

A Fork in the Road at the Foreign Affair Winery

Case Summary

Len Crispino's dream of introducing appassimento style wines to the Niagara region of Ontario had become a reality with his opening of the Foreign Affair Winery in 2008. Although the winery has become a financial and critical success, being a small business owner had not been an easy road. After seven years of operation sales had stalled and competition in the niche market of appassimento wine production was increasing. While Crispino had gained access to new channels of distribution others were slowing down including the largest and most profitable, in-house retail winery sales.

The case introduces the student to the business model of a boutique winery operation with a focus on product differentiation, channels of distribution and inventory management. Paramount to these issues is that the winery is at a critical point in time where it feels like momentum in their business has slowed, or has reached a 'fork in the road.'

A possible solution to stalled sales is presented when the Crispino's landlord introduces the idea of opening a restaurant in the vacant building adjacent to their winery. Many wineries attempt to increase foot traffic by increasing their visitor experience through the addition of services and amenities such as on-site restaurants. The adjacent vacant building seems at first blush to have merit as a restaurant but there are questions to be asked that include Crispino's motivation, the risk involved and the potential for a return on investment (ROI). More questions arise as Crispino considers the details of operating a restaurant including the ownership and management structures, seasonality of the region and the ability to attract and retain skilled employees.

Learning Objectives

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

- Examine a situation and accurately identify the issue at hand
- Identify the resource challenges of SME's and their owners
- Gain knowledge of the wine industry and its role in a tourism and hospitality context
- Demonstrate an understanding of the steps involved in the building and opening of a restaurant including human resource needs and legal requirements.
- Evaluate and compare growth strategies with consideration to risk and ROI

Target Audience

This case is appropriate for students in the advanced levels of a degree program in Hospitality Management. The case is ideal for a 'capstone course' as it brings together aspects of marketing, finance and strategy.

Recommended Teaching Approach and Strategy

1. Pre-class activities: Students are to read the case and should review the following websites to gain additional context.
Winery website: <http://foreignaffairwinery.com/>
Vineland Research and Innovation Center website: <http://www.vinelandresearch.com/>
Ontario Wine Council website: <http://www.winecouncilofontario.ca/>
2. Instructor Approach: The case can be assigned to students in either an individual or group fashion. The case provides opportunity for the instructor to facilitate class discussion on the many nuances of decision-making in business. A classic example of risk versus reward, the case combines abstract ideas such as motivation with more straightforward concepts such as ROI to illustrate the true complexity of business in today's world. The inclusion of an income statement allows the instructor to require students to generate financial analysis if desired.
3. Suggested Student Assignment: This case should be assigned to students as an open-ended case analysis. Students should take the role of a consultant with the deliverable being a report for the Crispino's on whether or not they should open a restaurant in the abandoned building at their winery. The instructor may request students to provide other alternatives (marketing plan, increasing average spend) to increase winery sales. This will add more complexity to the case and provide the option to add more alternatives for students to consider.
4. Discussion Questions. The instructor may want to consider the assignment of these questions to help aid in classroom discussion.
 - Assess the Crispino's motivation to open the Foreign Affair Winery and indicate how it differs from their motivation to open a restaurant.
 - Analyse the challenges Crispino now faces given that competitors are starting to produce appassimento wines.
 - Identify the differences in structure of the business model of a winery versus that of a restaurant.
 - Foreign Affair is making more wine than it is selling. What are the consequences of this and what are their alternatives to take control of this issue?
 - Suggest the factors that Len Crispino must consider when he is contemplating the return on investment of building a restaurant at his winery?

Case Concepts and Analysis

The instructor can use any analytical framework they choose to analyze the case depending on the specific approaches they teach. We suggest the use of a SWOT and a Porters Five Forces Analysis as exemplars to highlight some key points but the same issues can easily be discussed in other analytical contexts.

SWOT

Students often use SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis when working on case studies. In this instance a SWOT analysis is beneficial to help students review the case and get a better idea of the context as opposed to using it to develop strategy. The instructor may want to facilitate a SWOT Analysis in the first discussion unit after the students have read the case and visited the associated websites.

Porters Five Forces

Porters Five Forces Analysis provides another framework within which students can evaluate the issues in this case. We present the beginning of this analysis for entrance to the restaurant industry. There may also be value in considering these factors for the winery itself. This analysis demands students analyze the level of competition within the industry.

Threat of New Entrants (high): The restaurant business in Ontario has a low barrier to entry. It is not expensive to enter compared to other industries and experience is not considered necessary and can be trained or acquired easily.

Bargaining Power of Suppliers (low): The restaurant industry in Ontario has many suppliers providing very similar services in a competitive marketplace.

Bargaining Power of Buyers (low): Consumers have lots of choice on where to dine. While individual consumers cannot “bargain” to put pressure on to get a better deal, they can choose other locations if price or product is not to their liking. .

Threat of Substitute Products (moderate to high): Full-service restaurant meals hold considerably more value than options such as bringing your own food or eating at a quick-service restaurant. Visiting wineries or attending a play is considered an outing or is done by tourists who expect to eat out at a full-service restaurant. That said, there is already significant full service restaurant capacity in the region and consumers have a lot of choice of where to eat.

Rivalry among Competitors (moderate to high): The full-service restaurant segment is competitive in Ontario generally and Niagara specifically. Restaurants work hard to differentiate themselves in product offering and pricing. There are many alternatives. A restaurant can benefit from adjacency to a winery as much as the reverse is true.

Additional Points to Raise

The motivation of ownership is something that should always be considered when analyzing a business case. In this instance a couple in the second half of their career has launched a successful winery and are tempted at the idea of opening a restaurant, a business they have little knowledge about. Topics of consideration for students are the age of the owners and the challenges and limitations of SME's including level of expertise and access to resources.

The Blue Ocean Strategy was book written in 2005 by W. Chan Kim and Renee Mauborgne. The major concept put forth in this work is that companies should not focus on battling competitors but instead on creating 'blue oceans of uncontested market space. In this case study Len Crispino is a self-professed 'Blue Ocean thinker'. Crispino created the market of appassimento wine in Ontario and has enjoyed success in doing so. The case provides the opportunity to introduce students to this concept.

References

Kim, W. C., & Mauborgne, R. (2005). *Blue ocean strategy: How to create uncontested market space and make the competition irrelevant*. Boston, Mass: Harvard Business School Press.