



**Specialized conference of the  
EuroMed Academy of Business**

**Contemporary Trends and Perspectives in  
Wine and Agrifood Management**

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## INTRODUCTION

This specialised conference of the EuroMed Academy of Business aims to provide a unique forum and facilitate the exchange of cutting-edge information on examining and building new theory and business models in the areas of wine and agrifood management.

Many people and organizations are responsible for the successful outcome of the 7th Annual Conference of the EuroMed Academy of Business.

Special thanks go to the Conference Chair Prof. Amedeo Maizza, the Conference Organising Committee and the University of Salento, in Italy, for accomplishing an excellent job.

It is acknowledged that a successful conference could not be possible without the special co-operation and care of the Reviewers for evaluating the papers and abstracts that were submitted to this conference. Special thanks to the Session Chairs and Paper Discussants for taking the extra time to make this conference a real success.

The last but not the least important acknowledgment goes to all those who submitted and presented their work at the conference. Their valuable research has highly contributed to the continuous success of the conference.

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# **BOOK OF CONFERENCE PROCEEDINGS**

## THE MARKET ORIENTATION OF OLIVE OIL CONSORTIA IN ITALY: AN EXPLORATIVE ANALYSIS.

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### ABSTRACT

This paper aims to examine the market orientation of Olive Oil Consortia in Italy. Through an explorative qualitative analysis, the study sets out to look in detail at: a) whether and how the principal features and main activities characterizing this fundamental marketing concept are defined and effectively implemented in the organizations under examination; b) whether and how the adoption of market orientation influences their business performance. Findings suggest that Olive Oil Consortia recognize the relevance of customer orientation, competitor orientation and inter-functional coordination in order to develop innovative products that meet customers' needs and preferences and, consequently, to achieve positive performance. However, the adoption of market orientation constitutes a significant challenge to Consortia that usually focus more on promotion policies and thus require a cultural change as well as the availability of economic and human resources needed to adopt and implement this orientation.

**Keywords:** *Market orientation; customer orientation; competitor orientation; Oil Consortia; Italy.*

### INTRODUCTION

Our research aim is to examine the market orientation of Olive Oil Consortia in Italy. Specifically, the study sets out to analyze: a) *whether* and, above all, *how* the concept of market orientation – a fundamental marketing concept – can be implemented within the organizations under examination, focusing attention on the distinctive dimensions that characterize this orientation; b) *whether* and *how* the adoption of market orientation influences their business performance.

The basic idea is that the adoption and implementation of market orientation may make a valid contribution towards improving the performance of Consortia in the long-term with reference to *innovation consequences* (i.e., product and/or process innovation; knowledge; generation of patents), *employee consequences* (i.e., effects on employee motivation), *financial consequences* and *customer consequences* (i.e., customer satisfaction, customer loyalty). This is of considerable importance since these Consortia operate in a continually changing competitive environment and need to identify Contemporary Trends and Perspectives in Wine and Agrifood Management

suitable ways of combining their resources and capabilities in order to better satisfy customer demands and to better cope with competitive pressure from new international players.

There are two principal reasons for focusing the attention of this study on the Italian olive oil industry and, above all, on Italian Consortia.

Firstly, the agrifood industry in Italy has shown signs of greater dynamism compared to other sectors of the domestic economy in the last few years (INEA, 2013). This dynamism has given rise to certain important changes: greater commitment to R&D activity with resulting innovative products and processes in line with environmental sustainability principles; new training courses for young agricultural entrepreneurs; greater involvement in foreign markets (INEA, 2013), thus partly offsetting the negative effects of the economic crisis. Therefore, the above-mentioned changes have stimulated management and marketing researchers to observe sectors, economic activities and issues traditionally considered to be of little interest, with the aim of reflecting on and exploring new opportunities for the implementation of relevant categories of concepts and analysis.

In fact, the olive oil sector occupies a prominent position in the Italian agrifood industry, due to its specific features and its reputation as a high quality *Made in Italy* product that is an integral part of the *Italian way of life*. This position depends on both the relevant volume of production and the contribution made to the Italian balance of payments (Ismea, 2013), as well as the commitment demonstrated by firms operating in the olive oil industry to the development of effective strategies for achieving competitive advantage in a scenario increasingly characterized by a high level of global competitive pressure and the continuing economic recession.

With annual production reaching 480,000 tonnes, Italy reported a record surplus of 151 million Euros in its olive oil balance of trade in 2013, an increase of 35 million compared to 2012 (Ismea, 2013). This means that the value of exports exceeded imports for the third year running, although Italy remains the biggest importer of olive oil and the second biggest exporter behind Spain (Ismea, 2013).

However, while Italy's position in international markets remains strong (International Oil Council, 2013), new players are coming onto the global scene, both from the Mediterranean area (e.g. Egypt, Morocco, Syria, Tunisia and Turkey) and from other continents (e.g. South America, Australia, North America) (INEA, 2013). These new players are trying, on the one hand, to gain important positions in terms of olive oil production volumes and market share and, on the other hand, to improve the image of their products in comparison with those of traditional producers by offering a variety of alternative products to attract distributors and consumers.

From a demand point of view, Italy sold a total of about 218 million litres of oil worth 850 million Euros, with a slight increase (+1%) for DOP oil volumes, and showing positive trends both in volumes and value (+1% and +3 % respectively) for organic products (Unaprol, 2013). These results highlight

the growing popularity of quality products with consumers, who are better informed and more selective in their purchases and consumption, feeding higher levels of expectation for agrifood products. Moreover, they contribute to increased competitive pressure among producers, who are constantly involved in complex innovation processes in order to offer final consumers with reasons to make a conscious purchase choice, in favour of high quality products.

However, olive oil producing firms, of which there were 902,075 in 2010 according to the 6<sup>th</sup> General Census of Agriculture, are overwhelmingly small and medium firms (60% own less than 2 hectares), characterized by a prevalence of sole ownership, gradual ageing of olive oil producers (41% of firms are run by people over the age of 65) and limited generational turnover (only 3% of firms are run by people under the age of 34) (Ismea, 2013). These aspects are, therefore, the main sources of difficulty and/or impossibility for olive oil producers attempting to achieve adequate performance while operating in a market characterised by aggressive pricing policies and undifferentiated products. However, they have gradually given rise to forms of collaboration and aggregation processes, as a possible alternative to the limited capability of collaborating and consequently creating “critical mass” (Ismea, 2013) shown olive oil producers.

Secondly, from this perspective Consortia are starting to play a leading role in the various phases of the agrifood production and supply chain, as can be seen from the wide range of activities and services they carry out (D’Amico, 2002) with the aim of developing greater competitiveness for the organization as a whole and for its individual members. In fact, they are concentrating mainly on the following aspects: strengthening the distinctive traits of products on the basis of territorial characteristics and wide range of varieties; identifying ways to obtain certifications concerning production; adopting effective differentiation strategies that avoid forms of price competition used by certain new international *players* and demonstrate a combination of distinctive knowledge and competences and continuous commitment to technological innovation processes; finally, identifying marketing strategies in response to demand needs and incessant competitive pressure. As regards the latter point, it should be underlined that certain Consortia interpret marketing principles in a particular way, in reference to both strategic and tactical aspects, in most cases attempting to use marketing activities to resolve day-to-day problems rather than addressing the need for a precise and rigorous strategic planning process. There is a perceptible need for a cultural change within Consortia in order to overcome the conviction that critical success factors are no longer linked only to high-quality products and ability to reduce production and distribution costs, as well as to encourage the adoption and implementation of strategies suited to the competitive dynamics and changing conditions of the market. In other words, Consortia operating in the olive oil industry need to move

towards a different philosophy focusing on the concept of market orientation (Narver and Slater, 1990; Kohli and Jaworsky, 1990).

The paper begins with a review of literature regarding the concept of market orientation and then explains the methodology used to carry out the study and obtain the results, followed by a discussion of the results, the identification of limitations, as well as further future research and managerial implications.

## **THEORETICAL BACKGROUND**

The concept of market orientation has received a great deal of attention from business and marketing scholars, who have debated its theoretical and practical implications (Shapiro, 1988; Narver and Slater, 1990; Kohli and Jaworsky, 1990; Kohli et al., 1993; Deshpandè et al., 1993; Day, 1994; Kirca et al., 2005; Song and Parry, 2009; Zhou et al., 2009; Kumar et al., 2011; Abbate, 2012; ).

The literature review analysis reveals that consolidation of the concept of market orientation came about in the early 1990s, thanks to the contributions of Narver and Slater (1990) and Kohli and Jaworsky (1990), who provide a conceptual framework for the development of a systematic theory of this orientation.

Although the perspectives offered by Narver and Slater (1990) and by Kohli and Jaworsky (1990) are complementary and not reciprocally exclusive (Manzano et al., 2005), this work refers principally to the seminal study by Narver and Slater (1990), which conceptualised market orientation as an organizational culture that pushes a firm to achieve sustainable competitive advantage by creating superior value for customers. They highlighted that market orientation is “the organizational culture (...) that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business” (Narver and Slater, 1990, p. 21). This organizational culture is mainly characterized by three different behavioural components: (1) customer orientation, which means “the sufficient understanding of one’s target buyers to be able to create superior value for them continuously”; (2) competitor orientation, which means “that a seller understands the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and key potential competitors”; and, finally, (3) inter-functional co-ordination, which indicates “the coordinated utilization of company resources in creating superior value for target customers” (Narver and Slater, 1990, pp.21-22).

Therefore, market orientation can be examined as a cultural feature of an organization that puts the customer at the centre of its strategies, including focus on the activities of principal competitors and inter-functional coordination in order to respond and adapt to market conditions (Narver and Slater, 1990).

However, it is also necessary to underline that the definition and implementation of market orientation require firms to possess dynamic capabilities (e.g., Teece et al., 1997; Eisenhardt and Martin, 2000) that allow innovation capabilities to be combined with marketing capabilities (Morgan et al., 2009). More specifically, these capabilities permit firms to deploy their resources in ways that match changing market conditions ahead of their competitors, to define efficacious strategies and to respond more effectively (Ketchen et al., 2007; Morgan et al., 2009). From this viewpoint, market orientation and dynamic capabilities are considered valuable strategic sources helping organizations obtain a competitive advantage (Morgan et al., 2009) and in turn achieve marketing objectives.

Empirical studies (Narver and Slater, 1990; Jaworski and Kohli, 1993; Despondé et al., 1993; Slater and Narver, 2000; Nwokah, 2008; Zhou et al., 2009; Kumar et al., 2011) underlined that market orientation is associated positively with business consequences over time: customer consequences (i.e., customer satisfaction and customer loyalty); financial consequences (i.e., growth in sales revenue, sales growth, profitability, etc.), employee consequences (i.e., motivation, commitment, etc.) and innovation consequences (i.e., development of new products/process, generation of new knowledge, patents) (Hsieh et al., 2008). The relationship between market orientation and business performance may be moderated by environmental uncertainty, due to the unpredictability and instability of the external environment (Song and Parry, 2009). Specifically, three types of environmental uncertainty may affect firms' performance: 1) market uncertainty (Han et al., 1998); 2) competitive intensity (Jaworski and Kohli, 1993; Kirca et al., 2005); and, 3) technological turbulence (Kohli and Jaworski, 1990; Slater and Narver, 1994). Market uncertainty refers to changes in the type and composition of customers and their needs/preferences (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993). Competitive intensity refers to the degree of change in the competitive scenario and uncertainty concerning competitors and their strategies in order to gain competitive advantage (Kohli and Jaworski, 1990). Finally, technological turbulence refers to changes in the "entire process of transforming inputs to outputs and the delivery of those outputs to the end customer" (Kohli and Jaworski, 1990, p.14).

Based on these considerations, we thus aim to analyse the market orientation of Olive Oil Consortia in Italy.

## **RESEARCH DESIGN**

In order to conduct this research, we chose a qualitative method since it is deemed more appropriate to explore this phenomenon, to addresses the questions of "if" and "how" (Yin, 1994) and also to obtain useful ideas and interpretations that are more difficult to get from quantitatively-oriented methods of data collection. We adopted a multiple case study approach because this is suggested in order to increase the methodological rigor of the study through "strengthening the precision, the

validity and stability of the findings” (Miles and Huberman, 1994, pp. 29) and, moreover, the evidence obtained from this approach “is often considered more compelling” (Yin, 1994, pp. 45).

The peculiarity of explorative qualitative analysis, represented by the possibility of conducting the study on a limited number of cases that reproduce the population characteristics on a small scale, allowed us to conduct our study on 10 Olive Oil Consortia. The latter were identified through analysis of institutional documents, reports, dossiers and websites of public/private organizations in the olive oil industry and participated in this research, permitting the collection of data and dissemination of results. Thus, the sample selected for this research can be considered “opportunistic”, emerging “from following leads during field work” (Patton, 1990, p.182).

The 10 cases examined here present the following characteristics: located in geographical areas with a strong tradition of olive oil production (Central/Southern Italy, Sicily and Sardinia), due to historical and environmental factors (i.e., favourable climate); the number of members is between 50 and 300 (in only one case the number of members is 4,800); the number of employees is between 10 and 50; their olive-oil production is destined for the domestic market.

The case studies were conducted on the basis of in-depth face-to-face interviews with management (president of the consortium or marketing manager) to explore specific aspects related to the market orientation construct, such as the motivation that drove the implementation or not implementation of this orientation, the difficulties linked principally to definition and development of its main dimensions and, finally, the relationship between market orientation and business performance. We performed interviews with these actors because in these organizations they are a key informants and respondents for the reason that they have detailed information about of operations and conditions. The interviews lasted approximately an hour and a half and were conducted from March to May 2014, following the traditional methodological prescriptions on collecting data through personal interviews (Lee, 1999). It should be noted, however, that the questions were kept deliberately broad to allow the interviewees as much freedom in their answers as possible.

As suggested by Yin (1994), secondary data sources were also consulted, including mission statements, marketing strategy documents, internal documents, existing customer satisfaction reports, brochures, market reports, industry statistics. In this way, the use of multiple sources of evidence, along with the interview process, helped improve the validity of the research (Yin, 1994).

## **DISCUSSION**

The case studies allowed us to highlight certain aspects of particular interest regarding the market orientation of the Consortia under examination, above all the main problems faced by these organizations when they attempt to activate processes for the identification and implementation of the



three particular dimensions that characterize this orientation. The case studies also allow the identification of certain points of interest concerning the relationship between market orientation and business performance.

First of all, we can underline that most of the Consortia under examination have, up to now, paid little attention to analysis, understanding and monitoring of the market forces that most influence their business (especially consumers and competitors). The Consortia recognize the importance of the above-mentioned activities and, above all, the need for them to be effectively determined and concretely implemented, so as to identify and exploit new development opportunities. However, little commitment has been demonstrated to the continuous and systematic collection and processing of data on the main market phenomena that could affect, in one way or another, the forces under consideration.

As concerns consumers, the Consortia underline that detailed knowledge of consumer requirements, both real and potential, is now a crucial and essential element in order to succeed in taking advantage of new opportunities as they arise, as well as pre-empting the main competitors. Indeed, by using the resources and expertise acquired by member firms, this knowledge may be the premise for experimenting with and creating new products that better respond to consumer requirements and allow a higher level of customer satisfaction to be achieved. In this regard, a interviewed manager has highlighted that *“for developing and commercializing sophisticated products with the right set of features that meet and satisfy customer needs, way is strong the necessity to understand and to examine accurately their requirements and expectation, even if they evolve more rapidly over time”*.

However, these activities have been sporadic, poorly planned and, although dictated by the need to face up to continual changes in an uncertain and turbulent competitive environment, they have focused only on clear and present consumer needs. The mistake has been that of neglecting latent market requirements and the analysis and detailed study of the strategies and policies adopted by domestic and international competitors. Moreover, the Consortia under examination also highlight that sometimes their energy and their efforts are essentially directed towards maintaining stable relationships with their member firms in order to understand their most pressing problems, to propose effective solutions and, finally, to develop platforms facilitating interaction and exchanging of competences, knowledge and experiences.

This has often led to the definition of activities and initiatives aimed principally at stimulating the involvement, interaction and participation of member firms in the planning and management of the Consortia, encouraging a necessary cultural change in these firms, which are more focused on their own performance objectives, thus neglecting market targets.

As regards competitors, the Consortia highlighted the little importance given to analysis and evaluation of the main characteristics, strategies, behaviour and performance levels of competitors, who are becoming more and more ruthless, aggressive and, above all, dangerous, for Italian olive oil producers.

The reasons for this behaviour can be found in the deep-rooted conviction, not only in the Consortia under examination, but throughout the Italian olive oil industry, that the excellent quality of Italian olive oil differentiates it from competitor products and guarantees the achievement of satisfactory sales. Moreover, the Consortia have as their main objective the achievement and maintenance of a high-quality level for Italian products, brought about by a series of complex innovation processes, underestimating and/or delaying on this basis the creation of stable relationships, which require well planned marketing focused on consumers and their diverse requirements.

All of this shows how the Consortia are still focused on products, on their main characteristics and on necessary innovations to increase essentially the quality levels in the deep-rooted conviction that product quality is the critical factor for the generation and maintenance of positive performance. Consequently, it seems that product orientation is still prevalent over market orientation, despite the risk deriving from the variability of demand and the greatly increased pressure from foreign competitors.

It is also interesting to note how, in some of the Consortia under examination, the assumption of decisions, not only strategic but also tactical ones, are still left to the intuition and experience of their Presidents and managers. They thus develop their own idea of the market development without the support of information base collected by different sources (internal and external to Consortia) to be interpreted/evaluated for the development of future scenarios and the support of formal decision-making processes. Moreover, the distinction between strategic and tactical decisions is often not easily or immediately understood, thus confirming the need to adopt a more managerial approach.

As regards the exchange, sharing and spreading of information and knowledge concerning the most important aspects of demand market (final and intermediate) and the dynamics of other market forces among the various resources of the Consortia and, in particular, among the member firms, it was ascertained that these activities take place in an informal, spontaneous and occasional way (i.e., periodic meetings, events) without the support of effective and specifically dedicated channels.

Undoubtedly, this aspect reduces the possibility to develop and promote the logic of sharing and participating in achieving objectives and also the development projects within these organizations.

Another important aspect that emerged in most of the cases studied is that the adoption and implementation of activities characterizing market orientation require the availability of a set of human resources with specialist capabilities, economic-financial resources to sustain appropriate

investments and, finally, technological resources that are fundamental in order to guarantee the efficient and effective monitoring of consumers, competitors and other market forces/actors. But, an interviewed president has underlined that *“economic and financial resources are really limited and [the lack of resources] influences strongly our decisions, our directions of development and our main activities”*.

In fact, the scarcity of resources poses a series of important questions regarding the appropriateness of sustaining investments in areas offering more immediate returns (e.g. promotional activity, participation in specific events to promote products, European product/process quality certification).

These questions, which are linked to aspects of economic convenience, particularly involve the top management of Consortia, which find themselves having to confront and respond to continuous changes in the competitive environment, characterized by high levels of market and technological uncertainty.

Finally, it also emerged that in the Consortia that set in motion the first activities and initiatives in a move towards market orientation, an improvement is noted in business performance. This is seen above all in reference to aspects linked to *customer satisfaction*, to the generation of new knowledge and the capacity to find new unexplored market opportunities and to implement processes aimed at product innovation (e.g., organic products) and/or phases of the production processes, with the intention of obtaining a better position with respect to their new competitors.

## CONCLUSION

The cases of Consortia examined in this paper seem to signal certain interesting factors for the adoption of a market oriented culture.

Although the Consortia are now aware of the need to focus their efforts on customers, on the strategies of new competitors and on changes in the competitive environment in order to identify new opportunities, however, the definition and implementation of these activities is difficult to carry out because of the lack of available human, financial and technological resources. At the same time, the Consortia examined are still heavily oriented towards products and the improvement of their characteristics because they are strongly convinced that the superiority and quality of Italian products are sufficient motive for consumers to choose and purchase them.

From this perspective, market orientation is certainly a necessary culture change, thus giving rise to a process of transformation that brings with it the spread of an indispensable market sensitivity, which could limit in some way the conviction that only excellence is capable of guaranteeing positive results. However, the processes of definition and implementation of a market orientation within these organizations are neither simple nor costless, but imply significant organizational challenges. They need to assume coherent behaviours and, primarily, reinforce continuously their commitment to the

heterogeneous related activities, by allocating (as much as possible) adequate resources to different initiatives that might ensure the benefits expected from a market oriented entity.

This study contributes to managerial practice by underlining the importance of managerial emphasis on the creation and implementation of a market orientation business environment and also the benefits and limitations of each component to obtain positive results. In addition, it highlights that market orientation support managers to be more connected to their competitive environment, encouraging innovative activities stimulated mainly by different approach to market.

The results and the conclusions of this study need to be considered in the light of the following limitations. First, the results may not be generalized to the universe of Olive Oil Consortia in Italy, especially when such companies operate in other different Italian areas characterized by different environmental conditions. In turn, our research should be intended as an exploratory study to examine the market orientation construct within these organizations.

With this in mind, we expect to expand and improve the empirical analysis in future research steps, extending our sampling and realizing an useful quantitative analysis oriented to investigate the relationship between market orientation and business performance.

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## **GREEN ECONOMY AND SOCIAL RESPONSIBILITY IN THE ITALIAN AGRI-FOOD SECTOR: THE FOCUS ON THE WINE SECTOR.**

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### **INTRODUCTION**

The profound changes that characterize the contemporary reality have been changing irreversibly our daily way of life, thinking and perceiving the world and human society. Global warming has been for long time a topic that requires a global and deep rethinking on the sustainability of our current development model; the financial crisis has been a shock so strong to create a clear discontinuity of perception and feeling, showing an even more growing interest in the issue of sustainability.

The signals of actuality of the theme can be readily observed both in the increasing attention from consumers, - especially in those more informed and evolved segments-, in the growing media coverage and political attention on ecological issues, as well as in the economic ethics; in the presence, again, of the theme in the communication of many companies and in the assumption by investors of sustainability as a criterion to evaluate the enterprises solidity and, finally, in the experimentation of a possible "system break" both from a financial and scarcity of resources (water, oil, ...) point of view (water, oil, ...).

From a theoretical point of view, sustainability remains a strong and ideal values, a commitment to future generations to preserve the environment by limiting the exploitation of resources and reducing the environmental impact of products and processes. Moreover, sustainability is also a commitment to the community through an economic activity able, at least partially, to return to the community and the territory what it has received from them. In practice, it means that the company has to propose a business capable of being renewed and long-lasting: to operate by taking into account the resources (financial and environmental) actually available and act responsibly towards all its stakeholders (consumers/customers, employees, territories in which the company operates) with regard to environment, safety, social and cultural cohesion).

This paper aims at investigating the reasons why the environmental variable and issues - such as sustainability, social responsibility and all those behaviours that can be attributed to the general definition of Green Economy - , are generally covering a more and more marked and growing influence on the contemporary economy and, in particular, entrepreneurial behaviour. Our intention is to underline how the integration between business ethics and value creation has become

inescapable for the business realities, not only to withstand the competition, but also to ensure the survival itself.

After a general overview, it has been decided to focus the analysis on the impact that these issues have on a sector such as agri-food in general and wine in particular, which, paradoxically, are the ones that for long time have shown little sensitive towards the above-mentioned issues.

## **SUSTAINABILITY AS A POSSIBLE SOLUTION TO THE ECONOMIC CRISIS**

In the context in which we live, characterized by a heavy financial and economic crisis of devastating effects, reflection on a "future model" of business appears as necessary as inevitable. In this perspective, sustainability, thought in the past as more "ethical" than economic, has acquired a new importance and a much more concrete profile these days. In fact, sustainability not only seems to be less utopian, but also a theme of necessary and realistic redesign that might produce, in due course, economic returns as well as on image.

The spread of social responsibility is part (Jain *et al.*, 2010, pp. 42-43) of the cultural evolution of our society, acting as a challenge to capture quickly and with foresight. It is necessary that companies resize on real resources, living the sustainability as an opportunity and not as a constraint and cost, and recreating a new relationship with the society in which they operate (Jain *et al.*, 2010, pp. 44-45).

It seems necessary, then, a redefinition of evaluating criteria and parameters of companies solidity: sustainability has to become an element of rating for investors use. It is a challenge that requires wide unusual horizons and the full involvement of all social actors: companies, which have to be able to combine the pursuit of profit with a vision founded on the centrality of the person; institutions, which have to be guarantors of an environment favorable to the development of CSR (Corporate Social Responsibility) and, last but not least, civil society must provide the right incentives and impulses to the world of business and management.

A challenge, then, that needs tools and practice; communication and leadership (Beda and Bodo, 2006). To advance CSR it is necessary a large awareness of the relationship between business and society and, at the same time, a rooted adherence to the strategies and activities of companies (... ) (Porter and Kaplan, 2006).

The integration between the business and society needs requires good intentions and strong leadership. It requires adjustments in organization, relations and "incentives"; joining philanthropic activities with the management of the social impact, instilling a social dimension into business

activities: in this way CSR policies can be an effective tool for the enhancement of people, knowledge and the knowledge encoded in the same organizational structures.

The integration of social and environmental considerations in decision-making and relationships with stakeholders requires, then, not only a change of mindset and guidance of the people, but also the acquisition of a new cultural sensibility and a wealth of knowledge that can involve all organizational components. This requires an ability to promote transparency and introspection of the company that increasingly looks inside itself, realizing that innovating, having a good reputation and a good level of sustainability are essential conditions to become a company capable of enduring benefit.

It follows that the interpretation of corporate social responsibility as a strategic driver for the development of people is now more than ever important for organization competitive success. In this perspective, top managers and those who manage and coordinate the people in the company, must be the promoters of CSR strategies capable of stimulating members of the organization to learn new ways of doing business and, later, of consolidating practices and values compatible with the expectations of the social partners: only in this way the CSR strategies will increase with more strength and incisiveness (Cocozza, 2010).

## **SUSTAINABLE ENTREPRENEURSHIP**

Previous sections show the need of a new approach to action by the company, an action that takes into account the interests of all its stakeholders and the impact of a social and environmental impacts that may have in the medium - long term.

A different approach to the same way of doing business involves, however, not only a change in strategic and economic decisions, but also a transformation of the organizational culture which takes new values and points of reference and adopts different strategies communication both inwards and outside.

The company, facing the need to make sense of the reality that is changing, starts to produce new cognitive maps by means of which defines its vision and mission. It follows that the introduction of socially responsible approaches within a company gives an impetus to the creation of an organizational culture centred on new values. Companies are no longer judged only for their economic performance, but also for the way in which the result has been achieved, both in terms of quality of products and services offered and both in terms of fairness and transparency of the conduct taken against their public and private stakeholders.



Entrepreneurship socially responsible is, therefore, the integration of ethical concerns within the strategic vision of the company: it is a manifestation of the will of large, small and medium-sized enterprises to effectively manage the issues of ethic and social impact in them and in the areas of activity. The inclusion of the environmental variable in every business decision gives rise to a new approach in the definition of business strategies: the green/environmental management, a management model in which the firm represents a point of reference for all those involved in environmental concerns as it has the responsibility to define programs and introduce management tools that may themselves be models able to influence all players in the network.

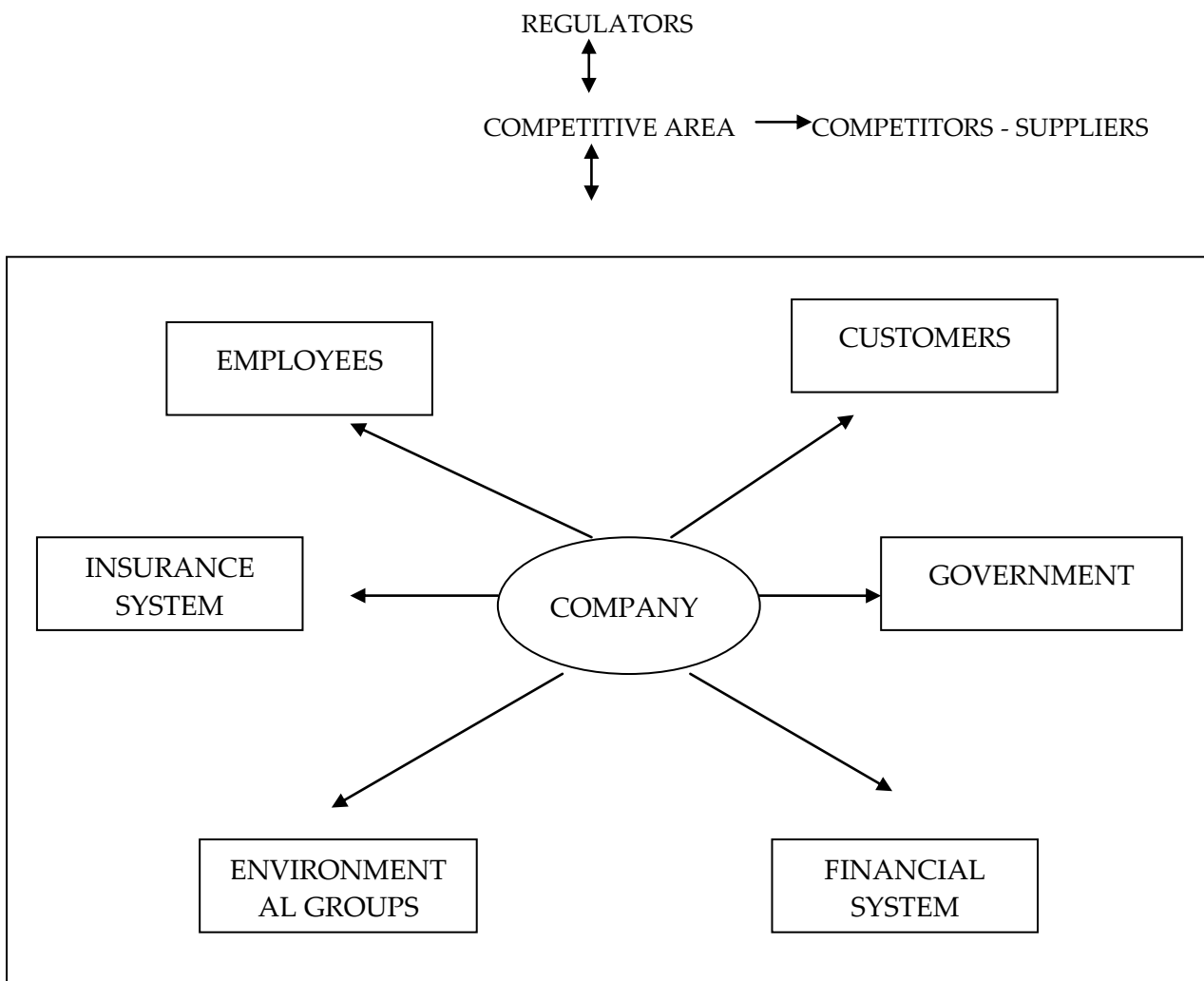


Table 1: The Network of the company. Source: Bertolini and Troilo, 1996

A correct and efficient consideration of environmental issues, may:

- become a positive factor for competition against other companies;
- contribute to obtain the highest price-sensitive consumers in revenue in relation to the environmental problem;
- promote a reduction of production costs direct or indirect;
- expand the credibility and social legitimacy of our own business;
- increase confidence and a greater social sharing of our own choices;
- increase the level of identification of people in the enterprise, and their degree of motivation.

## **TOOLS FOR SOCIAL RESPONSIBILITY IN THE ITALIAN AGRI-FOOD SECTOR**

The focus on the theme of social responsibility and ethical conscience of companies appears to be a topic of great interest even in a highly strategic sector of our economy: the agri-food system.

In fact, even in this sector the introduction of production processes based on quality has resulted in a substantial change in the production structure and the balance of the market in a more competitive direction; in particular, policies that aim at making strategic use of quality in agriculture, have acted on the level of competition in the sector, through two important variables:

- The ability to control the quality of the producers;
- The level of information on the quality of the agricultural product available to the operators (intermediate or final consumers) that express the question.

Over the years there has been, therefore, an increasing in sensitivity and attention to health and food safety, the environment and the territories (Modenesi *et al.*, 2007). The consumer, more careful and critical, asks more and more often the company for communicating these issues: if in the past it was required agricultural production able to feed the society, later it has been required that such production incorporate the guarantee of safety and health that have to have food in general, up to require a higher and higher quality. These days, the company also requires to the primary sector production techniques that are respectful of natural resources, the environment and the landscape. The needs/expectations of the consumers of these "added value" to the food places, not just individual companies, but entire food system and public policies for the sector, faced with new challenges and, in

particular, faced with the necessity to satisfy these needs, in order to strengthen their competitiveness on domestic and international markets.

In this context, CSR is the differentiation strategy that can make the company unique in its sector with particular characteristics recognized and required by the consumer. The paths of social responsibility that can be adopted by individual entrepreneurs must take into account elements closely interrelated, both internal (product and human resources) and external (environment and territory) company. Specifically:

- Human Resources: The human resources development through growth of workers skills as well as through a management policy that takes account of equal opportunities, integration of immigrants and the quality of work (Censis, 2004).

This is a deeply delicate issue. The small size of the business system, in fact, makes it difficult to deal with this problem, which is compounded by the characteristics of the production, plagued by problems such as the low level of security, high seasonality, extensive use of immigrant labour and irregular work. In this sense, CSR can be an important instrument to enhance and develop the changes taking place upstream and downstream, on farms that in some cases pay particular attention to their workers and their working conditions.

- **Product**: it is absolutely necessary, then, to have an integrated approach to product that takes into account the expectations of consumers about the quality characteristics, territoriality and transparency. This is a product strategy that ensures authenticity, security, but also those elements that give value added services such as identifiability, traceability, innovation and truthfulness of information. It is now popular a growing sensitivity of quality of life that accompanies a more conscious consumption management and a renewed interest in the health and family life. Consumers and producers are also in agreement that the pursuit of quality can be an important antidote to the dangers of the production approval. The quality of agro-food products, therefore, has taken a substantial importance in the buying process and helped decline the concept of production in a broader supply and territory dimension. In order to ensure food safety according to an integrated and scientific approach, the European Union has also undertaken the harmonization of national laws on local products -already present in Italy, France and Germany-, by identifying three different levels of specificity: designation of origin (PDO), protected Geographical Indication (PGI) and certificate of specificity.
- The protected designation of origin (PDO) is attributed to agricultural production and food products whose characteristics are due mainly (though not exclusively) to the geographical

environment, “including the natural and human factors”. All stages of the production of the raw material, machining and processing, must be done in the area of origin.

- The Protected Geographical Indication (PGI) is restricted to products from a particular region. These products have at least one characteristic that binds them to the land of origin. Moreover, it is sufficient that one phase of production, processing and post-processing, takes place in their territory of origin.
- The Community legislator, then, has also established a more generic Certificate of Specificity named as “Traditional Speciality Guaranteed” (TSG). The STG is not about the territorial origin of the product, but rather the peculiarities of the raw materials or the manufacturing process and possible subsequent processing.

In addition to the PDO and PGI products, the national legislator (with Legislative Decree n. 173 of 30/04/1998) has also identified an additional category of food products which has strong traditional productive connotations and that do not follow the health rules usually applied in the industrial productions. Moreover, the national legislator has adopted new tools such as specific rules for productive activity, a control systems over the entire food chain (from farm to table) and effective measures able to provide information to the consumers. It makes possible to trace the route of food, animal feeds and their ingredients; in other words it allows to know the reverse route of the product (from the table to the field) and consequently its basic ingredients. It follows that the label is an useful tools for consumers as it gives more accurate information about ingredients, nutritional values and methods of food production and about a whole series of national and international checks organized in order to track cases of adulteration and counterfeit foodstuffs.

## **THE GREEN WINE BUSINESS**

According to the Ismea ISTAT data processing that compares the data of January-June 2014 with those of the same period in the last year, it emerged that Italian exports of agri-food products close the first half of 2014 with a rise of 1, 6% in value, determined exclusively by the good performance of processed foods (+2.6%), compared to an interruption of the agricultural exports (-2.7%). Albeit at a slower pace when compared with the growth rates for the last three years (respectively +8.7% in 2011, 5.6% in 2012 and 4.8% in 2013), the trend of international sales of the sector is slightly better than the Italian export in general (+ 1.3% in the first half) (Ismea, 2014). The wine sector, in particular, is an area of great significance in the Italian agri-food system. “Wine is one of the Made in Italy ambassadors and Italian companies are showing great skills in dealing with the difficulties of the market, the changes of styles consumption and the competition that comes from countries that only recently are venturing with this ancient art” (Unioncamere, 2009). The world of wine has a turnover in Italy of

eight million euro; the entire capital of this industry (including the value of the equipment and facilities related to the production of wines, spirits and liqueurs, balsamic vinegars) is of nearly 50 billion euro. There are 1.2 million people employed in the wine sector, including the stage of the distribution. While the usage of wine is increasing in the world, but slightly decreasing in Europe, Italy confirms itself as the worldwide leader in the production and marketing of wine (nearly one-fifth of the wine sold in the world is made in Italy) behind only France.

In fact, Italy, the second largest exporter of wine with an international level share of 18%, is holder of 61.7% of the global market share, along with France and Spain, confirming its global leadership in international sales of the wine sector .

Even for Mediobanca (Studio Mediobanca, 2014), the most successful Italian factor of this sector is the export. The first pre-final for the year 2013 reports an increase of 4.8%, more abroad (+ 7.7%) than in Italy (+1.8%), compared with the contraction of manufacturing (- 0,3%) and a slight improvement from food industries (+0.3%). Total sales of 2013 are of 24.1% above the level of 2008, the export sales of 40.4%, the national of 10.7%, confirming the trend of the last six years (except 2009).

The 2012 wine sector closed with revenues up 7.7% on 2011 (+ 9.3% for exports, 6.1% in Italy), more than marked by the food industry as a whole (+ 2%) and the beverage (+4.6%), while the Italian manufacturing industry has contracted (-2.1%). The growth rates of sales are down from 2011, and are back at 2010 levels. The European Union remains by far the most important area for the export of Italian wines, accounting for more than half of total exports, 51%, an increase in value of 9.2% on 2012 when it accounted for 50.5 %. The second target area is North America, which accounts for 32.7% of exports (34% in 2012), an increase of 3.9%; Asia and Australia are up 11.3%, although with limited weight equal to 4.3%. Finally, the contribution remains marginal in Latin America (1.4%), while the rest of the world (Africa, Middle East and European countries outside the EU) amounts to 10.6% (10% in 2012), an increase of 14.9%.

REGION	Average production 2009/20013 (Source ISTAT)	hl production 2013 (source ISTAT)	+/- % expected compared to the average of the last 5 years	+/-% expected compared 2013	Everage hl expeted 2014*
PIEMONTE	2.697.000	2.580.000	- 14%	-10%	2.330.000
LOMBARDIA	1.292.000	1.301.000	-14%	-15%	1.110.000
TRENTINO	1.220.000	1.362.000	-5%	-15%	1.160.000
VENETO	8.425.000	9.148.000	-8%	-15%	7.780.000
FRIULI V.G.	1.217.000	1.173.000	-13%	-10%	1.060.000
EMILIA ROMAGNA	6.735.000	7.396.000	-1%	-10%	6.660.000
TOSCANA	2.576.000	2.657.000	+5%	+10%	2.700.000
MARCHE	881.000	1.039.000	+24%	+5%	1.090.000
LAZIO/UMBRIA	2.237.000	2.472.000	+22%	+10%	2.720.000
ABRUZZO	2.627.000	2.728.000	-6%	-10%	2.460.000
CAMPANIA	1.722.000	1.644.000	-23%	-20%	1.320.000
PUGLIA	6.022.000	5.908.000	-21%	-20%	4.730.000
SICILIA	5.825.000	7.282.000	-12%	-30%	5.100.000
SARDEGMA	530.000	530.000	+9%	-10%	580.000
ALTRE**	889.000	933.000	-10%	-15%	800.000
TOTALE	44.895.000	48.161.000	-7%	-13,5%	41.600.000

Table 2: "Assoenologi" forecast on wine production in 2014 by region (compared with the average of the last 5 years and 2013)

\* Average productive presumed for each region

\*\* (Valle d'Aosta, Liguria, Molise, Basilicata, Calabria)

	2010 gen giu	2011 gen giu	2012 gen giu	2013 gen giu	2014 gen giu	Val Var % gen giu 13/14
Mondo Valore	1.776	2.026	2.169	2.351	2.387	1,5%
Mondo Volume	10.035	11.295	10.176	9.858,9	9.946,5	0,9%
Mondo VMU	1,77	1,79	2,13	2,38	2,40	0,6%

Table 3: Total Export Italian Wine January-June 2010/2014 \*

\* Amounts in millions of euro // Volume in thousands of hectoliters VMU € / liter

Today, wine production has to meet not only those quality and price requirements necessary to satisfy market needs, but it must also follow a series of increasingly stringent standards imposed by the Italian and European legislator aimed at safeguarding the environment and the health of both the consumer and supply chain operators.

It must be considered, then, that there is now a greater awareness of the issues of environmental protection and health that increases the demand for products perceived as safer, such as organic and biodynamic.

Organic viticulture comes from a proper agronomic management, thanks to which it is possible to get the best safeguard of plants.

- The choice of the site and area development allows climatic conditions (light, ventilation, and so on) and soil (porosity, drainage, and so on) suitable for the quality of the grapes
- The hydraulic - agrarian systems represent the first and indispensable tool for land conservation;
- The genetic choices regarding “cultivar” (*a cultivated plant, obtained with genetic improvement, which summarizes a set of specific morphological, physiological, and agronomic commodity of particular interest and transmissible through seed and plant parts*), “clone” and “portainnesto” (*the lower part of a plant multiplied by the grafting technique*), should be studied to improve the ecological adaptation to the environment in relation to the Eurosystem adopted plant (which defines the amount of available environment for each plant and adjusts the amount of 'interaction between plants);
- The organic fertilization ensures the protection and slow release of nutrients;
- The cover crop helps in controlling the physiological balance of plants, improving the water-mineral nutrition, and prevents erosion and enhances the agrosystem;
- The led fight and damage thresholds indicate the moments of real need for action “fitoiatrico” (*chemical treatment performed as a preventive measure, intended to prevent pest attacks in the bud*);
- The mechanization demands and at the same time allows for greater uniformity in the vineyard;
- The proper canopy management is of strategic importance. It is significant to control the microclimate at the level of clusters and vegetation, on which depend the conditions more or less favorable for pathogens.

The most discussed aspect of organic viticulture is to prevent parasites, that are the main limitation to this kind of cultivation. The winegrowers fear of losing their product is more than justified and requires careful defence.

In the conventional chemistry fight, among fungicides (CPP) coverage, the “ditiocarbammati” (fungicides) provides excellent disease control, protected from the risk of resistance; on the other hand, are not well acceptable to many important natural limiters and the improvement of recent formulations “rameiche” (absence of cytotoxicity) allows a valid alternative also in the first stage of the season.

The most difficult choice for organic wine grower is the renunciation of the use of systemic products that, undoubtedly, has the important advantage of protecting the vegetation of formation. But, in addition to overt resistance phenomena, many bad experiences have confirmed inadequate protection of the bunch. The current phytoiatric research trends are, in fact, facing molecules with high lipophilicity and distribution capacity on the surface and in this way we have obtained excellent products for the defence of the bunch. After all, the ability to sublimate and diffuse in the gas phase is the prerogative of sulphur and cupric products. Organic viticulture therefore requires more attention and effort, but for this reason it represents a logical development of integrated agriculture and the highest professional level of the wine entrepreneur. As a result, the grapes produced according to serious and modern methods of biologic farming guarantee an excellent quality, authenticity and wholesomeness with not many risks and costs compared with conventional techniques.

The aware “wine lover”, therefore, is more and more interested not only in the quality, but also in those values that include social and ethical commitment, and the safeguard of environment and territory. In the manufacturing enterprises diagrams are no longer only defined processes of viticulture and wine-making, but increasingly also the working conditions of the staff, the quantities of carbon dioxide, nitrogen oxides and sulphur emitted into the atmosphere, the kilowatts of electricity, cubic meters of methane, the litres of diesel consumed, the tons of destroyed waste and recycled ones, the pounds of pesticides and fertilizers used. All this aims to provide consumers with a wine which has social and environmental "benefits" measurable, verifiable and comparable.

In this way a new idea of working is being consolidated everywhere in line with a trend that many companies are interested in following in order to obtain an advantage in terms of image and profit (Menghini, 2007).



## CONCLUSION

The objective of this work was to highlight the importance for contemporary business realities, to pursue the integration of the social and corporate strategies, including environmental performance, economic results and competitive enterprise.

The set of human activities, technological progress and the uncontrolled exploitation of resources has led to heavy imbalances in the terrestrial ecosystem, risking compromising the ability of future generations to meet their own needs.

One possible solution is, therefore, represented by the sustainable development and the desire to pursue economic growth compatible with social equity. In this context, sustainability, lived in the past as more ethical than economic, is gaining importance and a much more concrete profile, designed to produce economic returns as well as on image.

In this work it was decided to analyse the impact of this issue on a key sector for the economy of our country: the wine sector, in which the attention to the quality and wholesomeness of the product, respect and love for the land, the people and the wine (avoiding the interference of chemicals, basing the production cycle on the key principles of biodynamic agriculture) should merge into one and it is clear, therefore, that a cultural change in organizations and in people who lead them is absolutely essential.

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## EXAMINING CONSUMERS' PREFERENCES FOR WINE ATTRIBUTES. A CASE STUDY FROM THE UK

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### ABSTRACT

A hedonic pricing model is developed in this paper to estimate the effects of wine attributes on prices in the UK wine market. Twelve wine attributes are selected as independent variables in the regression. Data used in this paper comes from a wine guide presented by Waitrose, from which both the information of price and attributes are available. The empirical results reveal that the old world wine regions' role is diminishing over time, while new world wine regions are becoming increasingly preferred. Consumers believe that more expensive wines are associated with higher recognition of wine attributes; however, the question is whether these attributes are also main determinants of wine producers' pricing decisions. Availability shows great impact with price, especially for the very limited version. Grape vintage is also high related to prices, but it influences red wine the most. Finally, the empirical evidence indicates that there is a linear relationship between price and wine age.

**Keywords:** *Consumer preferences, Lancaster's characteristics approach, hedonic price analysis, UK*

### INTRODUCTION

The world wine market presents a split image over the last few years. On the negative side, world consumption trends seem to run sluggish over the last 3 year period. According to a report published by OIV (2014), world wine consumption levels have reached 239mhl., approximately the same levels as in 2009. So, in terms of consumption patterns, the global wine market shows some signs of saturation. On the other hand, the same report (OIV, 2014) indicates that trends in world wine trade are very positive. In particular, "growing prices allowed for an increase in total revenues of 1.5% up to 25.7 billion Euros. The relative low harvest in 2012 in the Northern Hemisphere provoked a feeling of scarcity of wine, which pushed prices up to an average of 2.62 Euros per litre" (OIV, 2014: 6). Thus, despite the sluggish nature of consumption, wine trading continues to provide considerable opportunities in terms of its value.

From a producer perspective, the world wine market has dramatically changed during the past two decades. The traditional wine producers in Europe (France, Italy, Spain and Portugal) are saddled by

EU regulation and are struggling to adapt to changing market conditions. Simultaneously, new world wine producers are now scattered around the world, mainly presented by Australia, China, South Africa, the United States, Chile and Argentina. The conditions in wine trading market described above, indicate that the wine market is much more internationalized and complicated these days. Hence, all the above mentioned factors make wine producers' situation very complicated, especially on pricing their products. As a result, the examination of demand preferences and tastes as far as the wine market is concerned, could potentially offer a strong comparative advantage among competitors. When it comes to target market research, one necessary step is to examine how the consumer experiences the wine purchasing decision, and identify the main influential factors on consumers' purchasing decision.

The purpose of this paper is to measure the implicit value of wine labelling attributes in today's world wine market, using the hedonic price analysis (HPA) as the main research instrument. The main research aim is to measure the implicit value of the most important wine attributes. This research could bear considerable implications for producers' long-term investments decisions, for retailers' purchasing decisions and, finally, for the design of wine marketing campaigns. The determination of the implicit value of wine attributes is undertaken through the estimation of a hedonic price function, which relates the prices of a wine to its different attributes. In particular, the present study aims to cover the gap that exists in the literature as far as the consideration of the retail (and medium value) market is concerned. In addition to that, the current study considers a great variety of wine labels from all over the world, as opposed to being restricted to the examination of the impact of wine labels from one country or a specific geographic locations (i.e., Europe).

## **LITERATURE REVIEW**

### *Wine as a Bundle of Attributes*

Customers purchase products based on their own preferences. Lancaster (1966) argued that all goods possess objective characteristics relevant to the choices that people make among different collections of goods. Implicitly this means that consumers choose between products on the basis of the utility or satisfaction they derive from the consumption of these unique attributes. Wine is a highly differentiated product sold and purchased at prices which vary over an extremely wide range. Although the price is still one of the main determinants affecting consumers' purchasing decisions, increasingly the literature maintains that a number of other variables (like prestige, quality, regional origin) tend to influence consumers' preferences to the same extent (Costanigro et al. 2007). Evidently, wine producers and their wholesalers / retailers should strategically analyze whether they want to enlarge their own market share or to identify the main factors influencing consumers'

willingness to pay for a bottle of wine. A lot of studies have already been performed examining the characteristics that influence the price of wine (e.g. Golan and Shalit (1993) evaluates Israeli grape's attribute and Nerlove (1995) focused on the Swedish wine market). The current case study aims to contribute to this discussion.

*Hedonic Price Analysis in Similar Products and Wine*

Hedonic price analysis (HPA) is based upon Lancaster's characteristics approach. According to Rosen (1974) the utility of differentiated products is largely estimated by hedonic pricing model on the basis of the contribution of attributes to implicit prices. HPA has been used in agricultural economics for a long time. Since the pioneer paper of Waugh (1928), who studied the influence of quality factors (colour, size and uniformity of spears) on vegetable price, a lot of applications of such method have been done, considering very different agricultural and food products. For example, Stanley and Tschirhart (1991) use HPA for breakfast cereals.

Focusing on wine, Thrane (2009) in a key paper provides a defence for the use of HPA in wine research, whereas probably the most prominent paper in the area of wine research has been written by Combris et al. (1997), who identified the relationship between market prices and wine quality by employing hedonic price analysis, according to two main types of characteristics of the wine – "objective / label characteristics" and "sensory characteristics". Their empirical study indicates that the attributes on the label of the bottle show prominent contribution to the market price of the wine. On the other hand, the sensory attributes such as taste, colour and flavour seem to exert a weaker influence on market prices, while the quality, as estimated by the expert or jury seems to exert a small but statistically significant role. In a similar vein, albeit using more advanced methodological and experimental tools, Rinaldo et al. (2014) examine the effect of a number of wine sensory and perceptual influences on their preference patterns. Contrary to the results reported on Combris et al. (1997), they report strong and significance influences of sensory attributes on consumers' tastes and preference patterns. Interestingly, Schmit et al. (2012) also align closely with these conclusions arguing that sensory attributes do exert a significant influence on consumers' willingness to pay.

Oczkowski (1994) uses HPA to estimate the contribution of six significant attributes to implicit prices of table wine in Australia, including two main intangible features: total quality and cellaring potential, as well as four objective characteristics: grape varieties, region area, vintage year and producer size. The results verify the positive influence of subjective attributes over market value on table wine's prices. Furthermore, grape variety and grape region also play great role in determining market prices. In addition, higher-priced table wine is obviously related to older-produced wine in the findings. Moreover, it should be noticed that small producer size may be valued significantly higher due to the rarity of the produce.

Angulo et al. (2000) opted to research the Spanish wine market by estimating the market value of high-quality red wine attributes based on the HPA, as well as the key determinants of wine characteristics in consumer valuation and purchasing behaviour. The finding confirms the significance of regional varieties and grape vintage as key contributors to market price of high-grade wines in Spain. Therefore, it is necessary to emphasize the area of origin and vintage year as crucial factors for strategic marketing in wine research. Moreover, the results also indicate that there is no association between wine prices and grape varieties. In addition, the consumers who prefer the higher-priced wines are more reliant on the experts' ranking list, while no effect of the critics on medium-priced wines.

Steiner (2004) determines the characteristics of the Australian wine labelling which is regarded as a key feature to successful marketing scheme in the British "off-license" market. The results of Steiner's analysis claim that the quality of sales channel significantly gains the distinct share of the consumer purchase decision. Furthermore, the grape varieties as main characteristic of labelling of Australian wine obtain considerable valuation for consumption preferences. Steiner suggests that the influence of wine attributes on consumption preferences may shift today.

Adopting the hedonic pricing theory, Schamel and Anderson (2003) research the influence of key premium price variables on customers' purchasing intention, depending on market analysis in Australia and New Zealand. Their findings indicate that accompanied by the customer's independent reputation assessment, the expert's vintage ranking does play a prominent role in consumers purchasing decision for premium wines.

Lecocq and Visser (2006) use HPA to determine the extent to which contribution of the wine attributes can be made to the implicit prices of the wine, as well as the price-quality relationship. Lecocq and Visser (2006) analyze data from two of the most famous wine regions in France and their results claim that tangible characteristics appearing on the label of bottle have positive effect on market prices; on the contrary, the intangible features which are not directly available to the customer have weaker impact on differentiated prices. Other recent additions to the literature include Ritchie's (2009) analysis of UK wine consumption patterns, using an in-depth qualitative methodology. More recently, Bruwer et al. (2014), interacted consumption intensity with wine attributes to examine the effect of the former on consumers; tastes and perceptions. Across similar lines, another recent advance in the hedonic price methodological framework represents the work performed by Rahman and Reynolds (2015) where they examined consumers' preferences moderated by drinking experience and respondents' involvement with the product under evaluation. On the other hand, Velikova et al. (2014) have combined data from different administration modes to run the hedonic price equation.

#### *The UK wine industry*

Despite the severe international financial crisis, the tough competition among supermarkets, the recent devaluation of the sterling and tightened tax policy, United Kingdom still remains the second largest wine importing market in the world (IWSR 2013, The Wine Intelligence 2014, Ritchie 2009) at over 150 million cases which worth £11.65 billion in 2009. In addition, the whole consumption keeps growing, albeit at an increasingly slow rate (Halstead, 2012).

Turning to the household consumption behaviour, the Wine Market Report Plus (2014) maintained that British customers spent about 20% of all household spending on drinks and 28% of the alcohol market; on the other hand, the rise of value will better develop than that of volume, considering the shift of consumer preference towards rose and red wine, as well as a better quality for civilised way to drink alcohol. Moreover, one particular situation is pointed out that wine promotion is a key issue affecting consumer purchase decision (Halstead, 2012).

To distribution and retailing, the majority of wine sold in the UK markets is through the off- trade retail channel (Ritchie 2009), with supermarket accounting for approximately 80% of the UK retail market, and producing and estimated market value of £ 4.056 billion. This has made wine accessible to more consumers, and promotion-driven trading has seen price falls. In the UK, Tesco is the leading supermarket supplier, followed by ASDA, Sainsbury's, Morrisons, Co-op, ALDI, Waitrose and Marks and Spencer. The retail sector has experienced considerable consolidation in recent years, as both supermarket and liquor store chains merge, resulting in fewer key buyers. Internet sales and mail order has become increasingly important, with the likes of Naked Wines, Laithwaites, The Wine Society and Tesco.com driving internet wine sales.

## **METHODOLOGY**

### *Data Sources*

In this paper, HPA will be applied to the UK wine market. Data used in HPA, derived from the annual Wine list publication provided by Waitrose supermarkets in the UK on 2008. The specific list has certain advantages. First, the list was freely available at the time of use, while the cost of other lists and datasets was a prohibitive factor in the research design. Second, this particular wine list, contrary to all others, covers both the low end (bottles up to £3.29) as well as the upper levels of the market (£155 per bottle). In other words, the Waitrose wine list appeared to be the most comprehensive one among all competitors in the market. Third, this Wine list contains more than 1000 wines, all priced by Waitrose, under the same condition. Thus, the difference in wine price levels would not reflect the difference in purchase circumstance, but only the wine attributes, consequently make the results more accurate. Fourth, this Wine list does not involve any wines representative for certain region, for instance, wines specially prepared for contests, which would make the data not suitable for this paper.

The selected Waitrose annual list, although generated on 2008, it is still very useful today since the wine market in the UK (at least in terms of consumption patterns): a) has grown at a stagnant level for much of the last 4 to 5 years, b) remains consolidated with the majority of the wine market to be served by chain food-stores and supermarkets (Waitrose still represents a fairly significant portion of the wine trade in the UK). Finally and most importantly, the used dataset legitimately serves the current study scope, which is to reveal through the HPA the wine's attributes seems to affect the most significance the respondents' willingness to pay.

*The Model*

A hedonic pricing model set up to observe the value added by particular attributes associated with wine price. This model assumes the 645 observations' prices are determined within the UK wine market, and that no transaction cost or any other cost from outside will be considered.

In this research, wines ( $W_i$ ), where  $i$  denotes a particular wine in the sample, as a vector of characteristics, can be defined by those attributes ( $A$ ), [ $A = \alpha_1, \alpha_2, \dots, \alpha_x$ ], (if there are  $x$  attributes in total), could be presented as follows:

$$W_i = W_{(\alpha_{i1}, \alpha_{i2}, \dots, \alpha_{ix})}$$

Thus, the market price for wine  $i$  will be:

$$P_i = P[\alpha_{i1}, \alpha_{i2}, \dots, \alpha_{ix}]$$

If the attributes  $A$ , is comprised by two variables, this means, only a simple two dummy variable model, the econometric model to solve is:

$$P_i = \alpha + \beta_0 D_1 + \beta_1 D_2 + \varepsilon$$

In this research, the general form of the hedonic pricing model is: Price of Wine =  $P$  [location, colour, style, organic, synthetic, screwcap, vegetarian, new, alcohol, medals, year and availability]

*Selected variables / attributes*

Due to economic and information processing constraints, even the most rational consumers cannot always pick the right wine. Thus, their knowledge about particular attributes of wine is limited, especially for the sensory attributes, for instance, aromatic intensity, flatness and excessive acidity. This research focus on the retail wine market in UK, not the wines for restaurants or any other kind, thus, technical quality grape attributes such as the level of sugar and acid of grapes, which are used in Golan and Shalit (1993) are not employed.

Price	Colour	Style	Organic
Synthetic closure	Screwcap	Vegetarian	Alcohol content
Medals	Availability	Vintage	Regional origin

Table 1. *Wine attributes used in this research*

With the exception for objective characteristics, dummy variables are widely used in this paper because most of the attributes in the data set are variables that can only be either yes or no. Though



there are also other kinds of wine like rose in UK market, red and white still dominate the market share, for this reason, only red and white wine are considered in this paper. The style of wine is an important factor to some of the wine consumers.

The regional origin not only represents where a bottle of wines comes from, but also the variety of the grape, the weather and the region's reputation. UK is one of the world's wine trade centres, with wines from almost all over the world are sold here. In current world wine market, the traditional wine producers still own a great market share; at the same time new world producers also play a significant role in global wine market. For this reason, 15 regions from 10 countries (both traditional and new wine producers) are included in the examination.

The year of production has different impact on red wine and white wine. Red wine is always regarded as old wine, thus it is argued that age has a significantly stronger impact on red wine, as compared to white wine. As with all other economic phenomena, scarcity also has great impact on wine prices. Availability turns out to be an important attribute, which is also a promotion strategy of Waitrose.

## **EMPIRICAL RESULTS**

### *Descriptive Results*

The sample consists of 645 wines from 15 regional origins sold in the UK wine market, from vintages of 1989, 1995, then 1997 to 2008, with an average market price of £13.67. Of which the minimum price is £3.29, and the most expensive bottle values £155. The average price of red wine is £0.64 more than the white wine, which is £13.77, as compared to £13.13.

In the sample, there are 374 red wines, with 58.98 percents proportion, and the rest 271 bottles are identified as white wine (remaining 41.02% of the sample). Most of the wines are available in branches, while 129 observations are exclusive to Waitrose. The alcohol level for most of the sample is quite normal which is between 12% to 14%. The average alcohol of red is higher than white wine since the red has 179 bottles over 14%, which is 138 bottles more than the white, while the rest bottles' alcohol level of these two are quite even.

Referring to the dummy variables screw cap bottles seems to have taken the most of interest; there are 263 observations with screw cap. Followed by vegetarian, that is 132 bottles in total. For the rest variables, 51 bottles of wine are new, 31 bottles with synthetic closure, and 45 of them are organic. As far as the wine accreditation is concerned, this variable includes three kinds of medals, which are International Wine and Spirits Competition (IWSC); Decanter World Wine Awards 2008 (DWW); International Wine Challenge 2008 and International Spirits Challenge (IWC), each of the medal consists of gold, silver and bronze. Red wines owns more medals than the white wines, in total, red wines obtain 55 IWSC medals, 68 DWW medals and 61 IWC medals.

Regionally, the data set comprises 645 observations from 15 regions. Six of the regions are in France and French wine takes the biggest proportion, 223 bottles, or 34.57 percent. Followed by wines from Australia, that is 104 in number, or 16.12 percent. The wines from the other 6 regions are almost equally distributed, Spain (7.29 percent), Italy (10.23 percent), New Zealand and Chile (6.67 percent), South Africa (6.98 percent), and California (5.43 percent).

*Econometric Results*

Variable	Coefficient	T Ratio	Variable	Coefficient	T Ratio
Constant		13.996	<i>(Continued)</i>		
<b>Style of Red</b>			<b>Year vintage</b>		
Medium-bodied	-0.045	-1.293	Before 2001	0.193	6.839
Full-bodied	0.005	0.113	2003	0.16	5.373
<b>Style of White</b>			2004	0.118	3.214
Very dry	0.06	1.536	2005	0.3	0.687
Dry	0.03	0.809	2006	-0.081	-1.614
Organic	0.013	0.597	2007	-0.14	-2.709
Synthetic closure	-0.111	-4.746	<b>Origin</b>		
Screw cap	-0.184	-6.319	France-Bordeaux	0.075	1.688
Vegetarian	-0.039	-1.718	France-Burgundy	0.219	4.438
New	-0.042	-1.897	France-Rhone	0.082	2.01
<b>Alcohol level</b>			France-Loire	0.001	0.014
12% ≤ X <14%	0.059	0.845	France-South	0.007	0.161
14% ≤ X	0.12	1.637	Italy	-0.006	-0.115
<b>Medals</b>			Spain	-0.072	-1.568
IWSC silver	0.035	1.565	Portugal	-0.079	-2.502
IWSC bronze	0.011	0.484	Australia	0.019	0.289
DWW silver	-0.002	-0.09	New Zealand	0.082	1.823
DWW bronze	-0.003	-0.139	South Africa	-0.004	-0.09
IWC silver	0.05	2.298	California	0.035	0.864
IWC bronze	0.037	1.563	Chile	-0.026	-0.579
<b>Available</b>			Argentina	-0.014	-0.368
In all branches	-0.214	-3.674			
In all branches, exclusive to Waitrose	-0.184	-4.464			
In most branches	-0.118	-2.918			
In most branches, exclusive to Waitrose	-0.12	-3.916			
In large branches	0.015	0.453			
Limited	0.016	0.501			
Very limited	0.27	5.35			

Table 2. *Hedonic price log-linear model regression result*

The estimated hedonic price function is presented in Table 2 below. Availability which has the greatest impact on price is increase, when it comes to very limited, the coefficient reaches 0.27. This extreme impact is as expected, since scarcity is always a main issue when it comes to economic

problem. However, available exclusive to Waitrose does not show the expected impact. From the regression result, available in most branches show a negative 0.118 coefficient, but even a 0.12 coefficient when refers to available exclusive to Waitrose. Exactly the opposite thing happens to other available attributes, available is all branches show a negative 0.214 coefficient, while exclusive in Waitrose helps to reduce it to just 0.184. Another phenomenon appears out of expectation is that only available in large branches does not have great impact on wine prices, the reason for this might be explained that large supermarket stores is an ordinary occurrence in every UK city, and consumer coverage is also very high.

The impact of the region of origin is not significant as expected, only for some special regions. Wines from some regions even have negative impact, for instance, Italy, Spain and Portugal. Wines from New Zealand, Australia and California on the other hand have positive impact, though not very significant. This result reminds the reality of world wine market discussed in previous section, that the new producers' rapid growing participation in wine market brings strong competition to the old producers. There are 61 samples of Burgundy wine from France, which is more than any other 5 regions in France. The Burgundy wine has the greatest positive impact. This stimulates the impulse of examining the original price of the wine from this region, and the result shows an average price of £21.58, this is £7.91 higher than the average price of £13.67. Burgundy has the highest number of appellations as compared to any other French region.

The coefficients of the year of production dummy variables indicate that the older the vintage the higher the price. The wines produced before 2001 have a coefficient of 0.193, while for the 2007 vintage, the impact is negative with a coefficient of 0.14. The greatest impact of prices appears to occur on the 2005 vintage, the reason for this might be 3 years is best for the costs of storage and time value of money. However, to the best of our knowledge, one possibility has raised concern: the storage age has different impact on red wine and white wine. To most of consumers, red wine is regarded as old wine, while white wine is in contrast as young wine. In order to testify the possibility, separate regressions were necessary to be made.

The results prove the possibility that the vintage has different impact on red wine and white wine. The highest price discount of red wine come from vintage 2007, and wines from vintage 2001 have great prices increase impact. For red wine, the vintage has actually diminishing impact, the older the production year, the higher the price. On the other hand, white wine meet different situation. The highest price increase appears to be vintage 2003, however, wines from vintage 2007 has a negative impact, which indicates that white wine is not as new as expected. From the display of the results, no clear observation of the vintage impact on white wine's price can be made, because the reason for the high coefficient of 2003 could simply be: that there was a bigger grape harvest for the white wine.

Alcohol content appear to have impact on wine prices, especially when it alcohol content is exceed 14% by volume. The alcohol content of a bottle does not only determine how many bottles a consumer can have per day, it also determines the usage of the wine. Wines with high alcohol are always prepared for particular occasion.

Finally, the results of organic indicate that consumers nowadays do pay more attention on healthy, yet the attention is still not enough, for alcohol consumers, alcohol still seems to be the most important. Vegetarian does not have great impact on wine prices, and it has negative impact. Vegetarian wines are those do not use a fining agent or use some kind of natural clay in the fining process, in theory, vegetarian wines contain no animal products. All of these facts make it tastes not as good as normal wines. What's more, when comparing organic with vegetarian, organic is always the choice. The attribute new shows negative impact on wine prices, which is also not significant. As we all know, consumers are always brand royalty, thus new products need time to attract consumers. Secondly, the new wines may still in the promotion stage, and discount prices are provided. Most of the wines sold in the market are either with synthetic closure or screw cap, in this case, the screw cap sample are 232 more than the synthetic closure. However, the results show neither of the two closure have positive impact on wine prices. After a barely existence of ten years, it might be the time to think about the next generation of such products.

## **DISCUSSION AND POLICY IMPLICATIONS**

The results from the hedonic price analysis of this paper could provide wine producers and marketing experts with useful information. For wine producers, the results of this paper provide suggestions upon their long-term strategies. The relationship between each attribute and the price indicate the methods of price increase. However, before producers make any changes to their products, a comparison of benefits and costs must be made. Very limited availability increases the wine prices, but at the same time would reduce the sales revenue. Red wines with long age always possess higher prices, but also raise the costs of money value and storage. Thus, the comparison process should always be made before try to achieve any particular attribute.

The hedonic price function estimated in this paper may also have important policy implications. For example, if UK government wants to lower the average market price of wines, then it can just tax more to decrease importing wines with greatest positive impact, say Burgundy wines. In addition one can also observe that the empirical results derived from this investigation regarding the effect of sensory and perceptual attributes on consumers' preferences align with the results reported in the literature. Thus, this study confirms the results derived by Schmit et al. (2012) and Rinaldo et al. (2014). What is more, the present empirical investigation seems to confirm the results derived by

Oczkowski (1994) regarding the positive effect of region of origin and grape vintage (white or red). In other words, the results confirm the positive effect of location based advantage and brand heritage that certain producers (especially those located in the 'old' world) share over newcomers (Angulo et al. (2000)).

## CONCLUSION

The wine market is becoming more and more saturated and product differentiation is needed to gain market share. Although the price still is the main determinant of wine consumer purchasing decisions, there is no doubt that wine market price are associated with specific wine attributes. The aim of the paper has been to measure the contribution of wine attribute to retail market prices. The methodological approach used in this paper is based on the commonly used HPA. However, this study presents some novelties which are mainly due to data availability. Most studies on this topic have collected price information from retail outlets while attributes information has been sourced from some catalogues or experts' studies. In this paper all data was obtained from wine catalogues as it was expected the information would be more homogeneous.

Results indicate that the availability is the main determinant of wine prices since scarcity is always the main object of economic phenomenon. In contrary to a part of the literature (e.g. Angulo et. al., 2000; Schamel and Anderson, 2003), the regional origin does not show great impact as expected, but particular regions like Burgundy still increase the price a lot. The influence of the traditional world wine producers is decreasing, while the new producers' role is becoming more important. Finally, as previous research indicate (e.g. Oczkowski, 1994; Steiner, 2004), the vintage has great impact on both red and white wine, to the red wine, the older vintage the higher price.

Our analysis and literature certainly motivate further research in this area. Since the hedonic price model is usually applied in single case studies, a future research can focus on cross country research, which will significantly increase the utility of the results for world wine producers and wholesalers. At the same time, more effort to better and more accurately capture sources of preference heterogeneity among consumer will always be a managerial challenge for managers, practitioners and academics alike.

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## THE FAMILY VARIABLE IN THE FRENCH AND ITALIAN WINE SECTOR

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### **ABSTRACT**

#### *Purpose*

The main goal of the study is to verify the impact of the family variable in performance in the wine sector. In particular, this study compares Italian and French family firms (FFs) and non-family firms (NFFs) operating in the wine sector in terms of performance, taking into account the significant difference between FFs and NFFs.

#### *Methodology*

This study is based on a sample of Italian and France companies operating in the wine sector. The sample, including medium and large firms, includes 288 FFs and 302 NFFs, for a total of 590 firms. Amadeus database represents the data source.

According to Astrachan and Kolenko (1994), a firm is classified as a family firm if family had to own over 50% of the business in a private company or more than 10% of a public company.

#### *Findings*

This study confirms that the family variable is partly important to achieve good economic and financial performance, and endow firms with different features.

In terms of economic performance, FFs both in Italy and France outperform in terms of ROE and ROA, though only Italian NFFs outperform in EBIT. In terms of financial performance, both in Italy and France NFFs outperform FFs in current ratio and liquidity ratio, while FFs outperform in solvency ratio.

#### *Research implications/limitations*

Limitations of the study concern both the definition of the sample, as we focused only the wine sector, and the method adopted, as it could be integrated with some econometrical models.

The implications of our paper are relevant for families and regulatory bodies because it helps them to better understand the effects of governance on economic and financial performance. Moreover, the findings of the study can influence the decision-making process of investors in order to identify the long-term outperformers listed on a stock exchange.

#### *Originality/value*

This study contributes to the literature on family businesses phenomenon on wine sector,



which represents one of the most representative of the economy of several countries and in which family businesses are widespread.

**Keywords:** *family businesses, family firms, wine sector, Italian wine companies, French wine companies, performance, company opportunities.*

## 1. INTRODUCTION

The wine sector is one of the most representative of the economy of several countries as a result of the variety of fine wines and the convergence of know-how, craftsmanship and traditions held by the producers (Giacosa et al., 2014; Giacosa, Giovando and Mazzoleni, 2014). This yields a high level of worldwide appreciation of their products, and wine may be considered as an excellence of Made in these geographical regions.

Italy and France belong to said countries, and the wine sector is highly representative of their economic contexts, both in terms of revenue and exports recorded by wine companies. On several trading scenes the companies target the high-end market with high quality and famous wines at unaffordable prices, wines that are at times unique in their sophistication to the point of creating a status symbol for consumers who have the privilege of drinking them; the middle market, characterised by innovative and competitive quality products at an accessible price for the majority of consumers who do not seek unique exceptional products but are, instead, interested in certain quality standards; and, lastly, the mass market, which features poorly differentiated products that possess limited creative content, and which are available at affordable prices for an extensive consumer group.

The wine sector has been analysed from various points of view. In terms of size, the companies have different dimensions; in particular, some companies are large and strongly internationalised, others are medium-sized, with an increasing tendency to internationalise, and, lastly, other companies are smaller, with a modest or insistent approach to internationalisation. In terms of activities, the companies operate in various supply chain phases, such as the production of grapes and the production and commercialisation of wine, or only the production and commercialisation of wine. Considering the market, the wine market is split into domestic and foreign; domestic markets refer to consumers who either live or work in that country and tourists, while foreign markets target consumers based outside the country.

In addition, family-run businesses are common in the wine sector, and are also in this economic sector. The importance of family-run businesses in the economic and social context cannot be ignored (Astrachan and Shanker, 2003; Bresciani, Thrassou and Vrontis, 2013a and 2013b; Claessens et al., 2000; Culasso et al., 2012 and 2013; Faccio and Lang, 2002; IFERA, 2013; La Porta et al., 1999; Morck

and Yeung, 2004).

Our study fits into this area. The main goal is to verify the impact of the family variable in performance in the wine sector. We referred to several studies in which the family could be considered a missing variable in organisational research. Said studies include Dyer's work (2006). He stated that "failing to use the family as a variable in organizational research can lead to incomplete or misleading findings." Also Sharma, Chrisman and Gersick (2012) agreed with the studies conducted by Yu et al. (2012). Said papers claimed that the family variable has an important impact on family business performance and corporate governance. The above studies strengthened the emerging consensus about the role of the family variable in business (Astrachan and Shanker, 2003; Rogoff and Heck, 2003; Zahra and Sharma, 2004). In particular, this study compares Italian and French family firms (FFs) and non-family firms (NFFs) operating in the wine sector in terms of performance, taking into account the significant difference between FFs and NFFs.

The scope of the study is to analyse the profound global changes experienced by the wine market over the last twenty years. In recent years, the culture of quality wine has been established also with several sizeable investments in the sector made by both big groups and medium and small-sized companies, including FFs. Moreover, new distribution tools are making the products more accessible, and strong competition from new countries has generated a positive impact for consumers. Consequently, it is interesting to observe the impact of said factors on wine company performance, which is the focus of the study.

This paper is structured as follows. The literature review about the main issues of the study is outlined in the second section, while the research methodology is analysed in the third one. The fourth section analyses and discusses the findings of the study, while conclusions, implications and limitations of the research are set out at the end.

## LITERATURE

### *2.1 The Wine Sector*

It is important to define human needs to understand the wine consumption trend. In particular, human needs are classified in terms of the degree of their necessity (Borgonovi, 1973; Giacosa, 2011; Pavan, 2008). Referring to a mental and individual rating scale, every individual manifests a series of needs, which are influenced by personal preferences and shopping experiences, and require the use of economic resources to be met (Ferrero, 1987; Melis, 2001). Therefore, human needs can be classified into several categories (Giacosa, 2011; Giacosa, Giovando and Mazzoleni, 2014): primary needs, for which individuals manifest the necessity to make use of essential goods, thus meeting basic needs; and secondary needs, for which individuals manifest the necessity to make use of goods that are not

strictly necessary for their survival. The human need to drink wine is a secondary need.

Said needs are influenced by individual characteristics (Hall and Hall, 1990; Harrisson and Huntington, 2000; Peterson and Kern, 1996), which impact on objective and subjective perception of the product (Lancaster, 1971): the former are linked to the intrinsic characteristics of the product in terms of its chemical and organoleptic properties, while the latter are influenced by consumer perception and preferences concerning appearance, healthiness, convenience and purchase price (Brunso, Fjord and Grunert, 2002; Cavicchi, 2008; Giacosa et al., 2014; Steenkamp, 1989).

Essential literature has focused on the wine sector, considering different topics. First at all, it emerged that the wine sector is interesting for the opportunities it offers companies (Marks, 2011; Ritchie, 2009), considering both generation of the “food tourism phenomenon” (Clemente-Ricolfea et al., 2012; Groves and Belk, 1998) and the positive impact on regional competitiveness and its drivers (Jaffe and Nebenzahl, 2008; Viassone, 2009; Vrontis and Viassone, 2013; Zanni, 2004). Said possibilities might differ, depending on the size of the companies, since smaller companies, due to limited financial resources, are inclined to avoid diversification and to build organisational network models to enhance competitive advantage (Aldrich, Reese and Dubuni, 1989; Beverland and Lockshin, 2001; Birley, 1985; Brown and Butler, 1995; Holden and Weber, 1994; Ohmae, 1989; Ferraris, 2014). Conversely, large companies can rely on greater resources, which enable them to make new and innovative investments, and to compete on the international scene. (Rossi, 2008; Wittwer, Berger and Anderson, 2003; Zanni, 2004).

Secondly, the wine consumption trend has been analysed in different countries, as a consequence of changing geography in the wine sector (Rossi et al., 2012). Many scholars have distinguished wine markets into old and new ones, such as Chinese and Russian, which are recording a rise in wine consumption (Anderson and Wittwer, 2013). In particular, factors that impact on the wine consumption trends of different countries have been defined as economic, social, religious and cultural forces (Giacosa, Giovando and Mazzoleni, 2014; Gillespie, 2005; Thach and Olsen, 2005; Trach, 2013), thus identifying several factors, which influence the reason for alcohol consumption. (Trevisan et al., 2011; Thach and Olsen, 2006).

With particular reference to individual terms of choice, the quality of brand knowledge (Dotson et al., 2012; Goodman, 2009; Nowak et al., 2004) and the role of packaging (de Luca, 2006; Bland, 2004) add to the intrinsic quality of products, strongly impacting on wine consumption.

The performance of wine companies has been analysed (Heijbroek, 2003; Coelho and Rastoin, 2004): a study was conducted on a sample of listed wine companies, observing whether they maximised profit (Coelho and Rastoin, 2006). In addition, by exploring the situation in various countries, an improvement in performance emerged in some countries, such as France (Amadiou and

Viviani, 2010; Viviani 2009), Spain (Suàrez-Ortega and Valamo-Vera, 2005) and South Africa. (Esterhuizen and van Rooyen, 2006).

A comparative study of business opportunities was conducted by considering the agricultural and manufacturing sectors, as the latter is a driving force for several countries. Said study revealed that the wine sector, which belongs to the agricultural one, obtained a larger increase in revenues from 2007 to 2012, compared with manufacturing sectors, thus indicating promising opportunities for companies (Ferraris, 2013; Giacosa, Giovando and Mazzoleni, 2014).

## *2.2 The Family Variable in the performance*

Although many researchers have tried to establish a satisfactory definition, there is still no consensus about a widely accepted definition concerning family business. Even if some studies in the literature identified a family firm as a company in which a family or a founder owns more than 5% of shares, other studies defined firms as FFs only if the first succession into the second generation has taken place. However, most studies have characterised a family firm as one that is controlled and usually managed by multiple family members, at times by multiple generations. (Anderson and Reeb, 2003; Cronqvist and Nilsson, 2003, Villalonga and Amit, 2006; Bennedsen et al., 2007; Pérez-González, 2006)

Kraicz (2013) stated that the use of different definitions is a major problem in FF research. Although studies analysed related topics, the use of different definitions for FFs makes it difficult to compare said results. One of the biggest challenges to developing a general definition is the heterogeneous feature of FFs.

The literature also focused of the relationship between FFs and performance. We can group the various assertions developed in the theoretical background into three categories:

- authors who claim that FFs outperform NFFs;
- authors who claim that FFs underperform NFFs.

The first group includes some important studies underscoring the fact that FFs are better than NFFs, and they report that controlled family ownership has a positive influence on the firm's performance (Anderson and Reeb, 2003; Burkart et al., 2003). In particular, Anderson and Reeb (2003) found that FFs outperformed NFFs in S&P 500, noting that “family firms are significantly better performers than non-family firms”, and FFs have an higher return on assets (ROA) than comparable NFFs. Arosa, Iturralde and Maseda (2010) too highlighted the fact that the distinctive features of family firms have a positive effect on their corporate behaviour. In addition, Culasso et al. (2012) affirmed that the performance achieved by medium-sized Italian family businesses is better than NFFs

of the same size. Another study (Gonzalez et al., 2012) stated that FFs exhibit better financial performance on average than NFFs when the founder is still involved in operations, suggesting that certain types of family involvement appear to make firm growth expensive.

The second group includes some important studies indicating that FFs underperform, compared with NFFs. In particular, Daily and Dollinger (1992) wrote that FFs do appear to achieve performance advantages, whether performance is measured in terms of financially oriented growth rates or perceived measures of performance. In addition, Faccio, Lang, and Young (2001) and Volpin (2002) also noted that FFs are relatively poor performers due to conflicts that arise when a family attempts to manage an enterprise. Lastly, a study by Miller et al. (2007) stated that only businesses with a lone founder outperform others.

This study contributes to enriching the literature with its analyses of FF performance – a widespread phenomenon in the global economic and social sectors (Bresciani and Ferraris, 2012; Ferraris and Grieco, 2014) – in the wine sector by comparing Italy and France, which are highly representative in terms of wine company revenues and exports of wines, also contributing to understand the features of FFs.

### 3. METHODOLOGY

#### 3.1 The sample

As state in the previous paragraph, a firm is classified as a family firm if family had to own over 50% of the business in a private company or more than 10% of a public company (Astrachan and Kolenko, 1994).

