Operations Management Education Review 1: 29-66.

Mount Michael Vineyard: Choosing a High Quality Closure

John J. Lawrence[1]
University of Idaho

Karen M. Henderson
Cadbury Schweppes Asia Pacific

Abstract. Mount Michael was a small, relatively new vineyard in New Zealand. The case describes the owner's efforts to ensure that the wines produced from their grapes were the highest quality possible and then focuses on the owner's growing concern about cork taint. In particular, the vineyard's owners were considering switching from natural cork to one of several alternative closures as a way to reduce or eliminate cork taint. The dilemma was that consumers tended to associate these alternative closures with lower quality wines. Complicating the owner's decision was the fact that they were set to expand and begin exporting. This case was designed for a quality management class. It was developed to illustrate how a small business implements a strategy based on high quality across its entire value chain, to provide a basis for discussing alternative dimensions of quality, and to illustrate the use of the cost of quality concept.

Keywords: quality management, supply chain management, cost of quality, entrepreneurship, and wine production.

1. Introduction[2]

> ★★★★ **Excellent Quality** Fragrant and mouth filling, with raspberry and spice flavours of satisfying depth, balanced oak and tannin, it shows complexity and potential. (Assessment of the Mount Michael 2000 Pinot Noir – *Michael Cooper's 2002 Buyers Guide to New Zealand Wines*.)

> ★★★★ **Excellent Quality** Weighty Central Otago wine with strong citrus and tropical fruit flavours and (in the opinion of all three judges) very skilful wood handling. Fragrant, ripe, crisp and concentrated. (Assessment of the Mount Michael 2001 Chardonnay – *WineState* Magazine.)

Sue Anderson tasted a glass of one of her highly acclaimed Mount Michael wines. It was . . . awful, with tastes of musty, mouldy old basements, dirty

---

1. This case was prepared while Dr. Lawrence was a visiting lecturer at the University of Otago and Karen Henderson was a graduate student at the University of Otago.
2. This case was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation. The authors thank Sue Anderson for her cooperation and assistance with this project.

birdcages, and rotting cardboard. It was corked.[3] Sue was frustrated – corked wines, in her view, were such a waste of good grapes and hard work, and they reflected poorly on the vineyard.

Like many other winegrowers, Sue was concerned about the ongoing problem of cork taint in the wines being produced from her vineyard's grapes. Sue, with her husband, Martin, owned Mount Michael Vineyards, a 3-hectare[4] vineyard in the Central Otago region of New Zealand. For the last three years, award-winning wines had been produced from the vineyard's grapes, under the Mount Michael label. Despite Mount Michael's growing reputation as a high quality wine grower, Sue guessed that up to 10% of the wine they sold suffered from cork taint. At best this made the wine taste dull and off-flavoured and at worst made the wine taste downright awful. As such, they deprived the customer of a satisfying experience from the wine and reflected poorly on the vineyard. What made the problem so frustrating to Sue, and other winegrowers, was that many consumers did not recognize a corked wine when they tasted it. They simply attributed the poor taste to low quality grapes and/or poor winemaking, and avoided buying that label of wine again. But the real cause of the problem was with the cork.

As Sue had decided to change the bottle style for the 2002 vintage, it seemed like an opportune time to consider alternative closures that might reduce or eliminate cork taint. The challenge with moving away from cork, however, was consumer acceptance. Corks were the traditional and expected closure method for wines, particularly high quality wines. For many wine drinkers, the pop of the cork, as it came out of the bottle, was an integral part of the total wine experience. A number of other high quality vineyards and wineries in both the Central Otago region and New Zealand's more well known wine growing region, Marlborough, were experimenting with or had switched to other methods of closure. A number of these had switched to using metal screw caps[5] for at least some of their wines. Others were using agglomerate corks, which comprised two disks of high quality cork, laminated to a condensed particle cork mid-section. While not as common in New Zealand, Sue also knew that a number of producers in Australia were switching to synthetic corks. However, many wineries, on both the national and international stage, were staying with the traditional cork and enduring corked wines. In doing so, they hoped consumers would understand and be forgiving of the occasional bottle of corked wine. Sue wondered what was the right form of closure for Mount Michael Vineyard.

---

3. Wines suffering from cork taint were termed 'corked wines'.
4. One hectare is equal to 10,000 square meters or 2.47 acres.
5. Metal screw caps are sometimes known as Stelvins. "Stelvin" is the proprietary name of one particular brand of screw cap, manufactured in France by Pechiney.

