Moving to multichannel strategy and increasing gross margins: Case study of the Domaine de Mongette and lecturing guidelines

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General summary
The Mongette case study contains the informations required to set up a marketing plan calling for important and innovative changes in the marketing strategy of a medium size winery in the south of France. The overall objectives are to increase the present level of margins and decrease the risk of channel dependancy. It initiates a discussion on the compared advantages of different retail channels, on methods intended to determine wine prices (including cost based methods) and, finally, proposes to build a detailed marketing plan in order to forecast future margins. This case would fit particularly well into a marketing management course. It provides the opportunity to teach the students how to write a synthetic managerial report.

The is made of two parts : the first part will be used by the students and contains 13 pages. It provides a 5 pages description of the situation, and 6 appendices including methodological indications on pricing, cost analysis and channel evaluation, using a decision matrix approach. The second part (appendix 7, 5 pages) offers guidelines for lecturing and should not be given to the students. It provides the calculations and suggests directions for class discussions.

Key words: market planning, price management, retail channel management, margin control,break even point, decision matrix.

Moving to multichannel strategy and increasing gross margins :
Case study of the Domaine de Mongette

The Domaine de Mongette covers 60 ha of vines and produces about 3,000 hl of wine benefiting from the region's appellation "Costières de Nîmes", crushed from 380 to 400 tons of grapes depending on the year. Up to now all the wine has been sold in bulk to a negociant that buys all the produce and resells it under his own brand. The current average price for bulk wine ready for bottling paid by the negociant is €80 ex. AVT per hl[1], for an estimated cost price of €72. There is no formal contract of exclusivity, but the the family Lavigne, owner of the estate, has always given a priority to his traditional negociant, who in turn has always been loyal to his supplier. *Appendix 1: presentation of the "Costières de Nîmes" region of origin.*

Despite the fact that it frees him from the burden of commercial worries, Mr. Lavigne feels that it is inadequate for ensuring the future and development of the domain. Consequently, he is considering new marketing strategies to improve the current situation. In order to set up a project that would require the "green light" from the family partners, he has recruited a young trainee, Jérôme Lambert, and given him the assignment of gathering the information relating to alternative marketing solutions, and of evaluating the accessiblility and the profitability of different types of channels.
Appendix 2: wine distribution in France

The present production does not allow considering launching a very wide range of wines in the short run. One or two years at least are required to build up selections of grape varieties, test assemblages and, little by little, create upmarket products liable to project the company's image. However, Mr. Lavigne has been able to test the quality of his present production, which matches well with what is expected from the "Costières de Nîmes" label, and he thinks that he can start up as from the forthcoming bottling and marketing campaign. Thus he expects Jérôme Lambert, his trainee, to help him define a strategy for diversifying his marketing system in France. Mr. Lavigne is aware of the importance of exports in a marketing development strategy, but he is an experienced businessman and thinks that, initially, it is necessary to build up solid references on the national market before he can attract importers. Therefore he has asked Jerôme Lambert to limit the scope of his project to the development of the domestic market.

Although the Domaine de Mongettes' balance sheet is quite healthy, with a moderate level of debt, the question of risk and investments is vital, as with any very small business in which the manager's own property may be heavily pledged. When Mr. Lavigne hired Jérôme Lambert, the latter was given free rein "provided that business would not fall below the break-even point for more than one year or two at most".
Appendix 3: technical and business information on the Domaine de Mongette

Jérôme Lambert therefore decided to study all the forms of marketing that could be considered by the Domaine de Mongette and to present his conclusions to Mr. Lavigne at the end of his trainship in the form of a three year marketing plan.

The costs of wine and margins in the marketing channels
The cost price of wine can be considered as a constant. Nonetheless, the creation of specific assemblages would lead to additional vinification and storage costs that can reach €0.25/bottle. Initially, the Domaine de Mongette can subcontract the preparation and bottling of the wine on the property to a service provider equipped with a mobile bottling facility, which would cost it about

[1] Wine in France is submitted to the same AVT taxe as the other beverage, i.e. 19,6%

€0.15 per bottle. The cost of supplying "dry materials" (bottles, corks, labels, boxes) can vary according to the quality desired for presenting the wine. Packaging for a standard product can cost about €0.40 per bottle. A more upmarket presentation could easily cost twice as much, i.e. €0.80/bottle. To these costs must be added €3.41 per hl of alcohol tax, i.e. €0.03/bottle. *The main costing items are given in appendix 3*.

To ensure the tasks linked to marketing development, Jérôme Lambert thinks that it will be necessary to hire a full-time sales employee for an overall annual cost of €36,000, including social taxes.

After a rapid look on the domestic wine market, he thinks that four marketing channels are within reach for the Domaine de Mongette.

<u>Cellar door sales from the vineyard,</u> by receiving customers in premises fitted out for this purpose. Cellar door sales could be handled by the sales employee and occupy half his time (four afternoons and all day Saturday). Jérôme Lambert estimates that for this type of sale, the owner of the vineyard should be visible to the customers, so Mr. Lavigne would help the sales personnel at least during busy periods. The annual salary cost for these cellar door sales would therefore be about €18,000€ (50% of the employee's time). Existing premises in good condition could be fitted out to receive customers for an investment of €30,000 amortised over 3 years, and meet the standards of the "Terroir d'Accueil" charter (cf. appendix 1). An annual budget of €10,000 would be necessary for local advertising, signposting, subscription to the "Terroir d'accueil" program, etc. From the contacts he has had with his winegrowing colleagues, Mr. Lavigne estimates that he could sell from 40,000 to 60,000 bottles via this channel through time. This does not mean that this goal could be achieved immediately. Jérôme noted that the vineyards that sold directly tended to diversify their product ranges to reach significant sales volumes. This form of diversification could only be achieved gradually, probably over 2 to 3 years (cf. appendix 3).