By applying this criterion, this study is based on a sample of FFs and NFFs Italian and France companies operating in the wine sector. The sample includes large and medium firms: in particular, we analyzed 288 FFs and 302 NFFs, for a total of 590 firms (Table 1).

	FFs	%FFs	NFFs	% NFFs	Total	% Total
Italy	203	55%	166	45%	369	100%
France	85	38%	136	62%	221	100%
<b>Total</b>	<b>288</b>	<b>49%</b>	<b>302</b>	<b>51%</b>	<b>590</b>	<b>100%</b>

Table 1. *The sample*

Source: *personal elaboration*

Information for the distinction between FFs and NFFs were extracted by Amadeus database.

### *3.2 The research method*

As mentioned above, the main goal of this study is to verify the impact of the family variable on performance in the wine sector. In particular, this study compares Italian and French FFs and NFFs operating in the wine sector in terms of performance, taking into account the significant difference between FFs and NFFs.

In order to achieve this objective, we defined the following research question:

*RQ: Is it possible to find a common behaviour between Italian and French FFs and NFFs, identifying a clear impact of the family variable on performance?*

In order to answer the above question, the research methodology was structured in the phases specified below:

1) first phase: the research question was analysed by examining the existing literature as regards characteristics of the wine sector, types of companies operating in the sector, and wine business dynamics in different themes subjected to observation; we also investigated the literature about the role of the family variable on performance;

2) second phase: the goal to be achieved is quantitative and, therefore, the enquiry is also quantitative. Research findings are presented for the following observation points:

- the wine sector's impact in Italy and in France: Italy and France were compared in terms of wine production, exports and wine consumption because this analysis is useful to contextualise the business environment of wine companies, the setting in which they obtain certain performance standards. In particular, we compared Italian wine production against the French one, and the European and global one. We then analysed wine consumption and export trends to establish which market recorded the highest wine consumption, Italy or France, and also the country with higher export rates. Market data was obtained from reports of major Italian trade associations operating in the wine sector, and from the research department of a major Italian bank.

- The impact of the family variable in Italian and French wine companies, evaluating whether a common behaviour can be identified between FFs and NFFs. In particular, a family firm was identified by using an appropriate criterion as it uses the components-of-involvement approach (Chrisman, Chua and Sharma, 2005), and is well integrated into the wine sector, which records a strong presence of one family. To answer the RQ, we compared the most significant economic and financial indicators known in literature (Baginski and Hassel, 2004; Busso, 2013; Ferrero et al., 2003; Foster, 1986; Giroux, 2003; Helfert, 1997; Higgins, 2007; Ingram et al., 2002; Meigs et al., 2001; Value, 2001) for FFs and NFFs. Considering the economic indicators, the following ratios were adopted:

- ROE (Return on Equity);
- ROA (Return on Assets);
- EBIT (Earnings before interest and taxes).

Considering the financial indicators, the following parameters were analyzed:

- current ratio;
- liquidity ratio;
- solvency ratio (when considering total debt/total assets).

The mean of each financial and economic ratio achieved by companies included in the sample was determined for every financial year covered by the study. The data source was the Amadeus database.

The analysis considered the 3 years (2011-2012-2013). Subsequently, we calculated the 2011-2013 mean for each ratio.

Then, economic and financial performance was compared between FFs and NFFs for Italian companies. Subsequently, the analysis compared FFs against NFFs for French companies. Lastly, a comparison between Italian and French companies has been made.

#### 4. FINDINGS

In this section, findings are presented in relation to the following observation points:

- impact of the wine sector in Italy, compared with the same analysis in France;
- comparison of performance between FFs and NFFs operating in the wine sector in Italy and in France, respectively.

##### 4.1 The impact of the wine sector in Italy compared with France

Italy and France were compared in terms of wine production, wine export and wine consumption. To this end, we analysed the trends of wine production in the world because said analysis is useful to contextualise the business environment of wine companies, the setting in which they achieve a certain performance standard. The comparison of Italian wine production against France (Italy's competitor), the European Union (UE 27) and world economy is shown below (Table 2).

Years	Italy	France	UE 27	World	% Italy on UE 27	% France on UE 27	% Italy on World	% France on World
2007	46,0	45,7	161,2	266,0	28.54%	28.35%	17.29%	17.18%
2011	42,8	50,8	157,2	266,8	27.23%	32.32%	16.04%	19.04%
2012P	40,1	42,2	141,4	250,9	28.36%	29.84%	15.98%	16.82%
Var % 2007-2012	-12.83%	-7.66%	-12.28%	-5.68%	-0.62%	5.27%	-7.58%	-2.10%

Table 2. Trends of wine production in the world (millions of hectolitres)

Source: Mediobanca, 2013

Italy and France are particularly suitable for the production of wine as a result of their territorial conformation and favourable mild climate. In 2012, France was the first wine-producing country in the world (42.2 million hectolitres), followed by Italy (40.1 million hectolitres), though both countries experienced a drop in production (which was higher in Italy). In particular, Italy produced about 28.36% of hectolitres produced by the European Union (EU 27), and 15.98% of the world production, while France represented 29.84% of European Union production and 16.82% of the world production. It can be said that European countries achieved a stronger production than the global one (though European production recorded a greater drop than the global one). Indeed, they represent 56.36% of global production. (Giacosa et al., 2014)

After comparing wine production between Italy and France, we analysed wine consumption and its impact on domestic wine demand (Wine Monitor, 2013). About 25 years ago, France was the first country for its annual wine consumption (41.7 million hectolitres per year), while Italy was the second one (36.6 million hectolitres per year). In 2012, France confirmed its leadership (30.3 million hectolitres per year), while Italy recorded a 33% reduction, dropping to third place (22.6 million hectolitres consumed annually). The United States ranked second (28.5 million hectolitres), while Germany and China followed Italy with 20 million hectolitres per year and 17.8 million hectolitres per year, respectively. Habitual consumption of alcoholic beverages is influenced by cultural factors. Habitual wine consumption decreased due to the fact that only a part of the population is composed of habitual consumers. Furthermore, the consumption rate is influenced by a new tendency regarding meal consumption, precisely, while older people usually drink wine with meals, younger consumers prefer to drink beer and other alcoholic beverages. Daily beer consumption too has diminished but less than wine.

In terms of export volumes, it emerged that Italy is the lead player (21 million hectolitres of wine), compared to France (15 million hectolitres of wine), though France recorded a higher turnover generated by exports (7.9 billion euro), compared to Italy (4.7 billion euro). (Wine Monitor, 2012)

It is also interesting to analyse the Italian wine sector's economic structure in terms of different size companies and turnover. To this end, we referred to a study conducted by Mediobanca (2013) on the wine business. If we consider the 108 largest Italian companies that record a turnover of more than 25 million euro (said companies achieved a total turnover of 2.67 billion euro in 2011), the Italian wine sector is composed of large, medium and small companies. With particular reference to large ones, Cantine Riunite was the first one in terms of turnover (498 million euro turnover in 2011), and its revenue is seventh in the world's wine sector. Caviro (247 million euro) ranked 11th, a division of Campari Wine (185 million euro) was 16th, Cavit (152 million euro) was 19th, and P. Antinori (150



million euro) was 20th (Giacosa et al., 2014). Therefore, some large Italian companies hold a leading position in the global framework as regards revenues.

Considering Mediobanca's study (2013) on foreign companies, we observed a sample of the thirteen largest internationally listed companies that reported a turnover of over 150 million euro (said companies achieved a total turnover of 7.9 billion euro in 2011). It emerged that four French companies are included in this list (Vranken-Pommery ranked 6th, Lans on-BCC was 7th, Laurent Perrier was 9th and Advini was 12th), thus well representing French wine economy.

As mentioned above, this analysis was useful to contextualise the business environment of Italian and French wine companies, the setting in which they achieve a certain performance standard.

#### 4.2 The comparison of performance between FFs and NFFs in Italy and France.

##### 4.2.1 Italy

As regards Italian wine FFs, it emerges that FFs outperform in ROE and ROA versus NFFs, while NFFs outperform in EBIT (Table 3).

	FFs Italy	NFFs Italy	outperformance classification - Italy
ROE % Year 2013	-2,23	-3,57	FFs
ROE % Year 2012	1,72	-1,88	FFs
ROE % Year 2011	5,46	-5,56	FFs
ROE % Mean 2011-2013	1,65	-3,67	FFs
ROA % Year 2013	0,88	0,45	FFs
ROA % Year 2012	0,56	0,45	FFs
ROA % Year 2011	0,88	0,62	FFs
ROA % Mean 2011-2013	0,78	0,50	FFs
EBIT Margin % Year 2013	3,89	1,62	FFs
EBIT Margin % Year 2012	2,29	3,97	NFFs
EBIT Margin % Year 2011	1,97	3,97	NFFs
EBIT Margin % Mean 2011-2013	2,72	3,18	NFFs

Table 3. Economic performance of Italian FFs and NFFs

Source: personal elaboration

In particular, FFs outperform in ROE, which measures the return of equity: Italian FFs seem more efficient at generating a higher return on equity.

ROA too shows that the total assets in FFs are more profitable in generating revenue.

Conversely, EBIT shows how NFFs had more capacity to generate profit in 2011 and 2012 if considering earning before interests and taxes, and the mean trend shows that NFFs are better than FFs.

Evaluating the *economic performance* and, especially, considering the mean of each ratio, we can state that:

- FFs outperform in the ROE (1,65%) compared with NFFs (-3,67%), even with a low rate of performance;

- FFs outperform in the ROA (0,78%), compared with NFFs (0,50%), even with a low rate of performance;
- NFFs outperform in Ebit (3,18), compared with FFs (2,72), showing a better attitude to reach profitability in operating activities when considering the earnings before interest and taxes.

Specifically, a diminishing trend can be observed for FFs during the 2011-2013 period for ROE (reaching a negative profitability in 2013), and an increasing trend for Ebit. Considering NFFs, a diminishing trend can be observed for ROA and Ebit during the 2011-2013 period, and also for NFFs ROE is negative in 2013.

Analysing *financial performance*, it emerges that NFFs outperform in current ratio and liquidity ratio, but FFs are the best for solvency ratio (Table 4).

	FFs Italy	NFFs Italy	outperformance classification - Italy
Current Ratio Year 2013	1,30	1,29	FFs
Current Ratio Year 2012	1,32	1,26	FFs
Current Ratio Year 2011	1,21	1,54	NFFs
Current Ratio Mean 2011-2013	1,28	1,36	NFFs
Liquidity ratio Year 2013	0,70	0,71	NFFs
Liquidity ratio Year 2012	0,76	0,72	FFs
Liquidity ratio Year 2011	0,69	1,01	NFFs
Liquidity ratio Mean 2011-2013	0,72	0,81	NFFs
Solvency ratio (Liability based) Year 2013	33,38	34,49	FFs
Solvency ratio (Liability based) Year 2012	29,76	30,02	FFs
Solvency ratio (Liability based) Year 2011	28,29	28,51	FFs
Solvency ratio (Liability based) Mean 2011-2013	30,48	31,00	FFs

Table 4. *Financial performance between Italian FFs and NFFs*

Source: *personal elaboration*

In particular, NFFs excel in current ratio, if we consider the mean trend (even if FFs outperform in 2012 and 2013), showing a higher capacity to pay its current liabilities from its current assets.

The liquidity ratio shows that NFFs outperform FFs, if we consider the mean trend (and, in particular, in 2013 and 2011): it means that they have a better attitude to meet their short-term debt obligations with their liquidity, when they fall due.

Concerning the solvency ratio, it shows that FFs outperform NFFs, showing a lower behaviour to financed assets through debts.

*Financial performance* is analyzed as described below, focusing on the mean of each indicator.

In particular, NFFs particularly outperform in:

- current ratio (1,36) compared with FFs (1,28);
- liquidity ratio (0,81) compared with FFs (0,72)

On the contrary, FFs outperform in solvency ratio (30,48) compared to NFFs (31,00).

#### 4.2.2 France

Concerning French wine FFs, it emerges that FFs outperform in ROE, ROA, and EBIT (Table 5).

	FFs France	NFFs France	outperformance classification - France
ROE % Year 2013	7,58	1,52	FFs
ROE % Year 2012	9,09	2,94	FFs
ROE % Year 2011	3,71	2,33	FFs
ROE % Mean 2011-2013	6,79	2,26	FFs
ROA % Year 2013	1,75	0,37	FFs
ROA % Year 2012	1,78	0,71	FFs
ROA % Year 2011	1,44	0,78	FFs
ROA % Mean 2011-2013	1,66	0,62	FFs
EBIT Margin % Year 2013	5,48	0,82	FFs
EBIT Margin % Year 2012	5,76	1,31	FFs
EBIT Margin % Year 2011	5,92	1,09	FFs
EBIT Margin % Mean 2011-2013	5,72	1,07	FFs

Table 5. *Economic performance between French FFs and NFFs*

Source: *personal elaboration*

In particular, French FFs seem more efficient at generating profits from every shareholder's equity unit.

ROA too shows that the total assets in French FFs are more profitable in generating revenue.

In addition, FFs also outperform in their capacity to generate profit, if considering earning before interests and taxes.

Evaluating the *economic performance* and, especially, considering the mean of each ratio, we can state that:

- FFs outperform in the ROE (6,79%) compared with NFFs (2,26%);
- FFs outperform in the ROA (1,66%), compared with NFFs (0,62%), even with a low rate of performance;
- FFs outperform in Ebit (5,72), compared with NFFs (1,07), showing a better attitude to reach profitability in operating activities when considering the earnings before interest and taxes.

Specifically, a strong increasing trend can be observed for FFs during the 2011-2013 period for ROE; also an increasing trend for ROA emerged, while Ebit moderately decreased. Considering NFFs, a diminishing trend can be observed for ROE, ROA and Ebit during the 2011-2013 period.

Conversely, an analysis of *financial performance* reveals that NFFs outperform in current ratio and liquidity ratio, while FFs are the best in solvency ratio (Table 6).

	FFs France	NFFs France	outperformance classification - France
Current Ratio Year 2013	1,88	3,08	NFFs
Current Ratio Year 2012	1,95	2,92	NFFs
Current Ratio Year 2011	1,83	2,52	NFFs
Current Ratio Mean 2011-2013	1,89	2,84	NFFs
Liquidity ratio Year 2013	0,59	1,60	NFFs
Liquidity ratio Year 2012	0,57	1,51	NFFs
Liquidity ratio Year 2011	0,56	1,33	NFFs
Liquidity ratio Mean 2011-2013	0,57	1,48	NFFs
Solvency ratio (Liability based) Year 2013	45,97	56,38	FFs
Solvency ratio (Liability based) Year 2012	44,86	52,77	FFs
Solvency ratio (Liability based) Year 2011	42,33	51,84	FFs
Solvency ratio (Liability based) Mean 2011-2013	44,39	53,66	FFs

Table 6. *Financial performance between French FFs and NFFs*

Source: *personal elaboration*

French NFFs excel in current ratio, showing a higher ability to pay their current liabilities by using their current assets.

The liquidity ratio confirms the current ratio results, showing that NFFs outperform FFs.

The solvency ratio shows that French FFs outperform NFFs.

*Financial performance* is analyzed as described below, focusing on the mean of each indicator. In particular, NFFs outperform in:

- current ratio (2,84) compared with FFs (1,89);
- liquidity ratio (1,48) compared with FFs (0,57).

On the contrary, FFs outperform in solvency ratio (44,39) compared to NFFs (53,66).

According to *RQ*, this analysis shows that the family variable impacts economic and financial performance in different ways. Consequently, it's interesting to compare the impact on family variable between Italian and French companies.

#### 4.2.3 *Italy versus France*

We first compared Italy and France both in terms of wine production, wine export and wine consumption, as this analysis is useful to understand the context in which the wine companies operate and achieve certain performance standards.

We then compared the performance of Italian and French companies in terms of economic and financial performance (Table 7).

	FFs Italy	FFs France	NFFs Italy	NFFs France	outperformance classification
ROE % Year 2013	-2,23	7,58	-3,57	1,52	FFs France
ROE % Year 2012	1,72	9,09	-1,88	2,94	FFs France
ROE % Year 2011	5,46	3,71	-5,56	2,33	FFs Italy
ROE % Mean 2011-2013	1,65	6,79	-3,67	2,26	FFs France
ROA % Year 2013	0,88	1,75	0,45	0,37	FFs France
ROA % Year 2012	0,56	1,78	0,45	0,71	FFs France
ROA % Year 2011	0,88	1,44	0,62	0,78	FFs France
ROA % Mean 2011-2013	0,78	1,66	0,50	0,62	FFs France
EBIT Margin % Year 2013	3,89	5,48	1,62	0,82	FFs France
EBIT Margin % Year 2012	2,29	5,76	3,97	1,31	FFs France
EBIT Margin % Year 2011	1,97	5,92	3,97	1,09	FFs France
EBIT Margin % Mean 2011-2013	2,72	5,72	3,18	1,07	FFs France
Current Ratio Year 2013	1,30	1,88	1,29	3,08	NFFs France
Current Ratio Year 2012	1,32	1,95	1,26	2,92	NFFs France
Current Ratio Year 2011	1,21	1,83	1,54	2,52	NFFs France
Current Ratio Mean 2011-2013	1,28	1,89	1,36	2,84	NFFs France
Liquidity ratio Year 2013	0,70	0,59	0,71	1,60	NFFs France
Liquidity ratio Year 2012	0,76	0,57	0,72	1,51	NFFs France
Liquidity ratio Year 2011	0,69	0,56	1,01	1,33	NFFs France
Liquidity ratio Mean 2011-2013	0,72	0,57	0,81	1,48	NFFs France
Solvency ratio (Liability based) Year 2013	33,38	45,97	34,49	56,38	FFs Italy
Solvency ratio (Liability based) Year 2012	29,76	44,86	30,02	52,77	FFs Italy
Solvency ratio (Liability based) Year 2011	28,29	42,33	28,51	51,84	FFs Italy
Solvency ratio (Liability based) Mean 2011-2013	30,48	44,39	31,00	53,66	FFs Italy

Table 7. Economic and Financial performance of Italian and French FFs and NFFs

Source: personal elaboration

In the sample considered, French FFs outperform in terms of economic performance (with the exception of ROE in 2011), and French NFFs outperform in terms of financial performance (with the exception of solvency rate for which Italian FFs are the best in the sample).

Hence, said performance trend has been influenced by the country's production, consumption and export of wine. Indeed, it emerged that France was the first wine producing country in the world in 2012, the first country for its annual wine consumption, and it achieved the higher turnover generated by exports.

## 5. CONCLUSION, IMPLICATIONS AND LIMITATIONS

The oenological vocation of Italy and France are internationally recognised, considering the variety of fine wines and a combination of know-how, craftsmanship and traditions held by the producers.

Italy is the second largest wine-producing country in the world, after France. In terms of exports, Italy is the primary exporter of wines (if we consider export volumes). In addition and considering the wine consumption in the world, Italy ranks third in terms of annual wine consumption.

From the standpoint of economic performance, FFs both in Italy and France outperform in terms of ROE and ROA (Anderson and Reeb, 2003; Burkart et al, 2003), though only Italian NFFs outperform in EBIT. Therefore, FFs seem to be more efficient in profit generation, which is useful to pay shareholders. Moreover, the total assets of FFs are more profitable in generating revenue.

In terms of financial performance, both in Italy and France NFFs outperform FFs in current ratio and liquidity ratio (Daily and Dollinger, 1992; Faccio, Lang and Young, 2001), while FFs outperform in solvency ratio.

Consequently, this study confirms that the family variable is partly important to achieve good performance, and endow firms with different features.

The comparison between Italy and France in terms of wine production, wine exports and wine consumption was useful to understand the context in which the wine companies operate and achieve a certain performance standard. It surfaced that French FFs outperform in the sample (with the exception of ROE in 2011, and of solvency rate, for which Italian FFs are the best in the sample). Consequently, this performance trend has been influenced by the national production, consumption and export of wine in France, compared to Italy. In fact, it was noticed that, in 2012, France was the leading wine-producing country in the world, the first country for its annual wine consumption, and it recorded the highest turnover generated by exports.

Even considering other similar papers on FF performance issues (Chu, 2011; Gonzalez et al., 2012; Villalonga and Amit, 2006), this study contributes to the literature on FFs as it shows the effects of family presence on the Board as regards corporate performance, which is strictly correlated with the size of the company as a proxy variable of organisational complexity. Said effects might also be generalised for companies operating in other countries and, especially, for countries in which the FF phenomenon is as common as in Italy and France. Hence, future developments of this study would include a comparative analysis of firms from various countries, especially considering both the presence of the family on the Board and the size of the company as key variables for performance.

This study has significant implications, especially for FF owners, as it can enable them to understand and manage the effects of size and corporate governance in the financial and operative structure of their firms. Specifically, they can take our assumptions into account to formulate more conscious and rational strategic intentions and initiatives, especially regarding business diversification and growth, also considering the correlated risks. In their decisional process, they must consider that the influence of the family on short-term profitability will be weaker in large companies as, if the strategy encourages business diversification and growth, the family might not be able to directly manage corporate complexities in the long term and would, therefore, become a not-family run firm.

Other implications concern regulatory bodies to practically define good policies for listed companies by especially considering the need for integration between risks, strategic planning and control. Indeed, risk management systems should be effectively used by companies to monitor risks associated with growth and diversification, especially according the corporate governance structure of the firm itself. Lastly, our research also contributes to the decision-making process of investors, as it

processes significant generalisations to identify the Italian stock-listed outperforming firms. Finally, the study can also be useful to improve scholarship in this field, above all considering the growing importance of the topic of FFs.

In order to overcome the limitations of this study, it would be interesting to compare potential and dynamic wine consumption with that of other economic sectors, which are also representative of the Italian economy and/or of the “Made in Italy” slogan. Additionally, suitable econometric models could be used to simulate the impact of a series of exogenous and endogenous variables on the wine business.

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## THE FAMILY VARIABLE IN THE WINE SECTOR: AN ITALIAN SURVEY

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### ABSTRACT

#### *Purpose*

The main goal of this study is to analyse the impact of the family variable on performance in the Italian wine sector. This variable has a significant impact on business performance. Indeed, many studies have underlined the relevance of the family through the composition-performance relationship.

#### *Methodology*

This study is based on a sample of 369 Italian companies operating in the Italian wine sector. The sample includes medium and large firms and data were extracted from the Amadeus database. The analysis compared economic and financial ratios between Italy and France.

#### *Findings*

The analysis was conducted in both family and non-family firms to determine the similarities, differences and impact on performance between FFs and NFFs.

It emerged that FFs outperform NFFs in terms of economic performance, and in terms of financial performance, NFFs outperform FFs.

#### *Conclusion and Implication*

This study confirms that the family variable is partially relevant to achieving good performance and has different significance to the firms.

**Keywords:** family firms, not family firms, Italian wine sector, economic performance, financial performance.

### INTRODUCTION

Relevant literature suggested that ownership structure is one of the main corporate governance mechanisms influencing the scope of a firm's agency cost (Arosa, Txomin and Maseda, 2010). This topic has been researched extensively in the theoretical and empirical literature.

Recent research has taken important steps toward explaining this. However, in some cases, the differences between Family Firms (FFs) and Not Family Firms (NFFs) have not been sufficiently explained (Gallo, Tapies and Cappuyns, 2004). Identifying differences between FFs and NFFs and

understanding the medium and long-term consequences of the family firms strategic behavior constitute two of the basic fields of family business research.

This study analysed the composition-performance relationship in family businesses, because although in the organizational management research the family is a relevant variable, it is sometimes forgotten. Dyer (2006) referred to the family as “the missing variable in organizational research” and he warns that “failing to use the family as a variable in organizational research can lead to incomplete or misleading findings” (Speckbaker and Wentges, 2007).

Gallo, Tapias and Cappuyns (2004) underlined, in the field of financial structure and policies, as well as the economic results of FFs, the following research is worth noting. Firstly, Daily and Dollinger (1992), working with a sample of 186 manufacturing businesses in Indiana (USA) with fewer than 500 employees and sales levels of less than \$30 million per year, found that in comparing FFs with NFFs, between 1986 and 1988, FFs surpassed NFFs in rate of sales, profit margin increases and, in an elaborated measure using four comparison points, in each business with its main competitor. Secondly, Gallo and Vilaseca (1996, 1998), using a sample of 104 Spanish FFs having an average sales figure of €33.7 million (at 2001 equivalency), found that the smaller FFs used less complex financial practices and had very low debt ratios (Tardivo et al., 2011), but the research failed to identify statistically significant differences in “resource profitability”.

This study compares Italian family and not family firms, belonging to the wine sector, trying to understand if there are significant differences between FFs and NFFs. In addition we analyzed the possible future research topics in terms of innovation that influence performance in FFs.

This paper is structured as follows. Firstly, it analyses the theoretical background regarding FFs and NFFs. Secondly, the research method is outlined. The findings are illustrated and discussed in the fourth section, while the conclusions, with the limitations and implications of the study, are set out at the end of the research.

## **THEORETICAL BACKGROUND**

### *Defining Family firms*

In recent years FFs have received increasing attention and several recent studies have reported and underlined that, in continental Europe, Asia, and Latin America, the vast majority of publicly traded firms are family controlled (La Porta, Lopez-de-Silanes and Shleifer, 1999; Claessens, Djankov and Lang, 2000; Faccio and Lang, 2002). They also suggested that FFs play an important role in economic activity worldwide. In fact two-thirds of private businesses in many countries are considered to be FFs (Neubauer and Lank 1998, Morck and Yeung, 2003, Zahra, Hayton and Salvato, 2004, Culasso et al.,

2012 and 2014; IFERA, 2013), and they contribute to wealth creation and job generation with reference to narrow and broad family firm definitions (Astrachan and Shanker, 2003).

However, is it possible to define the meaning of family firm? It is not easy to define an FF, in fact in the literature contains persistent ambiguities.

Analyzing the literature, it emerges that Chrisman et al. (2005) distinguished between the components-of-involvement approach and the essence approach. In particular, using the components-of-involvement approach, a firm can be defined as an FF when: i) a family is the owner, ii) the firm is family-managed, or iii) the firm is controlled by a family. If one of these three characteristics applies to a firm, it can be defined as an FF. The essence approach is more restrictive and defines firms only as FFs when family involvement leads to distinct and specific behaviors. Four main characteristics make up the essence approach: i) a family's influence regarding the strategy of the firm, ii) a family's vision and intention to keep control and hand the firm over to the next generation, iii) family firm behavior, and iv) distinctive familiness. In this analysis, the components-of-involvement approach was used, because there is less opportunity for subjectivity.

In addition, Kraiczy (2013) affirmed that: "although many researchers have tried to develop a satisfactory definition, there is still no consensus about a widely accepted definition. Although some studies in the finance literature identify any public company where a family or a founder owns more than 5% as a family firm, other studies define firms only as family firms if the first succession into the second generation has taken place. However, in most studies a family firm has been characterized as a firm that is controlled and usually managed by multiple family members, sometimes from multiple generations. The use of different definitions is a major problem in family firm research. Although studies analyze related topics, the use of different family firm definitions makes the comparability of these results difficult. One of the biggest challenges of developing a general definition is the heterogeneity of family firms".

It can be seen how the results of research could be influenced by the choice of FF definition. We examined the main definitions that you can find in the literature aiming to identify the best definition for this research.

Sharma, Chrisman and Chua (1996) defined family business as a business governed and/or managed on a sustainable, potentially cross-generational, basis to shape and perhaps pursue the formal or implicit vision of the business held by members of the same family or a small number of families. La Porta, Lopez-de-Silanes and Shleifer (1999) defined family business like a firm that is partly owned by one or more family members who control together at least 20% of the total votes outstanding. Astrachan and Kolenko (1994) suggested that a family had to own over 50% of the business in a private company or more than 10% of a public company in order to qualify as a family business. Le Breton-

Miller, Miller and Steier (2004) do not explicitly define a family firm but they assumed that management succession means firm leadership will pass from one family member to another or, in the absence of a competent family contender in the short-term, a bridge manager between family tenures.

This research uses the following parameter: family had to own over 50% of the business in a private company or more than 10% of a public company in order to qualify as a family business (Astrachan and Kolenko, 1994).

This criterion is the most appropriate using the components-of-involvement approach and for family businesses in the Italian wine sector, which is characterized by the strong presence of one family.

#### *Family versus not family firms: a comparison performance*

After defining the term family firm, it is important to examine the “family effect” on firm’s performance.

In the literature, there are studies that conclude that FFs are better than NFFs and they report that controlled family ownership positively influences firm performance (Anderson and Reeb, 2003; Burkart et al., 2003; Wang, 2006).

Jensen and Meckling (1976) suggested that ownership concentration has a positive effect on performance because it alleviates the conflict of interest between owners and managers. The opposite view of the ownership structure directs attention towards the effects of the agency problem resulting from the combination of concentrated ownership and owner control (Fama and Jensen, 1983). Anderson and Reeb (2003) found that FFs outperformed NFFs in the S&P 500, noting that “family firms are significantly better performers than non-family firms”.

Another study conducted by Arosa, Txomin Iturralde and Amaia Maseda (2010) highlighted that the distinctive features of FFs have a positive effect on their corporate behavior. The family’s interest in the long-term survival of the business as well as its concern for maintaining the reputation of the firm and the family, lead the family to avoid acting opportunistically with regard to the earnings obtained (Burkart, Panunzi and Shleifer, 2003; Wang, 2006). Families have concerns and interests of their own, such as stability and capital preservation, which may not align with the interests of other firm investors.

However, in general, the empirical evidence is not conclusive.

Arosa, Txomin Iturralde and Amaia Maseda (2010) found that some empirical findings indicate that firms with concentrated ownership structure, such as founding families, show lower profitability than those firms with a dispersed ownership structure (DeAngelo and DeAngelo, 2000; Fama and Jensen, 1983; Gomez-Mejia et al., 2001).

Furthermore, there are also many studies which highlight that FFs under-perform when compared with NFFs. Daily and Dollinger (1992) stated that family-run firms do appear to achieve performance advantages whether performance is measured in terms of financially oriented growth rates or perceived measures of performance. Faccio, Lang, and Young (2001) have also noted that family firms are relatively poor performers due to conflicts that arise as a family attempts to manage an enterprise. In addition, a study by Miller et al. (2007) underlined that only businesses with a lone founder outperform. Moreover neither lone founder nor family firms exhibited superior valuations within a randomly drawn sample of companies. Their results confirmed the difficulty of attributing superior performance to a particular governance variable.

One of the variables that could impact on the performance level is the company innovation strategy, which was considered as a decisive factor of capitalism (Schumpeter, 1928). Scholars stated that innovation has been considered as a survival tool, and a way of achieving a competitive advantage in the long-term (Thompson, 1965; Greve, 2007; Bresciani and Ferraris, 2014), it having a direct influence on the company's performance in several sectors (Abernathy and Clarke, 1985; Damanpour, 1991; Tidd et al., 2001; Dias and Bresciani, 2006). A new level of product and process innovation may be reached, enabling the company to enter a new market or create a new product or new process (Tushman and Anderson, 1986), thus generating a series of conditions to win the competitive challenge (Abernathy and Utterback, 1978; Clark, 1985; Tushman and Anderson, 1986; Arthur, 1996). Consequently, some scholars have described innovation in terms of products and processes perspective (Tushman e Nadler, 1986).

Many scholars have focused on innovation strategy in FFs. A group of them stated that family firms are less attracted by innovation in the products and processes development (Donckels and Frohlich, 1991; Morck and Yeung, 2003) and tend to be less inclined to build external relationships that might foster innovation (Dunn, 1996). Therefore, FFs prefer not to invest in innovation (Bresciani, Thrassou and Vrontis, 2013a and 2013b). For a second group of scholars, innovation strategy represents a key factor for FFs, thanks to their flexibility (Craig and Moores, 2006): innovation is considered as a means to gain competitive advantage in the long-term (Miller and Le Breton-Miller, 2005; Bresciani, Thrassou and Vrontis, 2013a).

A comparison on innovation tendency between family and not family firms was made. Thanks to the "familiness" (Teece, 1982; Horton, 1986; Dunn, 1995; Habbershon and Williams, 1999; Sirmon and Hitt, 2003; Culasso et al., 2014) and the "patient capital" (Teece, 1992), an FF has a long-term investment time horizon, for which innovation strategy is a means to generate return on investments (Culasso et al., 2014).



Innovation in the wine sector has been studied recently (Rossi, 2008; Vrontis and Viassone, 2013). Innovation has been considered as a means to counteract the worldwide decrease in wine consumption (Cuellar and Huffman, 2008). In addition, knowledge networks between companies have been seen as a source of innovation (Bell and Giuliani, 2007).

Despite the different positions in the literature, this study tries to understand if higher performance level is shown in family or in not family firms.

## METHODOLOGY

This study is based on a sample of 369 Italian companies operating in the Italian wine sector. The sample includes large and medium firms and data were extracted from the Amadeus database.

The sample includes 203 FFs and 166 NFFs, making a total of 369 firms (Table 1).

	<b>FFs</b>	<b>NFFs</b>	<b>Total</b>
<i>Number of companies</i>	203	166	369
<i>%</i>	55%	45%	100%

Table 1. *The sample*

As stated in the previous section, a firm is classified as an FF if family owns over 50% of the business in a private company or more than 10% of a public company (Astrachan and Kolenko, 1994).

The most significant economic and financial parameters were analysed. In particular for economic performance we considered:

- ROA (Return on Assets);
- EBIT (Earnings before interest and taxes);
- ROE (Return on Equity).

Regarding the financial ratios, we analysed:

- liquidity ratio (liquid assets / short-term liabilities);
- current ratio (current assets/current liabilities);
- solvency ratio (total debt/ total assets).

The mean of each financial and economic ratio achieved by companies included in the sample was determined for every financial year covered by the study.

As the main goal of this study is to analyse the impact of the variable “family” on performance, the main research question is the following:

*RQ: Does the family variable have a positive impact on economic and financial performance in the Italian wine sector?*

To answer to this RQ, the most relevant economic (ROE, ROA and EBIT Margin) and financial ratios (Liquidity ratio, Current ratio and Solvency ratio) between family and not family firms were compared, in the selected firms, in 2011, 2012 and 2013.

## FINDINGS AND RESULTS

The following data show that FFs outperform NFFs in ROE and ROA, and NFFs outperform FFs in EBIT Margin (Table 2).

	FFs Italy	NFFs Italy	outperformance classification - Italy
ROE % Year 2013	-2,23	-3,57	FFs
ROE % Year 2012	1,72	-1,88	FFs
ROE % Year 2011	5,46	-5,56	FFs
ROE % Mean 2011-2013	1,65	-3,67	FFs
ROA % Year 2013	0,88	0,45	FFs
ROA % Year 2012	0,56	0,45	FFs
ROA % Year 2011	0,88	0,62	FFs
ROA % Mean 2011-2013	0,78	0,50	FFs
EBIT Margin % Year 2013	3,89	1,62	FFs
EBIT Margin % Year 2012	2,29	3,97	NFFs
EBIT Margin % Year 2011	1,97	3,97	NFFs
EBIT Margin % Mean 2011-2013	2,72	3,18	NFFs

Table 2. *Economic performance in Italian FFs and NFFs*

In particular, FFs outperform in ROE, which measures the rate of return on the ownership interest of the common stock owners. Italian FFs seem more efficient at generating profits from every unit of shareholders' equity (Figure 1).

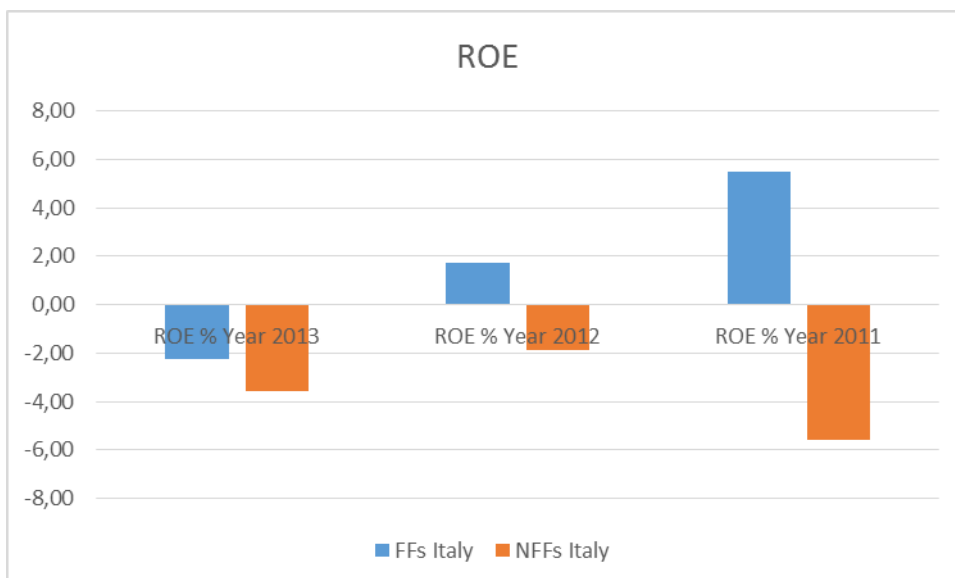


Figure 1. *ROE in Italian FFs and NFFs*

ROA shows that the total assets in FFs are more profitable in generating revenue; in particular, this index shows how many euro of earnings they derive from each euro of assets they control (Figure 2).

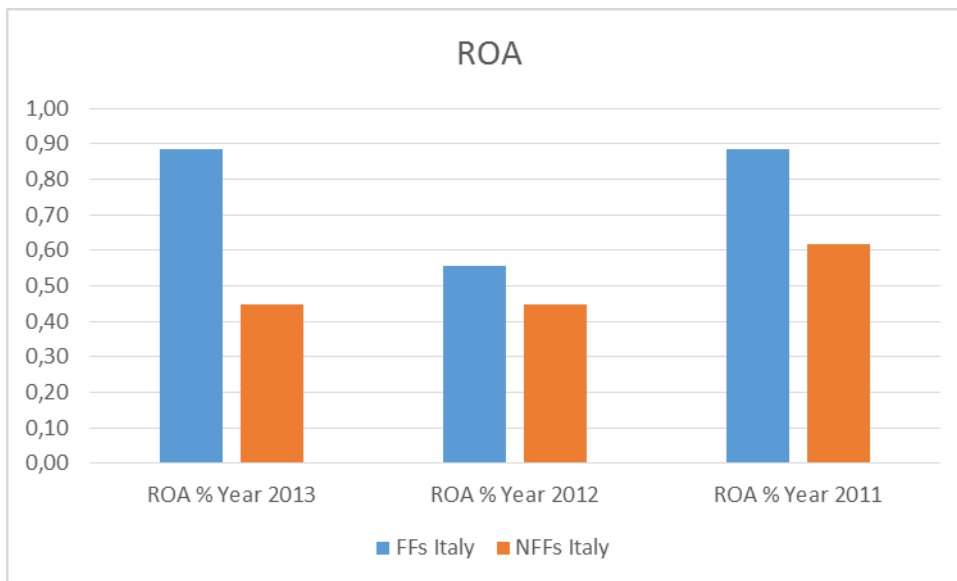


Figure 2. ROA in Italian FFs and NFFs

On the other hand, the EBIT, referred to as "operating earnings", "operating profit" and "operating income", shows how NFFs have more ability to generate profit (Figure 3).

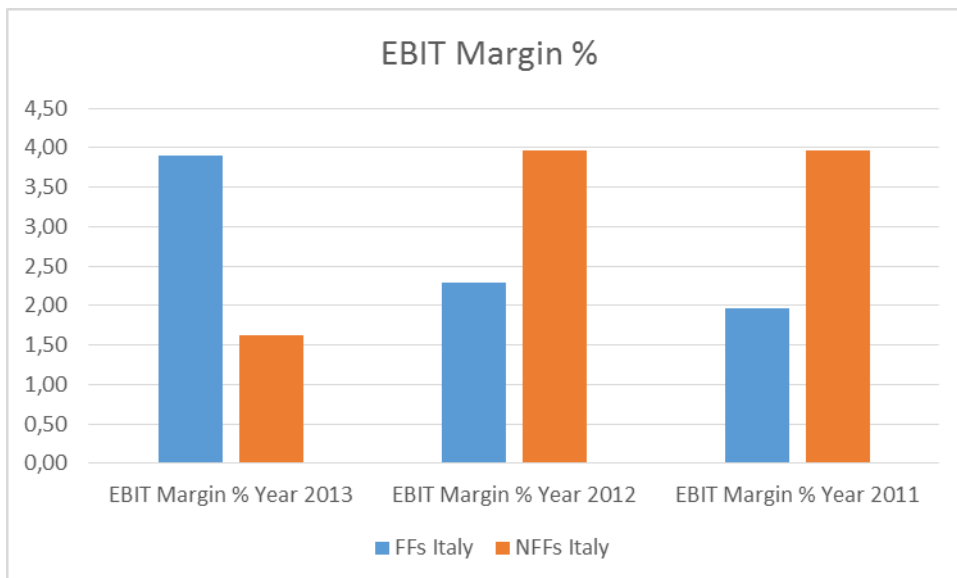


Figure 3. Ebit in Italian FFs and NFFs

Evaluating the *economic* performance and, especially, considering the mean of each ratio (whose trend is confirmed by the median), it is clear that:

- FFs outperform in the ROE (1,65%) compared with NFFs (-3,67%);
- FFs outperform in ROA (0,78%), compared with NFFs (0,50%);

- NFFs outperform in EBIT (3,18%), compared with FFs (2,72%).

Analysing the financial performance, it emerged that NFFs outperform in Current Ratio and Liquidity Ratio, but FFs are the best in Solvency ratio (Table 3).

	FFs Italy	NFFs Italy	outperformance classification - Italy
Current Ratio Year 2013	1,30	1,29	FFs
Current Ratio Year 2012	1,32	1,26	FFs
Current Ratio Year 2011	1,21	1,54	NFFs
Current Ratio Mean 2011-2013	1,28	1,36	NFFs
Liquidity ratio Year 2013	0,70	0,71	NFFs
Liquidity ratio Year 2012	0,76	0,72	FFs
Liquidity ratio Year 2011	0,69	1,01	NFFs
Liquidity ratio Mean 2011-2013	0,72	0,81	NFFs
Solvency ratio (Liability based) Year 2013	33,38	34,49	FFs
Solvency ratio (Liability based) Year 2012	29,76	30,02	FFs
Solvency ratio (Liability based) Year 2011	28,29	28,51	FFs
Solvency ratio (Liability based) Mean 2011-2013	30,48	31,00	FFs

Table 3. Financial performance in Italian FFs and NFFs

In particular, NFFs excel in Current Ratio, showing a higher ability to pay their current liabilities from their current assets and to pay short-term obligations (Figure 4).

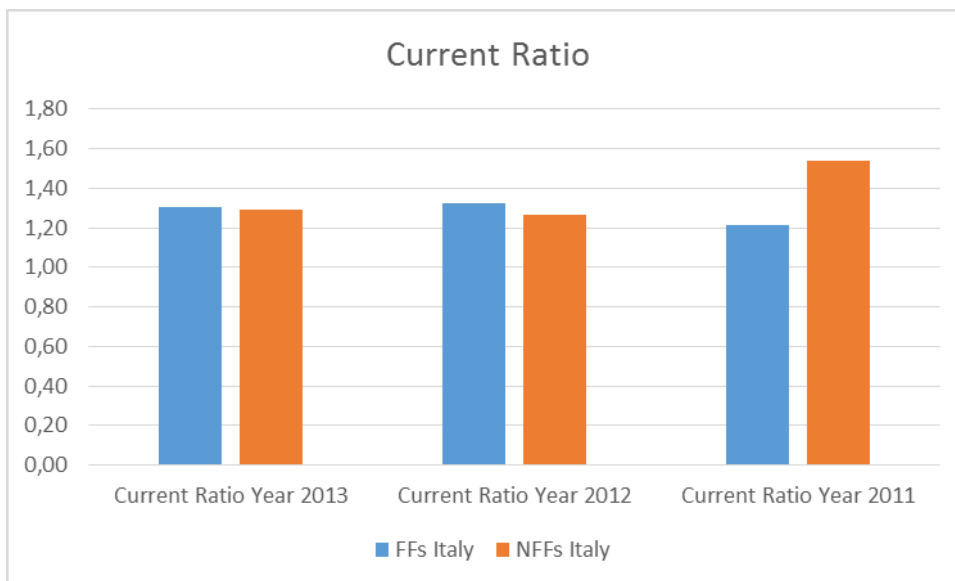


Figure 4. Current Ratio in Italian FFs and NFFs

The liquidity ratio, the index that measures the ability of a company to meet its short term debt obligations and the ability of a company to pay off its short-term liabilities when they fall due, confirm the Current ratio, showing that NFFs outperform FFs (Figure 5).

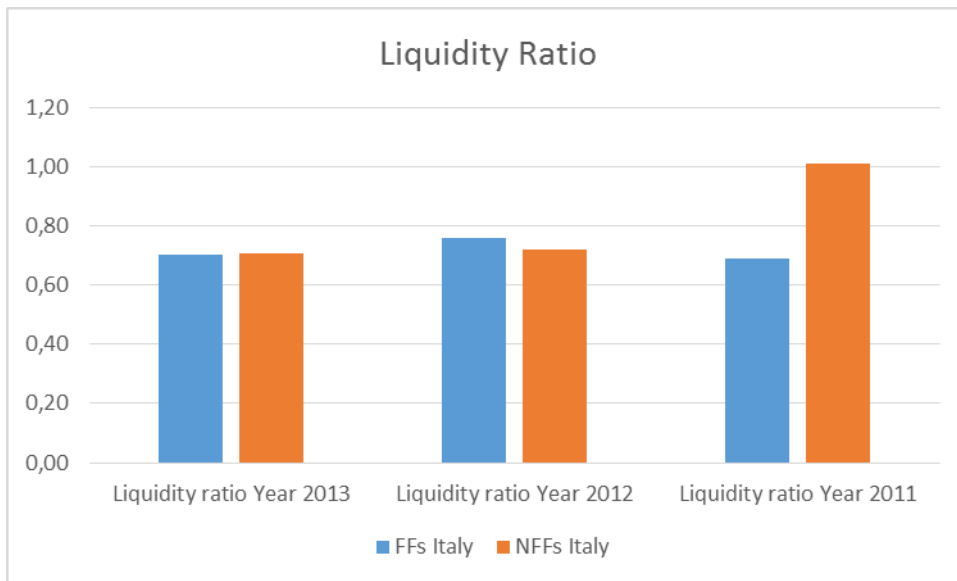


Figure 5. *Liquidity Ratio in Italian FFs and NFFs*

Solvency ratio, which measures how much of the firm's asset base is financed using debt (total debt/total assets), shows that FFs finance assets using more equity source. In other words FFs are more able to sustain operations indefinitely by comparing debt levels with equity, assets, and earnings, identifying FFs as the more capable to pay their bills in the long term (Figure 6).

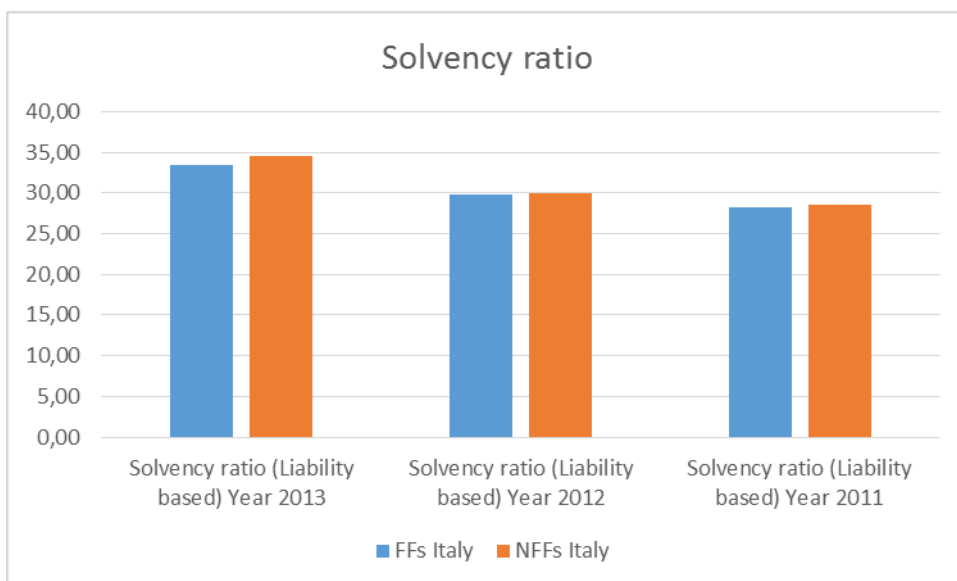


Figure 6. *Solvency Ratio in Italian FFs and NFFs*

Financial performance is analyzed as described below, focusing on the mean of each indicator (whose trend is confirmed by the median). NFFs particularly outperform in:

- liquidity ratio (0,81) compared with FFs (0,72);
- current ratio (1,36) compared with FFs (1,28);
- solvency ratio (31,00) compared with FFs (30,48);

## CONCLUSIONS, IMPLICATIONS AND LIMITATIONS

The purpose of this study was to scrutinize the relationship between ownership structure and performance in the Italian wine sector.

It emerged that FFs outperform NFFs (Anderson and Reeb, 2003; Burkart et al, 2003) in economic performance, such as ROE and ROA, while NFFs outperform FFs in EBIT Margin. Therefore, FFs seem more efficient in profit generation, useful for remunerating shareholders; in addition, the total assets in FFs are more profitable in generating revenue. However, NFFs are more able to reach a good EBIT Margin.

In terms of financial performance, NFFs outperform (Daily, Dollinger, 1992; Faccio, Lang and Young, 2001) FFs in Current Ratio and Liquidity Ratio, while FFs outperform NFFs in Solvency ratio.

Consequently, this study confirms that the family variable is partially relevant to achieving good performance and has different significance to the firms.

This research confirms what is found in the literature: the family is a relevant variable in performance evaluation, but it is not easy to confirm when it impacts positively or not.

The implications of this research on future innovation strategy of wine companies would be related to the potential of the Italian wine sector: not only for companies that produce and sell wine, but also for connected businesses, such as wine shops, restaurants, chemical analysis laboratories and consultants. In addition, this research could provide useful information for owners and managers of family firms who want to improve their performance investments.

This research has some limitations that can be summarized as follows:

- the sample includes only Italian large and medium firms belonging to a particular sector;
- the method used could be improved by adopting some econometrical model.

Future researches could improve these limitations and investigate about the reasons of the performance results in FFs and NFFs. Another topic would be a comparison between wine sector and other sectors in terms of economic and financial performance.

In addition, it would be interesting to analyse whether the innovation strategy by wine sector family firms may be considered a means to improve performance, both in terms of the company and of customer satisfaction. We thought that effective innovation management depended on the combination of internal and external innovation: internal innovation indicates adherence to traditional values coming from the family, while external innovation may be more influenced by innovation tendency. The questions that this new research asks could be developed further by using a case study method and contextualizing it in the wine sector. In particular, we suggest differentiating innovation in terms of products and processes perspective (Adner and Levinthal, 2001; Bonanno and Haworthb, 1998; Re et al., 2014; Sood and Tellis, 2009; Tushman and Nadler, 1986; Utterback and Abernathy, 1975), and

looking at how it affects every phase of the company's business (Drucker, 1954). In addition, it would be interesting to verify if innovation and tradition do not conflict: the two principles are only apparently opposing and they should coexist.

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## ENVIRONMENTAL SUSTAINABILITY IN THE ITALIAN ORGANIC WINE INDUSTRY: PRELIMINARY RESULTS

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### ABSTRACT

Both globalisation and the growing international competition have affected the complexity of academic inquiry about *Sustainability* and firms' *Social Responsibility*. Global warming, the loss of bio-diversity, contamination and waste production have social and economic consequences, thus fostering a growing interest toward environmental and economic sustainability related to the development of products and processes. Agriculture and food productions are one of the main responsible for environmental pollution, as well as of the natural resources overexploitation. As a consequence, the topics of *Sustainability* and *Social Responsibility* acquire a great importance in agri-food and in wine industry, as well.

We believe that the adoption of social responsible behaviours, like implementing environmental practices beyond regulatory compliance, depends not only on the economic performance, but also on the individuals' cultural values and beliefs. Because of the low diffusion of *Sustainable* production in the Italian wine industry, we particularly focus on the *Organic Wine Production*, as the way some Italian wine producers commit to *Environmental Sustainability*.

According to the underlined perspective, our research aims to investigate which factors drive the Italian wine producers to engage in *Environmental Sustainability* efforts.

To get our goal, 77 Italian Organic winemakers have been selected to be interviewed. First results of investigations show that Italian winemakers devote themselves to organic production mainly to differentiate their own offer at international level. They face more difficulties in managing organic production if compared to traditional production systems, and this often turns into high production costs. The low quality perceptions that the Italian consumers have of the organic wine isn't cited as the main obstacle to the diffusion of Organic wine, probably because the last one is mainly sold into foreign markets. Finally, results seems to confirm a fundamental lack of knowledge about the differences between sustainable and organic wine, both among producers and consumers, with consequences upon the perception that the producers have about the practices that they undertake. Not surprising, the

interviewed winemakers believe to respect sustainability even when they simply comply with the environmental rules necessary to gain the organic certification. Since the empirical investigation is still ongoing, the main limit of our paper is the lack of collected data, that allow us to propose only preliminary results at this research stage.

**Keywords:** *Environmental Sustainability; Organic Wine Production; Ethic*

## INTRODUCTION

Nowadays *Sustainability* and *Corporate Social Responsibility (CSR)* attract the attention of both academics and practitioners, as it is supported by the growth of the academic literature about the topic, as well as by the rise of new scientific and not scientific communities.

The concept of *Sustainability* gained its shape in 1987, when the Brundtland Commission, United States, defined *Sustainable Development* as meeting “the needs of the present without compromising the needs of future generations” (WCDE, 1987, p. 40). Although this concept initially focused on the environment, the Earth Summit’ held in Rio de Janeiro, in 1992, declared that “*the right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations.*” It means that *Sustainable Development* is not just about the environment, but about the economy and society, as well. *Sustainable Development* perspective began to change, and It has been rapidly focused on three pillars: economic progress, social justice and environmental preservation.

The establishment of various United Nations bodies like the United Nation Commission on Sustainable Development, the Framework Convention on Climate Change and the Convention on Biological Diversity, and subsequent conferences and protocols addressed the issues of sustainable development, environmental improvement, climate change, ethical governance and even *Corporate Social Responsibility*.

Not surprising, current literature acknowledges that *Sustainability*, and *Corporate Social Responsibilities* are broad, complex and often misunderstood concepts.

Both researchers and practitioners have explored the way private and public actors actually act, as well as the way they should act to grant *Sustainable Development*. According to Frederick (1998), socially responsible firms try to solve, or reduce, the social problems coming out from business activities; to optimize the use of resources in coherence with the problems to be dealt with; to contribute to the improvement of the collective well-being and to promote a better quality of life. Thus, *Corporate Social Responsibility* may be considered the main tool to implement a *Sustainable Development*.

Talking about sustainability and CSR opens up a lot of research issues, but often lead, also, to confusion and misunderstanding. This is especially true in the wine industry, where the concepts of *Sustainable Wine Production*, *Organic Wine* and *Bio-dynamic Wine* are generally mixed up. Additionally, the lack of homogeneity in the international norms and regulations drive to controversy. In spite of the important role played by professional associations and certification bodies in defining voluntary standards for sustainable production, the term “sustainability” and its application into the wine production remain even more elusive.

The underlined problem led us to firstly shape the literary background about *Sustainability*, *Sustainable Development*, and *Social Responsible Practices*. After that, we investigate to which extent the Italian wine production devote to sustainability, or alternatively, to organic or bio-dynamic production. In doing this, we mainly focused on Italian production of Organic wine, attempting to answer to the following questions:

1) *Do Italian wine producers adopt Sustainability practices or Social Responsibility ones (ex.: organic or bio-dynamic production)?*

2) *What drives Italian wine-makers to produce Organic wine?*

Our paper is the first step of a wide-based research about the sustainability in the wine industry at international level. According to our research agenda, the paper points out the theoretical background, the methodological approach and the first results of our investigation. Limits and suggestions for the next research step are finally presented.

## **SUSTAINABILITY, SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBLE PRACTICES: THE LITERARY OVERVIEW**

Increasing inequalities within and among the nations, the growing worldwide poverty, especially in developing countries; the depletion of natural resources, some species of animals and plants, as well as water and air pollution, impelled for a change in the way humans and firms manage and use the planet resources.

Really, many of the ideas that are now embedded in the concept of *Sustainable Development* previously raised in the early 1970s when the academic debate began to focus on the man’s over-exploitation of the environment, examining the inner links between environment and development (Erlich, 1971; Meadows *et al.* 1972; Ward and Dubos, 1972, Schumacher 1974).

Since the time of the Brundtland Commission Report, *Sustainable Development* has become a widely recognized goal for human society of the 21<sup>st</sup> century.

Different definitions of *Sustainability* and *Sustainable Development* have been proposed and a vast number of alternative policy prescriptions have been soon developed (Pezzey, 1989; Pearce *et al.*, 1989; Rees, 1990; Lélé, 1991).

In spite of this, much of the literature on *Sustainable Development* published in the 1980's was often vague, showing a lack of precision in defining *Sustainability*, and agreement in outlining appropriate sustainable policies. According to Lélé (1991) *Sustainable Development* may dangerously turn into a “spot” if no one cares to define it. Confusion arises since different authors mean very different things by *Sustainability*. Even UNEP's and WCED's definitions of *Sustainable Development* are ambiguous; they confuse ends with means, thus affecting the ability to develop effective policies and practices (Stern, 1997). Similarly, Rees (1990) expressed extreme skepticism concerning *Sustainable Development*, mainly considered just so much political rhetoric.

In order to overcome the underlined literary vagueness, starting by the end of 1980's much more precisely definitions for *Sustainable Development* have been shaped, and both conditions and policies required to achieve sustainability, have been developed.

According to Barbier (1987) *Sustainable Development* aims to simultaneously maximize three main systems goals: biological system goals (genetic diversity, resilience, biological productivity), economic system goals (satisfaction of basic needs, enhancement of equity, increasing useful goods and services), and social system goals (cultural diversity, institutional sustainability, social justice, participation). As Barbier (1987) sustained, there would be no *Sustainable Development* without considering the relevance of the environment, as well as without taking into account also social and cultural values. As a consequence, Economic systems, which rely on non-renewable resources, degrade the natural environment, or even promote classes categorizations (Ex.: rich *vs* poor) are not *Sustainable*.

According to the above perspective, *Sustainability Development* would grant the growth of human life over the times, the flourish of human individuals and the development of human cultures, that means human activities do not destroy the diversity, complexity, and function of the ecological life support system (Costanza, Daly, & Bartholomew, 1991). A sustainable society is one that can persist over generations, one that is far-seeing enough, flexible enough, and wise enough not to undermine either its physical or its social systems of support (Meadows, Meadows, & Randers, 1992, p. 209).

In this sense, the preservation of a more “livable” environment, with supportive social systems, is claimed to balance growth (economic growth, GDP, standard of living, etc.). Even development often leads growth, not “all growth” is sustainable.

As Mitlin (1992) noted *Sustainable Development* involves two components: the meaning of development (main goals of development: economic growth, basic needs, rights, etc.); and the conditions necessary to achieve sustainability.

By adopting a content analysis, Gladwin, Kennelly and Krause (1995) sustain that *Sustainable Development* is a process of achieving human development subjected to five constrains: inclusiveness, connectivity, equity, prudence, and security<sup>1</sup>. Even if the authors themselves recognized the difficulties in defining all of these terms (the notion of security or prudence are more easily identified by their absence than their presence), they sustain the idea that no sustainable development may be assured if human choice promotes inequity, reflects imprudence or raises insecurity. According to the proposed perspective, the requirements for *Sustainable Development* may be all respected only by devoting to a *Sustaincentrism* paradigm, according to which “the earth is humanity's home, to be kept clean, healthy, and properly managed for the sake of human survival and welfare” (p. 890). *Sustaincentrism* is, in other words, congruent with the requirements of *Sustainable Development*.

*But how may we take care of humanity's home?*

By a *Sustaincentrism* approach, a biophysical sustainable behaviour is a key issue in reaching prosperous economies. Depending on this consideration, operational principles and techniques of biophysically sustainable have been pointed out by the authors.

Based on the Authors' view, the following table shows the *practices* that may be adopted to grant the respect of Sustainability Principles, namely Assimilation, Regeneration, Diversification, Restoration, Conservation, Dissipation, Perpetuation and Circulation of natural resources (*Environmental Sustainability*).

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<sup>1</sup> “Inclusiveness implies human development over time and space. Connectivity entails an embrace of ecological, social, and economic interdependence. Equity suggests inter-generational, intra-generational, and interspecies fairness. Prudence connotes duties of care and prevention: technologically, scientifically, and politically. Security demands safety from chronic threats and protection from harmful disruption” (Gladwin, Kennelly and Krause, 1995, p. 878).

Sustainability Principles	Operational Principles	Sample Techniques (Practices)
Assimilation	Waste Emissions < Natural assimilative capacity	Pollution prevention Natural products Detoxification Biodegradability Low input agriculture Synthetic reduction
Regeneration	Renewable harvest rate < Natural regeneration rate	Sustained yield management Safe minimum standards Harvest certification Access restriction Exclusive harvest zone Resource right systems
Diversification	Biodiversity loss < Biodiversity preservation	Biosphere reserves Extractive reserves Buffer zones Polyculture farming Ecotourism Debt for nature swaps
Restoration	Ecosystem damage < Ecosystem rehabilitation	Reforestation Mine reclamation Site decontamination Bioremediation Species reintroduction Habitat restoration
Conservation	Energy-matter throughput per unit of output (time 2) < Energy-matter throughput per unit of output (time 1)	Fuel efficiency Mass transit Cogeneration Computer control Demand side management Smart buildings
Dissipation	Energy-matter throughput (time 2) < Energy-matter throughput (time 1)	Depackaging Durable design Repair/reconditioning Telecommuting Bioregional sourcing Dematerialization
Perpetuation	Non-renewable resources depletion < Renewable resource substitution	Solar energy Wind power Hydrogen fuel Bioenergy Hydropower Geothermal energy
Circulation	Virgin / recycled material use (time 2) < Virgin / recycled material use (time 1)	Closed loop manufacturing Industrial Ecosystem Internal recycling Waste recovery Design for disassembly Water recirculation

Table 1 – Operational Principles and Techniques of Biophysically Sustainable Behavior

Source: Gladwin, Kennelly and Krause (1995)

In any case, adopting an environmental biophysical behaviour doesn't mean achieving a true *Sustainability*. As we previously noted, all the three dimensions – environmental, social and economic, have to be managed in order to meet the need of present and future generations. The three dimensions, as well as the topics to be managed in order to get the sustainability are showed in the following Venn Diagram (Barbier, 1987).

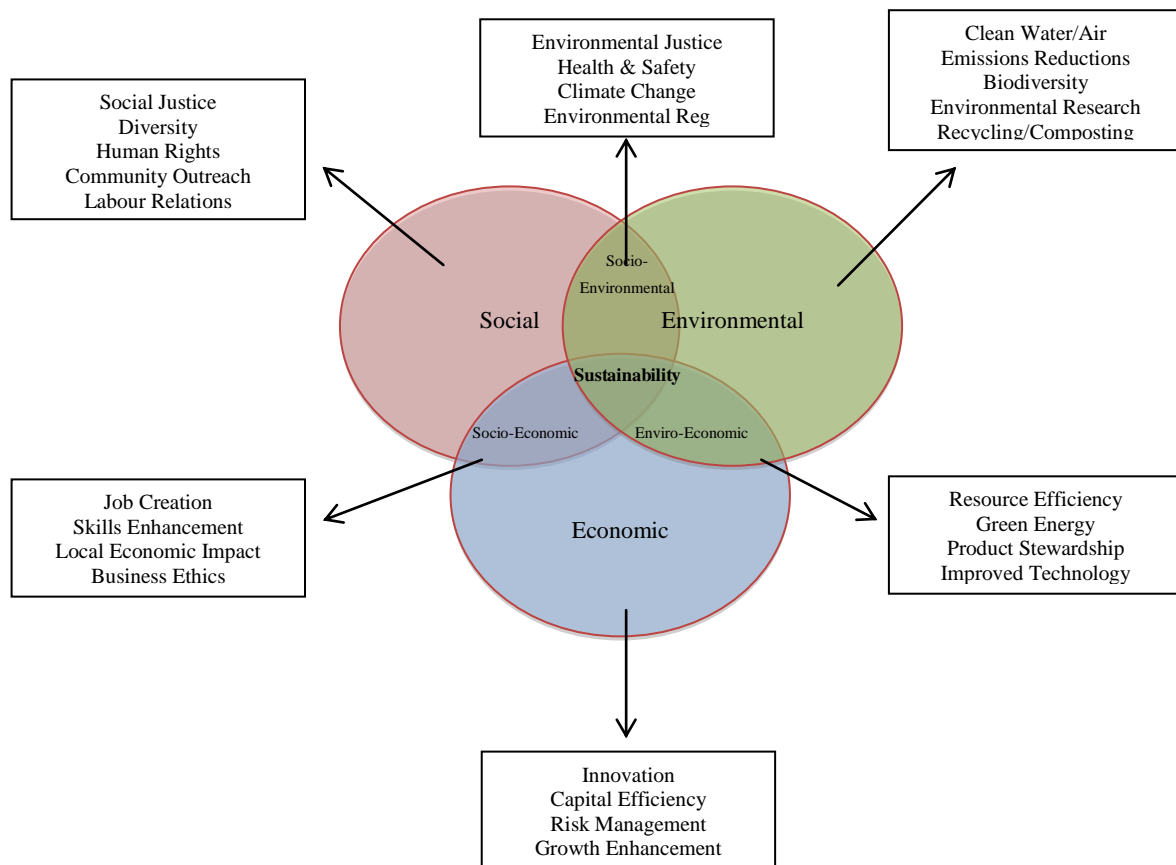


Figure 1 – Venn Diagram

Source: Barbier, 1987

The complexity of *Sustainability* makes it difficult, not only to define it, as it has been discussed above, but also to identify the *practices* that may be fostered in each context, as well as in each situation. Within the developed countries, for example, environmental issues and ecological practices are often emphasized, mainly in those countries where equity, justice and health are generally assured. On the contrary, in many under - developed and emerging countries, the natural environment is very often overexploited in order to gain industrialization and economic growth. Even if social justice or human rights have been no granted at all, Governments look at the growth enhancement as a key issue to



assure economic development, although at the expense of both environmental and social sustainability.

Similarly, *Sustainable practices* may vary within the different industries, thus asking for a deeper investigation of their dynamics in specific conditions.

## **SUSTAINABILITY AND SOCIAL RESPONSIBILITY PRACTICES IN WINE INDUSTRY: FROM SUSTAINABLE WINE TO ORGANIC WINE PRODUCTION**

A lot of authors agree on the difficulties that producers and consumers have in defining “sustainability” in wine industry. According to Szolnoki *et al.* (2011), not only each country, but also each individual actor may have a different understanding of sustainability in the wine industry. Generally speaking, even if it involves bio-physical, social, and economic dimensions (Vallance *et al.*, 2011), sustainability is still mainly connected to ecological and environmental issues. The pure ecological view aims at exploring new solutions to the existing environmental problems, thus the search for sustainable use of natural resources currently receives much attention; as well as new technological ways to reduce, re-use, and recycle wastes (Rifkin, 2006). Following the underlined approach, sustainable and organic /biodynamic management are often considered similar concepts. Especially small wineries believe that there are no big differences between the two systems. Similarly, consumers often confuse sustainable and organic/biodynamic wine (Szolnoki *et al.*, 2011). They have not a clear idea of what sustainable means and how it is practiced (Zucca *et al.*, 2009).

The following table show the main differences among Sustainable wine, Organic Wine, and Bio-dynamic wine, according to the three dimensions of sustainability.

As we already noted, *Sustainability* is a three dimensional concept including environmental, economic and social issues of development. Although widely accepted, the environmental, economic, and social dimensions are differently interpreted in different countries, in order to shape norms and guidelines applied to the sustainable practices in wine industry.

The Lodi Winegrape Commission in California developed the first winegrowing program in 1992 (Ross and Golino, 2008). Since then, several other organizations, associations, groups and institutes in different countries have created their own rules or accepted already existing guidelines to practice sustainability.

The inherent concept is that the product has been made in such a manner that it will allow the vineyards and environment to continue to produce an undiminished product for all future generations. Sustainability in wine production means that growing and winemaking practices are sensitive to the environment (environmentally sound), responsive to the needs and interests of society-at-large (socially equitable), and are economically feasible to implement and maintain

(economically feasible). The mentioned principles are often labelled to as the three “E’s” of sustainability (Zucca *et al.*, 2009)<sup>2</sup>.

	PRINCIPLES OF SUSTAINABILITY		
	Environmentally Sound	Economically Feasible	Socially Equitable
Sustainable Wine	Yes	Yes	Yes
Organic Wine	Yes, for grape production  Manipulation of wine production process is partially allowed (depending on national rules)	Not required	Not required
Bio – dynamic Wine	Yes  Both grape and the wine production are “naturally” managed	Not required	Not required

Table 2 – *The triple “E” of sustainability in wine production*

Source: our elaboration

Even if sustainable wine is confused with organic wine, they are not mutually exclusive, since the last one may or not may adhere to sustainability guidelines.

The definition of organic wine is different in every country but its general guidelines are similar.

Organic wines are made from “organic grapes”, that means that no systemic fungicides (fungus control), insecticides (bug control), herbicides (weed control), or synthetic fertilizers may be used in the vineyards. Before 2012, EU recognized and ruled the raw agricultural products as organic (grapes), but not the process one (wine). As a consequence, Italian wines could only be labelled as “made from organic grapes”. At that time, European wine makers voluntarily adopted self – standard

<sup>2</sup> The *Code of Sustainable Winegrowing Practices Self-Assessment Workbook* provides the criteria to translate sustainability principles into practice. There are 14 assessment areas, including: 1) Viticulture, 2) Soil management; 3) Vineyard water management; 4) Pest management; 5) Wine quality; 6) Ecosystem management; 7) Energy efficiency; 8) Winery water conservation and quality; 9) Material handling; 10) Solid waste reduction and management; 11) Environmentally preferred purchasing; 12) Human resources; 13) Neighbors and community; 14) Air quality (Zucca, Smith, Mity, 2009).

for “organic wine”. But by the 2012, the organic wines may be also labelled as “organic”, with the EU organic logo. This means that organic wine is fully integrated into EU legislation, and that the organic wine may be fully recognized as “green” or “eco-friendly”, both in the vineyard and in winemaking process (Dejas, 2013).

The new implementing rules prohibit the following practices for organic wines (Article 29d(2) of Reg. (EC) No 889/2008):

- Partial concentration through cooling
- Elimination of sulphur dioxide by physical processes
- Electrodialysis treatment to ensure the tartaric stabilization of the wine
- Partial de-alcoholization of wine
- Treatment with cation exchangers to ensure the tartaric
- Stabilization of the wine
- All new physical methods allowed in regulation (EC) No 144/2013 like nano - or ultrafiltration as well as coupled
- Membrane procedure.

A table for a – non exhaustive – list of forbidden substances in organic wine production is available in the Appendix 1.

Finally, there is the biodynamic viticulture, which was first advocated by the Austrian philosopher–scientist Rudolf Steiner in 1924. Steiner gave rise to the organic wine<sup>3</sup> movement, in order to bridge the gap between the material and spiritual worlds through the philosophical method. His eight lectures, entitled *Spiritual Foundations for the Renewal of Agriculture*, were delivered just a year before his death, but they remain as the foundation of biodynamic farming.

Steiner used a holistic approach to farming and viewed the vineyards as an interrelated unit by placing emphasis on the balance between the soil, vines and animals in a close self-nourishing system. A great importance is given to composts and manures that replace use of chemical fertilizers in every farm production. In winemaking the biodynamic producers carry out a minimum of manipulation: the fermentation is done by the grapes own bacterial community, and wine seem to ferment well.

Both bio-dynamic and organic farming take place without chemicals, but biodynamic farming takes it a step further, incorporating ideas about a vineyard as an ecosystem, and accounting for things such as astrological influences and lunar cycles.

In spite of the underlined differences among organic, bio-dynamic and sustainable wine, the available data about market trends and its future development mainly refer to the organic wine production.

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<sup>3</sup> A biodynamic wine means that the grapes are farmed bio-dynamically, and that the winemaker did not make the wine with any common manipulations such as yeast additions or acidity adjustments. A wine “made from biodynamic grapes” means that a vintner used biodynamically grown grapes, but followed a less strict list of rules in winemaking (source: winespectator).

Probably it depends not only upon the still little diffusion of sustainable wine, but also on the difficulties still existing in differentiate the products at both national and international level. The interrelation of these terms can be complicated, as there is a frequent overlap between the requirements for each one. As showed in table 2, Sustainable wine may be considered as a wide concept, including organic and bio-dynamic production.

A biodynamic wine is also organic, but an organic wine is not always biodynamic. In any case, a sustainable wine is obviously always an organic wine, even it has not to be necessarily a bio-dynamic. Finally organic wines are sometimes sustainable, but the terms are not sufficiently similar in meaning to provide any hard and fast rule (winefeed).

## **WORLD UNDER ORGANIC WINE**

According to a survey developed by the Research Institute of Organic Agriculture<sup>4</sup>, the organic grape area grew on more than 260.000 hectares at the end of 2011: the 3.7% of the whole world's grape area. In Europe about 230.000 hectares devote to organic grape production (217,000 hectares within the European Union). Since 2004, when data on land use and crops were collected for the first time, the grape area has more than tripled<sup>5</sup>.

Spain, Italy, France, China, and Turkey are the five most important grape growing countries in the world, but among them, only China did not provide data about the area under organic grapes.

According to the available information, Spain, France and Italy are the countries with the largest organic grape areas (more than 50.000 hectares of organic grapes). Particularly, Spain is the first in Europe for extension of organic grape. It is followed by France and Italy. The available data indicate a large part of the total grape area (42%) to be in-conversion, thus we expect an increase of organic grapes mainly supplied by Spain, Italy and France.

Obviously, not all of the mentioned grape areas are used to produce organic wine, since table grapes and raisins are still important in many countries, like, for example in Turkey.

In Europe, 5.6 per cent of the wine area is organic; in the European Union it is even 6.6 per cent. This is a higher share than for overall agricultural land in the European Union (5.4 per cent in 2011)<sup>6</sup>.

Very important observation arises with reference to some countries, like UK and Netherlands, since, even smaller than Spain, France and Italy producers, they show a high shares (respectively 16.7 and

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<sup>4</sup> The 14th survey on organic agriculture worldwide was carried out by the Research Institute of Organic Agriculture FiBL in cooperation with the International Federation of Organic Agriculture Movements (IFOAM) and further partners. The survey was carried out between July 2012 and February 2013. The survey involved 162 countries (including for the first time: Dominica, Guinea Bissau, Kosovo and Tonga). The data have been provided by almost 200 country experts (representatives from NGOs, certification bodies, governments, researchers). Source: Willer, H, Lernoud, J, and Kilcher, L. (2013) The World of Organic Agriculture. Statistics and Emerging Trends 2013. FiBL, Frick, and, IFOAM, Bonn.

<sup>5</sup> Some of the increase must be attributed to continually improving availability of data.

<sup>6</sup> A table about Organic Viticulture in Europe is available in the Appendix.

14.6%) of organic on the total vine area. The underlined situation poses interesting questions about the propensity to adopt responsible behavior more easily in some countries than others.

According to the collected data, Europe is by far the largest player in the global arena. Major organic wine markets outside Europe are the United States, Chile and also Australia (Remaud *et al.*, 2008; Iordachescu *et al.*, 2009), even if no markets statistics are available on organic wine.

Nevertheless, according to Willer (2008) the organic wine production is still a little share of the total wine production at a worldwide level, mainly because of production problems, as well as for a still low demand by the final consumers.

Many studies investigated consumers perceptions of organic wine. Stolz, and Schmid (2008) identified the consumers' expectations of organic wine in four countries – Italy, France, Germany, and Switzerland – underlining the negative taste perception that most of them have for organic wine; similarly, Iordachescu *et al.*, (2009) analyzed Romanian consumers behavior towards organic wine, suggesting the need for a more “green” culture for consumers, the last ones looking at the higher price of organic wine as a disadvantage. D'Souza *et al.*, (2006) finally examined the premium price that Australian consumers are willing to pay for organic wine. The research results show that about the 70% of the sample is willing to pay a premium price for organic wines, but a segmentation analysis revealed that only a minority of Australian consumers are willing to pay a premium price of 4.99\$ when buying wines above 12.50\$ (Remeaud *et al.*, 2008).

Italian consumers are also price sensitive, mainly because of the Italian economic crisis, thus they do not pay much attention to ecological aspects of wine productions (Szolnoky *et al.*, 2011). At the same time, other studies show that the positive attitude and the buying intentions that consumers have about the organic food, do not extend to wine (Sirieix and Remaud, 2010). According to Olsen *et al.* (2006) the traditional wine consumption is often symbolically associated with pleasure and taste. On the contrary, organic wine is considered “healthy” and “natural”, but less pleasant and with bad taste. The conflict between “healthy” and “hedonic” consumers' behavior may negatively affect the development of organic wine production. As noted in consumers' mind “organic wine is good for the environment but not for those who drink it” (Castellini *et al.*, 2013, p.4).

The situation may be particularly true in the Italian market where traditional wine production and consumption is a strongly embedded in the historical heritage.

Even if analyzing the behavior of organic wine consumers is not the aim of our paper, we underline the importance that customers' choices may have in affecting the Italian winemakers' production choices. Generally speaking, a low demand for organic wine at national level could lead Italian wine producers to not adopt organic production or, alternatively, to produce organic wine mainly for the international markets. Depending on the above considerations, a deep investigation seems to be

necessary about the drivers that lie behind organic wine production. The following section focus on the Italian experience in organic wine industry. The entrepreneurs' initiatives have been used as starting points to identify the milestones for the next research step.

## **THE ITALIAN EXPERIENCE IN THE ORGANIC WINE INDUSTRY**

After the adoption of the EU regulation N. 203/2012, the Italian production of organic wine grew and in 2012 (latest data available) the 8% of the Italian vineyard area has turned into organic ones (compared to the world average of 4%).

Italy is third in Europe in terms of organic vineyards (+8.6% compared to 2011 and +81% compared to 2003); it is only overtaken by Spain and France. At the regional level, Sicily is the leader in terms of organic vineyards (16.144 hectares), followed by Puglia (10.173 hectares) and by Tuscany (5.887 hectares): here the traditional Tenuta di Capezzana recently converted to organic cultivation and even Barone Ricasoli is in the process of converting his vineyards.

Nomisma Wine Monitor (2013) shows that the sales of organic wine are also rising: according to a survey on Italian consumers, in 2013 the 11.6% of Italians consumed organic wine on at least one occasion (the previous survey reported that, in 2012, the penetration rate was of about 2%). The increasing consumption may be partially due to the development of the new EU regulation on organic wine that widened the potential market for this segment.

Not all the organic wine feeds the domestic market. Like for the traditional wine, the US are the most important destination market for Italian organic wine. The U.S. imports the 33.7% of organic wine from France, and the 29.3% from Italy. Among the other Italian competitors, though with far smaller market shares, there are New Zealand (7.6%) and Spain (7.5%).

Turning wine production into organic one is not easy. The high production costs raise the prices for organic wines, thus mining the competitiveness of firms.

As the ORWINE project<sup>7</sup> exposes, four main obstacles seem to limit the diffusion of organic wine production:

- 1) Low consumer knowledge about organic wines and production;
- 2) The poor image of organic wines;
- 3) The strong competition with the conventional products; and
- 4) The high price of the final product.

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<sup>7</sup> The Orwine (Organic viticulture and wine-making: development of environment and consumer friendly technologies for organic wine quality improvement and scientifically based legislative framework) is a European Project that aims at solving the legislative problems in the organic wine industry, by producing scientific data.

According to the samples, consumers perceive a less quality for organic wines, when they compare them with the traditional ones: even when quality is equal, organic wines are less competitive because of their higher price.

Even if the results of the ORWINE project give us a lot of information about the dimension of organic wine market, as well as about the features that may limit its diffusion, less contributions are actually available on the reasons that drive wine-makers to produce organic wine.

Taking into account both limits and obstacles to face, we try to understand why Italian wine producers devote themselves to organic wine production.

“Talk” with the entrepreneurs is the first way to know which are the opportunities and the challenges that they face in producing organic wine, as well as to collect information about the factors that induce them to adopt socially responsible practices.

The following case study shows the real experience of an Italian wine producer. The face to face interview allowed us to better define our research hypothesis and to structure the questionnaire that has been used during the investigation.

#### *The entrepreneur's storytelling*

The entrepreneur that we interviewed comes from Pramaggiore, near Venice.

The production activity started in the 1958, when his father bought a rural building, where he soon established the firm's core activities (namely a mix of zoo-technical and wine productions). After that, the winery expanded along the neighboring properties, mainly focusing on viticulture.

The winery management shift from the founder to his son in 1988.

Nowadays, the winery is managed thanks to the support of the whole family (both the entrepreneur's wife and his children are involved into the firm's activities) and new and more environmental responsible techniques have been adopted to manage the vineyards.

