Exploring wine producers’ strategies through knowledge elicitation

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Background and Aims

The increasing globalization of the wine sector and market competition, along with a general economic crisis, changes in consumer's lifestyles and choices, as well as climate change and technological development, are confronting the wine industry with a growing level of complexity (Garcia et al., 2012; Alonso et al., 2014; Castellini et al., 2014). In particular, shifts in demand and supply constantly expose wine producers to rapid changes (Rossi and Vrontis, 2011; Menghini et al., 2014). Market uncertainties and risks characterize a complex wine sector: on the one hand in traditional producing countries like Italy, the internal demand of wine decreased with consumption (Wine Institute, 2011a) bringing to unsold production as well as to a progressive reduction of prices (Menghini et al., 2014); concurrently, according to ISMEA data, PGI and PDO wines showed a considerable price increase since 2014. However, consumption preferences and interests in new wine products are observed (Alonso and Bressan, 2014). Thus, wine producers are implementing several marketing strategies to cope with such rapid changes (Rossi and Vrontis, 2011), trying to meet different ranges of consumer preferences (Sogari et al., 2016).

Within this changing business and wine market environment, organic wine is considered a new and important tool of diversification strategy for Italian producers (Castellini et al., 2014). With 8% of organic grape surface, out of the total national vineyard area (Nomisma, 2014), Italian wine firms are increasingly orienting their business strategies towards sustainable production in order to cope with the sector crisis and uncertainties (Gilinsky et al., 2015), as well as to find alternative market channels. Furthermore, global interest for sustainable food production and consumption is increasing (Vermeir and Verbeke, 2008) and evidences demonstrate an important consumer appreciation for “sustainable winemaking” (Sogari et al., 2016), as well as the importance of rural areas’ specificities as relevant purchase factors of the consumer preference for organic products (Shafie and Rennie, 2012). It is in fact observed that in Italy the wine sector is further investing in quality, sustainability and marketing driven strategies (Crescimanno and Galati, 2014; Bresciani et al., 2016) in order to focus specific demand within the context of a general economic and financial crisis (Fiore et al., 2016). However, consumer perception of “sustainable winemaking” appears to
lack information for an appropriate understanding (Pomarici and Vecchio, 2014; Zucca et al., 2009).

The present work aims at identifying the most relevant socioeconomic, environmental and institutional conditions, as well as the related business strategies implemented by a selected group of organic wine producers of Tuscany. Furthermore, we aim to determine the potential strategies that micro, small, and medium organic wineries are likely to carry out among their business activity vis-à-vis a set of emerging trends affecting the wine sector.

**Theoretical and Methodological approach**

Derived from industrial organization literature (Porter, 1981) and agrofood value-chain management approaches (Rastoin & Ghersi, 2010) – combined with a structured focus group discussion with primary producers – a causal dynamic framework is applied for analyzing conditions, strategies and performances of wine producers’ activity. The Conditions-Strategies-Performances (CSP) framework adopted focuses on the agency capacities of the primary producers and their ability to interpret the contextual conditions building on their business activity characteristics (Grando et al., 2016).

Focus groups allow participants to mapping a specific set of relevant issues (Kreuger and Casey, 2000). The focus group technique was combined and improved with a causal chain analysis (Orvik et al., 2013) in order to carry out a dynamic and participatory workshop. This knowledge synthesis integrated method allows developing a structured and enhanced discussion of an issue, with the aim of establishing sequential relationships between different factors by flow diagrams depicting causal linkages (Pulling et al., 2016). The focus group analyzed in this work is the first of a number of participatory workshops planned for a regional case study about the Tuscan wine industry and relates only to micro, small, and medium organic wineries. Seven organic wine producers participated in the discussion: the design of the sample did not aim to be representative in any “statistical” sense, given the exploratory nature of this particular phase of the case study. Building on the CSP theoretical approach, participants were asked to map the characteristics of their enterprises and business activities and to identify and rate – according to importance - the most relevant contextual conditions in which they have carried out their activity and the related strategies implemented. Then, participants were also asked to reflect about future conditions in terms of threats and opportunities – likely to influence their business activity through a causal factor dynamics - and to map potential strategies that will enable them to cope with those future trends.
Findings

The organic wine producers identified policy and regulatory conditions as the most crucial contextual aspects influencing their activity. Then, technological innovation was considered by producers the second relevant influencing factor. Other key contextual aspects were judged relevant and consist of environmental factors, demand dynamics, market access, quality and efficiency of institutions, and - slightly less important - price level volatility and credit availability. Production factors and socio-demographic changes were considered not really important according to the studied group of organic wine producers. To cope with those most important conditions, almost all producers declared to have implemented strategies aimed at creating and embedding value added as well as strategies intended to build partnerships and networks with other actors. In a second phase, participants identified a number of threats and opportunities likely to occur, in the future, within their business activity. These future conditions were classified as demand conditions, price level variability, technological innovation, market accessibility, environmental factors, regulations and policy, production factors accessibility, socio-demographic changes, and availability of financial resources and credit.

