



Sustainability through Resilience: The Very Essence of the Wine Industry

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Abstract

◦**Purpose:** *The current environment surrounding the wine industry is extremely volatile. This paper, therefore, examines how Old World wine producers use marketing and supply chain management to sustain their business in the current business environment.*

◦**Design/methodology/approach:** *Seventeen employees from ten Italian wine producers were interviewed using a grounded theory approach to determine how they are dealing with the current economic conditions and competitive landscape.*

◦**Findings:** *Leaders of successful Italian wineries, those large and small who achieve sustainability in the face of intense competitive pressures, engage in detailed assessments of the marketplace and adopt specific and focused strategies to become resilient. Two discovered in this study include (1) focusing what it means “to be Italian” as in culture and history and (2) adapting to the marketplace and innovating.*

◦**Practical implications:** *The research offers prescriptive marketing strategy for wine producers to become and/or remain sustainable.*

Key words: Resilience, Sustainability, Marketing strategy, Italy wine industry

1. INTRODUCTION

The global wine industry, one of the oldest in civilized human history, has been facing increasing challenges in recent years. Competition has grown dramatically with new country, region and individual entrants into the market. The current state of the economy has altered the demand patterns for wine; consumers are drinking more, but it is the inexpensive commercial brands that are desired. This business environment has caused disruptions with normal operations to the point where many companies in the industry are struggling with strategies to sustain their business. We therefore ask the specific research question, “how are Old World wine producers achieving sustainability in the current business environment?”

There are many facets of sustainability and as such, a lack of consistent definitions exists. We do not attempt to resolve these differences in this paper. Rather, we have built on a basic notion of sustainability -- the ability of a business to be successful over the long-term, and specifically be resilient to significant competitive forces in the marketplace. We argue that resilience is key for sustainability, which is actually the very essence of the wine industry, and support this through a grounded theory study conducted in one Old World country - Italy.

2. COMPETITION IN THE GLOBAL WINE INDUSTRY

The global wine industry is extremely competitive. In mature industries such as the global wine industry, rivalry intensifies naturally (Porter, 2008). The barriers to enter this market are decreasing as many producers can simply buy grapes, of which there has been a 15 to 20 percent surplus over the past 10 years, and have wine made without much financial investment (Hussain et al., 2007). The only serious barriers to entry are the experience curve that those with long histories of producing wine have mastered and established access to distribution channels. These two forces make the wine industry similar to what economists term a “perfectly competitive” industry, which is a poor prospect for long term profitability (Porter, 1979). In the U.S., wine had the lowest profitability of any alcohol product markets (Porter, 2008).

Although demand for wine is growing due to changing consumption patterns and the apparent health benefits of wine, the growth has been constrained to the low price segments (O’Brien, 2009). Consolidation in the supply chain is escalating making it increasingly difficult for the thousands of wineries to get their product onto the shelves of fewer and more powerful retailers. The influence distributors and retailers have on consumers’ choices, combined with the price sensitivity of most consumers gives the customers high power in this market. When customer power is high in an industry, companies can only be profitable if they are the low cost leader or if their products are truly unique among the market offerings (Porter, 1979). Neither of these is easy to sustain in the wine industry. What in the past has been characterized as a ‘cottage enterprise’ is expected to be indistinguishable from any other highly competitive global industry (Anderson, 2003).

Within the industry, competition occurs at multiple levels: company against company, region against region, and country against country. Historically, Old World wine producers (France, Italy, Germany, Spain and Portugal) did not consider themselves to be in competition. Having relied on centuries of tradition and reputation, they were thus unprepared for the rapid invasion of their global markets from New World producers. A 2001 report commissioned by the French Ministry of Agriculture admitted, “Until recent years,

wine was with us. We were the center, the unavoidable reference point. Today, the barbarians are at our gates: Australia, New Zealand, the United States, Chile, Argentina, South Africa,” (Anderson, 2003, p. 47). While the Old World producers still accounted for almost 55% of global production in 2004, they have been losing market share to New World producers (Hussain et al., 2007). A 2011 report by Vinitaly notes the shift in competition as well. With the exception of Spain, traditional producer and consumer countries have seen their consumption stabilize in 2010 (Mediobanca, 2011). In recent years, sales by European producers have slowed as consumers look more towards wines from the New World (Vinitaly Report, 2011). In 2010, exports registered an increase for only those companies with a strong brand and/or good organization and those that invested in production, distribution and promotion (DiMartino, 2011). Thus, those countries and producers best able to adapt to and innovate within these market conditions will be the ones that are sustainable (Flint and Golobic, 2009).