Wine fairs dedicated to consumers may be considered as an extension of cellar door sales.

<u>Sale by direct mail order</u> appears to him to be a good addition to direct sales at the winery. Firstly, an internet site would be a good tool for generating loyalty with customers who purchase at the winery, and also for attracting new prospects. It would also be a tool for coordinating a network of wine cellars (cf. below). However, the winegrowers he has contacted actually make few sales via the Internet. They continue to place their faith in traditional direct sales solicitation, i.e. prospecting by mail to persons selected from lists. Jérôme Lambert has obtained information on the marketing costs of mail order sales. The cost of direct sales solicitation is broken down approximately as follows:

- ⇒ purchase of lists of relevant addresses (€2 per address targeted),
- ⇒ design and production of documents, about (€1) per message (for a minimum of 2000 units) and €0.75 for a higher amount.
- ⇒ mailing by post office channels for about € 0.20 /message.

Furthermore, he has heard that direct sales solicitation using adress lists could generate an average yield from 2% to 3%[2]. Loyalty of around 30% could be expected (i.e. proportion of customers placing further spontaneous orders). Experience shows that one customer out of three orders the year following the purchase. The difficulty of evaluating the costs and the profitability of this channel stems from the fact that the cost of winning over a customer represents an investment that has to be spread through time.

[2] A yield of 2% means that 50 messages must be sent to obtain one order.

According to information provided by a friend, the average amount per customer order is 36 bottles (minimum quantity to obtain reasonable unit delivery costs).

Selling direct also implies ensuring the delivery of parcels. The prices quoted by transporters show that the average cost would be around €0.50 per bottle, for an average quantity of three cases (36 bottles). The domain's current computer equipment would be capable of dealing with this additional activity. Only a minimal investment in software and the creation of a site would be necessary. The annual depreciation of computer equipment, the creation of a site and software subscriptions could amount to around €6,000 a year.

The employee could do most of the work following-up and preparing the orders. This would take one eighth of his time (i.e. €4,500 a year).

<u>Selling to reputed restaurants and wine cellars</u> in several large cities in France also seems to be a good way of enhancing the image of his product and provide a reference for individual purchasers.. It is general practice to give wine cellars a minimum discount of 30% on the net sales price to the customer (appendix 2). The marketing manager would not be able to regularly canvass this point of sales network himself, so he would have to select either exclusive or general sales representatives for this purpose. Participating to wine fairs could be a good method to meet wine specialists and representatives. The contacts he has had indicate that the commission asked for by representatives amounts to 20% of turnover ex tax generated from sales by them to wine cellars (and restaurants). The total discounts to wine cellars and commissions to sales representatives would therefore amount to 44% of the net sale price to the consumer. Delivery costs would be in the region of €0.30/bottle for minimum deliveries of 300 bottles. The shipments would be prepared by the employee at the same time as the sales to individuals, thereby avoiding specific personnel costs. This would take up to an eighth of the employee's time (€4,500 a year). According to Jerôme Lambert, a long-term target of an average of 30,000 bottles per year appears reasonable, at a rate of 300 to 1000 bottles per sales point per year (wine cellars and restaurants).

<u>Selling to Supermarkets and Hypermarkets</u>
Lastly, Mr. Lambert has not forgotten the advantage of selling to super and hypermarkets. His production capacity would not give him access to national bargaining with large chains[3]. However, supermarkets often devote space on their shelves to local products and sometimes pool their purchases at regional level (cf. appendix 2 on distribution). It would certainly be necessary to differentiate the range to avoid selling the same products in channels practicing very different prices. Jerôme Lambert has identified five supermarket chains within a radius of 20 km open to offers from local producers, provided that the latter are capable of adapting to their needs. However, these stores are also targeted by all his competitors! These supermarkets take a margin of about 20% for this type of wine. They are sensitive to special offers made by suppliers and encourage in store wine tasting sessions by the producers. This would be the opportunity for using the remaining quarter of the employee's time (preparing orders, deliveries, and organising actions at sales points). He thinks that in time he could sell 20 to 25,000 bottles through this channel, provided a program and budget are available for financing promotional activities at sales points. The vineyard vehicle would be used for deliveries so no specific investments would be required.

Consumer prices
Mr. Lambert has collected information on the range of prices including tax charged for Costières du Gard in these different distribution channels.

[3] The 6 major chains account for about 88% of total grocery retail in France. Only large brands and retailers brand supplyers are invited to annual national negociations. However the stores local may group together and organise negociations at regional level , specially for regional products that offer sufficent volume potential.

In super and hypermarkets, prices vary from €2 for bottom of the range products sold under distributor brands, to €5.9 for top of the range products (medals, vintages, etc.). As explained before, these outlets require in the average a 20% margin on their net sales.
Mr. Lambert suggests reserving a special assemblage without any medal or vintage, nonetheless setting the price above those of distributor brands.

Regarding prices for direct sales from the property, his competitors' flyers and tariffs indicate that the prices range from €4 for standard wines to €15 for exceptional wines recognised by critics. Initially, the Domaine des Mongette's production may not rival distinctively with competing wines, but Jérôme Lambert knows that Mr. Lavigne has decided to devote part of his time to enhancing the quality and promotion of his wines by participating in competitions and contacting the specialised press.