With regards to demand conditions - in response to an increase of the organic wine demand - participants expressed the importance of promoting organic producers and organic products as well as protecting landscapes and territories through specific organic agri-food districts. Participants stressed the need of involving institutions to support cooperation between producers to improve communication activities and credit access capacity. Relating to price level volatility, participants consider key to strengthen communication strategies in order to increase producer reputation and, then, the reputation of their products. Producers envisage the opportunity of direct sales and product promotion publicizing the firm/producer image. Concerning the technological progress, producers deem technological innovation as an opportunity to seize new ways of territorial promotion. They highlighted the importance of a producers’ network allowing to share ideas and knowledge for technology use. Subsequently, participants identified the increasing of bureaucracy as one of the major threats likely to influence their activity in the future. They envisage the priority of a collaborative approach such as a collective organic certification in order to reduce individual efforts and costs. Finally, with regards to changes in lifestyle and behavior, participants identified the relevance of a network of producers to reach specific market channels such as local purchasing groups.
Fig.1 – Future conditions and related potential strategies for SME organic wineries

<table>
<thead>
<tr>
<th>CONDITIONS</th>
<th>STRATEGIES</th>
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<tr>
<td>Increasing demand of organic wine</td>
<td>- Promoting organic production through organic agri-food districts supported by public institutions</td>
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<tr>
<td>Price volatility</td>
<td>- Strengthening communication on producer/product reputation</td>
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<td></td>
<td>- Finding alternative market channels such as direct sales</td>
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<tr>
<td>Technological innovation</td>
<td>- Creating a producers’ network allowing to share ideas and knowledge for technology use</td>
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<tr>
<td>Bureaucracy burden</td>
<td>- Building collaborative approaches such as collective organic certifications in order to reduce individual efforts and costs</td>
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<tr>
<td>Changes in lifestyle</td>
<td>- Establishing a network of producers to reach specific market channels</td>
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**Discussion**

With regards to the application of the focus group technique it is important to note that the design of the sample did not aim to be representative in any “statistical” sense, given the exploratory nature of this particular phase of the case study in Tuscany. The focus group discussion - enhanced with a causal chain analysis - allowed mapping sequential relationships and depicting causal linkages between different farm conditions and the strategies implemented by wine producers.

One of the most relevant emerging conditions that has been discussed relates to the increase of the organic wine demand. In fact, it has recently been observed an increase of organic wine demand especially by Italian consumers (Federbio, 2014). This growing internal demand encouraged many producers to follow the rising trend of the Italian “green” wine market, producing wines through various “bio-sounding labels” (Gilinsky et al., 2015). In general, to cope with a growing global demand, it is considered key for SMEs to focus more on branding, distribution channels, production quality, and marketing goals (Alonso et al., 2014).

With regards to the increasing demand, participants stressed the lack of information and the risk of distortion in the consumer perception for organic wines. It is in fact acknowledged that, within a progressively increasing and globally competitive wine making industry, consumers are provided with an extremely large range of wines (Bianchi, 2015) that makes difficult the purchasing of wine (Corduas et al., 2013). Furthermore, the “cohabitation” of European and national rules within the EU wine protection system is likely to create confusion.
rather than informing consumers (Agostino and Trivieri, 2014). Hence, the lack of consumer knowledge is now considered one of the most crucial weaknesses of the wine sector for conventional production, but also for organic wines and “sustainable winemaking” (Zucca et al., 2009; Castellini et al., 2014; Pomarici and Vecchio, 2014). Thus, participants stressed the need for collective communication initiatives aimed at promoting and valorizing organic wines: according to Sirieux and Remaud (2010) “a collective approach aimed at communicating the organic wine distinctiveness”, oriented also to “better explaining the specific organic wine characteristics”, is a key strategic factor to cope against people’s low awareness for this type of product. In relation to this lack of information, participants discussed about the need of a territorial information policy with an institutional and financial endorsement by local public actors. With this respect, Agostino and Trivieri (2014) highlight the importance – for traditional wine producers - of policy driven information initiatives to acknowledge and exploit the unique collective resource represented by a limited territorial context; a financial support on product knowledge – according to the authors - would also help protecting producers from information asymmetry issues on quality wines between wine consumers and producers. Educating consumers about sustainability is also deemed as a crucial factor that can be supported through sustainable certification and labeling schemes, in order to help consumers distinguish sustainable wine products and support product credibility (Sogari et al., 2016).

