

■ ANDY STARR

Successful Small Wineries Know Their Core Competencies

Let's start with two definitions. Core competencies are the unique abilities a company develops that cannot be easily imitated. Non-core competencies are headaches you should probably outsource.

Owning or running a winery is supposedly the No. 1 "second career" choice of middle-aged executives, especially those who wear uncomfortable clothes to work in the steel and glass cages commonly known as traditional offices. Like well-dressed prisoners on furlough, office workers visit wineries on the weekends and imagine how magical it would be to top off barrels all day. Those of us in the business know the real story is a little different.

Most small wineries are run by passionate people obsessed with quality, yet they are limited by what limits all small businesses: capital, time and human resources. Dirt-to-bottle integration sounds great (own and control your vineyards, make wine in your own fully equipped, crush-to-bottle production facility, sell direct to consumer from the tasting room). But while having all of these tasks done well is critical to your success, you have choices as to who does them. After more than 25 years in the wine industry, most of them as a supplier of new technologies, my observation is that successful small operations are quite ruthless in prioritizing what they do themselves and what they allow others to do.

Some things to outsource are obvious: You'd rather have someone pick up your trash and take it to a landfill than build and operate your own landfill. It's easier to buy an iPhone than it is to make one. But outsourcing decisions closer to your core business is trickier.

I like the saying, "Know who you are and stick with it." An Australian wine company got itself in trouble several years ago pursuing a private-label strategy to the largest U.K. retailers. The problem

was this company was structured as a high value-added, brand-oriented company with layers of marketing, sales and support staff (including a job title called "master data analyst, Northwest"—what is that?). Their U.K. private-label business exploded in sales and unit volume (if the sales managers get their annual bonuses, all must be good, right?) but incurred heavy losses as they devolved into a low-margin private-label supplier combined with high brand-driven overhead. They failed to stick with who they were and should have either a) forgone the private label strategy, or b) reduced their staffing to be profitable with private label.

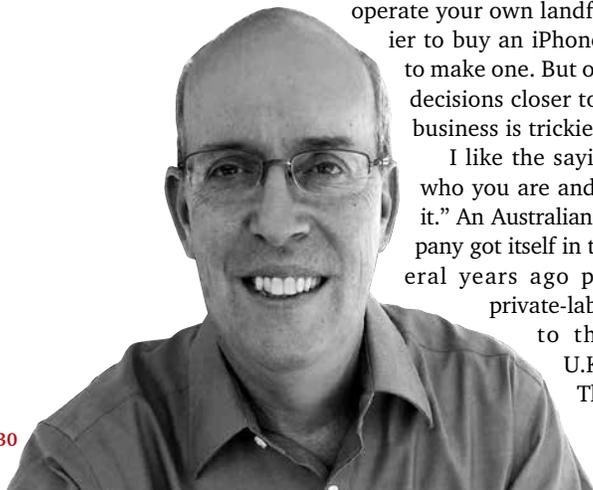


Bottling in-house provides Navarro Vineyards with flexible scheduling.

Navarro Vineyards: local knowledge

Navarro Vineyards is a 43,000-case facility in Philo, Calif. Jim Klein, Navarro's hands-on winemaker, explains that the winery's core competencies (the areas in which they excel) are being a leading producer of aromatic white wines and Pinot Noirs from the Anderson Valley. Quality, local knowledge and sustainability are highly valued. Navarro also excels in execution of its direct-to-consumer (DtC) strategy, selling 85% of its wines DtC. For many years, Navarro's tasting room has been one of the busiest and best loved in Mendocino County. The marketing of its many wines as compelling stories is impressive as well.

Navarro tends to perform more jobs in-house



than other wineries, because it allows maximum quality and control. Navarro's owners, the Cahn-Bennett family, like to grow grapes, with 60% of what the winery crushes coming from their own vineyards. They value local knowledge and have had the same vineyard manager for more than 25 years and the same winemaker for more than 20 years. Having vineyard control allows Klein to be both winemaker and "whim-maker," meaning he can seize an opportunity to make last-minute changes that a contract agreement might not allow.

Klein explained that Navarro consumers want a wide variety of wines for their tasting room experience. To meet those expectations, Navarro goes beyond its own vineyards to purchase varieties that don't do well in Anderson Valley such as Zinfandel, Cabernet and Syrah. All purchased grapes are tightly specified, with mostly of them coming from growers with whom there is a long-standing relationship.