Whether selling by mail order or through wine cellars, experience has shown that prices must be close to those practiced at the vineyard, while adding all or some of the delivery costs, since consumers would not understand large price differences, and wine cellars would be unsatisfied if bypassed by direct sales from the vineyard. The sale price at the vineyard is therefore a very important reference when negotiating with wine cellars. In order to start sales and motivate a network of representatives, Jérôme Lambert knows that he has to plan a promotional budget to facilitate acceptance by wine cellars, for example, in the form of free bottles.

In addition to all this price information, Mr Lavigne had a psychological price study carried out recently by a previous trainee on wine consumers in the region (appendix 4), making it possible to identify customers' price expectations for wines with the "Costière de Nîmes label.

Commercial overheads

All said and done, Jérôme Lambert agrees with Mr Lavigne in estimating that all these marketing activities will lead to additional overheads (telephone, management expenses, heating and lighting, as well as costs for transport and promoting his vineyard, participation to wine fairs, the depreciation of a vehicle, a pallet jack, different installations, etc.) that he evaluates at €20,000 per year.

The project and Mr. Lambert's approach

Jérôme Lambert has understood that in spite of its relatively healthy financial situation, the Domaine de Mongette cannot afford to take risks with its profitability. In other words, the project must at least breakeven and cover its costs within the next txo years. He has therefore opted to first calculate the quantities to be sold in each sales channel to reach the breakeven point.
Appendix 4 sums up the different approaches to establishing prices and calculating the breakeven point.

This purely accounting-based approach will not be enough: if profitability is a priority, marketing development in the medium term must also take into account other criteria such as controlling the sale price to the consumer, the image of the vineyard brand, the investment to be allotted, the synergy between channels, etc. Jérôme Lambert backs an approach that uses a decision matrix comprising the criteria to be taken into account by the Domaine de Mongette. This approach should allow it to set the priorities for the coming three years *(c.f. appendix 5: formulating a decision matrix).*

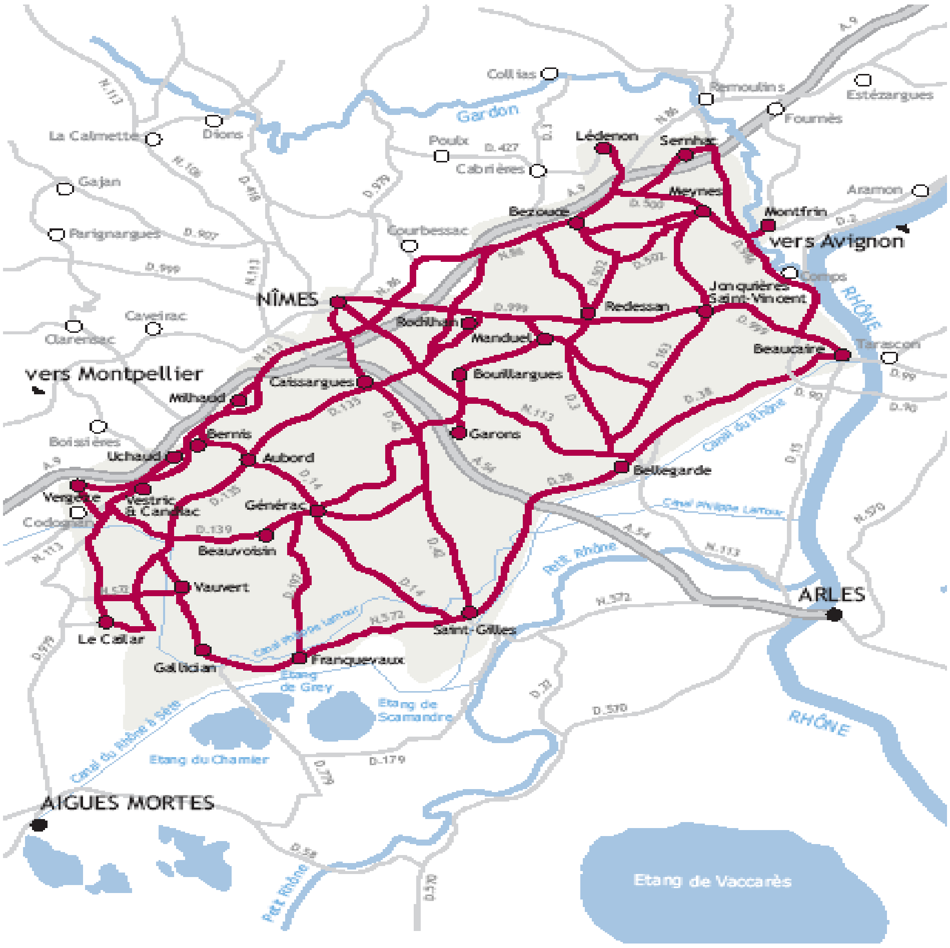
Lastly, Jérôme Lambert is thinking of synthesising his proposals in a two-part marketing plan. The first part is a table that will describe the scenarios of quantities, prices per unit and gross margin for each of the three following years. The second is a table that will provide a detailed view of the marketing budget for year 1 *(an example of simulation spread sheets is given in appendix 6).*

Now it's your turn to play!

Your assignement will be the writing of a managerial report of no more than 5 pages: diagnostics, scenarios of sales prices, breakeven point analysis, distribution choices, a 3 year development plan that justifies the scenarios and strategic objectives, and the forecasted marketing budget for 2010.