With regards to the potential strategies reported to respond to the price level volatility, participants identified strategies that can help meeting more specifically the demand through enhancing the reputation and the territorial value of products as well as finding alternative market channels such as direct sales. Reputation is key for producers to get known but also - for foreigner consumers - it is a crucial purchasing factor of choice (Agostino and Trivieri, 2014). In the international markets, it is also strategically key that wine producers establish efficient relations with distribution networks and important actors (Mariani et al., 2012). Developing direct sales and framing short supply chains for quality products are considered innovative strategies as well as important opportunities for improving the competitiveness of the sector to meet new demands and consumption trends (Contò et al., 2015; Fiore, 2016). Moreover, several scholars highlight, for wine producers, the need of combining traditional and innovative strategies to gain competitive advantage through promoting the company’s tradition values and, meanwhile, benefiting from new innovative opportunities (Bresciani, 2012; Dubini et al., 2013; Vrontis et al., 2016). In addition, Flint et al. (2011) observed that - among the principal Italian wine producers - a main strategic approach adopted to be resilient, vis-à-vis an increasing competition, is to focus on the importance of the “being Italian”
historical and cultural elements, and, secondly, innovating and adapting to the marketplace.

Furthermore, technological innovation emerged as a key opportunity for promoting territorial products. However, Menghini et al. (2014) observed that Italian wine producers are slowly beginning to adopt new technologies for commercial purposes, while current technologies are extremely efficient for developing the vertical integration of the production process (direct selling and e-commerce), reducing the power of intermediaries, creating and embedding value added, and balancing power along the value chain. Participants, then, identified bureaucracy as a common time-consuming burden affecting their business activity. In another study on Italian wine producers, Alonso and Bressan (2014) reported that producers fear the potential increasing of institutional barriers to export, and that such exacerbation may easily lead to a loss of trust in the institutions. On the other hand, participants deem the public institutions’ engagement as a crucial opportunity for protecting and promoting local and organic products, coordinating and endorsing producers’ networks and providing support for credit access. Moreover, it has been already observed that Italian wine producers consider institutions as key actors for wineries’ resilience through providing know-how and knowledge on export development and related strategies; institutions can encourage consumer education, fostering training and skills for wine operators, improving the role of chambers of commerce as well as supporting wine producers’ networks in the promotion of their products at international fairs (Alonso et al., 2014; Alonso and Bressan, 2014).

Conclusions

Enhancing the focus group technique through a participatory causal chain analysis was key to map the sequential relationships linking different farms’ contextual conditions and the strategies implemented by wine producers. From this initial and exploratory phase of analysis and producers’ elicitation, it emerges that communication, reputation and cooperation network are deemed as extremely important for producers with regards to several purposes. These purposes can facilitate to stabilize and meet the fluctuating demand, to cope with price volatility, searching for funding, accessing to credit, as well as fostering consumer education on quality and organic food products: building cooperation networks and collective organization for organic local producers is considered key. We highlighted the consistency of these preliminary workshop results with evidences reported in other relevant studies on the wine sector at the national level. These outcomes suggest exploring potential questions concerning the efficiency of the actual association/coordination and governance schemes (e.g. trade organization, PDO and PDI, producers’ associations), as well as the current use of technology for communication and the role of public and local institutions within a growing complexity of the wine sector. In conclusion, according to Rocchi
and Gabbai (2013), further research could investigate participants’ interaction. The opinions that emerged in the studied workshop relate mainly to the need of further engagement and investments in collective action for communication and information for several aims - such as territorial valorization and protection, credit access, skills’ improvement and consumer education. This analysis could provide further insights on the state of the actual institutional agreements along the value chain and to evaluate the possibility of creating a collective strategy between organic producers in the production area, understanding their wishes, constraints, and identifying the potential basis for a shared strategic agreement.

Keywords: organic wine, business strategies, market conditions, decision-making, Tuscany

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