In 1993 the winery started the conversion of the traditional production in order to turn the farm into an organic one. New protocols for organic agronomic management have been adopted, thus pesticides and chemical fertilizers have been totally replaced by natural parasiticides. The entrepreneurial choice allowed the winery to obtain the organic certification by the ICEA (Institute for Ethical and Environment Certification).

The winery annual production is about 4.000 tons of grapes, that means about 3.000 hectoliters of wine (400.000 bottles a year). Venetian, Lombardy, Piedmont and Tuscany are the main Italian markets, but since 2000, the entrepreneur has expanded into foreign markets, thus Switzerland (but also other European countries), U.S. and Canada are the most important destination of firm's trading activity.

Not surprising the 80% of firm' s production is absorbed by the foreign countries where the consumers' demand for organic productions is increasing more and more.

But adopting social responsible practices is not simple, at all.

As the entrepreneur states, sustainable environmental practices increase the production costs, thus impelling the firms to rise the final price. Since the consumers are not always able to distinguish the differences between traditional and organic wines, obtaining certification and label is only the first step to be recognized by the market. The second, most difficult one, is to improve the product image within the consumers mind. The last ones, especially the Italian consumers, feel a strong distrust for the "quality" of organic wine, thus impelling the producers to look for new markets, where sell own production.

In spite of the underlined difficulties, the adopting of "green" production may really improve wine quality (even if it reduces the quantity), thanks, for example, to the better aeration of the grapes and to the return to a natural farming that makes the organic wine unique in its essence.

*"Undoubtedly, you could not produce a good organic wine, without love your land" – says the interviewed.*

*"For many winemakers the "organic living" is only a kind of "status symbol", a way to access and to expand their market...but...it's is not right...not the right way, I mean. Producing in organic way is not simple, but I choose to respect the environment...for our health...for the common heath...I believe it is the right choice..."*

*"I believe, also, that producing in a more responsible way, will be a winning alternative in the future...till no much time, consumers' demand for organic wine began to rapidly increase".*

## **RESEARCH METHODOLOGY**

The paper is a first step of a wide multiple steps research aiming at comparing the entrepreneurial sustainable behavior in the wine industry at international level. The study will be based on a qualitative method (first and second step), according to which selected winemakers have been interviewed.

The first step of our investigation focus on the Italian organic wine industry.

The qualitative method, instead of the quantitative one, firstly allows us to identify the relevance (hierarchy) among different drivers and challenges for the organic production, as they are perceived by Italian winemakers. Secondly, we consider the qualitative method a suitable tool to clarify to what extent Italian organic wine producers are able to distinguish between sustainable and organic wine, as well as to what extent organic production inspires to ethic values.

Selecting the firms have not been simple, because of the lack of a national database for organic wine producers. In Italy there are 7 certification bodies for organic production, each of which may grant the certification to all the firms that respect the required standards. As a consequences, the data are



dispersed and difficult to be collected. Additionally, firms usually request an organic certification even for one or more labels (even if arising from the same production), thus making the investigation even more complex. Depending on the above considerations, 77 Italian organic winemakers have been selected by the catalogue of the Italian wine producers present at the Vinitaly 2014. Even the catalogue doesn't collect all the Italian organic wine producers, we considered it a sufficiently representative "sample", mainly because the relevance of Vinitaly for the industry at both national and international level.

Vinitaly is the most important expo organized by VeronaFiere. On the April 2014, Veronafiere – and Federbio – started Vinitalybio – the first expo exclusively devoted to the organic wine. All the wine producers selected by Vinitaly, and present at the expo 2014 strictly respect the UE norms for organic wine production.

The selected wineries will be interviewed<sup>8</sup> using a semi-structured questionnaire, that includes also, and among the others, open-ended questions (see Annex 2). The questions have been divided into 3 main sections.

The first section collects biographical data and information about firm's structure and activities.

The second section deals with specific aspect of organic grape growing and wine making, mainly referring to both the challenges and the opportunities arising from organic wine production. 2 Likert scale questions (scaled from "0" not important/ Not used to 5 "Very Important" has been introduced into this section (2.1 and 2.2).

The third section devotes to collect information about Sustainability concerns.

In the second research step the same questionnaire will be send to selected wineries located into different countries. The international sample is not complete at moment. One French interview is actually available and 1 Australian winery accepted to be interviewed.

## CONCLUSIONS AND PAPER LIMITS

Our paper is the output of the first step of a wide-based research about the sustainability of wine industry at international level.

The literary review and the collection of data allowed us to develop some hypothesis about the factors that drive Italian wine producers to adopt social responsibility practices.

At moment, 22 interviews on 77 came back. Even if they are not sufficient to point out final conclusions, preliminary findings may be traced.

A common opinion is that producing organic wine is not easy. It requires higher production costs than the traditional techniques, as well as higher involvement, mainly in the first stage of grape

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<sup>8</sup> At this time the empirical investigation is still in progress.

cultivation. High production costs have been mentioned as "very important" challenges (score: 5) by 18 producers.

They are followed by the "Scarce appeal of organic wines among the Italian consumers", that is considered "very important" by 16 producers, and important (score: 3/4) by 4 producers. Two producers do not consider relevant the low appeal of organic wine among the Italian consumers, even they put a 3/4 score to both the "Italian consumers' unknown about organic wine production" and "Italian consumers' misunderstandings about organic wine quality". These two last challenges have been evaluated as "important" also by the other producers.

Quite far from the perception that consumers have of organic wine quality (according to the interviewed), the winemakers strongly believe that organic production techniques improve wine quality (all the 22 firms evaluate this driver as "important" or "very important"). This statement needs to be evaluated taking into account all the information collected through the questionnaire: for the majority of winemakers, the organic production allows to differentiate own output, mainly sold on the international markets. In many case the first decision to devote to the organic production arises by the research for new markets, as it is supported by the evaluation of the underlined driver (important and very important) given in the section 2.1. This result seems to match with the evaluation of the "appeal" that the organic wine has among Italian consumers: the organic winemakers supply foreign market more than the national one. In some cases, looking for new, and foreign markets is the main drive that lead producers to get the organic certification.

"Improving environmental performance" and "Personal ethic values" are not so relevant for the interviewed producers. Similarly the answers to Section 3 – Sustainability Concerns – confirm a lack of knowledge about the Sustainability wine, that is often confused with organic wine. When we ask about the most important principles upon which sustainable wine production bases, 20 producers exclusively refer to environmental concerns, namely to the "environmental respect". Similarly, to the question "How do you practice sustainability" the majority answer with reference to ecological practices, like, for example, the reduction of synthetic fertilizers in the vineyard or the use of renewable energy resources. In any case, however, producers do not refer to any "socially equitable" or "economic feasible" principle. Without generalize, the preliminary results seem to confirm a fundamental lack of knowledge about what is sustainable wine, both among producers and consumers. At same time, even when Italian winemakers devote to organic wine production, they do not seem to inspire themselves to any ethic value, but more to the necessity to look for new markets, as well as to differentiate their output. In coherence with the preliminary results, Italian wine producers are rarely involved in social responsible practices if they are not impelled by norms, and by the necessity to get organic certification.

The main limit of our paper is the lack of collected information, since the empirical investigation is still ongoing.

In spite of this, our idea is that the propensity to adhere to sustainability, as well as to any other social responsible practices may differ from countries to countries (sometimes also among different geographical area in the same country) because of producers' cultural diversities. According to our idea, suggestions for further research arise with reference to the role that values and beliefs may have in affecting wine producers' choices toward sustainability practices.

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## ANNEX 1

Substance	Application
Sorbic acid and sorbates	Microbiological stabilization
Lysozyme	
Chitosan	
L-malic acid, D, L-malic acid	Acidification
Ammonium bisulphite	Protection of harvesting
Ammonium sulphate	Management of alcoholic fermentation
Chitin-glucan	Thinning
Chitosan	
Calcium alginate	
Co-polymer PVI / PVP	
Carboxymethylcellulose (CMC)	Tartrate / colour stabilization
Yeast mannoproteins	
Polyvinylpyrrolidone	Correction of colour
Beta-glucanase enzymes	Glucan elimination
Chitin-glucan	Clarification elimination of heavy metals (iron, copper)
Chitosan	
Calcium phytate	
Potassium ferrocyanide	
Urease	Treatment, elimination of ochratoxin A and urea
Caramel	Various

Table 3 – *Non-exhaustive list of substances forbidden in production of organic wines*

Source: Eu rules for organic wine production (2013).

Country	Area of organic vines [ha]	Organic share of total vine area [%]
Albania	35,0	0,4
Andorra	4,0	–
Austria	4.178,0	9,5
Belgium	1,0	10,0
Bosnia and Herzegovina	8,1	0,2
Bulgaria	1.454,7	1,9
Croatia	625,3	1,9
Cyprus	203,6	2,4
Czech Republic	978,3	6,1
Denmark	12,0	–
Finland	1,0	–
France	61.055,2	8,0
Germany	6.900,0	6,9
Greece	5.001,0	4,8
Hungary	1.207,0	1,6
Italy	52.811,9	7,3
Kosovo	1,0	–
Liechtenstein	2,0	–
Luxembourg	22,2	1,8
Malta	4,6	0,3
Moldova	4.641,4	3,6
Netherlands	29,0	14,6
Poland	22,0	–
Portugal	2.523,0	1,4
Romania	842,0	0,5
Serbia	7,0	0,0
Slovakia	68,0	0,7
Slovenia	287,0	1,8
Spain	79.016,4	7,9
Switzerland	368,5	2,5
The former Yugoslav Republic of	40,7	0,2

Macedonia		
Turkey	8.871,1	1,9
Ukraine	84,0	0,1
United Kingdom	107,0	16,7
Total Europe	231.413,1	5,6
Total European Union	216.724,9	6,6

Table 4 – *Organic Viticulture in Europe 2011*

Source: Eu rules for organic wine production (2013).



## ANNEX 2. – QUESTIONNAIRE

### SECTION 1

BIOGRAPHICAL DATA	
Firm name	
Date of build	
Location	
Type of Activity	
- Organic grape producer	
- Organic wine producer	If so, which are the main suppliers for organic grape
- Both of them	
Any type of certification	

### SECTION 2

WINE PRODUCTION ACTIVITY	
1. When do you decide to produce organic wine for the first time?	
2. What does it drive your decision?	
3. Which are the output markets for you output?	
4. Is there any difference between national and international markets?	
	Yes
	No
If yes, please, indicate which differences	
5. Do you get any help/consulting to produce organic wine?	
	Yes
	No
If yes, please, indicate which ones	
	Ex.: external consultancy, seminars, and so on..
6. What are the pros from the system you are following?	
7. What are the cons from the system you are following?	
8. Do you find easy or not practicing organic production?	

	Explain why in any case
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**SECTION 2.1: DRIVERS FOR ORGANIC PRODUCTION**

Indicate how the following drivers have been important (from “0”: not important to “5”: very important) in your decision to produce organic wine

Cost savings	
Wine quality improving	
Domestic market downsizing	
Research of new markets	
Adopting differentiation strategy	
Compliance with overseas regulations	
Compliance with national consumers’ demand	
Compliance with international consumers’ demand	
Improving environmental performance	
Personal ethic values	

**SECTION 2.2: CHALLENGES FOR ORGANIC PRODUCTION**

Indicate how the following challenges do you feel important (from “0”: not important to “5”: very important) in your decision to produce organic wine

Lack of uniform international rules	
Scars appeal of organic wines among the Italian consumers	
Lack of effective marketing policies	
High production costs	
Italian consumers’ unknown about organic wine production	
Italian consumers’ misunderstanding about organic wine quality	
“Healthy” consumption vs “Hedonistic” one	
Competitiveness of traditional wines	
Local embedded wine tradition (for conventional products)	
Inadequacy of distribution channels	

**SECTION 3 – SUSTAINABILITY CONCERNS**

9. What does “sustainability” mean to you, how would you define it?	
10. What are the most important principles of “sustainable wine production” in your opinion?	

11. Are there some differences, in your opinion, between sustainable and organic wine?	
	Yes
	No
- If yes, which are the main differences?	
12. Are you involved in any other sustainable practices?	
	Yes
	No
- If Yes, which one?	
- How do you practice sustainability?	
13. Do you know some other organizations that practice sustainability in your country?	
14. Do you think that practicing sustainability is an important issue in wine industry? Why?	

## EXPERIENCING WINE TOURISM IN BURGUNDY: AN ELITE INFORMANT STUDY

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### ABSTRACT

The experience of wine tourists has been explored substantially over the last 15 years, but mainly in the context of New World wine regions. This project focuses on a very traditional and well-known European region, with a phenomenological exploration of wine tourism in Burgundy. The aim was to use a single informant who was experienced in tourism but a novice in wine to undertake an elite exploration of the Côte d'Or, approaching it as a low-involvement wine consumer would – but with the ability to make informed judgments about the type, quality and effectiveness of tourism provision. The study confirms some existing knowledge about the key requirements of the supply side and important aspects of the experience, but it also highlights the uncertainty felt by low-involvement wine consumers when faced with a wine region, and the dangers of an approach which relies on wine quality to be the key focus, rather than the experience itself. It also exposes the weaknesses which occur when administrative regions and sub-regions, and individual enterprises compartmentalise their work, and fail to coordinate or cross-promote activities.

**Keywords:** *wine tourism, experiential consumption, consumer satisfaction, Burgundy*

### INTRODUCTION

It has been suggested that the provision of wine tourism in Europe generally lags behind that of the New World – although with the caveat that the main difference is that European wine tourism has been studied less than that in Australasia, South Africa and North America (Charters, 2010; Charters & Mitchell, 2014). Recently, however, it has been clear that more resources are being put into wine tourism across Europe, and that there is an increasing commitment to the concept (Thevenin, 1996) although this is often driven by political authorities as much as by producers (Dubrule, 2007). This has been mirrored by an increasing number of studies of the offer across the continent (Capitello, Begalli, & Agnoli, 2013; Hall & Mitchell, 2000; Howley & van Westering, 2008; Konecnik & Go, 2008; Tommasetti & Festa, 2014). However, the focus has been very much on the supply side, rather than looking at the experience of consumers themselves.

This paper therefore continues research into wine tourism in the Old World, but with a focus geared more towards the consumer experience than the supply side. Specifically it examines wine tourism in the Côte d'Or in Burgundy – a traditional and highly reputed wine producing region, making some of the most expensive wines in the world. The process adopted is an innovative one, employing a single, elite informant to assess the service provision in the region, but also using the process phenomenologically; thus, this was not merely a descriptive analysis of what exists, but an exploration of the experience of one person (albeit someone with a level of expertise) and an investigation of the impact of that experience on them. To this extent the project was an extension of other 'mystery shopping' studies in wine tourism which included such a phenomenological approach (Fountain & Charters, 2010). There was therefore a double research focus: to examine the effectiveness of the wine tourism offer in Burgundy, and to explore the experience of one consumer of wine tourism in that region.

## CONTEXT

The context for this research is, geographically, the area of Burgundy in France. Burgundy is an administrative region of the country with a population of a little over 1.6 million and an area of about 31,500 square kilometres. It is also, of course, the name of a wine that comes from the region (both red and white) – but which is sourced in a much smaller area. There are four main sub-regions, Chablis, the Côte d'Or, the Côte Chalonnaise and the Maconnais but they only cover a small part of the administrative region. The Côte d'Or is the most famous of these sub-regions and for many connoisseurs it is what they immediately think of when they talk about Burgundy – although it only produces around 20% of all burgundy wine. One confusing factor is that while the name Côte d'Or is used for this narrow wine producing area (about 3-15 km wide, and 55 km long), it is also the name of a *département* (the equivalent of an English county, and also an administrative area).

The viticultural Côte d'Or stretches south-west from Dijon, the regional capital, but the two most significant wine towns are Nuits St Georges and Beaune, which form the main wine tourism centres. Most of the villages along the route make wine, and therefore are the home to small Domaines. The larger producers, generally *négociants*, tend to be based in one of the two towns. There are a range of annual events which form a tourism focus, such as the auction of the hospice de Beaune in November each year (a charity auction of well-known local wines from the latest vintage) or the Festival of St Vincent (the patron saint of grape growers) in January. However, these began as industry events, and have only subsequently (and perhaps coincidentally) become tourist attractions. As with much wine tourism in Europe it has not been planned as such, but has evolved out of the general activities of wine producers. Also, as in much of Europe many domaines which sell wine at the cellar door, and

thus welcome visitors, would not accept that they are involved in wine tourism; rather, they only sell wine.

Burgundy is a major French tourist destination, known for its history (it boasts a number of significant medieval monasteries), good walking and substantial gastronomy – as well as wine. Indeed, wine tourism in the region has been in operation for a long time (Whalen, 2009), although barely acknowledged as such by the major actors, and it has often been seen as subsidiary to the overall tourism offer, or even as irrelevant (mainly by producers). Increasingly, however, regional authorities are seeking to use wine as leverage for tourism so it seems relevant now to investigate wine tourism in Burgundy, as one exemplar of the wider and under-researched offer in Europe as a whole, and specifically to consider how tourists respond to that offer – their expectations, satisfaction and experiences. This understanding is essential if wine tourism is to be used for more than merely selling more wine, but as a contribution towards building the territorial brand (Vrontis & Papasolomou, 2007).

Studies which have investigated consumer perceptions of wine tourism have stressed that it is the experience which is most important (Charters, Fountain, & Fish, 2009; O'Neill, Palmer, & Charters, 2002; Roberts & Sparks, 2006). Thus, O'Neill with his collaborators (O'Neill & Charters, 2006; O'Neill et al., 2002) showed that visitors to a winery make their purchase based on satisfaction with the service, rather than the quality of the wine. Beyond this, it has been argued, the sense of hospitality that is experienced during a visit is crucial (Charters et al., 2009; Mitchell & Hall, 2004). Thus, the hospitality received and the chance to learn about wine and interact with staff is essential, as is the need to feel a sense of attachment to the host winery, particularly the affective desire for a 'story'. Most important, perhaps, is the need to feel secure in what may be an uncertain, strange, even threatening environment for some people who feel they lack the product knowledge or the awareness of the rituals which surround the tasting and consumption of wine. Further, Roberts and Sparks (2006) reported that tourists have a wide range of reasons for visiting a producer. These include: the very nature of the service interactions themselves – including a need for personal attention; the search for an experience which is 'authentic', and; the chance for personal growth, particularly by way of opportunities to learn. The concept of the experience economy (Gilmore & Pine, 1999, 2002) has been the framework for many of these approaches (Quadri-Felitti & Fiore, 2012).

## **METHOD**

The aim of the study was to investigate the complete experience of a wine tourist in Burgundy. This was very much a phenomenological and experiential study so as noted, the research method adopted was a form of mystery shopping, which was intended to allow for a wide range of experiences and

responses, engaged with at a deep level by one person. The mystery shopping approach has previously been used in one substantial study, employing a number of informants visiting winery cellar doors in Australia and New Zealand, and then debriefing them in the environment of a focus group (Fountain & Charters, 2010). That process allowed a comparison to be made of visitor experiences and satisfaction over a short period (usually one or two days). The participants used were explicitly said to be non-expert. By contrast, this study employed a single informant, experienced in tourism (though not wine) who made a number of visits over many weeks, thus building up a longer-term exposure to, and experience of, wine tourism in the region. This offered a different less comparative but longer term insight into the phenomenology of the experience.

Generally, mystery shopping is a rigidly structured process designed to offer commercial clients precise and comparative information about service quality, and limiting the informant's subjective views and personal characteristics within the service encounter (Hudson, Snaith, Miller, & Hudson, 2001; Morrison, Colman, & Preston, 1997). However, when used as an academic research tool it has been applied much more loosely, with a focus on the experience rather than the supplier (Fountain & Charters, 2010). In this study no set questions or quantitative criteria were required; rather feedback on the total experience.

#### The informant

The informant was Head of Communications for a major tourism coordinating body in a mid-sized city in the UK with twenty five years of strategic tourism experience, who was spending two months on secondment in Dijon. She was a reasonably regular wine drinker who described herself as 'not particularly interested in wine', and an analysis of her consumption behaviour placed her as low-medium involvement with wine at the start of the research process. She therefore had expertise in one aspect of wine tourism provision, but was essentially a novice in the other. This had the advantage of enabling her to make expert judgements about how well wine producers and other wine-focused operators offered the tourism aspect of their business, but at the same time she could view that offer with the eye of a wine neophyte who was not socialised into the ways of wine (jargon, expectations, rituals etc.). The result was a detailed but 'fresh' view on how the region could further capitalise from its wine tourism business with a personal response to her experience, untainted by the presuppositions that inform those (such as wine tourism academics!) who come with some knowledge and often a high level of involvement.

There can, of course, be problems with elite informants within qualitative research (Marshall & Rossman, 1989). While they offer precise and focused information, they may also come with professional assumptions and presuppositions which can hide what non-professionals might experience in the same situation. It is possible, also, that they may be hyper critical, as their

knowledge gives them higher expectations and less tolerance of weaknesses in service provision. In this case, however, a combination of the informant’s lack of experience in the main focus of the research (wine) together with regular debriefing by the researcher, who could probe and interrogate the informant’s responses, gave an element of triangulation to the study (Janesick, 1994), adding to its trustworthiness (Wallendorf & Belk, 1989).

Data collection

In keeping with the philosophical direction of this research, before visiting any attractions the informant was asked to treat each visit as a normal and enjoyable activity. She made a number of visits over eight separate days. Many of the visits covered a number of different activities, but table 1 shows the number of primary undertaking of each type, along with the number of subsidiary offerings, which resulted from the primary goal of the organisation. (Thus, a tour of a vineyard could be the main offer of a particular event, but a subsidiary aspect could be a tasting amidst the vines). There were 16 visits in total, as well as some hours spent going around the two major wine towns of the region, Beaune and Nuits-St-Georges. One of the visits was non-commercial – a walking tour in the vineyards with a group who regularly organised rambles of this type.

	Tourism centre	Vineyard	Domaine	Historic site/ museum	Tour	Shopping	Tasting	Other attraction
Primary activity	4	1	4	2	2	2		2
Subsidiary activity		3	2			1	9	

Table 1: *Analysis of visits.*

It was decided to make the visits by public transport. Although most tourists in the region probably come with their own car, many do not, and adopting this approach would therefore enable an understanding of the links between the wine tourism offer and the transport network.

During each visit, if relevant, the informant indicated an intention to take home a significant amount of wine at the end of her stay in France as an indication of her seriousness. She had a fair (though not fluent) level of spoken and written French, though she struggled sometimes with listening and comprehension. During her visits she used a mix of French and English. Whilst this may seem a limitation for data collection, it nevertheless reflects the typical situation of most Anglophone visitors to the region.

Analysis

The period of data collection totalled seven days spread over two months. The extended period allowed the informant to be reflective about how the process developed, and also about her response to her experiences. For example, she talked of two ‘light bulb moments’ when she had a dawning of



something significant that she had not previously understood. Additionally, the informant regularly talked about her experiences with the researcher, giving her interpretation of what she experienced and engaging in a non-directive dialogue about its meaning. This resulted in a reflexive process where data collection and analysis intertwined. The analysis informed how the data collection developed subsequently and the later data collection fed into the emerging themes.

At the end of the process the informant produced a written report on her experience of wine tourism in Burgundy. This combined an expert analysis of the type of provision and the service quality which underpinned it, together with a more personal reflection on her own response to the experience and how her expectations and understanding had developed over time.

Following completion of the report, it was further analysed by the researcher in the context of our existing understanding of wine tourism, and of the consumer experience of it. This analysis required a close examination of the report for emerging themes - categories which extended beyond the answers to specific questions (Patton, 1989). The recognition of these themes helped to order and classify the basic characteristics of the experience (Denzin, 1989). The preliminary categories and ideas were then left by the researcher for a period and later reevaluated in order to allow for multiple perspectives which would refine the analysis and the interpretation of the data, adding yet further to triangulation.

The qualitative nature of this research limits its generalisability – and especially the fact that this is a single rather than a multiple case: one person’s experience. However, no claims are made for it as an overarching and explanatory explanation either of wine tourism in Burgundy or of how consumers respond to that provision. Rather it is a point of departure with indicators about what might exist; yet those indicators are, in themselves, interesting as insights into what may happen more widely.

## **FINDINGS: THE PROVISION OF WINE TOURISM IN THE CÔTE D’OR**

### **Orientation, itinerary and transport**

There was a sense that the tourism offer is only designed for high-involvement consumers; for those ‘in the know’. The informant concluded that exploring the Côte D’Or by bicycle, by train and by bus is actually easy - when you know how and once you understand that the Côte D’Or is also an area or *département* of Burgundy. Nevertheless, often on tourism brochures, Dijon and other towns were not placed in context of Burgundy but just in the context of the local area (the Côte D’Or as a wine region), which made initial orientation difficult. This failure to distinguish the viticultural from the administrative, whilst unconsciously understood by political and tourism operators, is not necessarily immediately apparent to a visitor.

A major hurdle encountered by the informant was that of working out how to reach chosen destinations by public transport. She decided to visit Clos Vougeot (a major site of historical significance to the wine industry). On the Clos Vougeot website there was no information about how to get there by train or by bus. When she asked the Dijon Tourism Office they directed her to the Dijon transport authority. The latter suggested that she should check with the regional transport authority. This body gave some limited advice. Thus the informant arrived at a train station close to Clos Vougeot, yet with no idea how to get to the Chateau itself and no signposts to show the way. There was a lack of coordination between tourist office and varying transport authorities.

The informant arrived on foot at Clos Vougeot, and the visit took about one hour. She had planned to spend the majority of the day there, which would have been far too long – presaging a substantially wasted afternoon. There was no idea given of the time that a visit should take, to help visitors plan their day better.

#### Opportunities for cross promotion

There are many opportunities for the wine tourism businesses in any region to cross promote one another, so that other businesses could benefit. The visit to Clos Vougeot ended after one hour, and the informant left directly to take the bus to Beaune. Wine tasting is not offered at the Clos yet there was no brochure or advice about wine tasting venues in the locality (which do exist). Cross-promotion with other local businesses would ensure that the visitor stays longer, spends more and overall has a much more rounded experience of the town.

Similarly after an organised excursion with a tour company, the informant was dropped off in Beaune, with no map and no information about what to visit there. Consequently, instead of spending more money or visiting a *négociant* she just went to the nearest cafe and then returned to Dijon.

There also seemed to be a silo mentality in each administrative centre. Towns, for instance, refuse to promote each other for the benefit of the wider region. Explaining what there is to enjoy in Beaune would be another way to encourage visitors to stay longer in Dijon. Yet there was no information about the rest of the region on the online website for Dijon. Only when asked for brochures did the Dijon tourism office find them from behind the counter, and there were no maps or posters advertising what could be done outside the city. This would have underlined the role of Dijon could have as an excellent touring base.

Similarly, events and festivals appear to be promoted in isolation. Whenever the informant made visits to towns on the 'wine route', she was not offered information about events happening that day by the local tourism office. For example, on a day she visited Beaune, it was the day of the *fête de la musique* (music festival), which had the potential to enrich the whole visitor experience and add to a

day of wine tasting. Yet the tourist information staff did not mention this, so she left before the festival and did not spend any more money there.

## **FINDINGS: THE EXPERIENCE OF WINE TOURISM IN THE CÔTE D'OR**

### Problems of choice and information

From the outset of this project, what became apparent to the informant, was the overwhelming choice of information on offer with respect to wine tourism places to visit, such that she felt like a 'rabbit in the headlights' and had no idea where to begin. The tourism office in Dijon had a wealth of leaflets but, without guidance, which was not readily available where does one begin to discover the wine tourism product on offer? Yet whilst a great deal of literature had been produced, there was only information about three, main, organised wine tours online on the official website for Dijon.

By asking more specifically at the Dijon tourism office for detailed information on wine tourism activities, the informant was offered a brochure entitled *En Route Vers Le Bourgogne* - a printed guidebook (only available behind the counter of the tourism office when requested) - to the cellars and vineyards in Burgundy. Whilst this booklet is comprehensive and does include map references, she then felt a sense of 'information overload'; there was little available of an intermediate level. The result was that the informant felt that she was forced 'to do a lot of digging' and ask a lot of questions at the tourism office to find out what else there was to see and do in Dijon and Burgundy in connection to wine. She had already been requested by the researcher to include a trip to Beaune in her programme, but commented that otherwise she would not have known that this was a worthwhile destination and easy to visit from Dijon!

Where information was offered, it was not easy for the informant to understand how to act on the advice. For example, the website invited the tourist to 'benefit from a complete introduction to wine tasting, presented by an expert from the estate at Pouilly Sur Loire'. However, there was no hyperlink through to the website for Pouilly, to show a map of where it is located, or to explain how you would action this if you were interested. There seemed to be too much work involved to take this opportunity further, so it was lost.

### The welcome

There were some friendly and helpful staff, for example, in two of the tourist offices. However, the reception staff at the majority of tourism businesses visited were not at all welcoming. 'At 95% of establishments I visited I did not hear the words 'welcome' or *bienvenue*, when I arrived.' This, of course, is a fundamental failing in any tourism offer. She then frequently encountered someone on reception who showed frustration at her lack of understanding as to what her visit was going to entail. By this stage 'my visit and experience was already marred, no matter whether the subsequent tour

and tasting were well delivered'. Thus one visit which had an very good guide and an informative tasting with a range of interesting wines was preceded by an impatient receptionist who gave the impression that she was a nuisance – and indeed, two other Chinese visitors who arrived at the same time left without continuing, apparently because they have been given the same sense.

The most astonishing story recounted by the informant relates to her visit to a tourism office in one of the villages on the Côte d'Or. The informant entered, and was not acknowledged by the staff member behind the counter. She therefore asked 'qu'est-ce qu'il y a à faire à Exville' (What is there to do in Exville?). The staff member replied (without lifting her head from the counter) 'il n' y a rien à faire à Exville.' (There is nothing to do in Exville!)

It's the experience that counts

At one point in her report on her experience the informant commented that 'there appeared to me to be a big disconnect between how wine tourism businesses wanted visitors to behave and respond and the expectations of the wine tourism visitor'. This analysis goes to the heart of weaknesses with wine tourism in many parts of the world, and particularly, it would seem, in Burgundy. She noted that 'when on holiday, the majority of us want to have some fun, meet nice people, learn something new and generally have a good time'. What is therefore most important is what the visitor experiences. This is, of course, well understood by academics; disappointingly in many cases it was the experience of our informant that tourism providers were unaware of it. Her perception was that there were two problems on this count. First there was some complacency about the product on offer (an assumption that 'our wine is the best and we don't care if you don't like it'). Second, there appeared to be a lack of a holistic approach to the whole visitor experience/journey.

In part this was an element of failures at the point of welcome, noted above. Yet on many occasions even the substance of the visit left something to be desired. She went to one well-known négociant on an organised tour of the cellars. She was impressed by the physical environment of the *caves*; yet the guide recounted 'parrot fashion' the four appellations of Burgundy wine, with little interaction with the audience and no sense that she had to engage with the visitors, find out what they wanted, or give them more than mere education. The visit should have been about the experience, and was just seen as a way of passing on information, and the visit 'left me cold'. It seemed like a conveyor belt and it also seemed that the staff felt that way about it as well.

Ultimately, only one of the six visits made by the informant to a domaine selling wine turned out to be wholly satisfactory – in the most surprising of circumstances. This was at a small producer where she was welcomed by the female owner, who could not speak English. However, she was 'genuine and warm' and did all she could to communicate in simple French. She told her story, and of how she worked in the vines – crucially it was a conversation, and not a prepared script. There was no sense

that the informant was intruding or wasting the *vigneronne's* time. This was the only time, in two months of visits, that the informant actually purchased a bottle of wine directly.

*'In other caves I did not feel inclined to buy, not because I wasn't interested or didn't like the wine but mainly because I didn't feel a warmth or connection with the person who gave the wine tour. I also didn't encounter anyone who tried to sell a bottle of wine to me enthusiastically ... A large part of selling is about listening and I didn't feel listened to'.*

## CONCLUSION

This study is interesting not because it provides a comprehensive or generalisable exposition of how wine tourism operates in the Côte d'Or, but because it provides an individual response to a range of tourism activities – and that response is from someone well-versed in tourism but a novice in wine, indeed, perhaps somewhat apprehensive about having to engage with the process of being a wine tourist. Indeed, it may be that it is that lack of knowledge that made some of the informant's experiences worse; her uncertainty was interpreted as reflecting a lack of interest (which was not the case) and therefore someone who would buy little, and was consequently of no value to the business. This, of course, fails to grasp the wider purpose of wine tourism, reducing it merely to the sale of more bottles rather than the growth of brand equity of the support of the territorial brand of Burgundy and burgundy wines (Charters & Menival, 2011).

Much of what the informant felt has already been explored in the existing academic literature about the experience of wine tourism. Thus the significance of the welcome (Roberts and Sparks, 2006), the need not to feel as though one is on a conveyor belt and the desire for a story to bind the visitor to the provider (Charters, Fountain and Fish, 2009) are all reinforced. What has also been underlined, however, is the uncertainty felt by a novice in a field (such as wine – though it could equally be art, architecture, history or music) where expertise can be very evidently displayed and where knowledge may be used as a means of excluding those who are not in the know (and, by extension, to isolate those who may be perceived to be apparently less economically relevant to the business).

Thus, basic assumptions are made by providers at each stage. The fact that the Côte d'Or exists at two levels is not thought worthy of explanation. That a visit to the Chateau d'Exville will not (as the name may suggest) automatically involve a tour of a castle. Basic information that covers everything needed (how to get there and away, how long you may want to stay there, what else you can do while you are in the area) remains essential to the tourism experience. Managing visitor expectations is also the key to dispelling some of the frustrations of tourism staff, who clearly feel exasperated at times with the questions that visitors ask on arrival.

Overall, in what the informant experienced, there was a sense that what matters is the wine. 'If you come and taste the wine then all will be well (because, naturally, as this is Burgundy the wine must be excellent)'. The quality of the engagement with people is irrelevant. In only one or two of the 17 visits did this seem to be grasped.

The lack of cross-promotion of events is also a major drawback for the wine tourism industry because events and festivals are a key driver of visitors and enrich a visitor's experience, encouraging them to come back and act as a key motivator to visit in the first place. Additionally, advice on 'what else there is to do in the area or nearby', far from detracting from the revenues of a destination, would give visitors more reasons to visit and to repeat visit in the future. Yet this seems rarely understood, both at individual attractions and at the level of public institutions.

Despite all these criticisms, the informant concluded that there remains a huge potential to increase income from wine tourism in Burgundy, and to support its territorial brand. Certainly, to achieve this some key changes and recommendations need to be made and further (and more generalisable) research must be conducted into the whole visitor experience and journey in the region. Key is to remember that it is indeed the experience that counts (and not just the product). Capitalising on this offers a substantial opportunity which the wine tourism sector in Burgundy could exploit to the full.

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## **GREEN COMPETITION: AN INNOVATIVE MARKETING TOOL? AN EMPIRICAL INVESTIGATION IN THE WINE SECTOR IN APULIA**

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### **ABSTRACT**

The wine business is characterized by its strong complexity (Orth & Lockshin, 2007) and by innovative dynamics that are affecting wineries' strategies (Choelette et al, 2008). Marketing innovation can be considered as a tool for maintaining competitive advantage and achieve growth (Chen, 2006) as well as a way to overcome market crisis (Naidoo, 2010). The aim of the paper is to investigate the relationship between marketing innovation and orientation to sustainability in the wine supply chain: a sample of 280 wineries in Apulia region (in southern Italy) was analyzed by means of an on line survey. 204 were the respondents. A correlation analysis - Pearson's Correlation matrix - was performed in order to highlight significant relationships between the selected variables.

**Keywords:** *marketing innovation, green orientation, sustainability, wine, Apulia region*

### **INTRODUCTION: OBJECTIVES AND RESEARCH QUESTION**

The competitive dynamics in the wine market are complex (Orth & Lockshin, 2007): the landscape has expanded into a global competition when it comes to consumer's taste preferences and hedonic and emotional aspects, as well as on aspects related to the health and to the respect for environment. These innovative dynamics are affecting wineries' strategies (Choelette et al, 2008). Marketing innovation can be considered as a tool for maintaining competitive advantage and achieve growth (Chen, 2006) as well as a strategy to overcome market crisis (Naidoo, 2010). Businesses are recognizing the need to acquire more environmentally efficient technologies, and reduce waste and pollution, as 'the rise of the "green" consumer marks a shift in the pattern of consumer purchasing, away from products that are considered to be damaging to the environment and toward products that are sustainable' (Ristovska, 2010). The issue of sustainability both in primary production processes (grapes growing) and in its transformation (wine-making) is taking a central role in operational and strategic wineries'



choices, because of the increasing concerns about the environment, ecological consequences, and the efficient use of natural renewable resources as reflected in public opinion and in consumers perceptions.

The study was designed to answer the following research question: are innovative marketing choices affected by the propensity for sustainability? The following hypotheses were generated:

*Hp1 marketing innovation in the wine supply chain is positively affected by the sustainability orientation*

*Hp2 new technologies (sustainable oriented) affect positively wineries in penetrating new market segments*

Specifically, the paper investigates the relationship between orientation to sustainability and green marketing innovations in the wine supply chain (see table 1) in Apulia region, in southern Italy.

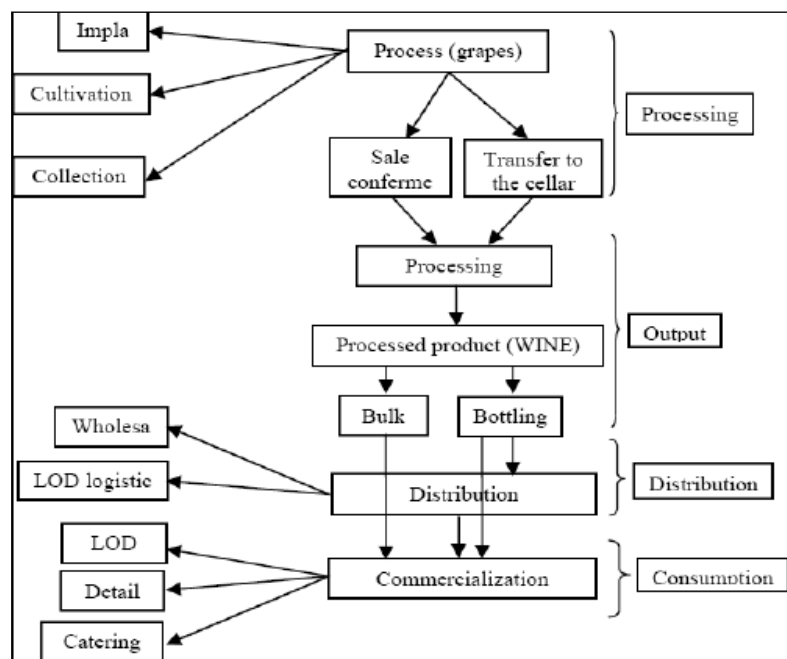


Fig 1. A supply chain model for the wine sector. Source: Contò et al., 2011

Table 1 represents a model of supply chain in the wine sector with a scheme of vertical supply chain relationships, as a part of horizontal relations with the socio-economic area where the chain is located. By means of Survey Monkey - online survey software, a survey was submitted to a sample of 280 wineries, extracted from the population of companies participating at IPFs (Integrated Project of Food chain). Data analysis has been performed by using SPSS software. A correlation analysis - Pearson's Correlation matrix - was performed in order to highlight significant relationships between the variables selected. A cluster analysis was carried out for the grouping of the wineries. We expected to find a positive correlation between orientation to sustainability and marketing innovations, which might indicate a need for SMEs in the wine sector to transition into a more green oriented business

model in order to sustain their market competitiveness. The paper contributes to the burgeoning field evaluating relationships between green marketing and competitive strategy and provides insights with respect to the relationships between innovation and “green” orientation as well as suggestions for further research. The paper is structured as follows: in the first part an overview of background research on marketing innovation and business sustainability orientation in wine sector is provided; secondly, the methodology is presented. Next, an exploratory and qualitative case study of the Apulia region, Southern Italy, is discussed. A conclusion and implications section follows data analysis.

## LITERATURE REVIEW

### *Orientation to sustainability*

There has been an emerging conventional consensus that present patterns of consumption are unsustainable as growing demand for natural resources faces a finite and diminishing supply. The body of scientific research increasingly recognizes a range of ecological challenges, including climate change, depletion of natural resources, overpopulation and air pollution, among others (Krausmann et al., 2009; Oreskes, 2007; Vlek & Steg, 2007). According to Gaillard and Nemecek (2009) agriculture and food production are one of the principal responsible for environmental impacts and natural resources. Actually there are several environmental related pressures generated by governments and environmental groups associated with existing product supply chains, and the major challenges and driving forces to improve the sustainability of supply chains. In this context it is preferable to implement a farm management system which combines carbon capture and emissions reduction considering several farming activities including grazing and fertilizing, tillage, crops alternation, harvesting Khan and Hanjra (2009). Sustainability has become a key issue for the Italian wine industry. A variety of systems, methodologies and tools are being implemented, for a variety of reasons and with different objectives. In the framework of V.I.V.A. (Evaluation of wine production environmental impact) project, launched by the Italian Ministry for the Environment in 2011 new methodology was developed to assess the environmental impact in order to improve the Italian wine sector’s sustainability. In this context sustainability is evaluated on three dimensions (environmental, economic, and social). Businesses are recognizing the need to acquire more environmentally efficient technologies, and reduce waste and pollution, as ‘the rise of the “green” consumer marks a shift in the pattern of consumer purchasing, away from products that are considered to be damaging to the environment and toward products that are sustainable’ (Ristovska, 2010). There are three main types of driving forces for businesses to coordinate supply chain sustainability: (i) internal drivers such as cost reductions and corporate social responsibility; (ii) market drivers such as consumer demand; (iii)

legal drivers, including current and anticipated future regulations. Some of the potential business benefits of sustainability related actions are difficult to quantify because they address less tangible elements such as reputation and risk avoidance, or to future circumstances related to resource availability, commodity prices and regulations (Caniato et al., 2012). Mechanisms applied by retailers to drive environmental improvement across product supply chains include: product certification; environmental criteria for suppliers; dissemination of better management practices across suppliers; promoting eco-labelled products; eco design; application or subsidization of clean technologies; local or regional sourcing; optimization of logistics (Caniato et al., 2012; Styles et al.,). The effectiveness of different mechanisms varies across product groups and according to specific implementation. Detailed information on the economic implications of supply chain improvement mechanisms is lacking, although some references refer to product certification costs. Managing environmental issues is becoming a critical element of strategic planning. Less well known is whether or not managing environmental issues represents a potential or even beneficial entrepreneurial response in pursuit of either a low-cost or a differentiation position, essential to attaining a competitive advantage in a context in which the consumers are more and more oriented to sustainability (Atkin et al., 2006). The green consumer's buying behavior is one that is more 'socially conscious' in its decisions, and is influenced by strong, ethically oriented, 'pro-environmental' personal values and attitudes. The 'green' consumer considers whether the product they are purchasing will, in consumption, result in a positive or negative 'ecological consequence' to the environment (Noonan K.E., 2013).

#### *Marketing innovation*

The issue of innovation is widely studied in the literature: several aspects have been explored with different approaches. The studies by Garcia & Calantone (2002) provide an comprehensive overview of the issue and propose a wide number of definitions; some authors distinguish the concept of innovation with categorizations based on different parameters (radical/incremental, product/process) (Wang et al., 2005) and highlight the various possible methods of measurement and observation of the innovation process (Van de Ven et al. 1989) through a multitude of variables (Wang et al., 2005). The concept of marketing innovations as a process that allows a company to achieve a competitive advantage in connection with its target market and the penetration of new markets (market innovation, John and Davies, 2000; Halpern, 2010: 1312) is the focus of this paper. This is an underdeveloped area of research that is not well explored in the innovation related literature (Chen, 2006; Augusto & Coelho, 2009), to be analyzed in this paper. The distinction between market and marketing innovation should be noted: referring to the first one, the focus is on the firm's market orientation considered as management's ability to understand customer expectations and needs that

potentially can drive the product development process. The implementation and development of innovative processes for marketing has been identified, according to some authors (Grewal & Tansuhaj, 2001) as an incremental trend that will improve the quality of service levels for the consumer (Dosi, 1982, Henderson and Clark, 1990). In the literature, there are studies about the conditions that foster marketing innovation such as the size and location of the firm (Chen, 2006), as well as researches that highlight the relationship between the competitive advantage obtaining and marketing orientation (that affects positively marketing innovation), (see O'Cass Among the others and Viet Ngo, 2011 Naidoo, 2010) and studies showing the relationship between market orientation and firm's performance (Hult & Ketchen, 2001). These issues identified by prior research raise a question regarding the determinants of marketing innovation in the wine industry: specifically, what is the role of innovation for small and medium-sized wineries seeking to obtain competitive advantage and what drives it? Some researchers suggest that for many wineries the growth and market positioning are more affected by innovation than by physical factors (Voelpel et al., 2006). The wine industry characteristics have to be carefully evaluated because they can constrain marketing innovation, since it is affected by the competitive dynamics of the sector (Malerba, 2007). If the innovation process in marketing management is assumed to be as a component of the larger process of innovation, it can also be considered in terms of innovation in primary agricultural production (see among the others the works by Garcia-Martinez and Briz, 2000; Grunert et al., 1997). In the wine industry the possibilities of innovation in terms of new varieties are subject to stringent legal restrictions concerning the regulations of origin designation: the innovative mechanism in the wine industry is not straightforward, even if the continuous and intense changes in consumption and consumer behavior, which feed the competitive dynamics on a global scale, increase the need for product differentiation and optimization of production processes (Jennings and Wood, 1994). In this context, marketing innovation can assist in the formulation of differentiation strategies: some studies (Santini et al., 2007) highlight the influence that the innovative approach has on the winery's ability to improve the service level in meeting the consumer's expectations. Among the few aspects of marketing innovation in the wine sector explored in the literature, there is the role for location in the orientation to innovation (Gilinsky et al. 2008), the consumer perception of the product's innovations (see the study on packaging by Atkin et al., 2006; Marin et al. 2007) and the influence that business networks can give in adopting an innovative behavior (Giuliani et al., 2008; Giuliani and Arza, 2009). Other than the cited study researches, there is a gap in the literature regarding the relationship between orientation to sustainability and marketing innovations

## METHODS

This paper is an exploratory research (Selltiz et al., 1976) as it seeks to provide insight in the wine sector and to explore the relationships between green marketing and competitive strategy as well as suggestions for further analysis and research. The exploratory nature requires researchers to deal with a hybrid research designs (Harrigan, 1983). The research design has been structured to track the principles by eminent scholars (Eisenhardt, 1989; Eisenhardt and Graebner, 2007). Firstly, we provided evidences and insights for defining and listing variables to investigate. After that, we structured the survey, previously testing it by means a pre-validation step with 25 selected respondents. The questionnaire was structured with 36 questions, some of these were built with binary options, some others were developed to scaling responses; for these latter questions seven Likert Scales items have been adopted. We used the following Likert rating scales (Allen & Seaman, 2007): strongly disagree; disagree; slightly disagree; neither agree nor disagree; agree; slightly agree; strongly agree.

Employing Survey Monkey software, a web based survey (see among others, Gilinsky et al., 2008) has been submitted to a random sample of 280 wineries, extracted from the population of companies involved in 3 IPFs (Integrated Project of Food chain) in wine sector. The IPFs wineries are located in a Southern Italy region, Apulia that is a region with a very long history and tradition as a wine producer (Contò et al., 2011). Consequently, we interviewed representative wineries in order to provide suggestions and insights. The data collection was carried out during the period September - November 2013. A 'recall survey' step was performed in order to increase the number of respondents. 204 responses have been collected. Data analysis has been performed by using SPSS software.

Within this research framework, it is hypothesized that wineries with a marketing innovations approach are oriented toward sustainability. In order to investigate the research questions, we selected variables (in a dummy variable format and in a Likert Scale format) as proxies to be used to evaluate the relationship between innovative marketing choices and the propensity for sustainability. From the 36 questions, we selected 11 questions related to our 2 research areas; then, we selected the related variables that are as follows:

1. Marketing innovations choices (Naidoo, 2010):

- *NewMark* = New Marketing Approach – Likert rating scale variable
- *NewTecn* = New technologies for reaching new market segments - Likert rating scale variable
- *R&D* = Research and Development Area – dummy variable
- *WhWinTec* = White Wine Technology – dummy variable
- *RedWinTe* = Red Wine Technology – dummy variable

2. Orientation to sustainability (Landers & Chandra, 2012);

- *EnvRes* = Environment Respect - Likert rating scale variable
- *GreenAct* = Green Activities Promotion - Likert rating scale variable
- *OrgCer* = Organic Certification – dummy variable
- *SustPrac*= Sustainable Practices – dummy variable
- *GIS\_IT* = GIS and IT – dummy variable

The selected variables are consistent with the research objectives of this study. A correlation analysis was performed in order to highlight significant relationships between the variables selected. Pearson's correlation coefficient (*r*) was calculated to measure the strength of the association between the selected variables. The correlation coefficient formula is specified as follows:

$$r = \frac{\sum XY - \frac{\sum X \sum Y}{N}}{\sqrt{(\sum X^2 - \frac{(\sum X)^2}{N})(\sum Y^2 - \frac{(\sum Y)^2}{N})}} \quad (1)$$

This study is not investigating the issue of spurious correlations as it lacks control variables.

## FINDINGS

The correlation matrix in below table (see Table 2) shows Pearson's Correlation values among different variables. As said, the selected variables were splitted into two groups: the first group gives evidence of the firm approach to marketing innovation (in columns); the second group of selected variables represents as a proxy for a green approach of firms (in rows).

<b>Green Var</b>	<i>NewMark</i>	<i>NewTecn</i>	<i>R&amp;D</i>	<i>WhWinTe</i>	<i>RedWinTe</i>
<i>EnvRes</i>	+0.240 ***	+0.313 ***	+0.303 ***	- 0.221 **	-0.203 **
<i>GreenAct</i>	+0.143 **	+0.114	+0.053	+0.014	+0.043
<i>SustPrac</i>	+0.359 ***	+0.493 ***	+0.470 ***	-0.226 **	-0.211 **
<i>OrgCer</i>	-0.263	-0.289 ***	-0.308	+0.196	+0.151
<i>GIS_IT</i>	+0.119	+0.071	+0.104	-0.081	+0.005

Tab. 2 - Pearson's Correlation values between marketing innovation variables and Orientation to sustainability variables

\*\*\* significant at 99%; \*\* significant at 95%; \*significant at 90%

As you can see, results show the most variables are significant at the 0.01 level (2-tailed) so corroborating our initial hypothesis.

## DISCUSSION

Findings, regarding the significance of the research design, confirm our working hypotheses and are supported by theoretical implications. As expected, the highest correlation (0.470) can be found between the presence of the Research & Development area (*R&D*) and the adoption of sustainable practices (*SustPrac*) in the firm strategies. Indeed, wineries with a R&D area are sure conscientious and skilled of new environmental challenges and issue and of trends related to consumer preferences with an increasing attention for ethically correct consumption in terms of environment respect. It might induce firms to develop process and production innovations primarily through sustainable agricultural and winemaking practices, such as efficient use of water for irrigation operations and for production processes.

The positive correlation between the following variables;

1. "NewMark" and "EnvRes" (0.240);
2. "NewMark" and "GreenAct" (0.143);
3. "NewTecn" and "EnvRes" (0.313)

It highlights how orientation to sustainability is taking a central and crucial role in the operational and strategic choices of wineries, in public opinion and in consumers perception.

The environment respect can be interpreted as a driver of change in the way firms connect strategies to market: it becomes an economic need for the wineries as well as a moral obligation, because this approach allows to optimize operating costs and to increase the company's reputation. In this sense, environmental respect can be understood as factor affecting the innovative marketing approach. The promotion of green activities within the company raises awareness in the importance of adopting an innovative approach (environment friendly) by using a marketing approach aimed to environmental protection and food safety of the consumer. Consistent with the first two correlations, the adoption of sustainable agricultural and industrial technologies and practices can take the role of real distinctive communication lever towards the final consumer, useful to penetrate in different market segments (especially upper segments). The application of new technologies in order to reach new market segments, is related to an environmentally friendly approach as reflected in the high level of significance and the positive correlation between the variables "NewTecn", "SustPrac", and "EnvRes". Sustainable Agriculture Promotion, Green Action Promotion and Environmental Respect are becoming marketing innovation tools that in turn enables firms to penetrate new market segments in order to sustain their competitiveness for SMEs in the wine sector. A negative correlation between

the employment of new technologies and “Organic Certification” adoption was found, probably due to the use of traditional and conservative agricultural practices of Italian firms that resist the adoption of new technologies. So, it could be argued that orientation to sustainability is shifting manufacturers to a strategy which remains rooted to the old farmer traditions (negative correlation with organic) and leads to more technology-based sustainable innovation. The use of GIS and IT technologies can be functional in order to monitor the production cycle, energy efficiency, quality certification of products and cycles, and the land protection. The innovative techniques for obtaining white wines are particularly powerful as shows the negative correlation between the variables “EnvRes” and “WhWinTe”; wine-making with the reduction of oxygen, selective cryoextraction and the relative stabilization are in fact techniques that require high energy levels. The same observations could be made after reviewing the results obtained from the correlation between “EnvRes” and “RedWinTe”: for the health of the grape, the optimization of grapes processing, it is necessary monitoring and checking the cleaning and sanitizing process.

## **LIMITATION**

The limitations of the paper relate to its exploratory nature. Further empirical research is needed to test and validate the essentially preliminary framework developed and the assumptions made for the purpose of the current study. Some limitations can be highlighted; firstly the relative small sample constrained the application of some statistical procedures (e.g., PCA procedure). Secondly, the variables selected are not exhaustive and represent only a proxy that was necessary for this study’s objectives; Finally, the number of the chosen variables does not provide a sum total of marketing innovation approaches and of the green orientation of the firms participating in the wine sector. Furthermore, the surveyed wineries were organizations that are affiliated with the IPFs. Considering the nature and characteristics of some of these projects, the participating firms might have developed innovative and green approach that is not successfully implemented.

## **FURTHER STEPS**

This exploratory research is ongoing and its findings are far from being final. The current study rather represents a starting point. Further research and analysis in order to corroborate our hypothesis is necessary. The sample of companies could be expanded numerically, but also geographically (e.g., to include firms from other regions of Southern Italy) or could be expanded to include firms and wineries not participating in IPFs. Other variables could be included regarding the analysis of marketing innovation approach and a green orientation. Specifically, secondary data that is available



through research and official statistics could also be included in order to make the current study more inclusive and robust.

## MANAGEMENT IMPLICATION

Nurturing sustainability of the wine sector with new technologies combined with innovations in the products marketing can be considered as effective strategy to meet concerns and needs of base consumer and to penetrate new market segments in order to refine product and brand image, to develop and keep firm's competitive abilities and, as indicated elsewhere (Noonan 2013), to incorporate these strategies with sustainable and 'green' practices. As some scholars suggested (Mishra and Sharma 2012), the "green marketing concept" aims at sustainable marketing and socially responsible products (non-toxic and environmentally friendly); it has becoming an important driver for management and for matching profitability and sustainability issues. Overall, the environmentally efficient technologies have an influence on innovative marketing choices because of the increasing importance of concerns regarding the environment and the efficient use of natural renewable resources in public opinion and in consumers perception. A critical success factor for the wineries becomes the ability to communicate, to their target market, their degree of environmental respect. Further research is clearly necessary to test and refine these findings.

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## **WATER SUSTAINABILITY ASSESSMENT OF ITALIAN VINEYARDS: DOC VS. GENERIC WINES**

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### **ABSTRACT**

Despite the increasing role of new wine producers in the world market, wine production continues to be dominated by the traditional producer countries, such as France, Italy and Spain. In order to ensure that the values of wine production in the European countries with strong wine vocation remain high, it is necessary for the companies to develop strategies that enhance the bond with the territory, able to ensure the peculiar characteristics of the typical products. However, to achieve a greater competitive advantage in a global context, it is important to promote processes with low environmental impact, in order to use the sustainability of production as a further strategic market tool, since the deterioration of the natural environment is today a global concern.

This paper evaluates the water sustainability of the Italian wine production analyzing the water footprint of viticulture. The choice of this indicator is due to the fact that it is a complete indicator of the potential environmental impact of a product on water resources, estimating the pressure on water resources in terms of consumption and pollution.

The study analyses the water footprint of viticulture in three Italian areas through a simple comparative analysis among the global average wine water footprint, the Italian average wine water footprint, the water footprints of wine made from Italian grapes, cultivated respectively in the Northern, Centre and Southern-insular Italy. The objective of this research is to evaluate if quality wines and in particular DOC and DOCG wines involve higher or lower consumption of virtual water than bulk wines.

From the comparison and assessment of the data on water footprints of two DOC wines, whose vineyards are located respectively in the Northern and Southern-insular Italy, we demonstrate that quality wines are associated with a lower water footprint, mainly because the water footprint associated with the grapes used in the production of DOC or DOCG wines is solely due to the green water footprint component since, according to the specifications of production, both irrigation and fertilization are prohibited. Furthermore the territoriality of

typical wines, which means good crops adaptation to the traditional places of production, allows to produce sustainable wine, even if the yields in terms of liters/hectare are kept low.

**Keywords:** *virtual water, wine, vineyards, sustainability, water footprint, Italy*

## INTRODUCTION

Although wine is not considered an essential food for human nutrition, it has always influenced the economy of the wine-producing countries thanks to the symbolic values, full of social and cultural meanings, associated with it. From an historical point of view, the first wine producing countries are located in the Mediterranean area, where the climatic and cultural conditions have favored the vines cultivation and the transformation of grapes into wine. Vine cultivation in Europe has a long history, as does the wine trade: since ancient time wine has been traded between the regions of production and the regions in which it is consumed, with the Mediterranean Sea acting as a hub for commerce which even at that time was already on an international scale (European Commission, 2006).

Italy, France, Spain and Portugal have always been leaders in the field of winemaking so that these countries fall under the so-called "Old world". The term "New World", however, refers to the countries that have recently joined the international wine producers such as Australia, New Zealand, California, Chile and South Africa (Thorpe, 2009). Although historically these countries are far from the Mediterranean viticulture, today they benefit from advanced technologies and successful grape varieties which allow them to create a new competitive scenario.

The world wine production in the last 10 years can be considered stable with fluctuating quantities between 252 and 296 Mhl. This apparent stability, however, is the result of decreases in the production of some countries against increased production of other ones. In fact, considering the decade 2003-2012, there has been an average 2% decline in worldwide production (OIV, 2013). Such variation, however, is negligible when considering the biological nature of wine that is produced from agricultural sources and therefore subject to the normal annual fluctuations due mainly to climatic variations.

A more detailed analysis concerning the production of wine in the individual countries shows that (OIV, 2013):

- Italy, France and Spain have always been leaders in the wine sector covering a total of 49% of world production in 2003 and 46% in 2012;
- this decrease is imputable to a lower productivity in the considered decade, equal to 11% for France, 22% in Spain offset by greater productivity, 5% for Italy;
- USA, Australia and Chile have covered a total production of 13% in 2003 and 18% in 2012 of worldwide production;

- this increase is due to higher productivity of the countries of the New World with percentage changes in the decade under consideration, equal to 32% for the USA, 17% for Australia and 88% in Chile.

In the complex evolution of the world wine sector, there have been changes also in the geography of consumption which increased in Northern Europe and North America, compensating for the decrease in Mediterranean Countries (Marianiet *al.*, 2012).

In the last years, in fact, consumption declined in the traditional wine producing and consuming countries and increased in the areas of the “New World” (Insel, 2014; Thorpe, 2009). In particular, considering the period between 2002 and 2013 the consumption of wine has decreased by 19% in France, 21% in Italy and 34% of Spain, while, in the same period the US per capita consumption has increased by 29% (OIV, 2014).

US consumers as well as increasing the quantity of wine consumption, are increasingly inclined to drink more expensive wine in a search for quality, a trend that seems to be true for European wine consumers as well (Bisson *et al.*, 2002).

The wine industry is for the Italian economy an area of great interest. In fact, Italy has now reached the top of the world’s top wine producers list, surpassing France which has always been the leader (USDA, 2013).

The Italian production now has a good level of quality, being established for approximately 69% of quality wines with a Denomination of Origin (DOCG, DOC and IGT). Regions with higher production volumes are Veneto (18%), Emilia Romagna (15%), Apulia (13%) and Sicily (12%). The individual regions, however, do not point the same way on quality wines; in Apulia, for example, 23% of production is destined to the must of grapes, 16% to the production of DOC and DOCG wines and 36% for the production of IGT; while in Piedmont 87% of its wine production, accounting for 6% of the Italian production, is destined to DOC or DOCG wines (WineActs, 2012).

Assuming a certain similarity of climate and on the basis of the NUTS nomenclature of terrestrial units for statistics, it is possible to aggregate for the analysis all the Italian regions in three areas: Northern Italy, Central Italy, Southern-insular Italy (European Union, 2011). As can be seen from Figure 1, the number of quality wines in the Northern area is much higher than in the other areas of the Country.

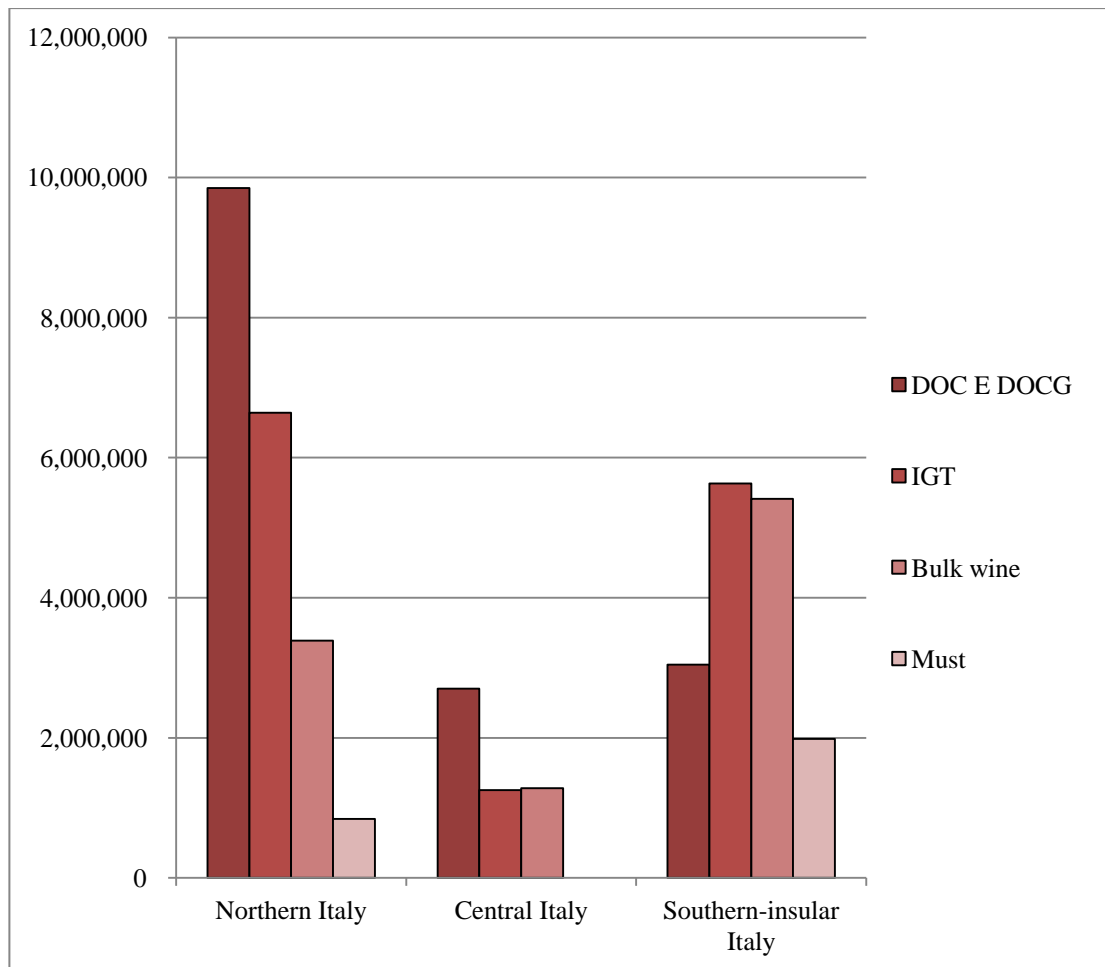


Figure 2: Wine production in Italy by type in hl (based on Wineacts data, 2012)

These data show that, despite the high values of wine production in the European countries with strong wine vocation, it is necessary for the companies to develop strategies able to bring the production to high levels of quality, enhancing the bond with the territory that justifies the traditional characteristics of wine, adding innovation and continuous improvement, in order to be competitive in international markets.

The interest for quality shown in the food and beverage sector has been growing constantly and some characteristics of products, such as territoriality and typicity, have become important factors in the consumers choices. However, to achieve a greater competitive advantage in a global context nowadays, it is also important to take into account the environmental impact of products, and in particular a growing concern is directed to carbon emissions and water scarcity. These global issues have brought companies to consider in their business strategies, together with the other competitive factors, the ability to reduce carbon emissions and water consumption and to communicate their commitment to consumers. Among the analytical tools recently developed, to assess the environmental impact in terms of pressure on water resources, the water footprint is very useful.



## LITERATURE REVIEW OF WATER FOOTPRINT ASSESSMENT

As the global freshwater resources are limited, the study of the indicator of water footprint is very useful to conduct an assessment associated with that resource. To quantify and mainly to localize the pressure exerted by human activities on the environment is indeed a great opportunity to assess the sustainability of some “footprint” and identify potential mitigation options.

The water footprint assessment framework aims to illustrate the full impact of water consumption during the life cycle of a product, providing a comprehensive indicator for water resources, which can aid water stewardship in the agro-food sector (Herath *et al.*, 2013).

The calculation of the water footprint provides useful information to solve potentially the problem of human appropriation of freshwater, flowing an index, expressed in terms of volume, comparable to the actual availability of freshwater, in a sustainability assessment perspective (Hoekstra *et al.*, 2009).

The index of water footprint consists of three components: the blue, green and gray water footprint. The blue water footprint is an indicator of use of fresh surface water or groundwater. The green water footprint is an indicator of human use of water resulting from precipitations on land which do not feed the runoff or recharge groundwater, but remain temporarily on the surface or on vegetation. This is particularly relevant for products based on crops, where it refers to the total rainwater evapotranspiration plus the rainwater incorporated into the harvested crop and its inclusion in water management studies is highly recommended (Falkenmark and Rockström, 2006). The gray water footprint is defined as the volume of freshwater that is required to assimilate the load of pollutants used in human activity based on natural background concentrations and based on the existing water quality standards in the environment (Hoekstra *et al.*, 2011).

The concept of water footprint is closely related to the concept of “virtual water”. The virtual water is defined as the volume of water needed to produce a commodity or a service. The concept was introduced by Allan in the early 1990s when he studied the possibility of importing virtual water (and not actual water) as a partial solution to the problems of water scarcity in the Middle East (Allan, 1998). Allan had developed the idea of using virtual water import (associated with food imports) as a tool to ease pressure on domestic water resources in short supply.

The imports of virtual water can become an alternative water source, in addition to traditional domestic water sources. In order to better distinguish it from endogenous water, virtual water has been in fact also called “exogenous water” (Haddadin, 2003).

The global water footprint of agricultural production in the period 1996-2005 amounted to 7,404 Gm<sup>3</sup>/year. The average green water footprint related to the overall agricultural production amounted to 5,771 Gm<sup>3</sup>/year, of which 4,701 Gm<sup>3</sup>/year are consumed for rain-fed agriculture and 1,070 Gm<sup>3</sup>/year for irrigated crops. For most crops, the contribution of the green water footprint to the value of the

total water footprint is more than 80%. The mean global blue water footprint related to agricultural production was approximately 899 Gm<sup>3</sup>/year. The gray water footprint related to the use of nitrogen fertilizers in the cultivation world amounted to 733 Gm<sup>3</sup>/year. (Mekonnen and Hoekstra, 2011).

Globally, green water is about 85% of the water consumed in the agricultural production. Even for irrigated crops, the green water is often a very significant contribution to the total water consumption.

## **MATERIALS AND METHODS**

In Italy, wine is the product of a very large, heterogeneous and complex sector, due to the fact that each region produces its own wine and in vineyards located in extremely different areas, from coastal plains to high altitudes and gradients. The vines are traditionally planted and grown in regions with a Mediterranean climate, characterized by warm and relatively low rainfall.

The water footprint is spatio-temporally explicit (Hoekstra *et al.*, 2011): the volume of water used varies according to the location and to how the wine is produced. The wine produced in Italy, for example, has a lower water footprint than the global average. The differences among Italian regions express the different climatic conditions, but also the different production strategies based on a greater or lesser contribution of irrigation, while remaining constant the value of gray water, in line with the global average.

The purpose of this study is to evaluate the water sustainability of viticulture in three Italian regions and to test the hypothesis that quality wines and in particular the DOC and DOCG involve the consumption of virtual water below that of the generic bulk wines.

To demonstrate our first theoretical hypothesis we have proceeded with a simple comparative analysis among the global average wine water footprint, the average Italian wine water footprint, the water footprints of wine made from Italian grape varieties, respectively located in the Northern, Centre and Southern-insular Italy. To demonstrate instead our second hypothesis, we compared and evaluated the data on water footprints of two DOC wines, whose grapes are located respectively in the northern and southern-insular Italy, in relation to tons of grapes necessary for their production and yield of hectares of land dedicated to the cultivation of their grapes.

The methodological approach consisted of four steps.

In the first, we have collected and analyzed data on global average and Italian water footprints (Mekonnen and Hoekstra, 2010), expressing the differences in terms of blue, green and gray components.

In the second stage we have aggregated regional values of the water footprints of a liter of wine (classified with 220410 code in accordance with the HS Customs Code) (Mekonnen and Hoekstra,

2010) and we have extrapolated three values for three Italian areas (North, Center, South-Islands), as defined by nomenclature of territorial units for statistics (European Commission, 2011).

In the third step we have proceeded with the calculation of the percentage of each component of the water footprint of a full liter of wine for the geographic areas under investigation by the equation:

$$\%CWF_{green, blue or grey} = \frac{CWF_{green, blue or grey}}{TWF}$$

where:

$\%CWF_{green, blue or grey}$  is the percentage of each (green, blue or gray) component over the total water footprint;

$CWF_{green, blue or grey}$  indicates the absolute value of each of the green, blue or gray water footprint component of a liter of wine (Mekonnen and Hoekstra 2010);

$TWF$  is the total water footprint of a liter of wine (Mekonnen and Hoekstra 2010).

As a result, we carried out the assessment of the water footprint of two Italian wines whose production areas are located respectively in the Northern and in the Southern-insular Italy.

In particular, the production in hectoliters was detected, the number of acres reported and the yield of the DOC vines examined. Starting from the respective water footprints, we proceeded to the calculation of virtual water per quintal of grapes, according to the equation:

$$VW = \frac{(WF_{wine} \times P_{wine})}{DA_{vineyards} \times Y_{grapes}}$$

where:

$VW$  represents the volume of virtual water per quintals of grapes;

$WF_{wine}$  is the water footprint of a liter of wine (Rulli et al., 2013);

$P_{wine}$  indicates the production of wine, expressed in liters (Federdoc, 2013);

$DA_{vineyards}$  is the area is expressed in terms of declared acres of grape (Federdoc, 2013);

$Y_{grapes}$  represents the yield of the declared area in terms of quintals of grapes per hectare (Federdoc, 2013).

## RESULTS AND DISCUSSION

The wine sector places a significant demand on the world's water resources (Pattaraet al., 2012). From the comparison carried out on the global average water footprint of a liter of wine and the Italian one,

it has emerged that the latter is well below the first, acquiring the average values respectively equal to 869 m<sup>3</sup>/ton and 697 m<sup>3</sup>/ton (Mekonnen and Hoekstra, 2010). This implies that there is a competitive advantage of Italy in environmental terms associated with wine production, so specific sectoral economic policies to increase specialization in idro-extensive products of our Country should be promoted (Renault, 2003).

Comparing the three geographic areas under investigation, there is a noticeable tendency to a lower impact on the water resources of the wine production in the North, that, in the light of the data collected, it is mainly due to a low green water footprint incidence in the regions of North Italy (Table 1).

	Global average	Italian average	Northern Italy	Central Italy	Southern-insular Italy
Green water	607	534	481	567	566
Blue water	138	46	19	32	71
Grey water	124	117	104	121	129
<b>Total water footprint</b>	<b>869</b>	<b>697</b>	<b>604</b>	<b>720</b>	<b>766</b>

Table 1: *Water footprint of one liter of wine expressed in terms of m<sup>3</sup>/ton (Based on Mekonnen and Hoekstra data, 2010)*

The obtained empirical results contradicts a theoretical hypothesis according to which the use of rainwater (green water) in the grapes growing process is more pronounced in regions with low rainfall, or in the warm regions of the South (Lamastra *et al.*, 2013; Lamastra *et al.*, 2014).

Although the green water footprint component appears higher in absolute terms in the regions of Southern Italy and the Islands, through a more in-depth and accurate analysis it should be noted that the green water footprint is lower in the South. Indeed, in the warmest and the driest regions, the green footprint value in terms of percentage on the TWF is lower, while the blue water footprint is higher, as it is necessary to intervene through irrigation.

In particular, the value of the green water footprint in the regions of Northern Italy reported an incidence rate of approximately 80%, compared to 74% of the Southern-insular regions.

In confirmation of the above, the blue water footprint takes a higher percentage in the southern regions and islands (approximately 9%), compared to regions of the North of Italy (3%), highlighting the theoretical result that, in regions with arid climate, it is sometimes necessary to intervene through irrigation in order to avoid qualitatively and quantitatively harmful and excessive water stresses, even if the vines are highly resistant.

The only water footprint component of the total wine production that is constant for all three Italian regions is the gray water footprint, with a value equal to 17%. Being defined as the volume of fresh water required to assimilate the load of pollutants of the process on the basis of natural concentrations, the gray water footprint cannot in fact bring significant variations in function of the geographical location.

These empirical results are more evident if looking at the percentages of the single green, blue and gray components of the wine water footprint of the total geographical area, as shown in Table 2.

	Italian average	Northern Italy	Central Italy	Southern-insular Italy
Green water	77%	80%	79%	74%
Blue water	7%	3%	4%	9%
Grey water	17%	17%	17%	17%
<b>Total water footprint</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Table 2: Percentage of green, blue and gray components over the total Water Footprint of wine produced in Italy by macro-area (Based on Mekonnen and Hoekstra data, 2010)

For a more precise evaluation of the collected data and verification with respect to the second research hypothesis, the last phase of the study was carried out to calculate the virtual water volume compared to the production in quintals of grapes of reference of the two DOC wines, *Barolo* and *Moscato di Pantelleria*, where crop production set by the product specification is located respectively in the North of Italy, precisely in Piedmont, and in Sicily, as shown in Figure 2 and 3 (Federdoc, 2013).

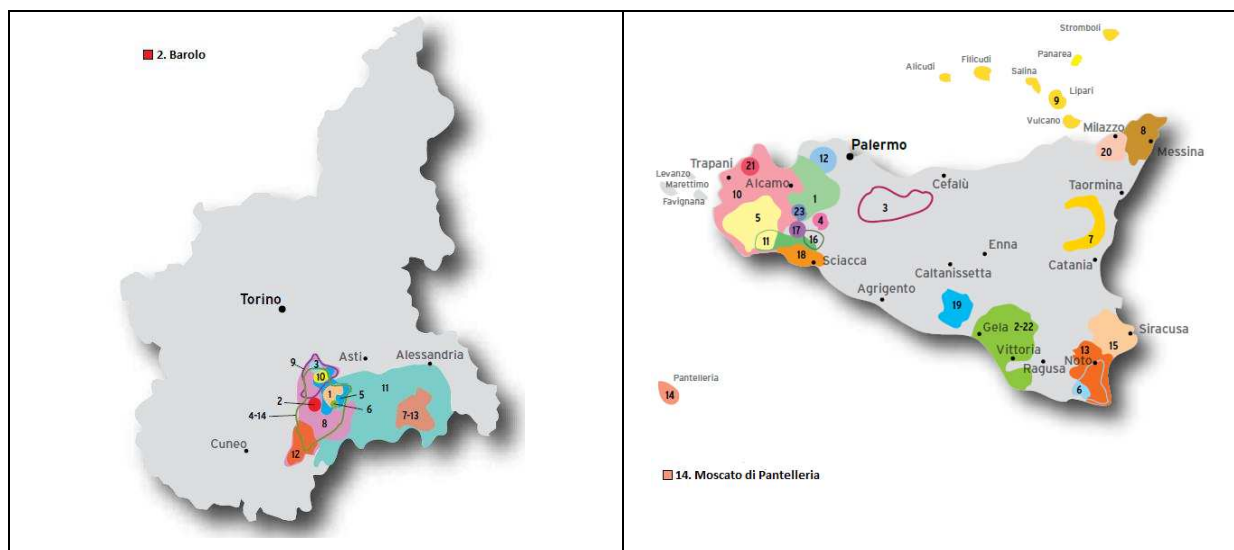


Figure 3: Territorial area of some Piedmontese and Sicilian DOC vineyards, in particular of Barolo and Moscato di Pantelleria (Federdoc, 2013)

In particular, we detected the production in hectoliters, the number of declared hectares and the yield of the examined DOC vines and, starting from the respective water footprints, we proceeded to the calculation of virtual water per quintal of grapes.

As shown in Table 3, even if the absolute value of the water footprint of a litre of *Barolo* is lower than the water footprint related to *Moscato di Pantelleria*, we cannot conclude that *Barolo* is more sustainable than *Moscato di Pantelleria* in terms of water pressure. In fact, if we consider the value of the virtual water per quintal of grapes, considering also the vineyards yield in terms of grapes produced per hectares, we could conclude that *Moscato di Pantelleria* consumes 17.59 m<sup>3</sup>/q. The DOC product specifications impose specific yields of wine per cultivated hectare compared to generic wines. This explains why the water footprint of DOC wines, which is related to the grape cultivation, expressed as water consumption per liter of wine is higher in DOC wines. The increase in water footprint is anyway compensated by the fact that local grapes, which are well adapted to the territory where they are traditionally cultivated, require less water than the theoretical one to grow.

	Total water footprint of a liter of wine ( $l_{\text{water}}/l_{\text{wine}}$ )	Wine production (hl)	Declared area (ha)	Yield (q/ha)	Virtual water (m <sup>3</sup> /q)
<b>Barolo</b>	487	99,370	1,977	80	30.60
<b>Moscato di Pantelleria</b>	548	9,009	281	100	17.59

Table 3: Differences in terms of water footprint and virtual water of two Italian DOC wines (Based on Rulli et al. data, 2013)

## CONCLUSIONS

Producing and marketing quality wines is definitely beneficial in economic terms, given the high added value associated with products with designation of origin, but the association between sustainability and local products is still on debate.

Our analysis has focused on the evaluation of water sustainability of viticulture, comparing typical products with generic ones.

The results show that the production of quality wines is associated with a lower water footprint mainly because the water footprint associated with grape used in the production of DOC or DOCG wines is solely due to the green water footprint component, since according to the specifications of production both irrigation and fertilization are prohibited (GU, 1981; GU, 2000).

Just as for the generic wines, for those with a Denomination of Controlled Origin water footprint is larger in the cultivation of vines located in Southern Italy where there is a greater evapotranspiration in the summer months, which is not compensated by adequate rainfall. The water requirement of the plant is greater than the quantity of available water (in the absence of irrigation). However, the adaptation of vineyards to the cultivation methods means that the same can survive and make wine in case of lower quantities of water.

From this analysis it is clear that the territoriality of traditional products, which means crops adaptation to the traditional places of production, implies that we can produce wine with less water than that in theory required. In contrast, strengthening the production of generic wines would entail an increase of blue water footprint where the plant is not able to produce adequate quantities of grapes with low rainfall or an increase of gray water footprint where it is necessary to intensify fertilization to increase yields, with a detriment of both sustainability of the production and nutritional quality of the final product.

Globally, given the scarcity of freshwater, productions with low consumption and pollution of water resources should be encouraged; according to these preliminary results of our research, this corresponds in the wine sector to the production of DOC and DOCG wines. It must be emphasized, however, that there is still a lack of specific mandatory targets for companies aimed at reducing pressure on global freshwater resources, as they already exist, for instance, for the carbon footprint (GHG pollution reduction targets). On the other hand, the global interest for better water management strategies has brought to the development and publication in August 2014 of a new voluntary tool for the assessment of the water footprint at company level: the new ISO 14046 "Environmental management - Water footprint - Principles, requirements and guidelines" (ISO, 2014). Organizations that apply this standard can get more efficient processes, save water and use a new marketing tool, which can successfully attract those consumers who pay more and more attention to the environmental sustainability of products.