Appendix 1. The Costières de Nîmes appellation d'origine contrôlée
(*source : site Costières du Gard)*

The “Costières de Nîmes” appellation is situated on the west side of the southern part of the Rhône river.They are neibourghing wine areas such as Tavel, famous for its rosé wines. Not far the other side of the Rhône river, we find the famous Chateauneuf du Pape, and Côtes du Rhône villages such as Beaume de Venise or Gigondas. The appellation groups 96 private estate wineries, 15 cooperatives, 404 grape producers. It covers 4500 Hectares, for an average production of 220.000 Hl (about 27.500 tons of grapes). Red wines account for 59% of total production, rosés for 37% and whites for 4%. 25% of this production is exported. Domestic sales (75% of total sales) are made



through modern retail (46%), horeca (8%)[4], direct (8%), wholesale (7%) and wine stores (6%).

Oeno tourisme : the “Terroir d’accueil “ label.

46 cellars shown on the circuit above have adhered to a charter controlled by an independant agency, and received the label « Terroir d’Accueil », signaling the quality of the welcome at the cellar. This charter includes 30 criteria that the applicants must achieve in order to meet the highest quality standards levels. A sign indicate the ownership of the label at the entrance of the cellar. A three level system of evaluation defines the quality levels :

- Quality welcome : one vine leaf.
- Quality and service : two leaves
- Excellent quality : three leaves

20.000 brochures are being edited and distributed each year throughout the region. They contain the adresses of the cellars, the opening hours, the special touristic points of interest.

[4] Hotels, Restaureants, Cafés.

Appendix 2.
Retail channels for wine in France

Modern retail (hyper and supermarkets) dominates the French wine market. However wine, unlike many beverage products, remains a product for which producers may choose among various channels to sell their products, according to their strategic objectives.
In practice, most wineries try to combine several channels. However, it is necessary to take in account the competition between the different channels to sell the same wines. When developing multichannel strategies, the supplyers may have to adapt their products and brands to specific channels.

Retail channel market shares in France
It is not easy to obtain consistent data from retail outlets. Combining informations from different sources, it appears that household purchases represent 70 to 75% of total wine sales, whereas Hotels, retaurants and cafés (Horeca) represent 25 to 30%.

Household purchases (off licence sales) can be estimated as follows :

Wine specialists : 10 to 12%
Small independants groceries (including self service) : 7 to10%
Hypers and Supers : 58 to66%
Cellar door and direct mail : 16 to 24 %
Others : 1,6%

Retailers discounts
Recall that the retailer bases his margin on his net sales (ex. AVT), and not on purchase prices.
Therefore a bottle paid €10 to the supplier, then sold at a €15 (ex avt) consumer price, gives a 33% margin (and not 50%).

–Hypers, Supers, Hard discounters : 15 à 25 % on cons.price(ex. AVT)
–Wine specialists : 40 à 50 %
–Mail order : 50 to 60%
–Restaurants 300 à 400 %
–Cellar door : 40 à 80%

Margins at cellar door level may seem high. The consumer price at cellar door is a signal for the consumers and the trade in general. “Underselling” the trade may create dissatisfaction among the retailers and the final customers.

Appendix 3.
Technical and business presentation of the Domaine de Mongette

The Domaine des Mongette has belonged to the Lavigne family for two generations. Mr. Lavigne has retired recently to devote all his time to the estate and he aims to transform it into a profitable business. All the 60 ha are used for winegrowing, apart from a few small almond tree and olive tree orchards kept for the sake of tradition. It is located about 10 km from Nîmes, a tourist city with a population of 150,000 in south-eastern France that has a large number of Roman remains (a fountain, a temple dedicated to Diana and an arena that accommodates cultural events and bullfights, the latter being held twice a year).

The grape varieties planted at the Domaine des Mongettes conform to what is usually found for this region of origin: grenache, syrah, cinsault, carignan for the red wines and rosés, and clairette and marsanne for the white wine. One hectare of Viognier have been recently planted.
The vineyard has always been well kept. There is a chief winegrower and three full-time workers plus temporary labourers taken on for pruning. Mr. Lavigne takes personal care of vinification, helped by a consultant oenologist. He considers that quality is the main assurance for survival in an increasingly difficult wine market. That is why the equipment has been regularly overhauled and upgraded. Every year the negociant defines its assemblage requirements with Mr. Lavigne, but up to now the negociant has rarely asked for more than 2 different assemblages. However, Mr. Lavigne reckons that there is growing demand on the market for exclusive bottling, and he has started to adapt his equipment (especially the fermenting cellar) to satisfy a wider range of demand. He has also initiated a few limited trials of aging wine in oak barrels.

Typically, taking into account fluctuations in production, the income statement of the vineyard regularly shows the following figures:

Consolidated income statement (2008):	€	
Net turnover	240,000	3,000 Hl at 80€
Cost price of grapes	130,000	2,300€/ha
Vinification costs (inc. storage)	75,000	25€/hl
Cost price of wine ready for marketing	205,000	
Gross margin	35,000	
Overheads	11,000	
Income	24,000	

Developing direct sales will mainly result in increasing vinification and storage costs that could double for small high quality batches.

Cost price components of bottled wine in €
(price range depending on the quality sought)

	Low	High
Wine (75cl)	0.54	0.79
Bottling	0.15	0.15
Dry materials	0.40	0.80
Alcohol tax	0.03	0.03
Cost price per bottle (bottle)	1.12	1.77

Appendix 4.
Pricing policy: a three stages approach

Price determination is a strategic decision that permits meeting the company's objectives of turnover and profitability. In a competitive environment, consumers' can compare prices: this means taking into account a "market price" that reflects current demand. This is especially the case if the product is directly comparable to competing products.

