

MAC Analysis, September 1991
Fine Wines, Fine Consulting...or...
What's a "Nuke" Like You Doing in a Place Like This? ⁱ
By Ray Mischkot, MAC Consultant

At first "blush" one might wonder, "Why would Delicato Vineyards, one of America's largest wine producers, seek consulting help from Management Analysis Company, a leading energy industry consultant?"

However, at closer look, one sees many similarities between energy clients MAC has traditionally served and the wine industry. Like the energy industry, the wine industry is highly regulated, capital intensive, and very complex. Moreover, the uncertain nature of agriculture and the long-term production cycle introduce a substantial investment risk, particularly in relation to the relatively small size of most wineries.

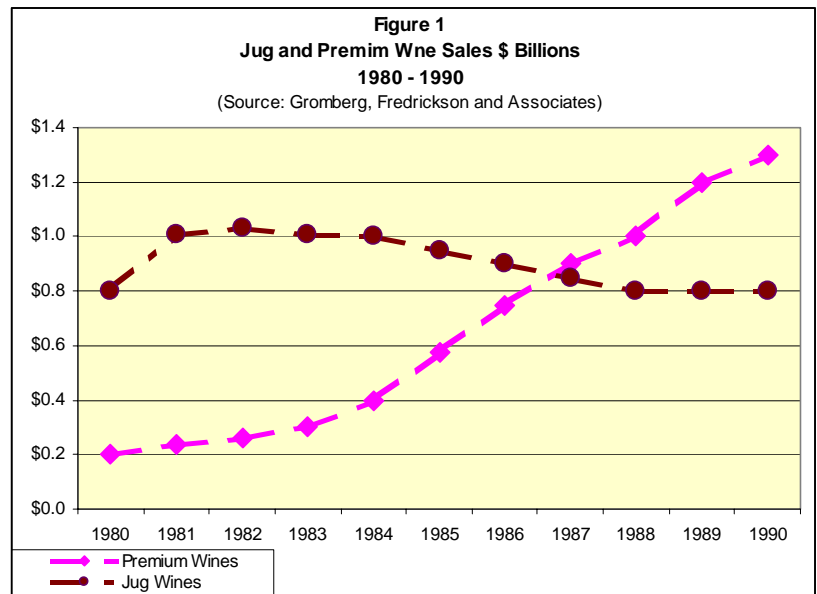
Perhaps the greatest similarity is that the fundamentals of good management are the same, whether they are directed at producing kilowatts or fine wines. Frank Tindal, a recently hired Delicato executive, understands this and since he knew MAC from his prior positions as a utility executive, recommended MAC.

Delicato asked MAC to help implement business planning and management systems to improve both operational and financial performance.

A Company and Family in Transition

To begin, MAC conducted a situation assessment and needs analysis patterned after cultural assessments MAC has performed for utilities. Through this process, we identified strengths, weaknesses, and opportunities and recommended a series of actions to address root cause issues or needs.

We found that the issues confronting Delicato "stemmed" directly from the substantial changes in both size and complexity the company had undergone during the past decade as it struggled to succeed in a rapidly changing wine market. As shown in Figure 1, sales of premium wines have increased steadily over the past decade, while lower quality jug wines sales have actually declined since 1982.



As the business became larger and more complex, management systems, including financial planning, production planning and scheduling, inventory management, and product costing and pricing, failed to keep pace. In addition, while the company had put into place a very capable cadre of middle managers, it had failed to provide the planning and leadership necessary to use them effectively.

From a cultural standpoint, the ongoing transition resulted in recurring conflicts between groups long associated with the volume-oriented bulk operations of the past and a newer group of marketers, sales representatives, and technicians dedicated to success in the more complex and quality-oriented case goods business of today.

Finally, there was a transition involving the owners. The current generation of owners was in the process of turning over the operational reins to a professional management team and settling into an executive oversight role. Several members of the next generation had moved into line positions to prepare for more responsible management roles and eventually the oversight role being performed by their parents.

Progress to Date

Delicato's Board of Directors gave the go-ahead for a series of MAC-led action plans directed at addressing planning, operations, systems, and staffing needs identified in the assessment. MAC consultant Dick Daleke led a meeting of key managers where a consensus was reached on Delicato's needs and a series of action plans and teams. In parallel with managing action plans, we conducted a series of meetings with the owners and company executives to formulate vision statements, mission statements, and overall company goals.

Over a three-month period, Delicato has made substantial progress:

- Key positions, including a new vice president of operations and a brands manager, have been identified and filled, strengthening the organization.
- A pay-for-performance review and compensation program has been established.
- “Operations Fresh Start” has been implemented, to improve the quality of work. This program includes raising hiring standards, orienting new employees, and providing technical skills training for winery workers and management training for supervisors.
- A system for improving production planning and scheduling, inventory management, and order processing has been defined and is being developed. Triggered by a process flow analysis by MAC's Marilyn James, this system will improve productivity and inventory utilization by using existing sales projections to set minimum inventory levels and to blend and bottle larger, less frequent production batches.
- Strategies have been identified for more efficiently using existing bottling and winemaking facilities to expand production and meet opportunities to expand foreign sales.
- The projection of wine sales for the upcoming fiscal year has been accelerated to improve integration with ongoing planning for the 1991 Harvest Crush Plan.
- A series of existing databases and PC-based models have been pulled into an integrated financial planning model that forecasts company revenues, earnings, cash flow, and borrowing capacity. MAC's Dave Augustine assisted in this effort.
- Relations with Delicato's principal lender have improved by acquainting the bank with the integrated financial model and obtaining the bank's input on financial objectives for the business plan.
- Meetings were held with owners, middle managers, and executive management to improve communications and teamwork by increasing awareness of the ongoing transition and introducing skills to cope with change.

Where We Go From Here

These efforts will culminate in a Fiscal Year 1992 Business Plan that provides the basic structure—or road map—for achieving the vision and goals as identified by the owners. This plan calls for improving profitability by emphasizing market segments where higher margin sales can expand, as well as improving productivity through improved systems, management, and organizational effectiveness techniques. The Business Plan defines performance objectives, standards, and accountabilities; assuring more effective use of financial, physical, and human resources. The Delicato owners, board of directors, and management have committed to directing company operations through this plan. This commitment

represents a significant step for a company that had previously been managed largely on a less forward-looking and more informal basis, as is typical in the industry.

The broader implication of this project for MAC and its prospective clients is that the management techniques traditionally applied to the utility and other energy-related businesses are indeed applicable to non-energy businesses, including relatively small businesses. The key to success in such assignments is scaling down the approach to match the size of the company and needs at hand. In the case of the Delicato Vineyards project, this is being accomplished by limiting full-time consulting to only one consultant who takes advantage of existing company resources to leverage the impact of specialized MAC expertise that is brought in on an as-needed and focused basis. I like to think of this as a “Mini-MAC Attack”—minimum cost and “MACsimum” impact.

ⁱ Written by Ray Mischkot for publication in the September 1991 edition of MAC Analysis