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## CO-CREATING VALUE WITH CUSTOMERS IN THE APULIAN WINE SYSTEM: STORYTELLING 2.0 IN “TENUTE RUBINO” CASE STUDY

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### ABSTRACT

*This paper focuses on the storytelling 2.0 as emerging approach at the firms' management of relationship with customers as well as for their active involvement in the process of value co-creation with a specific focus on the wine system.*

*Starting from the belief that company-customer interactions are the locus of value creation, through the DART-model proposed by Prahalad and Ramaswamy (2004), we study in-depth the case of Tenute Rubino, a local winery located in Apulia Region in Italy, as a critical and extreme case (Eisenhardt, 1989; Yin, 1994) of a successful example of strong relation amongst product, territory and communication strategy in wine industry. Data analysis shows how Tenute Rubino becomes a value co-creation locus, even on the web, where the interactive and experiential relationship between the company and its costumers is the basis on which co-creating value through storytelling with positive territorial outcomes and development. By integrating the conceptual discussion on value co-creation with a winery empirical experience, the study provides useful insights on the practical implementation of storytelling 2.0 as approach for the customers involvement within a brand-based virtual community.*

**Key words.** *Wine industry, storytelling, web 2.0, customer, co-creation, value.*

### INTRODUCTION

Competition in the current global scenario is affected by the knowledge as strategic asset for the successful positioning of companies. Therefore, companies are compelled to pursue dynamic strategies to acquire and manage their knowledge assets, internal and external, and mainly to activate a continuous dialogue with consumers, more and more identifiable as co-creators of their own products and services (Nambisan & Baron, 2009; Prahalad & Ramaswamy, 2004).

Those dynamics result to be not industry-dependent but relevant for almost all the sectors. Specifically, while the dynamics within technology-driven and innovative sectors result to be more discussed, their implications in the most traditional industries, such as agro-food are less considered. In particular, for the wine sector, the growing relevance and main trends of the communication

strategy has never been more challenging than it is today (Maizza & Iazzi, 2006), mainly for what concerns the brand and values. It is in this perspective that **storytelling** arises as an effective and not expensive approach for activating a profitable dialogue with customers. In a storytelling perspective, consumers are assumed to create value-in-use and co-create value with organizations, thus realizing their potential to utilize consumption to demonstrate knowledge, distinction, and expertise (Chronis, 2012; Alba & Hutchinson, 1987); to construct, represent, and maintain their identity (Denegri-Knott & Molesworth, 2010; Firat et al., 1995), and form social networks (Klamma et al., 2007; Gloor & Zaho, 2006; Holt, 1995).

Framed in the above premises, the overall aim of this paper is to analyze the relationship between storytelling and brand-based firm's competition through the analysis of a case study in the wine industry. We hereby use the value co-creation framework suggested by Prahalad and Ramaswamy (2004) by means of four building blocks which comprise the DART framework: Dialogue, Dialog, Access, Risk management, and Transparency.

Findings show how stories belonging to the territory where Tenute Rubino, an Apulia region winery (Italy), was established have been used by the winery itself to build a storytelling strategy able to communicate with internal and external audiences, and capturing the attention of consumers by using specific tools, such as architecture, label, and shape of bottles that immediately swept up consumers in the organization's story.

The remaining of the paper is organized as follows. In the first section the literature background of the study is presented. In the second section, the methodology is presented with the aim to define parameters and dimensions of the analysis. In the third section, the case study of Tenute Rubino is discussed to provide evidences about the communication and users' involvement strategy carried out through storytelling 2.0. In the conclusions, the main evidences are summarized with the limitations and the directions for future studies.

## LITERATURE BACKGROUND

### *The emergence of the prosumer: from the virtual communities to the storytelling*

The latest social and economic changes have produced important modifications on everybody's lifestyle and, in particular, on consumers' purchase habits. Recently, the development of ICT and mainly of web 2.0 tools have dwelled on consumers' attitude like an evolution of the hedonic consumption model (Hamari, Sjöklint, Ukkonen, 2014).

The literature reveals that in the web 2.0 consumers is characterized by a change from a strong desire for individualistic brand/consumption experiences to a need for new forms of sociality and empowerment often around brands/consumption (Simmons, 2008). From this theoretical point of

view, the web is a 'ubiquitous' communication channel, an ideal place where strengthening the interaction among the different actors (Bargh & McKenna, 2004), going beyond the geographical distances enabling the creation of new communities.

Consumers become aware and emerge from uninformed shoppers into discerning connoisseurs, from passive consumers to active producer-consumers (Lehdonvirta, 2012). This way of collaboration enabled by technology, has given rise to new approaches for firms value creation and innovation process. Von Hippel (2005) highlights the role of collaboration with customers and users in improving a firms innovation performance by close cooperation on the innovation process, or by inspiring it through exposure to specific situational attitudes and behaviours in each phase of the new product/service development. Co-creation model envisages a collaboration between organizations and their stakeholders in order to develop systems, products or services, reinforcing the idea that consumer experience is central to enterprise value creation and innovation (Ramaswamy & Prahalad, 2004).

Several scholars and researchers studied the profound change in the relationship between producer and consumer (Arvidsson, 2005; Firat et al., 1995; Pettinger, 2004) their engagement in the co-creation of value through individual co-creation experiences and interaction with brands, companies, and other consumers (Del Vecchio & Ndou, 2010; Prahalad & Ramaswamy, 2004), which is the meaning of their configuration as aware prosumers able to select and construct products, services but also stories, (more and more digital), about their own experiences. Recent studies (Ind, 2001; Lundqvist et al., 2013) agree in pointing to the helpfulness and effectiveness of brand storytelling in order to reach and engage firms' management and employees and also to create and reinforce positive brand associations (Kornberger, 2010) among consumers. According to Shankar et al. (2001) storytelling is fundamental for consumers to make sense of their consumption experiences and even part of their lives. Supported by the large diffusion of digital media storytelling can be currently considered as a powerful communication tool (McLellan, 2006). Narrative, in fact, is considered "as a mode of thinking, as a structure for organizing our knowledge, and as a vehicle of meaning making" (Bruner, 1996, p. 119). If telling stories means to construct the meaning, "it seems evident, then, that skill in narrative construction and narrative understanding is crucial to constructing our lives" (Bruner, 1996, p. 40).

Storytelling is usually inspired by direct experiences, emotional connections and engagement opportunities, that allows people to be heard and/or co-create directly with brands themselves. It is in this perspective that storytelling can be assumed as a precious tool for the collaborative process of interaction and development between firms and customers. Lots of firms are using storytelling as a crowdsourcing tool to innovate, for instance, food and packaging with consumers. Co-creation meets the concerns of the "prosumer" approach and accounts for the changed roles of consumers and

producers, with positive impact also in terms of reduction of the risk in terms of customer resistance and thereby market failure.

*The co-creation process: a literature overview from the origins to the DART Model.*

First articles on co-creation were published in the nineties (Urban et al., 1997; Ciccantelli & Magidson, 1993; Dolan & Matthews, 1993; Gilmore & Pine, 1997; Peppers & Rogers, 1993; Pine & Gilmore, 1999; Herstatt & von Hippel, 1992) focusing on consumer participation in providing services and product innovation. In 2000 Prahalad and Ramaswamy coined the term co-creation to describe this emerging relationship between customers and companies, suggesting later (2004a, 2004b), among others (Lusch et al., 2007, Ramirez, 1999), that companies have to recognise that a customer is becoming a partner in creating value even in terms of innovation, not simply for the growth of firms, but for their survival. In modern scientific literature (Zwick et al, 2008; Protogerou et al, 2005; Payne et al, 2008) it is argued that the discourse of value creation has changed a bit and is aimed at working with the customers at their free will using different platforms and social technologies (Skaržauskaitė, 2013). Among others, Prahalad and Ramaswamy (2004, a) stress the need of high-quality interactions that enable a customer to co-create unique experiences with the company as the key to unlock new sources of competitive advantages. In the view of Prahalad and Ramaswamy (2004, a), it is fundamental to set an experience environment where customers can create their own unique experiences: informed, networked, empowered, and active consumers co-create value with the firm. To create such a system, they created a model composed by four building blocks – dialogue, access, risk and transparency – of interactions between the firm and their customer that facilitate co-creation experiences (2004) and more broadly a co-creation environment. Their studies led to the development of a theoretical model, called DART model (figure 1), where the consumer-company interaction becomes the locus of value creation (Prahalad & Ramaswamy, 2004).

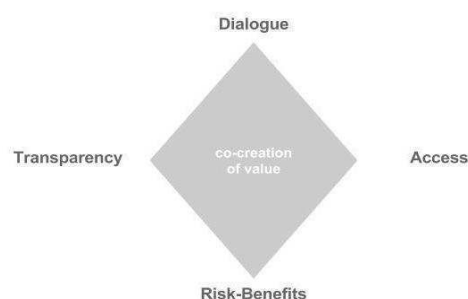


Figure 1. The DART- model (Prahalad and Ramaswamy, 2004)

Given the new active role of consumers, **dialogue**, the first building block in DART model, is the but-for encouraging a shared level of understanding between customer and company, as it implies interactivity, deep engagement as well as the ability and willingness to act on both sides. Moreover, a customized **access** to resources, tools, information as well as processes, let customers access to desirable experiences, challenging the notions of openness and ownership. At the same time, access provide firms with new business opportunities and expands the company's view of new potential markets (Prahalad & Ramaswamy 2004).

The third key building block deals with **risk**, which raises a question on the concept of customers as co-creators of value: should they shoulder responsibility for risks as well? In any event, if firms provide consumers with good information, the latter should be able to make more informed choices. Proactive risk communication and management offers new opportunities for differentiation.

And lastly, **transparency**, the forth building block, which is critical to have a meaningful dialogue. Firms cannot be vague or hide information regarding prices, costs, privacy policy, terms of service and profit margins, anymore. Since information about products, technologies, and business systems becomes more accessible, the creation of new levels of transparency becomes increasingly desirable (Prahalad & Ramaswamy, 2004).

According to the DART model, all the points of company-customer interactions are fundamental to (co-)create value. Indeed, the model can help underline important issues to be addressed to achieve fruitful interactions for co-creation. Besides, although many firms and industries are experimenting with these elements, and the evidence of the changing nature of value creation accumulates, many companies are enable to embrace the new framework of co-creation (Prahalad & Ramaswamy, 2004).

## RESEARCH AIM AND METHODOLOGY

Framed in the above premise, this study aims to understand the contribution that storytelling 2.0, as approach for the active involvement of customers within the process of value co-creation, can play for the competitiveness of the Apulian wine industry.

The need to fill the gaps in the extant literature, mainly for what concerns the comprehension of dynamics of value co-creation with traditional but dynamic sectors led us to conduct an inductive study (Eisenhardt, 1989). Following Yin (1994), the case study was considered an appropriate research strategy in many social science studies, especially for investigation and in-depth explanations of a phenomenon and to develop theories about a contemporary phenomenon (e.g., a "case"), especially when the boundaries between phenomenon and context are not clearly evident (Yin, 2009), relying on several sources of evidence.

The success of the communication strategy, the recognition achieved at local and global level as well as the strong brand identity have been the main criteria used to choose the case of Tenute Rubino (hereafter T.R.), a family winery in Brindisi (Italy). This is a critical and extreme case (Eisenhardt, 1989; Yin, 1994) of a successful example of strong relation amongst product, territory and communication strategy in the wine industry. By selecting an extreme case, we are able to better understand the opportunity to adopt storytelling as technique to engage consumers in different steps of value co-creation process within the Apulian wine system.

#### *Data collection*

Multiple data collection methods have been used to exploit the synergistic effects of combining them via triangulation (Jick, 1979; Eisenhardt, 2002) consisting in the combination of investigative techniques to reduce the *bias* of a single observation in comparison of multiple data (Tarrow, 1995). During the first stage, we relied on secondary sources such as archival records, documentary information, T.R. official corporate communication tools, like the website (and mainly its press-room), the Facebook fanpage as well as other social network accounts (Table 1).

Type of Source	Source
Facebook fanpages	www.facebook.com/tenuterubino www.facebook.com/vinotecanumeroprime
Web site	www.tenuterubino.com
The cellar	Azienda Agricola Dott. Luigi Rubino Via Enrico Fermi, 50 – 72100 Brindisi
The restaurant	NUMERO PRIMO, Lungomare Regina Margherita, 46, 72100 Brindisi
Brand Identity Style Guide	A document (126 pages) that establishes distinct guidelines on all aspects of T.R.'s brand. It contains all the rules for a unified and identifiable brand. It includes everything from the design of a logo and how it can be used, to letterhead, the look of a website, personal communications and how it all looks.

Table 1. Secondary sources

Then, we conducted an in depth interview with a key informant individual, the PR Coordinator and Export Manager at T.R., consistent with the qualitative methodology described by Strauss et al. (1990) and Yin (1994). The process of conducting in-depth interview was so structured: *plan, develop instrument, collect data, analyze data and disseminate findings* (Boyce and Neale, 2006).

During the *plan phase* we conducted a web research to identify the stakeholder to be involved and we listened to PR Coordinator and Export Manager to be interviewed. Later, we *developed the instruments*

in compliance with an interview protocol (that is, the instructions/guidelines for both the researcher and the interviewee). Then, as for the *design phase* we developed a tool structured as follows: *data reduction, data display and conclusion drawing and verification* (Huberman, 1994). As argued by Gilmore et al. (1999) in case studies methodology, this approach guarantees the highest degree of reliability. Myers (2008) states that interviews offer an excellent ‘window’ of achieving the research objectives, either to know the informant’s perspective on the issue or to know whether the informant can confirm insights and information the researchers already hold.

#### *Data analysis*

The analysis of data followed an inductive and iterative process (Miles and Huberman, 1984; Strauss and Corbin, 1998). The first step of this phase has been a descriptive code (included in the structure of the interview itself) resulting from the conceptual framework (i.e. DART Model). Lastly, we carried out the *data reduction and organization of categories* followed by the analysis of the *findings*. The interview was structured in two main parts (see Appendix 1). In the first part, we collected general information about the company; in the second one we focused on understanding the role of consumers in a social media co-creation process referring to active engagement in the user experience’s storytelling, using the DART model. Specifically, we started to investigate the Facebook account of the winery, analyzing the interaction between the fans and the social media strategist who manages the fanpage. Moreover, we consulted the website, analyzing both the text and the section of the news. We independently read through the data sources to form a comprehensive understanding of the case. We assembled the data into tables to ease comparisons, and, through their analysis, we recognized the importance of some keywords representing the blocks’ elements (Dart Model’s Blocks). Then, we discussed our interpretation of data, seeking for the relationship occurring between the consumers and the winery to implement the interaction focusing on the co-creation process. Finally, as described by Eisenhardt (1989), we conducted a further series of iterations between our data, both secondary and primary, and the literature on the co-creation process, verifying the DART model and better identify the theoretical foundations of our arguments.

## **THE CASE STUDY FINDINGS: FROM THE TELLING- A - STORY TO THE STORYTELLING**

Our data validated storytelling as a strong preference either for building the Tenute Rubino brand as well as for increasing customer involvement for all steps of the value chain within the wine sector. This is readable on T.R. official website, where firm’s identity is described as follows “200 hectares



*distributed over four estates to best interpret the characteristics of the territory. (...) The vine grows in Salento in an ideal environment, and the care of man has shaped a landscape of seductive beauty. ... wines are produced from the same grape variety planted in different locations, wines with characteristics that are profoundly different, so much as to fully transmit that territorial identity which deeply characterizes their organoleptic profile. Altitude and soil composition, exposure and solar radiation, temperature ranges and ventilation are factors which, in Salento, give rise to microclimatic and land conditions that, while changing from area to area, prove to be really extraordinary, making this land one of the ideal cradles of viticulture of excellence."*

Moreover, during our desk analysis, we identified several instances where references to storytelling or co-creating the story were overtly made. In fact, there are several passages concerned with how the firm is committed to the idea of telling a more authentic brand story. For instance, this paragraph from the website pages shows that T.R. is representative of an interesting and successful firm operating in the wine market and localised in the Apulia Region (South of Italy). T.R. is *"a dynamic reality and a brand known all over the world, a symbol of a new image of the wine production in Salento. Tenute Rubino has achieved this important goal following a production philosophy characterized by taking care of every detail of production: from the vineyard to the bottle on the market, each step has in common a modern reinterpretation of the aspects on which Puglia has built its oenological success in the four corners of the planet. ..."*

In addition to this, the following sentences emphasizes the importance of consistent reinforcement and expansion of the brand story: the company *"has developed a marketing and communication strategy strongly linked to the distinctive content of Tenute Rubino, from the Women's Harvest that, for five years, has been regularly open to journalists, opinion leaders and wine lovers. Today Tenute Rubino distributes and markets its products in over 20 foreign countries, and more than 70% of the turnover of the company is realized through export; a fact which positively underlines the company's ability to face that more international dimension of the market, that characterizes the segment of wines of excellence."*

The story of these wine makers with a long heritage continues with the description of their land from the website: *"The grapes grow in climatic conditions typical of the sun belt, with winters that are mild and not too cold, and summers that are hot but never merciless. The influence of the sea contributes to shaping the organoleptic profile of the grapes. The sea, with its constant ventilation, mitigates the temperatures and favours an adequate temperature range between day and night, essential for the perfect ripening of the grapes and concentration of aromas. The soils, sandy and deep, ensure proper drainage of water in winter and spring and allow you to establish adequate water supply for the dry summer season. Cultivation practices are carried out with great care according to constant monitoring of the vineyards, in all seasons, from the spring shoot to the cluster that is ready to be harvested. The cultivation practices in the vineyard define the quality of the wines that will be obtained in the cellar, not the opposite; from this awareness, ancient and modern, Luigi*

*Rubino's production project gathers strength and takes form*". Storytelling is the main feature of T.R. communication's strategy. Even the website is aimed to the visual storytelling. Starting from the choice of a flat design structure, where full screen images prevail on the text. The content is emotional, social and authentic. There are trustworthy experiences related with people images and evocative pictures.

About the value co-creation, the adoption of DART model, previously described, allowed to derive the following evidences on T.R. experience. During the interview, the PR Coordinator at T.R. highlighted how the winery has embraced its own unique story and uses that to create a unique memorable experience for consumers and leveraging consumers' own memories as the story they could tell. An example of the aforementioned approach is Tenute Rubino facebook fanpage, no wonder named "NUMERO PRIMO" - like T.R.'s wine bar, where the winery along with its customers actively co-create a wine-drinking experience, through social media. The observation of the secondary sources allows us to recognize the element of the DART model on the social media strategy, especially on the facebook fanpages. The following features can be highlighted:

- a strong dialogue made up with the 12.940 followers which creates a knowledge sharing through a common storytelling. Moreover, thanks to the online presence, it is possible to understand the emotional, social and cultural contexts of the consumers/users and shape their experiences.
- The social media strategy provides the consumers with an open access to resources and information. This allows the expanding of the company's view of new markets.
- The social media strategy makes the costumers more vulnerable and start asking more information which could be a risk. However, it is also a benefit because a proactive risk communication could become a management offer for new opportunities for differentiation.
- Tenute Rubino social media strategy is trasparent and built up on communication symmetry; this is a component of differentiation.

The in-depth interview confirmed our vision of the company. Empirical data collected throughout the interview - which has been set by combining the four building blocks of the DART model - show how Tenute Rubino is used to interact with consumers and involve them in every stages of the value co-creation process. Indeed, Figure 2 well sums-up the results obtained.

## CONCLUSIONS AND IMPLICATIONS

This paper reported a study investigating storytelling 2.0 as approach adopted by Tenute Rubino, a well-recognized Apulian winery to activate a virtuous process of customers involvement and value

co-creation. Based on the direct and multisource observations, the case of Tenute Rubino experience, analysed through the DART-model proposed by Prahalad and Ramaswamy (2004) has allowed to derive how storytelling can really work, under certain conditions, as a successful communication strategy. The DART conceptual framework was applied to explain the process of facilitating consumer brand engagement using storytelling enabling specific cognitive, emotional and behavioral engagement dimensions.

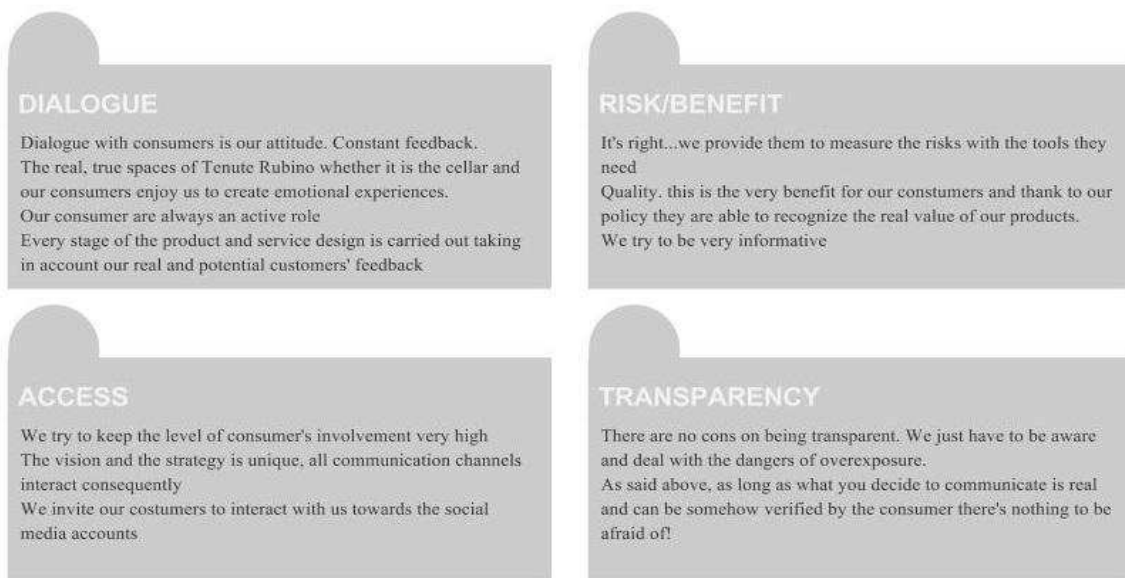


Figure 2. Results of the interview according to the DART model

If co-creating is the key, the strategic management process in the wine industry, and more broadly in the agro-food marketing system, should invest in creating a special and unique experience that would create such a powerful memory to such a point that customers become ambassadors for the brand (Golicic and Flint, 2013).

The case study demonstrated the opportunity of using of storytelling in the value co-creation process enables customers to internalize both the experience and the brand. Moreover, such a narrative technique allows customers to convey their own experiences through social media, reaching many others quickly, which is fundamental mainly for smaller wineries. Limitations of the study includes the need to analyze other cases, belonging to the wine industry, to better generalize the results obtained. Future explorations will regard the investigation of the same framework, also in other companies of the agro-food industry.

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## **APPENDIX. 1 INTERVIEW**

### **AN OVERVIEW ABOUT YOUR COMPANY**

1. We invite you to briefly write the history of Tenute Rubino dwelling on the milestones that marked growth and development of the winery.
2. What was the event that better define the vision and mission of your company?
3. Which are the key points of your communication strategy ? What are the objectives you have set ?
4. How do your communication campaigns arise?
5. How do you mix online tools with off line ones?
6. Which social network profiles has the company? And who manages them?
7. What is the frequency of updating your social profiles?
8. What is the growth trend of TR's social profiles? How many fans or followers?
9. Which kind of ROI do you have through your social media strategy?

### **DIALOGUE:**

1) Have you ever used storytelling technique or tools in order to participate consumers in TR communication strategy and/or in the service/product co-creation?

2) What kind of 'spaces' (real / virtual, or both) between T.R. and its customers have contributed to increase the value and enhance the emotional connection with the company?

Which is the most preferred way to connect with your current or potential customer base?

ON LINE:.....

OFF LINE: .....

3) Do your customers have an active or passive role?

If your answer is 'active'. Have you used data obtained by comparison and dialogue with your consumers to design new products/services? If 'Yes' in which step of the product or service design they have been involved?

### **ACCESS:**

4) What is the level of involvement of your customers in the co-creation of your company brand identity?

5) How your communication channels interact each other?

6) Have you envisaged any kind of customer loyalty techniques addressed to your online users through your social media accounts?

**RISK (RISK ASSESSMENT)**

- 7) A firm should enable the customer to measure risks and benefits with respect to any offering. What do you think about it?
- 8) Prosumer rather than consumer: how many and what kind of risks/benefits on T.R.'s brand awareness, ROI and market competitiveness?
- 9) What kind of tools have you used to enhance consumers' awareness?

**TRANSPARENCY**

- 10) Starting from the statement that 'Dialogue is Transparency' and the 'Dangerous role of the transparency'. Could you tell us the pro and con of this strategic choice?
- 11) Our company has a very strong and sharing storytelling and the consumers are involved in many activities of the productions eg. the Women's Harvest and other 'entrepreneurial moments'. Could you, please, tell us the pro and con of this choice of transparency?



## THE ROLE OF INSTITUTIONAL INVESTORS IN THE EVOLUTIONARY DYNAMICS OF AGRO-FOOD ENTERPRISES. A CASE STUDY.

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### ABSTRACT

The paper purpose is to analyze the role of a public finance company in terms of value creation processes sustainability for agro-food enterprises, highlighting the positive emerging externalities for different categories of stakeholders. In particular, the paper aims to stress the relevance of a public finance company whose core business is focused to support investment projects to overcome enterprises technological and structural gap. Evidences result which allow comparisons between the private investments and the support of institutional public investors. In such perspective, the mode of disbursement of soft loans and investment operations made by a public financing company will be examined. Following a deductive-inductive perspective, the methodological approach is based on the case study (Yin, 1994; Dubois and Gadde, 2002). Such technique able to formulate theories about a little known phenomena in their context, allows the study of recent events on which the researcher has little control. To this, a qualitative analysis (Myers, 2013) on both primary and secondary data adds. The case study finds sustainability at multiple levels reached by the activities promoted by ISA and the subsequent co-creation of value for stakeholders involved. As long as practical implications are concerned, such highlight the importance and the need for public and private institutions in their effort to continue to invest in projects to support the economy of the country. The originality of the paper lies in the proposed interpretation of more integrative paradigms (Viable System Approach, sustainability, value creation), analyzing a financial institution for the development of the Italian food industry.

**Keywords:** *shared value creation, sustainability, context, investment projects.*

### INTRODUCTION

In a national and international context characterized by high uncertainty and deep changes, it is critical for our country, because of both its geographical location and features, to attempt to capture and analyze opportunities for growth and development that are offered. With this assumption, it should be deepened the study of the resources allowing to respond to current challenges. One of these

is the territory as a resource including a number of factors which embrace food products to guarantee a sustainable economic and social development. The food sector has always been strategically important for the Made in Italy "basket", designed to support the economy of our country and to promote its image abroad. In fact, it accounts for 13.9% of the Italian GDP, a value in continuous growth since 2008 (Nomisma, 2014), supported mainly by exports that can compensate for the stagnation of nationwide consumption. However structural problems of the sector and of "national system" limit the full exploitation of the competitive potentialities of the sector itself on international markets. It should be noted that, however, the set of internal and external stakeholders of the entire food industry is a significant support to the Italian economy in front of a very high pulverized stages of production that hinders adequate investments in R&D that will make the system more competitive. However, the current situation is characterized by a low level of value creation for the several actors, due to a negative dynamic demand inducing to origin synergic processes in order to improve the productivity and competitiveness also through processes of food exports development. Just to increase the competitiveness of this sector, which in respect of the export ranks and keeps at the second place behind the engineering sector (Rossi - Stime Centro Studi Federalimentare on Istat data, 2014), a proper public financial support is necessary for the development of the Made in Italy quality, both nationally and internationally. Thus, the aim of this paper lies precisely in analyzing the role of a public finance company in terms of value creation processes sustainability for agro-food enterprises. In light of these considerations, it was tested the following research question: *"is it possible to create shared value by enabling synergies between public companies and private ones, even in particularly economic and financial adverse conditions?"* Some practical information will be also derived for the governance of agro-food businesses and their dimensional and competitive development. The article is structured as follows. After the introduction, in the first paragraph it is analyzed the role of sustainability in investment projects. In the second section it will be addressed the issue of value orientation and its relationship with the management of the company financial structure. In the following paragraphs a case study will be analyzed and results obtained from the qualitative analysis will be discussed as well. In this context, it will be confirmed the research hypothesis. The work will be completed with the conclusions, implications, study limitations and suggestions for future research.

## **1. THEORETICAL BACKGROUND.**

### **1.1 The role of sustainability in investment projects**

The current economic and financial crisis stressed the concept of sustainability associated with the ability of companies to create value for all stakeholders, both primary and secondary ones, related to capital markets, corporate organization and external environment. The creation of value must be

sustainable especially in a context such as the present one, characterized by high levels of complexity. Complexity (Golinelli, 2005), meant as the emergence of "*always new scenarios that make the developments of events in time unpredictable*" (Rullani, 2011), which has extended the number and frequency that adverse events can affect the viability of the business system (Golinelli, 2005). Here, then, is looming sustainability (Brown, 1981; Wilson, 2003; Savitz and Weber, 2006; Crane and Matten, 2007; Quaddus and Siddique, 2011; Carroll and Buchholtz, 2014; Benn, Dunphy and Griffiths, 2014), for an evolving dynamic enterprise characterized by conditions of harmony and resonance with the external environment. Being considered as a "*paradigm of business*" (Elkington, 1994; Edwards, 2005; Friedman, 2006; Blackburn, 2012) it should be understood as the integration of (Caroli, 2006, Siano, 2012):

- economic sustainability: essential constraint of the business, it involves the ability to create shared value through the remuneration of the staff, the creation of new jobs and maintaining relationships with customers, suppliers and the financial system;
- environmental sustainability: companies in managing their business, are able to generate economic, social and environmental externalities, according to the system of values and ethics, which can be positive and/or negative. The adoption of a cost-benefit approach in evaluating the sustainability of such activities, would be likely to be influent in the phase of contracting, through the use of this economic-monetary approach to integrate in banking processes, for measuring the creditworthiness of environmental externalities. This would allow to select and promote worthiest behavior consistent with a strategy of long-term development;
- social sustainability: expressed in terms of the high safety standards of working conditions as well as education and health staff;
- financial sustainability: it indicates a company's ability to generate cash flows sufficient to cover all costs incurred and to generate an overall profit margin such to fund the growth of the company; it is measured by the coefficient of debt or leverage (debt/equity) and NFP/EBITDA.

This assessment is essential for a dynamic evolution of the company characterized by conditions of consonance and resonance (Barile, 2006). Where the first is to be understood as structural compatibility through the creation of synergies with other systems, tending toward a common goal. The resonance allows the viable system to act in harmony and effectiveness by developing a unified vision with the context in which it lives, which boundaries are subject to continuous redefinition. It concerns forms of sharing and belonging accompanied by "empathy", progressively attenuating the effect of structural boundaries for a maximum degree of opening. Such determines, in terms of relation quality, increasing levels of trust and sharing of orientations and perspectives between the interacting systems (Golinelli and Gatti, 2007). In such a context they are both relevant the role of institutional investors (Rappaport, 2012), expressed in terms of raising confidence among businesses,

and the social entrepreneur aimed to enhance relations with the stakeholder network through a social, environmental sustainable development and innovation (Hall, Vredenburg, 2003). The concept of value in terms of quality, is generated with the social legitimacy of the enterprise and its governing body, both within the business context and in front of the actors who support its development (Lindgreen and Swaen, 2010). In order to achieve these objectives, it is necessary for the enterprise system to be proactive (Valdani, 1992; Kickul and Gundry, 2002), particularly with respect to the financial system: it means to evaluate constantly whether it responds effectively to demands, and if necessary, in evolutionary sense, to modify the operational structure. The behavior and the evolutionary process of the company, therefore, are influenced by the constraints of the financial supra-system (McMahon, 2001), with which it interacts, which leverages critical resource owned and made. From these considerations, it derives that sustainability is pursued effectively only when the entrepreneur is able to bring to the perfect harmony all the values of the various actors involved in the co-creation of value (Payne, Storbacka and Frow, 2008). Compliance with current and future expectations, therefore, reinforces the extension and the overcoming of Stakeholder Theory (Freeman, 1984, 1994, 2002; Evan and Freeman, 1988; Carroll, 1993; Donaldson and Preston, 1995; Jensen, 2002; Post et al. 2002; Freeman and McVea, 2002) for the benefit of Corporate Sustainability (Golinelli and Volpe, 2012).

### **1.2 The value orientation and the management of the company financial structure**

The adoption of an approach based on value implies a different role to be taken by the governing body with respect to the financial management of the company. It is necessary, in particular, a careful analysis, composition and use of the financial structure, which should not only be induced to control the explicit cost of debt or equity, but also extends to the implications of financing on government choices of the firm (La Rocca, 2001). It is necessary to reconcile the objective of maximizing value with the ability to attract financial resources in order to establish a capital structure that reflects the business strategy that does not compromise its competitiveness (Modina, 2012). This concept is crucial in a context, such as the Italian one, characterized by an economy essentially made by small and medium-sized enterprises (SMEs), to examine the main sources of funding used to evaluate the financial strength and outline the typical features of demand for financial products and services (Castelli and Modina, 2010). Value creation is the purpose for which management must strive, with the support of the owned capacity of the structure, providing a realistic development and/or growth project, the results of which exceed the expectations of investors, who awarding financial means, allow the viability and support the risk by the size of capital allocated (Marris, 1972; Giuliani, 2005). The plan must be conceived as a "temporal succession of states of the system, arising in turn from a

sequence - still in time - of structural configurations up to that goal qualified by a law of functioning which leads to the expected results of operations" (Golinelli and Gatti, 2007). It is, as pointed out by Gatti et al. (2009) "*a considerable shift in perspective: the definition of a project that, when projected over the long term, is able to ensure consonance of context which allows harmony between firm and its environment, and manifests itself in the capacity of generating a sharing on the designed project of the business evolutionary dynamics in greater awareness of the risks associated to, attracts the attention and loyalty of partners qualified to provide the company with valuable resources; the actors, however, are persuaded to take risks and sacrifice their expectations for the short term in the awareness, however, that the benefits will reward them in the long run*". In this context, the financial system build the selection of investment projects just on value, favoring those that create with respect to those that destroy value. In relation to its own characteristics, the financial system exerts its power through expectations and pressures, ex ante, and a continuous monitoring of the evolution of the company, ex-post. The value makes it possible to take into account the need for self-perpetuation of the company and to survive in the long term, not under-evaluating the wider interests that move around it (Sciarelli, 2002). It must, therefore, qualify as "systemic", ie as a unit of benefits (monetary or not) that the enterprise system is capable of generating for all those who, for various reasons, participate or are interested in his story (Gennaro, 2008). It is closely related to the choice of managerial nature, competitive position, efficiency of the value chain, generation and exploitation of intangible resources (first of all the competencies). In addition to this, an equally important role lays in the choices inherent to the financial structure, which optimization will help to lower the overall cost of capital and does not suffer from restrictions on its availability. The value orientation allows, therefore, to assess, in a more comprehensive and accurate way than traditional ones, the strategic decisions of a company from an economic, competitive, social, and financial point of view (Faccipieri, 1989; Buttignon, 1990; Collis and Montgomery, 1999; Grant, 2011). In the most advanced company configurations, it has become a real "philosophy" of management that tends to permeate the entire organization of the company.

Value represents the "*key around which businesses move and its creation is the very reason of their existence*" (Vicari, 1995), it is an expression of the wealth of the company, owned and distributed (Calabrese et al., 2012). All these reasons explain the change of the classic paradigms that evolved toward a creation of value for the benefit not only of shareholders but of all stakeholders (Ng, Parry, Smith and Maull, 2010). According to Porter and Kramer (2011), the model of Creating Shared Value drives the strategy and practices of companies to a higher level of competitiveness, in association with the improvement of the economic and social context in which they operate. This is able to generate competitive advantages often more sustainable with respect to benefits, costs and quality of products. It is a form of capitalism that evolved, including at the strategic level (McWilliams and Siegel, 2006), to achieve

social goals, also allowing companies to increase their social legitimacy. The starting point is the analysis of the needs of the environment, in addition to the costs and benefits arising from the running of the business. This new approach is able to generate new economic development opportunities, which are constantly changing as a result of economic and social priorities. The creation of shared value can be considered, therefore, the "turning point" able to determine the "next wave of global growth" through innovation, development and social benefits.

## **2. CASE STUDY: ISTITUTO DI SVILUPPO AGROALIMENTARE (ISA). THE HYPOTHESIS TEST**

In an environment experiencing the worst economic and financial crisis in decades, they are mainly smaller companies to face significant difficulties in obtaining adequate financial resources for the implementation of higher capacity to allocate in the evolutionary dynamics of high levels of sub-system and supra-systemic consonance. From such considerations, the following hypothesis arises. The creation of shared value highlights the role played not only by private companies but also by public financing institutions about improving techniques to support opportunities for wealth creation for the different categories of stakeholders. In order to test this hypothesis, they have been analyzed the characteristics of a public financing company, whose core business is to support investment projects to bridge the technological and structural gap in the agro-industrial sector. After defining the goal of the study, the desk analysis has allowed the identification of the essential points of the project format, identified in the definition of the objective to be pursued and in the procedures for data gathering, through the determination of the sources of information and research question relevant to the case study. Then, they have been specified the guidelines for the preparation of the paper, as indicated below, which led the working group to select ISA as representative case of the phenomenon under investigation. The acquisition of the primary data was made through an interview with a manager of ISA, considered an authoritative source of knowledge of the reality under study; the latter, however, were found through the analysis of books and scientific articles, databases (EBSCO and Google Scholar) and public source (website and documents published by the Institute of Agribusiness Development (ISA)). The Institute of Agribusiness Development is, in fact, a holding company with a sole shareholder, the Ministry of Agriculture, Food and Forestry (MIPAAF), which since December 2005 operates with non-speculative goals, financing productive investment and capitalize the agro-food businesses in order to support aggressive business plans and the internationalization of exporting companies. It is equipped with a structure owning specific skills able to understand the dynamics of the market and competitive leverages, the needs of the industry, growth factors, the know-how needed to perform corporate finance transactions. ISA addresses to companies and

cooperative societies economically and financially healthy, whose profitability is demonstrated, operating in the sectors of transformation and sales of agriculture, livestock and forestry products. With a continuous and exclusive focus on the needs and potentiality of the sector, the Institute becomes a promoter of strategic, operative and commercial choices, aimed at enhancing the level of competitiveness and innovation of the Italian agro-food sector, improving, also, at the structural level the income of agricultural producers. Its activity is addressed to new business initiatives, programs of adjustment and restructuring of existing plants, to product diversification implemented through products and/or process innovations, till the realization of plants for power generation from renewable sources. ISA intends to favor investment projects which seek to:

- increase the size of the company through mergers, networks, joint ventures, strategic alliances and holding;
- reach a critical mass of product that strengthen market presence in order to upgrade sales on foreign markets;
- innovate and expand the current production in response to the new demands of the market, valorizing local products and creating a traceability system to escape the tight price competition.

In addition to the typical activities of providing low-interest loans, ISA supports investment transactions to encourage new business initiatives that will meet the needs of an increasingly flexible and dynamic market. In line with the principles of the market economy, it may acquire minority interests and provide funding for the consolidation and development of enterprises. The operations must be carried out at market value as input, expected return, and corporate relations with a final exit; they must not require any disengagement of private parties. Companies cannot take advantage of the both opportunities offered by the Company. During the preparatory technical credit stage, aimed at verifying the credit and the design method, the Institute proceed with the verification of different aspects: the credibility of the proposed project, paying particular attention to the reasonableness of the assumptions and shareability of the industrial, financial and market assumptions, especially with regard to the ability to repay the loan required, in the interests of healthy and balanced management. Another important aspect in the assessment is the definition of eligible warranties and the contractual framework, adequate to protect and monitor potential investment, such that they can be activated quickly and effectively without "stopping" the normal run of business. There are, finally, effective sanctions for non-compliance. At the moment of validation of the project by the ISA Board of Directors, it follows the authorization of the MIPAAF and notification to the European Commission which has indicated the principles to be followed for applying the intervention on risk capital. The criteria to follow relate to the situation of the company, which must be economically and financially

"healthy" in order to increase and improve its capacity to expand the competitiveness undertake corporate integration processes and establish the connection with the productive sector at the base the supply chain; the profitability of the intervention must be appropriate to the performance of the sector; the contribution of the financial holding company shall not exceed the actual value of the company and should be proportional to the participation of private investors. ISA wants to play both the role of institutional investors and promoter of strategic decisions, marketing initiatives and operative decisions in order to encourage the consolidation and development of the Italian agro-food sector.

Special rules governs "Contracts of Sector", between the actors of the food chain and the MIPAAF. The goals wish to pursue, involves the implementation of an investment program of inter-professional nature and having national significance, to facilitate the integration of the supply chain of the agricultural and food systems as well as the strengthening agro-industrial depressed areas of the Italian territory.

Therefore, ISA supports manufacturers financially, strategically, commercially and operationally, in order to consolidate the development of the agro-food sector of our country and therefore enhance local agricultural production. In a more comprehensive perspective, the beneficiaries of the activity carried out by ISA are corporations and cooperative societies that receive allocations of funds, the eco-environment thanks to the feasibility of power generation plants that use renewable sources, the entire agro-food sector in all parts of the chain (from production to logistics to final consumers), and others. Concerning shared value, the very meaning of the word leads us to ask what is the return in terms of value creation by the Institute for Agribusiness Development for all activities under his care since years. Well, first of all, the ISA has, thanks to various initiatives, a broad media exposure, appearing in newspapers as "Italy Oggi", "Il Mattino", "Il Sole 24 ore" which recognize it as a public financing entity that invests to foster the agricultural sector. The Institute can claim such an image return, as the institution that provides low-interest loans and is responsible for investment operations for the food industry. Second, as reported on the same ISA brochures, by virtue of the partnership in a number of important initiatives in the country and not, the company has an investment portfolio concentrated in a single sector, so strong synergies with the actors of various kinds, institutional, public and not operating in the agro-industrial sector (from those in the chain to local institutions). That is not all. Given the high level of specialization required by the operations of corporate finance applied to the agricultural sector, ISA owns strongly skilled resources, which continue to increase their know-how with the consolidation and development of the Institute in time. The finance company, in support to the various agro-food businesses, adopts an ethic code by which it acquires legitimacy and social prestige in the eyes of the various stakeholders (shareholders, employees, contractors, consultants,



PA, etc.). The Institute, in fact (as in Codice Etico - D.Lgs. 8 giugno 2001 n. 231), proposes to carry out its activities in compliance with fundamental human rights and principles of fairness, honesty, using clear and transparent rules which are in line with the objectives of the external environment and the community, by adopting a high standard of professionalism and excluding behaviors contrasting the law and the principles of the Company. In conclusion, stated as its primary objective that to promote aggregation processes between companies, ISA enters itself in a unitary system logic, where there is interaction and mutual exchange of resources, experience and capacity among the various actors in order to achieve a satisfactory result for all. In such a perspective, we could define it as a network, used by ISA to spread value, expanding its own social skills (Richardson, 1972; Hakansson and Snehota, 1995) and competitiveness.

### **3. FINDINGS AND DISCUSSION**

From the analysis of data collected from financial reports published by ISA, it is clear that his portfolio includes only investments concerning food industry. Since its constitution to 31/12/2013 it has approved investment projects for a total of 260 million euro, of which only 0.76% currently in default, aimed at increasing the productivity of companies and/or to improve the logistics and/or structures. Of that amount, 82 million euro relate to interventions of merchant banks, while 178 million euros the financing facility. Companies that benefit from these resources, contribute to gross marketable output (PLV) for agricultural commodities for 1.1 billion euro, representing total sales of around 4.4 billion euro. The observation of the data on the ISA portfolio in 2011-2013 shows that the number of approved projects with respect to the 82 presented is small, because of non-compliance with the provisions of the operating rules and/or the mission of the finance company. The latter, in order to limit its credit risk for each loan, evaluates, in fact, with particular attention the adequacy and solidity of the company economic structure and financial position; as well as the competitive position of the company/applicant and consistency between the requirements and the investment plan that the applicant proposes; the financial viability of the project in the medium-long term; the adequacy of the guarantees which must not be less than 150% in relation to the type and amount of financing; the trend of the market. The 14 approved projects have generated a total investment of about 78 million euro, of which 38.4 million in the form of grant awards.

Year	N. of projects submitted	N. of project approved	Total value of project approved	Grant awards	Merchant banking
2011	28	4 GA	10,9 mln	10,9 mln	0
2012	34	5 of which 3 GA and 2 MB	36,8 mln	12,3 mln	24,5 mln
2013	20	5 of which 4 GA e 1 MB	30,2 mln	15,2 mln	15 mln

Table 1 – 2011-2013 Isa portfolio - Source: Our elaboration on ISA data

As regards disbursements, in the three years considered, they totaled 86.3 million euro (also including those relating to projects approved in previous years). They mainly concerned the subsidized loans (46.3 million euro), followed by merchant banking (8.6 million euro) and the "chain of contracts" (31.2 million euro).

Year	Total value of disbursements	Type of intervention (GA = Grants Award) (CG = Capital Grants)	Modality
2013	23,2 mln	12,8 mln 6 mln	Grants Award Merchant banking
		4,2 mln of which: 2,7 mln GA and 1,5 mln CG	Program "Contratti di filiera"
2012	29,1 mln	19,2 mln 2,5 mln	Grants Award Merchant banking
		7,4 mln of which: 3,8 mln GA and 3,6 mln CG	Program "Contratti di filiera"
2011	34 mln	14,3 mln 0,1 mln	Grants Award Merchant banking
		19,6 mln of which: 10,6 mln GA and 9 mln CG	Program "Contratti di filiera"

Table 2 –2011-2013 ISA disbursement - Source: Our elaboration on ISA data

In 2012-2013 the largest number of approved projects involved private enterprises belonging to the fruit and vegetable sectors, livestock, oil, wine and salami. They follow cooperatives belonging to the sector of canning, wine and seeds. The methods of intervention have been mainly in the form of grant awards.

With regard to the aims of the interventions that ISA approved in 2013, they are addressed, in the case of the company "Terre d'Oltrepò", to facilitate the technological innovation of some departments of production resulting in increased production capacity, aimed at the realization of the business plan and higher salaries and the number of contributing shareholders. Investments made, once fully

operational, should allow an increase of the PLV of 10 million euro, rising from 25 million to 35 (+ 40%), and employment that will be increased by 6%.

The loan of over 2 million euro that ISA has agreed to Fazi SpA will allow the acquisition of production assets for the processing of pork meat, and the development of intangible actions included in business and marketing plans.

The facilitated loans of over 7 million euro will be used by Jeio Belstar Bisol Group for the acquisition of a new plant for the production of "Prosecco" and the optimization of internal logistics, through an innovative automated warehouse. This evolutionary dynamics will allow the company to increase the level of employment (+ 50%) and a significant agricultural benefit arising from the purchase of domestic grapes produced in the territories included in the specification of DOC and DOCG wines resulting in higher PLV by over 50% (from about 5.5 million euros to over 8 million).

The capitalization of 15 million euro of the new company "OLIO DANTE" by ISA will allow, along with the same amount given by other private parties, both the completion of industrial investment and a business plan addressed primarily at international markets. They will benefit from this intervention also the company employment (89 employees annual average) and the volume of purchases of raw materials of domestic origins (over + 60% in volume with respect to what purchased by the Group in 2013).

The funding of approximately 4 million euro granted to Granfrutta Zani involves the realization of a material investment for more efficient storage of fruit and vegetables, especially for products with higher added value. In addition to a clear improvement of the remuneration of the producers, the investment implies a significant increase of PLV (+ 26%), thus exceeding 58 million euro compared to the current 46 million euro, with consequent benefit for the national fruit and vegetable producers.

Currently, ISA is evaluating the characteristics of 18 projects that, in the 2014-2015 period, may require, in the event of a positive outcome, a maximum investment of about 70 million euro.

The core business of ISA, with the currently available tools, has generated economic benefits for the public accounts of the Italian State to whose have been transferred over the years a total of 90.7 million euro, of which 18.1 million in January 2014. This allowed to meet the expectations of the owner supra-system, which will find complete fulfillment in January 2015 with the payment of the last tranche foreseen by the rules governing the inter-systemic relationship. To this 100.5 million euro must be added to MIPAAF distributed as dividends. Further 11.4 million euro will be paid at the beginning of December 2014 and 7.8 million euro are planned to be paid in January 2015.

This study clearly shows that the hypothesis can be validated, as even public financing companies contribute, in some cases, to actively support the relevant economic sectors although pursuing their goals of wealth creation for various categories of stakeholders.

#### 4. CONCLUSIONS, LIMITATIONS AND PRACTICAL IMPLICATION OF THE STUDY AND SUGGESTION FOR FUTURE RESEARCH

The case analyzed shows how it is possible for the small agro-food businesses, to face innovation and/or internationalization processes through support of a public financing company. In such a context, it emerges the fundamental role of ISA in financing projects whose risk-return profiles would, probably, be unattractive for private investors. As already underlined, the use of public financial resources generated value under several aspects. In particular, the low percentage of companies in default (only 0.76%) has enabled the Institute to remunerate MIPAAF and participate in the consolidation of public finances. It also created value for financed companies that, through a process of growth and innovation, have strengthened their competitive capacity ensuring and even increasing employment levels. Thus, from a theoretical point of view the case could fall within the field of studies of the creation of shared value. This vision, assigns the company a social and economic implications key role, a concept also mentioned by the Social Doctrine of the Church: "*Richness fulfill its service function toward man when it is destined to produce benefits for others and society*" (Social Doctrine of the Church, Chap. VII - § 329). Actions carried out by ISA, indeed, allow companies of the food sector to face with greater confidence the critical characteristic of the context in which they operate, by implementing a dynamic evolution designed to overcome the current economic situation. Study limitations consist in the fact that the analyzed case is a virtuous one. The model of public support to private companies has not always been positive, indeed the Italian experience is unfortunately plenty of cases of failure. For the purpose of future research it is suggested to examine the level of profitability generated by the individual interventions by risk capital for the benefit of ISA, in order to measure the level of value created.

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## ITALIAN WINES IN THE NEW WORLD WINE CONSUMERS COUNTRIES: THE CASE OF THE RUSSIAN MARKET

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### ABSTRACT

Over the last few decades, the wine market has been affected by a deep structural transformation due to globalization and mounting international competition. In particular, the wine demand has registered a geographical change with a fall in the traditional markets and an increase in the new markets among which Russia and China. Russia is one of the largest markets for wine on the planet, therefore, know what quality attributes are appreciated by Russian consumers is relevant in order to define effective business and marketing strategies. An hedonic price model has been used in this work in order to estimate implicit price for the main objective attributes of Italian wine sales in the Russian market. Our findings show that Russian consumers are willing to pay a premium price for wines from Veneto and Tuscany, and in particular for non native varieties and for IGT wines. Additionally, Vintage and the higher alcohol content have a significant positive impact on the prices that consumers are willing to pay for wines. An effort to promote a differentiated quality wine produced in specific wine growing area is essential in order to increase the knowledge of different type of Italian wines.

**Keywords:** *Wine market; Premium price; New consumers markets; Italian Regions.*

### INTRODUCTION

World wine consumption has fallen substantially, in a constant regular way, in the last few decades in response to the social changes of the world society. This deep transformation has affected mainly the European area, in which has been registered a fall of the wine demand, in particular in Spain (-34.0% in 2000-2012 period), in Italy (-27.0%) and France (-12.0%), which is relevant given the high starting values. On the other hand, new consumer markets emerge in the world wine scenario, and in particular in Russia (+9.3% average annual in the 2000-12 period) and China (+5.12%) (OIV, 2014). Contextually, preferences and customs associated with wine consumption have changed with a general decline in the quantity of wine sold and an increasing orientation of consumers towards Contemporary Trends and Perspectives in  
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quality wines apt to satisfy more complex needs than purely gastronomic ones, the function of which is enriched with experiential, symbolic and hedonistic elements (Nosi, 2012).

Wine consumers, today than in the past, are taking more care to attributes such as quality, prestige, regional origin that are among the determinants of consumers purchasing decisions, which is the result of the relationship between market price and wine attributes.

Wine product pricing and the influence of different wine characteristics has received considerable attention from economists, thanks to the high differentiation and the difficulty in objectively assessing quality. Wine price is positively related to the quality perceived by consumers (Bombrun and Sumner, 2003), which includes both sensory characteristics (intrinsic) and extrinsic attributes related to the information available on the product or the reputation of the wine and the cellar (Chironi and Ingrassia, 2013). Many economist have estimated a hedonic price function for wine. Some of this studies have focused their attention both on a single type of wine produced in specific regions such as Bordeaux, Alsace, Beaujolais, Provence wines (Cardebat and Figuet, 2009; Cardebat and Figuet, 2004; Byron and Ashenfelter, 1995), or Barolo and Barbaresco wines (Benfratello et al., 2009) and on different type of wine (Levaggi and Brentari, 2014; Brentari et al., 2011; Benfratello et al., 2009; Costanigro et al., 2007; Angulo et al., 2000) in the domestic market. On the other hand, less numerous are the studies that have explored the difference of appreciation of the wines produced in the old and new wine producers in foreign markets and in particular in the new consumer markets (De Francesco et al., 2012; Gokeckus, 2013; Schamel, 2006; Steiner, 2004a; Steiner, 2004b). Furthermore, while some Authors esteemed and hedonic price function for red and white wine imposing the assumption that the implicit prices of the attributes are the same for any red and white wine, other analyze only one of the two types.

Wine is one of the most representative products of the 'Made in Italy' food productions, that, thanks to its high quality and marked distinction, has contributed to the strengthening of the reputation of Italian products in the world as an offer of excellence, strongly tied to the territory (Carbone and Henke, 2012). Also in the recent period of crisis, Italy seems to have managed to seize the opportunities offered by the recent change of the international wine market, progressively opening itself to foreign countries, not only in the traditional consumer markets but also in the emerging ones, thanks to its ability to satisfy a diversified demand more and more oriented towards quality products (Crescimanno and Galati, 2014).

The major difference between this paper and the previous use of the hedonic price function is that we explore the implicit evaluation of some quality attributes of Italian wines sales in a new world consumer market: the Russian market. In particular, we have only considered the extrinsic attributes, related to the information that can be obtained by the consumer through the label, that are essential



elements for a decision support system, helping to reduce the information asymmetry and reduce the perception of risk inherent in the consumer.

The paper is organized as follows. The second section describes the theoretical framework and a literature review regarding the adoption of Hedonic price function in the wine sector. The methodological approach used to answer the aims of the research is reported in third section. The results of the analysis are described and discussed in section four. Concluding remarks are presented in the last section.

## LITERATURE REVIEW

The hedonic price method has been extensively discussed in the economic literature aimed to investigate consumers' choices and the weight that individual quality attributes of product have on those choices. As suggested by Fogarty (2006) the basic theoretical assumption is that the utility of the consumer is not generated by the consumption of the good itself, but rather by the benefits derived from its characteristics, or for the specific attributes of the product. The sum of the implicit prices, interpreted as a willingness to pay at the margin of consumers in each of these attributes creates the market price of a given product.

The hedonic price model was used for the first time by Waugh (1928) in order to study the influence of specific quality asparagus characteristics (colour, size of stalks, and uniformity of spears these) on his price in Boston market. Since this pioneer paper, this method have been used in order to analyze the influence of quality attributes on the market price of both durable goods like cars (Court, 1939), personal computer (Chow, 1967), apartments (Witte et al., 1979), air services (Schwieterman, 1995), and perishable goods, such as breakfast cereals (Stanley e Tschirhart, 1991), meat of beef (Williams et al., 1993), wheat (Uri et al.,1994) and wine grapes (Golan e Shalit, 1993 e Oczkowski, 2006).

Wine product due to its specificity, high recognition, its total value, which is the result of a wide range of attributes (Carew e Florkowski, 2010; Corsi e Strøm, 2008), has been extensively studied through hedonic pricing models. Numerous studies compare the influence on the wine final price of the subjective and objective quality attributes; results support the conclusion that the greatest influence of one or the other depends on a number of factors (Chironi and Ingrassia, 2013). Oczkowski (1994) analyse the implicit price of objective (grape variety, grape region, grape vintage and producer size) and subjective (wine quality rating and cellaring potential) characteristics on the Australian premium table wine. The results show a positive relationship between the attributes observed (except producer size) and the selling price of the wines, and in particular a premium price has been revealed for vintage wines, produced with red grapes (Pinot noir). Similar results are obtained by Nerlove

(1995) in his study on imported wines in the Swedish market. Combris et al. (1997, 2000) found, with reference to the wines of Bordeaux (1997) and Burgundy (2000), a greater positive influence of the objective characteristics than that exerted by the sensory or subjective characteristics. With particular reference to the latter, and compared to other authors, Combris et al. use, in their study of information obtained through tasting sessions organized specifically for the analysis of hedonic price, considering these data more reliable than those found on wine guides or catalogues of wines.

Angulo et al. (2000), found, with reference to the Spanish wines, the subjective characteristics they do not have an effect on medium price wines but are important in more expensive wines. The results of their study show a positive influence of certain objective characteristics, and in particular of the growing area and the grape vintage year. Results of other studies such as that of Cardebat and Figuet (2004), on the Bordeaux wines, Lecocq and Visser (2006), on the Bordeaux and Bourgogne wine, Troncoso and Medardo Aguirre (2006), on the Chilean wine sales in the US market, show that most of the price differences are explained by the objective characteristics (information on the label, and in particular grape variety and region of origin) and sensory characteristics (quality of judgments given in the guide) does not have a major impact. A different result is obtained by Ascuito et al. (2012) in an investigation into the price premium associated with organic Sicilian wine. The authors, as well as find a premium price for sweet wines and Controlled Designation of Origin/ DOCG (objective characteristics) find a positive influence on the price of the wines classified as excellent in a Italian wine guide. A similar result is found by Defrancesco et al. (2012) in his study on the possible benefits from the definition of bilateral or multilateral agreements for the recognition and protection of geographical identity of Argentine wines in international markets. Regarding the designation of origin Malorgio et al. (2008) found that this is a key to ensure fair competition and consumer information, in particular in order to assists consumers in making the right choice.

Numerous other empirical contributions have focused on the influence of objective characteristics only, in relation to the difficulty of the consumers to know subjective characteristics at the time of purchase, such as sensory and chemical properties of wines. According to Oczkowski (2001), indeed, the extent to which consumer preferences can help determine market prices, depends on their knowledge of the wine characteristics. Morilla Critz e Martinez Valderrama (2002), in their study on the Spanish quality wine, exclude from the analysis the technical characteristics of the wines (such as the sugar content or acidity of the grapes, observed in other studies), as little known to the majority of consumers. Steiner (2004a, 2004b), in his study of French wines (2004a) and Australian wines (2004b) sold in the UK market, consider only the attributes observed by consumers on the label (colour, varietal, appellation, vintage, etc.). The results of these studies show a premium price for the "aging", for wines produced in specific areas of production (Cote de Beaune for French wines and Coonawarra

for those Australians), with certain varieties of grapes (muscat for French wines and pinot Noir for those Australians) and sold in supermarket chains. Some authors have shown that the perception of consumers is different according to the place of purchase. In this respect, Boatto et al. (2011) in a study on a sample of Italian wines, found that the influence on the price of the labelling is less if they are sold in a specialty store rather than the big supermarket chains. The authors also stress a price premium mapped to the area of production (collective reputation), evaluation of the brand (individual reputation) and vintage (higher premium for wines older than younger ones).

## MATERIALS AND METHODS

Italian wine price in the Russian market is obtained from the Wine Searcher dataset, that contain the retailers, at which consumer could buy specific wine in a given specialized wine shop in each countries, of over 6 million of bottles wines and more than 50,000 of retailers. This price is referred to wine bottles of 0.75 liter and do not take into account any special offers related to the amount of bottles purchased. From the same search engine we have inserted as variables the “research score” which is only present if the wine is highly sought after and represent the number of times that the wine has been researched. 2286 observation are considered in our study. For each observation was revealed extrinsic attribute of wines in general provided on the label. In particular, our data set include, in addition to the wine price: geographical name, vintage, research score, wine produced with native varieties, non native varieties and a bland.

On the basis of information contained in the wine searcher engine, wines more present in the Russian market are those produced in Tuscany (48.3%), Piedmont (22.0%) and Veneto (14.7%). Less present are the Sicilian wines (7.9%), and the wine from Trentino-Alto Adige (4.8%) and Friuli-Venezia Giulia (2.3%). Italian wines present in the Russian market are included mainly (77.0%) in the ultra premium price category (€14-€150). Icon wine (> €150) represent only the 18.3% of the Italian wine sold, it's especially Piedmont (26.2%) and Tuscany (21.8%) wines; while wine included in the super premium price category (€7-€14) are less present in this new world consumer market. Most of the wines are labelled ad DOCG (34.5%), in particular from Piedmont and Tuscany, and DOC (34.4%), mainly popular in Friuli-Venezia Giulia, Trentino-Alto Adige and Veneto, and IGT (30.0%), mainly from Sicily and Tuscany. More than 84.0% of the wines have an alcohol content between 13.0 ° and 14.5 °. 57.7% of the wines studied is obtained using native grape varieties, this features is most diffused in the Sicilian, Veneto, Piedmont and Tuscany wines; Trentino-Alto Adige and Friuli-Venezia Giulia wines are predominantly made from non native varieties, which account for some 24.5%. Less frequent, bland wines marketed in Russia by native and non-native (17.8%), found mainly in Tuscany, Veneto and Friuli.

The hedonic model is a regression-based approach, derived from Lancaster (1966) and later formalised as Rosen hedonic method (1974), in which the wine price is a function of a multiple product attributes. We use a linear regression model in order to investigate the relations between wine prices in the Russian markets and four independent variables, namely Regions (Sicily, Friuli, Piedmont, Tuscany, Trentino, Veneto), Designation (DOCG, DOC, IGP, IGT), Varieties (Mix, non-native, native), Alcohol (percentage of alcohol of the wine), Vintage (oldness of the wine). A log-linear functional form has been employed as in numerous work (Levaggi and Brentari, 2014; Ascuito et al., 2012; Defrancesco et al., 2012; Brentari et al., 2011; Haeger and Storchman, 2006; Angulo et al., 2000; Oczkowski, 1994; Combris et al., 1997). Specifically, this model explains the expected log price of a 0.750 litre bottles of wine as a linear combination of the just mentioned independent variables.

$$\log(y_i) = \beta_0 + \beta_1 x_1 + \dots + \beta_k x_k + e_i$$

Since this is just an ordinary least squares regression, we can easily interpret a regression coefficient, say  $\beta_1$ , as the expected change in log of  $y$  with respect to a one-unit increase in  $x_1$  holding all other variables at any fixed value, assuming that  $x_1$  enters the model only as a main effect (i.e., no interaction effects are assumed). In the original scale, the intercept is interpreted as follows. We can say that  $\beta_0$  is the unconditional expected mean of log of the dependent variable. Therefore the exponentiated value,  $\exp(\beta_0)$ , is the geometric mean of dependent variable. In terms of percent change, we can say that switching from baseline factor of variable  $\beta_1$  to another, we expect to see about  $\exp(\beta_1)\%$  increase in the geometric mean of price.

The usual assumptions on the errors are made, i.e. mean zero and variance-covariance matrix diagonal with equal elements on the diagonal. Moreover, no perfect or significant collinearity should exist between the covariates. We use variance inflation functions in order to investigate multi-collinearity among the covariates. Since the square root values of these indexes were less than two for each of the covariates, we can conclude that there is no problem with multi-collinearity.

Whereas, studentized Breusch-Pagan test (BP = 268.6453, df = 12, p-value < 2.2e-16) shows heteroskedasticity. We recall that heteroskedasticity does not influence estimation of the regression coefficients. However, it is essential to correct for heteroskedasticity in order to produce better inferences on these coefficients. This can be done with several estimators of the covariance matrix. We use White-corrected (also called White-Huber) covariance matrix estimator.

## RESULTS

The estimated OLS model, which is shown in Table 1, fit the data quite well ( $r^2 = 0.5298$ ) and the estimated parameters have the expected signs and they are highly significant. The model assumes as baseline a bland produced in Sicily and labelled as “Guaranteed and controlled designation of origin”

which is sold in the Russian market at the expected geometric mean price of €34.95 per bottle. To be more specific, the baseline wine is Sicilian, DOCG, Mix, 13.86% of alcohol and almost 7 years old (6.85). Given this baseline, on average, Piedmont and Tuscany red wines earned higher premium price than Sicilian wine (102.9% and 60.0%, respectively). Wines from Friuli-Venezia Giulia, Trentino-Alto Adige and Veneto earned on average price premia of 26.9%, 24.7% and 23.4%, respectively. Numerous are the studies that show a positive relation between wine price and Region of origin (Oczkowski, 1994; Nerlove, 1995; Cardebat and Figuet, 2004; Lecocq and Visser, 2006; Steiner, 2004a, 2004b). Concerning the other variables included in our model, there appear to be a higher premium price for wines produced with non-native grape variety (48.6%) than those produced with local varieties (13.3%), showing a greater appreciation for the international varieties. Similarly, wines labelled as "Indicazione Geografica Tipica" (IGT) have a direct relation with the price, and earn a price premia of 13.8%. On the contrary, wines labelled as "Protected Geographical Indication" (IGP) and "Controlled Origin Denomination" (DOC), are less appreciate among the Russian consumers. In both cases, the indication in the label of one certification or the other, produce a reduction of average price of 7.9% for COD and 2.9% for PGI.

**Table 1 – Estimates on the log price of a multiplicative linear regression model**

	Estimate (beta)	Std. Error	t-value	Pr(> t )	Percentage premium price
(Intercept)	3.554	0.075	47.318	< 2.2e-16 ***	
Friuli-Venezia Giulia	0.237	0.080	2.947	0.0032 **	26.9
Piedmont	0.707	0.066	10.662	< 2.2e-16 ***	102.9
Tuscany	0.469	0.056	8.326	< 2.2e-16 ***	60.0
Trentino-Alto Adige	0.221	0.075	2.930	0.0034 **	24.7
Veneto	0.210	0.059	3.546	0.0003 ***	23.4
DOC-wines	- 0.082	0.040	-2.022	0.0432 *	-7.9
IGP-wines	- 0.022	0.123	-0.181	0.8557	-2.9
IGT-wines	0.129	0.047	2.710	0.0067 **	13.8
Non-Native varieties	0.396	0.048	8.135	6.673e-16 ***	48.6
Native varieties	0.124	0.041	2.997	0.0027 **	13.3
Alcohol	0.454	0.018	25.143	< 2.2e-16 ***	1.57
Vintage	0.102	0.006	16.929	< 2.2e-16 ***	1.10

Signif. codes: 0 '\*\*\*' 0.001 '\*\*' 0.01 '\*' 0.05 '.' 0.1 ' ' 1. Standard errors corrected for heteroschedasticity with White-corrected covariance matrix estimator. For "Alcohol" and "Vintage" variables, the value in the last column express the price increase for each degree of alcohol content or year in the aging of wine.

Regarding the vintage effect (Age) effect on wine price, results shows that older vintages are positively associated with wine price. More in detail for each year of increase in the aging process, wine price increase of 1.1 times. In particular, for red wine the variable "Age" assumes an important role, driving the consumer chose. Findings of relevant literature show a premium price for vintage wines (Oczkowski, 1994; Steiner, 2004a; Steiner, 2004b). A positive relation has been founded for the alcohol content in wine. An increase of 1 degree of alcohol content, produce an increase of price of 1.5 times.

Table 2 shows the expected wine-prices when we change from level factor baseline to another one.

**Table 2 – Wine price per Region**

	Sicily	Friuli-Venezia Giulia	Piedmont	Tuscany	Trentino-Alto Adige	Veneto
Price	34.95	44.33	70.91	55.92	43.60	43.14
DOC-wines	32.19	40.82	65.30	51.49	40.15	39.72
IGP-wines	34.18	43.34	69.33	54.67	42.63	42.17
IGT-wines	39.77	50.44	80.69	63.62	49.61	49.08
Non native varieties	51.95	65.88	105.39	83.10	64.79	64.10
Native varieties	39.59	50.21	80.32	63.33	49.38	48.86
Alcohol (14.86%)	55.09	69.86	111.76	88.13	68.71	67.98
Age (7.8)	38.73	49.12	78.57	61.96	48.31	47.79

An interesting result that emerges from the analysis concerns the relation between wine price and research score included in Wine Searcher website. Figure 1 shows that wines most "wanted" in the Russian market are super-premium (€7.00-€14.00) and ultra-premium wines (€14.00-€150.00).

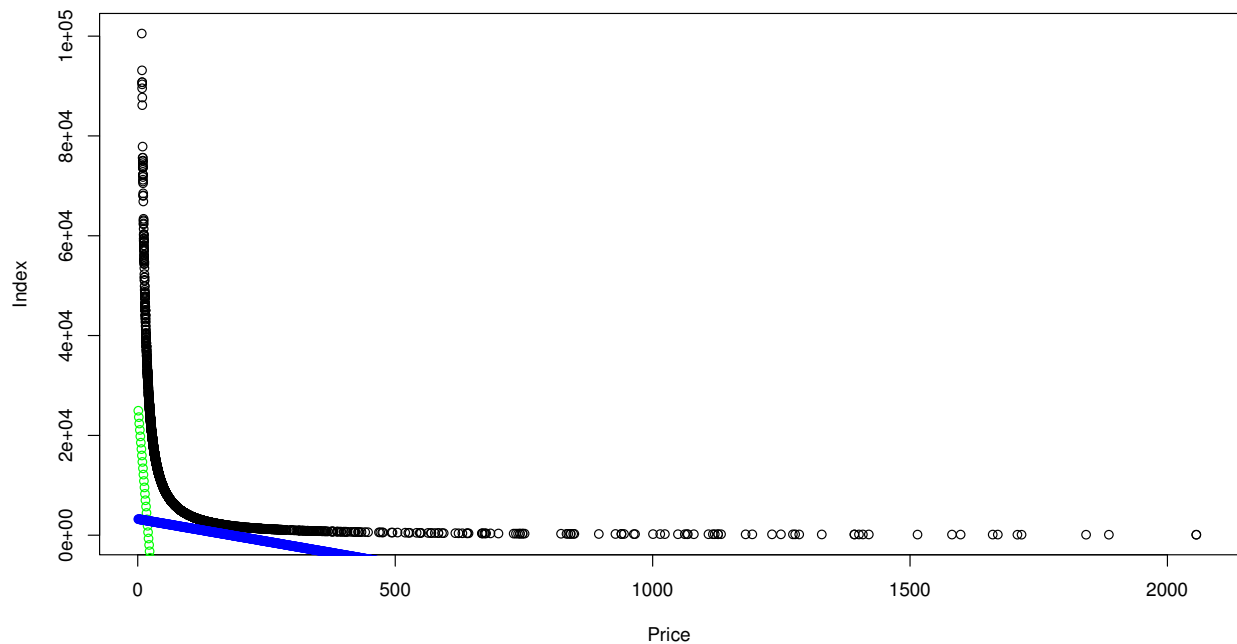
Black line was estimated using the following regression model:

$$\text{Log(Index)} = b_0 + b_1 \text{Log(Price)},$$

and it is shown in Figure 1 at the original scale of both Index and Price variables. The green line is the tangent line for a wine-price of 23.83Euro at point (23.83, 24212), below this price there is the more researched wines. The blue line is the tangent line for a wine-price of 157.4Euro at point (157.4, 2243), above which there is a lack of interest of the Russian consumer for the Italian wine.

We estimate two breakpoints, where the coefficients shift from one stable regression relationship to a different one. The foundation for estimating breaks in time series regression models was given by Bai (1994) and was extended to multiple breaks by Bai (1997a and 1997b) and Bai and Perron (1998). Breakpoints implements the algorithm described in Bai and Perron (2003) for simultaneous estimation of multiple breakpoints. The ideas behind this implementation are described in Zeileis et al. (2003).

**Figure 1 – Relation between wine price and research score**



## DISCUSSION AND CONCLUSIONS

There is no doubt that wine market prices are associated with specific wine attributes. In this paper we employed hedonic price model in order to estimate implicit price for the main objective attributes, much easier to identify by consumer than sensory characteristics, of Italian wine sales in a new world consumer market: the Russian market. The model estimated found that Russian consumers are willing to pay a premium price for wines from Veneto and Tuscany, and in particular for non native varieties and for IGT wines. International varieties are more appreciate by the Russian consumers, than native varieties. For this latter, indeed, Russian consumers are less willing to pay. The observed appreciation of vineyard indication, as suggested by Defrancesco et al. (2012) confirm that consumers are interested in the product origin and use this information to simplify their difficult decision making process when choosing among different wines. Moreover, the less influence on the consumer choice of Protected Geographical Indication and Controlled Origin Denomination emphasizes a lower willingness to pay of consumers to the wines of high quality; this could be related to a culture of wine is not yet fully developed in the Russian market. This result is also confirmed by a more frequent finding of wines that fall in the category of super premium compared to the ultra premium. Additionally, Vintage have a significant positive impact on the prices that consumers are willing to pay for wines, like so the higher alcohol content.

Our results have some relevant implications for Italian wineries' strategy. In particular, in the new Contemporary Trends and Perspectives in Wine and Agrifood Management

world consumer market it is essential to put use an efforts to promote a differentiated quality wine produced in specific wine growing area able to compete in the international markets, mainly in order to introduce some grape variety. Promotion, through the participation in wine exhibitions in these countries, could increase the competitive power of Italian wine in the new consumer markets.

The results would certainly be more robust if it were possible to incorporate in the estimated models subjective characteristics such as sensory characteristics for the wine tasted.

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## SMES' GRADUAL GROWING STRATEGY: STRATEGIC OPTIONS IN THE WINE BUSINESS

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### ABSTRACT

In the last two decades, the national and international wine competitive scenario has undergone several changes, which have compromised the traditional role of Italy as a leading country in the production of wine. The Italian wine industry is characterized by the strong presence of small firms, mainly family, in which a thorough strategic planning aimed to maintain or improve competitive advantage is marginal. This results in a lack of financial, managerial and cognitive resources.

The pace of changes and the lack of tangible and intangible resources in small wine firms make it critical for them to reconsider their growth strategies.

Based on these considerations, in this study we propose a possible strategic path, the *Gradual Growing Strategy*, for small businesses operating in wine industry. Selecting a sample of 110 small wine firms, we identify the "Alone" firms, characterized by complete autonomy and, based on the presence of personal and/or corporate ties, the "Independent" firms and the "Affiliated" to a Business Group or a Family Business Group.

We conduct an analysis on performance of firms so categorized, in order to compare them. The analysis highlight that "Independent" firms have higher performance than "Alone" ones and in general that firms "Affiliated" to BGs show a better trend.

Therefore, this study outlines a possible strategic path: from "Alone" to "Affiliated" to a BG, passing through the halfway stage of independence.

**Keywords:** *wine industry, small firm, growth strategies, inter-organizational ties, economic and financial performances.*

### INTRODUCTION

The wine business, and more in general the agri-food business, represents one of the industries in which the Made in Italy has a worldwide reputation thanks to the following variables: environmental variables (industry and local-specific) and firm-specific variables both at a structural and a strategic decision level (Zanni, 2004). However, in the last two decades, national and international competitive

scenario has undergone several changes due to the dynamics occurring both on the demand and on supply, which have compromised the traditional role of Italy as a leading country in the production of wine (Cusmano *et al.*, 2010). Although wine firms tried to react to this scenario, they haven't been able to adapt to the pace of these changes (Rossi *et al.*, 2012), probably also due to the fact that this sector is mainly characterized by small firms, with family ownership, in which it is marginal a strategic planning aimed at sustaining a competitive advantage. This results in a lack of financial, managerial and cognitive resources (Cardinali *et al.*, 2010), as well as in a passive rather than active behaviour to market changes (D'Amato, 2013).

Therefore, today it is critical for firms to reconsider their growth strategies. In this ever-changing business environment, growth strategies such as acquisitions, joint ventures, or alliances have become means to accelerate growth in both established and new small firms.

With the aim to take a new look at long-standing strategy issues related to planning and realising growth, we try to analyze the firm-specific dimension of the wine sector, showing the performances associated to the different firm's choices of governance.

Due to the strong presence of the small businesses in the Italian wine industry, the difficulties that these firms generally have with respect to tangible and intangible resources and considering that they have different strategic options (*Alone, Acquisition, Alliance, Divestiture*) available to increase their economic and financial performances, we choose the small business as our unit of analysis.

## LITERATURE REVIEW

The research area of the small firm's growth has drawn considerable attention in recent years (Wiklund *et al.*, 2009). However, little is still known about the phenomenon (Davidsson and Wiklund, 2000) because the literature on this topic is highly fragmented since several and numerous theoretical perspectives have been developed. Wiklund *et al.* (2009) identify the following theoretical perspectives in studies on the growth of small businesses, corresponding to different levels of analysis: the entrepreneurial orientation (Davidsson, 1989a, b), the environment (Davidsson, 1989a, b; Stevenson and Jarillo, 1986; 1990), the strategic "fit" (Covin and Slevin, 1989; Namen and Slevin, 1993), the resource perspective (Connor, 1991) and the growth attitude (Miner *et al.*, 1994; Bellu and Sherman, 1995; Kolvereid and Bullvåg, 1996). The existing literature suggests that the environment in which a small business operates, conceived as location, industry, or market, has a major impact on its growth opportunities (Kolvereid, 1992; Pelham and Wilson, 1996).

In particular, the wine sector characterized by a high level of fragmentation of enterprises on the production side, mainly by small and family-controlled firm, has motivated firms to react. Infact, the establishment of cooperative arrangements has been a partial reaction to the threats of the industry,

causing network that has allowed, in some cases, a dimensional growth and the emergence of managerial firms that continue to keep a strong relationship with their territory.

Although the adoption of this form represents a satisfactory answer from an organizational point of view, it is necessary to research and implement new strategies of external growth. The external growth defined as “acquisition of plants and markets of already existing firms” (Penrose, 1959, p.156) can be a source not only of financial and economic resources but also of entrepreneurial opportunities and development (Salvato *et al.*, 2007).

The external growth consists of different type of strategic alternatives and it doesn't refers only to mergers or acquisitions.

Villalonga and McGahan (2005) identify as strategic alternatives acquisitions, alliances and divestitures. They believe that these alternatives are allocated along a continuum of governance modes (Williamson, 1975, 1991; Hennart, 1993), characterized by a different degree of integration. Acquisitions and divestitures represent the two extremes characterized respectively by a greater and lesser integration (Klein *et al.*, 1978; Devlin and Bleackley, 1988; Mulherin and Boone, 2000; Sanders, 2001). Alliances and joint ventures are in the middle of the spectrum and, at the same time, can represent for a firm an alternative way to both contract and expand boundaries.

Villalonga and McGahan (2005) distinguish earlier studies of boundary choice into three groups. A first group of studies analyzes the alternative governance structures with reference to a specific industry (e.g. Monteverde and Teece, 1982; Pisano, 1989; Pisano, 1990; Shepard, 1993; Oxley, 1997). A second group examines the choices that firms make between acquisitions and alliances not only in the context of foreign market entry (e.g., Anderson and Gatignon, 1986; Kogut and Singh, 1988; Hennart and Reddy, 1997; Shaver, 1998) but also in more general terms (Dyer *et al.*, 2004). Finally, a third group of studies examines joint decisions by two or more firms to ally (Gulati, 1998) and/or to merge (Vanhaverbeke *et al.*, 2002).

In this paper, we focus, in particular, on alliances in the wine industry, comparing them with stand-alone strategy. In literature, the kinds of ties that can arise among firms are numerous (Khanna and Rivkin, 2006, p. 341). They consist in formal, such as equity crossholdings, inter-firm loans, director interlocks, common owners, and buyer-supplier agreements, and informal connections, based on family, friendship, religion, language, ethnicity, educational background, and so forth.

Moreover, we consider the alternative of affiliation to a business group or a family business group, characterized by a different “centre of power”. Business groups, in general, have attracted the interest of a wide range of scholars, including economic sociologists, socialized economists, and students of institutions (Granovetter, 2003) that have identified three main reasons underlying their existence: transaction costs, the social nature of exchange and historical events (Khanna and Rivkin, 2006).

Business groups are characterized by social and economic, formal and informal ties that exist between pairs of affiliated members. In socially constructing the boundaries of groups, network actors also pay close attention to inter-firm connections (Khanna and Rivkin, 2006).

Conscious of this, we intend to answer to these questions:

RQ1: Do governance's choices affect the wine small business' performance?

RQ2: What is a better choice for a growing strategy?

With the aim to answer these questions, we analyse the economic and financial performance of 110 wine small businesses over five years (2009-2013). The results of our analysis are lead us to be able to depict a path of growing strategy that we called *Gradual Growing Strategy*.

## METHODOLOGY

### *Sample selection*

Our empirical work is based on data extracted from AIDA Bureau Van Dijk database. Our sample (n. 110) includes the 50% of all Italian small business with the SIC CODE 2084 - wine production. The selection of our sample is based on the following criteria: SIC CODE 2084; sales (2013) between 2.000.000 and 10.000.000 € and number of employees up to 50 (small size).

### *Data collection*

In order to distinguish our firms among different groups, the first step of the data collection has been devoted to search all ties of the firms sampled using Telemaco-ri.visual (Italian Chamber of Commerce) as research tool.

The main differences are related to equity and non-equity ties (personal ties). A personal tie has been defined as "Type 1" when the firms are linked only through the same person who is a shareholder or a member of the Board of Directors; instead, it is defined as "Type 2" when the firms are linked only through the same person who is a shareholder and also has other positions (i.e. manager).

In order to verify if firms are affiliated to a Business Group, we have proceeded to distinguish between Business Group (BG) and Family Business Group (FBG).

A BG is a collection of legally independent *firms that are linked by multiple ties, including ownership, economic means and/or social relations through which they coordinate to achieve mutual objectives*" (Yiu et al., 2007, p. 1551). We have considered firms affiliated to a BG those linked to other ones, operating in the same or related industry, through equity and personal ties (Type 1 and 2).