However, these prices are not necessary optimal for the company! Neither are they optimal for every type of customer. Therefore it is useful to determine the psychological price (what the customer who belongs to the target is ready to pay) (section 1 below). Lastly, this price must take into account the company's internal constraints (e.g. the minimum quantities to be produced and sold). The turnover must always cover (exceed) all the costs and charges. This entails evaluating the compromise between price and volume, which is an objective of the breakeven point approach (section 2 below).

Lastly, account should be taken of the special offers that will be made during the lifetime of a product, resulting most of the time in temporary price reductions. The cost of these rebates must be anticipated and included in the marketing plan.

Section 1: Psychological price
The methods based on the determination of the psychological price consist in using surveys to evaluate the price range for which the percentage of potential buyers is highest, by asking the respondents two questions:
"Above what price do you think this product becomes too expensive?"
"Below what price do you think that this product will be of poor quality?"
It can be seen that the volumes are optimal when the difference between the two curves is maximum, since this is the point at which the probability of finding consumers in the same minimum/maximum bracket is highest.
The answers to the survey performed in the region (see table below) on a target clientele provide the following results.

	Price too high			Price too low			Optimal price
	number	%	%total	number	%	%total	freq. curve
			C1			C2	C2-C1
<3	0	0		4	5.71%	5.71%	5.71%
3-3.5	3	4.29%	4.29%	8	11.43%	17.14%	12.85%
3.5-4	5	7.14%	11.43%	11	15.71%	32.85%	21.42%
4-4.5	8	11.43%	22.86%	16	22.86%	55.71%	32.85%
4.5-5	10	14.29%	37.15%	11	15.71%	71.42%	34.28%
5-5.5	13	18.57%	55.72%	8	11.43%	82.85%	27.13%
5.5-6	10	14.29%	70.00%	5	7.14%	90.00%	19.99%
6-6.5	10	14.29%	84.29%	3	4.29%	94.28%	9.99%
6.5-7	4	5.71%	90.00%	3	4.29%	98.57%	8.56%
7-7.5	3	4.29%	94.29%	1	1.43%	100.00%	5.71%
7.5-8	3	4.29%	98.58%	0	0.00%	100.00%	1.42%
>8	1	1.43%	100.00%	0	0	100.00%	-.01%
	70			70			

Section 2. Determination of the breakeven point in setting prices and volumes

The aim is to set the price or the volume that meets the company's profitability objective. The breakeven point approach permits evaluating the feasibility of a decision in relation to this goal.

Price, costs and breakeven point

From the decision-maker's standpoint, two breakeven point approaches are possible.

1. If the decision-maker is under the constraint of volume (e.g. a production cooperative or a production unit with high investment), the aim will be to determine the price (for a given provisional volume of sales) capable of balancing the accounts. The operation will be profitable above this price, but unprofitable below it. Also, the operation will be risky if the breakeven price is high in comparison to the competitive products.
2. If the decision-maker has fairly good knowledge of the prices (in the case where the market is well established), and whenever the volume objective is not paramount, the aim is to determine a baseline sales volume (for a given price) above which the marketing operation will be "profitable". If this "threshold" volume is very high, in the light of reasonable expectations, the operation can be considered as risky.

The breakeven point is determined when Turnover = Total costs

The total costs are composed of overheads, variable costs and direct costs. Initially, it is therefore necessary to determine the nature of the operating costs, in order to identify direct and indirect costs and calculate the break even point.

Step 1: identifying the nature of the costs

Direct costs are costs that can be directly imputed to a product, whether they be variable or fixed costs. For example, the wine contained in a bottle and the cost of the "dry materials", i.e. bottle, cork and fabrication costs, are direct variable costs. The depreciations and personnel dedicated exclusively to making the product can be considered as direct fixed costs.

Indirect costs are composed of all the costs that cannot be assigned exclusively to a product. Most of the structural costs (overheads) are indirect.

Variable costs are costs that vary in proportion to production and sales. Thus an agent's commission varies in proportion with the amount of sales they generate, as well as special offer discounts, delivery costs, and certain wine making costs (supplies for wine production, labour costs, etc.) It should be noted that variable costs can be **direct** or **indirect**, according to whether they can be directly assigned to a product unit or not.

Fixed costs are independent of production levels: fixed overheads, depreciation of investments, insurance, rent, taxes, etc.

Fig. 1 illustrates cost identification in a wine bottling situation.

Fig 1. An example of cost analysis

	direct	***indirect***
Variable	**1** Examples: raw materials, supplies, labour assigned to a product, bottling services, etc.	2 Examples: labour and supplies not assigned to a product,
Fixed	**3** Examples: depreciation expenses for equipment assigned exclusively to a product, advertising or special offer for a product, etc.	**4** Examples: overheads, market surveys, rent and insurance, management and administrative personnel, etc.

The calculation of the breakeven point requires that a distinction be made between proportional and fixed costs. In practice, it is not always easy to determine all the costs according to these criteria (variable, fixes, direct). The manager has to rely on his or her judgement to decide on the share to be allocated between "proportional" costs and fixed costs.

