

Case 25: Wine & Co.

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Case Question

- Wine & Co. is a niche wine manufacturer in the San Francisco Bay area. Wine & Co. recently acquired 12 acres of land outside San Francisco. The company wants to investigate opportunities to best use the land and needs a recommendation from you.

Case tracker

- Industry:**
CPG
- Level of Difficulty:**
Medium
- Case Format:**
Opportunity Assessment
- Concepts Tested:**
 - Marketing strategy
 - Basic NPV

Fit Questions

- Spend first 15 min on fit**
- Tell me about a time when you failed.
 - Share me a time when you faced a difficult situation in a team and how you solved this .

Guide to interviewer

- The case tests the interviewee's ability to:
 - Structure the problem and brainstorm
 - Determine valuation and discounting
 - Recommend a marketing strategy
 - Synthesize the answers.
- This case is a McKinsey style case and has to be asked in a question and answer format. The interviewer should ask each question given below and wait for the interviewee to respond. If the interviewee is stuck, direction should be provided based on the information given below. The interviewee should be able to drive the case while at the same time seek direction based on the question asked.

7
Quants.

5
Structure



Mkt. Stgy
NPV

Clarifying answers and case guide

Clarifying answers to provide

- **Question 1.** Some interviewees ask which geographical regions the company serves, the type of wines they manufacture and if they have other types of products (like other liquors or wine tasting tours in Napa valley). The following information can be provided if asked. a) They only manufacture red wines. b) The company serves only the local market (the San Francisco Bay area). c) The company does not sell any other products. d) The company is currently very healthy and does not face any problems.
- **Question 2.** Profit Margins on Wine & Co. are 10% while the margins on Bordeaux are 15%.
- **Question 3.** a) Discount rate is 12% (provide only when asked). Many people forget the time value of money and add profits across years without discounting. b) Assume the costs are only incurred when the revenues are realized after aging (no costs until year 6 for Merlot and no costs until year 12 for Bordeaux). c) If people are struggling with the division or approximations, suggest the "Rule of 72" (If r is the discount rate, $72/r$ is the number of years it takes to double your money)
- **Question 4.** Customer segments that are currently served by Wine & Co.- niche wine enthusiasts.

Guide to case / Guide to handouts

- Question 1. What are the different ways in which Wine & Co. can use the land?
- Question 2. Wine & Co. has decided to use the land to manufacture wine. Each acre of land produces 1000 kg of grapes annually. Wine & Co. has an option to manufacture Merlot or Bordeaux. The two wines use different grapes and the grapes have varying yields. While the Merlot grapes yield 2litres/kg, the Bordeaux grapes yield 1litre/kg. Wine & Co. can charge \$20 per liter of Merlot and can charge \$40 per liter of Bordeaux. Which wine yields more profits annually?
- Question 3. Aging has an effect on the revenues and profitability. Merlot has to be stored for 6 years while Bordeaux has to be stored for 12 years before revenues can be generated. Which wine would you choose for manufacturing?
- Question 4. Wine & Co. has decided to manufacture Merlot. How should they market this product in the San Francisco Bay area?
- Please summarize your recommendations to the CEO of Wine & Co.

Key elements to analyze

Topic 1 being tested

- What are the different ways in which Wine & Co. wines can use the land?

Topic 2 being tested

- Which wine yields more profits annually?

Notes to interviewer

- The interviewee should create a framework and structure the problem. The interviewee should suggest options including manufacturing the wine, creating adjacent products (like wine tasting tours), using the land for other uses (commercial real estate/selling the land for a profit/other opportunity costs). A good candidate would provide a detailed structure (eg. profitability framework for manufacturing feasibility with customization of the framework - yield of grapes, cost per liter of wine, etc.) and outline the risks or considerations involved in some of these options (like usability of land for manufacturing or company competency in pursuing in other opportunities unrelated to wine manufacturing).

Notes to interviewer

- A good candidate would ask for the profit margins/costs without being prompted. Look for organization and structure when the candidate evaluates the annual profits for each wine (a good candidate would use a table like structure when doing the math). The revenues would be \$480,000 for both wines annually but the margins would be higher for Bordeaux (\$72,000 for Bordeaux vs. \$48,000 for Merlot). After the candidate arrives at the profits, look for interpretation. A good candidate would recommend using Bordeaux while at the same time consider other factors (competency in manufacturing either of the wines, customer demand in the bay area, sensitivity to product yields, customer reservation price, etc.). A creative candidate might suggest that we compare the age of the two wines (and hence will impact when the profits might actually start)

Key elements to analyze

Topic 3 being tested

- Which wine would you choose for manufacturing?

Notes to interviewer

- Candidate should identify that the cash flows for Merlot would be \$48,000 annually starting year 6. Cash flows for Bordeaux would start in year 12 (\$72,000 annually). A good candidate would then consider the time value of money and discount the two perpetuities to the same year for an apples-to-apples comparison. Merlot: Annual Cash flow starting year 6: \$48,000 Perpetuity value of cash flow (value in year 6) = $\$48,000 / 0.12 = \$400,000$ Bordeaux: Annual cash flow starting year 12: \$72,000 Perpetuity value of cash flow (value in year 12) = $\$72,000 / 0.12 = \$600,000$ Value of perpetuity in year 6 = $\$600,000 / (1.12^6) = \$300,000$ (Rule of 72). Provide help here if the candidate is struggling with the division. Look for the candidate's approach than the exact number. Since value of pursuing Merlot (\$400,000) is higher than value of pursuing Bordeaux (\$300,000), the company should manufacture Merlot. A good candidate would interpret the result and suggest we take into account other factors like inventory costs, sensitivity to discount rate, etc.

Topic 4 being tested

- How should they market this product in the San Francisco Bay area?

Notes to interviewer

- Candidate should ask for the customer segments that the company might sell to and suggest appropriate marketing channels/strategies to consider. Look for a MECE structure here. Suggestions should include retail strategies, direct to consumer strategies (like wine clubs, wine tasting), traditional media and print advertising and online advertising.

Solution and recommendations

Solution & Recommendations

- A good candidate would recommend a solution (manufacturing Merlot) but would detail out the risks/next steps associated with the recommendation. Next steps may involve market research, land usability testing, evaluation of opportunity costs. Risks have been outlined above already.

Bonus/Guide to an Excellent Case

- An excellent answer should include:
 - a) Identification of opportunity costs
 - b) Considering industry specific issues like aging of wine
 - c) Considering time value of money/perpetuity of cash flow
 - d) Considering risks like customer demand, land usability