapes, depending upon need. When other factors are considered like high fixed and storage costs, along with high industry growth rate, the intensity of rivalry can exert a moderate influence on industry profitability.

### **3. Resource Based View**

As an extension of the SWOT analysis and the Five Forces analysis, students can be asked to evaluate Beliveau Estate Winery from the resources and capabilities standpoint. The Resource Based View of the firm analyses the firm’s resources and capabilities to ascertain if the firm can have a sustained competitive advantage. It helps the firm in strategy formulation and implementation. A firm’s resources must be evaluated in terms of their attributes and in comparison with those of their competitors.

The questions to ask regarding the primary attributes of resources that can confer competitive advantages to the firm are:

1. Is the resource valuable? Resources are valuable when the firm can use them to improve the efficiency of operations or improve performance. The location of the winery and the lodging available at the bed and breakfast inn owned by the same owners are valuable resources for Beliveau Estate Winery because management and labor costs can be shared improving efficiency.
2. Is the resource rare? The resource must be unique and rare and must not be available to all competitors. Yvan’s and Joyce’s unique combination of skills, the location of being in close proximity to several campuses, the ideal land and climate suited for wine-growing, are some examples of rare resources available to the winery.
3. Is the resource inimitable? Resources that are difficult to imitate by competitors are key to value creation, otherwise they can only grant a short-term advantage. The passion, skills, marketing abilities, as well as the social capital of the owners of the winery can be considered non-imitable resources for Beliveau Estate Winery
4. Is the resource non-substitutable? When close substitutes for the resource are not available, the resource can be employed for a competitive edge. Relationships with suppliers, customers, and buyers are non-substitutable resources for Beliveau Estate Winery.

### **Wrap-up Points**

Be sure to get students perceptions on what the winery can do now to help them create a niche market and a sustainable advantage in the future. What business decisions can the winery make now to help them reach their proposed future goals?

An interesting way to end the class is to have students reflect on their own interests and have them prepare a business plan of how they can turn their passion into a reality in the hospitality and tourism field. Often students will say they are very enthusiastic about opening their own restaurant, or travel website, or event-placeplanning company. Encourage them to write up a detailed plan with conceptual and

strategic planning, financial resources, hiring methods, service management or any aspect of business you want them to explore further.

### Writing a Business Plan:

One of the interesting features of the case is that the owners of Beliveau Estate Winery did not use any business plan or institutional funding to start their business. However if this case is used for illustrating entrepreneurship, students can be asked to develop a business plan for the expansion of Beliveau Estate Winery or even for another project of their own liking as suggested above. The basic elements of a business plan are as follows:

**Business concept.** This portion of the plan describes the business model, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the business will hold a competitive advantage.

**Financial features.** This portion of the plan highlights the important financial points of the business including sales, profits, cash flows and return on investment.

**Financial requirements.** This portion of the plan states the capital needed to start the business and to expand. It should detail how the capital will be used, and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.

**Current business position.** This portion of the plan furnishes relevant information about the company, its legal form of operation, when it was formed, the principal owners and key personnel.

**Major achievements.** This portion of the plan details any developments within the company that are essential to the success of the business. Major achievements include items like patents, prototypes, location of a facility, any crucial contracts that need to be in place for product or service development, or results from any test marketing that has been conducted.

In addition the plan should have an executive summary and a statement of purpose for which the plan is written.

Detailed instructions on how to write a business plan are available via several sources, including the Small Business Administration (SBA). Please see the link <http://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/how-write-business-plan/e>(retrieved on September 30, 2012).

### Supplemental Teaching Components

You can introduce students to videos, call in guest speakers who may work in a winery or own one, or suggest additional reading resources like:

Virginiawine.org, Winesandvines.com, Wineinstitute.org, Freywine.com (America's First Organic Vineyard), Theorganicwinecompany.com or magazines like Wine Spectator and others like it.

For students interested in advanced research the following sources may be useful:

[www.bedbreakfastjournal.com/](http://www.bedbreakfastjournal.com/)

Carmichael, B. (2005). Understanding the Wine Tourism Experience for Winery Visitors in the Niagara Region, Ontario, Canada, *Tourism Geographies*, 7(2), 185-204.