Step 2. Determination of breakeven point

The breakeven point is defined as the equality between:

$$\sum \text{Sales} = \sum \text{Costs} \ (1):$$

where:

Sales = Q (number of units) x P_u (sale price per unit ex. tax)

Costs = Q (number of units) x CD_u (direct cost per unit) + FC(fixed costs)

where: $$\mathbf{Q \times P_u = Q \times CD_u + FC} \quad (2)$$

It can be seen that this equality can be used to determine either a break even price P_u at a <u>given volume Q (a)</u>, or a minimum volume Q (b) to be reached for <u>a given price Pu</u>. The approach chosen will depend on the context, as seen above.

<u>a) Calculation of the breakeven volume</u>: from (2) we obtain: $\mathbf{Q\,(P_U - CD_u) = FC}$

where the quantity (P_U - CD_u) is the margin on the variable cost, often called "gross margin per unit" (GM_U).

$$\mathbf{Q = FC/\ GM_U}$$

<u>b) Calculation of the breakeven price</u> (on the basis of a provisional volume Q) :

$$\mathbf{P_U = CD_U + FC/Q}$$

<u>Analysis of the method:</u>

The method is robust and simple to implement. However, the result is vulnerable to the way in which the company breaks down its cost accounting. In marketing, this approach often allows ascertaining the realism and feasibility of a marketing operation: the evaluation of a special offer, an occasional offer to a purchaser, a new sales channel, etc.

Appendix 5 .
Selecting channels using the decision matrix

The decision matrix is used classically in strategic models that permit comparing different options in relation to the decision-making criteria that you think are the most important for this company. The approach is as follows:

1. List the company's main strategic objectives and thus the criteria to be applied in the analysis. Ideally, the criteria must be relevant, independent from each other and not be too numerous.

2. Define the priorities
All criteria may not be equally important. Naturally, it is up to the company manager to validate these priorities! You must stand in for Mr. Lavigne during his absence. You can weight each of these objectives according to their relative importance for the Domaine de Mongette.

3. Define the performance of each marketing channels for each criterion.
This is done, for example, by allocating a rank or allocating a score from 1 to 10, then by weighting the relative importance given to the criterion (volume potential, profitability, commercial risk….).

4. The result obtained is a total score. The choice of the channels are based on a rational approach resulting from collective reflection. Nonetheless, this hard figure model should be considered with some caution. For example, possible synergies between channels are not necessarily taken into account.

Example of the decision matrix :

Objectives/criteria:	Weight of criterion	Channel 1	Channel 2	Channel n
	score? rank?	Score*weigth	Score*weigth	Score*weigth
Profitability				
Investment, risk				
Specialised competences				
Management of customer contact				
Etc.				
Total weighed scores		Total	Total	total

Apendix 6.
Marketing plan : example of spread sheets for simulating margins

Mongettes 3 yrs planning of gross margins, marketing contributions and profits.

	Cellar door			Direct mail			wine specialists			hypers/supers		
Volumes (bottles)												
Cons. Sales price												
Cost of wine sold												
discounts and selling fee												
Unit gross margin												
Gross margin												

Total multichannel contribution
:
Overheads :
Est. profit

Market plan and profits, year 2010

	Cellar door			Direct mail			wine specialists			hypers/supers		
	unit.	total	%	unit.	total	%	unit.	total	%	unit.	total	%
Volumes (bottles)												
net sales price (net of avt)												
Retailers discount												
Ave. net selling price												
Net sales												
cost of wine sold												
Gross margin												
amortization of marketing outlays												
advetising/ prospecting costs												
delivery costs												
Representative comm.												
Other (specify)												
Total marketing costs												
Contribution to												

overheads												

Total multichannel contribution
:
Full time Employee :
Overheads :
Profit yr 2010 :

Appendix 7.
Lecturer's guidelines.

Objectives and working methods
While it focusses on pricing, retail channels and margins, the case offers opportunities to open discussions on other areas such as product range management, in store promotion, marketing wine through internet…. A thorough knowledge of the wine sector is not needed.

Typically, the case needs about 6 to 12 hours work, depending on the type of students and the objectives of the lecturer. The time spent with students depends also on the lecturing method. It may be short if the students are familiar with case study work at home. It is longer if the students work under the supervision of the lecturer. The lecturing sequence could be as follows :

1. Introduction to Marketing management, margin forecat and control. The students should be familiarised with the concepts of net sales, retailers discounts, cost of good sold, gross margin and marketing contribution to overheads. A 2 to 3 hrs hours introductory course will be useful.
2. Price management. The case offers the opporunity to apply pricing methods (competition, willingness to pay, break even point analysis) to a specific situation, using appendix 4. (3 hrs, as a homework assignement or in a class equiped with computers, with two students per computer).
3. Channel management. The case proposes a decision matrix approach. It gives the opportunity for strategic thinking (appendix 5). 1 to 2 hours are needed to select the right channels.
4. Simulating a marketing plan and writing a managerial brief using appendix 6. (3 hrs, as a homework assignement or in a class equiped with computers, with two students per computer),

This document should help the lecturer in his task. It may be considered as an outline for a managerial report to M. Lavigne. For lecturing purposes, it also includes questions and topics that may be put into the discussion with the students. A "swot" analysis may be conducted to select the main objectives.

1. Reminder of main objectives :

- Acquire commercial independence
- Secure future development and growth
- Increase margin beyond present level
- Keep channel for bulk sales !
- Ensure profitability and the end of year 2.