3. SUSTAINABILITY IN THE GLOBAL WINE INDUSTRY

The Brundtland Commission (UN Documents, 1987) defined sustainability as meeting the needs of the present without compromising the ability of future generations to meet their own needs. This broad view of sustainability has been the crux of most Old World producer strategies. Our study therefore focuses on the ability of wineries to build resilience, or capabilities to withstand and recover from disruptions, in the face of competitive pressures and in essence to survive over the long term (Fiksel, 2006 ; Sheffi, 2007).

Family businesses, those where ownership and some management involvement is concentrated within a family, have long been a substantial force in the global economy (Morris et al., 1997). Seventy-five to ninety percent of all enterprises in the world are family businesses with more than seventy percent of these in Europe (Leenders and Waarts, 2003). If these businesses survive their early periods, they often outlive and outperform other businesses due to characteristics such as restricted size, stewardship practices, a high involvement culture, and naturally occurring diversity in leadership (Nicholson, 2008). Family businesses have unique motivations beyond standard business objectives, such as insuring family security, spending time with family, attaining personal goals, contributing to local communities and achieving personal power. A study of CEOs demonstrated that those primarily focused on family security were the largest segment of these businesses (File and Prince, 1996). Insuring family security means sustaining a business for multiple generations, which is in essence what many Old World wine producers are trying to do.

4. STUDY METHODOLOGY

We employed a standard grounded theory method (Glaser, 1992; Glaser and Strauss, 1967) to explore strategies for sustainability of wine producers in Italy. We purposefully and theoretically selected key decision makers within select Italian wine producers who could speak to their own experiences as well as some who could speak to the industry as a whole. For this study, we interviewed seventeen owners and managers who worked for or ran wineries in Veneto and Tuscany that could be classified in a variety of ways such as boutique, high-end, family-owned, large collective, historically old and relatively young.

The open, in-depth interviews lasted between one and two hours each, were primarily conducted in English but sometimes involved simultaneous translation by one of the authors who is an Italian scholar, were audio-recorded and later transcribed for interpretation. The authors participated in tours of the wineries in order to place some of the interview comments

into context, toured the regions extensively to capture a feel for the current culture and social climate, photographed business premises, spent significant time analyzing winery web sites, and collected relevant marketing documents, all of which assisted in understanding the study participants and the issues they discussed. Although explaining the rigors of grounded theory is beyond the scope of this paper, interpretive research such as this is about capturing depth and variation so that we emerge with a deeper, richer understanding of possible pieces of a social process, a process whereby social actors struggle to solve problems in their everyday lives. In this study, leaders are solving the problem of business sustainability. Some concepts are represented by all participants in a study like this but often times not, because each participant provides a glimpse of a different aspect of the phenomenon. We therefore do not offer any form of summary that depicts exactly how many times each concept is represented by each participant as might be expected from a reductionist empirical test. Pseudonyms for the participants are provided in Table 1 along with other demographical information on them and their companies.

Table 1. Participant Demographics

Participant Pseudonym	Participant Position	Business/ Age (years)	Size (case production)	Export Countries
Giorgio and Gianni	CEO and Sales and Marketing Manager (not members of the family)	Family/100+	> 500,000	Global
Fabio	Owner /Winemaker	Family/30-50	10-50,000	US Japan
Cesare, Barbara, Carlo, Francesca	Owner/General Manager, Export Sales Persons and Hospitality Representative	Family/100+	> 500,000	Global
Marco	Owner/General Manager	Family/100+	50-100,000	US EU Asia
Paulo and Ivan	Consultant and Viticulture Manager	Co-op/10-30	> 500,000	Global
Ilenia	Owner/General Manager	Family/10-30	10-50,000	Global
Francesco and Francesca	Sales Manager and Marketing Analyst (not members of the family)	Family/100+	100-500,000	Global
Dante	Sales Manager/Winemaker	Family/30-50	10-50,000	US EU Asia
Roberto	CEO	Co-op/10-30	> 500,000	Global
Luciano	PR Director (member of the family through marriage)	Family/100+	> 500,000	Global
Antonio	Owner/Winemaker	Family/10-30	10-50,000	US EU Asia

5. FINDINGS

The insights that emerged from data analysis fall into two categories that describe how participants seemed to approach their businesses and sustainability. These are (1) assessing the environment concluding that resilience is needed and (2) finding capabilities for resilience.