2. Company Background

Mount Michael Vineyard arose out of Sue and Martin Anderson's desire to live and run a business in Central Otago. They loved the dryness, beauty and history of the area, and wanted to call it home. Aspiring to make their living from the land, they spent time considering different business opportunities that they might pursue. The couple had enjoyed wine for many years and having visited wineries in Central Otago, they were impressed with the quality of wine being produced from the burgeoning wine region. The wine industry in Central Otago was gaining an excellent reputation within New Zealand and vine plantings were increasing (*refer to Exhibit 1 below for background on the Central Otago and New Zealand wine industry*). The couple felt that this industry provided them with opportunities to satisfy their personal motivations to stay in Central Otago.

Having decided to establish a vineyard, they spent nearly two years finding the right site. Based on what they wanted to get out of the business, they concluded that a six-hectare (ha) vineyard would suit their needs. This was purchased and an initial three-hectare vineyard was planted in 1994. Approximately half this land area was planted in Chardonnay grapes and the other half in Pinot Noir grapes. These varieties were well suited to the climate and soil characteristics of Central Otago, as evidenced by other local wineries producing medal-winning wines from both varietals. The first harvest of grapes from Mount Michael occurred in 1997.

In order to focus her initial efforts on the vineyard, Sue sold grapes from the first two years harvest to another local winery. By 1999, Sue felt that the vineyard was well established and the grapes had achieved sufficient quality, and the first wines under the "Mount Michael" label were produced. The winemaker and winery chosen to produce the wine had a reputation for producing outstanding wines. The Anderson's opted to have another winery produce the wines for them because they lacked both the winemaking experience and the necessary equipment to produce the wine themselves. Further, given their relatively small size, it was not economical for them to acquire the needed equipment or hire a full time winemaker. There were a number of other small vineyard owners in the area who also employed the larger wineries or a contract winemaker in the area to produce their wines. A mobile contract bottler was used to put the finished wine into bottles.

Exhibit 1: Wine Industry Information

New Zealand Wine Industry	1992	2002
Hectares under vine	5,800 hectares	15,829 hectares
Number of Wineries	166	398
Number of grape growers	Data not collected	638
Average grape price per tonne	NZ$555	NZ$1,627
Total crush	55,500 tonnes	118,700 tonnes
Total domestic sales (millions of litres)	43.6 million	32.2 million
Total export sales (F.O.B.)	NZ$34.7 million	NZ$246.4 million
New Zealand Wine Market Composition		**Market Share**
Big Three wine companies: Montana, Villa Maria and Nobilo (8 wineries)		78%
Remaining 390 NZ wineries		10%
Imported wines		12%
World Wine Production Statistics @ 2000	**Volume (hectolitres)**	**Percentage**
Old World Wine Producers (6 countries)	155,460,000	60.1%
New World Wine Producers (6 countries)	54,775,000	21.2%
New Zealand (NWWP)	606,000	0.2%
Rest of the World (61 countries)	48,541,000	18.7%
Central Otago	**1992**	**2002**
Hectares under vine	46 hectares	650 hectares
Number of Wineries	6	46
Number of grape growers	Data not collected	43
Total crush	71 tonnes	1,519 tonnes
Chardonnay sale price range	NZ$19.00 to NZ$34.00 per bottle	
Pinot Noir sale price range	NZ$22.00 to NZ$60.00 per bottle	
Pinot Gris sale price range	NZ$20.00 to NZ$30.00 per bottle	
Average Wine Production Costs in Central Otago ($ per bottle)		
Item		**Cost ($/bottle)**
Vineyard production costs (includes sprays, frost protection, harvesting etc)		$1.00
Contract winemaking (includes vat storage and barrel ageing)		$2.35
Contract bottling (see details below*)		$2.02
Excise tax		$2.00
Marketing cost		$1.30
Total		**$8.67**
Central Otago Wine Production costs per tonne		**$850.00**
New Zealand Average Wine Production Cost		**$570.00**

* **Contract Bottling Breakdown:** Central Otago Flute – 90c; Cleaning, filling with gas – 33c; Cork – 43c; Capping / foil – 12c; label 12c per set, Carton packaging – 12c = $2.02

Source: 'New Zealand Winegrowers Annual, 2002' and 'NZ Cuisine, 2001'