2. Strategic diagnostic

Opportunities

- Existing local demand through tourism. Structured environment (Terroir d'Accueil charter)
- Potential demand favored by proximity with Nîmes ?
- Better value for Languedoc and southern Rhône wines in recent years
- Network of local, regional and national potential channels for wine (HM/SM, restaurants…)

Threats

- Fierce local competition (can be an advantage if cooperation possible)
- Increasing regulations on wine promotion and health messages preventing from alcohol consumption
- Danger to jeopardize existing sales of bulk wine (though the case does not document this question)

Strenghths/weaknesses

- Wine quality, existing and potential

- Winery equipement
- Workforce availability and competency
- Financial situation and leverage.
- Small firm, averse to financial risk

Strategic conclusions from swot analysis :

- What are the major threats to overcome (and how) ?
- What are the major weakenesses that will makethe project difficult ?
- What are the strong points that will help us ?
- Short or longer term implications of these threats and opportunties.

3. Price and margin analysis by channel

We first proceed to pricing analysis, combining three methods :

Look at prices on comptetitive markets
Look at "willingness to pay" from the price survey
These two apporaches enable us to set optimum price brackets
Use a "Break even" approach to evaluate channel profitability.

Table 1 : Channel break even point analysis

	Cellar door		Mail order		Wine shops		Hyper/super	
	low hyp	hi hyp.	low hyp	hi hyp.	low hyp	hi hyp.	low hyp	hi hyp.
Unit cost of wine/75cl	.54	.79						
bottling	.15	.15						
"Dry" supplies	.49	.80						
Alc taxes	.03	.03						
Direct unit cost	1.21	1.77	1.21	1.77	1.21	1.77	1.21	1.77
Prospect.costs *			3.56	3.56				
delivery			.50	.50	.30	.30		
total direct cost of bottle	1.21	1.77	5.27	5.83	1.51	2.07	1.21	1.77
Consumer price	5.00	8.00	5.50	8.50	5.50	8.50	2.90	3.90
Cons price (exc. avt)	4.18	6.69	4.60	7.11	4.60	7.11	2.42	3.26
Retailers discount**					1.52	2.35	.48	.65
Salesforce % **					.62	.95		
Net sales unit price	4.18	6.69	4.60	7.11	2.46	3.81	1.94	2.61
Gross margin	2.97	4.92	-.67	1.28	.95	1.74	.73	.84
Sales employee	18,000	18,000	4,500	4,500	4,500	4,500	9,000	9,000
Amortizations	3,300	3,300	4,000	4,000				
advertising+ promotion	10,000	10,000						
overheads	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Tot.direct fixed costs	36,300	36,300	13,500	13,500	9,500	9,500	14,000	14,000
Break even volumes	12,220	7,380		10,571	9,949	5,462	19,183	16,693

**Unit cost of a mailng : €3.2, yeld of mailing 2.5%, €128 per new client, €3.56 per bottle sold*

*** discount 33% caviste + 20% sales force*

Comments :
1. Cellar door : margins are high, break even volumes seem reasonable.
2. Direct mail : low price wines are not profitable. At higher price, the investment to obtain 10.000 unit sales is high (300 clients at 36 bottles, means a €12,000 budget). More analysis is needed to take in account future sales with a 30% fidelity ratio of mail order clients
3.Wine Specialists : margins are reasonable. With the low hypothesis, break even would be obtained with 10 to 20 retail outlets.
4.Hypers/supers : break even point seem ambitious. Mongette will be one among 400 to 600 wine bottles on the shelf ! However, it depends largely on employees costs…
Generally speaking, note again that break even point is quite sensitive to fixed cost allocation…

Channel evaluation.

Channel evaluation should include considerations such as :
- Risk and feasiblity
- Volume perspectives (short and long term)
- Gross margin potential
- Synergies
- Etc.

Table 2 suggests a few criteria that could be important to Domaine de Mongettes. Alternative methods may be used to assess priority and performance scores : ranking or grading on a scale. Here, ranking has been used.

Table 2 Channel evaluation : **performance and priorities.**

Strategic criteria :	Priority (rk)	Cellar door		direct mail		Wine sepcial.		Hypers/supers	
Profitability (gross margin)	5	5	***25***	2	**10**	4	**20**	2	**10**
Investment risk	4	2	***8***	1	**4**	4	**16**	5	**20**
Commercial risk	2	5	***10***	3	**6**	2	**4**	4	**8**
level of required competency	2	3	***6***	2	**4**	3	**6**	3	**6**
Control on consumer price	3	5	***15***	5	**15**	4	**12**	2	**6**
Volume potential	2	3	***6***	2	**4**	4	**8**	3	**6**
Image	3	5	***15***	4	**12**	4	**12**	1	**3**
Total score			***85***		**55**		**78**		**59**

Priorities : 5 indicates highest priority, 1 lowest priority.
Channel performance : 5 is high on the criteria, 1 is low. E.g.: Cellar door needs important investments, whereas commercial risk is low
.
Comments : the decision matrix suggests that cellar door and wine specialists sould get priority.
Beware : this approach does not take in account synergies (that may help absorb fixed costs). It is also necessary to look carefully on sources of volumes. While constructing such a matrix, many questions should be taken into consideration. Here are a few suggestions :

<u>Cellar door</u> : who are our potential consumers ? Local customers (Nîmes area), tourists (French, foreign)… who are looking for a special wine associated with a unique experience. How to create fidelity ? Price is not too much of a constraint if there are proofs of quality (medal, new releases…)

<u>Direct sales</u> (internet, mailing) : how to get new cuwstomers and get fidelity? Who are internet buyers?
Internet : easy access to large markets, but consumers may compare prices very easily. Direct selling trough internet requires sophisticated and controlled tools. Cost of acquiring new clients

is high. Internet can be used as an animation and information tool. Also think about delivery costs and administration…Who is selling wine (successfully) nowadays trough internet ? What kind of products ? *Note : The role af domestic wine fairs could be mentionned here. This will require personal presence, travel costs, space rent…The case does not document this aspect. The additional €20.000 commercial overheads may include this costs, at least in the short term.*

Wine Specialists : how to select the "good ones" ? How to choose a good representative ? How to get them motivated ? How to help them create fidelity ? What about commercial risks? Are there wine fairs to meet these professionals ?