A FBG is considered as "*a set of legally separate firms under the strategic guidance of a family or its fiduciaries, bound together in formal and informal ways of connection. While this set of inter-organizational relations embodies the intensity of connection, the persistence represents the essence of a Family Business Group*" (Della Piana et al., 2012, p.5). We have considered firms affiliated to a FBG those linked to other

ones, also operating in not related industry, through equity and personal ties (Type 1 and 2). In this case, it has been possible to demarcate the family networks by checking the same surname.

Subsequently, basing on the Type of Ties outlined, firms of sample are grouped into three categories: Alone, Independent and Affiliated. We have supposed that firms are distributed along a *continuum* whose extremes are represented, on the one hand, by firms that have neither equity nor personal ties; on the other hand, by firms that have equity and personal ties. The first extreme qualifies the firm as "Alone", the other extreme qualifies the firm as "Affiliated". We have also identified an intermediate stage that qualifies firms as "Independent", when it is characterized by Type 1 personal ties. Following this criteria, 110 small firms sampled are distinguished in Alone (n.5), Independent (n.35), Affiliated to a BG (n.25) and Affiliated to a FBG (n.45).

We have proceeded to extract the balance sheets of 110 small firms (Source: AIDA Bureau Van Dijk), for the period 2009-2013 and measure economic and financial performances of the three group of firms sampled, with the aim to compare them.

#### *Data analysis*

Based on some of the most relevant measures of the small businesses' growth (among others Wiklund *et al.*, 2009), we have used the accounting data for the analysis of performance. For each variable and each year of analysis, we have calculated the mean value and, in order to assess the significance, also the variance, the standard deviation and the variation coefficient.

More specifically, the economic and financial performances were analyzed through the following indicators:

- The average rate of sales growth that represents the capability of firms to maintain and increase own market position;
- The average turnover rate of investment, calculated as the ratio of sales and invested capital, that measures the rate to which business investments is renewed as a result of revenue;
- The average Return on Sales (ROS), calculated as the ratio of EBITDA and sales, that represents the capability to control the operative cost structure;
- The debt degree calculated as ratio of financial debt and invested capital that represents the degree of dependence of firms by debt capital.

The analysis on this sample, as longitudinal study of economic and financial performances in the period 2009-2013, made possible to qualify performances of the firms grouped in Alone, Independent and Affiliated as higher or lower.

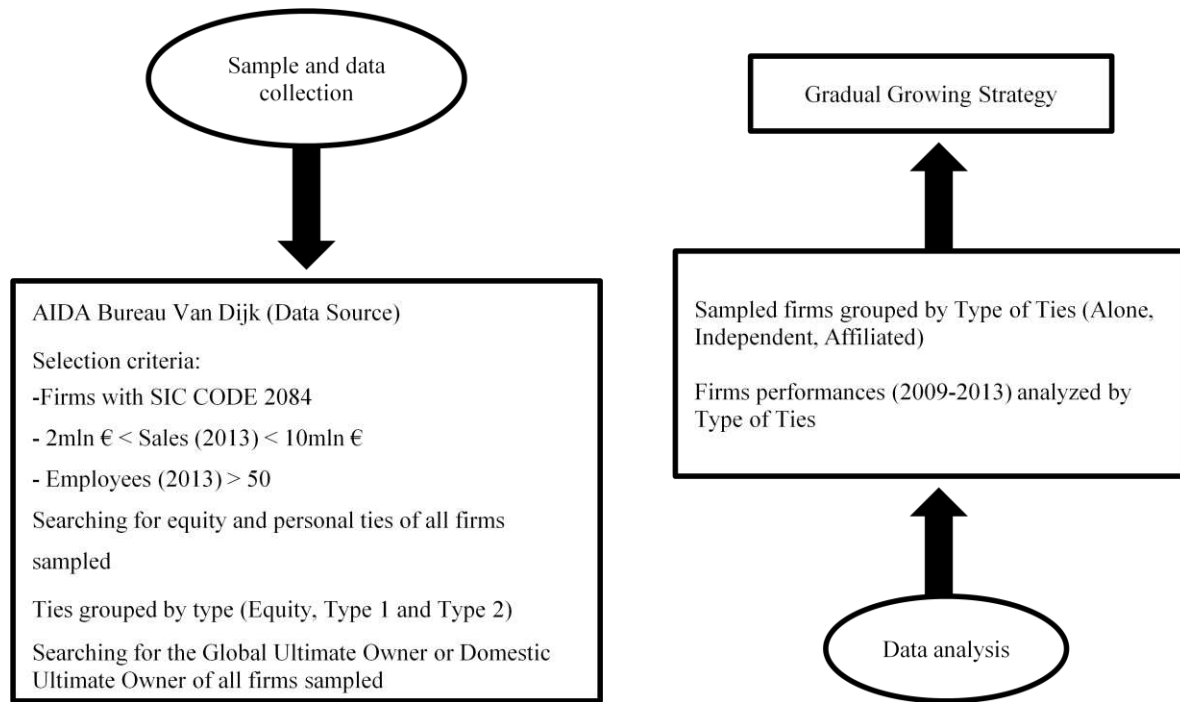


Figure 1- The research design

## RESULTS

The first step of performance analysis comparing the three group of firms - Alone, Independent, Affiliated - showed a clear advantage of the latter than the former. In particular, Alone firms record the worse results even compared to Independent.

Although the number of Alone firms is scarce (5) and it doesn't allow to generalize results, the status of small business with a strong family nature could partly explain the simultaneous absence both of corporate and personal relations. Indeed, the well-known attitude of "closure" of family ownership, especially in the small firms, often restrains the growth and has effects on the trend of performances (Gallucci and D'Amato, 2013; Gallucci and Nave, 2012).

The Independent firms show better performance than Alone ones, suggesting that the establishment of personal ties helps firms to improve business results. These results can be further improved by establishing the type 2 personal ties and entering in a group.

Firms Affiliated to a Group have a higher average rate of sales growth; a better trend of the average turnover rate of investment and better incomes for the ROS. These two variables set up the ROI, which indirectly explains, for these firms, a greater return on investment. Finally, they are more indebted, by indicating an easier access to credit, thanks to support of business groups.

The second step of performance analysis has compared firms Affiliated to a BG and a FBG with the aim to clarify this choice, that is prefer to enter into a BG or a FBG. The comparison between the average values shows that firms Affiliated to a BG have greater performance in terms of turnover rate



of investment and access to credit. This finding shows not only that by establishing equity ties results in an improvement of performance, but also that it should prefer to enter into a BG in which the “center of power” doesn’t identify with an entrepreneurial family.

## DISCUSSION AND IMPLICATION

We have adopted the external growth perspective with the aim to compare the different strategic choices and to identify a better choice for wine firms.

In fact, this research provides a useful support to small businesses operating in the wine industry, suggesting a possible path of growth, identified as *Gradual Growing Strategy*, to address the many challenges of the ever-changing national and international competitive scenario. From the analysis of inter-organizational ties and performances of different groups of firms, we suggest alternatives to the choice of “stand-alone”, able to create for wine firms many opportunities both on the financial advantages and entrepreneurial opportunities and development (Salvato et al., 2007).

Specifically, on the base of the different type of ties existing in literature and supposing the strategic options along a *continuum*, we first propose to assess the establishment of type 1 personal ties, later on to give up the control of the firm (Figure 2).

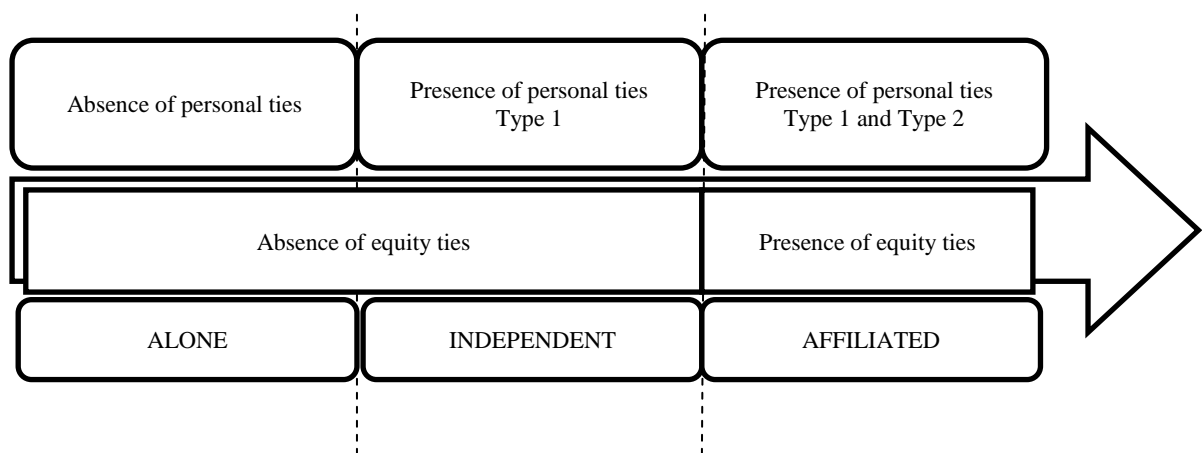


Figure 2: *The growth path*

Furthermore, respect to the status of Affiliated it would be opportune to prefer the entry into a BG. This is in line with literature that considers entrepreneurial family unable to lead and support sustainable growth processes of its subsidiaries. In fact, as literature states, family owners very often pursue in their decision objectives of socio emotional wealth rather than financial and economic objectives (Pazzaglia et al., 2013).

By the affiliation to a group, as the final stage of this path, small firms of wine industry can benefit from tangible and intangible resources. Business groups create significant financing advantages by

leveraging on a group's internal capital market (Almeida and Wolfenzon, 2006) and reputation (Gomes, 2000; Khanna and Palepu, 2000). More specifically, according to the Transaction Cost Theory, business group function as "internal market and inter-firm transaction mechanisms especially of strategic factors such as capital, information, technology and know-how, and managerial personnel" (Coase, 1937; Williamson, 1975; 1981; 1985).

More in general, as Rossi *et al.* (2012) argued, the wine firms should learn to collaborate between them, both formally and informally. In conclusion, it would be appropriate for small businesses operating in the wine industry to undertake paths aimed to improve their competitive advantage and to ensure the entry and long-term business relationship in new and broader markets.

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**A FACT-FINDING INVESTIGATION ON SICILIAN WINE FIRMS  
ATTITUDE TOWARDS THIRD PARTY VOLUNTARY CERTIFICATIONS:  
MOTIVATIONS AND ALTERNATIVE IMPACT ASSESSMENT  
APPROACHES**

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**ABSTRACT**

In the last few decades an increasing emphasis of public and private organization on quality and safety control, on traceability of food products and on environmental issues, has been registered. Mandatory public standards and private voluntary today drive this process in order to assure food safety and traceability standards. The aim of this work is to analyze the main reasons that drives some Sicilian wineries in the adoption of quality voluntary standards, and comparing their economic attitudes and performance with those firms not certified. Results show a very similar performance patterns among the two groups of firms, highlighting a series of differences that are not directly attributable to the possession, or not, of certifications, but on the opening level together with structured net of sale agents. This findings suggests that it should be necessary to segment the overall firm turnover in order to find any possible effect. This results are justified by the specificities of the wine sector.

**Keywords:** *Quality management systems; Third party voluntary certifications; Wineries.*

**INTRODUCTION**

The globalization phenomenon has affected all economic sectors and among them the food sector that, in the last few decades, has registered a rapidly internationalization. The systems of production, trade and distribution of food products have changed and have determined an increasing emphasis of public and private organization, at national and international level, on quality and safety control, on traceability of food products and on environmental issues. The main reasons are due, on one hand, to several incidents of contaminated food (e.g. dioxin and BSE) and, then the need to build and maintain the trust of consumer in this field, and, on the other hand to the escalating deterioration of the environment, such as increasing level of pollution, diminishing raw material resources, overflowing waste sites, and global warming (Lai et al., 2010). This requirement led to the diffusion of mandatory

public standards and private voluntary ones driven by the trend toward stricter food safety and traceability standards in the major importing countries (Henson et al., 2011). Voluntary standards can be either set at the international level or by collective organizations which operate within the boundary of a country (or groups countries, as in the case of the EU), including industry associations and non-governmental organizations. These standards have assumed in recent years a growing importance so much that the foreign market access depends mainly on the ability of exporters to follow private or voluntary food standards (Hansen, 2013), set by private organizations. Numerous empirical studies show that the adoption of private voluntary standards, concerning the quality and environmental management practices, can positively influence firm performance, supporting small farmers to enhance their integration into the global food market (Aggelogiannopoulos et al., 2007; Subervie and Vagneron, 2013). Anderson et al. (1994) found that an effective quality management standard enhances the competitiveness of a company and provides strategic advantages in the marketplace.

In the food industry numerous quality schemes, involving both quality and environmental management, have been developed in order to guarantee food quality. Among the voluntary standards, the ISO (International Organization for Standardization) family, with the aim of ensuring that an organization can deliver products or services that meet the customer's quality requirements, represent the main quality management system recognized worldwide. Other voluntary standards, such as BRC (British Retail Consortium), IFS Food, GlobalGAP, etc. have spread in the food sector in order to consolidate and enhance trade relationships with specific importing countries. Export oriented developing countries increasingly introduce these standards into their agricultural production systems to secure continuing access to major markets.

The growing attention to the quality has also affected the wine sector. Quality and safety are important for such a product as the wine is, also for the increasing attention from customers toward the qualitative aspects of products (Crescimanno and Galati, 2014). Consequently, the need to assure quality levels during the whole winemaking processes, taking care of the relative hazards, has become of significant importance for the acceptance of consumers and obligatory for the protection of human health.

Based on the above, aim of this paper is to evaluate: *i*, the main motivations affecting the adoption of quality voluntary standards among Sicilian wineries; *ii*, the perceived impact of their adoption on business management practices; and, *iii*, the existence of a link between the adoption of quality voluntary standards and the business performance, measured in terms of Labour Productivity. In particular, we carry out an investigation that takes into account the economic attitudes of two groups of firms: certified and not certified. Among the certified firms, the voluntary standards we have took

into consideration are: ISO 9001 "Quality Management Systems"; ISO 14001 "Environmental Management System"; ISO 22000 "Food Safety Management"; ISO 22005 "Traceability in the feed and food chain"; BRC Global Standards", managed by the British Retail Consortium, and addressed to Food Safety; "IFS Standards", addressed to ensure safety and quality of food and non-food products and related services. The adoption of this certification standards is particularly relevant in Italy (Camanzi et al., 2011).

Understand the reason that drives some Sicilian wine firms in the adoption of quality voluntary standards, and comparing their economic attitudes and performance with those firms not certified, assumes a significant importance in Sicily, one of the main wine-producer regions, where the wine sector represent the core of the agro-food activity (Chinnici et al., 2013; Di Vita et al., 2013; D'Amico, 2006). At this regards, the main hypothesis we would like to explore are:

- H1: certified wine firms record higher value of Labour Productivity;
- H2: Not certified wine firms, compared to certified ones, suffer a lot from competitive market distortion, follow different marketing and foreigner opening strategies;
- H3: The specificity of the wine sector is able to widely compete and increase its own productivity if a good marketing and selling net is well established inside the firm.

## LITERATURE REVIEW

Several scientific contributions have focused the attention on the role and economic impact derived from the third part certification acquisition, showing interesting results to be read according to the economic sector on which they were requested and in relation to the specific company needs. Most of these studies show that the adoption of quality standard certification is a driver of internationalization capability. Gomez Conde et al. (2012) found that both the high level of use of management control system and the deployment of ISO certification positively influence the level of internationalization of Spanish agro-food companies, although they do not influence performance directly. In particular, numerous studies assert that third-party certification for export purposes seems to reinforce already existing trade relations, potentially hampering new entrants. To this result come Herzfeld et al. (2011) that analyzing the spread of two food quality standards (BRC -Food Technical Standard - and GlobalGAP) from an aggregated perspective. They found that these voluntary standards seem to be issued more likely in countries with established trade relations with specific EU countries, such as Germany, the Netherlands and the United Kingdom, home countries of the standards. Similar results were reached by Handschuch et al. (2013), indeed, through their work on Chilean raspberry producers, confirm that because of most of Chile's production is exported to the US and EU markets, the US GAP and the GlobalGAP standards are becoming particularly important and diffused among

Chilean producers. The findings of an empirical research carried out by Aggelogiannopoulos et al. (2007) in a Greek small-sized winery shows that the adoption of quality management systems increase the opportunities for infiltration in new markets and global deployment. Other forces driving wineries to improve quality in their production process are the increase of customer's satisfaction, higher quality of the wine, waste reduction, late delivery reduction, and productivity improved. Unlike to this, the quality consultant, the training costs, the registration fees, the costs in employee time, are among the main constraints of the establishment and certification process. Furthermore, as suggested by Olper et al. (2014), in their study on 2000 imported food products from 70 countries to the EU, the diffusion of voluntary standards leads to an improvement of the rate of quality upgrading, affirming how this effect has been largely driven by non-ISO standards and processed foods, making different moving from primary to processed food.

A second literature branch explores the motivations of food firms to adopt quality management system and/or environmental management system. Most of these studies suggest that those factors that may affect business adoption decision can be grouped in those which appear in the internal business environment (can be specified as increased benefits resulting from adoption in terms of improvements in internal efficiency e.g., improved management and efficiency of quality systems) and those which appear in the external business environment (linked to the requirement from the costumers and the conditions in doing business e.g., improved identification and facilitation of trade with firms in the supply chain) (Zhou and Jin, 2009; Karipidis et al., 2009; Fouayzi et al. (2006)). Kefetzopoulos and Gotzamani (2014), found that internal business reasons make a significant contribution to the effective implementation of the quality management system in Greek food companies. Prajogo et al. (2012) study the organizational environmental management system adoption motives (external and internal) with triple bottom line perceived benefits (i.e., environmental, social, and market) on the adoption of ISO 14001. Results show that external motives enhance social and market positioning, whereas internal motives better serve environmental benefits. Some other Authors, instead, pay more attention on the comparison between third party-certification and private eco-brands, assessing their impact in terms of consumer attractiveness (Chkanikova and Lehner, 2014). Their results confirm the existence of a net difference from both the two tools, showing, from one hand, the positive effect from a supply production and retailer relationships management created by third party certification schemes, and summarized as: avoiding the resource-intensive process of engaging in collaborative relationships with suppliers in order to improve product sustainability performance (Pagell et al., 2010; Kogg and Mont, 2012); reduction in transaction costs associated with setting sustainability criteria, finding and qualifying suppliers, and verifying supplier compliance (Rosen et al., 2002; Wathne and Heide, 2004). On the other side, the effect of private eco-



brand lead to a market possibilities change, as private brand acts as a corporate tool for product differentiation able to accomplish competitive market strategy (Orsato, 2009). Moreover, branding supports firm to capture a larger share of the market (Jung and Sung, 2008), allowing retailers to generate higher profit margins by lowering manufacturing and other costs associated with research and development, promotion and physical distribution (European Commission, 2011a,b,c).

There is a fairly extensive body of economic literature about the diffusion of food quality certification schemes in developing countries. These studies, if on one hand show the difficulty of implementing and managing voluntary quality standards, on the other hand, underlines as such kind of certifications have a positive impact on the export potentiality. Some studies have widely underlined as direct costs of standard implementation, together with meeting the standard and certification requirements, entails significant managerial effort from farmers. In particular, as suggested by Goedhuys and Slwuwaegeen (2013), the costs of acquiring and using an ISC are prohibitively high for small and young firms in less developed countries. A such kind of effort could be difficult to manage above for small-scale farmers in developing countries, especially if they have low levels of education and lack reading and writing skills (Handschuch et al., 2013; Hobbs, 2003). As a direct consequent results, Authors note that male-headed and more educated households are more likely to implement food safety and quality standards. A second problem is, instead, related to the economic sustainability of a certification. In Zimbabwe for instance, the exporting company Hortico Agrisystems has solved typical smallholder sourcing problems like non-compliance or high monitoring cost by implementing screening routines and self-enforcement mechanisms (Henson et al., 2005). Concluding, small-scale farmers can meet the requirements, if they work cooperatively and receive assistance from downstream actors (Handschuch et al., 2013; Boselie et al., 2003). If a such kind of solution is not available, in the brief period, high recurrent and non-recurrent costs of standard implementation and certification may lead to the exclusion and marginalization of smallholder farmers mainly located in poorer countries. On the other hand, most empirical studies have also argued that international standard certification, such as ISO, raises efficiency more and leads to a better sales performance in firms located countries where market-supporting institutions are weak (Goedhuys and Slwuwaegeen, 2013). In particular, ISO diffusion enhances exports in developing countries, underscoring its major importance in institutionally weaker countries (Clougherty and Grajek, 2008). A similar results are obtained by Kleemann et al. (2014) that in their study on 389 farmers in Ghana found that organic and GlobalGAP certification achieve on average positive returns on investments, in other words the access to export markets through certification can enhance farm incomes and reduce poverty.

## DATA AND METHODOLOGICAL APPROACH

Data used in this work, have been empirically collected, through the use of a questionnaire, filled in by Sicilian wine firms contacted by telephone during the half of 2014. On the whole, 200 wine firms were contacted, and a sample of 89 successful completed questionnaires have been considered for the analysis. The wine firms are located in eight of the nine Provinces of Sicily, with a particular concentration in the Province of Trapani (42%), followed by Caltanissetta (12%), Agrigento (10%).

The sample is quite heterogeneous, in order to better consider in the analysis the overall scenario recorded in the Sicilian wine sector (Table 1):

**Table 1.: Main information on sampled firms**

	Unit of measure	Average value	Min/Max
Employee	n.	6	1±50
Annual Turnover	Euros	1682.833,00	1.E+04 ± 2.E+07
Sales Agents	n.	11	0±150
Participation in Foreigner Food Exhibitions	Yearly particip.= 3 Biannual particip. = 2 Three yearly particip. = 1	2	0±3
Participation in National Food Exhibitions	Yearly particip. = 3 Biannual particip. = 2 Three yearly particip.= 1	3	0±3

From the sampled firms, a first distinction have been made between certified (27%) and not certified firms (73%).

### *Methodological approach*

Considering as a point of reference what the scientific literature assumes as regard the economic impact of third party certifications acquirement by agro-food firms, we produced an index based on the Euclidean distances, based on the Wraclow method. At this regard, we first proceed with the selection of the specific information base we want to include in our index, deleting those data resulting useless and, at the same time, transforming the other ones we considered strategic. Below the list of variables included in the analysis (Table 2):

**Table 2: List of variables used in the analysis**

VARIABLE NAME:	DETAIL:
Labour productivity	Turnover/number of employee
Sales agents	Number
Participation in Italian Food Exhibition	Yearly participation = 3 Biannual participation = 2 Three yearly participation = 1
Participation in Foreigner Food Exhibition	Yearly participation = 3 Biannual participation = 2 Three yearly participation = 1

We decided to exclude from the analysis the overall annual turnover because, as the literature widely confirmed, the possible impacts derived from the possession of a such kind of certification does not impact directly it. As a substitute, we preferred to use the Labour Productivity, able at the same time to give information on the firm size and overall productivity. For the other variables, as it is possible to see, they pertaining to the marketing and selling net of a firm.

According to the dataset in this way produced, we have identified for each simple indicator, one ideal value that, finally, represents our *ideal unit*, namely: a vector of ideal values selected from the original dataset, and including the higher values for each indicator. With the inclusion of this last *unit*, our sample counts 90 units (89 empirical + 1 *ideal unit*).

In particular, in the proposed index, the ideal unit is a firm with a quite high labour productivity, and a good marketing and promotional net, measured in terms of both yearly participation in National and Foreigner Exhibitions and an adequate number of Sales Agents.

The second step was to standardize all the values included in each simple indicator:

$$= \frac{z - \mu}{\sigma} \quad [1]$$

The second step foresees a comparison between the *ideal unit* with all the other ones, calculating the Euclidean distance:

$$D_0 = \sqrt{\sum_{j=1}^n (z_{ij} - z_{0j})^2} \quad [2]$$

where  $D_0$  represents the distance of the *i-th unit* from the *ideal one*  $0$ . The more  $0$  is higher and bigger is the distance of the *i-th unit* from the *ideal one*.

After the calculation of the Euclidean distances, it was possible to calculate their average values [3] and the related standard deviation [4] as follows:

$$\bar{D}_0 = (1/n) \sum_{i=1}^n D_0 \quad [3]$$

$$s_0 = \sqrt{(1/n) \sum_{i=1}^n (D_{0i} - \bar{D}_0)^2} \quad [4]$$

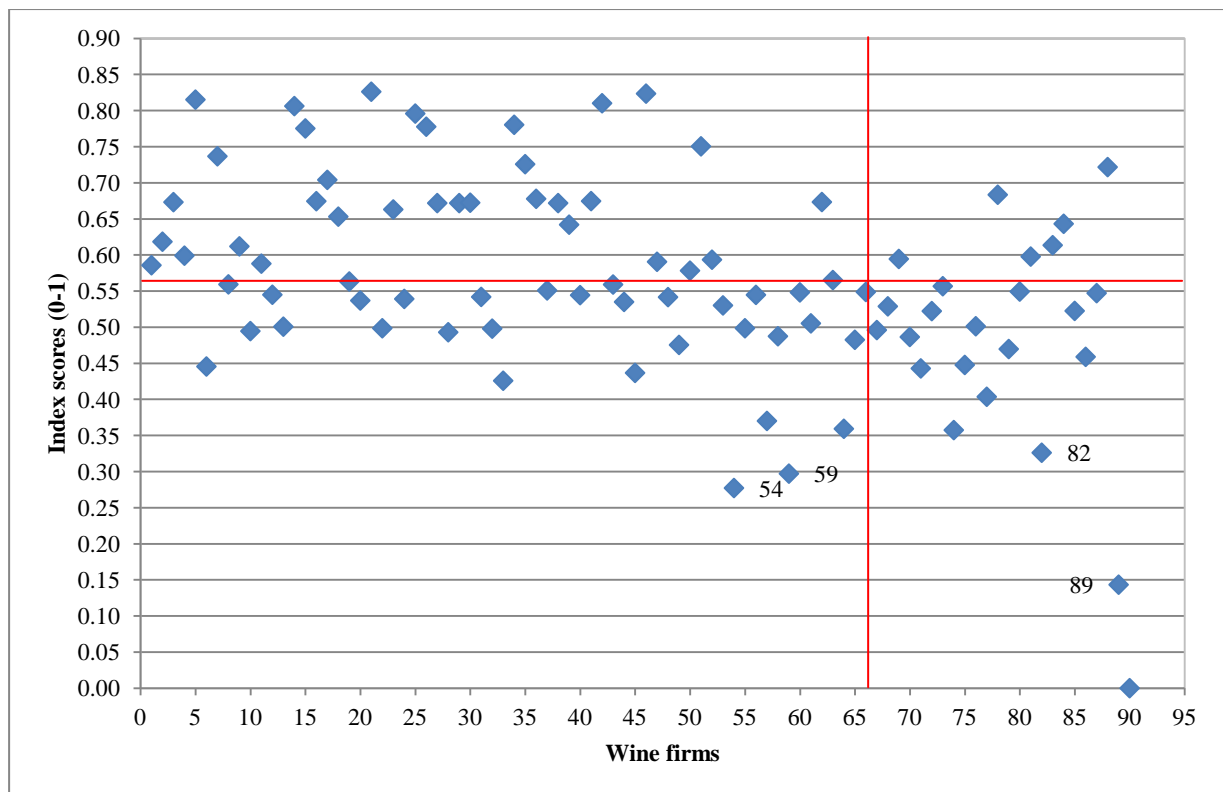
$$D_{0i} = \bar{D}_0 + 2s_0 \quad [5]$$

The synthetic indicator for the *i*-th unit is now performed:

$$I_i = D_{0i}/D_0 \quad [6]$$

The indicator will assume value zero when the distance between an empirical unit and the ideal one is null. While, the superior limit will be close to 1 (Figure 1).

**Figure 1: Scatter plot on index values for each unit (wine firms)**



Nevertheless, some remarks could be done. As for certified firms group, unit 89 and 82 represent those ones closer to the ideal one (unit 90), it should incorrect to assume that this score is attributable to the presence of such kind of certifications as, even if it is true that unit 89 is certified both IFS and BRC, and unit 82 owns ISO 22000 and ISO 22005, a different situation occurs for unit 54 and 59. These last, indeed, cover a good position in the unit rank, but they have not any kind of certification. The positive scores obtained by these 4 units are, indeed, mainly linked to high labour productivity value together with a strategic marketing structure, characterized by yearly participation in National and Foreigner Food exhibitions. The absence of a necessary positive correlation between economic performance and being certified with the main food quality standards is, in this case, confirmed by the position attained by unit 69, 78, 81, 83 and 88, located over the average value of the index.

Concluding, the main features that makes a substantial difference among the 89 wine firms considered in the analysis is not correlated to the food certification owned, but mainly on the internal marketing management as well as on the opening to the main National and International promotional food events. This assumption, confirmed by the values obtained through our index, is once again corroborated by the details presented in Table 3:

**Table 3: Average values of the original simple indicators:**

UPPER LEFT SIDE				UPPER RIGHT SIDE			
SA	NAT FE	FOR_FE	LP	SA	NAT FE	FOR_FE	LP
5	2	1	154.977	5	2	1	203.231
LOWER LEFT SIDE				LOWER RIGHT SIDE			
SA	NAT FE	FOR_FE	LP	SA	NAT FE	FOR_FE	LP
12	3	3	296.146	30	3	3	441.354

*Legend: SA=Sales Agents; Nat\_FE=National Food Exhibitions; For\_FE = Foreigner Food Exhibitions; LP=Labour productivity.*

As the Table 3 shows, the attitude of the two groups of firms (certified and not certified) is the same. Generally, those firms with a stable marketing internal structure and a selling net diffused record better average Labour Productivity values, while the opposite occurs in the absence of a similar internal structure. Indeed, independently from the possession of a food certification, those firms located on the top of the left and the right side, are characterized by a lower LP, together with a poor sales agents net and a lower participation in National and International exhibitions.

### **Factors affecting the adoption of quality assurance systems and their impact**

The ranking of those factors considered by Sicilian wineries as important for the implementation of quality system is shows in Table 4. Our results show that one of the major motivation that drive the entrepreneur to adopt a certification is the need to improve internal processes and procedures (3.81). Major factors are related to achieving required certification to fulfill a requirement requested to participate in public competition (3.68) and to improve their corporate image (3.68). Furthermore, the entrepreneurs interviewed, recognize that the adoption of quality standards contribute to improve company competitiveness (3.59) and the quality and safety of products (3.57) in order to satisfy food safety needs expressed by consumers (3.35). In contrast, those factors that have a lower influence on the decision to implement certification systems, in the ranking of reasons, concerns the opportunity to increase the selling price (1.54). Among the motivation, a secondary importance is addressed to the

opportunity to increase the share of products sales through the large scale retail trade operating both in domestic and in foreign market.

**Table 4 – Factors affecting the adoption of QAS**

	<b>Average rating</b>
Commercialize with the domestic LSRT chains	2.81
Commercialize with the foreign LSRT chains	3.00
Satisfy the need of consumer in term of quality	3.35
Participate to the public announcement	3.68
Ethical reasons related to consumer welfare	3.32
Increase the selling price of the product	1.54
Improve the corporate image	3.68
Increase the domestic market share	2.62
Increase the foreign market share	2.89
Improve the quality and safety of the product	3.57
Increase the winery competitiveness	3.59
Adapt to the international standards	3.24
Improve internal process and procedures	3.81
Reduce the operating costs	2.57

The Average rating is obtained giving a score ranging from 1 = strongly disagree to 5 = strongly agree and calculating the weighted arithmetic mean.

With regard to the impact of QAS adoption, research findings suggest that the adoption of certification systems, aimed at ensuring the quality of products and processes, has led to the need to train internal employees (97.3% of cases), arguing, in many cases, a cost too high and unsustainable for the wineries (62.2%). With a lower frequency, the entrepreneurs interviewed said that they have acquired new customers (32.4%) or improved the relationships with habitual customers (45.9%). In only 5.4% of the sample the adoption of QAS was followed by an increase of the selling price. In particular, as reported in Table 5, in most cases, entrepreneurs have not found an improvement in the quality of product (1.778) and an increase in the proportion of product sold through the large scale retail trade operating both in the domestic (1.306) and foreign (1.167) markets. In contrast, the adoption of certification has contributed to reduce those risks associated with food safety of products (2.139), and to improve the management in terms of process (2.028).

Finally, we report a data concerning the level of knowledge by firms of the quality and safety schemes of which before we have showed a distribution graph (see Figure 3). The data below reported have been collected during the telephone survey where, apart from a question directly addressed to know the possession of one or more of the standards considered in the analysis, we have also asked if they knew, or not, the other ones for which they were not certified.

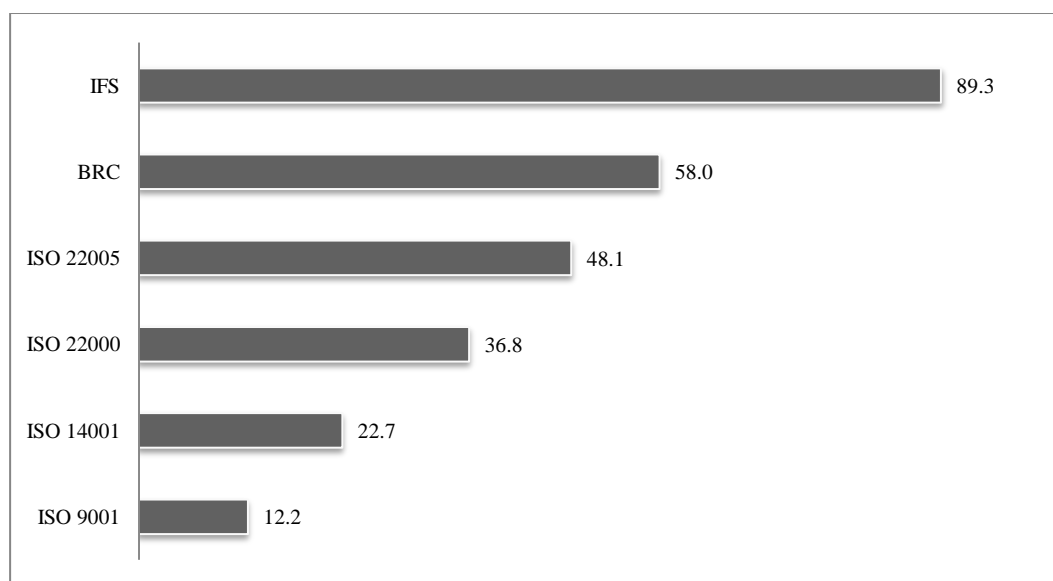
**Table 5 – Impact of QAS adoption**

	<b>Average rating</b>
Improvement of business management in terms of process	2.028
Improvement of the quality of the final product	1.778
Reduction of risk linked to the food safety products	2.139
Increasing the share of product sold through the foreign LSRT chains	1.167
Increasing the share of product sold through the domestic LSRT chains	1.306
Improving the speed of implementation of regulations in environmental and food safety	1.639

The Average rating is obtained giving a score ranging from 1 = no impact to 3 = high Impact and calculating the weighted arithmetic mean.

Results outline how, generally, the Sicilian wine entrepreneurs are not well informed yet on the main international standards governing the recent food market worldwide (Figure 5):

**Figure 5.: Percentage of firms that “not know” the following standard: IFS, BRC, ISO 9001, ISO 14001, ISO 22000, ISO 2005**



*Note:* The percentages for each quality scheme have been calculated in the following way: for each standard (which list is those reported in the vertical axis), the number of firms certified according to it has been deleted from the total of the sample, the resulted amount has been used to calculate the final percentage.

As we can see, excluding the ISO 9001, namely one of the most diffused standard, all the other ones, above all those addressed specifically to the food quality and safety management result to be widely unknown. This last findings, linked to other results, must be read in terms of economic and political implications characterizing the distinctiveness of the overall wine sector.

## CONCLUSIONS

According to the data collected through the empirical survey carried out in the year 2014 and aimed at collecting information about a sample of wine firms located in Sicily, our scope was to investigate the attitudes of firms both certified and not certified considering the Labour productivity and their opening to the domestic and international market. To reach this aim, an index based on the Euclidean distances has been created. Results show how not wide differences exist between certified and not certified firms, and that the two groups, at least in the wine sector, follow similar pattern. Indeed, the 89 wineries inserted in our analysis showed substantial differences only in terms of marketing internal structure and strategy, measured in terms of number of sales agents and frequency of participation in national and international wine fairs.

At the end, and recalling the three initial scientific hypothesis we wanted to offer an answer, it is possible to assert that: H1: it is incorrect to affirm that certified wine firms record higher value of Labour Productivity, as other highly competitive firms are equally able to well compete and produce profit also without any kind of Food certification. So we refuse the first hypothesis. H2: also the second hypothesis must be refused, giving that results show how not certified wine firms, compared to certified ones, do not suffer more than competitive market distortion. On the contrary, and differently from other agro-food economic sectors, the wine sector possesses as a further and successful competitive tool, their private brand and, in a lot of circumstances, a *name* with an historical background well know and recognised worldwide. Moreover, our findings show a very similar performance patterns among the two groups of firms, highlighting a series of differences that are not directly attributable to the possession, or not, of certifications, but on the opening level together with structured net of sale agents. H3: The third hypothesis is, instead, accepted. Indeed, independently from the possession of a third party quality certification, firms from both the two groups show similar positive economic performance if they have well established marketing and selling net inside the company.

The implications of this study are clearly defined. It is recommendable that future study addressed to the investigation of possible impacts on firms derived from the acquisition of such kind of food certifications should be addressed in assessing change and/or improvements in the export flows as well as in the new export channels activated after the certification attainment (mainly represented by the Massive Global Chain), and not exclusively in the overall turnover. Results suggest that it should be necessary to segment the overall firm turnover in order to find any possible effect.

This is more realistic above all if we consider the intrinsic specificities of the wine sector: indeed, if from one hand those firms today certified, from the agro-food sector, are mainly characterized by the fact to be "*export oriented*", and that more often their decision to get a certification is mainly due to



export motivations, the same is not so true for the wine sector. Compared with other food sector, the wine market functioning is different. A lot of wine firms are known worldwide thanks to their business name that historically characterize their product, and are able to enter in new and foreigner market also without any food certifications. For this reason, they are too often not so interested, for their survival, in acquiring food quality certifications. At the same time, wine is not at all so diffused among the Mass Retailer product demand: today, above all in Italy, it is infrequent to find a wine sold under the private label of a specific Mass Retailer. These peculiarities may be the main limitation of our empirical research, because they not allow to extend our findings to the other agro-food sector. Wine market has only recently began to ride the wave of the new competition rules governing worldwide the other agro-food products (such as sugar, oil, cereals, etc.), and the investigation of their effort and strategic marketing structure should merit accurate consideration in future studies on the matter.

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## STRATEGIC PROFILES IN THE ITALIAN WINE SECTOR: THE INDUSTRIAL VS COLLECTIVE BRAND DILEMMA

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### ABSTRACT

Competition in the wine industry depends on several factors among which firm size, nature of vertical relations along the supply chain and quality differentiation strategies implemented on the market. The aim of this paper is twofold. First, we identify a typology of GI wine firms and identify a strategic “profile” based on the possible marketing strategies on the final market: brand-based strategies, terroir-based strategies, and mixed strategies. Second, we formalize a stylized representation of firms’ strategic trade-off between the brand and the certification strategy, this latter being interpreted as a loss of strategic flexibility providing the access to a market premium based on the collective reputation. In the analysis of the trade-off between the brand and the certification strategy, we characterize three incentives for the producers to adopt a certification strategy. We have shown that a prisoner’s dilemma may arise, in which the firms would prefer the certification regime, but instead are trapped in the brand regime. This is clearly a case in which inefficiency arises through competitive incentives to be flexible. However, inefficient allocations may be eliminated from the set of equilibria by introducing an incentive to the adhesion to the certification system and/or implementing measures to increase the collective reputation and the related premium price on the final market.

**Keywords:** *Brand, Geographical Indication, Wine, Quality, Vertical Integration, Strategy, Competitiveness, Industrial Organization.*

### INTRODUCTION

Competition in the wine industry depends on several factors among which firm size, nature of vertical relations along the supply chain, quality differentiation strategies implemented on the market. On the basis of these characteristics, several “wine worlds” compete on the market: vertically integrated small size firms focalising on Geographical Indication strategies, “industrial” wineries dominating marketed volumes, relying most on industrial brand or mixed strategies (Crescimanno and Galati, 2014; Malorgio *et al.*, 2011; Malorgio *et al.*, 2008).

The quality differentiation strategy (Geographical Indication vs brand) seems to be influenced both by endogenous factors (e.g. firm size, nature of upstream-downstream relations) and exogenous conditions (market size/opportunities, degree of competitive advantage associated with collective brand reputation).

The “brand strategy” consists in an individual quality differentiation strategy that relies on the firm’s individual reputation. Brand development implies long-term investments in production/processing/bottling and marketing/promotion activities, as well as additional costs related to procurement strategies (supplier selection, contract negotiation, upstream quality control, etc.). High volumes and the breadth of product range improve the strategic flexibility and enable firms to adapt quickly to changing market conditions. Indeed, as noted by Pomarici and Sardone (2009), Italian firms have profited from the “flexibility” of IGT norms to sell high volumes of low-medium price wines, without having to commit to the more stringent DOC/DOCG norms. It is worthy to notice that *premium wines* have also been developed relying on well-know individual brands and often based on the (more flexible) IGT system.

The “certification strategy” represents a collective quality differentiation strategy that may imply a long-term quantity/quality commitment for the firm (e.g. delimited production area, maximum yields per hectare, maximum yield of wine from grapes, minimum density of rootstocks per hectare, etc.), while giving access to a collective reputation and to related market opportunities (Chambolle and Giraud-Héraud, 2005). In an uncertain environment, volume pre-commitment may result in a loss of volume-strategic flexibility (Giraud-Héraud and Grazia, 2008; Spencer and Brander, 1992). On the other hand, the specific product and process standards confer wines belonging to a given DOC/DOCG specific quality characteristics, substantially differentiate each DOC/DOCG from the others and build the DOC/DOCG collective reputation (Giraud-Héraud *et al.* 1998) that gives access to a potential premium price on the final market based on consumers’ willingness to pay for GI wines (Hertzberg and Malorgio, 2008).

The aim of this paper is twofold. First, we identify a typology of GI wine firms and identify a strategic “profile” based on the possible marketing strategies on the final market: brand-based strategies, *terroir*-based strategies, and mixed strategies. Second, we formalize a stylized representation of firms’ strategic trade-off between the brand and the certification strategy, this latter being interpreted as a loss of strategic flexibility providing the access to a market premium based on the collective reputation.

## QUALITY DIFFERENTIATION STRATEGY ON THE ITALIAN WINE MARKET: AN EMPIRICAL ANALYSIS ON WINE BOTTLING COMPANIES

In this section, we present the results of an empirical analysis aimed at identifying *a typology of Italian wine bottling companies* and envisaging the possible wine marketing strategies focusing on the trade-off between brand and certification.

### **Data sources, definitions, and units of analysis**

The units of analysis considered in the study are Italian wine bottling companies registered in the GI (IGT, DOC, and DOCG) bottling registry (Source: Unioncamere/Infocamere) and having declared a positive quantity of bottled wine in the year 2008, last data available year. Based on the data included in the GI wine-bottling registry, a first database was created that associates each company to information concerning bottling activity (bottled volume per wine typology). A second database was then created including the data on wine production declarations by the entire population of Italian wineries having declared a positive production in the reference year. This second database is based on vine-growing and wine production declaration (Source: AGEA). Wineries have been classified in three typologies according to the type of vertical relationship between the vine growing and wine processing stage: “vertically integrated wineries having processed wine from both own-produced and bought grapes”, “industrial wineries having processed wine exclusively from bought grapes”, and cooperatives having processed wine from grapes sourced from associated producers. Crossing the two databases at firm level, we have identified the following typologies of wine bottling companies:

- *vertically integrated firms*: wine bottlers having declared a positive wine and vine-growing production;
- *cooperatives*: wine bottlers having declared a positive wine production and a positive or null grape production;
- *industrial firms*: wine bottlers having produced wine exclusively from bought grapes;
- *pure bottlers*: wine bottlers having declared no wine production.

Finally, a cluster analysis was conducted to identify homogeneous groups of bottlers characterized by well-defined production and organizational aspects.

### **An overview of the GI wine supply chain: actors and flows.**

As reported in Table 1, overall in 2008 in Italy there were 66,570 wineries processing 50.8 million hectoliters. More than half of these (52%) were cooperatives, 26% were industrial wineries and 22% were vertically integrated wineries. As far as GI wines are concerned, 16,886 firms processed 29.9 million hectoliters. These were mostly cooperatives, followed by vertically integrated wineries, and industrial wineries. Among all GI wineries, 6,272 firms bottled 13.05 millions of hectoliters (28.6% bottled by industrial wineries, 20% by integrated wineries, and 18.6% by cooperatives); the rest originated by 1,370 “pure-bottlers”. The share of wine spot markets was 26% of total GI wine

production. Industrial wineries were characterized by the highest ratio between bottled and produced wine.

	Vertically integrated firms	Industrial firms	Cooperatives	Pure bottlers	Total
Wineries (n) (a)	64.208	1.710	652	-	66.570
Wine production (hl) (b)	10.861.536	13.398.767	26.555.427	-	50.815.730
GI wineries (n) (c)	14.989	1.290	607	-	16.886
GI wine production (hl) (d)	8.579.589	4.268.459	17.004.031	-	29.852.079
GI wine bottling firms (n) (e)	5.305	669	298	1.370	6.272
GI wine production by bottling firms (hl) (f)	4.483.457	2.036.063	8.299.420	-	14.818.940
Bottled GI wine (hl) (g)	3.880.691	5.561.610	3.607.947	6.368.576	13.050.247
Average size bottling activity (hl) (g/e)	732	8.313	12.107	4.649	2.081

**Table 3. Wine processing and bottling structure in 2008**

The GI wine bottling stage is highly fragmented. Out of the total number of bottling firms, less than 1% bottled more than 50,000 hectoliters but contributed up to 57% of total wine bottled, whilst 84% of firms bottled less than 1,000 hectoliters (6.5% of total wine bottled). Large-sized firms (mainly industrial firms and cooperatives) benefitting from scale and scope economies thus coexist with a fringe of small firms (mainly vertical integrated wineries).

The analysis of product range specialization (Table 2) reveals that 42% of bottling firms had a mixed product range (IGT, DOC-DOCG) and accounted for 88% of the total wine bottled, 17% was IGT-specialized, while 41% is DOC and/or DOCG specialized (representing 10% of the total bottled wine). While industrial firms and cooperatives were more oriented to “mixed” strategies, vertically integrated wineries were characterized by a high degree of specialization. Product range mixed strategies (mix flexibility) are likely to be associated with large size. IGT production accounted for 47.7% of total wine bottled volume (4,495 bottling firms), followed by DOC (39.6% supplied by 5,740 bottling firms), and finally DOCG (13% supplied by 2,039 bottling firms). Product range specialization and volume distribution per segment seem to reveal the volume constraining nature of DOC-DOCG as compared with IGT. Further, the DOC segment is characterized by the highest degree of horizontal differentiation (35% of firms bottle more than one DOC and 20% at least three). Industrial wineries present the highest degree of horizontal differentiation within the DOC segment. Industrial wineries

also present the highest degree of vertical differentiation, measured by the number of DOC-DOCG with mention (Classico, Superiore, Riserva, Vin Santo o Passito), and of multiple sourcing (8.5% source by at least three regions different from the firm's location). Diversification of procurement is positively correlated with the size of the bottling activity.

		Vertically integrated firms	Industrial firms	Cooperatives	Pure bottlers	Total
<i>Product specialization (n)</i>	DOC / DOCG	42,8%	35,3%	27,1%	40,9%	41,3%
	IGT	57,2%	64,7%	72,8%	59,1%	58,8%
<i>Volume per segment (hl)</i>	DOC / DOCG	59,6%	47,1%	51,8%	52,7%	52,3%
	IGT	40,5%	52,8%	48,1%	47,3%	47,7%
<i>Horizontal differentiation (n)</i>	DOC	28,4%	61,4%	58,1%	42,6%	35,0%
	DOCG	5,0%	17,9%	9,7%	7,0%	6,7%
	IGT	7,8%	26,9%	28,5%	18,0%	12,1%
<i>Vertical differentiation (n)</i>		1,3%	5,2%	4,4%	2,0%	1,9%
<i>Diversification of procurement (n)</i>		1,9%	21,8%	9,4%	17,0%	6,7%

**Table 4. Product range**

#### **Cluster analysis: typologies of Italian wine bottlers**

The clustering procedure has led to the identification of seven groups, described as follows.

*Cluster 1. Large sized firms, industrial/pure bottlers, mixed mainly IGT-oriented product range, horizontal differentiation and diversification of procurement.* Cluster 1 represents 2.3% of bottlers and 52.1% of bottled wine. It is mainly constituted by pure bottlers (46.37%) and industrial firms (34.08%). Cluster 1 is characterized by the highest size of the bottling activity with 23% of firms bottling more than 50,000 hl. The large size favours scale economies and quality differentiation strategies on the final market (brand strategy). As for market segments, Cluster 1 is mainly oriented to mixed product ranges (98% of firms bottle IGT and DOC/DOCG) and presents the highest incidence of IGT on total bottled volumes (61%). Cluster 1 is also characterized by the *highest degree of horizontal differentiation* in the IGT segment (98% of firms belonging to Cluster 1 bottle more than one IGT and 49% five or more) and the highest degree of *procurement diversification* (95.5% of firms source from at least 1 region other than the firm's location). Cluster 1 presents the highest "market-orientation" (the ratio between bottled and



processed wine is higher than 500%). Cluster 1 present a relatively high degree of vertical product range differentiation (but lower than Cluster 7, as it will be detailed below). Firms of Cluster 1 are located in Veneto, Piedmont, Lombardia, and Emilia-Romagna.

*Cluster 2. Medium sized firms, vertically integrated bottlers, mixed mainly IGT-oriented product range, high incidence of DOC wines on total volumes.* Cluster 2 is mainly characterized by vertically integrated bottlers (65% realizing 27% of bottled wine), medium-sized firms (22% of firms bottle 1,000-10,000 hl). Cluster 2 is characterized by a mixed product range strategy and a relatively high horizontal differentiation in the IGT segment (23% of firms bottle two or more IGT). Firms of Cluster 2 are mainly located in Veneto, Lombardia, and Emilia-Romagna and mainly source from the region where the firm is located.

*Cluster 3. Medium sized firms, vertically integrated bottlers, high DOC/DOCG-oriented.* Cluster 3 is mainly characterized by vertically integrated bottlers (73% realizing 39% of bottled wine), medium-sized firms (16% of firms bottle 1,000-10,000 hl). Cluster 3 is also characterized by a mixed product range strategy (50% of firms), and the remaining firms are DOC/DOCG-specialized. Cluster 3 has thus the highest incidence of DOC/DOCG-specialized firms with respect to the other clusters and a high horizontal differentiation in the DOC/DOCG segment (47% of firms bottle at least two DOC wines). Cluster 3 includes large-sized vertically integrated wineries, sourcing from the region of firm's location, and characterized by a relatively high "market-orientation" (104%). Firms of Cluster 3 are mainly located in Tuscany (44%) and Piedmont (42%).

*Clusters 4-5-6. Small sized firms, specialized, vertically integrated wineries.* Clusters 4-5-6 are characterized by vertically integrated and small sized (250-350 hl) firms with a specialized product range DOC (Cluster 4), IGT (Cluster 5), DOCG (Cluster 6), medium-low horizontal differentiation and relatively low market-orientation.

Looking in more details into each Cluster, Cluster 4 (DOC-specialized) is characterized by vertically integrated firms (72%) and a small size of bottling activity (96% of firms bottle less than 100 hl). Similarly, Cluster 5 (IGT-specialized) is characterized by vertically integrated firms (76%) and a small size of bottling activity (96% of firms bottle less than 100 hl). Cluster 5 has the lowest market orientation (22%) especially for cooperatives (4%). Cluster 6 (DOCG-specialized) is characterized by vertically integrated firms (78%) and a small size of bottling activity (95% of firms bottle less than 100 hl).

*Cluster 7. Medium-large sized firms, vertically integrated and industrial bottlers, mixed product range, the highest incidence of DOC wines on total volumes.* Cluster 7 is mainly constituted by vertically integrated firms (54%), industrial bottlers (18%), and pure bottlers (18%) and a medium-large size of the bottling activity (36% of firms bottle 1,000-10,000 hl and 11% 10,000-50,000 hl). As for product range, 61% of

firms are characterized by a mixed strategy, while 39% are DOC/DOCG-specialized. The degree of horizontal differentiation is relatively high in each product segment (35% bottle at least 2 IGT, 98% at least 2 DOC, and 22% at least 2 DOCG). With respect to Cluster 1, Cluster 7 is characterized by a higher degree of horizontal differentiation in the DOC/DOCG segment. Furthermore, Cluster 7 has the highest degree of vertical product differentiation.

#### **Discussion on the results of the cluster analysis and identification of strategic profiles**

On the basis of the obtained results, it is possible to identify three possible “strategic profiles” according to the possible marketing strategies on the final market: brand-based strategies, *terroir*-based strategies, and mixed strategies.

*a) Brand-based strategies* (e.g. Cluster 1). This profile is characterized by a large size of the bottling activity that favors scale economies in production and commercialization activities and investments in individual quality differentiation strategies (brand). This profile is also characterized by a high horizontal differentiation of product range (scope economies) and high weight of IGT wines. Brand-based strategies are thus associated with a higher strategic flexibility both in terms of product mix and production volumes. Product mix and volume flexibility allow for market segmentation as well as adapting to changing market conditions. This attitude is confirmed by the high market-orientation of the reference Cluster 1.

*b) Certification-based strategies* (e.g. Cluster 4-5-6). This profile is characterized by small-sized bottlers. The small size of DOC/DOCG-specialized firms confirms the volume-constraining nature of DOC/DOCG. Product valorization can be achieved through place-based and niche (premium wines) marketing strategies.

*c) Mixed strategies* (e.g. Clusters 2-3-7). The size of the bottling activity is medium to large. Large size associated with a relative high orientation to DOC/DOCG suggests a coexistence of individual (brand-based) and collective (certification-based) marketing strategies and synergies between the two marketing strategies.

Results seem to suggest the existence of a dichotomy between brand and certification strategy, where the latter is associated with higher volume constraints, while the first allows for a greater volume and product mix flexibility. Further, as outlined in the ‘Introduction’ section, results seem to confirm that several “wine worlds” coexist on the Italian market, where marketing strategies are likely to be located on a continuum between the pure brand- and certification-based strategies and where synergies between brand and certification exist (Figure 1).

The results obtained also suggest that a small firm size, associated with a high collective reputation (place-based marketing strategies), tends to favor the adhesion to the certification system, while large

size tends to be associated with volume and product mix flexibility (synergies between certification and industrial brand strategies).

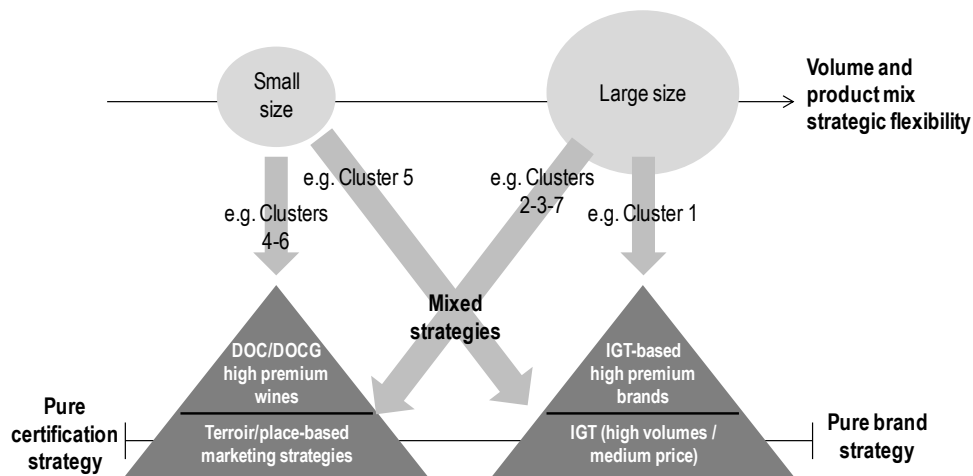


Figure 4. Certification versus brand strategies.

## THE TRADE-OFF BETWEEN THE BRAND AND THE CERTIFICATION STRATEGY: AN INDUSTRIAL ECONOMICS APPROACH

According to the results to the different winery strategy profile related to quality and firm organization we present an Industrial Organization model aiming at explaining the incentive for firms to adopt a certification strategy in a competitive context. Following Chambolle and Giraud-Héraud (2003) and Giraud-Héraud and Grazia (2008), we consider the strategic trade-off between the certification and the brand strategy in a context of demand uncertainty and vertical product differentiation. The certification is interpreted as a commitment to a constraining output that provides access to a market premium price associated with the collective reputation. The brand strategy is interpreted as the flexibility option.

The underlying theoretical framework is that of strategic flexibility in industrial economics. In a competitive context, firms face the trade off between the possibility to commit to a certain output before uncertainty is resolved (commitment) and influence rivals' behaviour, and the possibility to act in a context of perfect information (flexibility). Several papers analyze the commitment/flexibility trade-off in duopoly games. For example, Boyer and Moreaux (1995) analyse a two stage game, in which firms first choose the technology (flexible or inflexible) and then play a Cournot competition. They characterize the simultaneous move equilibria of the game according to the level of demand uncertainty and expected market size. Spencer and Brander (1992) consider an extended game in a context of demand uncertainty, in which each firm decides, at the first stage, whether to commit its output before uncertainty is resolved or not. Then the two firms play a two-stage Cournot game, the

timing decision being observed by both firms. The authors show that no pure strategy equilibria emerge (in which one firm acts before uncertainty and the other after with initially symmetric firms) and that, for low levels of uncertainty, firms are trapped in the committed regime, even if they would prefer the flexible one.

#### Characterization of demand

We consider a market of size  $M$ . The market size is assumed to be a random variable, which can assume the value  $\underline{M}$  or  $\bar{M}$  (with  $0 < \underline{M} < \bar{M}$ ), with probability  $\frac{1}{2}$ .

We denote  $\beta$  the expected market size and  $V$  the volatility, given by:

$$(1) \quad V = \frac{(\bar{M} - \underline{M})^2}{4}$$

We allow both firms the possibility to commit before demand uncertainty is resolved. The only question is whether to commit or delay.

In stage 1, each firm decides whether to commit or to retain the flexibility to set the quality effort and the output after the market size is revealed. The outcome of the “timing” decision is then observed by both firms. In stage 2, if either firm has decided to commit, it then commits to the quality effort and output in a context of demand uncertainty. The committed firm sets the quality effort and commits to a constraining output level. Then, the market size is revealed. In stage 3, if either firm does not have committed in stage 2, it then sets the quality effort and the quantity in a context of perfect information.

One firm supplies the quantity  $q_h$  of the high quality good  $\mu_h$  and the other the quantity  $q_l$  of the low quality good  $\mu_l$ . Following Mussa and Rosen (1978), consumers are distinguished by a taste one-dimensional parameter  $\theta$  expressing the intensity of an individual's preference for quality and uniformly distributed over the interval  $[0, t]$  according to a density  $f(\theta) = 1/t$ . Each consumer is assumed to either buy one unit of the good or nothing. The surplus of a  $\theta$ 's consumer, when he buys the good of quality  $\mu_i$  at the price  $p_i$  is denoted by  $S = \theta\mu_i - p_i(\mu_i)$ . The market is covered only on the segment  $[\underline{\theta}, t]$  ( $\underline{\theta} = p_l/\mu_l$ ). The consumer indifferent between the high and the low quality good is characterized by the parameter  $\hat{\theta} = (p_h - p_l)/(\mu_h - \mu_l)$ . We thus obtain the inverse demand curves:

$$(2) \quad \begin{cases} p_l(\mu_l, q_l, q_h) = \frac{t}{M} \mu_l (M - q_h - q_l) \\ p_h(\mu_h, q_h, \mu_l, q_l) = \frac{t}{M} (M\mu_h - q_h\mu_h - q_l\mu_l) \end{cases}$$

The game is solved by Backward Induction.

**i) The Brand Regime**

Each firm chooses simultaneously the effort  $\delta_i$  and the quantity  $q_i$  ( $i = l, h$ ), after uncertainty is resolved. The cost of the quality effort for the firm  $i$  is given by:

$$(3) \quad c_i(\delta) = c\delta_i^2$$

In the brand regime, the quality is given by  $\mu_i = \delta_i$ . By using (2) and (3), we determine the low and the high quality firm's profits given by  $\pi_l(\delta_l, q_l, q_h)$  and  $\pi_h(\delta_h, q_h, \delta_l, q_l)$ . Firm  $i$  maximizes its profit function according to the quality effort  $\delta_i$  and the quantity  $q_i$ . The equilibrium quality and quantity are respectively given by :

$$(4) \quad \left\{ \begin{array}{l} \delta_l = \frac{6t}{23c} \\ q_l(M) = \frac{6M}{23} \\ \delta_h = \frac{9t}{23c} \\ q_h(M) = \frac{5M}{23} \end{array} \right.$$

By using (4), we verify that the firm  $i$ 's quality effort  $\delta_i$  is an increasing function of the average consumers' willingness to pay  $t$ , but does not depend on the market size  $M$  and the quantity is an increasing function of the market size  $M$ . Let us denote by  $\pi_i$  the profit of the firm  $i$ . We then obtain the low and the high quality firm profits  $\pi_l$  and  $\pi_h$  and verify that  $\pi_l < \pi_h$ . Assuming that each firm benefits from the quality leader advantage with probability  $\frac{1}{2}$  and denoting  $\pi^{b,b}$  the firm  $i$ 's realized profit in the Brand Regime and  $E$  the expected value, we determine the firm  $i$ 's expected profit in the brand regime  $E[\pi^{b,b}]$ . We verify that the expected profit  $E[\pi^{b,b}]$  is not affected by demand volatility.

**ii) The Certification Regime**

In this situation, each firm commits to the quality effort  $\delta_i$  and to the quantity constraint  $z$  at stage 1. The quality  $\mu_i$  supplied by the firm  $i$  is given by  $\mu_i = s + \delta_i$ , where  $s$  is the collective reputation. Using  $\pi_i(M)$  to denote the firm  $i$ 's profit if the market size is  $M$  ( $i=l,h$ ) and  $E$  the expected value, we solve the following maximisation problem:

$$(5) \quad \begin{cases} \max_{\delta_1} E[\pi_1(\delta_1, z)] \\ \max_{\delta_h} E[\pi_h(\delta_h, z, \delta_1)] \end{cases}$$

By using (5), we obtain the equilibrium levels of effort  $\delta_1$  :

$$(6) \quad \begin{cases} \delta_1 = \frac{t[\beta(\beta - 2z) - V]}{2c(\beta^2 - V)} \\ \delta_h = \frac{t[\beta(\beta - z) - V]}{2c(\beta^2 - V)} \end{cases}$$

By using (6), we verify that the firm  $i$ 's quality effort  $\delta_i$  decreases in both  $V$  and  $z$  (the lower  $z$ , the higher the quality effort). We then calculate the low and the high quality firm's expected profit  $E[\pi_1]$  and  $E[\pi_h]$ . By holding the assumption whereby each firm has probability  $\frac{1}{2}$  to be the high quality good's producer and denoting  $\pi^{c,c}$  the firm  $i$ 's realized profit in the Certification Regime and  $E$  the expected value, we determine the expected profit of each firm in the certification regime  $E[\pi^{c,c}]$  and we verify that it decreases in volatility and increases in  $z$ .

### iii) The Asymmetric Regime

In stage 1, only one firm decides to commit to the certification system. The certified firm is assumed to benefit from the collective reputation  $s$ . Let us then denote by the  $l$  the flexible firm and by  $h$  the certified firm.

The brand firm maximises its profit function  $\pi_1(\delta_1, q_1, z)$  according to the effort  $\delta_1$  and the quantity  $q_1$ . Solving the first-order conditions yields the brand firm's reaction function for  $\delta_1$  and  $q_1$  as functions of the quantity constraint  $z$  and the random variable  $M$   $\delta_1(z, M)$  and  $q_1(z, M)$ .

The certified firm chooses its optimal strategy according to the problem:

$$(7) \quad \text{Max}_{(\delta_h)} E[\pi_h(\delta_h, z, \delta_1, q_1)]$$

Given the brand firm's reaction function and using (9), we calculate the high quality firm's optimal quality effort  $\delta_h$  as a function of  $z$  and  $V$ :

$$(8) \quad \delta_h = \frac{t[\beta(\beta - z) - V]}{2c(\beta^2 - V)}$$

By using (8), we verify that the certified firm's quality effort is a decreasing function of the demand uncertainty and increases as  $z$  become more constraining.

Let us denote by  $\pi_i^{c,b}$  the firm  $i$ 's realized profit, with ( $i = 1, h$ ), in the asymmetric regime and  $E$  the expected value. We then calculate the expected profit of the certified and the brand firm, respectively given by  $E[\pi_h^{c,b}]$  and  $E[\pi_1^{c,b}]$ .

**Results**

Given these premises, we study firstly the best reply functions at the timing decision stage. We then characterize the simultaneous move equilibria of the game, according to the level of demand uncertainty and quantity constraint. The game's pay-off matrix is reported in Table 1 indicating the expected profit of each firm according to the chosen strategy (Brand or Certification). The first entry in each cell is firm 1's expected profit.

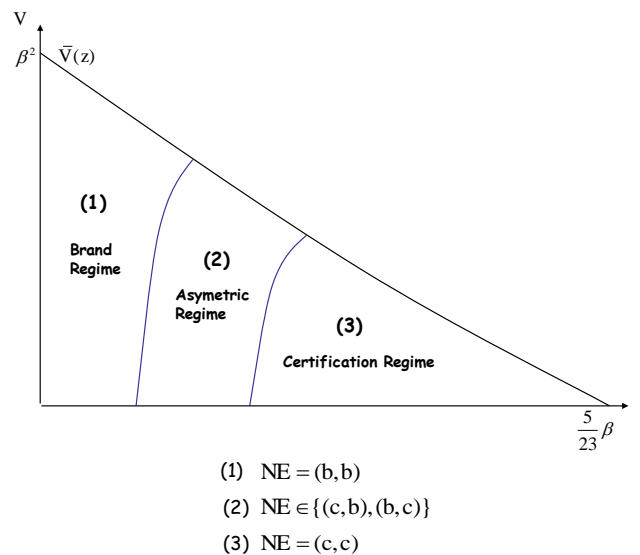
		Firm 2	
		C	B
Firm 1	C	$E[\pi^{c,c}], E[\pi^{c,c}]$	$E[\pi_h^{c,b}], E[\pi_1^{c,b}]$
	B	$E[\pi_1^{c,b}], E[\pi_h^{c,b}]$	$E[\pi^{b,b}], E[\pi^{b,b}]$

**Table 5. Pay-off matrix.**

*The simultaneous move equilibria at the timing decision stage.*

In this section, we characterize the Nash Equilibria of the game, represented in Fig.4. Proposition I identifies the conditions for the emergence of the Certification and Brand regimes, according to expected market size and volatility.

*Proposition I: For relatively low levels of uncertainty and low quantity constraint, the unique Nash equilibrium is the Certification regime and it is also a dominant strategy equilibrium (NE=(c,c)); for high levels of uncertainty and high quantity constraint, the unique Nash equilibrium and is also a dominant strategy equilibrium (NE=(b,b)); for intermediate levels of uncertainty and quantity restriction, two asymmetric Nash equilibria arise (NE ∈ {(c, b), (b, c)}).*



**Figure 5. The simultaneous move game equilibria.**

Results are intuitively plausible as far as high levels of uncertainty and output restrictions lead firms to delay output decisions until after uncertainty is resolved. In this situation, the unique Nash equilibrium is the Brand regime. Low levels of uncertainty and low quantity restriction lead firms to commit to the certification system before uncertainty is resolved. For intermediate levels of uncertainty and quantity restriction, no firm has a dominant strategy. Two asymmetric Nash Equilibria arise, which are both *subgame perfect equilibria*, in which one firm acts before uncertainty and the other after.

***Prisoner's dilemma and incentive for the adoption of the certification strategy.***

In this section, we show that if uncertainty is relatively (but not too) high, firms are “trapped” in the brand regime, but instead they would prefer the certification regime. In the area (1) in Figure 4, the unique Nash equilibrium is the brand regime. If uncertainty is relatively low in this area and quantity constraint not too restrictive (area (1b) in Figure 5, the brand regime is Pareto inefficient. Proposition II below shows that in this area, the brand regime is dominated by the certification regime.

*Proposition II: A prisoner's dilemma may arise whereby the unique Nash Equilibrium is the Brand Regime and is Pareto dominated by the Certification Regime.*

In the situation described in Proposition II, firms are trapped in the Brand Regime because of the incentive to be flexible and act as follower, but would instead prefer the Certification Regime.

In the following proposition, we show that an incentive structure may eliminate any inefficient allocation from the set of equilibria and favour the emergence of the Certification regime.

*Proposition III: If an exogenous incentive I is associated to the adoption of the certification strategy, such that the following condition holds:  $E[\pi^{b,b}] - E[\pi_h^{c,b}] < I < E[\pi_1^{c,b}] - E[\pi^{c,c}]$*

*any inefficient allocation is eliminated from the set of equilibria.*



## DISCUSSION AND CONCLUSION

This paper investigated the determinants of winery strategic decisions concerning GI wine bottling activities. The results show that small DOC/DOCG wineries mainly rely on the designation of origin collective reputation and on wine-*terroir* synergies. As they face a binding quantity constraint, they benefit from an improvement in consumers' willingness to pay for designations of origin. On the other hand, medium-large wineries sell high volumes of well-known brands, often relying on the IGT system (or on a multiproduct range) to benefit from a greater strategic flexibility and thus better exploit market opportunities, mainly in the new emerging markets.

The "size" of the processing stage favors high-volume bottling strategies. Hence, scale economies favor long-term investments in production process and technologies, marketing strategies, promotion and "brand creation" policies.

High-volume strategies are more likely to be developed through IGT-branded rather than DOC/DOCG-branded wines, given the constraining nature of the latter (both in terms of quantity restrictions and minimum quality standards).

Moreover, despite having undertaken long-term investments to comply with the DOC/DOCG system, wineries may have an incentive to deviate and bottle IGT wine to benefit from market opportunities that may arise in the short-term. Multiproduct ranges may enable a winery to benefit from synergies between brand and designation of origin, where individual and collective reputations coexist and, notably, IGT may enable a winery to increase its volumes relying on the DOC/DOCG collective reputation and (potential) premium prices.

In the analysis of the trade-off between the brand and the certification strategy, we characterize three incentives for the producers to adopt a certification strategy. At first, the stronger is the implicit control of the production process as well as of the firm's market strategies, the more a soft level of quantity constraint is necessary so that the producer decides to submit himself to the certification. Secondly, the stronger is the required commitment to the production process, the more the producer adopts the certification only in a context of low demand uncertainty.

The duopoly context's analysis shows that an important incentive is the level of competition on the market, in particular the fact that no other producers have already adopted an identical certification strategy. Thus, a firm tends to commit to the certification system more for aggressive than for defensive reasons.

In this context, we have shown that a prisoner's dilemma may arise, in which the firms would prefer the certification regime, but instead are trapped in the brand regime. This is clearly a case in which inefficiency arises through competitive incentives to be flexible. Inefficient allocations may be eliminated from the set of equilibria by introducing an incentive to the adherence to the certification

system and/or implementing measures to increase the collective reputation and the related premium price on the final market. An increase of the collective reputation may be achieved, for example, by reinforcing the role of Consortia and develop horizontal coordination among firms in order to facilitate (and protect) quality investments in the long term.

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## WINE TOURISM IN QUEBEC: BETWEEN MARKETING AND DEVELOPMENT OF WINE TERRITORIES

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### ABSTRACT

Wine routes are increasing in different wine regions of the Old World and the New World. In Quebec, the wine sector is young, but there is a great development of wine routes. This is mainly explained by the nature of the distribution of wine in Quebec, where the sale of alcoholic beverages is controlled by a state monopoly: the SAQ. Faced with the difficulties of entry into the SAQ, direct selling is the main outlet for the Quebec wine makers, especially for smaller wineries. This environment is conducive to the development of wine routes.

Wine routes in Quebec are important for the marketing of wine. At the same time, they participate in the construction of wine territories, acting as regional networks and regional development engines. Thus, the main hypothesis of this paper postulates that the wine route is a mechanism which can lead to the creation of wine-growing areas, creating relationships between winemakers or strengthening existing relationships. The wine route helps stakeholders to transform geographic proximity into organizational and relational proximity. The objective of this paper is first to present the characteristics of wine routes in Quebec and then, to present their roles in the establishment of regional networks and the development of territories.

**Keywords :** *Wine tourism, wine route, regional networks, wine sector in Quebec.*

### INTRODUCTION

If the reception of tourists in wine regions is an ancient practice, particularly in Europe (Hall et al 2000; Croce and Perri 2010), it has grown considerably in recent years to talk today about wine tourism (Agosta and Chironi 2001; Darmaillac-Lignon, 2009). Wine tourism is based on the discovery of wine production in the region by tourists. Wine Tourism is defined as “visitation to vineyards, wineries, wine festivals and wine shows for which grape wine tasting and/or experiencing the attributes of the grape wine region are the prime motivating factors for visitors”(Hall and Macionis, 1998: 267). Indeed,

this type of tourism is a strategy of producers to reach the consumer in order for them to discover the wine and all the related territory attributes (Vandecandelaere, 2005). In practical terms, tourists who visit a wine route enjoy a variety of experiences: visit a wine farm, wine tasting, purchase wine, visit a vineyard or a local museum, discover wine traditions and history of the region (Brunori and Rosssi, 2000).

Thus, beyond the cellar tour and wine tasting in the field, it includes many other activities of tourism and recreation related to the discovery of the wine festivities, museums of wine, landscapes, architecture, etc. (Pepke-Durix, 2008). This is a new way to spend a vacation, but it is also a manifestation of a growing interest in the territories, their traditions, the beauty of their natural surroundings, their cultural and historical heritage and local products (Agosta and Chironi, 2001). Due to its diversity, wine tourism is linked to many forms of tourism: gourmet tourism, industrial tourism, cultural tourism, etc.

With the host of tourists and consumers in the world of wine, wine routes are developing in parts of the Old and the New World (Vandecandelaere, 2005). Wine routes are routes characterized by the presence of wineries, often wineries open to visitors, interesting places from a cultural and natural point of view, traditional restaurants, structures for receiving tourists, etc. (Agosta and Chironi, 2001). A wine route allows the consumer to meet different producers through the cellar tour. According to the Italian law that regulates the wine routes: "The wine routes are marked with specific signs indicating areas with natural or cultural interest, vineyards and cellars belonging to individual or collective enterprises open to the public; they are a tool that allows wine territories and their products to be marketed and become a tourist "attraction" (Agosta and Chironi, 2001: 2). A wine route is "a sign-posted itinerary, through a well-defined area (region, province, denomination area) whose aim is the 'discovery' of the wine products in the region and the activities associated with it. This 'discovery' is carried out directly on the farms (enabling the traveller to meet the producer) and/or in the spaces specifically organized around the wine produced (wine tasting centers or wine museums)" (Gatti and Incerti, 1997).

The interest for the wine routes and wine tourism in recent years is related to several trends in the wine industry and the tourism sector. First, the wine is associated with the new trend of cultural tourism which is to combine a relaxing holiday in the form of an intimate reconciliation with nature, and to discover the traditions of the region visited (Agosta and Chironi, 2001). Second, the wine is connected to the development of rural tourism and agro-tourism with consumers who like to deepen their knowledge of a territory, enter into intimate contact with it, retrace its history, discover its culture and taste local products (Agosta and Chironi, 2001). Third, the wine is a tool which promotes the attributes of the external quality of the wine. Today, the quality of food products depends not only

on the intrinsic characteristics of the product. Other aspects such as the origin of products and production methods are becoming increasingly important. In the case of wine routes, this dynamic is even stronger since wine is more than a drink and has a very large external quality (Vandecandelaere, 2005). It is the major symbol of many civilizations and is an integral part of the history of Western culture (Debos, 2008). Also, wine is a beverage that is associated with relaxation, exchanging with others, complementary to food consumption, and hospitality (Bruwer, 2003).

Amongst the main objectives behind the creation of these routes are the increased presence of tourists and longer stays, which in turn increase direct and indirect economic benefits along the route, creates value assets, and contributes to additional opportunities for producers (Carrier, 2000). Wine routes are thus presented as tools for structuring and coordination of the area, but also a marketing tool as the meeting place between producer and consumer and a vehicle for promotion of wine and the wine sector (Vandecandelaere 2005 ).

More and more wineries are rooted in the New World and becoming very important tourist attractions. In Canada, the Niagara Peninsula attracts thousands of visitors every year (Grégoire, 2011). The Quebec vineyard is young but there has been a great development of wine routes. This is mainly explained by the nature of the distribution of wine in Quebec, where the sale of alcoholic beverages is controlled by a state monopoly: the SAQ<sup>9</sup>. Faced with the difficulties of entry into the sales network of the SAQ, direct selling is the main outlet for the Quebec wine, especially for smaller wineries. This environment is conducive to the development of the wine routes. Quebec Regions have gradually adheree to this touristic perspective and started to promote new routes. The Eastern Townships region confirms this shift towards vineyards that are increasingly interesting and that have gradually forged an international reputation (Grégoire, 2011).

A wine route provides a good example of how synergies between stakeholders work. In fact, a wine route can be seen as a network established around a specific theme: wine. The creation of a wine route is not simply the sum of the outputs from individual winemakers. The organization and the success of a wine route depend on their collective action. In order to maintain the wine route, winemakers must adhere to a common set of rules. These include keeping the farm and the wine cellar open for tourists for a few hours each day; being willing to entertain tourists with stories about wine, and spending money on communication and promotion activities (Brunori and Rosssi, 2000). Consequently, the collective action between the winemakers to establish the wine route helps them to create a regional collaborative network. Also, the development and implementation of a wine route requires

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<sup>9</sup>The Société des alcools du Québec (SAQ) is a government-owned corporation responsible for the trade of alcoholic beverages within the province of Quebec. The Quebec government created the Quebec Liquor Commission in 1921, which in 1961 became the Liquor Control Board of Quebec, and in 1971, the SAQ. Today, the SAQ is a monopoly that runs the liquor trade in Quebec. This role monopoly is challenged and many suggest the release of the distribution of alcohol in Quebec and even privatization of the SAQ (Laurin, 2009).

coordination of heterogeneous stakeholders from the private sphere and the public sphere, but also in the wine and tourism sectors. Their coordination is recognized as "the cornerstone of a successful wine route" (Debos, 2008), because tourists insert wine into a larger experience involving the discovery of the local heritage (Carlsen 2004; Croce and Perri 2010; Bensa and Pichery 2012).

Thus, the main hypothesis of this paper postulates that the wine route is a mechanism which contributes to the creation of wine-growing areas, creating relationships between winemakers or strengthening existing relationships. The wine route helps stakeholders to transform geographic proximity into organizational and relational proximity. The objective of this paper is first to present the characteristics of wine trails/routes in Quebec and analyze their roles in the establishment of regional networks and in the development of territories.

### THE HISTORICAL DEVELOPMENT OF THE WINE INDUSTRY IN QUEBEC

From the beginning of the colony of New France, many quotes confirm the existence of wild vines called "Vitisriparia" in Quebec (AVQ, 2011). However, despite repeated attempts, it took until the 1980s to finally notice a significant development in the wine production (AVQ, 2011) with many events that have marked the development of this industry (Table 1).

*Table 6. Historical development of the wine industry in Quebec since 1980*

Date	Event
1981	Establishment of the first Quebec vineyards : Domaine des Côtes d'Ardoises
1985	Establishment of artisanal permits
1987	Creation of the l'Association des vignerons du Québec (AVQ)
1996	obtaining the right to sell directly to restaurants
2003	Inauguration of the Wine Route of Brome-Missisquoi
2006	Creation of the "Wines of Quebec" section in the branches SAQ banches

2006	Foundation of the Association des vitiviniculteurs du Québec (ADVVO) the actual VIQ (Vignobles indépendants du Québec).
2009	Establishment of the certification "Certified Wine of Quebec" by the AVQ
2011	Development Plan 2010-2020

Arriving in Orleans Island and observing the abundance of wild grapes, Jacques Cartier named it "Isle of Bacchus" (De Koninck, 1993). The first settlers tried to make wine with wild vine, "vitisriparia," but it was rubbish. They then imported "vitisvinifera" vines from Europe and these did not survive the rigors of the Quebec climate. Since the beginning, the climate was the first limit to a wider Quebec viticulture. From 1860, there were thirty vineyards in southern Quebec, an area of about 40 ha. But after several very cold winters, the prohibition and the creation in 1921 of the Liquor Commission, most vineyards had disappeared and wine production has dropped significantly. In 1935, the area of all the vineyards, commercial or not, was therefore less than 2 ha (Lasserre, 2001). In 1981, the Domaine des Côtes d'Ardoises, the first and oldest winery still operating in Quebec opened, followed in 1982 by the Orpailleur. In 1985, five vineyards obtained production permits called "craft" that entitles a farmer to cease the farming activities in order to make alcohol and sell it locally. In 1987, the first group of wine producers was created: Association des vigneronns du Quebec (AVQ), whose mission is to represent the interests, promote and develop the reputation of the wines and vineyards of Quebec.