5.1. Assessing the Environment

Each participant was quite articulate in his or her explanations of the competitive environment. Global competition combined with a global recession, which only served to highlight the competitiveness of the global wine industry, have placed such great pressures on Italian wineries that one would need to be quite complacent to not have spent significant time studying it. However, not all Italian wineries or even regions of Italy have been paying attention to these pressures. As stated by one of our study participants describing Tuscany, "...they are trying to recover from this long sleeping time," implying that the wineries in Tuscany are only now waking up to the immense global pressures to their businesses. But many of our participants had spent a fair amount of time assessing their environments and were quite clear in describing their thoughts on it. Take Cesare for example who explained that:

"[There is significant competition]... many many countries in the wine business,...they can select possibly better land and have lower costs, including labor...in Europe all the land is accounted for,... so costs are higher."

Cesare described how he had spent years thinking about what makes his winery and his region (Veneto) unique and able to compete. He stated:

"We believe that we are the most representative in the area of Veneto, which represents 25 percent of the total production of Italy and the number one in terms of export and in terms of wine of appellation, so what you can have from here is more or less the description of the reason to be of Italian wine in general."

Paulo is one of the most well-known leaders in Italian wine. His organization was quite thorough in their assessment of the wine environment, spending time discussing how in the 1990s there was less quality wine on the market, where now there is far more. "Even in the [high] quality segment it is difficult to stay there... The customer grew up with the quality of wine. So now he is the professional...He knows what he wants to buy and at what price he wants to buy." Paulo summarized his assessment in terms of five important trends that have occurred:

1. Higher quality wines are being produced globally.
2. Consumer knowledge of quality wine has increased.
3. Confusion has developed in wineries and wine regions; Old World wineries began copying New World approaches, like Australia and California. Similarly, New World wineries have been trying to be like the Old World. For example, they speak about the landscape and territory in Argentina like they have in the Old World, whereas in Italy, "We are going in the opposite way." This makes for confusion in the market and in customers' minds.
4. Long-standing regulations have changed since 2008. Now new European laws for wine make a big difference in the wine industry by being less strict and more open on things like labeling. Where before you bought Merlot from a specific territory, it is now possible to simply claim it is Merlot from Italy; it does not matter where it is from. This is a "big revolution" for Europe.
5. Today there are three or four big chains, almost a monopoly, in each market region, but as far as production, there are many, small producers. This has necessitated very different distribution strategies, structure, and philosophy. In Europe a small producer can still go directly to big retail chains, but the chains are well organized and the many small producers are not.

Francesco explained the environment this way:

“All markets are very different...wine is alcohol, always easy to tax, always issues...there all sorts of places where there are straight monopolies – basically one customer, limited possibilities, even forbidden [to pursue other marketing and distribution options], so you work on basic issues...[there are] even 5 monopolies in U.S. in three states; then you have some in between, like the U.S., there is a strong defense against wine with three levels of licensing (importer, distributor, retailer)...some of Europe, you can have direct or semi-direct access to customers; more direct to the market, [in this situation] the more you can develop sophisticated marketing.”

The common thread through these and many comments like them from study participants is that there is immense pressure and uncertainty in the wine industry requiring wineries to react or risk going out of business. Our participants' assessments of the environment really fell into three categories: assessing their own internal business environment (e.g., their strategies), the external market place (e.g., competition, social/cultural changes), and their capabilities (e.g., resource capacity). As a result, all of our participants were developing strategies to survive, adapt and grow given these challenges. For example, they are trying to monitor the environment for signals and learn from their experiences. These strategies reflect their attempts at being resilient. Resilience is a multidisciplinary concept receiving increased attention in the supply chain management literature (Fiksel, 2006; Ponomarov and Holcomb, 2009) and is necessary not only for continuity of the business, but for achieving success and a competitive advantage. This overall long-term continuity and marketplace success we designate as sustainability. We describe categories within which these approaches next.