Navarro does nearly all the work from crush through bottling. Exceptions are made for quality reasons. For example, it's better for a couple of loads of white grapes to be machine picked in the cool of night rather than hand picked on a hot day in Ukiah. Equipment needed to bring in machine-picked fruit would cost \$250,000 or more, so they send it to a custom-crush facility for juicing at a cost of \$3,000 per 20-ton load.

Navarro bottles in-house to provide flexibility in scheduling its many wines. Klein warns small operations of the hidden maintenance, labor and materials costs associated with having your own bottling line, and it requires you to be good at something outside your core duties as winemaker. A 10,000-case operation might be able to justify \$60,000-\$100,000 for a small, used bottling line, but not a half-time maintenance employee at \$25,000-\$30,000 per year or \$2.50-\$3 per case, which by itself is greater than the roughly \$2 per case charge from a mobile bottler.

Hahn Family Wines: do what you do best

The largest winery interviewed was Hahn Family Wines, which has operations in Monterey County, Calif., and administrative offices in Napa. Two talented and experienced leaders—Hahn's president, Tony Baldini, and chief financial officer Thomas Duhameau—answered the question "do you in-source or outsource?" with their own high-level strategic questions:

- Who do we want to be?
- What are we about?
- Where do I stake my claim?
- What do I do best?

As Duhameau pointed out, there are an infinite number of business opportunities at

any winery. Management requires an honest assessment and tough decisions about what to do or not do.

Baldini understands that while in the long term you should align your ideals with your values, in the short term you do what you can with what you have. An example is how Hahn

Hahn has identified local custom-crush facilities that can vinify Bordeaux varietals to its standards, and these wines are brought back in-house for aging and finishing.

ties that can vinify Bordeaux varietals to its standards, and these wines are brought back

goes about outsourcing production. Their core competencies are "making wines of place and selling them," but their production needs exceed what they can crush at their facility. Hahn has identified local custom-crush facilities

Don't Question Your Capsules

Call us today!
(707) 463-5591
www.maverickcaps.com

maverick
ENTERPRISES, INC.

Let Maverick Help

in-house for aging and finishing. Burgundian varieties such as Chardonnay and Pinot Noir require knowledge proprietary to Hahn's wine-making team, so those are made 100% onsite. Baldini pointed out that regional capabilities often dictate outsourcing possibilities. In this case, Hahn has a custom-crush facility nearby that meets their needs. In other regions, that option may not be available.

In the vineyard, Baldini explained that they now use a dedicated vineyard management company—a change from when they staffed it themselves. Doing this allows Hahn to draw on the management company's extensive expertise and specialists. All of Hahn's 20 former vineyard workers were retained by the management company, so local knowledge was retained, and the employees now have more upward mobility in their positions. The result was better overall grape quality, savings that were used to hire more cellar workers and a bit more for the marketing budget—a win for everyone.

Tin Barn Vineyards: only so many hours in a day

Amy Bess Cook, director of operations at Tin Barn Vineyards in Sonoma, Calif., believes their core competency is an ability to produce small-lot, superior quality, Sonoma County vineyard-designated wines at reasonable prices. They

produce 3,500 cases per year under the Tin Barn label. Managing partner and winemaker Michael Lancaster has been in the industry for more than 20 years. He still does cellar work and personally walks all the vine rows; that level of attention shows in his wines.

Yet Tin Barn is very happy to outsource non-core tasks. The winery places high value on having its own crush pad and labor, but it outsources filtration, bottling and most lab work. Cook noted that they could buy a filter or hire a lab manager, but it would take time and resources away from other winemaking activities that are more critical to their success. There are only so many hours in a day.

Cook stated that in the wine business, "You have to cope with uncertainty. To be comfortable and embrace that is key to what we do at Tin Barn." So Tin Barn further leverages Lancaster's winemaking core competency through custom crush, producing roughly 12,000 cases for clients who know Lancaster will take great care with their wines. Cook added, "Our clients say it's a wonderful place and space to make wine."

Loma Prieta Winery: outsourcing sparkling

As proprietor of Loma Prieta Winery, the smallest winery interviewed for this story, Amy Kemp feels her core advantage is the winery's location

on a mountaintop in Santa Cruz, Calif., with a tasting room at 2,400 feet elevation. "People just want to be here," she stated. Add wonderful wine, wonderful staff and a place for a picnic, and you end up with a 2,000-case operation that sells nearly all wine direct to consumer via the winery or wine club program.