In 1996, Quebec winemakers got the right to sell their wine directly to restaurants. This new option facilitated the promotion and recognition of Quebec wines in the general public (CLD Brome - Missisquoi, 2014). In 2006, the SAQ created the "Wines of Quebec" section in its branches. Although this is a limited effort, this presence has provided additional visibility to Quebec wines. The same year, another group of winemakers created the Association of winegrowers Quebec (ADVVO) whose name was changed in 2010 to VIQ (Vigneronns Indépendants du Quebec). In 2009, in order to ensure the quality and traceability of Quebec wines and obtain recognition for the specificity of the viticulture in Quebec, the AVQ created the certification "Certified Wine of Quebec" in 2009. In 2010, the SAQ created the section "Wines of Quebec" in the SAQ stores. In 2011, the AVQ published the "Development Plan 2010-2020" and thus created a realistic foundation for a staged development of the

Quebec wine industry. In 2013, the AVQ requested from the Conseil des appellations réservées et des termes valorisants (CARTV)<sup>10</sup> to create a Protected Geographical Indication (PGI) for the Quebec Icewine.

Today, more than 270 wineries are in operation, including 114 licensed small-scale production sites. The total area is 800 hectares with an average area of 4.5 ha, with over 50 varieties of grapes. Two associations currently represent the interests of Quebec wineries: Association des vignerons du Québec (AVQ) with 64 members and les Vignerons Indépendants du Québec with 20 members (AVQ, 2011). After many years during which the Quebec wine suffered from a poor image with customers, now sales are booming, especially in the network of the SAQ. Nearly 12% of total sales in Quebec wines made in 2011 were done through the SAQ and between 2011 and 2012, sales increased by 48%. Between February and June 2014, the sale of Quebec wines experienced a 60% increase in the SAQ (Table 2). In February 2014, the corporation has introduced the new "Made in Quebec" section that showcases Quebec wines.

*Table 7. Evolution of wine sales in Quebec SAQ outlets between 2009 and 2012*

	2009	2010	2011	2012
<b>Sales in \$</b>	1 348 155 \$	1 834 485 \$	2 117 634 \$	3 147 550 \$
<b>Sales in litres</b>	72 083	95 499	105 076	150 351

*Source : Société des Alcools du Québec*

On the basis of our review of the literature, we put forward a main hypothesis which we tested with field research; we provide the details later, in Section 2, after presenting the methodology.

## METHODOLOGY

The methodology of this paper is mainly based on a literature review and interviews based on two grids of semi-structured interviews which were conducted face to face or by phone. The research began with a preliminary stage in which we reviewed the literature on the Quebec wine industry: actors and characterization, relationships between actors, institutional arrangements, etc. All this was done mainly from written documents, websites, etc.

The second step was a qualitative investigation that included three rounds of interviews and was conducted during the months of March and April 2014 for the first two and in the months of July and

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<sup>10</sup> In 1996, the Quebec government passed the Act respecting reserved designations, based on the regulations of the European Community in the field and for the recognition of denomination of Origin (AO) and Protected Geographical Indication (PGI). This law aims to protect the authenticity of products and the designations that emphasize using an acquired against their origin or their special characteristics associated with a production or a specific certification. In 2006, the Quebec government has set up the organization: Council of reserved and value claims (CARTV), for the purposes of that Act.



August 2014 for the third. The first series of interviews were held with nine experts and organizations in the Quebec wine sector. They represented the different institutions involved in the wine sector in Quebec such as the AVQ, the VIQ, the CARTV, etc. and also some service firms, in particular in the field of oenology. The average duration of the interviews was 1 hour 15 min. The questionnaire included questions about a) the organization or firm: programs and services, role in the development of the industry, etc.; b) local network: the network of partners, role in the network, the level and type of relationships and interactions, etc.; c) vision for the development of the sector. The second series of interviews were held with 18 winemakers on the basis of a semi-structured questionnaire. The average duration was 58 min. The 18 winemakers were randomly selected according to a representative survey design in terms of size and representativeness of the major wine regions in Quebec (Eastern Townships, Montérégie, Lanaudière, Chaudière-Appalaches, etc.) (Table 3).

*Table 8. Distribution of vineyards respondents*

<b>Region/Size</b>	<b>0-5h Small vineyard</b>	<b>5 het + Big vineyard</b>	<b>Total</b>
Eastern Townships	4	2	6
Montérégie	2	1	3
Québec	1		1
Outaouais	2		2
Lanaudière		1	1
Laurentides	1	1	2
Chaudière- Appalaches	2		2
Mauricie	1		1
Total	13	5	18

The questionnaire for winemakers included questions about a) the company: history, evolution, activities, etc. b) production: product development, strategic positioning, c) innovation: nature, objectives, factors that influence innovation, networks, obstacles, d) knowledge flows: sources of knowledge, trade partners, etc. e) the exchange of knowledge and skills with other sectors, f) certification and Icewine Quebec denomination.

The third series of interviews were held with the persons responsible for the four wine routes: Route of Brome-Missisquoi, Route of Bellechasse, Route of Montérégie and Route of Estrie. These interviews lasted an average of 30 minutes. The questionnaire included questions about a) the route: context and Contemporary Trends and Perspectives in Wine and Agrifood Management

objectives of the creation, governance, etc. b) the role of the route in the creation and growth of local relationships between the vineyards, etc.

Our analysis began with the processing of the data. Thus, to facilitate the processing of information collected, we transcribed the interviews. We prefer to have a full transcript of everything that was said to keep the logical arguments of each interviewee. Subsequently, we conducted a content analysis of interviews, and finally, the classification of information and elements of the interviews, using an analytical framework that incorporated the main research themes.

We started our research with a general hypothesis, according to which there are two types of structures of routes, sectorial and touristic. While wine production is only emerging in Québec, it has nevertheless taken up an important role in touristic activities and regional promotion, moving to a certain extent from the purely sectorial perspective to a larger touristic perspective, as we will show in the following pages.

We now present the results of our interviews concerning the wine routes and highlight how proximity and interactions between the actors seems to have fostered a diversity of activities, developed now collaborative actions and created a whole new dynamism around wine, wine routes, but also other agro-tourism activities. As the four cases show, in diverse ways, wine is the center of the routes, but it creates a whole new regional dynamism which benefits its own activities in return.

## THE WINE ROUTES IN QUEBEC

Since the early 2000s, there has been a great development of wine routes in Quebec. This is due to several factors. First, the system of distribution of wine and liquor products in Quebec as in the rest of Canada, is characterized by the control of the SAQ, the monopoly of the province. We will present here the main aspects of the routes to highlight how they interact with other activities as well.

*Table 9. The characteristics of the four studied wine routes*

	<b>Brome-Missisquoi</b>	<b>Bellechasse</b>	<b>Montérégie</b>	<b>Estrie</b>
<b>Date of creation</b>	2003	2014	2011	2011
<b>Number of winemakers</b>	21	3	23	8
<b>Governance system</b>	CLD de Brome-Missisquoi	Governance assured by the 3 winemakers	Tourisme Montérégie	The CLD of the region and the winemakers

*The route of Brome-Missisquoi*

Brome-Missisquoi has many attractions. It is positioned primarily as the wine region of Quebec, while it also benefits from the mountains, the beauty of landscapes, the gourmet tourism, its rich heritage with an extremely rich and significant architectural heritage and multiple events. An authentic tourist destination, Brome-Missisquoi leverages its built and natural heritage. It will offer a unique sensory experience for its guests, in any season (CLD Brome-Missisquoi, 2014).

Brome-Missisquoi is the birthplace of viticulture in Quebec. In 1981, Domaine des Côtes d'Ardoises, the first and oldest winery still operating in Quebec appeared, followed in 1982 by the Orpailleur, both located in Dunham in Brome-Missisquoi. Today, we find here the largest concentration of vineyards in Quebec. With some 25 wineries, the region is home to about a quarter of all the vineyards in the province and produces 60% of Quebec wines. In recent years, the number of wineries has increased in the region; the growth rate was 150% between 2003 and 2013 with the creation of 15 additional vineyards (Table 5).

*Table 10. Evolution of the number of wineries in the area of Brome-Missisquoi between 1983 and 2013*

<b>Year</b>	<b>Number of wineries</b>
1983	2
1993	3
2003	10
2013	25

*Source : <http://www.artisandelaterre.com> (Accessed 10 june 2014)*

Inaugurated in 2003, today it is a journey of 132 km, dotted with signs indicating the most relevant places to discover in the wine country with its covered bridges and round barns. Designed by the CLD Brome-Missisquoi, the strength of the Brome route is based on close partnerships between vineyards and institutional organizations in the territory. The Brome route presents itself as a positive dynamic, highlighting the agricultural heritage of the region. Viticulture appears to have significantly changed the image of the Brome-Missisquoi in the last twenty years and has led to a form of territorial re-identification. The Wine route of Brome was integrated into an overall land development project. From the beginning, with the establishment of the route, the goal was to find a niche market development, and at the same time, something distinctive for the region and this was wine.

(Translation)

Originally the goal of the route of Brome was to sell the wine produced, but it was also a regional development project. This is where the CLD, an organization of local economic development, came in to play its role. It was far from what is normally a CLD mission, but there was this desire, this support and dynamism. I think municipalities have found their interest in this. All the regions of Quebec are interesting. All the regions are finally ready to go into such directions. You had to be opportunistic. Wine is always attractive and it is also dynamic. There were also some interesting side effects. In exchange for some media relations and good products, it is a product that is very attractive, it's a leader. (Head of Rural Development in an economic development organization. Interview 2014)

In addition, the creation of a wine route in Brome-Missisquoi has contributed to the establishment of a whole range of related activities: restaurants, antique shops, art galleries, lodging, bakeries, microbrewery and a range of other food products such as cider, blueberry, specialized farms, dairies, etc. Also, bicycle tours are offered with tourist accommodation; these are labeled "Cyclists Welcome" and they offer specific services to cyclists. The Wine route of Brome is distinguished by the synergy between the various stakeholders. An important strategic planning (Engage stakeholders, elected officials and partners around the strategic plan. Stimulate networking among stakeholders.), as well as tourism and wine activities occupy a prominent place as key economic drivers in the region.

The specificity of the Brome route: its stakeholders. Its stakeholders are important. There are also wine quality and local dynamism. The support of elected officials. Beyond the potential basis, you still have to have a support, there has been money put in, with regulations. So we had a weight with all the MRC (municipal regional county) behind. The other attraction, I think, other elements: landscapes, near Montreal, the density of vineyards. It is the combination of these three factors: technical support, product, and landscape. (Head of Rural Development in an economic development organization. Interview 2014)

### *The wine route of Bellechasse*

The wine route of Bellechasse is located in the Bellechasse region on the south shore of Quebec City. It was created in 2014 with the efforts and cooperation between the three companies specializing in the manufacture of alcoholic beverages: The Ricaneux: producer of wines and berries spirits; Casa Breton:

producer of ciders, wines, juices, vinegars and fruit butters; Domaine Bel-Chas: wine producer. The three entrepreneurs have already had an experience of cooperation in the framework of a first wine route in 2008-2009.

In fact, the region of Chaudières-Appalaches already had a wine route in 2008-2009. It worked well. It brought us great visibility. But it did not work because there were problems between the four producers. In the municipality of Bellechasse we are 3 companies that manufacture wine alcohols. We regularly meet during the salons and tourist activities. So we thought why not recreate a wine route, the three of us together, a route which would attract the customers from Quebec city. (Winemaker, member of the Route of Bellechasse. Interview 2014)

The first objective of the creation of the route was to attract customers from Quebec City. In fact, customers generally will not move for a single activity. The route is managed by the three vineyards without any government intervention or regional tourism development organizations. The status of the wine route is challenged by other routes because in the route of Bellechasse, there is a single real vineyard as the small fruit wine is not considered as real wine. The route of Bellechasse is characterized by good relationships and proximity between the three companies, but it is clearly a smaller route than the others.

#### *The wine route of Estrie*

In 2011, eight winemakers from the region of Estrie decide to join forces around a common project and create the Wine Route of Estrie. "This is a project that had simmered for several years now. The goal is to create a new experience for visitors by offering them a bucolic walk, which is full of flavor" (Marco Corbin, winemaker and president of the Wine route of Estrie)<sup>11</sup>. At the beginning, the institutional support was mainly moral, especially from the CLD (Local development center). With the success of the route, the CLD became more involved in the management of the route. The Wine Route of Estrie has become a major tourist attraction for the region as well as a regional development tool.

(Translation)

Initially, we had a moral support from our CLD and our tourism agencies to which each vineyard belongs. Now we are going into a phase with more support and more content. So at first it was just a moral support, but now they take into account the wine route because people have realized that we are all together and we became a major player on the regional tourist map. In their design, the wine route is mainly a

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<sup>11</sup><http://www.lerefletdulac.com> (Accessed June 13th 2014).

tourist attraction. We produce an agricultural product. At the same time, we play on the tourism map. (Winemaker, member of the Wine route of Estrie. Interview 2014)

We need to mention that there is an important event that has become a major attraction in early September, that is the “Fêtes des Vendanges” (Harvest Festival). This occurs during the first long weekend (3 day weekend with Labor Day Monday) and second weekend of September, in Magog-Orford. Over the years, the event attracts more and more people. The regional wineries use this event to become better known and eventually they can attract people to their winery, thus contributing to have more people become aware of the Wine Route of Estrie. “The Wine Route in the Estrie region will help to stabilize our market by offering a high quality product appeal. We have such a beautiful area, beautiful scenery and such a wine quality that this project can only be successful.” (Christian Bolduc, winemaker, member of the Wine route of Estrie)<sup>12</sup>.

### *The wine route of Montérégie*

Montérégie is the second wine region of Quebec in terms of area and number of vineyards. The wine route of Montérégie was created in 2011, following a cooperation between Tourisme Montérégie and winemakers in the region. Today, the route counts 23 vineyards over a distance of about 100 km, offering visiting areas, explaining the stages of production and wine tasting.

(Translation)

The idea really came from the winemakers of the Montérégie. There really was a desire to create this route here and to get together. We had raised the issue a few years ago but there was not enough wine at that point. In 2011, we took steps and approached the winemakers of Montérégie and pretty much everybody rallied. (Tourism manager in the Montérégie region. Interview, 2014)

Yes that's right. We consider the wine route as a leader, not just for wine but also for other products in the region. It is sure that people are not going to come just for wine. They like to have other complementary products. It will further encourage people to come here. (Tourism manager in the Montérégie region. Interview, 2014)

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<sup>12</sup><http://www.lerefletdulac.com> (Accessed 13 June 2014).

We need to mention here that the Montérégie region has a strong agro-touristic sector. This sector attracts 1 million people for more than 3 million visits. The wine is the fifth largest in agri-tourism products. "Apples attract 715,000 people, 600,000 come for maple products, ciders and wines 275 000 and 250 000 respectively<sup>13</sup>." Tourisme Montérégie holds two events to attract visitors. The first, "Embrace our rosés," in June, is a free tasting of rosé wine for the ladies. A second event "Red BBQ", takes place in July, and this is a tasting of red wines for men. The Wine Route has a project to create a more important and more diverse agro-tourism circuit. It has been observed that people do not move only for the wine route. They want a more varied offer, more activities and more products or souvenirs from the region. Most wine routes and tourism managers try to have a more general circuit approach and include agro-tourism products and services in general. Thus, the wine route is seen as a tourism project contributing to the regional development. Beyond the sectorial impact, it is also a regional development project.

## DISCUSSION

Our results showed that the wine routes appear to play an important role in the development and structuring of the wine industry in Quebec. In the four routes studied, we observed a diversity in the structure of these routes. But they have some common characteristics. Based on our observations, there are two types of wine routes: sectorial routes, centered on wine, and tourist routes, offering a higher diversity of activities. The primary mission of the wine routes is primarily marketing of the wines. While this has existed in Europe for many years, and people may be attracted to the wine routes per se, this is less common in North America, and particularly in Canada, where few regions are seen as wine regions. In Canada, there are the Niagara and Okanagan Valley that are known as wine regions. In Quebec, the sector is emerging, but it has gained some reputation in only a few years. The primary objective of the sectorial routes is to promote the wines and vineyards and increase sales:

The first objective is to sell wine. A wine route is a promotional tool. We are not the only ones who thought of it, this has existed in Europe for many years. So speaking of promotion, we look to sales. It does no good to make a promotion if there is no target. By promoting the wines, our goal is to sell them. (Winemaker, member of the Wine Route of Estrie. Interview 2014)

Thus, the establishment of a wine route is directly associated with local industry dynamics and based on a bottom-up perspective. Indeed, the initiator of the routes are often the winemakers themselves. Thereafter, the tourism agencies or territorial development agencies come into play and integrate the wine routes with an objective of territorial and tourism development. In the case of wine routes of

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<sup>13</sup><http://www.coupdoeil.info> (Accessed 13 June 2014).

sectorial type, public actors play a rather limited role. Governance of the route is ensured by winemakers.

The second type of route is the more touristic routes. In fact, the "sectorial" route may constitute the first stage towards a tourism route. Thus, beyond the sectorial role in wine promotion, wine routes play a crucial role in regional development in many regions and municipalities, especially in Southern Québec (Estrie, Brome Missisquoi). They do so by integrating several other economic activities: agro-tourism, local products, hotels or bed & breakfasts, tourism, etc. Wine is not the only object of value, although it remains central, but it's the whole region and wine zone that is being put forward here (Vandecandelaere, 2005). Wine routes are tools for structuring and coordination in the area, but also a vehicle for promoting wine products and the wine sector. The objective is also to increase the economic benefits for all the region. The development of wine tourism in a particular region represents important gains in many ways, namely for winemakers, the region as a wine region destination and the local community (Getz, 2000). The development of a wine route can contribute towards the opening of new markets while attracting a greater number of visitors who should be perceived as potential customers, either for activities related to the wine industry, or for other regional economic sectors, especially for tourism.

Thus, wine routes represent a process of innovation, which also promotes the quality of the coordination structure for a regional and a sectorial network (Vandecandelaere and Touzard, 2001). The collective and collaborative actions developed between wineries during the development of wine routes, plays an important role in structuring the dynamic relationships between winemakers. The organization and the success of a wine route depends on their collective action. In order to maintain the wine route, winemakers must adhere to a common set of rules. Some wine routes establish a Charter of quality which defines a set of rules that the winemakers should respect: the opening hours, type of events and arrangements, organizing visits, parking for cars<sup>14</sup>, etc. Consequently, the collective action between the winemakers to establish the wine route helps them to create a regional network of collaboration. This contributes to strengthen and create relationships between them and thus form something like a wine cluster, although a small cluster in some cases. Wine routes helped the winemakers and other actors to establish relations and harmonize their standards. Those networks have given rise to a strong territorial identity, and a strong sense of belonging with regard to the territory and the sector particularly in the case of the Wine Route of Brome-Missisquoi; this strong

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<sup>14</sup> For example, the Charter of quality of the Wine Route of Montérégie includes those standards: owning a building of adequate reception, ease of access and adequate parking, standard Furnishings (toilet, brochures and banner), safety places, site security (agricultural equipment out of range), installing the panel the Wine Route outside of the building (clearly visible from the road), give tasting glasses in glass and show Prices tastings wine and tours on the walls.



territorial identity contributes to a further valorization of the wine, and various forms of economic activity thus appear to go in the same direction and support one another.

It is sure that the route allows them to have more exchanges about their working practices, so they will exchange tricks of the trade, and this creates some friendships too. It is also certain that when there is one who is not satisfied well he will talk to another. It allows them to have exchanges and comments flow. So the route has helped winemakers to cooperate and exchange but they are people who already participated in the activities of the AVQ. Most of our winemakers are members of the AVQ. (Responsible of Tourism in the Montérégie region. Interview 2014)

## CONCLUSION

Our research shows how the wine routes, although relatively recent, have contributed strongly to develop the wine industry in Québec. The research highlights how proximity between the actors seems to have fostered a diversity of activities, developed new collaborative actions and created a whole new dynamism around wine, wine routes, but also other agro-tourism activities. As the four cases show, in diverse ways, wine is the center of the routes, but it creates a whole new regional dynamism which benefits its own activities in return.

Consequently, the most important gain from a wine route is not only economic, but includes the dynamism that it will create. "This project (Wine route) will really gather and unite the wineries in the region and it's really what we needed in our region and even the province of Quebec. It is by being together and working in the same direction that we can go on and move forward ". (Winemaker, member of the wine route of Estrie. Interview, 2014).

In Quebec, with the important and sometimes unstructured development of thematic routes in general, and the wine routes in particular, the risk of trivializing the concept and having the same attractions in all territories has to be taken into account. In other words, how is it possible to differentiate the routes and how can wine routes establish themselves and face competition from other thematic routes (historical, nature, etc.)? That is the main challenge presently. Wine routes need to keep their specificity in wine while opening up, to a certain extent, to other activities in order to foster more activity. Geography and climate contribute to limit the number of regions that can offer wine, and wine routes, but there are nevertheless a few, four presently, which compete for visitors.

Certainly the Brome route is well known and it distinguishes itself from the others by a structure and an established reputation that goes beyond the borders of Quebec, but there is some competition between the various wine routes in Quebec. In the Estrie region and in the village of Magog in particular, the "Fête des vendanges" contributes to establish the Estrie route, and develop the image

of the region as a wine region, even if there are less numerous vineyards. The Brome route has a stronger concentration of vineyards and wine producers, while the Estrie and Magog region can compete more on the basis of a general touristic attraction, with a ski resort, mountain and bicycle trails, and lake activities. These two zones appear to confirm the validity of our hypothesis of two types of structures of routes (sectorial and touristic) and also confirm that while wine production is only emerging in Québec, it has nevertheless taken up an important role in touristic activities and regional promotion. However, our research seems to indicate that the most important role for a wine route is the strength the relationships between winemakers and the networks.

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**INTER-FIRM COOPERATION AS STRATEGIC ELEMENT TO GET A  
SUSTAINABLE COMPETITIVE ADVANTAGE IN RURAL TOURISM:  
NETWORK CONTRACT “GREEN-ROAD”**

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**ABSTRACT**

**Objectives:** the paper aims at analyzing the strategic validity of Italian contractual network in order to define a new business model for contemporary companies belonging to the tourist, agri-food and crafts sectors.

**Methodology:** the qualitative methodology is used with a one-case study in depth. The data are collected through semi-structured interviews in depth, observations.

**Findings:** the present research is the first step of an extended study on territorial regional, national and international levels.

**Research limits:** limitations are due to the restricted data used in the present phase of the research.

**Practical implications:** the paper aims at integrating existing literature for academic community and decision makers.

**Originality of the study:** the research represents essential characteristics of Italian contractual network, by emphasizing its framework and validity, in order to recognize an innovative business model in increasing the tourist, agri-food and crafts companies competition on the global market.

**Keywords:** *aggregation, cooperation, network perspective, rural tourism, sustainable competitive advantage, cognitive multiplier, made in Italy, SMEs, contract, questionnaire*

**INTRODUCTION**

Observing the difficulties encountered in the last few years by the firms *made in Italy*, the network identifies itself as a model full of great potentiality, which, however, must be considered in a new perspective, able to take up the legacy of the industrial districts, but also to open up to different trans-regional and trans-sectorial dynamics, where the creation and enhancement of knowledge become crucial.

The paper analyzes a possible way to boost the competitiveness of Italian firms in international markets through the formation of networks rooted in the territory, but capable of meeting the challenges of globalization. The paper proposes a research aimed at a better understanding of these new forms of networks that are emerging on the market, which aims to define a useful theoretical framework for the study of the networks *made in Italy*, lacking an organic management literature. Analysis conducted in managerial literature allows to identify some crucial elements useful for the understanding of the evolutionary phenomenon that is accompanying the development of the made in Italy networks, but this calls for a strong commitment towards empirical research for a better articulation of the theoretical framework useful for the investigation of the phenomenon. In this regard, we have considered the empirical evidence of the network "Green Road", - that from the Puglia region, continues to the regions of Basilicata and Calabria, arriving in the region of Valencia, located in the eastern part of Spain -, made up of a myriad of small and medium-sized enterprises operating in the tourist, agro-food and crafts sectors, but we are conscious of the limits about an exploratory investigation based on a case study.

## **THE MANAGEMENT LITERATURE ON THE TOPIC**

The difficulties encountered by Italian companies to overcome the challenges brought by the globalization of markets, are well known and widely debated. These problems are aggravated by the economic crisis that broke out in 2008, but that have ancient roots, traceable back to a SMEs situation which is linked to a slow-moving entrepreneurial culture and to a specialization in traditional sectors, which are low-tech and non knowledge intensive.

The limits of small size businesses are becoming increasingly clear, even though between the 70s and the mid-80s, thanks to the original formula of the industrial district (Becattini, 1998) this characteristic appeared as a valuable factor of flexibility, capable of powering a profitability systematically higher than that recorded in other industrialized countries (Becattini and Dei Ottati, 2006). Today, however, all the critical issues are emerging, such as the scarce resources available to invest in research and development, the low bargaining power as compared to the large international distribution or the difficulty of developing strong and well-known corporate brands (Varaldo, 2006). Appropriate considerations on the weaknesses of the Italian districts must not lead us to overlook the potentiality of a model tested through years of intense and fruitful activity. The analysis should lead to identifying new ways of inter-organizational collaboration that enhance the accumulated assets and the ties with the background contexts but that at the same time project the networks towards trans-regional and trans-sectorial dimensions, capable of highlighting the role of "cognitive multiplier", through the control of three essential functions, such as access to the knowledge of others, the invention of creative

solutions and the multiplication of uses (Rullani, 2006; 2010). In this perspective, the network model is likely to remain central. This happens to small businesses, which, through the network, can invest in innovation and internationalization, minimizing the limits generated by size and facilitating the learning process (Coviello and Munro, 1995; Coviello and McAuley, 1999). But what should be the characteristics of these networks to ensure the revival of the competitiveness of the *made in Italy*? Management literature has identified a number of possible answers, among which it is possible to identify some aspects of major importance. Firstly, the importance of developing the extension of the networks was emphasized, with the necessity of going beyond the “short networks”, located in the district or local systems, in order to head towards complementary territorial contexts in terms of skills or the integration of the supply chain, with the development of a new model of trans-regional and trans-sectorial “long networks” (Tunisini et al., 2013). This without losing ties with the country of origin, from which firms continue to draw valuable resources to offer products in line with the best tradition of the made in Italy (Rullani, 2010), enhancing the contribution of smaller firms linked in a network, defending a range of manufacturing skills which still represent a major factor of competitiveness (Varaldo et al., 2009). Another factor that can make a difference for the full exploitation of the potentiality of the network is the activation of virtuous circles for the creation and enhancement of knowledge, not only on a local scale but with international extensions, such as is done by using the commercial networks located in various countries around the world. Only in this way the network will be able to fulfil its role as a “cognitive multiplier”, drawing on global knowledge and creating opportunities for those economies of replication that can find in the network a space of expression more effective than the hierarchy (Rullani, 2010).

## **NETWORK CONTRACT “GREEN-ROAD” AS STRATEGIC ELEMENT TO ACHIEVE A SUSTAINABLE COMPETITIVE ADVANTAGE IN RURAL TOURISM**

Taking into account both what the current competitive dynamics and the integral and systemic nature of the area allows in order to achieve a competitive advantage, the activation of a development of context, compared to that of systems which interact with it, this paper wishes to determine and evaluate by questionnaire, within the scope of development for our area, what could be the competitive variables, the organizational structures and the most suitable models to best promote, through co-evolution, the area and its businesses. An integrated regional strategy, by definition, must include the local assets, the experience and abilities of its long-standing residents and the relationships between the people, both public and private, within the region to be able to maximise the synergy between local producers and products. Production must be pertinent and relevant to the size of the

production base and distinctive in the nature of its offer and its ties to the region. In other words local production must at the same time be appreciated for its origins and be able to strengthen the identity of its area when it is promoted and marketed outside of its zone (Franch, 2010).

These are the premises in which the network “Green Road” is collocated, as a challenge to stand out against and to change the fate which has recently befallen the Ionic area, infamous nationally and internationally for the “Ilva problem”. The Green Road wants to be an exit-strategy, to find a balance between *economy* and *ecology* within the region, where the success of each business is tied to the area in which it operates, that is to its natural, productive and cognitive frame. The Green Road wants to overcome the negative attention which the “Ilva problem” has brought to the Ionic area by positively promoting its inherent resources and by fostering synergy and innovation.

The Green Road is an integrated package for tourists, originally set up by the GAL Colline Joniche (The Ionic Hills Local Action Group) which includes 11 towns which, starting from the “Murgia dei Trulli” form the Ionic-Tarantine Arc, a natural amphitheatre which covers an area of 415 sq.km (Fig.1). The 11 towns are Carosino, Crispiano, Faggiano, Grottaglie, Monteiasi, Montemesola, Monteparano, Pulsano, Rocca Forzata, San Giorgio Jonico, Statte. The following table shows the distinguishing characteristics of the Green Road.

<b>Area</b>	promote and integrate rural, coastal and urban areas, with their differences and similarities.
<b>Aggregation</b>	create coalitions within the area for an eco-sustainable and more competitive tourism.
<b>Internationalization</b>	remain local but capitalise and promote local resources to place on a global market.
<b>Innovation</b>	highlight in loco (social capital, traditions, customs, non-physical assets of the local area) and invest in social capital using research, professionalism and expertise.
<b>Sustainability</b>	sustain the culture and character of local communities placing the quality of life at the centre while promoting the principles of “glocal tourism”.

Table 1. The distinguishing characteristics of the Green Road



Figure 1. Map of the area enclosed by the Green Road network

The Green Road shows how a new organization of a rural area can be a strategic tourist leader, especially as along the Crispiano-Grottaglie-Pulsano road system we find an abundance of Apulian “masserie” (generally large fortified farmhouses) which are part of this new itinerary offering much to tourists in an eco-sustainable way.

The idea of linking to create a local (and short) network of stakeholders is an essential first step in going forward into a longer network which is essential for internationalization. All the local businesses interviewed had strong local networks before their growth abroad, allowing them to develop expertise in relationship management and in recognising opportunities. Business networks also allow accelerated access to external markets through distribution channels, technologies and local expertise. Networks offer opportunities which determine the channels towards internationalization and their speed of operation (Chetty and Campbell-Hunt, 2003; Masiello, 2013, p.85).

The aspiration to create this new integrated product for tourists links the various business areas such as farmhouse holidays in masseria, agri-food, and arts and crafts into a new rural tourism which fits directly into the traditional business sectors of beach holidays, mountain holidays and other types of classic tourism.

Within the project four local tourist experiences have been identified which are *green food*, *green art*, *green move* and *green energy*. The Green Road contract, from the start leaning towards the creation of local networks and itineraries, focused on a green culture and defined best practices for the participants as distinguishing features of the project, which all signatories had to recognise and respect. *Green Food* is based on three factors which are the healthiness of the products (oil, wine), their localness and the Mediterranean diet. The Mediterranean diet, with its UNESCO world heritage status since 2010, could be the manifesto of made in Italy food excellence to the world. A diet which reflects the local area deserves to be part of any life style that fosters mental and physical well-being. If such a diet is offered by Apulian “masserie” there will be a synergy between localness, health and tourism and it becomes a distinctive part of the offer to tourists. *Green Art* is distinguished by three factors that are “*made in Italy*”, the craftsmanship and the eco-compatibility. The craftsmanship is in itself art, handed down from generation to generation it evokes and identifies the land from which it comes, it authenticates the colours, the history and the artistic ability of the same craftsman, and these are all winning factors for our area for art-history tourists. *Green Move* means pollution free movements within the area. Instead of just crossing the area to get from one place to another, the use of non-polluting forms of transport means the journey itself can be enjoyed on foot, by bike, by horse or even in electric buggies following the old tracks used in past times to discover historic origins and traditions. Excursions can be made to the woods or the ravines or underground. Sports can be enjoyed in the atmosphere of the old life-style. *Green Energy* is like a return to the old way of country living of



not wasting anything. The new techniques of energy-saving construction, the use of solar energy in farming and the new systems of producing energy from bio-mass can all be seen in use.

## METHODOLOGY

Business growth and competitive strengthening are hard goals to be accomplished and many small firms get discouraged. Nevertheless, in the last few years small-medium firms networks have increased, thanks to the introduction of the law on the network contracts (Tunisini et al. 2013), which are considered to be the only real solution to an unexpectedly heavy and long crisis. This explains why every company can use links with other subjects, in particular, with other companies, in order to gain a competitive advantage. The *network approach* is often integrated with the *resource-based view* (Masiello, 2013, p.55), according to which the internal resources to a firm (especially if SMEs) are not sufficient to achieve positions of competitive advantage, but they must be supported and combined with resources from other organizations (Baroncelli and Serio, 2013, p.123).

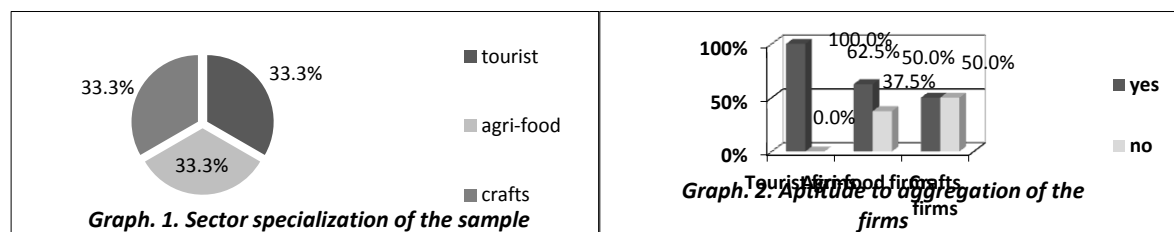
We have proceeded with an analysis on desk on the theoretical contributions regarding enterprises networks, the aggregations as the generators of added value for firms (Williamson, 1991; Dyer, 1997; Hakansson and Snehota, 1989; Lomi, 1991; Lorenzoni 1992, 1997; Lorenzoni and Lipparini, 1999; Sicca, 2001; Normann and Ramirez, 1995; Grandori and Soda, 1995; Fiocca, 2007), inter-organizational networks as a way for SMEs to obtain a greater force on the global market (Rullani, 2004, 2010; Varaldo et al., 2009; Resciniti et al., 2012; Caroli and Lipparini, 2002; Chetty and Stangl, 2010; Coviello and Munro, 1995; Coviello and McAuley, 1999) through the collaborative advantage, the development of relationships and the exchange of knowledge. In such a context, the existence of the relationships is necessary in order to allow the transition from an amorphous aggregate to a system, which also requires that these relationships are organized and directed towards the pursuit of univocal objectives for a correct functioning, that reduces the risks of partners' opportunistic behaviour. On field analysis has been conducted by questionnaire to investigate about the advantages of small-medium firms aggregation. The questionnaire has been administered to a sample of firms, that have signed green-road network contract: agricultural and livestock firms, crafts enterprises, agro-food industries, food and wine firms, companies services hospitality and trade enterprises. The Green Road was born in Puglia, reaches into the Italian Regions of Basilicata and Calabria, arriving even into Spain; however at the moment the particular activities of the network are principally in the Ionic Arc and involve the tourism sector.

Following the network theory, this research has highlighted that "long networks" of organizations have cooperated to innovate and build a new base for value creation, in order to enhance the tourist offer in a vision of sustainable tourism (Ritchie and Crouch, 2000; Caroli, 2006).

## A SURVEY ON THE NETWORK GREEN ROAD

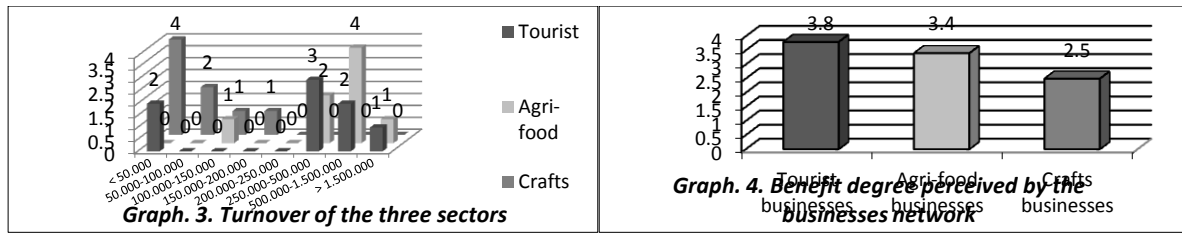
Thirty-four companies have contracts with the network and of these, 24 from the Taranto Province took part in the survey from towns which are crossed by the Green Road (Carosino, Crispiano, Faggiano, Grottaglie, Monteiasi, Montemesola, Monteparano, Pulsano, Rocca Forzata, San Giorgio Jonico, Statte).

Three sectors have contracts with the network, such as **tourist**, **agri-food** and **crafts** (pottery); The three sectors were analysed separately (8 by sector), though some of the companies are multi-sector, in particular in the tourist sector 6 (25% of the 24 total sample) of the 8 also operate in the agri-food sector because besides offering accommodation and they also produce olive oil and/or wine. Other than their main activities, the companies also offer complementary activities such as a tour of the company offered by 16 (66,6%) of the 24, tasting offered by 7 (43,8%) of the tourist and agri-food sectors, catering by 4 (50%) of the 8 tourist only sector and teaching farm activities by 5 (62,5%) of the same.



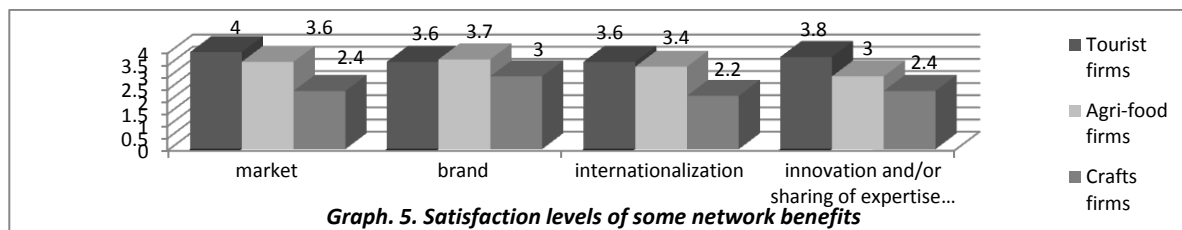
A first analysis revealed that a majority of the companies were part of other aggregations other than the Green Road. All 8 of the tourist firms were members of "Consorzio le Cento Masserie", 4 of the 8 crafts firms were members of the "Consorzio dei Ceramisti di Grottaglie" and of the "Associazione dei Ceramisti", while 5 of the 8 agri-food firms were members of various aggregations such as the wine and olive oil cooperatives, "Associazione frantoiani di Puglia", Slow Food, "Consorzio Primitivo di Manduria". This push to aggregate is the logical consequence of the changes within the socio-global scenario which have caused a Post-Fordism reorganization of companies due to the domination of hyper-competitive contexts characterised by rapid technological and commercial evolution.

These are micro-enterprises (as defined by the European Commission: less than 10 workers, annual turnover and/or total assets not more than 2 million Euros) but they need to collaborate in order to have a greater trading strength and to face up to complexities of world trade, especially those operating in the crafts businesses, as they generally have a lower turnover than the businesses in the other sectors, as can be seen in Graph 3. The micro-enterprise needs to strengthen the ability to innovate, to promote the brand, to sell and export and therefore decides to become part of a network.



The companies in the survey were asked to assess, with a score from 1-5, how much benefit they thought to receive from being part of a network in the development of their business. Graph 4 shows that tourist businesses see a greater benefit (3,8), in terms of earnings, from being part of a network, principally because they were already involved in “Consorzio le Cento Masserie” with common strategic objectives.

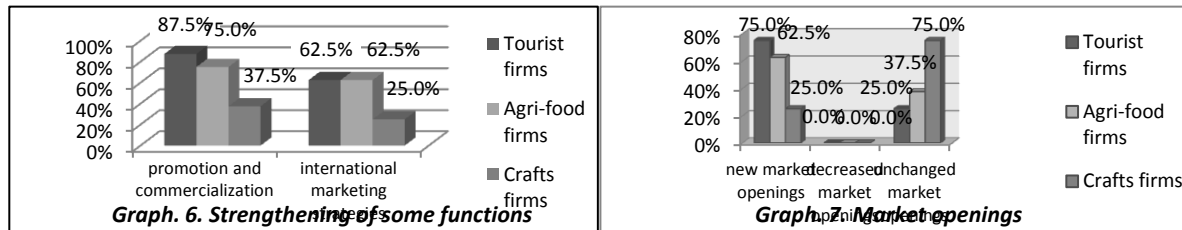
Analysing more specifically the level of satisfaction for various specific aspects of Green Road membership, in general, as can be seen in Graph 5, the results were above average.



The first item shows how much the companies benefitted from the network in a competitive repositioning of products/services within the existing market and/or in entering new markets. Tourist firms again show a greater satisfaction, scoring 4, because of their pre-existing aggregations while for agri-food and crafts firms more time is needed to arrive at concrete results especially for craft workshops with a score of only 2,4 having been in the network for less time. The second item, brand, related to product, for example IGT, IGP, DOC, is an aspect of product linked to the area and its excellence. In this case we see that the crafts enterprises are not as far behind the others because the activities to strengthen own product brand, linked to the Grottaglie area, with its artistic working of pottery, have been felt. Internationalization is one of the principal benefits of networks but at the moment no improvements can be seen for crafts enterprises with a score of only 2,2. More time is needed to set up common strategies for international marketing. The fourth item is innovation and/or sharing of expertise and/or network services which again has principally benefitted the 8 tourist firms (scoring 3,8), having received grants through networks to renovate the “old masserie”.

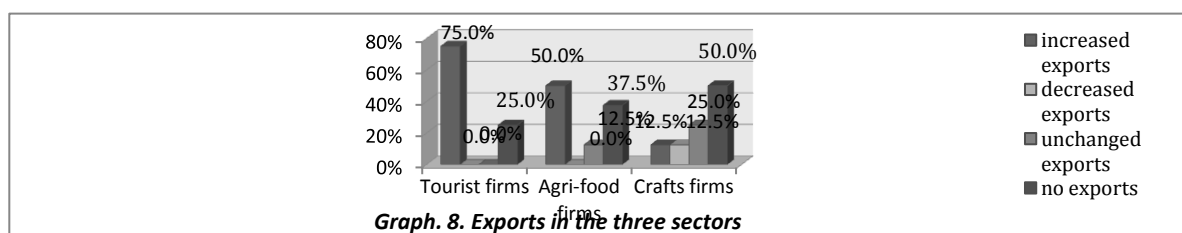
Using networks, 7 (87,5%) of the 8 tourist firms and 6 (75%) of the 8 agri-food firms have much improved their activities of promotion and commercialization, while for international marketing strategies the numbers are 5 (62,5%) out of the 8 firms for both these 2 sectors as can be seen from Graph 6. The tourist and agri-food enterprises have put into place new forms of commercialization and communication, for example the participation of agri-food enterprises in national and

international trade fairs. International fairs are fundamental to create and maintain the relationships necessary to allow growth and expansion abroad. Trade fairs are a tool to create and maintain vertical relationships with clients and distributors and horizontal relationships with competitors. They are neutral ground to help socialising which creates trust (Evers and Knight, 2008; Masiello, 2013, p.89). The crafts businesses are small micro-enterprises (Graph 3) with very few workers, making it difficult to manage local production and foreign markets. They have a greater need of aggregation to be able to implement international marketing strategies.



An important result to be seen in Graph 7 is that no-one has seen a reduction in business activity due being part of a network. Again we see that the tourist and agri-food enterprises are the major beneficiaries of new market openings both nationally and internationally. In fact, thanks to international marketing, tourist companies have seen a growth in international arrivals in the last four years, as can be seen, for example, from the interview with the *Masseria Quis ut Deus*, which offers accommodation services with a good quality competitive positioning. It has 7 employees and a turnover of 400,000 Euros, 30% of which is from foreigners who come principally from North Europe, Germany, France, Spain, Canada, the United States and Japan.

Graph 8 shows that the 6 (75%) tourist/agri-food companies have increased exports of their food products over the last 4 years thanks to an effective communication strategy through the network, however they have experienced a reduction in the domestic market because of the crisis. Only one (12,5%) craft company exports.



The *Masseria del Duca* produces extra virgin olive oil, cheeses, energy, accommodation services with a good quality competitive positioning. It has 30 permanent and 23 seasonal employees and has a turnover of 2,500,000 Euros, 17% of which is related to exports. Its principal foreign markets are North Europe, France, Switzerland, Austria, Germany, Greece, Albania, the United States, Japan and the Arab Emirates. However, exports have increased not only because of the network but also because of

country image and country of origin effect on customer behaviour (Erickson et al., 1984; Fait, 2008, p.70).

There were questions in the survey on how much the business is linked to its area. The question about the importance of the identity of the area on the quality of the product and therefore its competitiveness generated a score around 4,5 for all 3 sectors showing that the Green Road businesses are deeply embedded in the area from which they draw benefits. The next question was focalised on the ability of the three sector of *made in Italy* to put knowledge ingrained in specific local areas, traditions, customs, as production factors (input), into their production processes, enhancing them such as factors of competitive advantage (Cerquetti and Montella, 2012). Analysis of the data had shown that the perception of almost all the firms in the sample (75%), with regard to the presence of knowledge ingrained, traditions, customs in the territory to be input in the production process, was high (4,7) and rather homogeneous in the three sectors; while a minority (25%) of firms said that was poor (2,5).

It is clear that the co-existence of the geographic, historical and cultural elements make a product really “typical” because it is impossible to produce outside of a specific context so transforming a simple product into an element of communication and promotion of a historic cultural heritage (Fait, 2008, p.62).

## DATA DISCUSSION

This survey has allowed us to demonstrate the potential of a network of enterprises and the role it has in the competitiveness of the single enterprise and in the area of operation. It has also given us an overall view of the three sectors and how they interact.

For the Green Road, we have seen how previous experience of operating in a network has increased the perception of the benefits incurred for the tourist business with a score of 3,8. This has allowed them, at least for the most part, to be able to pursue, if not totally, objectives like a new placement for their products, a strengthening of the link between area and product, more possibilities of internationalization, innovation and sharing of expertise, and new business opportunities. One of the factors of success for the Green Road according to almost all the craft companies and for the majority of the agri-food companies is the increased awareness and reputation of the brand, while the tourist companies are split between this factor and the opportunity for renewal and innovation that the network allowed them to carry out, thanks to the grants obtained.

Though the survey only dealt with micro-enterprises with an average of 10 workers and a medium-low turnover, there was a net separation between the craft businesses with a low turnover (50,000 Euros) and the agri-food and tourist businesses with a turnover in the high range (500,000 – 1,500,000

Euros and over). The latter businesses have a good market share, with a growing international market and an increase in exports, above all in North Europe, Russia, the United States, Canada, the Asian markets (China, Japan), and possibilities, for some businesses, for an opening into the Arab Emirates. However, exports increase not only because of the network but also because of the competitive identity of the area (Anholt, 2007).

The area's identity is viewed by the companies as an essential factor which has a great influence on the quality and competitiveness of the product, and is therefore strategic in the policies of the companies, as can be seen by the widespread use of "typical" marks of origin and quality, especially for the tourist and agri-food firms, quality now being part of the product for both producer and client.

## CONCLUSIONS

The empirical assessment has confirmed the initial hypothesis that the enterprises involved in the Green Road network and embedded in specific geographic areas can be competitive, and generate value for themselves and for the area they belong to, when they benefit from the local resources that are crucial for the attractiveness of the area and so become factors of competitive advantage, and when, being part of the network, they can benefit from innovation and complementary expertise.

If in literature is found the variability of the country of origin effect inside the process of product evaluating (Bilkey and Nes, 1982), while for products *made in Italy* the growing appreciation globally is due to the positive perception of cultural heritage ingrained over time in the context of production (Bertoli and Resciniti, 2013). The literature shows that the country image and the country of origin effect influence the customer behaviour, so seeking genuineness in food and drink and in the original roots of the products (Beverland and Farrelly, 2010; Grayson and Martinec, 2004). The country of origin effect has a decisive role in the perception of the quality and authenticity of "typical products" (Van der Lans et al., 2001; Beer, 2008), that acquire value in the market not only because they are seen as place specific but also and above all because they are seen as traditional products, coming from a place where they have a long history of manufacturing (time specific) (Sims, 2009), often lost in time, so in buying them, in eating them and in making use of them, the clients can imagine themselves as being part of the experience of the local culture implicit in these products (Pencarelli, 2006; Montella, 2012).

All this is possible considering things from the clients' point of view, not only by supplying them with a higher value product, but, in certain cases selling them an idea, a quality of life, a style of consumption behaviour more important than the product itself (Micelli and Rullani, 2011). The Green Road, in fact, before becoming a network, spread out as an idea of a way of life, a way of eating

healthily, of being in contact with nature by exploring ancient tracks and masserie, and then gradually aggregating the local people and activities, both public and private.

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## THE MARKETS SCREENING PROCESS THROUGH THE MARKETING INTELLIGENCE

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### ABSTRACT

The aim of this paper is to investigate the business and marketing intelligence in order to highlight its impact on the internationalization of the SMEs.

Starting from the assumption that intelligence is part of the marketing strategy and that intelligence is a prerequisite for strategic planning, we propose a marketing tool to measure the international market attractiveness. Following the existing literature, we employ different measures according to the importance of the variable and to the perspective of the product.

We have focused our analysis on the markets of United States and Russia, by searching, identifying and inserting in the system the web addresses of pages or documents of the sources to assess for specific indicators.

Based on this information, the user selects a combination “product – country of interest”, gets from the system the details of the web pages, on which he can find the indicators, and an indication of the meaning of each item and how to evaluate it (high risk = 1; medium risk = 3; low risk = 5). Then, he assigns a numeric value to each indicator.

The tool is a first attempt to provide to the SMEs a way to start the international market analysis process. Its added value consists in the simplicity in use and in the opportunity to explore alternative options at the same time.

The output is a synthetic marker representing the level of market attractiveness. It provides you with the opportunity to overcome the limits of the SMES especially as concern the ability to manage the environmental information and in order to improve the decision making process through collecting data for a comparison among countries in different periods.

**Keywords:** *internationalization, marketing intelligence, business intelligence, SMEs, market attractiveness.*

### INTRODUCTION

The increasing dependence of companies in international business, makes the foreign markets selection one of the most critical decisions in international strategies (Andersen and Strandskov, 1998). Contemporary Trends and Perspectives in Wine and Agrifood Management

Nevertheless, the knowledge about the initial market entry decision is limited (Ellis, 2000). The intrinsic features of the process, the information and knowledge required, the different level of analysis used, the characteristics of the decision maker and other factors, make the international market selection a complex topic. (Papadopoulos and Martín Martín, 2011).

Few managers use a systematic approach especially in the SMEs (Westhead et al., 2001; Papadopoulos and Martín Martín, 2010; Sarasvathy, 2001).

The literature consistently emphasizes markets selection as a strategic decision (Papadopoulos and Denis, 1988; Douglas and Craig, 1992; Whitelock and Jobber, 2004; Malhotra et al., 2009; Brouthers et al., 2009; Martín Martín and Papadopoulos, 2007). The choice of markets influences the whole process of internationalization. For this reason, it is important to organize a selection process of foreign markets in order to choose the most attractive one for their business and its structure.

The evaluation of foreign markets has to be based both on a country perspective and a consumer perspective.

Every firm needs to explore its own context to know if there are any opportunities or, on the contrary, some threats could stop the process of business growth.

Within a global market, the need to analysis becomes more significant. There is a close link between the environmental scanning and business performances such as “the ability to develop adequate organizational mechanism for information acquisition, dissemination, and effective utilization may be precursor to identifying and effectively adapting to major market shifts” (Belich and Dubinsky, 1999).

The firms ability to adapt themselves to the existing market conditions, depends on its performances in terms of management and processing of a wide information set. The selection of the appropriate inputs is not easy. Management has to analyze several sources.

The role of intelligence is essential. It is part of the marketing strategy. The management’s actions should aim at creating a nucleus inside the organization, a team that will collect, screen, organize, record and disseminate information” (Fair, 1966).

Intelligence is a prerequisite for strategic planning. In particular, competitive intelligence is a way to gain competitive advantage (Porter, 1980); it includes information about competitors, customers, suppliers, technologies, environments etc:

“Intelligence helps your company to sustain and develop distinct competitive advantages by using entire organization and its networks to develop actionable insights about the environment....It uses a systematic and ethical process involving, planning, collection, analysis, communication and management” (Calof, 2008)

One of the most relevant problem is the large volume of data, which imposes the adoption of appropriate software tools. To solve it, Business and Marketing Intelligence are needed.

## LITERATURE REVIEW

Many definitions of Business Intelligence (BI) exist in literature. According to the most frequent, it is a set of tools that enables access to information as well as their qualitative analysis. Furthermore, it indicates the concepts and methods to improve business-decision making that combines data gathering, data storage, and knowledge management with the analysis for providing inputs to the decision process (Luhn H.P., 1958; Negash S., 2004; Evans P., 2010; Pourmojkb et al., 2013).

Fisher et al. (2006) focus on three main aspects: data warehousing, online analytical processing (OLAP) and knowledge discovery. According to Olszak and Ziemia (2007) it is a combination of ETL (Extraction-Transformation-Load) tools, data warehouse, OLAP tools. McGonagle and Vella (2002) argue that competitive intelligence means “a formalized, yet continuously evolving process by which the management team assesses the evolution of its industry and the capabilities and behavior of its current and potential competitors to assist in maintaining or developing a competitive advantage”.

Some authors have divided BI in three categories: (i) Technological intelligence, (ii) strategic intelligence and (iii) market intelligence, and highlight that intelligence can be more than three groups as it also include details such as laws, taxes finance and economic political issue and affairs related to human origins (Damirchi and Shafai, 2011).

The information about competitors are the most important ones. The firms need to understand many other aspects about their environment like human resources, marketing policies, the operation management. Then BI, has to contains all the data related to these aspects as well as many others.

Resorting to BI is a necessity for two main reasons. Firstly, the conditions and environments in which business operate are in a constant state of flux. Secondly, advances in technology make real-time business intelligence seemingly achievable even though it requires specialists to run a statistical analysis, or a data mining process (Azvine et al., 2005).

A successful strategy based on BI needs to be consistent with the corporate business objectives. Firms must have business and technological capabilities, integrate BI with other systems, guarantee themselves an easy user access and the flexibility of their organizations (Isik et al., 2013).

The natural evolution of the application of BI is Pervasive Business Intelligence (PBI) that is the “ability to deliver integrated right-time data warehouse information to all users, providing the necessary visibility, insight, and facts to make decisions in all business processes” (Markarian J. et al., 2008).

In order for enterprises to be able to use effectively PBI, some factors are important. We are referring to the design quality, degree of training, prominence of governance, nonexecutive involvement and prominence of performance management methodology (Guarda T. et al., 2012).

Marketing intelligence is “a systematic, targeted, timely and ethical effort to collect, synthesize and analyze competition, markets and the external environment in order to produce actionable insights for decision maker” (Fleisher, 2003; 2007). According to Eelss and Nehemkis (1984) intelligence is “...the product of collection, evaluation, analysis, integration, and interpretation of all available information that may affect the survival and success of the company. Well-interpreted information, provided by a properly designed intelligence function, can be immediately significant in the planning of corporate policy in all of its fields of operations”.

Another definition is provided by Tan and Ahmed (1999): “Marketing intelligence is viewed in its totality as a continuing and interacting structure of people, equipment, and procedures to gather, sort, analyze and distribute pertinent, timely and accurate information for use by marketing decision makers to improve their marketing planning, implementation and control”

Marketing Intelligence could also be defined as a set of procedures and sources used to get daily information about the environment in which the firm operates. Its main purpose is to help marketing managers to make decisions by collecting and using data about customers, competitors, markets and companies.

Guarda et al., (2012), proposed a way to improve the process of decision making based on five steps: (1) planning (definition of objectives and the necessary information for marketers marketing decisions), (2) collection (extraction, transformation and loading organization internal and external data sources); (3) analysis (looking for patterns, and loaded organized and coded information on marketing data mart), (4) representation (access smart data and apply marketing metadata models); (5) projection (distribution of the results to marketers for review and posterior feedback if needed).

So, we can argue that Marketing Intelligence System is more than a system of data collection or a set of information technologies. It has four main components: (i) the internal recording system, (ii) the marketing research system, (iii) the marketing intelligence system, and (iv) marketing models (Al-allak, 2010).

The Marketing Information System plays a strategic role in the SMEs. Using its tools, management is able to make the right decisions, because they can get a huge flow of available data; therefore the firms can plan their strategy in the best way and clearly define the path to meet the objectives for growth and profitability (Lackman et al., 2000). Generally, SMEs that make frequent use of formalized marketing information can make better decisions and can be more successful than the ones which do not use those information (Levy and Powell, 2005; Fuellhart and Glasmeier, 2003).

As argued by Cacciolatti and Fearne (2013) not all companies use the formalized marketing information in the best way and both SME characteristics and owner-managers' personal

characteristics (size, resources, strategy, market orientation) may play an important role in explaining the different usage of marketing information.

The components for an effective implementation are: 1) widely understood objectives, 2) high levels of actionable market information, 3) acceptance of the need for continuous change, 4) commitment from both the executive and lower levels of management and 5) a period of up to 3 years for the successful introduction of the system.

MIS provide a useful contribution to understand the economic environment through an in-depth analysis and a particular form and techniques scanning (Evans M., 1988; Lackman et al., 2000; Sammon et al., 1984; Rich, 2002; Miree and Prescott, 2000; Powell and Allagier, 1998; Jeppsen, 2005).

## METHODOLOGY

The majority of market potential measurement literature uses either mathematical models or a combination of *clustering and country ranking*.

We use these last ones to measure the market attractiveness, since ranking methods help you to identify the most profitable markets where entering is convenient. Their use reduce a number of potentially attractive markets with evident similarities (Cavusgil et al., 2004).

This methodology approach is flexible and enables to make a "tailor-made" analysis even though it is often too subjective and requires to fix some objective parameters. The major criticality of this method concerns the conciseness of the indicators, with information often not related to the product (Papadopoulos and Denis, 1988; Cavusgil 1985; Cavusgil *et al.* 2004).

In order to overcome these problems, we propose some indicators to evaluate the markets by employing different measures according to the importance of the variable and to the perspective of the product.

This methodology is a useful path for the market screenings thanks to the parameters that are used (Russow and Okoroafo, 1996). Country ranking is one of the most widespread methods based on business intelligence criteria to find useful information sources available on the web.

We have chosen the indicators according to the existing literature about the screening of foreign markets (Root 1994, Cavusgil 1985, Young et al. 1989, Papadopoulos and Jansen 1994, Rahaman 2003, Liander et al. 1967, Papadopoulos & Denis, 1988, Cavusgil 1997, Cavusgil *et al.* 2004, Waheeduzzaman & Rau, 2006, Natarajarathinam & Nepal 2012, Pallapothu 2013):

		<b>Weight</b>	<b>Topics</b>	<b>Index</b>
<b>Country Market Index</b>	12	Country risk	Political stability	
			Country risk indicator	
	12	Tax structure	Tax burden on citizens	
			Tax burden on businesses	
	13	Economy structure	Gross National Product	
			Per capita income	
			Exchange ratio	
	14	Cultural size	Cultural distance	
	18	Market size	Consumption of the product	
	17	Accessibility	Characters distribution structure	
			Barriers to trade	
			Export formality	
	16	Market receptivity	Import	
			Balance of trade	
			Italy's market trade	

**Table 11: The model's variables**

The model uses some measurement indexes, grouped in different topics. A few concern the economic and fiscal structure of the country. Others concern the marketplace and the product.

The macroeconomic topics employed are based on the marketing theory on internationalization (Cavusgil 1985, Root 1994, Rahman 2003, Waheeduzzaman & Rau, 2006). This also measures the level of country risk and tax burden.

We also use the cultural distance index (according to Hofstede ), that highly impacts both on the entry strategy and on the performances of the firms. (Anderson and Coughlan 1987; Gomes-Casseres, 1990; O'Grady and Lane, 1996, Evans *et al.* 2000, Evans and Mavondo 2002).

Other indexes concern the market attractiveness about the specific product and particularly consumption, accessibility (with reference to the bureaucratic difficulties, trade power etc), the international openness of the foreign markets (measured by Italian products market share).

Each index has a value from 1 to 5 according to the weight assigned from the authors.

Consumption, accessibility and level of the marketing openness have the highest level.

## THE STRUCTURE OF THE TOOL

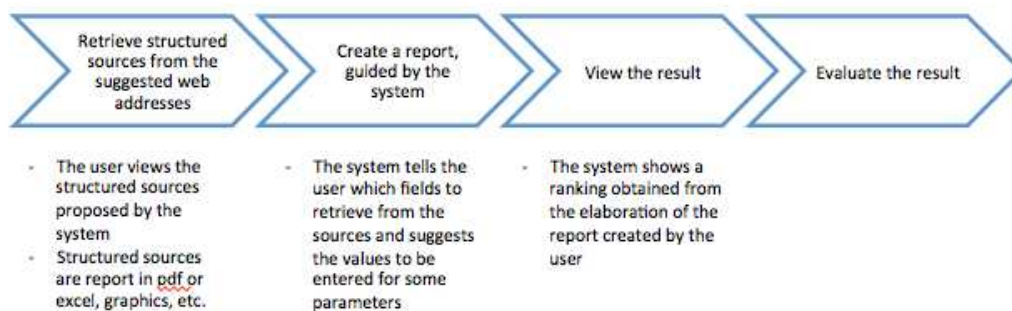
### *System Overview*

The marketing intelligence system that we have realized, consists of a phase of analysis on structured sources in order to guide the user in the elaboration of a report, to obtain synthetic indicators and matrixes giving an indication of the attractiveness degree of a market.

The static analysis on structured sources is organised in the following steps:

1. Suggestion of structured sources such as websites, for a specific combination product – country, to extract data to draw up the report;
2. Wizard of the final report, through the indication of the fields to retrieve from the documents and the values to assign, on a scale of 1 to 5;
3. Report elaboration to obtain synthetic indicators and matrixes that give an indication of the attractiveness degree of a market;
4. Results evaluation by the user.

In Figure 6 we schematize the steps described above.



**Figure 6: User activities - structured sources**

#### *Description of the software functionality*

The software operation flow is characterized by a preliminary phase of identification of structured sources from which to extract information.

The analysis to make a semi-automated screening on foreign markets, through the use of structured sources on the web, requires prior selection, by the user, of the combination product - country of interest. The sources of the generic indicators (such as Political Stability, Gross National Product, etc.) are official sources on the web, already in the system; on the other hand the sources of indicators, product and specific country, must be found by the user and included in the system, because they are different according to the product and the country of interest.

This selection allows to enrich the description of each indicator with the web addresses of the pages or documents that the user can consult. The user can then assign a numerical value, from 1 to 5, to each indicator, on the basis of the given indications.

The elaboration result is represented by:

1. A synthetic indicator of the attractiveness degree of the market that is valued;
2. A matrix that groups the different indicators in consideration of the assigned values and of



the attention they deserve by management;

3. A matrix attractiveness/accessibility that allows the comparison between the different countries subject of the screening.

We have focused our analysis on the markets of United States and Russia. First we have searched, identified and inserted in the system the web addresses of pages or documents of the sources to assess for specific indicators. These links are shown in the table below, along with the value assigned to each indicator on a scale from 1 to 5.

The evaluation and assignment of the value in the range from 1 to 5, is made on the basis of the statements herein.

Topics	Index		
Country risk	Political stability	Political stability is assessed on the risk of going through losses as a consequence of the adoption of discriminatory legislative or regulatory measures by the foreign government (for example. expropriation, currency restrictions or breach of contract).	High risk = 1;medium risk =3, low risk = 5
	Country risk indicator	Category, assigned by OCSE to the different countries, showing the degree of riskiness (from 0 to 7, where 0 corresponds to the minimum risk and 7 to the maximum). To each category – except for the 0 category – corresponds a minimum prize covering the supreme risk.	High risk = 1;medium risk =3, low risk = 5
Tax structure	Tax burden on citizens	The fiscal pressure on enterprises is the ratio between the citizens' taxes and taxable income. Fiscal pressure is an economic marker represented in percentage terms. It measures the percentage of the income taken by the State or by local bodies by means of taxes and tolls in order to finance the public expenditure.	Overall taxation, up to 15% = 5; Overall taxation from 16% to 30% = 3; Overall taxation over 30% = 1
	Tax burden on businesses	The fiscal pressure on enterprises is the ratio between the citizens' taxes and taxable income. Fiscal pressure is an economic marker represented in percentage terms. It measures the percentage of the income taken by the State or by local bodies by means of taxes and tolls in order to finance the public expenditure.	Overall taxation, up to 15% = 5; Overall taxation from 16% to 30% = 3; Overall taxation over 30% = 1
Economy structure	Gross National Product	GNP per capita is the gross national product divided by the population in the middle of the year. GNP is the sum of the gross added value for all the producers taking part to the economy with the addition of possible taxes on products and out of possible grants not included in the products value.	(US\$) up t 20.000= 1; from 20.000 to 40.000=3; over 40.000=5
	Trade per capita	Total trade of goods and commercial services (exports + imports, balance of payments basis – jargon buster), divided by the population size. Calculated on the basis of data for the three latest available years	Up to 4.000 = 1; over 4.000 and up to 10.000 = 3; over 10.000 =5
	Exchange ratio	The exchange rate is the ratio between two currencies. The Exchange rate is the price of a currency expressed in another currency (price of a currency expressed in a foreign currency). It is also called conversion rate.	<1=1; 1= 3; >1=5
	GNI per capita	The expenditure for the family consumption, per-capita, measures the capacity of absorption of the offer.	Up to 4.000 = 1;from 4.000 to 10.000 = 3; over 10.000 =5
Cultural size	Cultural distance	The cultural distance measure the difference between "the collective programming of the mind"" of subjects belonging to different contexts, important information to check their purchase attitude and therefore, in the	5=low distance compared to Italy(<10); 1= high distance compared to Italy (>10)

		hypothesis of significant gaps, the opportunity for further in-depth analysis	
Market size	Consumption of the product	The consumption trend of wine in the reference period (on an annual base) is useful to check its evolution in time and therefore the potentialities of the examined market.	<1= 1; from 1% to 5% =3 ; from 6 to 10% = 4 over 10% = 5
Accessibility	Characters distribution structure		
	Barriers to trade	The barriers to the exchange concern the rate compliance to be fulfilled and the commercial obstacles to face in order to work on the market. It is necessary to evaluate duties and import procedures (free or based on government permits).	High barriers = 1; medium barriers = 3; low barriers = 5
	Export formality	This marker measures the degree of complexity (as compared to standard evidence by the countries) of the documents to provide to activate the export.	Standard documentation = 5; Extra documentation= 1
Market receptivity	Import	Imports represent an information emphasizing the openness of the country towards the introduction of the product under consideration. The check of the evolution allows us to evaluate the trend of this information in the course of time.	Up to 5% of consumption = 1; from 5% to 10% = 3;over 10% = 5
	Balance of trade	This marker reports the difference between imports and exports. The trade balance is an important economic marker. When it is active (Trade Surplus) or balance it shows that the economy of a Country is able to meet the domestic demand of goods and services by itself, while a negative balance (Trade Deficit) shows an economy depending at least in part from the goods coming from abroad.	positive values = 1;negative values = 5
	Italy's market trade	The check of the market share of Italian wine on the total consumed amount allows us to analyze the tendency of the foreign consumer towards the purchase of the Italian product.	up to 5% of the consumption = 1; from 5% to10% = 3;over 10% = 5

**Table 12: Description of the variables**

Based on this information, the user selects a combination “product – country of interest”, for example Wine - United States or Wine - Russia, gets from the system the details of the web pages, on which he can find the indicators, and an indication of the meaning of each item and how to evaluate it (high risk = 1; medium risk = 3; low risk = 5). Then, he assigns a numeric value to each indicator, as shown in Table 13, and starts the processing phase.

	Input for Wine-Russia	Input for Wine-USA
POLITICAL STABILITY	3	5
COUNTRY RISK INDICATOR	3	5
TAX BURDEN ON CITIZENS	3	3
TAX BURDEN ON BUSINESSES	3	3
GROSS NATIONAL PRODUCT	1	5
PER CAPITA INCOME	3	5
EXCHANGE RATIO	1	1
GNI PER CAPITA	3	5
CULTURAL DISTANCE	1	1
CONSUMPTION OF THE PRODUCT	3	5
CHARACTERS DISTRIBUTION STRUCTURE	3	3
BARRIERS TO TRADE	3	3
EXPORT FORMALITY	3	3
IMPORT	5	3
BALANCE OF TRADE	5	3
ITALY'S MARKET TRADE	5	5

**Table 13: Input values for countries Russia and United States**

The transition from indicators to topics is the result of the contribution of each indicator without weighing.

The contribution of each topic weighed according to the methodology given in Table 13, allows to calculate the overall indicator of synthesis shown in Table 14, for the two different markets.

Results for Russia	
Overall indicator of synthesis	2.91
Results for USA	
Overall indicator of synthesis	3.56

**Table 14: Overall indicator of synthesis for Russia and Unites States countries**

The output consists of i) a synthetic indicator (that is the result of weighing the values of each item) of the attractiveness degree of the market; ii) a matrix that groups the different indicators in “Attractiveness factors”, “Critical Factors” and “Obstacles”, according to the different weights assigned to the items and the resulting different attention they deserve by management;

Figure 7 below shows a comparison of the results obtained respectively for Russia and United States.

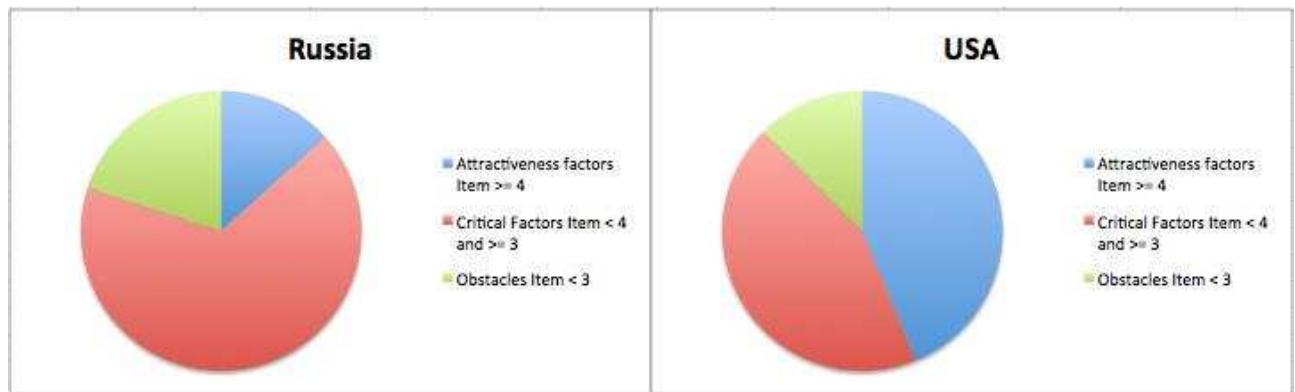


Figure 7: Comparison of the results obtained for Russia and United States countries

## CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The tool described above is a first attempt to provide to the SMEs a way to start the international market analysis process.

As we know, they do not often have the necessary human and managerial resources to explore the product potential in the international context. The entrepreneurs have many difficulties to know how to enter into the markets and how to analyze their opportunities and threats.

For these reasons, we propose the software explained in the paper, which is planned on the basis of the most important topics concerning the social, economic and market aspects.

Firms could use this software to have useful information on how to move toward the most suitable market and as a guide to support them in their decisions.

The tool added value consists in the simplicity in use and in the opportunity to explore alternative options at the same time. Furthermore it is flexible, because you can use it for every kind of product in all the marketplaces. It enables every firm, in every sector, to compare different countries according to the variables we propose.

The output is a synthetic marker representing the level of market attractiveness. This marker is important because it provides you with the opportunity to overcome the limits of the SMES that we have highlighted in the previous parts, especially as concern the ability to manage the environmental information.

Furthermore you can improve the decision making process through collecting data for a comparison among countries in different periods.

The software is a Marketing intelligence experiment, conceived for all the enterprises in the first step of their entering strategy. They must integrate quantitative information with qualitative ones. The tool does not provides all the required data, but a parameter to explore the relevant aspects of the foreign market. For an overall view the qualitative data are needed.

Finally, the tool enables to have at firm's disposal what is needed to adopt a systematic approach for the international markets analysis, filling the informative gaps that refers to the growth opportunities of small firms.

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## COOPETITION IN THE WINE BUSINESS: A CASE STUDY

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### ABSTRACT

The purpose of the paper is in investigating the rule of coopetition in the wine business through the validation of its principles with a case study analysis. The research approach is based on a qualitative method with the objective of proposing the main studies on companies coopetition and to verify the existence of their principles in the case study by defining the related model. By using a single-method approach, the paper is developed according to the study of national and international literature.

**Keywords:** *coopetition, competition, wine business, value creation, sector life cycle.*

### 1. INTRODUCTION AND RESEARCH QUESTION

The aim of the research is to investigate into the rule of coopetition (Brandenburger and Nalebuff, 2011; Bengtsson and Kock, 2000; Cherubini and Pattuglia, 2009; Porter, 1998) in the wine business (Dana and Winstone, 2008; Hayward and Lewis, 2008; Rossi *et al.*, 2014; Vrontis *et al.*, 2011) through the validation of its principles (Lado, Boyd, Hanlon 1997) with a case study analysis.

Therefore, the purpose of the study is to demonstrate the main characteristics of coopetition (Harfield, 1999) between contemporary companies in the wine business, by providing an international case study recognized as "Barolo Boys".

In this way, the literature review is based on the introduction of the framework of coopetition and its principles (Brandenburger and Nalebuff, 1996), with a short explanation of the wine business in the perspective of value creation (Wilson and Goddard, 1993).

The research approach is based on a qualitative method (Hair *et al.*, 2003; Patton, 2002) with the objective of proposing the main studies on companies coopetition (Padula and Dagnino, 2007) and to verify the existence of their principles in the case study by defining the related model. The correlation between coopetition in the wine business and the product life cycle will be investigated to support this discussion.

By using a single-method approach (Myers, 2013; Yin, 2003), the paper is developed according to the study of national and international literature. Secondary sources of the research include papers, books, open databases, documents and the website of Barolo Boys.

The research has the following structure. After the Introduction, Section two provides a literature analysis of coopetition and a general overview on wine business sector. Section three describes the research approach. Section four proposes the research case study and the discussion, by including implications on research. Section five illustrates the limitations of the study and suggests future research.

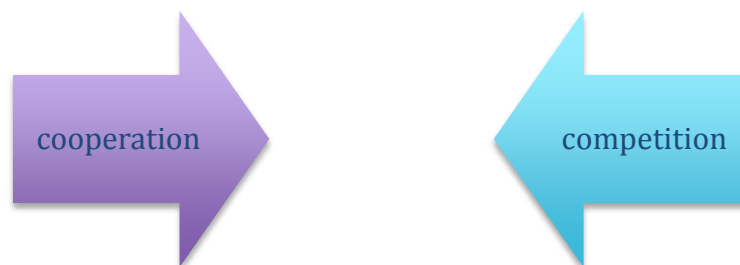
The research question is the following: Which are the principles of coopetition in the wine business and what is the correlation between the last one and the product life cycle?

## 2. GENERAL BACKGROUND

### *2.1 Coopetition framework: a general introduction to the literature review*

Contemporary companies (Ackoff, 1961; Zanda, 1974) are coordinated systems of tangible and intangible assets; each company interacts with the external environment with which it exchanges energy, information and knowledge (Zanda, 2012). The above exchanges give the company the possibility to survive and grow in ongoing and repetitive relationships.

In this context, the coopetition framework is based on cooperation and competition of competitors companies (figure 1) and implies the involvement of at least two companies with collaborative strategies.



*Figure 1 – Coopetition Principles*

Gnyawali et al. (2008) argued that competition strategy could lead companies to have cooperation after competition.

Although we have found a certain number of papers that explain the literature on coopetition in the wine business (Dana and Winstone, 2008; Dana *et al.*, 2011), competitive strategies deriving from small family-run companies, aggressive new competitors and a high degree of industry institutionalization further supported local cooperation.

Bresser and Harl (1986) study these two elements in order to identify the companies involved in cooperative strategies with the aim of reducing complexity.

In fact, cooptition among contemporary companies (Brandenburger and Nalebuff, 1996) is based on collaborative relationships (Levy *et al.*, 2003; Gnyawali and Madhavan, 2001; Mariani, 2007; M'Chirgui, 2005; Chaudri and Samson, 2000) on the market even though collaboration is characterized by complexity (Fontana and Ballati, 1999, Keene, 2000; Lewin, 1999; Padula and Dagnino, 2007; Stacey, 1996; Waldrop, 1993).

## 2.2 The wine business in a European context

The cooptition framework needs to be applied to the wine business. The Comité Européen des Entreprises Vins stated on the website that *“Wine is a natural, agricultural product recognised by the EU Treaties and basically defined in the EU legislation as a “product obtained exclusively from the total or partial alcoholic fermentation of fresh grapes, whether or not crushed, or of grape must”.*

In Europe, the wine business is important under different profiles such as socio-economic, environmental and societal terms.

The study carried out by the Comité Européen des Entreprises Vins supports the wine sector in the European union with the data included in the table 1.

1) EU Wine-growing areas (45%)
2) EU production (65%)
3) EU global consumption (57%)
4) EU exports in global terms (70%)

Table 1 – The wine business in the EU (source: <http://ceev.eu/index.php>)

In the statistics for the key markets in Europe, the New Zealand Trade and Enterprise published the following data including a list of countries involved in the market value classification in 2007 (table 2). In 2012, the Italian wine business was estimated as covering 17% of world production and with 29.6% of production from the European union (Ufficio Studi Mediobanca, 2014). For the same year, the value of Italian wine production reached 9,1 billion euro.

European country	Wine market value (US\$m)
Italy	40,535
France	35,125
Russia	31,911
Germany	23,869
Spain	13,188
Romania	9,639
Portugal	5,323
Bulgaria	5,067
Poland	5,000
Switzerland	4,392
Ukraine	4,162
Austria	3,355
Netherlands	3,206
Belgium	3,146
Hungary	3,146
Sweden	2,897
Czech Republic	2,144
Denmark	1,820
Croatia	1,710
Norway	1,234

Table 2 – Wine market value in European country (source: New Zealand Trade and Enterprise, London, July 2008)

### 3. RESEARCH APPROACH

The research approach is based on the analysis of a single case study related to the wine business, according to the principles of coepetition, using a qualitative method (Hair *et al.*, 2003; Patton, 2002).

Through a deductive-inductive approach, the “Barolo Boys” case study is introduced and it contributes to improving existing literature, with a view to greater conceptualization of the principles of coepetition.

The collection of the information was carried out through a research protocol based on the definition of the case study objective and the acquisition of information from the website. The forthcoming research steps will be based on direct observations of the phenomenon. So we intend to establish direct contact with the wine company.

Acquisition of data has been carried out using a single-method approach (Myers, 2013; Yin, 2003) with the use of secondary sources: papers, books, open databases, websites, news and documents.

The case study introduces and verifies the principles of coepetition and the connection between the wine business and product life cycle.

#### 4. CASE STUDY

The case study has involved a whole group of winemakers from the Langhe area in Italy. In particular, the analysis focused on the critical factors of their success, investigating into the life cycle phases of Barolo with regards to the phenomenon of cooptation.

Research carried shows that it all started with the disastrous grape harvest of 1981, when grape sellers imposed very low prices for the purchase of grapes on the winemakers, putting pressure on the economic insecurity and fragility of the farmers.

The effects of this included the awareness by a group of farmers who decided not to sell grapes anymore to merchants but to transform them into wine directly.

The challenge was not the easiest, young winemakers had to learn how to transform grapes into wine and, at the same time, create a space within a market in which the wine of the French region of Borgogne was extremely successful.

In particular, in an attempt to punctually define the phases that led to the success of this wine we should go back to 1986, the year that marked the start of change, a division between tradition and innovation.

Two forms of action have been implemented on the basis of knowledge acquired following the study of the French winemaking process:

- the summer cut of bunches in order to allow for ripening of the fruit left on the tree;
- the introduction of small barrels of French oak or "barrique" instead of large tubs of oak wood.

Such changes had many effects on the traditional minds of the first Barolo winemakers, effects that resulted in some cases in clashes between old and new generations.

The modern choices of the Barolo Boys were, however, confirmed by the excellent results achieved in the Nineties and appreciation on an international level of Barolo.

The huge success achieved by the group through this collaboration, however, soon left space for competition among single individuals.

The above results in the need, for the underlying objectives of this paper, to proceed with an analysis of the lifecycle phases of Barolo with regards to the phenomenon of cooptation.

In particular, the most important phases that have resulted in a change in the operating method of these individuals can be attributed to:

- phase 1 – (1981) – awareness by farmers of the lack of contractual power on the price of grapes;
- phase 2 – (1981 – 1986) – a period of study and research characterised by the creation of relations with the French Region of Borgogne;

- phase 3 – (1986) – the introduction of innovations – the summer cut of bunches and barrique; introduction;
- phase 4 – (1986 – 1990) – improvement in the quality of wine – growth;
- phase 5 – (1990 – 1995) –international success – maturity;
- phase 6 – (1995 – in poi) – individualism – saturation.