5.2. Strategies for Being Resilient

Our participants' approaches to being resilient seemed to fall into two sub-categories: (1) getting focused on something that is differentiable: digging in deeper to what the Italian winery already does well; honing it and marketing it; what it means to be “Italian,” and (2) being willing to change. We describe both with a few excerpts from some interviews here.

5.2.1. Getting Focused on What It Means to Be Italian: Promoting a Unique Identity

Francesco explained how the nature of the product and the marketplace make wine marketing complex:

“Wine is complicated, it's not a consumer good, not luxury...[we have a] fragmented industry – one of the most fragmented in the world...culture is important...[this] requires different ways to explain (to the market)...culture in a sociological point of view... you are not selling a car...you can't sell objectively (on attributes), you sell the people who make the wine, the history...”

This notion of relying on the culture, marketing what makes Italian wine unique already, almost reminding the marketplace of the history and culture of the region, was echoed by a number of our participants. This can be seen as a more overt and sophisticated version of the Old World style. For example, Cesare said:

“So what is the competitive factor for us? We have only one big factor, it's the emotion that our wines bring to the consumer, it's not only a well-made technically

speaking wine, it's not only a pleasant wine to taste which everybody can have, but it's a wine that can give an emotion... So I think that this is the only possibility that we have in Europe to keep the leadership position that Europe deserves for centuries or millennium. So this means that we have to sell not a bottle of wine, but we have to sell our history, our tradition, our territory, our area and the area is interpreted by family in general..."

Cesare's approach involves promoting the heritage of the old wineries, selling the history, tradition and culture – way of life – not just viticulture.

"Really the wine presents a picture of one, let's say territory, and one people, of a different people. We are in Veneto here and the Venetian land is sweet, the Venetian people are in general, sweet, calm, like to enjoy, and you see Verona is a lot of light, lot of freshness and the wine is the same. You can have a strong wine or a lighter wine but in general very friendly, very open. Tuscany there is much more nobles, the history of nobles a certain status, let's say an arrogance with their own wine, as in fact with Piedmont they are more mountain style and a little closer to Burgundy and they are totally different style of wine that represents this severe status of the producer. Sicily we speak about Mafia immediately and also in the wine you can find this sensation of strong but a little ambiguity or question mark, you never know what you can find, and I think this is the aspect on marketing is in general making marketing of Italian wine as well as the French wine the capacity of the wine to interpret the different regions is the extra value of European wines."

Cesare has many years of experience in the Italian wine industry. Here he has reflected on the uniqueness of different parts of Italy culturally that impacts wine making, wine attitudes, and wine marketing from various regions. It is critical to note that to him the essence of the wine cannot be separated from the culture of its producers; they are one. And these cultures are unique and not imitable. Thus if one is to promote a differential advantage, something that truly differentiates one product from the next, it must be this, the culture of the people and unique connections cultures have to the land and the products produced from it. To be clear, this is not a new idea. Country of origin effects have been studied empirically for so long precisely because in many cases, a place of origin *is* a marketable differentiator.

Cesare went on to conclude that he would innovate in four very specific ways as an approach to being resilient:

1. Bringing an ancient wine making process back and market it as such,
2. Adapting ancient processes to the unique Veneto region,
3. Transplanting some of the unique Northern Italian varieties to very select regions of the world (e.g., New Zealand, Argentina, Hungary) to "break uniformity" and create variety, and
4. Capturing the history of the Nobles from Roman times forward. His "dream" is to find different "jewels" in the family vineyards that have the potential to give a special "signature" to the wine.

In order to act on these innovations, Cesare has taken a leadership role, kept his family actively involved, travelled globally and brought many visitors to the Veneto region. His goal is not so much to understand customers or markets as it is to "make them understand what we are trying to do here... it's not less than making any other masterpiece of art, provided we express through the wine what really we feel and what really is representative of our culture and our territory." Demonstrating the capacity for continuous innovation under uncertainty is a manifestation of resilience (Ponomarev and Holcomb, 2009).