Hypers, Supermarkets : they represent 60% of "off license" sales. How to get access to the shelves ? They sell large volumes, but how many bottles for each local and regional product ? What about promotion and pressures on prices ? How much time should be devoted to on store promotion ?

Market planning

Sources of volumes (tentative hypotheses):

Cellar door
Yr.1 : Local 150 new cutomers, 4 visits, 12 bottles per purchase : 3000
Tourists and local fairs : 300, 12b each 3800
Total year 1 : 7000 + (bulk, or BIBs ?)
Following yrs : doubling annual sales (word of mouth, local promotion, upgrading the product range…)

Wine stores, restaurants
Yr. 1 : Recruit 2 agents. 5 stores each : 2000 botlles
Local retailand restaurants (10*120) :1200
Total yr1 : 3500
Question : what level of sales would motivate a representative ?

HM/SM
Yr 1 : 3 stores, with 3 promotional sales (1pallet each time) : 3 600 bottles
permanent sales 400
Total : 4000
Following years : limited growth only in the short term. Wait for access to regional bargaining with the multiples.

Conclusion

On the basis of these hyptotheses, a marketing plan can be simulated (see below).
Obviously, it is not too realistic to anticipate profits before year 3.
From year 3 and on, profits should meet M. Lavigne's requirements.
Total vomumes will be 51,000 bottles (382 hl, about 10% of total production).
The situation of the negociant should not be overlooked…We know little about him, but chances are that he does not appreciate this new market orientation. *What kind of proposals could be made to the negociant ? again, the case does not provide much information on the negociant).*

Table 3 : Mongettes 3 yrs planning of gross margins, marketing contributions and profits.

	Cellar door			Direct mail			Wine Specialists			Hypers/Supers		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
Volumes (bottles)	7,000	15,000	25,000	0	3,000	5,000	3,500	7,000	15,000	4,000	5,000	6,000
Cons. Sales price	5	5.5	6		6	7	5.5	6	6.5	3	3	3
Cost of wine sold	1.21	1.31	1.41		5.27	5.27	1.51	1.71	1.91	1.21	1.21	1.21
discounts and selling costs							2.86	3.09	3.32	.6	.6	.6
Unit gross margin	3.79	4.19	4.59	0	.73	1.73	1.13	1.2	1.27	1.19	1.19	1.19
Gross margin	26,530	62,850	114,750	0	2,190	8,650	3,964	8,400	19,013	4,760	5,950	7,140

	2010	2011	2012	
				Yr 2010 : the direct mail channel is posponed due to excessive investment.
Total gross margin	35,254	79,390	149,553	Yr 2011 : 3000mailings @ 3.20, amortization of internet site
total overheads and fixed costs	69,300	84,900	93,700	Yr 2012 : 3000 mailings
profit	-34,046	-5,510	55,853	Selling costs to specialists include representative commission and delivery.

Table 4 : Market plan and profits, year 2010

	Cellar door			Direct mail			wine specialists			hypers/supers		
	unit.	total	%	unit.	total	%	unit.	total	%	unit.	total	%
Volumes (bottles)		7,000						3500			4,000	
net sales price (net of avt)	5						5.5			3		
Retailers discount							1.82			.60		
Ave. net selling price	5						3.69			2.40		
Net sales		35,000	100%			100%		12,898	100%		9,600	100%
cost of wine sold		8,470						5,285		1.21	4,840	
Gross margin		26,530	76%					7,613	59%		4,760	50%
amortization of marketing outlays		3,300										
advetising/ prospecting costs		10,000										
delivery costs							.3					
Representative comm.							.74					
Other (specify)												
Total marketing costs		13,300					1.04	3,630			0	
Contribution to fixed costs		13,230	38%					3,983	28%		4,760	50%
Total multichannel contribution		21,973										
Full time Employee		36,000										
overheads		20,000										
Profit yr 2010		-34,027										

Comments :
1. With these hypotheses, profits occur only in year 3, and cover the losses of yrs 2010 and 2012. It is not easy to make a profit !
2. Further discussion is possible : are these hypotheses robust ? Why? What could be done to secure gross margins ?
3. It would be wise to forecast initial marketing entry costs for wine specialists and hypers and supers. It can be discussed on the nature of these marketing expenses. Should they be included in the price ?

Conclusions

The proposed plan should be profitable and cover initial investments at the end of year 2. The following actions should be initiated :

1. Recruit a full time commercial employee.
2. Prepare investments for cellar door sales , select a wine fair for consumers in 2010
3. recruit 2 or 3 representatives. Select one professional wine fair to select representatives and wine stores
4. Initiate visits to select 10 to 15 wine stores and restaurants
5. Visit the supermarkets in the neibourghood of the Domaine.
6. Meet the bank for a €45000 credit line for the next two years.
7. Set up a negociation with the present negociant for future bulk sales.
8. Within the next 2 years develop new ranges of products in order to upgrade the price and meet mutichannel requirements.
9. etc…