Now, using the theoretical capacity of the lifecycle of the product it is possible to attribute a trend of a cooperative or competitive nature to each of the phases identified above.

The following drawing highlights the above:

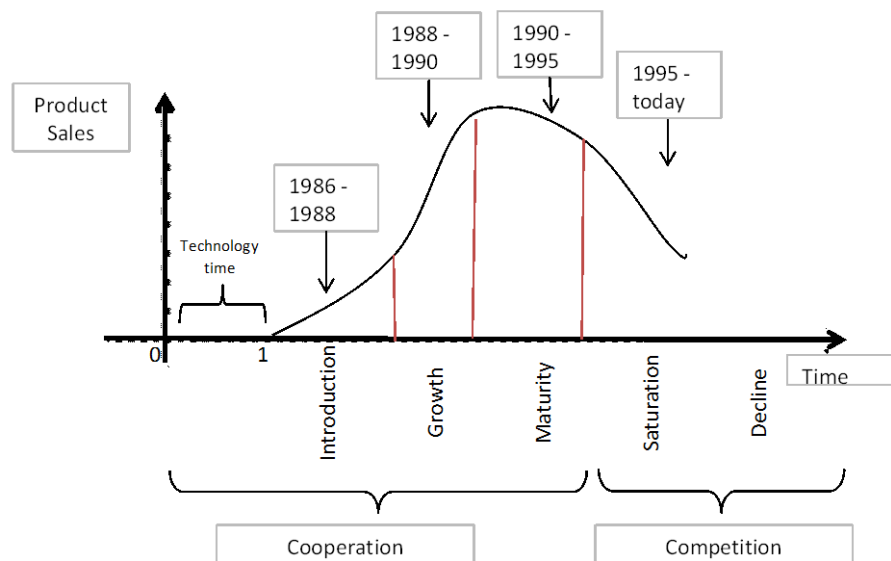


Figure 2 - source our elaboration

The interval that ranges from 0 to 1 can coincide with the years that range from 1981 to 1986, or, the period of time during which the wine making techniques from the French region are studied.

The subsequent phase is the one ranging from the introduction of innovation right through to the first positive results connected most of all to the quality of the product. From a time related point of view, this phase can be attributed to the years 1986 – 1988.

Subsequently, between the years 1988 – 1990 an important increase in sales at high rates was registered, the strategic factor is publicity.

From 1995 onwards, the cooperation left space for competition among individuals, the objective being to excel over the others.

Ultimately, the case included in the study underlines that, for each phase of the life cycle of the product correspondence can be found in terms of competition through the principles of cooperation and competition.

Cooperation will be discussed in the research phase of knowledge, or, from 0 to the end of the ripening phase of the product.

Subsequently, from the saturation phase and, in particular, with the creation of the first specialised magazines and with the first forms of recognition in terms of quality of the product, cooperation leaves space for competition.

In the following table we represent some principle that derives from what we have analyzed in the case study:

<b>Cooperation</b>	<b>Competition</b>
Research and study (technology time)	Personal award (saturation)
Product Innovation (introduction)	Personal success (decline)
Product quality (growth)	

*Table 3 - source our elaboration*

In this sense the principles of coepetition found through the case study need to be compared and validated using the existing technical *framework* and should be recognised trough the lifecycle phases of the product.

## 5. CONCLUSIONS AND FUTURE RESEARCH

Even though research carried out is still underway, the case analysis highlights the possibility of associating each life cycle phase of the product with cooperative or competitive trends among the individuals involved.

It is true to say, however, that the data and information used in this phase are limited to the study of one single case.

Therefore the exam study and the relative hypotheses should necessarily be validated through an analysis of further similar cases.

This paper therefore represents the first phase of a greater structured process that will include the following phases:

- investigations into literature on this topic;
- research into similar events;
- analysis of existing connections between the lifecycle of the product and coepetition;
- validation of results;

- the construction of a modern theoretical *framework* “coopetition – lifecycle of the product in the wine business”.

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## THE INTERNATIONALIZATION OF WINE SME'S IN THE MIDST OF THE ECONOMIC CRISIS: PILOT CASE STUDIES FROM GREECE, ALBANIA AND FYROM.

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### ABSTRACT

In this paper we explore the internationalization efforts of wine SMEs in three neighboring countries, namely Greece, Albania and FYROM. The objective is to identify through in depth interviews, with two wine entrepreneurs from each country, the obstacles/barriers they face in relation to their export activities. The selected enterprises have similar characteristics, in terms of exports experience, target markets, product quality, price etc. The aim is to determine if the issues faced by small wine producers are common in the countries of the Balkan Peninsula, or whether each country has its own particularities and it is not possible to draw general conclusions and to propose common solutions.

Our results indicate that the Negative Country of Origin Effect, the Brand Equity and the Availability of Resources (due to the small size) are common and are considered to be major export obstacles for the wine SMEs. This cross border analysis provides useful insights for both practitioners and researchers. Interestingly enough, although Greek wine SMEs, have considerably longer export experience and higher export performance, the Negative Country of Origin Effect and the Brand Equity remain major obstacles. The findings of this case study analysis will be used as the basis of a future quantitative research.

**Keywords:** *Wine SMEs, internationalization, exports, challenges/obstacles, cross-border analysis.*

### INTRODUCTION

Today SMEs are facing more than ever, an increased competition as they are more exposed to globalization than larger enterprises. The wine SMEs face the same challenges and need to focus on international markets. Exports remain the main alternative for SMEs in the food and drink sectors sector to survive in an increasingly competitive environment. Furthermore, the wine sector is important for the economies of all three countries examined, (Greece, Albania and FYROM). Greece has an established history of wine exports, while the other two countries are at the initial stages of this effort; however the trends are quite promising.

This research seeks to determine if common export obstacles exist between wine SMEs in the selected neighboring countries and to identify the most important ones. We aim to explore and identify export related barriers common to wine SMEs from the three countries and to determine the most important ones. The findings will set the framework for future research, in which the common issues identified, will be further investigated through quantitative research. Two wine SMEs with export experience and similar characteristics were selected from each country for in depth interviews. The main research question is: what are the main obstacles wine SMEs face regarding their export efforts? According to our findings the main obstacles identified in all cases were, the Negative Country of Origin Effect, Brand Equity and the limited resources of the wine SMEs.

*The wine sector's importance in the region*

As mentioned in the previous section, wine production is an important economic activity for the three countries. Greece, is 13th larger producer of wine in the world. The existence of small vineyards is the sector's main characteristic. Until 2009, 80% of the country's wine production was sold in the domestic market. However, the last few years the volume and value of Greek wine exports have increased substantially. Germany remains the main market for the Greek wines (appr. 50% of total exports) while the US market is the most promising one, with over 35% increase in exports the last few years.

Similarly, wine production in Albania has increased both in regards to volume and to value in the past decade (Scalera and Elezi, 2012). In 2013, there was a 30% increase of the exported wine compared to the previous year (Albanian Ministry of Agriculture, 2013). The U.S. is the largest market for Albanian wineries (Scalera & Elezi, 2012). The main producers are small vineyards or small cooperatives that often market their wines under a "established" regional name.

Similarly, the wine sector is very important for the agricultural economy in FYROM; it accounts for 20% of the country's agricultural GDP and a significant percentage is exported (Dimitrievski and Kotevska, 2008). While the cultivated area has remained the same, there is an increasing number of small private wineries, due to the breakdown of large wineries into numerous, small ones (Andersson & Ödlund, 2011). Europe and more specifically, Germany, Croatia and Serbia, are the most important export markets for the country's wines.

The first section of this paper covers the relevant literature review. More specifically, recent bibliography on export barriers for wine SMEs is presented and the research question is developed. Next the findings of the in depth interviews are presented and analyzed. In the last section, the practical implications of this work are presented in addition to thoughts for further research.

## LITERATURE REVIEW

### *Export barriers/ obstacles*

Firms benefit from exports in terms of sales increase, higher profits, independency from the home market, etc. According to Yanopoulos (2010 pp. 36), "*potential benefits include, corporate growth, capacity utilization, economies of scale, market diversification, and smoothing out business cycles.*" Alonso et al. (2014) argue that competition in the home market and opportunities in the foreign ones, motivate wine SMEs to focus their attention to international markets.

Despite the numerous benefits, there are several challenges to overcome in order for companies to expand in international markets (Karelakis et al., 2008). Export performance and behavior of wine SMEs can be affected by internal, as well as external factors or barriers (Maurel, 2009). Ramasawami and Yang (1990) identified four variables that affect exports: a) export knowledge, b) internal resource constrains, c) obstacles related to the procedures and d) barriers exogenous to the business. The first two are identified as internal factors while the remaining two as external ones. The knowledge and resource constrains are mainly limitations of the firms' ability to provide resources, such as financial, human and production capacity, which are necessary for the internationalization process (Ortega, 2003). Export knowledge consists of the managements' qualification level regarding internationalization activities, export practices and actions (Maurel, 2009). Olmos (2011) emphasizes the importance of human resources in wine SMEs in regards to their ability to penetrate international markets. The lack of qualifications and skills, related to export processes are argued to be critical barriers that hinder the firms' export performance (Pinho and Martins, 2010). According to Alonso et al. (2014) qualified personnel is needed, due to the complexity of the export processes. In contrast, Olmos and Vial (2014) argue that the increased availability of export services (from state agencies or private companies), has decreased the need for qualified personnel in wine SMEs. Staff

The internal resource constrains (managerial, financial, etc) are associated mainly with the ability of the firm to support export processes (Pla- Barber and Alegre, 2007). According to previous studies, SMEs have a greater difficulty to overcome these constrains as they poses fewer available resources compared to large firms (Pla- Barber and Alegre, 2007; Olmos, 2011). Karelakis et al. (2008) argue that there is a relationship between the size and the experience of wine firms and the difficulties they face with the export process; the larger and more export experienced firms are, the easier it is to overcome the barriers and to adapt to the internal and external challenges (Lopez and Garcia, 2005).

External barriers can be procedural ones, which are divided into two subcategories by Mariani et al. (2012), the a) tariff and b) non-tariff barriers. During the past decades, international trade has been facilitated by liberalization policies which had a positive impact on the wine industry. However, often

tariffs are still imposed by several countries to indirectly assist home wine production (Mariani et al., 2012).

Non-tariff barriers are grouped into “labeling regulations, wine making practices, presence and levels of chemicals in the wines, certification and testing procedures” (Mariani et al., 2012, pp35). Non-tariff barriers require firms to adapt, either in regards to the product and its quality, or in regards to the documentation and other requirements (Chancy, 2002).

The Country of Origin Effect can either be an important obstacle or a competitive advantage. Wine SMEs from countries or regions with long wine making tradition and reputation, have a major competitive advantage (Agostino and Trivier, 2014). On the contrary, the same factor can be a barrier for SMEs in countries or regions without a wine making reputation. Wine SMEs find it difficult to change the consumers’ perception about the quality of their products in international markets. The limited financial resources of wine SMEs decrease the options for marketing and promotional activities and result to limited Brand Recognition (Easingwood et al. 2011; Maldifassi and Caorsi, 2014), which could assist in overcoming the Country of Origin Effect.

## METHODOLOGY

According to Leonidou (pp: 297, 2004) there is a need for further cross cultural studies that “would capture the variations in export barriers”. The objective of this research is to analyze and identify the export barriers between wine SME from three neighboring countries and cultures (Greece, Albania and FYROM) and to determine if they are common to these countries. The paper includes in depth interviews with six wine entrepreneurs, two from each country.

The wineries selected share similar characteristics. They export over 30% of their total production. Furthermore, only experienced exporters were interviewed in order to receive meaningful and appropriate answers. Five of the entrepreneurs, have over 10 years of export experience and all export to developed and mature markets (the US, Europe, Australia etc). Overall, the individuals interviewed, consider their wines to be of average to high quality and of average price compared to the price index of the countries they export to. In all cases, they target middle-income level customers. Finally, all entrepreneurs with the exception of one, modified the package and label of their products in order to expand to international markets.

An open ended questionnaire was designed with the assistance of colleagues with expertise in the field. The first section includes general questions regarding the firm’s profile and its main activities and products. The second section focuses on the barriers and challenges they face in regards to their export activities. Interviews (in person or by phone) were conducted with the representatives of the

selected wine SMEs. The six individuals interviewed are identified as Gr1, Gr2 for the Greek SMEs, Al1, Al2 for the Albanian ones, and FYR1 and FYR2 for the SMEs from FYROM. As mentioned previously, all wineries share similar characteristics regarding their export experience, sales, quality and price of their products, target consumers, etc.

## **ANALYSIS**

### *Wineries from Greece*

The export barriers the Gr1 firm faces, result mainly from their limited resources and more specifically, from the high investment requirements to increase the winery's production capacity and upgrade its infrastructure. The lack of resources (financial and human) to support the necessary marketing activities, is also regarded as an important export barrier. The firm's competitiveness, especially in developed and structured markets needs to be supported financially. There is a need to continuously invest on human resources and to upgrade the vineyard and the facilities, in order to remain competitive in the market. These obstacles are similar to the ones analyzed in literature regarding wine SMEs compared to the larger size firms (Pla-Barber and Alegre, 2007; Olmos, 2011).

The main export barrier for the Gr2 winery is the quantity of wine produced which is not sufficient to sustain the export activity. In order to address this issue and to further increase production capacity, significant financial resources have been invested. However, this has resulted to very low return on investment which has affected the firms' overall financial stability. In addition, the Country Image and the Country of Origin Effect are also considered to be major barriers. This is in accordance with the findings of D'Alessandro and Pecotich (2013) who suggest that the Country of Origin Effect can be used by consumers as an evaluation tool regarding the quality and price of the product.

### *Wineries from Albania*

One of the main export barriers Al1 is facing, is the country's bureaucracy, which results from the complex and time consuming process to gather the required documentation. Furthermore, they have difficulties to comply with the US market regulations and the fact that there are different than the EU ones, makes this more challenging. In addition, the country's image in international markets compared with competitors from the EU, is regarded as a disadvantage. Bureaucracy is another main export barrier identified by the owner of Al2. These findings are similar to Mariani et al. (2012), who argue that non-tariff barriers are perceived as too complex for SMEs and can affect negatively international trade. Lastly, another major barrier identified is the negative impact of Country's Image over the perceived quality of wine products.

### *Wineries from FYROM*

The representative of FYR1, identified the intense competition in developed markets as the main export barrier. Similarly, Lopez and Garcia (2005) suggest that SMEs find it more difficult than large enterprises to overcome export challenges. Another significant barrier is the region's limited reputation as a wine producing area. In addition the fact that the country is not an EU member and that the Balkan countries are not perceived to be producers of good quality wines, is also an obstacle.

According to FYR2, a major obstacle is the fact that the country is not yet associated with the production of high quality wines. Regarding the firm's recognition (brand awareness) in the international markets, they face difficulties with the implementation of marketing strategies, since they cannot fully support them due to limited financial resources. Another challenge is the bureaucratic, complex and time-consuming process to acquire all necessary export documents and to meet the export requirements to EU countries/markets.

## DISCUSSION

Three common issues that hinder the export efforts of the wine SMEs analyzed, have emerged as the most challenging ones. More specifically, the Negative of Origin Effect, The Brand Equity and the Availability of Resources were reported as the main obstacles for the wineries in the three countries.

### *Negative Country of Origin Effect*

The Country of Origin Effect has a strong impact on wine consumer perceptions (Agostino and Trivier, 2014). There is a consensus among the individuals interviewed that the Country of Origin Effect hinders their export performance. Furthermore, the wines produced in Albania and FYROM are perceived by local consumers to be of inferior quality compared to imported ones. Firms operating in these countries face major difficulties to persuade international consumers about the quality of their products, because their country's image as perceived by foreign consumers is not yet positively associated with the production of high quality wines. This can be attributed to the fact that wines from these two countries have only recently started to be exported, while the Greek ones have a longer presence in international markets.

### *Building brand equity*

According to Nowak et al., (2006) all wineries seek to build their Brand Equity. Similarly, other studies indicate that developing a strong brand identity is particularly important for wine SMEs (Miller and Chadee, 2008).

Brand Equity is considered to be a major issue for all wineries. However, although its importance is well understood by entrepreneurs, it appears to be an issue that cannot be addressed easily. Interestingly enough, this is an issue for the Greek wine SMEs too, that contrary to the ones from

Albania and FYROM, have more export experience and exposure in international markets. Apparently Brand Equity is not related to the overall Country of Origin Effect. Previous studies on branding strategies of wine SME have concluded that the formation of clusters and networks improve “brand awareness” (Vlachvei et al., 2012). However, in the majority of the cases examined, wine associations either do not operate in their areas, or if they do, their contribution is considered to be minimal.

Brand Identity can also be developed by “positive winery experiences”, as suggested by Nella and Christou (2014). According to their findings, service quality at the cellar door can facilitate the creation of Brand Equity. Overall, visits to wineries are considered to be a marketing tool that enhances Brand Equity. Brand Equity can also be built by the “tasting room experience” (Nowak et al., 2006). Based on their findings, wineries can cultivate long term relationships and build Brand Equity, by offering positive tasting room experiences. The issue should be further investigated and the ways wine SMEs in the region are currently striving to build Brand Equity should be identified and assessed.

#### *Availability of resources*

Due to the small size of the wineries, most of the responders consider the lack of available resources as a major drawback in their exporting efforts. This is in accordance with the findings of Wickramasekeraa and Bianchi (2012), which identify the lack of financial resources, the limited production and the lack of skilled staff, as the main determinant export factors. The above are often observed in SMEs and result to poor organizational and financial performance. According to Ortega (2003), there is a limitation of strategic options for SMEs due to the available resources; these limitations prevent them from building a sustainable competitive advantage. Although informal associations and clusters of wine producers from specific regions were established, in many cases they have not been capable to support export activities. Other forms of collaboration with structured, formal associations could offer a solution to the export obstacles.

## **CONCLUSION – IMPLICATIONS FOR FURTHER RESEARCH**

This paper gives an insight on the export efforts of wine SMEs from the Balkan Peninsula and more specifically from Greece, Albania and FYROM. The aim is to identify the common export constraints wine SMEs face in the region and to determine if any common elements exist. Through in depth interviews, the common obstacles to export efforts of wine SMEs were identified. The results of this qualitative research indicate that the issues of Country of Origin, Brand Equity and Availability of Resources are common in wine SMEs in the region investigated.

Interestingly enough, regardless the country’s overall position in the wine market (Greek wineries are by far the most experienced in terms of exports, and larger wine exporters the negative Country of



Origin Effect, still hinders the producers' export performance and is perceived to be a major export obstacle. In addition, weak Brand Awareness is also identified as an important obstacle. Various ways of building Brand Equity have been analyzed extensively in literature, among others membership in producers/exporters associations and participation in wine routes (Vlachvei et al., 2012; Nela and Christou, 2014). Apparently, SMEs lack the resources to build Brand Equity, to have a strategic approach towards exports and the means to expand their international activities. The respondents in this study, do not appear convinced regarding the effectiveness of associations and other collaborative schemes and actions. Their perception is interesting and should be further explored.

The above "cross border" issues and obstacles should be further studied both in regional and country level. Although wine SMEs in the three countries face similar challenges, they have many differences both in the economic and the political environment in which they operate. In conclusion, considering the differences of the political and economic environment of these countries, cross border solutions do not seem appropriate. However it is worth to examine if successful strategies implemented by wine SMEs in the region, can be adopted by other small, local wineries.

The interviewees presented their perspective regarding the export barriers they face, most of which are in accordance with the ones identified in literature. These barriers however, are very difficult to overcome, due their size. This situation has become more severe due to the financial crisis in all three countries. A solution can be the formation and establishment of collaborative arrangements between wine SMEs, (partnerships, associations and cooperations, formal or informal). Future research should examine the forms and degree of cooperation that wine exporters in these countries could build in order to overcome the common export barriers.

Furthermore, the negative Country of Origin Effect, an external barrier, requires initiatives and actions from governments and export associations, as well as lobbying efforts from the producers. The degree to which wine exporters are willing to get involved in the efforts to change consumers' perception regarding the country of origin has to be further explored. The need for more research on the topic becomes greater considering that all producers interviewed, appeared very skeptical about the efficiency and effectiveness of these actions, even if they do not require major direct investment (collaborations, membership in wine associations and wine routes, provision of services like winery tours/ wine tasting, etc.).

The main limitation of this study is the small sample size that does not allow for the generalization of the results. Through the in depth interviews with producers/exporters from different countries, common issues and obstacles to wine exports have arisen, namely the negative County of Origin Effect, the Brand Equity and the Availability of Resource in the region's wine SMEs. The identification of these issues has practical implications for the "less export experienced" wine SMEs since it provides

an insight for the challenges they will most likely face in their export effort. For the “export experienced” ones, the identification of these common parameters directs them to seek solutions at firm or at collaborative level. In addition the results are of value to policy-makers and individuals involved in the design of Cross-Border collaboration programs between the specific countries. Furthermore, they set the framework for future quantitative analysis. The analysis and understanding of the above export obstacles will lead to the proposal of meaningful, realistic and concrete solutions.

Some additional aspects that have arisen during the interviews that are worth exploring in the future are the processes of selecting and evaluating the international markets. Furthermore, an analysis of solutions in established wine producing countries and wineries, is required in order to explore their applicability in the region. Finally, this research provides an insight of the challenges exporters face, which despite the different environments are inherently the same for wine SMEs in the region.

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## A SENSORY ANALYSIS OF COFFEE IN BRAZIL: BOUNDED RATIONALITY AND FOOD CHOICE

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### ABSTRACT

According to the Institute of Food Science and Technology (IFT), sensory analysis is a discipline used to measure, analyze, and interpret the reactions produced by the attributes of foods. Psychologists refer to sensory perception as a process with three phases: reception stimulation, perception and information processing (Chen, 2014). The questionnaire was based on Furst, et. al. model proposed in 1996 (Furst, *et al.*, 1996). A documentary research and some interviews with specialists help to identify the main sensory attributes of coffee. According to Furst et al. (1996) a basic and universal factor that provides the foundation for food choices is the life course, which includes influences from past personal and historical experiences, the current participation in trends and transitions and anticipations of future events. Life course provides guidance for food choices through roles and experiences. By in-depth interview with 20 consumers some improvements in the previous Furst et. al. model were proposed. The methodology was an experiment conducted in the MarketingLab. Using different levels of sensory attributes consumers of coffee were separated in four groups of 5 consumers and interviewed based on focus group and individually. Results identify some particularities of coffee consumer behavior. The findings suggest that sensory analysis helps to explain some aspects of bounded rationality in food consumption, evaluation and perception and could improve Furst et. al. model.

**Key words:** *Sensory Analysis; Food, Consumer; Perceptions; Attributes; Coffee, Brazil*

### 1. INTRODUCTION

The way people consider and select food and beverage affects the acquisition, preparation or consumption of food in many situations such as: supermarkets, restaurants, food machines, parties and social events, meals and snacks at home. Food choice includes not only decisions based on conscious reflection, but also those that are automatic, habitual and subconscious.

Life experiences are the most important influences on food choices that include ideals, personal factors, resources, social and food contexts. These influences have triggered the development of

personal systems to make food choices that incorporated negotiations of values and behavioral strategies.

In the food industry, sensory analysis is extremely important to evaluate marketing acceptance and quality of a product, which is an inherent part of the quality control plan of an industry. It is through the sensory organs that this assessment is carried out, and since it is performed by people it is important to have a careful preparation of the samples tested and a proper application of the test to avoid the influence of psychological factors such as color that can refer to pre-formed concepts.

Sensory analysis is usually carried out by a team aiming to analyze the organoleptic characteristics of a product for a particular purpose. It can evaluate the selection of raw materials to be used in a new product, the effect of processing, quality of texture, flavor, storage stability, reaction of consumers, among others. In order to achieve the specific objective of each analysis, differentiated evaluation methods are drawn aiming to obtain more appropriate answers to the researched profile of the product.

The value of trade is affected by sensory perceptions, monetary considerations, beliefs and health concerns, nutrition, convenience, social relations and quality of food choice decisions. Strategies must be used to simplify the process of food choice developed over time. The conceptual model of food choice process represents the basis of complex food practices, and provides a theoretical framework for research and nutrition practice.

Besides this brief introduction, the paper is divided into heuristics and attributes, food choice from the point of view of a conceptual model, methodology, results and discussion and conclusion.

## **2. SENSORY ANALYSIS THROUGH SYNAESTHESIA**

Sensory analysis allows the study of organoleptic characteristics of several products and services by using the human being as a measuring instrument and statistical techniques to interpret data and provide reliable results (LATREILLE et al., 2006).

The disadvantage of flavor testing techniques, based on purely verbal questionnaires, is due to the fact that consumers have a very limited vocabulary when it comes to describing fragrances and flavors. In the past, flavor tests were limited to questions and verbal rating scales and sensitivity. Therefore, it was difficult to distinguish between one flavor and another. The methodology of sensations uses the principles of synaesthesia to overcome these problems (PAWLE and DELFAUD, 2013).

In 2008, Mane developed a personalized approach based on the methodology of sensations to measure emotion concerning flavors in consumer brands. By using the principles of synaesthesia, it was possible to develop an emotionally rich description of each flavor tested to create a visual and

verbal language. It was shown that synaesthesia can be successfully applied in techniques of sensory test to observe emotional effect both in a blind test and in a specific context (COOPER and BINDER, 2007).

“Synaesthesia” is a neuropsychological mechanism whereby sensations in one sense create sensations in other senses. In other words, it is "the union of the senses" (CYTOWIC, 2002). The same applies to all senses, that is, colors can be experienced as shapes, music as colors, textures, sounds. In this way, flavors are experienced as colors, textures, sounds, and so on.

Therefore, emotional responses can be measured by building a projective world Synaesthesia approach is based on the fact that flavors can be described in terms of profile and other senses, in other words, touch, smell, sound and image. Besides, it is possible to measure the emotional impact of a flavor in these terms using a qualitative and quantitative projective approach. The visual survey is used to go beyond rational verbal responses.

Synaesthesia is supposed to be the basis of long-term memory, imagination, emotion and language, and can potentially lead to improved brand relationships through better sensory and emotional involvement with consumers (COOPER and BINDER, 2007).

In recent decades, psychologists have distinguished between two thought systems with different capabilities and processes (SAMPSON and VOYER, 2012), which were called System 1 and System 2 (STANOVITCH and WEST, 2000). System 1 is usually automatic, affective and based on "trial and error", which means that it depends on mental "shortcuts". It quickly classifies intuitive responses for problems that may arise. However, System 2 corresponds to controlled processes. It is slow, laborious, conscious and rule-based and it can often be used to monitor the quality of the response given by system 1. If it is convinced that our intuition is wrong, then it is able to correct or replace automatic judgments (KAHNEMAN 2011).

Technique of qualitative and quantitative synaesthesia quantifies the emotions of System 1 by using visual techniques. Initial reactions of consumers' System 1 regarding taste occur in a few seconds after tasting some product and the emotional and cognitive centers of the brain react before the person is aware of it.

Pawle and Delfauld (2013) conducted interviews using facial coding assessed by specialists to analyze facial expressions of emotion in the decisive seconds after each Cappuccino was first experienced by respondents. Then they compared facial coding results of emotional response with scores of hedonic tastes.

Facial coding recognizes the immediate flavor impact. The first reaction of consumers is to try to “recognize” the flavor instead of enjoying it or not. New perceptions of flavor allow aligning the product of sensory experience with high marketing performance. These perceptions of flavor and

emotion result in new forms of work, allowing companies to design their products not only based on the score “like”, but also based on the emotional “insight” of the major sensory dimensions of the product: flavor and smell (PAWLE and DELFAULD, 2013)

Synaesthesia enables to create sensitive measurements of emotional impact of flavors and the ability to enhance and develop brand positioning. The impact of flavor on a brand is mainly driven by System 1, which is the intuitive and emotional thinking. Therefore, in order to create a language that can have a significant profile on the flavor impact, it is necessary to measure the visual emotional responses as well as the use of conventional measures, such as hedonic of taste. Synaesthesia means that a sense can be experienced and described in terms of other senses.

### **3. HEURISTICS ATTRIBUTES AND FOOD CHOICE FROM THE POINT OF VIEW OF A CONCEPTUAL MODEL**

Bounded rationality is justified by mental shortcuts used to assess the attributes that involve heuristics and biases. In this approach, consumers may overvalue or undervalue the effect or consequence of certain attributes.

To Bazerman (1994) people first determine their preference for a certain result from self-interest and then justify this preference by changing the importance of attributes. Even if individuals receive identical information, depending on the interest, the relationship with the attribute may vary and may be biased with respect to the attribute assessed (Diekman, Samuels, Ross, Bazerman, 1987). In addition to this self-interest, individuals can simplify their cognitive process to save time and resources in their decision making and judgment of value.

To simplify decisions, individuals often set rules that allow them to use some dimensions as substitutes for others. Heuristics is therefore a shortcut (a result of life experience and memory, for example) that serves as an alternative in relation to the excessive amount of information and complex mental calculations required in the consumption decision and choice of attributes based on the three heuristics: (a) representativeness, (b) availability and (c) anchoring and adjustment. Changes in the way we communicate, the combination of attributes offered and the process that consumers use to decide are part of research on heuristics.

In many situations we ignore the laws of probability and statistics. Cognitive, emotional, functional and symbolic elements represent all tangible or intangible elements with direct or indirect influence on accumulated impressions. They will be generators of our perceptions. When measuring the quality of a product, we take attributes of easier observation and measurement such as size, color, expiration date and brand name. The perspective on this quality can be called objective. However, other attributes that involve a subjective perspective of quality are based on perceptions that may vary

from individual to individual such as confidence, affection and taste. Mainly in this subjective perspective of quality, the heuristics and biases may appear more frequently in decision for attributes.

The negotiation of values is a crucial element in food choice. This is due to the fact that it is very difficult that all values can be completely satisfied with a single food. Surveys have shown that the values compete with each other and the people negotiate and consider using heuristics and that they prioritize some over others since it is difficult to satisfy all the values in a single time (Falk; Bisogni; Sobal, 1996; Connors *et al.*, 2001).

The conceptual model of food choice proposed by Furst *et al.* (1996) collected all the factors that consumers use in the process of choice for food, such as the life course, influence from family and friends, among others.

The model developed by the authors of the study and updated in 2009 by Sobal and Bisogni (2009) analyzes the factors involved in the choice of food and the process by which it occurs. These factors were grouped into three main components, which are the basis of the model: (1) Life course; (2) Influences and (3) Personal Food System.

**Life course (1):** It is the basis of the process and includes personal issues as well as social, cultural and physical environment to which the person was exposed. The trajectory and life course transitions of a person are essential in the development of his personal system which will influence the choices for food. This is due to the fact that the system is based on personal experiences with long-lasting effects although they may change over time with exposure to new environments. The authors also suggest that transitions in the life course are occasions in which the food choice system may be subjected to changes and provide opportunities for interventions (Devine *et al.*, 1998).

**Influences (2):** Five major influences that operate in the food choice process were observed (Furst *et al.*, 1996): Ideals, which are the beliefs and standards under which people analyze food; Personal Factors, which are the needs and preferences of people for certain foods, based on physiological and psychological characteristics; Resources, which includes tangible and intangibles factors involved in the selection process; Social Framework, which consists of interpersonal relationships and social functions associated with the context of food choice; and Context, which includes the physical surroundings and cultural environment of food choice (Falk; Bisogni; Sobal, 1996).

**Personal System (3):** The Personal System encompasses the cognitive process involved in the decision for food and it is closer to consumer behavior towards food when compared to Influences or Life Course. It is in the Personal System that people build values to make choices, negotiate and consider these values, classify food and situations, form and revise strategies, scripts and routines (Sobal and Bisogni, 2009). It is a concept that represents the dynamic set of processes built by



individuals to make decisions related to food (Falk; Bisogni; Sobal, 1996; Furst *et al.*, 1996). This system is divided into two parts: *Negotiation of Values and Strategies*.

This negotiation of values provides some limits that exclude certain choices and build dilemmas, for example the tradeoff between taste and health, cost and convenience or health and interpersonal relationships (Connors *et al.*, 2001).

On the other hand, strategies include regular patterns (food routines) that make certain food more usual than others (Falk; Bisogni; Sobal, 1996).

#### 4. METHODOLOGY

Focus group is an interactive qualitative method that provides in-depth answers to complex problems. By using real cases as material in the focus group it is possible to define problems in a language that consumers can follow (O'Donnell, 1988).

The method consists in gathering a group of six to ten people in a central location where the researcher develops a discussion directing it to the topics he planned within a specified period, which usually takes one to two hours (Randle, Mackay & Dudley, 2014). For Morgan and Spanish (1984), focus group can be composed of four to ten participants who are put together to share their thoughts and experiences on topics selected by the researcher who can use audio recorders to assist in data collection.

Focus group provides access to certain types of qualitative phenomena that have been poorly studied by other methods (Morgan & Spanish, 1984). O'Donnell (1988) complements that discussions obtained by focus group seem to find answers that other techniques can miss, besides providing qualitatively responses different from individual interviews. In addition, group experience can encourage more spontaneity, less inhibitions, greater anonymity, security and even the honesty of the participants comparing to individual interaction (O'Donnell, 1988).

Among other benefits focus group can also enhance the vocabulary used in the research; anticipate problems; provide useful insights into the construction of the questionnaire; indicate the most important performance measures for the different participants and enable the integration of the main types of intervenor (Oliveira, Freitas, 2008). For Fern (1982), focus group can also be used to explore opinions, attitudes and attributes, evaluate commercials, identify and pre-test questionnaire items.

O'Donnell (1988) argues that focus group is not as simple as it seems and prior planning determines the quality and quantity of results. The planning of focus group should involve decisions related to how data will be collected. The first decision is who will participate in the groups, followed by how they will be structured including the level of involvement of the moderator, and the third

consists in determining the number of groups and their size (Morgan, 1997). In the planning phase, the problem should be defined and it is necessary to conduct a guide for group discussion.

The method used was content analysis, transcribed and analyzed after comparing responses. The sample used in the experiment was 20 young students between 18 and 33 years old at a public university in the state of São Paulo. They were divided into 4 groups, where one component from each group was in the placebo condition, which was randomly assigned.

The MarketingLab Laboratory in Brazil was used for the experiment of focus group as well as computers, camcorder, recorder machine and Nespresso coffee machine to conduct the experiment.

The coffee were chosen as analysis product and each group participated in all of phases of the experiment to answering questionnaires targeted for coffee. The experiment was divided into 4 stages and as table 3 describes the steps of the experiment: pre stimulus, stimulus with images, degustation and focus group.

The survey was performed on the campus of Esalq in Piracicaba, Brazil to conduct the experiment. It started at 10:30 a.m. for preparation and at 11 a.m. we received the first of the four groups to run the experiment. In the first ten minutes, each group answered a quick questionnaire with questions of personal character to obtain consumers' profiles., and also specific questions about the first product under review. These questions were prepared aiming to assess consumer perception about coffee before suffering the first stimulus, and then they were asked "What is your level of knowledge on the issue of coffee quality?", "What is coffee for you?", "Are you a coffee consumer?", "Imagine that you are going to buy coffee. What aspects or information do you consider in order to buy this product?", "What could coffee have that it does not nowadays?" and "What do you take into consideration to assess the quality of coffee?". At this moment we named randomly one member of the group to be the placebo component, the one that does not suffer stimuli during the experiment.

After the first initial questionnaires, 4 of 5 consumers were directed to the computers previously numbered where they had the first stimuli with images of advertising pieces of coffee. The objective was to provoke the perception of geographical origin of the product using figures that illustrate coffee tree and coffee beans already roasted. For the same images, there were indications of different locations, indicating Brazilian coffee and Colombian coffee.

At this moment they were given a second questionnaire with specific questions about the advertising pieces to analyze the influence of the product origin at purchase time. The questions were "What aspects did you like the most in this ad?", "What aspects did you like the least in this ad?", "Imagine that you are going to buy coffee. After observing the product images, which aspects or information would you consider when purchasing this product?".

After completing the questionnaire on the 4 pictures of coffee, the group was directed to coffee degustation step. Two different types of capsules were selected (Roma and Decaf) and each consumer received just one cup of coffee, however, they were not informed about the flavor. It was not allowed to sweeten the coffee in order not to mask the sample since it was important to describe their first perception of the drink. Two questions were asked about this step "Point the aspects that you liked the most regarding the perception of the coffee tasted", "Point the aspects that you liked the least regarding the perception of the coffee tasted". The fifth student in the group, as a placebo, did not participate in both perception stages: the advertising pieces and degustation.

It was only needed to perform the focus group to complete the procedure with the first group. At this moment, all the 5 members were invited to start a conversation about all the stages through which they had passed. Some questions were prepared in order to provoke and understand what has changed regarding the initial perceptions of the participants about the coffee, and those that they had in mind about the products after the stimuli caused during the experiment, for example "What did not you like in the experiment?", "What has not changed?", "What has changed?", "What do you value at the time of purchase?", "What is meat for you?" and "What is coffee for you?".

This procedure was repeated 4 times until it was done the same with the 20 students. All steps were properly recorded and filmed so data could be worked with accuracy at the time of the analysis execution. After the closure of the fourth and final focus group, the questionnaires were collected and organized by group number.

The results were discussed and related to the theory discussed earlier in the study, as can be followed in the next item.

## 5. RESULTS AND DISCUSSION

The objective of this study was to understand what consumers think about coffee before and after the stimuli that were planned.

Thus through these experiment stages it was able to gather participants' responses and make a comparison between before and after the experiment.

In the first stage, the pre stimulus started with the question "what is quality of a food product for you" and there were answers such as "conservation of quality for a certain period without impairing consumer's health", "security, flavor, raw material submitted to sustainable procedures", "origin of the product". Only one student described his knowledge regarding coffee quality as high and most respondents claimed to have low knowledge and 3 of the 20 students claimed they do not consume the product. Most take into consideration the brand, the packaging and the price of the product at time of purchase and only one person mentioned the origin of the product as an important

factor. There were those who said they cared about “the taste that the product promises”, blend, seal of quality, brand relevance, recommendation and expiration date.

The question regarding what coffee could have that it does not nowadays, answers were obtained such as “coffee packed with sugar”, “coffee with different flavors”, “better quality control”, “description of roasting on the packaging and other cultivation aspects”, “preparation kit”, among other suggestions given by the students.

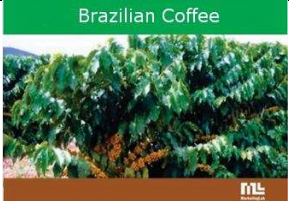

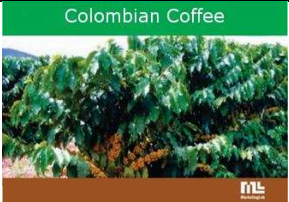

Image	Result
 <p data-bbox="188 568 478 600">Brazilian Coffee</p>	<p data-bbox="496 568 1396 786">For this first image, consumers have made some statements related to valuation of coffee tree figure, a product of national origin, plantation safety, origin, healthy looking of the plant, natural product, plantation quality and coffee origin, and color of the image.</p>
 <p data-bbox="188 792 478 824">Brazilian Coffee</p>	<p data-bbox="496 792 1396 1055">For this second image, consumers claimed to have the impression that the manufacturer guarantees that the grains will be the same way after they have been packed, comfortable feeling to see the person taking the drink, origin, satisfaction of the person with the product, national product, roasting quality, grain quality, and stenghtening of the national bond.</p>
 <p data-bbox="188 1061 478 1093">Colombian Coffee</p>	<p data-bbox="496 1061 1396 1323">For this third image, consumers answered they did not like the image of the plantation but included visual quality of the plant, vivid colors, imported product, advantage of the origin, reliability of the origin, natural product, sanitary quality of plant, stage of fruit maturation, price, and information that can prove the Colombian origin.</p>
 <p data-bbox="188 1330 478 1361">Colombian Coffee</p>	<p data-bbox="496 1330 1396 1702">For this fourth image, consumers highlighted the fact that the product appears to be good due to the grain size, smoothness of the drink, quality appearance of the product from the aspect of the person, quality of origin, the illustration of the grain makes consumer closer to the product, advantage of Colombian coffee, grain and toasting quality, price, brand recognition, what the coffee has in special for being Colombian, origin, remembrance of a happy consumer stimulates purchasing</p>

Table 1. Answers of the illustration stimulus stage of coffee.

Source: Authors.

In quality evaluation there were many factors that were cited such as granulometry, aroma, flavor, quantity of waste, purity, satisfaction, origin, color. And when they were asked what should be taken into consideration to assess the quality of the coffee, the answers were very distinctive such as

flavor, aroma, granulometry, amount of waste, physical purity, brand recognition, satisfaction and appearance.

After the pre focus responses, the ones related to the stimulus step were analyzed. These students had many points in common, but since they have different habits and formations the perceptions and opinions were divergent about the product (Table 1).

When submitted to the degustation step, it could be noticed that those who do not have the habit of consuming coffee said the drink was too strong and bitter, especially because for effectiveness of the experiment they could not add sugar when sipping for the first time. Among the positive responses there was the aroma, creaminess, texture, slightly fruity, and intense flavor. However, regarding the issues that they liked the least we obtained answers such as very bitter, very strong, it tastes as if it were burned, leaves a strange feeling in the mouth, no sugar, and a little sour. Perceptions for each type of coffee are listed in Table 2.

<b>Participants/Capsule</b>	<b>Point the aspects that you liked the most regarding the perception of the coffee tasted</b>	<b>Point the aspects that you liked the least regarding the perception of the coffee tasted</b>
Roma	The fact it is espresso pleases me more With sugar it seemed to me a delicious espresso The strong smell Texture and density Strong taste Creaminess Aroma Intense flavor You feel less sleepy It tastes very good, different from coffee made in a percolator To feel and know the real taste of coffee Lightness Foam The tastes it leaves in your	It tastes as if it were burned Not very pleasant odor compared to the others I have already tasted Too bitter Lack of sugar It tastes weak Too creamy A little sour A little watery It leaves a strange feeling in the mouth Trace of powder in the cup Absence of additional flavors It does not have a remarkable aroma and flavor

	mouth Proper temperature	
Decaf	Warm Very good aroma Creamy Color Strong coffee Slightly fruity Intense Texture Lightness of flavor Foam The taste it leaves in your mouth Bitter Lasting flavor	Extremely bitter Very strong flavor Foam Aroma Consistency Roast of the coffee Absence of additional flavors It does not have a remarkable flavor and aroma Lack of sugar Flavor should be a little more enhanced In the first sip I could not identify the flavor well since it was very hot

Table 2. Answers of the degustation stimulus stage of coffee.

Source: Authors.

### Focus Group

During the focus group stage it was able to synthesize the information on the perception in a more relaxed and natural way. The students were comfortable in the chat to talk about what they thought about the experiment and to tell better about their respective consumption habits, as shown and summarized in Table 3.

Based on the responses it was possible to understand the perceptions and raise the following propositions:

**Pr1: The price is the main element in the assessment of quality, which hinders the use of other differentiation strategies in food.**

The question of purchase linked to price appears in coffee. It was raised the fact that coffee quality is directly related to price. "You know that the cheapest coffee has low quality", "I worry about the quality and I pay more for a better coffee". This proposition is directly related to the bias of Heuristics

"Insufficient anchoring-and-adjustment" and personal food system of Conceptual Model, proving that people have some resistance to changing their habits that have already been incorporated.

**Pr2: Certain information about foods needs to be encouraged to be incorporated in the food decision making.**

The informational content needs to be stimulated, otherwise, respondents are focused only on what is shown. The sustainability issue only appears when it is stimulated and few people have spoken about this topic. During the focus group the discussion on other topics not only the origin, taste and nutrition was encouraged. In this case, it can be said that the bias of Heuristics "ease of remembrance" is related to events and life experiences of the Conceptual Model because individuals judge by the number of memories. One respondent claimed: "Companies should invest less in marketing and more in written information about the product, they should suggest recipes". In this item, it can be related to the bias of Heuristics "Resilience with feeding habits of the Conceptual Model", since individuals are biased in their assessments of the frequency of importance and presence of an attribute.

**Pr3. The rational and technical knowledge have important influence on the decision regarding food.**

It is noticed that, professional knowledge about the issue interferes in the formation of opinions. For this item, it can be said that the lack of sensitivity to the base proportions of the heuristic biases and experiences and life path of the Conceptual Model support this proposition.

**Pr4. Certain stimuli do not change the decision about food when it is related to something cultural and present in the family environment.**

Non-appreciation of advertising. People say that certain stimuli do not interfere in the need of product consumption and they would not stop buying due to the lack of advertising, besides the fact that for coffee, customers are most of the time loyal to a brand. "When we moved to Goiânia, my family took many packages of coffee from São Paulo because my parents thought coffee was quite different there.", "People are addicted to certain brands. My family always buys the same brand, but I would not know how to buy", "Even without advertising I would not stop consuming the product, they are types of essential products and advertisements do not interfere in the purchase". Overconfidence is the bias that sustains this proposition added to experiences and life path as proposed in the Conceptual Model.

**Pr5. Origin is a relevant factor and facilitates food purchase decision process.**

The source is an important factor. "I take into consideration origin and product certification". However, there were those who said they did not care about the brand. This last proposition fits the bias Retrospect of Heuristics and Influences of the Conceptual Model pyramid, since after having observed the occurrence or not of an attribute, individuals tend to overestimate the degree to which they would have foreseen the correct result.

<b>Coffee</b>
<p>I always appreciate the question of origin, giving preference to a domestic product.</p> <p>I like to look at the nutrition label to know what the product contains.</p> <p>I value the contact with the consumer in advertising, I feel like trying the product.</p>
<p>I was not encouraged by advertisements as when I saw the person drinking coffee.</p> <p>I prefer simpler advertisements.</p> <p>Not having refined taste does not distinguish one type of coffee from another. The fact of seeing the grain product changed after the stimuli. Emotional vision. I wanted to drink after the stimulus.</p>
<p>It is a stimulating beverage.</p> <p>The price issue for coffee interferes much at the moment of purchase. When we moved to Goiânia, my family took many packages of coffee from São Paulo because my parents thought it was quite different there.</p>
<p>Considers packaging at the time of purchase, brand origin, curiosities. Values vacuum packaging and appearance of the product, but would not buy only because of the packaging. Origin is very important, it would not interfere purchase, but it gives more security at the time of purchase. The image of the production feels better by referring to the natural factor of the product.</p>
<p>I worry about the quality and I pay more for better coffee. I buy coffee by the smell and flavor quality: Melita and Morro Grande. When I am in my parents' house, I do not like the coffee that Dad buys very much, and then I buy essences to put on the coffee and change the flavor a bit. (no changes) Dark packaging can cause bad impression; I value the valve on it.</p> <p>I did not have a formed concept. Seeing the image enriches the product and it is more accepted because it sharpens the desire.</p>
<p>Consumer includes price aggregated to origin. Purchase attribute comes from family habit. Has trust in a particular brand of coffee, so he takes into consideration the brand at the time of purchase, if he does not like, he does not buy.</p>
<p>It is important to conserve the product in the refrigerator. I like and appreciate the quality standard of product. I know coffee, I'm a producer, I appreciate the origin, family influence.</p> <p>People are addicted to certain brands. My family always buys the same; I would not know how to buy.</p>



The smell stimulates the purchase.
The image of the production did not attract much attention, but the grain did. We associate the origin. I take into consideration the price and the packaging, “café Fazenda” must be worth. “Morro Grande” and “3 Corações”. I felt the coffee was very strong.
I am attracted to the packaging, machines of “Morro Grande” and I consider the grinding when drinking. I take very seriously the nutritional issue. If I moved the city or state, I would take “Morro Grande” with me. I usually take into account the scent, texture, taste and packaging. I felt nationalism, the stimuli helped a lot, but I was not sure of the origin, if it was reliable.
I take into account the speed of preparation and practicality. The one my mother makes and can afford. It was strange that the pictures stressed the origin. Other things matter and those who do not know, they do not understand. I noticed that the foam and the creaminess make it lighter. Advertising does not change anything for me.
Packaging is very important since it calls the attention (Curaçu – I bought only because of the packaging, aesthetics, information and value). I took into account the origin. I did not understand why showing the plant.

Table 3. Answers of the focus group stage.

Source: Authors.

## 6. FINAL CONSIDERATIONS

It was confirmed by the literature, sensoriality and physiology of the five senses, heuristics and attributes and the Conceptual Model of food choice that when consumers are stimulated, they can change their perceptions about a product based on their offers of flavors and nutrition and they suffer influences of the environment at the time of purchase.

There was a limitation related to the sample size, however, there is the possibility to develop this research in greater depth in the near future since all data collected generated insights for new and future researches.

Through the five propositions that were raised, it is possible to develop a quantitative experiment for each of them, relating to the various concepts of heuristics and proposing foundations for the proposed model that can incorporate new stimuli besides flavor and nutrition.

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## THE ANALYSIS OF THE RELATIONAL CONTEXT IN WINE TOURISM

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### ABSTRACT

Many important countries in wine production, like Italy, Spain, Germany, and others, even though provided with relevant wine patrimonies, huge historic and artistic heritages, and marvelous landscapes, are still immature as regards wine tourism. The reasons for such a delay are various, but the most important relies in the lack of a systemic vision that could embrace wine operators, tourism operators and territory operators, including in the latter also and above all public institutions.

This research has tried to highlight the possible contribution of a relational perspective in the governance and management of wine tourism systems, giving as a fact the necessity that these operators would organize themselves as a “wine tourism system”, arriving at it through the development of chains, networks, constellations, flows, and service(s). The aim of the study, in particular, has concerned the possible support of the relational perspective to wine tourism operators in understanding, designing, and developing a wine tourism structure that can become a system based on a service dominant logic, up to determine the “relational context” (in the Business Relational View).

The results of the research has been produced by a speculative analysis on the relational governance in wine tourism (arriving at proposing a theoretical framework of the relational context in wine tourism), then supported by a field investigation that has had the Campania Region (Italy) as a focus. The case study “Movimento del Turismo del Vino - Campania” has been directed to an early verification of the “fumus” of the research, giving sense to the application of the theoretical framework and giving chance to develop coherent implications for both academic and professional purposes.

**Keywords:** *wine tourism, business relational view, relational context, destination management, value co-creation, service dominant logic, service science, system-making.*

### 1. INTRODUCTION

Wine tourism is a phenomenon that has gaining growing economic importance (Hall *et al.*, 2000), both in terms of tourist flows (but including also day-trippers and not just tourists in the strict sense:

Tommasetti and Festa, 2014) and in terms of emerging specific patterns of behavior in the purchase/enjoyment of the wine/territory (Mitchell *et al.*, 2000). Therefore, it is clear that the binomial wine/territory, as well as being a key driver in the wine marketing in the strict sense (Ciasullo and Festa, 2012; Festa and Mainolfi, 2013), represents a driving force of fundamental importance in wine tourism. Because of these reasons, in strategic management terms, it becomes methodologically essential to think (also) about a strategic analysis of wine tourism areas, imagined not only as territorial destinations, but also and above all as ways of offering wine tourism.

In this direction, we believe that a significant contribution can be provided by the Business Relational View (BRV), which, privileging a perspective that values the relationships among the strategic actors operating in the environment/context, tries to understand, analyze and synthesize the growing complexity of the entrepreneurial/managerial dynamics in current socio-economic contexts. In this study, more specifically, after verifying the indispensability of a systemic approach for the actors engaged in wine tourism, we want to investigate the possibility of a theoretical model about the 'relational context' (i.e., that portion of the possible business connections in which the collaboration with the relevant stakeholders is particularly qualifying) for the wineries offering wine tourism.

Thus, using the BRV as an investigating perspective for the analysis of the wine tourism phenomenon, we want to pursue, as main theoretical aim of the study, the application of the 'relational context' framework to the (hypothetical) system of the integrated wine tourism offer. In particular, objective of the study is to determine the possible actors of the wine tourism relational context, giving more importance, in a service dominant logic perspective, to the role of consumer/tourist, whose main co-creation activities will be highlighted as well.

## **2. A LITERATURE REVIEW ON WINE TOURISM ABOUT THE NECESSITY/OPPORTUNITY OF A SYSTEMIC VISION**

In recent years, the literature has devoted increasing attention to wine tourism both because it is one of the most dynamic and significant new forms of tourism and because economic actors belonging to distant chains and industries find convergence in the implementation of supply systems in order to satisfy a demand in continuous progress, characterized by the emergence of new reasons for tourist consumption with reference both to a specific segment (agri-tourism, rural tourism, etc.) and to a niche (wine tourism).

In a managerial perspective, food and wine tourism (Hall and Macionis, 1998) requires an analysis based (at least) on three perspectives, that, although distinct, are complementary and interactive: 1) the perspective of wine consumers; 2) the perspective of economic actors operating in the whole wine industry, considered it in a broader view than the mere cultivation of grapes, wine production and its

distribution (Mastroberardino, 2002; Vagnani and Volpe, 2009); 3) the perspective of tourist destinations that promote and enhance forms of wine-related tourism, especially in the case of regions with a structural viticulture orientation. In this case, the territory is not merely a component of the offer, but an item imbued with meanings that progresses from mere *territoire* to become *terroir* (Ciasullo and Festa, 2012). Nevertheless, as pointed out in the literature, local contexts that have a good reputation for producing quality wines show deficiencies in wine tourism both because of the lack of integrated tourism services (Tamma, 2002) and because of the inability on the part of the various socio-economic actors to work together in a systemic way (Bencardino and Cresta, 2004) with the consequence of debasing the emergence of a wine tourism destination (Maizza and Rosato, 2008).

Also Getz (2000) points out that there are at least three perspectives of analysis, substantially identical to those analyzed previously: wine producers, tourism agencies (promoting the destinations) and consumers. «Thus, 'wine tourism' is, simultaneously a form of consumer behavior, a strategy by which destinations develop and market wine-related attractions and imagery, and a marketing opportunity for wineries to educate, and to sell their products, directly to consumers» (Getz and Brown, 2006, p. 147). The proposed definitions highlight the need/opportunity for a synergistic system of related and integrated services, together with the presence of a network and relationship system that would involve the different actors active on the destination (wine related or not) and would support the competitiveness both of the destination as a whole, and of the different actors operating there. In this sense, a specific study (Fait, 2012) has regarded the peculiar collaborative relationships that insist in the interaction between the typical food sector and the agro-food tourism: in this connection, the creation of shared value is based on the ability on the part of the actors to act in a coordinated manner via a relational system that is enabled by disseminating knowledge, sharing the vision, the mission and the values of the organization, and creating confidence among the operators.

A corollary of this, is the presence of a common and shared vision among the different actors operating in the destination. Only in this case, the destination is configured as a system of global supply, in which many products and forms of collaboration can coexist and intermingle, and in which the interdependence (among the many actors involved) about economic and decision-making aspects ennobles effective coordination and integration situations.

As to this, Hall *et al.* (2000) have proposed a model in which actors, and their connections and relationships, are analyzed, while affecting different stages of development of the wine tourism network. In this sense, the network of relationships that fosters the systemic action of the different public and private entities is crucial, being a fertile ground for the generation of a common relational infrastructure (consisting of networks of communication, collaboration and cooperation among the actors) which contributes to the whole offer about an experience of territory discovery and enjoyment.

The cultural and hedonistic components that characterize wine, leisure, pleasure and travel activities (Hall *et al.*, 2000) have conducted to enhance the experiential perspective of wine tourism (Ali-Knight and Carlsen, 2003; Bruwer and Alant, 2009; Quadri-Felitti and Fiore, 2012; Capitello *et al.*, 2013). Even Dodd (1995; in Scravaglieri, 2010), starting from the definition of wine as a drink associated with relaxation, socializing, learning something new and hospitality, stressed that tourists are in search of some or all of these features during the holiday/stay. Therefore, wine tourism is more than just a simple visit to the cellars and vineyards, but is instead the culmination of a series of unique experiences, including natural landscape and artistic beauties, atmosphere, culture and traditions of a place, wine and local food.

As a result, in a supply-side perspective, and in particular when talking about wineries, the emergence of the destination in terms of wine tourism supply is enhanced by further complexity elements. Thus, the wine tourism offer must satisfy needs/desires by a correct interpretation (from a relationship marketing perspective) in order to create a customized value proposition, that can be perceived as 'extraordinary'.

It is clear that integrated, coordinated, synergistic and differential actions (compared to other wine tourism destinations), as an expression of belonging to a network/system, supply the exchange as well as the generation of new knowledge by transforming the relational context in a privileged knowledge asset (Chesbrough, 2003). In this context, as we will argue in the theoretical model which will be proposed later, sense-making processes are fundamental and they can be explicated in the actors' capacity/ability to co-create value.

However, with specific reference to wineries interested in wine tourism, we want to highlight how the integration process (at least in Italy) is still in its infancy, especially in the case of small-scale entities, often characterized by scarce entrepreneurial attitude (Migliaccio and Matarazzo, 2005; Mancino and Lo Presti, 2012). In such situations, there are substantial difficulties in collaboration with both wineries and tour operators.

There are a distrust attitude and an individualistic culture that prevent dialogue and discussion and make more difficult to build networks able to support the identity of a territory more strongly. In contrast, in territories that are characterized by a strong collaboration among socio-economic actors (and among these ones and public institutions), it is easier to find the emergence of excellent wine tourism destinations (Maizza and Rosato, 2008) with a collective offer that expresses a shared identity and a competitive positioning that would be defined and unique (Franch, 2002; Rosato and Scorrano, 2010).

From the analysis that we have conducted, however, the relationship among wineries and the possible players in the territory, with whom it is essential to interact, is not yet well examined in depth, while it

could be very useful in order to reach an effective wine tourism system, leaving therefore, ample room for deepening the advancement of the management research.

### 3. RESEARCH DESIGN AND METHODOLOGY

This study aims at providing a significant answer to the following research question: «*What could be the relational context of a winery engaged in wine tourism?*».

The perspective that we want to assume, therefore, is related to the winery specifically (and not to other actors, public or private, engaged in the whole wine tourism offer), because of two fundamental reasons: 1) wine tourism, of course, must always develop in an area where there is a wine offer with some interest; and, at the same time, 2) the mere offer about wine is not sufficient, since wine tourism is first and foremost 'tourism'. In the present work, in addition, we believe that the BRV (Pellicano *et al.*, 2014), whose core methodology consists precisely in the analysis of the relational context, can be an effective key for the subject of governance of the winery, called to shift her/his entrepreneurial/managerial perspective from the attractiveness of the wine tourism offer of her/his (own) cellar to the attractiveness of the offer of the relational context of the wine tourism area.

Therefore, from a methodological point of view, after verifying by the literature analysis the need/opportunity for a systemic approach to wine tourism, we propose that a winery can adopt a perspective based on the BRV and, consequently, its focus on the relational context. At this point, however, the most important question, for the subject of governance of the winery, concerns the definition of the relational context of the territory in a wine tourism viewpoint (i.e., that portion of the environment/context in which the subject of governance of the winery believes that its business system is able to co-create value in wine tourism): for this reason, it has been decided to use the case study methodology, in an exploratory perspective, by investigating the 'Movimento Turismo del Vino - Campania' (Wine Tourism Movement).

The analysis of a case study, developed in the three phases that will be highlighted further, has been considered a useful methodological solution in order to investigate the opportunities, but also the problems, that could regard a (possible) wine tourism system from the viewpoint of a winery (that is the fundamental perspective of this study). In this sense, the decision of studying an association of wineries concretely oriented to wine tourism, could give, in our opinion, the possibility of investigating the wine tourism world 'behind the scenes', that is, from the viewpoint 1) of wineries and 2) of wineries already aware about the necessity/opportunity of working together.

The reason for choosing just the territorial context of Campania, as we will clarify in more details in the analysis of the case study, is mainly due to the fact that this Italian region can boast a priceless heritage of grapes, having a large number of autochthonous grape varieties, with the wine that has

always played a central role in the culture and tradition of the territory. In addition, the regional viticulture is very variegated also with regard to the grape cultivation techniques: in fact, the areas interested by the grape cultivation cover the entire region, the vines thrive in the lowlands, hills, mountains and volcanic areas and coastal areas, giving the product quality and uniqueness characteristics.

As a consequence, wine tourism is a very widespread phenomenon in the territory of Campania, although the integration process between the tourist service supply and winemaking is still underdeveloped (Mancino and Lo Presti, 2012). Just the characteristic of a very rich potentiality for wine tourism, not yet accomplished, but mostly embryonic, has suggested to focus the empirical research on the Campania section of the Italian Wine Tourism Movement.

#### **4. AN OUTLINE OF THE BUSINESS RELATIONAL VIEW**

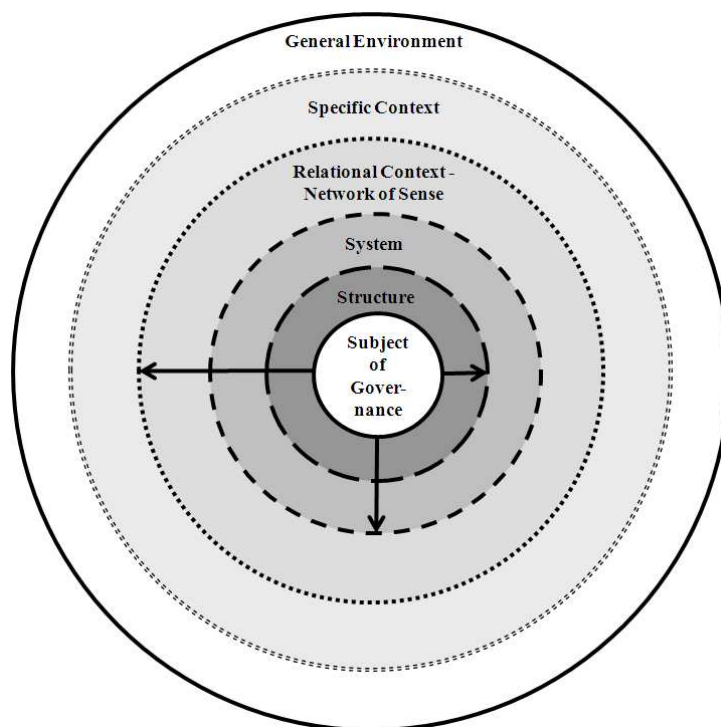
In the BRV we propose an interpretation of the entrepreneurial/managerial dynamics in complex environments by the adoption of a perspective based on the concept of 'relationship', intended as the rapport among individuals that would be characterized by originality, value and stability. In particular, a relationship is differentiated from the transaction as to the rapport uniqueness, in the sense that in describing the resources exchange via such a connection we find not a mere 'synallagma', as just happens in any transaction, but a real and unique value co-creation, almost irreplaceable, just because of the special collaborative dynamics between those two (or among more) specific subjects considered.

Within the overall relational infrastructure, which is the connective tissue that binds the enterprise to other entities/stakeholders involved in any way in the business processes, it is strategically important a specific portion of the entrepreneurial and managerial space, that is to say, that sub-set of actors/connections with whom/which the company is able to co-create value (and not only to exchange resources). Therefore, in order to bring out the relational context firstly from the general environment (that affects any socioeconomic organization) and secondly from the specific context (that affects in particular the specific socio-economic organization, represented in its action by the intelligence of the subject of governance), we need to determine the perimeter of the value co-creation, which results from the interaction of pro-active individuals committed to create responsibly a synergistic flow of utility/service in favor of a beneficiary, that is, in a 'normal' marketing perspective, the customer, that also participates directly in the value co-creation (as a 'prosumer').

In the relational context, finally, it appears clear the need/opportunity of a shared economic purpose, because the various entities involved work closely together in order to co-create value. Therefore, in the BRV, the subject of governance of the single enterprise is encouraged to take an interest in the



economic purpose of the relational context, and not (only) of the single socio-economic organization that she/he represents formally and substantially: in the long term, in fact, the business competitiveness passes necessarily through the relational context competitiveness, whose survival will be possible only if the entropic forces to individual appropriation of the co-created value will be minimized. Here below we propose a graphical representation of the relational context as a subset of the general environment as well as of the specific context, with the value sharing (represented by the different arrows) that, in a sustainability perspective, is extended by the subject of governance from the structure to the system and finally/responsibly/successfully just to the relational context (cf. Fig. 1, in Pellicano *et al.*, 2014).



*Fig. 1 - The relational context in the perspective of the subject of governance.*

This key seems useful for understanding the entrepreneurial/managerial phenomena, also, as it is easy to understand, for the world of wine tourism, of which we know the needs/opportunities for collaboration among local actors, but of which, at the same time and unfortunately, we know also the limitations in the collaboration. The identification of the relational context, in this sense, may be greatly interesting for the winery engaged also in wine tourism (an almost physiological condition in the wine world), because the subject of governance of the winery would know well, at that point, with which local actors she/he needs to interact in order to design or take part to the system of the wine tourism context which that specific winery belongs to.

In this regard, it should be noted that some studies have so far been interested in the taxonomy of the types of actors with whom wineries engaged in wine tourism better or more profitably should interact, but they do not propose a theoretical systematization in a collaboration perspective. For example, investigations in this direction are proposed in Hall *et al.* (2000), Getz (2000), Migliaccio and Matarazzo (2005), Kirkman *et al.* (2013), Schmidt *et al.* (2014) (to name a few), while in Tommasetti and Festa (2014) indeed we can find a contextualization of the Hall's proposal (2000) in the perspective of the Service Dominant Logic (Vargo and Lusch, 2008a; Vargo and Lusch, 2008b; Vargo *et al.*, 2008).

In the continuation of the study, therefore, we will try to bring out the characteristics of the relational context of the winery engaged (also) in wine tourism, giving particular emphasis to the relationship with the wine tourist and more specifically with reference to the possible actions of value co-creation that should be developed. By knowing the players in the relational context, and in particular the activities that can be implemented in the value co-creation with the wine tourist (in general, the most important actor in the relational context), the subject of governance of the winery should find easier and more profitable to manage her/his portion of the wine tourism value in the wider wine tourism offer of the territory.

## **5. A POSSIBLE THEORETICAL FRAMEWORK FOR THE WINE TOURISM SYSTEM**

Thanks to the BRV, whose main characteristics have been just drawn, we can bring out a theoretical framework of the wine tourism relational context, providing a scheme for the operators that, in the overall wine tourism offer, could be considered by the wineries the most interesting actors in the value co-creation. Clearly, a wine tourism relational context, that would be conceptualized according to this way, at the same allows also to define the wine tourism destination. In the so described perspective, in fact, the wine tourism destination could even be paradoxically detached from the territory, creating a sort of 'Macondo' (as in 'One Hundred Years of Solitude' by Gabriel García Márquez), i.e. a territory that does not exist, because to qualify a specific wine tourism destination we can find no longer a specific territory, but a specific wine tourism relational context.

In this case, an important role should be played by the cooperation among the public entities involved in this territorial *milieu*, together with other institutional bodies with an associative nature (including, for example and above all, the Wine Tourism Movement in Italy), favoring in some way a top down dynamics that in this case would probably be successful. In this sense, furthermore, it becomes natural to recall the concept of interactive service ecosystem, just analyzed in the studies on Service Science (Spohrer and Maglio, 2010).

In fact, by the term 'ecosystem' in general, we mean a system in which single subjects (institutions, communities, individuals, etc.) implement strategic actions, passive and/or active, stimulated and aimed at generating value both for the governance of the interdependence and for the survival of the single subject. Such a system, in which the value creation is 'not-zero-sum-based', relies on concepts such continuity, resilience, innovation, etc., which find a significant reference characteristic in relationship, sharing and communion (in this sense, cf. Pilotti, 2001; and Pilotti, 2006; in particular on tourism ecosystems, cf. Pilotti *et al.*, 2010; and Pilotti *et al.*, 2011). In the specific case of the Service Science, moreover, this 'community' finds in the service concept (as a stream of knowledge, utilities and services in the strict sense) the coordination mechanism for the system functioning, activating in truth and at the same time a concrete mechanism of production/distribution/consumption (Spohrer and Maglio, 2010).

However, this theoretical interpretation, at this point about the 'total' wine tourism service, offers also an innovative vision in order to overcome the 'regional' dynamics as traditional object of study in wine tourism (in Italy, for example, Tuscany, Piedmont, Apulia, etc.) and to favor territories that can be intermediate (Chianti, Langhe, Salento, etc.) or even 'virtual' (the related Wine Routes and/or other similar initiatives). In hindsight, just the virtual dynamics for the wine tourism destinations, are practical representations of the relational context, i.e., those portions of the business space (from the general environment to the specific context) in which some actors, probably more far-sighted, identify strategic relationships with other relevant actors, in order to co-create value in wine tourism.

## **6. THE CASE STUDY 'MOVIMENTO DEL TURISMO DEL VINO - CAMPANIA'**

The choice for the practical application of the theoretical framework of the relational context has concerned the 'Wine Tourism Movement' because it is clearly the institution that, in Italy, is engaged more than any other organization in the wine tourism promotion: as a consequence, the subjects involved in the movement (which would emerge in this perspective as a meta-subject) have a significant knowledge of wine tourism problems (both as members and, even more, as subjects of governance of their own wineries). Moreover, the choice (non-probabilistic sampling) for the contextualization of the investigation has concerned the region of Campania because 1) it can be considered a kind of ideal territory for wine tourism in a systemic viewpoint at least in terms of potentiality (judgment sampling: Mancino and Lo Presti, 2012); 2) it represents a significant portion of the Italian wine tourism offer (a sort of quota sampling: Maizza and Rosato, 2008); and 3) it is better known by the authors (convenience sampling). It is clear, however, that the case study should be considered in an exploratory perspective, because it is analyzed in order to 'discover' a possible configuration of the relational context in wine tourism, which obviously could change, even though

not substantially, in other areas (and thus, a first development of the research may lie in the identification, by the analysis of multiple case studies, of the elements that could be shared in different territorial relational contexts oriented to wine tourism).

The case study is developed as follows. In the first phase, a questionnaire has been submitted to all the wineries associated to the Wine Tourism Movement - Campania, in order to recover, in a bottom-up perspective, a set of 'first-line' information (data, opinions, etc.) that, in a second phase, have been interpreted by researchers for the construction of the relational context that, in a third phase, has been commented by the Regional President of the Movement (and winemaker as well).

The crucial question of the questionnaire is expressed in a table (see Appendix), which investigates the interviewee about the different categories of the actors that can participate to the wine tourism offer and their related importance, from a theoretical point of view (so to imagine a reasonable extensibility of the study also to the wine tourism systems of other areas). The 'importance' of the collaboration is a 'translation' in favor of the respondent of the concept of 'value co-creation', that can be measured by a 1-10 scale, that has been imagined as an easier interpretation with respect to a Likert scale.

A first type triangulation (on the data sources) has been carried out (Denzin, 1970; Patton, 1987), because it has been based on: 1) the web pages of the national and regional Wine Tourism Movement (and, of course, other sources from the scientific and professional literature); 2) the interviews to the members of the Wine Tourism Movement - Campania; and 3) the in-depth interview to the subject of the governance of the Wine Tourism Movement - Campania.

### *Presentation of the Wine Tourism Movement in Italy*

The association 'Movimento Turismo del Vino' is a non-profit organization, founded in 1993, which has two main purposes: incrementing the visibility of the wine tourism offer of the associated wineries and promoting the quality of the wine tourism hospitality, which is considered an essential prerequisite for the about 1000 wineries that are members (cf. [www.movimentoturismovino.it](http://www.movimentoturismovino.it)).

Numerous events are scheduled during the year to achieve these objectives:

- 'Open Cellars', the first and most famous of these events, held at the end of May, during which the participating wineries open 'institutionally' the doors of their cellars to wine lovers, in a day dedicated to the celebration of wine tourism in Italy;
- 'Goblets of Stars', held on the night of San Lorenzo, that is on the night between the 10th and the 11st of August, also in order to seasonally adjust the wine tourism offer;
- 'Open Cellars in Harvest', to encourage wine tourists to live, in the month of September, some moments of the daily life in a winery;

- ‘Open Cellars on San Martino’s day’, to accommodate wine tourists in November, that is, in the first moments after the harvest season.

Evidently, the formats of these events are quite similar (to create a sense of recognition and habit for wine tourists) and in any case optional, in the sense that not necessarily all the wineries belonging to the Movement must participate, but only those who feel that they want and when they want. In this way, the association has been able to plan, for any year, a sort of program for the collective initiatives about wine tourism in Italy, with this situation that represents a first important result in the activity of the association.

Another important result are the ‘Guidelines about the Hospitality Service in the Cellar’, i.e. a set of rules/procedures that every associated winery must attend/implement to comply with the essential requirement, which has been previously mentioned, in order to be member of the Wine Tourism Movement. In particular, the guidelines focus on three main areas of service: standard for the firm (what cannot miss in the winery that wants to offer wine tourism), method (what to do and how to do it, in order to accommodate wine tourists in the best way) and person (which are the training and professional requisites for wine tourism operators?).

#### *The results of the empirical investigation on the ‘Wine Tourism Movement - Campania’*

As mentioned in the presentation of the research methodology, the first step of the field survey has concerned the submission of the questionnaire (cf. Appendix) to all the wineries belonging to the Association in Campania. Before the submission to the wineries, the questionnaire has been submitted by the authors, as a sort of ‘pilot investigation’, to 3 different researchers/colleagues not belonging to the research team, in order to obtain useful corrections/additions (we have not send a pilot questionnaire directly to the wineries belonging to the Movement, because this operation would have certainly decreased the number of respondents, by reducing from the beginning the number of the test basis, already limited).

The submission of the questionnaire, together with an appropriate letter of presentation of the research, has been implemented via e-mail with the support of the regional offices of the Association, in order to make the members aware about the survey. A first submission has been followed by a solicit to allow the recovery of further replies.

At the end of the survey, the returned questionnaires have been 7 out of 35 potential respondents (that is, the wineries associated to the Movement in Campania), with a redemption of 20%. Naturally, from a descriptive/explanatory point of view, 7 questionnaires cannot allow to obtain statistically reliable results, but instead they are definitely useful, operating as a second source of triangulation, for the

purpose of an exploratory research. The data thus collected has been entered into a database, that has been investigated synthetically when focused on quantitative aspects (ratings, percentages, etc.) and as an 'open table' when focused on qualitative aspects (opinions, judgments, etc.).

Of the responding wineries only 2 are engaged exclusively in the production of wine, while the other 5 are involved also in the production/commercialization of other agro-food products/services. The production average size investigated is about 600,000 bottles, but with a strong variance, due to the lower level positioned to 60,000 and the upper level positioned at 3,500,000.00. Once again, therefore, we underline that the contribution provided by the field survey is only explorative.

As regards more specifically the definition of the strategic importance of the possible players in the relational context, all the proposed categories have received a relevant assessment, at least equal to 7, except for the 'marketing and communication advisors', that have received an average score lesser than 6. In explorative terms, therefore, it seems plausible to imagine that the network of value co-creation of the wineries involved in wine tourism could/should include the categories of proposed actors (likely except the 'marketing and communication advisors'). In fact, there are not other categories proposed by the respondents at the end of the table, that have been eventually slipped in the design of the model: one respondent has highlighted in addition the 'terroir', which, of course, could not emerge as a category of actors, but, at most, as an aggregation of actors.

As regards the amount of time reserved to the collaboration with the different proposed categories, we have not received relevant answers, because some wineries have not given meaningful answers. In fact, out of the 7 respondents: 3 have not imagined the sum of time equal to 100; 1 has thought that the time variable is not significant to appreciate the quality of the relationship; 1 has not answered; only 2 have answered 'correctly'.

As regards the activities of value co-creation with the wine tourist, all the actions proposed in the model have been considered of a relevant interest, with an average rating never lower than 7. In explorative terms, therefore, it seems plausible to imagine that the value co-creation flow enabled by the winery specifically with the wine tourist could/should embrace all the types of activities proposed in the model. In fact, other categories of activities, which could have eventually slipped in the design of the model, have not been suggested: 1 respondent has highlighted in addition the 'word of mouth', which, of course, could not emerge as a category of 'production' activity for the wine tourism supply, but, at most, as a category of 'communication', with an extraordinary value, for the wine tourism supply.

Framing into a system the considerations so far developed, we propose below a graphic representation of the possible relational context of the wine tourism offer in the winery perspective (see Fig. 2). In particular, with respect to the categories expressed in the model (derived both from the

literature and from empirical observations), we have decided to exclude the category of ‘marketing & communication advisors’ (in *disconfirmation* with respect to the proposed model) and to emphasize the category of ‘wine tourists’ (in *confirmation* with respect to the proposed model). Of course, the interaction on the part of the subject of governance of the winery with *other* actors (as regards the relational context) and with *other* activities (as regards the value co-creation with wine tourists) is always possible, and this possibility is indicated in the graphical framework by the suspension points.

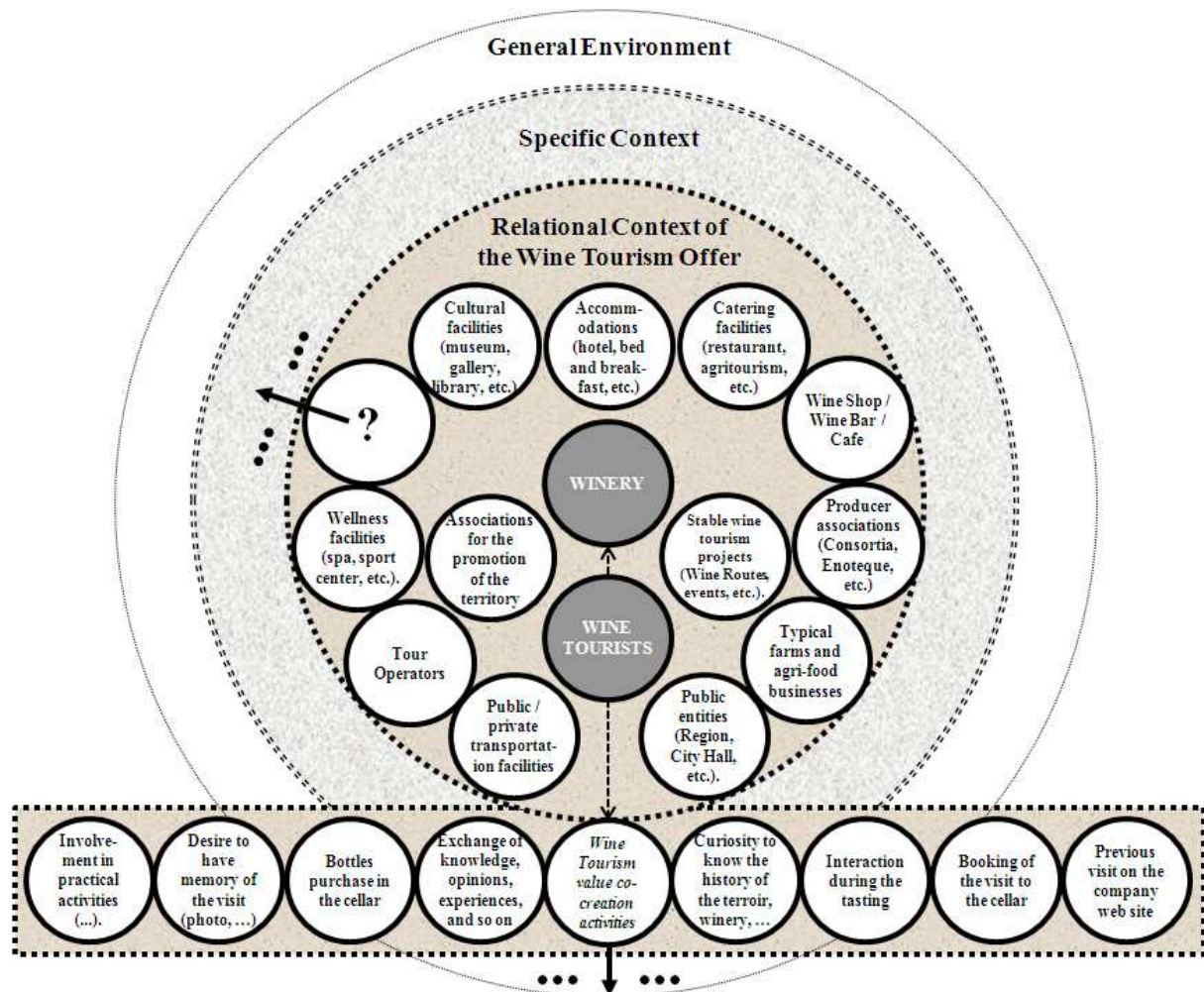


Fig. 2 - The relational context of the wine tourism offer (our elaboration).

As regards the other questions of the questionnaire, with an open-response nature and useful to better understand the meaning of the other answers, the question on the perception of a wine tourism system in Campania seems very interesting (unfortunately), because it has received a negative response in 5 out of 7 cases, not considering, of course, the initiatives developed by the Wine Tourism Movement - Campania. On this aspect, therefore, the most relevant criticalities and, as a consequence, opportunities seem to rely, starting with the institutional entities that could/should assist wineries in

this direction and continuing with the various organizations (at this point, belonging to the relational context) that could/should interact with the different partners of the supply chain/network/system.