Francesco had a similar point of view that reflected digging into what was the essence of being an Italian wine. “We want to be classic....classic in a sense we want to be a company that doesn’t need to update all the time to be modern....a tuxedo.” Francesco sees his old winery as having a strong base in viticulture, relying on vineyards that are family owned, and “having a style, a way of thinking about the wine, our history, our culture...classic is always up to date.” He thinks that there is currently a lot of confusion between old tradition and new. “Something that is fashionable (new) will be out of fashion...another way is to build in a way of thinking.” Theirs is to be classical, high quality, traditional. To “surf the wave,” this is not what they want to do. They want to “be always the same...give them [customers] security.”

Marco and Dante, also participants who represent this category of focusing on the essence of their wineries and what it means to be an Italian winery, both described their emphases on being family owned. Marco explained that he was not interested in globalization groups. He was philosophically confident that as one of the last remaining family-owned wineries in the region, they could survive because of their “interesting face, family, and story...we will find enough people to sell our wine....We don’t need to be Coke...The world is so big that we can find enough customers who like” us.

Strategically, Marco gave exclusivity to distributors; one big distributor in each big city such as Munich, Paris, or Toronto. They conduct most of this business on a handshake. These distributors know that “the brand is in their hands.” But because Marco guarantees them business, they market well and stay ahead of the competition. But he realizes that building a brand takes years so he does not rush to make changes. A second key strategy Marco described was to shift away from a higher percentage of private label production to more of their own brands to retain more control. Where 80% of their business used to involve private label, now only 20% does. About these two strategies, Marco said that “this is the approach to survival.”

Also digging in to emphasize the family-owned differentiation approach was Dante, a participant who pays close attention to market trends. He stated that he could get a good price point because they are unique. In general consumers “...do not even care who you are. They want to spend nine dollars...The name does not make as much difference any more...” unless you have something unique and are the leader in that area. Dante’s winery is well known for one of their sparkling wines and can retain the price premium. Dante suggests to “try to be the first on something that makes you different from the others; the variety or denomination.” This idea of building capabilities to differentiate the offer – whether it is through links to tradition, the cultural essence, family history, or a unique product – allows a business to achieve advantages over competitors, or in effect respond to vulnerabilities. Balancing capabilities against vulnerabilities achieves resilience which then influences improved performance (Pettit et al., 2010).

5.2.1. *Being Willing to Change: Innovating*

An alternative approach to the increasingly competitive, fragmented and confused marketplace is to change and adapt. Yet another capability of resilience is the capacity to learn and adapt in response to internal and external disturbances (Carpenter et al., 2001). We offer a couple of examples here of that approach reflected across a number of our participants.

Paulo articulated three important steps for their aggressive and determined strategy:

1. Improve production quality. Quality of the wine has to be related to the price point; for all quality levels, even high quality. This is not just chemical, but everything. The customer knows today the costs associated with the wine and as such there is a “correct” price. Today’s customer is less driven by emotion and is more practical. Thus, they need a real benchmark to rate the quality, a “real price.”
2. Better organization of sales. This can be accomplished by knowing the market really well, where you want to sell and being present there. Another tactic is to try to reduce the supply chain complexity to get to the consumer as directly as possible. This will reduce costs and enable the winery “to bring back small margins at every single step.” This also enables the winery to “speak the same language/message at every step of the distribution process...to have a consistent marketing message.”
3. Try to find a way to create value. This can be done through (a) innovation, and (b) finding new motivations for customers to buy the wine. Innovation here means new production processes (e.g., 10% alcohol, but keep same quality as one with 14%) and new products. This also relates to tactics such as marketing new products and leveraging efforts in sustainability that were pursued in the past for ethical reasons and now can be marketed more overtly.

Paulo and his colleague stated that his organization had made solid progress on steps one and two but were spending much of their time working on step three.

