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Your Role as CEO¹

Part 2: Strategy – Making the Tough Choices

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"We're hopelessly lost, but we're making good time!" This was my father's standard joke on long car trips. Unfortunately, many small business owners find themselves in this situation: going fast but no longer achieving acceptable profits. It's not that they're doing the wrong things, rather the assumptions on which the business was built no longer fit. What is needed is an up to date strategy that provides direction and focuses action.

In the wine business, a sound strategy matters more than ever before. There was a time when the product sold itself. In today's dynamics of consolidation and increased competition, wine business owners are faced with increasing costs of sales and marketing, growing inventories, and the need to spend more time in the market.

Strategy is fundamentally about making choices, often times difficult choices, about how your business will compete and win in a changing marketplace. Companies that are succeeding in the current wine business environment regularly revisit their strategy and deliberately choose what they intend to accomplish, as well as what they need to ignore.

Case Study. Seghesio Family Vineyards used to cater to consumers of moderately priced wines of about \$6 a bottle. By the 1990s, however, the company was struggling to survive in the shrinking middle market between cheap jug wines and the premium category. In 1995, a younger generation of the family took control and decided to reposition the company. The winery slashed production from 120,000 to 35,000 cases. They also raised their average price to about \$20 a bottle. The strategy worked. Today the winery is profitable and has boosted its production to 75,000 cases. They made a clear choice to pursue a higher price category and walk away from the \$6 wines.

Your role as CEO is to ensure your business has a viable strategy. The most effective CEOs engage their team to do three things: *start with the facts, explore alternatives² and make the tough calls.*

¹ ["Your Role as CEO, Part 1: Mastering the Discipline of Execution"](#), Vicky Farrow, Scion Advisors.

² A good tool for choosing among several options is scenario planning. See ["Future Scenarios: Discover & Quantify your Business Potential"](#), Hank Salvo, Scion Advisors.

Three Key Elements to a Sound Strategy

1. **A compelling destination that engages your team.** In their groundbreaking book, *Built to Last*³, Collins and Porras found that companies with a “deeply shared and understood emotional reason for being” outperformed the comparison group by a factor of 6 to 1 over a period of 60 years. Successful companies spend time defining a vision, core values, purpose and a primary goal (something Collins and Porras termed a “Big Hairy Audacious Goal”, or BHAG).

“One of the benefits of crystallizing our strategy was a renewed level of enthusiasm and commitment among the entire team”, says Eileen Crane, President of Domaine Carneros.

2. **Clear choices on how you will win in the marketplace.** There are four types of choices that must be made to create a sound strategy: *scope, competitive advantage, opportunities to pursue* and *allocation of resources*.

Scope decisions involve defining business basics such as the markets and channels you will serve, your size and the targeted price points. You must, as my partner, Deborah Steintal, says “claim your playground”.

Defining your **competitive advantage** is one of the most critical components of strategic development. What can you do better than anyone else that matters to customers? A great example is San Francisco based, [Crushpad](#). They staked their claim on thousands of wine lovers who want to make their own boutique wines. Crushpad has the unique ability to operate multiple small wine businesses (from sourcing grapes to allocating finished wine) for customers at any level of involvement. It is essentially a service that enables anyone, nearly anywhere, to have their own wine business.

Possibly the most challenging is deciding which **opportunities** to pursue and which to ignore, or even abandon. Businesses that never make these tough calls find themselves with too many brands, too many price points, too many SKU’s, too many markets and too many different customers to please.

Case Study. Joseph Phelps Vineyards’ classic decision to reduce their portfolio from 26 different wines to focus on only three, including their flagship, Insignia, was an example of making a clear choice (see “[Growing Profits by Getting Smaller](#)”, Deborah Steintal, *Practical Winery & Vineyard Magazine, Nov/Dec 2004 Edition*).

³Collins, Jim and Jerry Porras, *Built to Last: Successful Habits of Visionary Companies*.



Finally, the rubber meets the road when you **allocate resources**. This requires a decision not only about which activities to feed, but which to starve. If, for example, you make a decision to concentrate on the consumer direct channel, significant resources need to be invested there. Similarly, deciding to focus on the high-end consumer means not only investing in what it takes to attract and keep them, it also means letting go of those existing customers who do not fit the new profile.

3. **A roadmap for achieving your direction.** Even the best laid strategies can't be successful until they are translated into actionable plans. You must create a roadmap that describes how you will get from where you are to where you want to go, including strategic goals and a timeline with milestones to check progress along the way. The roadmap should also provide a framework for the seemingly small decisions people make on a daily basis, anything from whether to provide an additional distributor discount to what kind of glasses to buy for the tasting room.

The CEO's Role in Crafting Strategy

Much of the benefit of redefining strategy comes from *how* it is developed. As CEO, you set the tone with your team. Your role requires you to look at the organization as an integrated whole, insist on realism and drive a deeper understanding of your business and how it achieves success.

Based on our own experience and studies of companies with powerful strategies, we recommend the following:

1. Connect strategy to family needs and goals (critical in a family owned business)
2. Engage key members of your team
3. Insist on robust dialogue (opposing points of view, vigorous debate)
4. Drive for deep understanding (true insights, not just the facts)
5. Link strategy to your operations and people (See "[Your Role as CEO, Part 1: Mastering the Discipline of Execution](#)", Vicky Farrow, Scion Advisors).

Conclusions

Redefining strategy requires an investment of time and energy. The payoff for you and your team is reduced risk and a better chance of enjoying sustained profits. You will also gain a greater sense of confidence and clarity about your business and how it can thrive in a complex and competitive marketplace.

To ask the tough questions that ensure your strategy is grounded in reality, you may find it beneficial to bring in outside advisors with a broad wine industry perspective. That's how Scion can help. At Scion we work alongside wine business leaders with an approach that guides you through your planning process to produce more effective strategies that make the most sense for your family business.