While she makes several wines, Kemp further differentiates Loma Prieta by focusing on the South African Pinotage grape, including a sparkling Pinotage. Decent sparkling wine equipment can cost \$300,000. That plus space requirements make it prohibitive to produce onsite, so she has the wines made at Rack and Riddle, a custom winemaking and sparkling wine specialist with two locations in Sonoma County, Calif. Loma Prieta provides the grapes and specs, so the wines bear her imprint. Kemp notes that outsourcing "makes the difference between being able to offer sparkling and simply not being able to offer sparkling wine." She adds that utilizing custom-crush facilities means she won't get stuck with a "sparkling wine production learning curve" either.

Kemp has recently brought routine lab work in-house, as she often needs an immediate answer, so even a one- to two-day turnaround is too long to wait. Due to space and refrigeration constraints, white wines are also made at custom-crush facilities.

"Wow, you're exactly the same as I remember you!"

"Actually, I've aged quite a bit... on the inside."

They say a fine wine only gets better with age – and at Barrels Unlimited we make sure of it. Whether it's making a good wine great or a great wine legendary, our air-dried American oak casks and barrels infuse complexity and character into every batch.

Available in 5,10, 15, 20, 30, 59, 70, and 80 gallon sizes.

BARRELS
UNLIMITED

Corporate Office | Jackson, Wyoming 1.800.875.1558
www.barrelsunlimited.com | West Coast Cooperage Fresno, California

A GREEN COMPANY SINCE 1975

Mooney Family Wines: dodging enormous fixed costs

“Meticulous winemaking” is the best way to describe the core competency of Michael Mooney, co-owner of Mooney Family Wines, located in the Paso Robles appellation of California. Mooney explained that he needs to use best practices and have control over every step



Mooney Family Wines sorts wine grapes first in the vineyard and again at the winery.

at his 3,000-case boutique winery, which has three distinct brands. He prefers to use acreage contracts rather than pay by the ton, as it allows tighter farming control. Vineyards producing only 1.5-2.5 tons per acre are hand picked and sorted in the vineyard, then sorted again at the winery. Mooney uses gravity feed, three-day cold soaks and 50%-100% new French oak, none of which would be feasible at most custom-crush facilities.

He owns a beautiful estate that hosts frequent weddings, so a sparkling wine was necessary. Like Loma Prieta, he can't justify the enormous fixed costs for bottling and disgorging sparkling wines, so he uses Rack and Riddle. To Mooney, it feels like it is entirely “his wine” run on someone else's equipment to his exacting requirements.

Other outsourced items include compliance and bottling. “They do it for a living,” Mooney explained of the latter. And since he believes knowing tannin concentration is an important tool in keeping a consistent style across vintages, he also outsources phenolic assessments.

Sextant Wines: picking at the peak

Craig Stoller, owner of Sextant Wines, also in Paso Robles, believes it is critical to pick fruit at its peak. Having his own equipment combined with using a custom-crush facility allows

him to do that economically. He uses Pacific Wine Services, saying they have great people and the ability to color sort, which is critical for a variety like Grenache. Stoller notes that it costs more, but the alternative would be lower quality wine from unsorted grapes, which would be a tough sell.

One more reason to outsource wine production is to keep a winery looking smaller than it is. Visitors like the feel of a cozy boutique wine producer, and 32-foot tall utilitarian concrete warehouses run counter to that.

In summary, successful wineries understand their core competencies and happily let others do the rest. There is no standardized, uniform way to optimize winery operations, except to play to your strengths. 🍷



Andy Starr, founder of StarrGreen (starrgreen.com), is an entrepreneur, marketing manager and winemaker who provides strategy, management and business development consulting services. A resident of Napa Valley, Calif., he holds a bachelor's degree in fermentation science from the University of California, Davis, and an MBA from UCLA.

valves • tank gaskets • tubing
tri-clover/sanitary gaskets
clamps and ferrules
replacement seats and hoses

wineryseals

Include Code 0114 on
your first order for an
extra 10% off!

510-732-7010

wineryseals.com

A Division of Bay Seal Company
Providing Sealing Solutions for over 50 Years

MALAJI
*the fine art
of closures*



*We Are Now Located
In Northern California*

*Contact us for samples, quotes
and general information*

mala-usa.com

(707) 765-6252

info@mala-usa.com