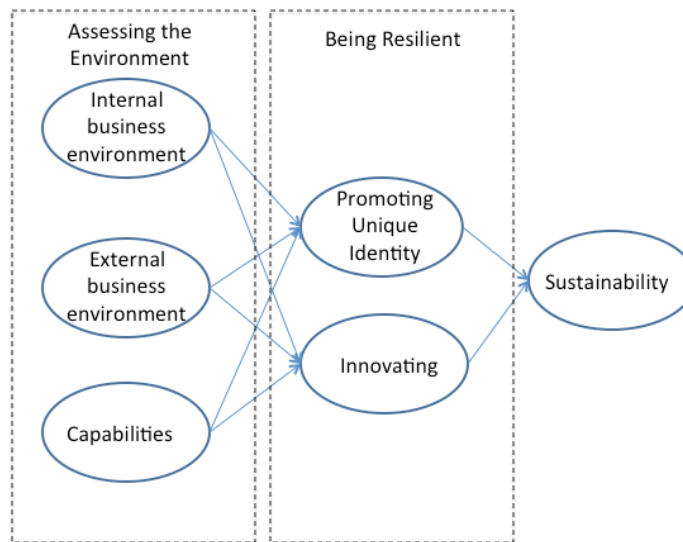
We also obtained similar information from smaller, more entrepreneurial wineries. Ilenia’s approach was to market the high quality, small production wines she produced, the Verona location generally, the quaint and relaxing retreat her inn provided for guests, and the running trails through the forest between the winery and the vineyards. She explained how their views were to be “organic...and grow and produce wine the natural way.” She targeted guests who valued organic approaches, nature, exercise, culture, and food – a more complete experience. Ilenia took her ideas from New Zealand more so than Italy. In fact, she almost completely rejected the Old World Italian approach. In true entrepreneurial spirit, she was in the process of organizing new services such as a cultural tour in the city, including rice, olive oil, and cheese production facilities as well as afternoon sessions for guests in cooking classes with a professional chef to teach both how to cook for guests as well as for home. Thus, innovating for our participants included product/service offering innovations, production process innovations, sales/marketing process and content innovations, and distribution innovations.

In summary, we discovered that to our participants, an initial step some Italian wineries take for ensuring sustainability is a formal assessment of the marketplace. It seems that this step makes one realize how resilient one needs to be. It is unlikely that a winery will purposefully develop the capability to be resilient if it does not sense actual or possible uncertainties or disruptions to their business. Managers clearly recognize that they have choices in how to respond and make their wineries more resilient. The two approaches we discussed here as represented by what our study participants were doing were (1) focusing in on what makes Italian wine and Italian wineries unique in the world and marketing that essence, and (2) being willing to change and adapt to retain customers in the face of challenging circumstances.

We have depicted these findings in a framework suggesting proposed relationships (see Figure 1). In this research, assessing the environment (i.e., analyzing the internal business environment, the external market environment, and organizational capabilities)

facilitates the development of resilience strategies (i.e., promoting a unique identity, innovating), which in turn can lead to sustainability.

Figure 1. Sustainability-Producing Processes in the Old World Wine Industry



6. IMPLICATIONS AND FUTURE RESEARCH

We feel that this examination into what Italian wineries are doing to be resilient and sustainable in this intensely competitive industry raises additional research questions. For example, what are the cultural differences on perceptions toward resilience and sustainability in the marketplace? We clearly found strong differences of opinion within Italy. We suspect that this may also be the case in other Old World countries. Is there as much confusion in the markets of France, Germany and Spain as we found in Italy? Is keeping up with consumer trends and tastes and producing high quality wines to meet them a better approach than remaining “traditional” or promoting the “emotional” aspects of an Old World wine region, e.g., the history, the culture, the people? Is there a pattern for which strategies work better at creating resilience in certain regions?

One implication for practice is that in order to remain competitive, wineries in any region should at the very least engage in detailed analyses of potential external vulnerabilities and what capabilities can be developed to be resilient. The leading thinkers with whom we met, described by other participants as being “some of the most important people in Italian wine in the last 30 years,” are far ahead of simple approaches, and sustainability of the business demands this. Our participants seem to have realized that a brand cannot be all things to all segments; it must be focused and stand for something.

We found different approaches that each require significant yet different investments in production, marketing and distribution. Wineries are advised to think very precisely how they wish to position their brand. Can they leverage a long history and connection with a distinct culture that will elicit strong emotions, strong enough to create a price premium? Or is there some unique production process, varietal or other product attribute that is differentiable? Can wine be merely one component in a broader market offering such as a restaurant, tours, and/or bed and breakfast inn? Does the winery have superior volume production capabilities enabling it to leverage economies of scale? A sustainable business in this industry cannot be all of these nor can it simply rely on word of mouth promotion and a passion for the product itself. The business side of wine is intense, and sustainability requires

resilience, which necessitates focused and serious strategy, production, distribution and branding efforts. Sustainability through resilience is how this industry has flourished in the Old World for centuries.

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