*The in-depth interview with the President of the Wine Tourism Movement - Campania*

The overall framework of the relational context in the wine tourism supply, derived from theoretical studies and empirical data, in the present research still in an exploratory phase, has been then submitted by an in-depth interview to the subject of the governance of the Wine Tourism Movement - Campania (i.e., the Regional President, Ms Emanuela Russo). Substantially, there has been a significant harmony in the discussion about the possible composition of the wine tourism offer in a supply-side perspective, that is, from the point of view of the wine industry: in fact, the opportunity of determining a useful mechanism for the single winery has been appreciated, and moreover it has been underlined that such an equipment can/must be applied theoretically or practically only after the diffusion of a greater cultural awareness, because winemakers are too often still not inserted fully, especially from a 'psychological' point of view, in a systemic wine tourism offer (we must highlight, in fact, that in Campania only 35 of about 400 bottler wineries – cf. [www.campaniastories.com](http://www.campaniastories.com) – are members of the Wine Tourism Movement).

*«On the territory, some talk about a 'system', but more in words than in deeds. A study in this direction seems very welcome, although it probably would need a previous cultural sensitization. Let me give an example: there is much talk about the Wine Routes, but, in all honesty, we would need before and more simply, 'roads' to safely and comfortably reach the cellars».*

Even for the same movement, furthermore, the President calls for participations to the association that could be active, reactive, and proactive, and not just a facade (for continuity in the inscription, for the image of the winery, etc.). Too often, in fact, beyond the events scheduled in the year program of the association, the wine tourism initiatives in Campania are based on an individual nature, due to some 'heroes', small or large, engaged in animating the territory even though living in difficult circumstances.

## **7. RESULTS, IMPLICATIONS AND CONCLUSIONS**

In wine tourism there is a constant generic reference, practically on the part of all the actors involved in the wine tourism offer, starting with the wine industry, to the concept of 'system-making', conjured as a kind of talisman that can achieve magnificent results for any territory, more or less wine-oriented. In practice, as it has emerged also from the case study investigated in this research, as well as from previous studies on the subject (Mancino & Lo Presti, 2012; Tommasetti and Festa, 2014), in most



situations a systemic approach in this field is limited to a wish, representing personal initiatives (for mistrust, disappointment, failure, etc.) the main path of wine tourism development.

Connecting the results of the study to the literature review, firstly, it can be highlighted that a peculiarity of this research is just the focus on the wineries' perspective, as one of the three 'pillars' that, according to Hall and Macionis (1998) on one side and Getz (2000) on the other one, are at the basis of the wine tourism phenomenon. Secondly, as mentioned above, the necessity for a systemic vision of wine tourism on the part of wineries is perceived as not yet adequate at this moment, but definitely urgent for a competitive wine tourism offer (as already demonstrated by a conspicuous literature), emerging from this the opportunity of designing it efficiently.

Thus, most of all, we have tried to investigate the possibility to emerge, in the viewpoint of the BRV, for the relational context of the wine tourism offer, i.e. that portion of the wine tourism space in which the collaborations among wineries and some very qualified players become relationships, i.e., connections, rapports or even better interactions inspired by the value co-creation. The results of the research, with a distinctly exploratory nature, have helped to determine a first theoretical representation of this business dynamics, i.e. the relational context of the wine tourism offer (which, from a geometric perspective, offers a view of the business spaces more than the business boundaries), having at its center the wine tourist, from a marketing-oriented point of view, as the most important co-maker.

In particular, all the wineries investigated have agreed on the possible articulation of the wine tourism relational context proposed in the framework, giving less importance only to the 'Marketing & communication advisors'. This result, indeed, could highlight a sort of lack of a marketing-oriented vision, especially for the Italian wine sector (and even more, for Campania), but it seems that this lacking, obviously for the wineries investigated, regards more specifically marketing & communication projects on wine in general, than the relationship with the consumer/tourist, in truth always considered a fundamental actor of the whole wine tourism offer (giving us empirical bases for retrieving the theoretical importance of experiential marketing, relationship marketing and service dominant logic).

As a first scientific implication of this study, we highlight the need/opportunity to analyze more deeply, in a following phase, the relational context in wine tourism especially from the demand perspective (i.e., the wine tourists), because definitely they are already perceived in a certain way as co-makers by the subject of governance of the winery, but they constitute, in a modern marketing approach, an essential point of reference for the construction of the overall wine tourism offer. The supply-side approach can therefore be considered a limitation of this research, but in reality it is clear that it has been envisioned from the beginning as a specific perspective of inquiry, precisely in order

to analyze the point of view of the winery, so that this one may be methodologically supported by BRV in the design and development of a competitive wine tourism offer.

Another scientific implication, instead, concerns the possibility of understanding how to communicate a wine tourism destination in a non-territorial, but significantly relational way. In this perspective, the study is a first step in a research path on the role that public institutions should take, in a collaborative approach that would be inter-territorial and not only territorial in a strict sense, in exalting the synergic function embedded in the territorial relational processes.

In terms of managerial implications, it should be noted therefore the opportunity for the subject of governance of the winery to define 'a priori' the wine tourism relational context to work in, with the understanding that this framework would be a merely necessary condition, but absolutely not sufficient in itself for the supply of wine tourism value. On the contrary, if there was not such a comprehension, the winery would be a loser from the beginning in the wine tourism competition.

Moreover, after defining the relational context in this way, the subject of governance of the winery should be able to understand and to select which actor could be helpful or not for its 'contextualized' wine tourism offer, in any case retrieving the essential importance of her/his business discernment. In fact, the same relational context is not static, and its dynamics is driven just by the ability of the subject of governance to 'intercept' signals from the general environment and the specific context, even so interesting to modify the articulation of the relational context (also in a planning perspective: for example, we may think of specific new projects).

In wine tourism, in conclusion, because of the significant contribution offered by the territory to the supply system as a key factor in localization and aggregation, the collaborations, among the actors that are involved synergistically in service, are considered essential, strategic and, if well designed and implemented, forward-thinking for the competitiveness among territories in the short, medium and long term. In this sense, the value co-creation, supported by a sustainable sharing of the so co-created value, constitutes the main horizon of reference for the wine tourism development, which, just because of its fundamentally collaborative nature among the various local actors, seems to find a comfortable theoretical matrix, for the actions of government and management, in the Business Relational View.

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[www.campaniastories.com](http://www.campaniastories.com)

[www.movimentoturismovino.it](http://www.movimentoturismovino.it)

## APPENDIX.

### *The questionnaire for the wineries associated to the Wine Tourism Movement - Campania (p. 1/2)*

Name of the winery: \_\_\_\_\_

Legal form: \_\_\_\_\_

Headquarter (Province): \_\_\_\_\_

Years of association to the Movement: \_\_\_\_\_

Number of bottles produced in 2013: \_\_\_\_\_

Product types:

- only grape/wine
- other agricultural/agro-food products *i.e.:* \_\_\_\_\_
- also services *i.e.:* \_\_\_\_\_

Below we propose a possible list of players, both public and private, that in your opinion should 'theoretically' work with your winery to supply an effective wine tourism offer. At the end of the table, there are some blank lines where you can add other actors that you think are strategic. At the center of the table, there is a rating scale in order to indicate how much in your opinion each of these categories is important 'in theory' in the collaboration with your winery (in a wine tourism perspective). The last column is reserved to the time that the staff of your winery has spent during the last year in the relationship/partnership with each category, evaluated as a percentage of all the time reserved to the relationship/partnership with all the categories (the sum of the percentages in the column is equal to 100%).

Operator category in wine tourism offer	Importance										Time
	1	2	3	4	5	6	7	8	9	10	%
Accommodations (hotel, bed and breakfast, etc.).											
Catering establishments (restaurant, agro-tourism, etc.).											
Wine Shop / Wine Bar / Café											
Producer associations (Consortia, Enoteque, etc.).											
Typical farms and agro-food enterprises											
Cultural facilities (museum, gallery, library, etc.).											
Wellness facilities (spas, sports centers, etc.).											
Tour Operators											
Public / private transportation facilities											
Public entities (Region, City Hall, etc.).											
Associations for the promotion of the territory											
Stable wine tourism projects (Wine Routes, events, etc.).											
Marketing and communication advisors											
...											

*continues on the following page...*

*The questionnaire for the wineries associated to the Wine Tourism Movement - Campania (p. 2/2)*

**1) Of the above actors, intended as 'categories', which are the main problems/opportunities that may arise in practice for wine tourism, in the collaboration with your winery?**

**2) Could you describe briefly the initiatives that you have undertaken with some, if any, of the above categories of actors?**

Below we show some examples of activities/actions that can be implemented by the wine tourist as a 'co-maker', i.e. how the wine tourist can contribute to improve the overall quality of the wine tourism offer of your winery. At the end of the table, there are some blank lines where you can add other activities that you think are strategic. A rating scale is provided, in order to indicate how much in your opinion each of these activities/actions implemented by the wine tourist are important 'in theory' in the collaboration with your winery (in a wine tourism perspective).

Collaborative activities/actions implemented by wine tourists	Importance									
	1	2	3	4	5	6	7	8	9	10
Previous visit on the company web site										
Booking of the visit to the cellar										
Interaction during the tasting										
Curiosity to know the history of the terroir, winery, ....										
Exchange of knowledge, opinions, experiences, and so on										
Involvement in practical activities (harvest, etc.).										
Desire to have memory of the visit (photo, signature, etc.)										
Bottles purchase in the cellar										
...										

*3) What do you think the main problems/opportunities, that may arise in practice from the perspective of the wine tourist as a 'co-maker', are?*

*4) Do you participate actively in other associations/organizations/initiatives that deal with wine tourism? If so, can you please describe them?*

*5) Do you feel your winery as a concrete, effective and collaborative part within a wine tourism system in Campania? If not, why?*

*The questionnaire is completed. Many thanks for your collaboration.*



## MARKETING OF TRADITIONAL-LOCAL PRODUCTS IN THE EXPERIENTIAL PERSPECTIVE: THE CASE OF THE TRUFFLE MARKET

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### ABSTRACT

The hypothesis underlying this paper is that the business of *traditional-local* requires a specific and suitable approach (experience logic), which needs to combine the conceptual tools of service marketing (Vargo and Lush, 2004 and 2008; Gronroos, 2011; Gronroos and Gummerus, 2014) with the experiential perspective (Schmitt, 1999; Pine and Gilmore, 1999).

In line with an experiential perspective we suggest that the producers of traditional-local goods abandon the conservative strategy that rests upon the defense of traditional means of production, and embrace instead an experiential logic marketing approach. In this way manufacturers could offer an integrated portfolio, inclusive of both traditional agro-industrial articles and new experiential products, such as thematized events, carrying higher added value (Pencarelli and Forlani, 2002, 2006). From the methodological point of view, consistent with the purposes of exploration, we chose to use a qualitative approach and the case study (Yin, 2003). The case study *Marini & Azzolini Truffles* of Acqualagna (PU - Italy), is considered particularly remarkable (Yin, 2003).

The company studied, contrary to the expectations, acts according to a good-based logic. It is not interested in the value co-created by and with the customer in places where the truffle experience originates (in restaurants and in the local area) and operates only residually in the business of culinary tourism. In this way, in our opinion, the company does not grasp the opportunity offered by the experiential logic approach to marketing, and it leaves it up to the other players in the sector to co-create value for customers by acting on the experiential, emotional, relational, and symbolic benefits to the end customer.

Despite the limitations of the research related to the use of a single case study, the paper proposes a new conceptual model (experience logic) to observe and interpret the food and wine business as well as the businesses involved in the new post-modern consumption processes, in which there is a demand for a strong experiential content, authenticity, and low standardization of the offer.

**Keywords:** experience logic; experiential logic marketing, traditional and local products, truffles market, tourism, distribution, attractions;

## 1. THE CONCEPT OF TYPICAL PRODUCT FROM THE PERSPECTIVE OF THE EXPERIENCE ECONOMY

In the Italian market all agricultural and artisanal food products that are labeled DOC (Controlled Designation of Origin), IGP (Protected Geographic), DOP (Protected Designation of origin) or TSG (Traditional Specialty Guaranteed) (Arfini et al., 2010) are defined as a “typical product”. The concept of “typical product” includes both products whose characteristics derive from the place (local product) and those that come from particular traditions (traditional product). For this reason and in keeping with the international literature (Guerrero et al., 2010; Kim et al., 2009) on this topic, the concept of typical product will be classified as “traditional-local product” in this study.

The aim of the paper is to understand the nature, function, and potential of traditional-local products analyzed from the perspective of the Experience Economy (Pine and Gilmore, 1999), assuming that the product is the production result (output) of a system of any type (Rispoli and Tamma, 1996). Whatever the nature of this product, it is the exchange element of the company with third party systems and represents the fundamental reference of the mission, business, and production organization of a single-company system (Coda, 1988) or a system of companies (Rispoli and Tamma, 1996).

According to Rispoli and Tamma “... the product, [...], as the *output of a production process* of any technological nature whatsoever, is either *demanded and therefore supplied or supplied and therefore demanded*, because it is able to satisfy the needs that are manifested in single production and/or consumer economies. Consequently, in real contexts, it may appear as a good, as a service, or as something that takes on varying characteristics attributable to both “ideal types” and therefore not uniquely defined using the traditional terminology.”(Rispoli and Tamma, 1992, p. 102 ). From this view, the product is knowingly and intentionally the result of the producer’s production process; when it is not, we talk about rejection or other output the producer himself describes as being of no value or as a cost.

As highlighted by Pencarelli and Forlani (2002 and 2006), embracing the perspective of Pine and Gilmore’s Experience Economy (1999, p.166) and adopting an “abstract” concept of the product, we can overcome the classic sectorial divisions (primary, secondary, and tertiary) and classify the economic output (from firms) in five forms, each subsumed by the next level of output:

- o Commodities (raw materials - extract)
- o Goods (physical things - make)
- o Services (intangible activities - deliver)
- o Experiences (memorable events - stage)
- o Transformations (demonstrated changes – guide)

The different types of products are solutions that meet different needs of customers and are perceived as having increasingly greater value by the post-modern consumer (Fabris, 2003; Addis, 2005) according to the logic of the progression of economic value (Pine and Gilmore, 1999). The evolution of demand and consumption is showing a growing demand for experiential contents (Pine and Gilmore, 1999 and 2007; Schmitt, 1999 and 2003) and existential contents (Rifkin, 2000; Fabris, 2003; Boswijk et al., 2007). These requests may be satisfied in the consumption of goods and/or services “*experientialized*” (Schmitt, 1999 and 2003) or be “packaged” as experiences or transformations (Pine and Gilmore, 1999; Forlani, 2005; Pencarelli and Forlani, 2006; Fortezza and Pencarelli, 2010).

The perspective of the Experience Economy underlines that:

- a) experientializing a product implies enriching the equation of customer value by adding emotional, symbolic, and relational benefits in order to differentiate the offer;
- b) designing, staging, and selling an experience means giving the customer an emotional content and its value equation will depend on the balance between the benefits related to the consumer’s involvement in a personal experience and the sacrifices necessary to access it. The companies that produce and offer experiences are then required to use their facility or setting as a “stage” upon which to involve consumers-spectators on a sensorial, emotional, and cognitive level, in order to create emotional, intellectual and spiritual value (Pencarelli, 2013).

Based on this interpretation model, agro-food industries should not feel constrained by the technology and the nature of the raw materials used. They should be free to choose, given the constraints of the market as well as the resources and skills possessed, the type of product to design, produce, sell and therefore, the business in which to compete. In this perspective, companies in the agro-food industry can expand their portfolio offering by proposing experiences and transformations in association with the already treated raw materials, goods, and services. Thus conceived, the “traditional-local Italian” designation acquires a cross-sector value (Pencarelli and Forlani, 2006) affecting agriculture, commerce, artisanal crafts, events, and last but not least, tourism (Pencarelli et al, 2013; Bartolazzi et al, 2008).

In this study, in the perspective of the Experience Economy, the traditional-local product is understood according to the following definition: “*the economic offer of one or more firms located in a geographically, culturally, and historically definable territory, which is perceived by the demand as a unitary product consisting of a package of items that are tangible (agro-food products, craft products, manufactured goods), intangible (service, information, culture, history, knowledge, traditions, etc.) and experiential (events, fairs, exhibitions, etc.) characterized by unified brand image.*”

## **2. CONVERGING SERVICE LOGIC AND SERVICE DOMINANT LOGIC VS EXPERIENCE LOGIC**

Starting in the 80s, the literature of service marketing (Gronross and Gummerus, 2014) has emphasized the need to overcome the Good Logic in order to understand the differences in approach to the customer arising from: simultaneity between production and consumption, intangibility, heterogeneity, and perishability of the product. This debate was subsequently enriched by the streams of Experience Economy (Pine and Gilmore, 1999) and Experiential Marketing (Schmitt, 1999; 2003) which emphasized the centrality of the customer's experience, "in contrast to traditional marketing, experiential marketing focuses on customer experiences. Experiences occur as a result of encountering, undergoing, or living through situations. They are triggered stimulations to the senses, the heart, and the mind. In sum, experiences provide sensory, emotional, cognitive, behavioral, and relational values that replace functional values." (Schmitt, 1999, p.26). For the experiential approaches, customers are acting emotionally as well as rationally (Schmitt, 1999, p. 29); this means that although customers can frequently make rational choices, they are just as frequently guided by emotions and feelings.

The logic of experiential consumption and experiential marketing, although it does not define the experience as a product in its own right, suggests that companies develop and implement an "experiential platform" capable of providing an Experiential Value Promise (Ferraresi and Schmitt, 2006) that has the customer's experience as its focus (Holbrook and Hirschman, 1982; Schmitt, 1999; Carù and Cova, 2007). Placing the focus on the experience, designed as the product itself (Pine and Gilmore, 1999) or as a consumption experience (Schmitt, 2003), means recognizing that the value of the company's offer "is born in the customer" and that this value is not created until the offer, whatever it is, is not consumed and experienced by the consumer himself (Prahalad and Ramaswamy, 2004).

Subsequently, both the Service Logic (Gronross, 2011) and the Service Dominant Logic (Vargo and Lusch, 2004; 2008), despite their differences (Gronross and Gummerus, 2014), have reiterated two crucial aspects of this approach: 1) The customer is always a co-creator of value (Vargo and Lusch, 2008) and it is always value-in-use (Gronross and Gummerus, 2014); 2) in order to generate value, the tender firm must interact with the customer's value-creating process (Vargo and Lusch, 2008; Gronross and Gummerus, 2014). Ultimately, as postulated by Stampacchia and Colurcio (2014, p.96) "there emerges the concept of value in experience, which is rooted in the concepts of value in use (Vargo and Lusch, 2004) and it does so again in the most recent formulations of value in context (Vargo and Lusch, 2008; Vargo and Akaka, 2009)."

By integrating these perspectives and taking the concept of value in use in the sense of people's experience and placing this concept at the center of marketing strategies (Gronross and Gummerus, 2014) shows the usefulness of going beyond the logic of the services. In fact, if services are process facilitators of customer experiences and these are the true source of value, why stay linked to a logic of service and not go directly to the logic of the experience? Why not adopt a managerial approach to Experience Logic, which will also help keep up with the evolution of consumption?

The logic of marketing based on experience (Experience Logic) incorporates the proposals of the Experience Economy (Pine and Gilmore, 1999; Pencarelli and Forlani, 2006) and of Experiential Marketing (Schmitt, 1999, 2003), integrating it with the conceptual advances introduced by the recent literature on Service Logic (Gronross, 2011; Gronross and Gummerus, 2014) and Service Dominant Logic (Vargo and Lusch, 2004; 2008). Through the integration of these perspectives, it is possible to:

- define the experience of the individual as a unit of analysis of the value ("value is uniquely, experientially and contextually determined and perceived by customers; Gronross and Gummerus, 2014, p.207);
- distinguish output in: commodities, goods, services, experiences, transformations (Pine and Gilmore, 1999) to have logical concepts or "ideal types" that define the object of exchange between the actors;
- place the different actors in the process of creating customer value according to a perspective of value constellation (Normann and Ramirez, 1993) that goes beyond the boundaries of individual companies to emphasize the role of supply systems, of the system of value, and of the system of consumption;
- subdivide the process of value creation into three spheres: the supplier, the customer and the combined, is the latter being the platform of co-creation experience (Gronross and Gummerus, 2014, p. 218);
- analyze the different economic offers overcoming the sectorial approach bound by the technological nature of the productive activities and the nature of the commodity output (Stampacchia and Colurcio, 2014);
- integrate experiential marketing (experientialization of goods and services) with the marketing of experiences in a unitary perspective of experiential value;
- recognize value creation for all actors (Gummesson, 1999) as being the central goal of marketing ("The goal for marketing is to engage the firm with the customers' processes with an aim to support value creation in those processes, in a mutually beneficial way" Gronross and Gummerus, 2014, p.221).

Experiential Logic Marketing is that approach to marketing that puts the planning and co-creation of the customer experience, which is the main source of value for the consumer (Ferrero, 2013), at the core of strategic business action.

### **3. EXPERIENTIAL LOGIC MARKETING STRATEGIES FOR TRADITIONAL-LOCAL PRODUCTS**

Modern consumers, especially "foodies", are increasingly searching for products that satisfy different needs, are novel and highly authentic; this means they expect the supply to be differentiated and follow policies that impose high quality standards in terms of food safety and health (Canali, 1996).

From this point of view, the traditional-local products, compared to mass food products, enjoy some of the following strengths (Pencarelli and Forlani, 2006):

1. they can better satisfy the requests for originality and variety coming from the world of luxury food consumption (Sarin and Barrows, 2005) because they possess the characteristics of uniqueness and differentiation;
2. they are perceived by consumers as being more natural and respectful of the ecosystem, because they are associated with artisanal activities and considered more sustainable than "industrial" products;
3. on foreign markets, they benefit from the added value of "Italianness" and the "Made in Italy" label.

Nevertheless, there are also some problematic aspects that restrict these products' growth potential and market success. These are:

4. traditional-local products are often highly perishable and difficult to preserve without altering their organoleptic characteristics, which makes it difficult and expensive to transport and sell them on markets that are geographically far removed from the production areas;
5. they are satisfying and gratifying if consumed directly in the places where they are produced, rather than in contexts far away from the territories of origin (Kivela and Crotts, 2006; Fox, 2007);
6. production volumes are usually modest and capable of satisfying only a limited demand;
7. the actors in the supply network are predominantly small- and medium-sized enterprises, with their relative limitations (Marchini, 1995).

From the Good Logic perspective the last two points represent determining constraints in the formulation strategies for the enhancement of local productions, because the production limitations and narrowness of entrepreneurial formulas (Coda, 1988) limit and restrain strategic actions, both in terms of innovation and enhancement of brand identity.

From the Experience Logic perspective, instead, the same aspects can be read differently and marketing strategies should be rethought:

- the concept of the traditional-local product should evolve and expand with experiential components. From the centrality of the "what" associated with material goods, we shift to the "what and how" of services, and then to the "what, how, where, when, who and with whom" of the experiences and transformations where it is the customers themselves who become the output of the offer;
- the pricing policies should not be based on the cost of the competition but on the value perceived by the customer (customer value). In other words, the question is how much customers are prepared to pay, not only for the material components, but also and especially for the experiential value of the experience;
- the communication policies should switch from the description of the characteristics of the products to forms of complex narrative (storytelling or staging of stories) that highlight the symbolic, emotional, and experiential benefits of the products. In the narrative of the product it becomes fundamental for there to be interactive communication between front-office and customer in the place where the experience is consumed;
- the marketing policies should be reviewed by integrating the logic of the distribution with that of attraction. The experiential distribution of the product aims to enrich the goods or services with emotional elements, making them unique and rare, even through the use of the "Made in Italy" concept. In the second case the firm, using traditional-local products as tool to attract tourists, invites the consumer to experience unique moments in places and times determined by supply (restaurants and/or place of production) according to a predetermined portfolio (Fortezza and Pencarelli, 2011) and by exploiting possible partnerships with tourist intermediaries (tour operators, travel agencies, etc.). The manufacturing places, with their atmosphere, culture, and history factors, in both cases have a strategic importance in creating the experiential value of the food and wine product and should be seen as the stages upon which the experiences are acted out.
- the brand image and reputation of the product and the territory should be the key elements of the experiential narrative. The qualifying image of a territory (Antonelli e Viganò, 2012) experientializes the fruition of a little-known handcrafted food or product, thus favoring its entry into the channels of distribution and consumption (emblematic of the role of the "Made in Italy"). The product brand – territory brand relationship can also be interpreted in a reverse perspective, whereby the combination of the name of a little-known territory with the one of products made in the area that has a high reputation can enhance the territory itself, especially

in the tourism sector. This underlines a need for reciprocity between territorial image and brand and that of traditional-local products, which emphasizes the need to integrate the branding policy of individual actors with the territorial one (Pencarelli and Gregori, 2009).

The idea to enrich the offer with experiential elements appears particularly appropriate for the enhancement of niche or exclusive food and wine products (traditional-local products such as truffles, for example) because it exalts the strengths (variety, authenticity, seasonality, specificity, exclusiveness etc.) and transforms their problematic aspects (perishability and difficulties of conservation, limited production, small manufacturers) into opportunities. This highlights them as positional goods (Hirsh, 1976) or rather, reflects the consumer's desire to achieve a distinctive social position by purchasing such goods.

If observed from an experiential perspective, traditional-local agricultural resources thus become key components of tasting services and experiences (truffle-based menus, guided tastings) and highly differentiated visitor experiences (truffle hunting). In addition to increasing their market value, they escape the massification trap of the offer (Pine and Gilmore, 1999), becoming a key driver of regional development.

Based on this theoretical approach will pose the following research question: How does the marketing approach of a traditional-local products firm change when it goes from a good logic to an experience logic.

#### **4. THE CASE STUDY: MARINI AZZOLINI TRUFFLES OF ACQUALAGNA**

The truffle sector plays an important role in the Luxury Food market (Berry, 1994; Sarin and Barrows, 2005), one which is particularly interesting with respect to the aims of the present study because the consumption of truffles is highly symbolic, experiential, and social. The product is marketed in a variety of forms: as a raw material (from the seeker to the dealer), as a good (industrial products flavored with truffles), as a service (retail distribution, gastronomy, catering, etc.), as an experience (guided tastings, truffle hunting, themed holidays, etc.).

The methodology adopted is the case study (Yin, 2003), held to be consistent with the objectives of the present research study, which does not aim to measure the observed phenomenon or to carry out normative prescriptions, but rather sets out to identify the unique characteristics of this particular product. We chose to analyze Marini Azzolini Truffles of Acqualagna (PU) which we considered a significant case, relevant to our research, because it possesses a portfolio of complex offerings that include goods, services, and experiences all tied into the theme of truffles. Other elements that qualify the case are the national recognition for quality of the Acqualagna Truffle, the economic relevance of



the truffle sector in financial terms within the municipal area of Acqualagna, and the leadership role played by Marini Azzolini among the actors of the locality.

The case study data was collected in successive phases through different qualitative modalities. A first meeting-discussion was held with the entrepreneur at the University of Urbino on the occasion of a seminar given by him on the sector and on the activities of his company (on 02.24.2014). This was followed by analysis of the data published by the company on its official website (text and images); a semi-structured interview (Corbetta, 2001) with the entrepreneur which took place at company headquarters (on 04.11.2014 conducted by Tonino Pencarelli and Mauro Dini); a visit with direct observations at the National Truffle Fair of Acqualagna (on 10.26.2014 by Tonino Pencarelli); a qualitative semi-structured interview with the entrepreneur (Corbetta, 2001) which took place at company headquarters (on 11.11.2014 conducted by Fabio Forlani and Mauro Dini).

#### **4.1 The truffle market**

In Italy all nine of the known species of truffles are collected. Among these, the most valuable is the *Tuber magnatum* Pico (white truffle of Alba or Acqualagna or Prized White) which has always maintained its leadership, not only on the table, but also in terms of market prices. Italy and France are the world leaders in the production, processing, and commercialization of the tuber. The domestic market is composed of different companies, and among them, those who have managed to find innovative methods for the conservation of the truffle have acquired a competitive advantage over their competitors. The salient features of the truffle market are:

8. rarity of the fresh product: the formation of truffles is the result of a balance between soil, climate, and symbiotic plants (there are few areas in the world that are favorable to the growth of the truffle );
9. seasonality: the various types of truffles grow only in short periods of the year;
10. high perishability: truffles lose their edibility in a few days (maximum 10 days);
11. *strong oscillation of prices: they depending primarily on the variability of the supply. Also, since truffles are generally rare and expensive, in years of scarcity the Prized White has fetched a price as high as € 9,000 per kilogram;*
12. *strategic role of conservation: it is significant within the industry because it determines the possibility of exceeding the limits of "perishable";*
13. *strong asymmetry of the market: in terms of information between professionals and clients;*
14. availability of derivative products: truffle-flavored sauces, creams, oils, cheese, grappa, etc. are poorly differentiated. Consequently, customers tend to buy one product over another based on the lowest price or through relationships of knowledge and trust with sellers.

The truffle sector is traditionally divided into three categories: fresh product, preserved product, and derivatives. Finally, the classic truffle chain (Marone, 2011) is as follows:

Seekers, Territorial Agents or Brokers, Conserver and Transformer, Distribution, Gastronomy or Catering, Consumer.

#### **4.2 Acqualagna: "Capital of the Truffle"**

"Acqualagna, a town of 4,500 inhabitants situated near the magnificent Furlo Gorge, is characterized by a centuries-old tradition of research, production, and commercialization of the truffle" ([www.comune.acqualagna.ps.it](http://www.comune.acqualagna.ps.it); date 11.11.2014). It should be noted that the City of Acqualagna introduces itself as the "Capital of the Truffle" in official publicity materials (print and digital) . The National White Truffle Fair is organized annually and is held in the town's historic center 2014 marked the 49th edition. Acqualagna and the surrounding territory of Montefeltro compete directly with the famous truffle town of Alba (and the Langhe territory), located in Piedmont, because they commercialize all nine types of fresh product existing in Italy, unlike other regions that do not have all the varieties to offer. *The countries that buy the most from the producers in Acqualagna are Germany, in first place as the largest European consumer, followed by France, Switzerland, Austria, Spain, England, and the USA.*

#### **4.3 The Marini & Azzolini Company**

Marini and Azzolini is an enterprise that commercializes truffles and derivatives, whose mission is well illustrated in the company website: (<http://www.trufflespecialties.com>; 11/11/2014): "The Marini & Azzolini company has worked for over 50 years in the truffles and food sector, renewing their yearly commitment to offer top quality products to the customer. The truffle, "king" of international gastronomy, grows abundantly in the territory of Acqualagna and Montefeltro, where the Company uses the best hunters of the area to procure it and carefully process and distribute it."

Based on the experience logic, the activities of Marini and Azzolini may be reclassified as follows:

- o Purchase of fresh truffles (raw material);
- o Production and commercialization of goods: fresh truffles washed and selected; preserved truffles, truffle specialties, other specialties, accessories for truffles;
- o Production and commercialization of services: typical local gastronomy (point of sale in Acqualagna);
- o Production of experiences related to the sale of goods and services: specialty food-tastings with truffles in partner hotels;

- o Production and sale of experiences and transformations: organizing and offering travel packages in collaboration with two travel agents (one in Pesaro and one in Germany), with the aim of letting tourists “experience” the hunting and gathering of truffles directly in the woods around Acqualagna; organizing cooking lessons where participants have fun learning to cook with truffles. All experiential initiatives foresee the opportunity for customers to visit the company and Acqualagna, including local product tastings.

The activities of Marini Truffles do not all have the same impact on company turnover (approximately 2,000,000 euros in 2013). In fact, the largest share of the business comes from the supply of goods (from Marini to the distribution chain, gastronomy and restaurateurs accounts for 89.9%), followed by service activities (direct sales account for 10%), and lastly, sales of the truffle “experience” (truffle hunting and cooking lessons account for 0.1%). Most of the revenues generated from the sale of goods, in particular, break down into: fresh truffles (27%); preserved truffles (25%), truffle specialties (derivatives) and gourmet products created through partnerships (47.9%), and truffle accessories (0.1%).

The geographic markets served are Italy (10% of sales) *and the international market (90% of sales, with France, Russia, and Germany in the forefront; there is also a growing interest from emerging markets, with Brazil in the lead).*

The main market segments that are the recipients of the company's products (supplied through distributors or agents, one for each country served) are represented by the Ho.Re.Ca. sector, and in particular, luxury restaurants, high quality gastronomy, and large scale retail trade. The latter segment has fostered significant growth in sales, as well as the introduction of new products in the portfolio (e.g., a truffle-flavored honey was created in collaboration with a beekeeper, a truffle-flavored grappa was created with a grappa producer, tagliatelle with truffles, truffle risotto or instant polenta with truffles came from a joint venture with pasta producers).

The main instrument for the promotion of Marini Truffles (through which new customers are added) is to participate in truffle fairs and food and wine events in Italy and abroad. The company is focused on personal interactive communication tools with distributors considered key players in the company. The company does not, however, pay particular attention to communication with consumers, nor does it take any care in attributing significance to the experiential value of the truffle of Acqualagna. Communication tends to be functional and geared primarily to the management of the supply chain relationships. In the food sector the image of Italian and "Made in Italy" products is important and the company takes advantage of it to pull its exports. At the national level Marini and Azzolini relies on the Acqualagna brand and does very little, if anything, to enhance its brand, which is not very well-known in the sector.

From the interview with the entrepreneur, it was noted that the price of the product, both fresh and preserved, can be defined as "dynamic" because it undergoes constant variations dictated by several factors. These can include the quantities of truffles found in a short period of time (3 or 4 days), their characteristics (shape, size, type, etc.) and the receiver (gastronomy, restaurant, importers, large-scale retail distribution, and consumers). Based on these variables, the company adds a mark-up which can vary from 25% to 50%. The prices of derivative products (made with third quality truffles and scraps) do not follow this trend because they tend to follow the logic typical of the agro-food industry.

The company also does not proactively manage the relationships with other actors in the town; its activities are limited to participation in the initiatives proposed by the city (e.g., Truffle Fair of Acqualagna) which are seen as a "necessary" act and not as a fundamental activity for the creation of value. According to Marini, *"the fair is helpful for the enhancement of the Acqualagna brand, but its impact on our company in terms of turnover is trifling."*

Ultimately, the company is focused on its value chain in which the competition is mainly based on trust, reliability, and service to the distributor or intermediary: *"the building of relationships with potential customers and therefore the possibility of selling our products is tied directly to the fiduciary relationship to the seller. These relationships are constructed and managed individually in their specificity."*

For Marini and Azzolini, then, value lies in the ability to position the fresh product, on the basis its characteristics, in the various categories of customers (supermarkets, high gastronomy, restaurants), or keeping it and transforming it to produce truffle derivatives which turn out to be one of the most profitable activities. The company appears to be still very focused on the truffle as a good, adopting a management approach geared towards maximizing the value of the offer pursuant to the organoleptic characteristics of the truffle itself and the potential customer, from a perspective that looks to be of the good logic type.

## **5. DISCUSSION AND FINAL CONSIDERATIONS: WHAT SPACE IS THERE FOR EXPERIENCE LOGIC MARKETING IN THE TRUFFLE BUSINESS?**

The case analysis shows that the company adopts a good logic perspective, despite having all the offers of economic value specified in the model of the experience economy in its portfolio. However, if the company were to assume the experience logic perspective, able to effectively integrate product distribution and the attraction of customers into the business model, how might its marketing approach be modified?

First, if the customer's experience is the marketing driver according to the experience logic, then the challenge is to provide a sense of value, to the material goods and services, emphasizing their

emotional, positional, distinctive, and experiential aspects. In the case of direct sales to end consumers is the responsibility of the company to intervene on these variables.

In addressing the business markets it is a question of operating in the perspective of value co-creation with catering and gastronomy companies and with distributors. Useful solutions for the generation of value for the end consumers must be proposed. How? By enhancing the corporate brand and product brands and through the narration of useful aspects to catering businesses or to the gastronomy sector (e.g., providing a description of the organoleptic properties of the truffle, recipes for cooking, etc.) that can encourage the co-creation of value in the perspective of the consumer's experience.

As regards the organization of incoming travel and cooking classes, it should be conceived not so much as a business needed to strengthen the reputation of traditional-local products intended as goods, but as the business of attracting customers by proposing themed experiences that have to do with food and wine and truffles, i.e., innovating and expanding the concept of traditional-local product, as proposed in §1. These initiatives would be co-designed and co-produced by a broad network of actors, belonging to both the food and wine sector and others (tourism, culture, teaching kitchen, trade, in the formula of the food and wine concept store, etc.). This type of business broadens the value-creation horizon that involves not only the supply chain actors and the end consumers, but also other suppliers of territorial resources, all of which falls within a perspective of mutual, territorial value co-creation.

To emphasize the experiential dimension of the consumption of economic offers in a portfolio of products based on truffles, what is needed is more work on and higher priority given to the brand of good itself, qualifying it as a "product of gastronomic luxury", of the company and especially, of the territory of origin, as has happened in other sectors (e.g., Chianti in the wine business). For this purpose, it is necessary to involve all stakeholders in the value system, in a project of integrated marketing aimed at enhancing the positional and symbolic aspects of the world of Italian truffles in general and of Acqualagna, in particular.

In conclusion, the company studied acts according to a good-based logic. It is not interested in the value co-created by and with the customer in places where the truffle experience originates (in restaurants and in the local area) and operates only residually in the business of culinary tourism. In this way, in our opinion, the company does not grasp the opportunity offered by the experiential logic approach to marketing, and it leaves it up to the other players in the sector to co-create value for customers by acting on the experiential, emotional, relational, and symbolic benefits to the end customer.

Despite the limitations of the research related to the use of a single case study, the paper proposes a new conceptual model (experience logic) to observe and interpret the food and wine business as well

as the businesses involved in the new post-modern consumption processes, in which there is a demand for a strong experiential content, authenticity, and low standardization of the offer. Further and more extensive studies should be conducted to refine the model and to verify the managerial implications in practice.

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## VALUE OF A SUSTAINABILITY LABEL FOR WINE: A NON HYPOTHETICAL EXPERIMENT

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### ABSTRACT

Currently a growing amount of research is interested in exploring consumers' attitude and behaviour toward sustainable wine, while, to our knowledge, little research has assessed the influence of specific sustainability labels on consumers taste evaluations. This paper, applying experimental auctions, reveals that respondents ( $N=100$ ) assign a significantly higher willingness to pay and higher taste ratings (through a hedonic scale) to the sustainability labelled wines compared to the same conventional wines with no sustainability sign, indicating a pure label effect. Outcomes should be further investigated by practitioners and public entities concerned with promoting sustainable development issues.

### INTRODUCTION

Sustainable consumption, i.e. consumption practices, where consumers take into account effects on the social and natural environment, has been a growing trend in many developed countries for over a decade (Lyons et al., 2004; Sirieix et al., 2013). The environmental concern is leading consumers to better understand and demand for products which take environmental into account, such as organic food or fair trade products (Fransson and Gärling, 1999; Saunders et al., 2004; D'Souza et al., 2006). However most consumers claim to consider sustainability issues generally important and desirable, this does not necessarily translate into manifest sustainable consumer (Vermeir and Verbeke, 2006). Indeed, previous research highlights the importance of consumer motivation and consumer knowledge for use of sustainability information on food products, and additionally underlines the importance of trade-offs between sustainability and other product information when making food choices (Grunert *et al.*, 2014). Nonetheless, it is well known that consumers tend to base their evaluations of products on extrinsic product cues (e.g., price, appearance, or tags) rather than intrinsic cues (e.g., quality or nutritional value) (Pohl, 2004). Thus, external cues generate expectations about food products and influence consumer choice, sensory perception and hedonic liking of food, according to 'expectation theory' (Deliza and MacFie, 1996). In general before tasting a particular food product consumers usually have an idea of what its sensory characteristics might be (sensory expectations) and how much they will like or dislike it (hedonic expectations), (see among others Olson and Dover, 1979). Furthermore the role of credence in the marketing of food has recently

increased (Grunert *et al.*, 2000), covering a wide range of categories, from health properties, to production methods, origin and environmental/social certifications and labels (Moser *et al.*, 2011). Literature demonstrates that wine is judged to taste better when it is believed to be more expensive (Plassmann *et al.*, 2008), while beer is judged to taste better if it bears the label of one's favourite brand (Allison and Uhl, 1964); and products are judged to taste better if they are labelled with fancy premium brand logos. Many studies reveal that people are ready to pay a premium price for sustainable products, such as canned tuna fish with CSR certification (De Magistris *et al.*, 2013), fair trade coffee (De Pelsmacker *et al.*, 2005) or eco-labeled apples (Loureiro *et al.*, 2002) Furthermore several recent studies reveal consumer general interest toward environmentally friendly or socially responsible wines (Berghoef and Dodds, 2011; Mueller and Remaud, 2013; Ginon *et al.*, 2014; Pomarici and Vecchio, 2014). Alongside some research has also found significant availability of consumers to pay a premium price for these wines (Vecchio, 2013). Despite a growing amount of research producing insights into consumers' attitude and behaviour toward sustainable wine, to date, little research has assessed the influence of specific sustainability labels on taste. The current study focuses on a specific market segment and on a particular sustainability label, as previous research have demonstrated that young consumers are a promising target for sustainable food products (Vecchio and Annunziata, 2013) and a wide-ranging label is more appropriate than a single-aimed label (such as an environmental-friendly or fair-trade certification). Furthermore Millennials are widely acknowledged as the most promising market segment in core wine consuming countries (Wine Intelligence, 2013).

## METHODS

### *Participants and design*

We recruited one hundred subjects among Italian university undergraduates representing various fields of study, e.g. law, business administration, humanities, social sciences, with the only requirement of being wine consumer (i.e. consuming wine at least once a month). Participants received 10 euros cash for their participation.

We applied a between sample procedure in which participants were asked to offer and evaluate two different wines, a Cabernet Sauvignon and a Merlot, *ceteris paribus*. The two wines were from the same producer, same geographical origin and same vintages. In addition the bottles carried only the denomination of origin, vintage, alcoholic volume (13% for both wines) and grapevine while the order of presentation was balanced to account for first order and carry-over effects (MacFie *et al.*, 1989) and brand/name of the producer were blinded. We decided to use these two types of wines due to general

public familiarity and wide availability in the market. In order to avoid wealth effects and demand reductions, we carefully explained that only one scenario and one product would be binding.

We randomly assigned respondents to a specific treatment: control or experimental group. We didn't post a reference price since previous scholar have demonstrated that provision of a reference of field price information influences bid values in experimental auctions (Drichoutis *et al.*, 2008, Corrigan and Rousu, 2006). We used a full bidding approach (participants had to bid on both wines), with a fifth-price auction (Vickrey, 1961).

#### *Procedure and materials*

After being recruited, we asked participants to have a seat in a sensory laboratory, each individual was separated by a divider. No communication between participants was permitted, while participants were welcomed to ask questions to the researchers at any time. Before the wine auctions, we organized two training auctions using chocolate snacks and potato chips in order to avoid misunderstanding of the auction's procedure.

We assigned fifty participants to the control group, who participated in an experiment in which they first were asked to bid for the two wines just observing the bottles carrying no sustainability label (Visual scenario) and subsequently taste 30 ml of wine, using ISO glasses, and bid again. Subsequently participants were instructed to rate overall liking on a continuous nine – point hedonic scale (from 1=do not like at all, to 9= like extremely).

Finally, we randomly selected the type of wine that would be binding and, once ordered the bids, we decreed as winners the four highest bidders who actually paid the fifth highest price. After the wine auction, each participant received a variation of the questionnaire according to the group they were randomly assigned. The questionnaire asked participants about their behavioural characteristics regarding their lifestyle, their attitude towards the environment and society, their wine consumption habits and their knowledge about sustainability practices. Basic socio-demographic data were gathered also.

We assigned other fifty participants at the experimental group, who completed the same procedure as the control group (both Visual and Taste scenario and final questionnaires) but with the wine bottles carrying the VIVA sustainability label – a certification assigned by the Italian Environmental Minister



Figure 1. VIVA logo

considering air emissions, water footprint, vineyard management and landscape preservation.

ontrol Group (N=50)	Experimental Group (N=50)
Visual Scenario	Visual Scenario
2 wines with conventional commercial labelling showed to respondents. Full bidding procedure.	2 wines with conventional commercial labelling + VIVA certification showed to respondents. Full bidding procedure.
Tasting Scenario	Tasting Scenario
Respondents taste the same 2 wines with conventional commercial labelling. Full bidding procedure. Overall liking rating.	Respondents taste the same 2 wines with conventional commercial labelling + VIVA certification. Full bidding procedure. Overall liking rating.
Four winners pay the randomly drawn wine (5 <sup>th</sup> price).	Four winners pay the randomly drawn wine (5 <sup>th</sup> price).
Additional information is collected.	Additional information is collected.
Subjects receive endowment for participation.	Subjects receive endowment for participation.

Table 1. Experimental procedure

## MEASURES

### *Wine consumption frequencies and involvement*

We recorded individual's consumption frequencies ranging from 1 'once a month' to 5 'every day' for wine, beer, spirits and alcopops. In addition we gathered information about their monthly average expenditure for wine.

### *Environmental Attitude*

In order to evaluate attitudes towards the environment, we used a reduced and modified version of the New Ecological Paradigm (NEP) scale (Dunlap *et al.*, 2000). Respondents had to evaluate the final items on a scale ranging from 1 'fully disagree' to 5 'fully agree'. Cronbach's alpha was 0.71. The mean score of the environmental attitude item was used in the analysis.

### *Society items*

Society items drawn from Sparks and Shepherd (1992) and Shaw and Shiu (2003) were measured, through a scale ranging from 1 'not acceptable at all' to 5 'very acceptable'. Items were merged in a final construct defined as social sensibility ( $\alpha=0.68$  and  $\alpha=0.55$ ).

#### *Hedonic score*

To measure overall liking we applied a 9-point hedonic scale (Peryam and Girardot, 1952; Peryam and Pilgrim, 1957) each point on the hedonic scale was assigned a value ranging from 1 to 9. This is the most commonly used scale for testing consumer preference and acceptability of foods, however we do recognize that this scale has several important limitations, as the inequality of scale intervals, the lack of a zero point (Peryam and Pilgrim, 1957; Moskowitz and Sidel, 1971) and its high vulnerability to ceiling effects (Schutz and Cardello, 2001).

## **RESULTS**

The sample consisted by 61 Males and 39 Females, whose age ranged from 19 to 39 years old (mean=23,34, SD=2,37). In table 1 we briefly report descriptive statistics related to consumption data, societal and environmental attitude.

	Mean	SD
Wine	3,1	1,01
Beer	3,16	0,92
Spirits	2,39	0,79
Alcopops	1,97	0,71
Environmental Attitude	3,29	0,96
Altruism	2,75	0,98
Pro Society	3,17	0,91

Table 1. Descriptive statistics

Results show, in accordance with existing research insights, that consumers tend to assign a premium to sustainable products over conventional ones. In particular outcomes reveal that even if respondents tasted the identical products, they ascribe a significantly higher WTP and better taste ratings to the sustainability labelled wines compared to the conventional alternatives, indicating a pure label effect (see Figure 2).

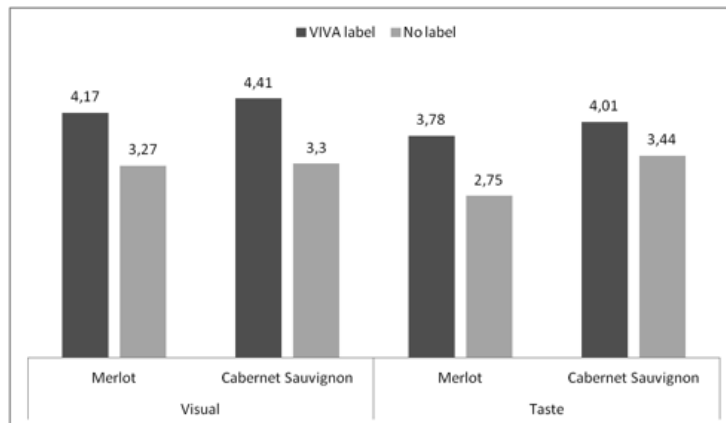


Figure 2. Overview of mean bids (€ per 0,75 ml bottle) for the two wines, with and without VIVA label, in the two scenarios – visual and taste

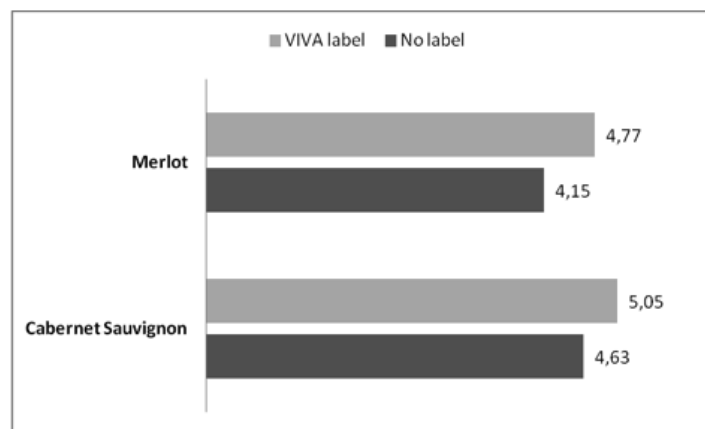


Figure 3 - Overview of mean hedonic scores (1-9) for the two examined wines, with and without VIVA label

In the visual scenario the mean bid for Merlot with the VIVA label is 27.5% higher compared to the same wine with no label, reaching 33.6% for Cabernet Sauvignon. Similarly in the taste scenario bid differences are still very large +37.4% for Merlot and +16.6% for Cabernet Sauvignon with the sustainability label.

Figure 3 reveals that the mean hedonic scores assigned by participants are also influenced by the labelling, as the same wines carrying the VIVA logo receive higher rates, in particular +14.9% for Merlot and +9% for Cabernet Sauvignon compared to their non-labelled counterparts.

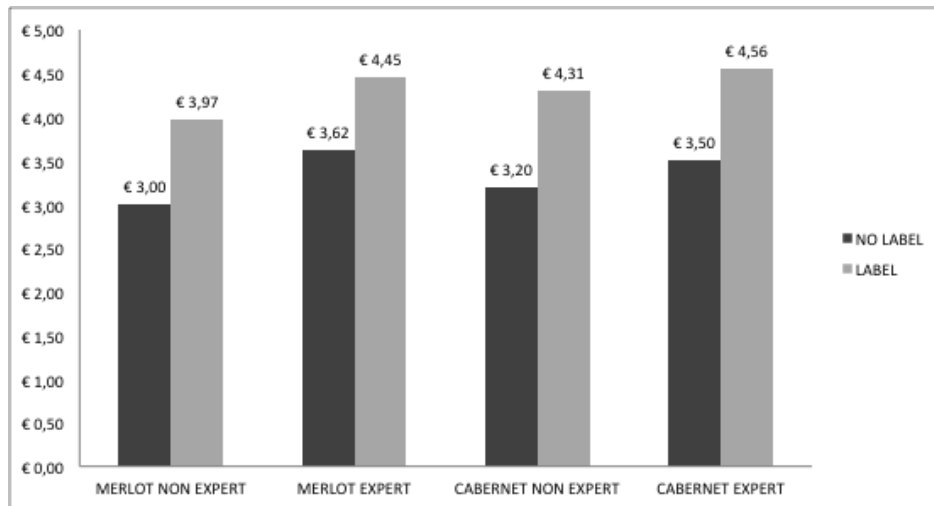


Figure 4 – Overview of the mean bids for the two wines by experts and non-experts in the visual scenario

We then divided the participants considering their self-declared knowledge about wine in experts and non-experts and, as figure 4 shows, the label has a strong effect on both categories, in the visual scenario, resulting in a +32,2% and 22,8% for non experts and experts, respectively, for the Merlot and +34,5% and 30,3% for the same categories for the Cabernet Sauvignon.

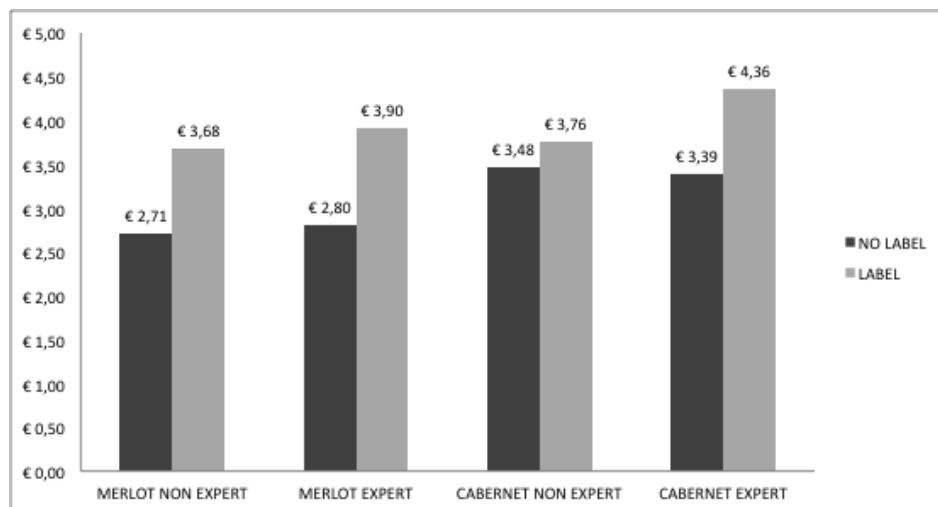


Figure 5 – Overview of the mean bids for the two wines by experts and non-experts in the taste scenario

In the taste scenario this trend does not disappear but is less powerful, as figure 5 shows, especially for the Cabernet Sauvignon where the difference between the WTPs is a +8,1% for non-experts participants and +28,7% for experts.

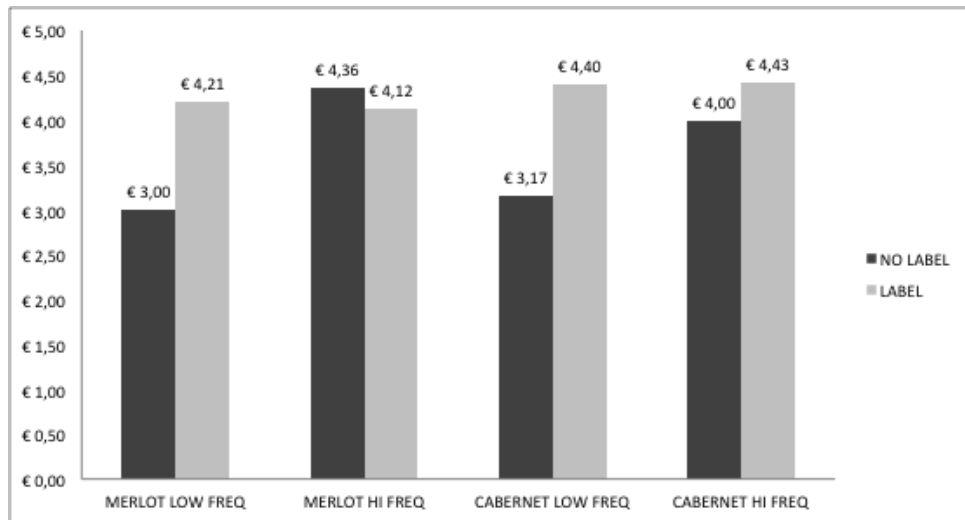


Figure 6 – Overview of high and low consumers WTPs in the visual scenario

Figure 6 and 7 shows different WTPs for both high-frequency and low-frequency wine consumers and it is possible to notice a +40,1% between WTPs of low-frequency consumers for the Merlot Labelled and Unlabelled instead of a -5,5% of WTPs of hi-frequency consumers for the same type of wines. The same strong difference can be seen also between the Cabernet Sauvignon wines, where low-consumer offered 39,0% more for the labelled one instead of hi-consumer that offered just a +10,7%.

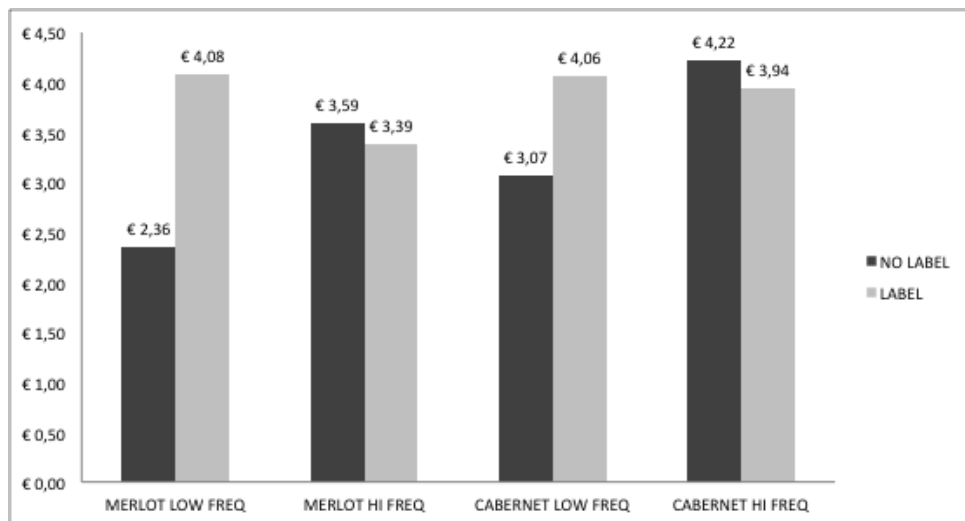


Figure 7 – Overview of high and low consumers WTPs in the taste scenario

We conducted a series of within and between participants' analysis of variances (ANOVAs) to examine if the VIVA label influenced participants' WTP for the wine and if the effect of a sustainable label can modify also the overall liking of a wine. The VIVA labelled wines received offers way higher than the unlabelled ones, all statistically significant.



	VIVA Label		No Label		F-Value
	M	SD	M	SD	
Merlot	4,17	1,43	3,27	1,57	8,87**
Cabernet	4,41	1,42	3,33	1,33	15,39***

\*\* p<0,05; \*\*\* p<0,001

Table 2. Visual scenario

	VIVA Label		No Label		F-Value
	M	SD	M	SD	
Merlot	3,77	1,48	2,75	1,23	14,12 ***
Cabernet	4,01	1,60	3,44	1,46	3,51*

\* p<0,1; \*\*\* p<0,001

Table 3. Taste scenario

## DISCUSSION

The goal of the present study was to provide concrete and specific findings regarding the influence of the sustainable label on consumer willingness to pay for bottles of wine. The results indicated that the presence of a sustainable label can exert an influence on one's WTP whether he is experts or not and whether he is frequent consumers of wine or not. What this certification also does is influencing the taste and the hedonic rate. A significant research avenue has demonstrated that consumers generally implicitly associate healthy food with bad taste and vice versa unhealthy food with good taste (e.g. Wansink, 1994; Raghunathan *et al.*, 2006). Moreover several scholars have focused on understanding the impact of several extrinsic cues on wine quality perception (e.g. Veale and Quester, 2008; Sáenz-Navajas *et al.*, 2014). However few studies have dealt with consumer sensory expectations towards sustainable food. While recent studies reveal that ethical labels increase consumers' reported taste ratings (Lotz *et al.*, 2013). If people perceive sustainable wine as better, producers could benefit from consumers' higher willingness-to-pay, thereby reaping higher profits. However, if sustainability labelled wine subjectively tastes better but consumers do not anticipate this, they might never learn this as they might be reluctant to purchase such goods. For marketers, it can hence be problematic that people expect no differences between sustainable and conventional wine. In addition, recent research has revealed that many certifications and logos are not well known by consumers and only few successfully convey a message related to environmental sustainability (Ginon *et al.*, 2014; Pomarici and Vecchio, 2014). Therefore, given the variety of labels used to inform consumers, research should

elaborate on how sustainability labels interact with other information conveyed to the final user (as origin, price, expert judgments, brand loyalty). Furthermore previous studies have demonstrated that wines can receive a positive premium for environmental attributes only if consumers' sensory expectations are fully satisfied (Schmit *et al.*, 2013). This study has several limitations. Primary, sample representativeness is always of concern for researchers. Our participants consisted of only undergraduates recruited from a local university, the external validity is limited given that the sample was socioeconomically as well as geographically biased, but since the main aim of the study was to investigate the effect of labels on consumers liking and their WTP, the sample representativeness is not as important as it could be in a study that aims to investigate market share. Furthermore there is evidence in literature suggesting that the level of expertise of wine consumers is an important factor in determining quality perception (Jover *et al.*, 2004; Blackman *et al.*, 2010; Parr *et al.*, 2011). In addition, the specific quality of the wines selected for the experiment had an impact on respondents' evaluation and willingness-to-pay. Subsequently experimental design settings had certainly some effect on final outcomes (see Vecchio and Pomarici, 2013; Vecchio and Annunziata, 2014). Nevertheless the current paper provides some interesting information on the influence of the VIVA sustainability label on wine taste for a specific market segment (i.e. young consumers).

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## AN EYE TRACKING APPROACH TO CONSUMERS REACTION TO OLIVE OIL PROTECTION BRANDS

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### ABSTRACT

Traceability of agro-alimentary products, documented through protection brands, enriches the bundle of product characteristics with multiple features and it is a marketing leverage. The aim of this research is to employ an eye-tracking system to observe consumers behavior when buying IGP and DOC (protected geographical indication and controlled designation of origin) olive oil, with special reference to the way in which buyers observe labels and, in particular, in relation to their age.

The research hypothesis is based on the assumption that there is a positive connection between number of average gaze, according to the different areas of interests, and age groups. The survey was carried out on a sample of 42 individuals sorted out into two groups according to their age (18-29 years and over 30), whose consumption habits are supposed to be different. Data has been collected by means of a 500Hz binocular remote eye-tracking system and subsequently statistically analyzed through SPSS software system.

Moreover, by means of a questionnaire, the aims of this study is to assess to what extent traceability is a marketing leverage and to test consumer willingness to spend more for traced products with protection brands.

**Keywords:** *Eye tracking system; consumer reaction; protection brand; olive oil; consumer behavior;*

### INTRODUCTION

Consumers and customers perception of quality is linked to several factors, among which the most relevant are: brand (Olson and Jacoby, 1972), price, advertisement, the distributor's brand, and the country of origin (Teas and Agarwal, 2000; Zeithaml, 1988). Over the last few years, quality certification has been included among these parameters. A system of geographical indication, besides being a guarantee protecting producers from unfair competition, is a tool to certify products quality and differentiation, thus inducing buyers to spend more for traced products (Agostino and Trivieri, 2014).

Markets globalization, along with the increasing threats to food safety, that contributed to undermine consumer confidence in food producers, made food traceability a potential solution to these major issues (Foraboschi and Bray, 2002).

Currently, the European Union protects top quality farm products, since top quality undeniably helps producers to protect their territorial identity and to increase their profitability and competitiveness in a steadily increasing globalized market (Reitano and Fazio, 2014). In particular, quality is guaranteed, by the compulsory traceability requirement (EC Regulation No. 178/2002), as well as by a system of collective brands such as: Protected Designation of Origin (PDO), Protected Geographical Indication (PGI) and Specificity Certificate or Traditional Specialities Guaranteed (TSG); they all outline the general framework of rules through which agro-alimentary products can be registered as collective brands. The importance of traceability can be assessed in terms of easily and fast retrievable, clear and reliable information on a specific product at all stages of the production process, that can support buyers decision making process (Bhatt *et al.*, 2013). Despite the importance of quality certifications and geographical denominations in the framework of EU quality protection policies, a lot still has to be empirically investigated as for the impact of quality certifications on consumers choice (Josling, 2006; Bramley *et al.*, 2009). Based on these assumptions, the aim of this work is to analyze whether there is a positive association among protection brands, sales prices, and consumers purchasing behavior. Moreover, the visual impact of the brand on olive oil labels was investigated, along with the unconscious reactions of buyers and their analytic reactions, that were classified on the basis of consumers age groups.

Most purchases are not the result of careful analysis of the available information and consequent logic assumptions; they are frequently linked to irrational behavior (Fitzsimons *et al.*, 2002). Choosing food is also a complex phenomenon depending on several related factors (Koster, 2009). A number of studies confirmed that consumers choices focus on a series of elements and features leading buyers to maximize the advantages of the purchase and to minimize losses (Elrod *et al.*, 2004). However, consumers have a limited capacity to process information and, generally, they are primarily led by intuition (Milosavljevic and Cerf, 2008), above all in the case of complex choices (Kahneman, 2003).

Moreover, the research has pointed out that, in many cases, consumers purchasing decisions are made unconsciously (Fitzsimons *et al.*, 2002) and they can be driven by two different approaches (Kahneman, 2011; Stanovich & West, 2000). The first is an experiential one, based on an emotional and perceptive drive, characterized by fast and effortless answers, as well as by automatic and associative processes (Lieberman, 2000). The second approach is a more rational, decision-based and analytical and it is characterized by a slower and more responsible process (Stanovich & West, 2000). Very often, when our mind has to make a decision on whether a purchase has to be done and what to buy, it goes

through an unconscious storm of contrasting emotions. The prevalence of positive emotions over negative ones, very often leads to purchase decisions. Sometimes consumers do not exactly know what to buy and, often, cognitive answers are totally different from the emotional ones, which then lead to purchase and consumption behavior (Lugli, 2010).

Nowadays, in markets that are characterized by an excessive offer, very often products packaging, their display on shelves and quality certifications, such as protection brands, increase products visibility, thus influencing buyers to perceive an increased quality of the product, or triggering unconscious mechanisms that lead them to purchase.

As a consequence, physiological observations on consumers can be employed to understand their behavior or to infer sensations, mood and emotions which could not exclusively be detected through the administration of simple questionnaires (Reitano and Calomino, 2008). The body cannot lie and, as a consequence, biometric measurements, eye tracking and oculometry can make a contribution to the tools traditionally employed to get information on consumers.

## **TRACEABILITY AND PROTECTION BRANDS**

The expansion of the market, the collapse of barriers and geographical boundaries and the consequent threats to food safety have jeopardized consumers confidence in producers, thus making food traceability a potential solution to the issues dealt with in this study (Reitano and Fazio, 2014). Within the framework of traceability, each operator of the production chain must leave a track of their action on the product, at all stages of production, processing and distribution, up to consumption, and any operator of the chain, in the reversed process, should be able to identify any person from whom they have been supplied and all the processes along the whole chain (Pannella, 2002).

“Traceability” and “tracking” are two specular processes, although they are often used as synonyms; it is not by chance that, in English, the word tracking is employed for the Italian word “tracciabilità” and tracing for “rintracciabilità”. In the first case, it is important to establish what kind of information should “leave a track” along the process, considering its importance as an instrument of product control and identification in its course from the field to the table (Reitano and Sposato, 2012); while in the second focus is placed on the most suitable technical tool to identify such “tracks”: the two processes are strongly intertwined (Reitano, 2012).

Traceability is an important marketing leverage in so far as it enriches the bundle of product characteristics with several features; it allows sales prices to increase, defines distribution channel and ensures corporate/brand identity along two dimensions: reputation, i.e. the extent to which consumers memorize, remember and recognize a given brand in relation to its name or to the features through

which it is represented and; the product image derived from a series of factors that can be linked to the product features and generate positive or negative opinions (Reitano, 2012).

## **PURCHASING BEHAVIOR OF TRACED FOOD PRODUCTS**

As for the analysis of the elements indicated in food labels, several studies have investigated their impact on consumers. For instance, nutrition facts are reported on labels with the aim to inform consumers on the food quality and to induce them to buy healthy food (Cowburn and Stockley, 2005). However, most people tend to ignore such information when buying a product, since it sometimes cannot be easily understood (Grunert and Wills, 2007; Grunert *et al.*, 2010; Roberto *et al.*, 2012). For this reason, nutrition labels have been introduced to complete traditional labels according to the traffic light system, indicating the guideline daily amounts in terms of nutrition elements. This system is simple, easy to understand and, above all, it is able to attract consumers visual attention (Grunert *et al.*, 2010; Jones and Richardson, 2007; Van Herpen *et al.*, 2012). Several studies on this topic demonstrated that the traffic light system easily catches consumers attention and facilitates the understanding of nutrition information (Antúnez *et al.*, 2013; Ares *et al.*, 2012). Based on the results of such investigations, this study aims at analyzing the visual impact on consumers of protection brands on olive oil labels and at assessing whether consumers attention is attracted by such brands. Since there are several collective brands in terms of geographical indication, and each is represented by a different graphic image and by a specific caption on the label, it is interesting to assess whether they generate the same impact on consumers or if factors such as age, consumption habits and behavior (visual vs rational) may have an influence on that.

## **THE SURVEY**

The purpose of the research is to explore the behavior of consumers of agro-alimentary products, specifically of olive oil, and to understand to what extent they are influenced by traceability prerequisites and certificates.

Firstly, the research aimed at investigating consumers knowledge of the notions of traceability and protection brands in order to understand if there is an attitude to buy traced products and if traceability is perceived by consumers as a competitive advantage of the product, in terms of product quality. Such data was collected after the administration of a questionnaire to buyers. Moreover, the research investigated and assessed the presence of potential unconscious mechanisms triggered by the sight of the protection brand on the label. More precisely, the visual impact of protection brands on olive oil was observed and it was investigated whether such brands are able to attract consumers visual attention.



Furthermore, since there are several collective brands of geographical indication on labels, and each is represented by a different graphic image, as well as a specific caption, it is interesting to verify if they have the same impact on consumers or if other factors, such as age, can have an influence on the final decision. Formally, the hypothesis is the following:

*H<sub>1</sub>: Is there a positive association among gaze, area of interests and age groups? (statistically different averages); consequently, the null hypothesis is the following:*

*H<sub>0</sub>: Same average number (no association between gaze and age groups).*

In order to verify such hypothesis, data was collected through an eye-tracking system and subsequently analyzed from a statistical point of view, through a SPSS software.

### **Partecipants**

The survey was carried out over a sample of 42 individuals (60% men). Such sample was made of university students and workers, with an age range between 18 and 65; for analysis reasons, the sample was divided into two groups (through the calculation of the median) according to age differences: the 18-29 year-old group and the “over 30 year-old” group. Consumption habits for the latter are supposed to be different as compared to young university students. On the total number of individuals, the “over 30-year old” group represents 55% of the sample, and the students represent half of the sample.

### **Visual Stimuli**

Through the eye-tracking system we were able to identify both the “length” and the “frequency” of gaze of surveyed individuals on the various parts of the pictures shown to them. The gaze maps obtained for each interviewee were the result of the gazes on the pictures. The survey focused on the projection of seven different pictures showing a bottle of olive oil, projected 15 for fifteen seconds and each followed by an interval of six seconds projecting a neutral background. Each gaze was numbered based on the sequence of gazes on a specific part of the picture.

Besides the projection of pictures with a record of the gazes and saccades of the individuals, the experiment included a set of questions concerning the interviewees awareness of the brands, their perception of higher quality and their willingness to pay a higher price for some products. Two bottles of extra virgin olive oil were used for the survey; they were different in terms of protection brand: the first with a PGI (Protected Geographical Indication) brand, while the second with the PDO (Protected Designation of Origin) brand. The images of both bottles were projected on the same picture.

The choice of the bottle was not random, on the contrary it was strictly related to the aim of this research, in so far as simple and linear packaging does not distract the observer (Figure 1); moreover the label was characterized by a series of elements that were useful for the research.



Figure 1. Graphic stimulus No. 7 (source: our elaboration).

As it is evident in Figure 2, the label was divided into five different areas of interests (AOI), each characterized by a specific feature: for instance, AOI 1,2 and 3 indicate – respectively – the caption of the protection certificate and the logo of the same.



Figure 2. Sorting out of areas of interests (AOI) of each graphic stimulus (source: our elaboration).

### Instruments and equipment

The study was carried out by means of a 500Hz binocular remote eye-tracking system. Through such a system it was possible to assess both the “time” and the “frequency” of the gaze of individuals on the different areas of the images shown. The maps of the gaze obtained for each interviewee, were the result of the gaze of the same on projected images. The length of the projection was 15 seconds. Statistical analysis was carried out by means of a SPSS software.

### Analysis of Data

The analysis of the questionnaire points out several results (Table 1), the most significant are the following: 55% of interviewees affirmed to know the analyzed protection brands (DPO and PGI); 34% attributes great importance to food with such certifications, in qualitative terms. Moreover, 85% of the sample affirmed to be willing to pay higher prices to buy a food product with a protection brand and, among these, 36% affirmed to be willing to accept a price increase between 11% and 15%.

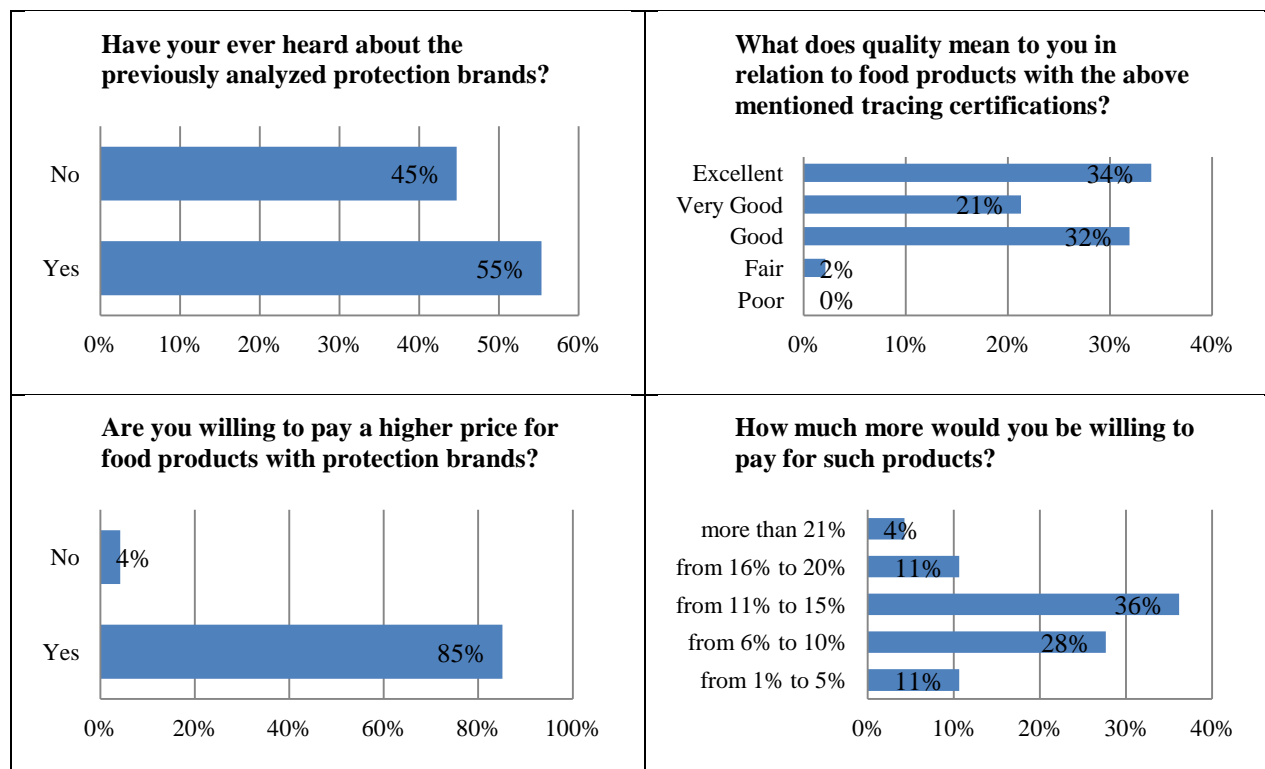


Table 1. Analysis of data from the questionnaire (source: our elaboration)

By analyzing eye tracks and, more specifically, the number of gazes on the graphic stimulus, it is evident that – on average – if the sample is sorted into two age groups (12-20 and over 30), the groups display different behavior. Young people are more attracted by graphic details (the DPO and PGI logo), while the over-30 group are generally more reflective, they tend to observe the whole label and to attention both to the logo and to other features. The glaze on each area of interest was registered from the projection of the picture in Figure 1. Since the picture shows two different olive oil bottles contemporarily, one with the DPO brand and the other with the PGI brand, to analyze data, an average of gazes for area of interest was registered based on the number of gazes.

The average gazes on the two bottles were compared for areas of interest 2 and 3; the OAI 2 is characterized by the caption DPO/PGI on the label, while AOI 3 is characterized by the logo. The analysis of data was carried out through a comparison of the averages on independent samples (Independent sample t-Test), after having used a SPSS software, and by considering the qualitative

variable “age” for the two groups and the quantitative variable “number of gazes” on the areas of interest considered.

As for AIO 2, the test on variance homogeneity provides an insignificant  $p$  value:

$$p = .686 > .05;$$

therefore, according to Levene’s Test the assumption is verified and the null hypothesis can be accepted. By considering the results of the t-Test, by assuming equal variances (Equal variances assumed),  $p$ -value characterizing the value of the statistical datum  $t$  is lower than 0.05:

$$p = .045 < .05;$$

therefore, the null hypothesis (equal averages) is rejected; averages are different among each other. The null hypothesis is also rejected for the AOI 3: in this case the hypothesis that two variances are equal is rejected by Levene’s Test ( $p$ -value lower than 0.05):

$$p = .002 < .05;$$

By considering the results of the t-Test, and in this case, equal variances not assumed, the  $p$ -value is again lower than 0.05:

$$p = .044 < 0.05;$$

therefore the null hypothesis is again rejected. To conclude, the  $H_1$  hypothesis can be accepted for both areas of interest.

Group Statistics

	Age	N	Mean	Std. Deviation	Std. Error Mean
AOI 2	18-29	19	4,974	2,5899	,5942
	over 30	23	6,804	3,0404	,6340
AOI 3	18-29	19	7,395	6,8730	1,5768
	over 30	23	3,913	1,8808	,3922

Table 3. Groups statistics (source: our elaboration).

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper	
AOI 2	Equal variances assumed	,166	,686	-2,074	40	,045	-1,8307	,8825	-3,6142	-,0471
	Equal variances not assumed			-2,107	39,950	,041	-1,8307	,8689	-3,5868	-,0745
AOI 3	Equal variances assumed	10,822	,002	2,332	40	,025	3,4817	1,4933	,4636	6,4998
	Equal variances not assumed			2,143	20,233	,044	3,4817	1,6248	,0949	6,8685

Table 3. Independent sample test (source: our elaboration)

The following images show the heatmaps indicating the average gaze for graphic stimulus considered for each age group.



Figura 3. Heatmap with the average gaze for the 18-29 age group (source: our elaboration).



Figura 4. Heatmap with the average gaze for the over-30 age group (source: our elaboration).

## CONCLUSIONS

Eye tracking systems detect interesting elements as for individuals willingness to buy a certain product. More specifically, the research carried out points out how consumers focus their attention on protection brands while observing the image of a bottle.

The hypotheses advanced have been verified. The analysis of detected data on the number of gazes, shows differences in purchasing behaviors of the two age groups. Younger interviewees are more attracted by the graphic images of protection brands, while older people focus their attention on all the elements of the label. Buyers and/or consumers associate higher quality levels to traced products, identify a richer bundle of product characteristic contributing to products differentiation and, therefore, to the creation of competitiveness factors. These elements have an impact on marketing leverages, thus defining optimal features for channel distribution and confirming a given corporate/brand status, in relation to the brand reputation and image.

As a consequence, higher prices can be charged and, consequently, buyers are more willing to accept them.

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# CAPITAL STRUCTURE OF ITALIAN AGRO FOOD FIRMS: AN EXPLORATORY STUDY

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## ABSTRACT

Many scholars analyze how firms finance themselves, how they finance their investment and what are the main factors that influence the firm's financing decisions.

This paper wants to test the application of the different financing theories for explaining the capital structure choice of 77 Small and Medium Enterprises (SMEs) of Italian agro food industry.

The results show that the financing decisions in these firms could be explained by the main capital structure theories: Pecking Order Theory (POT), Trade-off Theory and Fiscal Theory. In accord with the POT, the results confirm an approach comprising an initial check on the availability of internal resources, followed if by the use of external capital (particularly bank debt).

This is an exploratory study. The results represent a base for further research and analysis. Regarding future lines of research on agro food Italian SMEs capital structure, this study will improve by considering a broader time period analysis in order to elucidate whether capital structure in these types of companies changes during different economic cycles.

**Keywords:** *Capital Structure, Pecking Order Theory, Trade-off Theory, agro food industry, SMEs*

## 1. INTRODUCTION

How do firms finance themselves? How do they finance their investment? What are the factors that influence the firms' financing decisions?

Starting to answer these questions, the paper sets out to analyze the determinants of Italian small agro food firms' choices of sources of finance. From both theoretical and empirical points of view, the question of the motivations underlying the choice of mix of sources of finance is still debated, with inconclusive solutions to-date (Frank and Goyal, 2005; Brighi and Torluccio, 2009).

Small and Medium Enterprises (SMEs) represent a huge portion of the firms of developed countries. Particularly, the 20 million European SMEs play an important role in the European economy. In 2012,

they represented 99.8% of the total number of firms, and 66.5% of all European jobs for that year (European Commission, 2012). During 2012, the SME sector as a whole delivered 57.6% of the Gross Value Added generated by the private, non-financial economy in Europe 2012 (Eurostat, 2013).

Italy has one of the highest shares of manufacturing SMEs in total firms among OECD countries. Italian SMEs specialize in traditional products (light industry, food processing, clothing, light machinery). This specialization is a typical characteristic of Italy: many other industrial countries have significantly reduced the output and exports of these mature, labor-intensive products, leaving them to emerging economies while shifting to technology-intensive goods and services. From the 1970s to the end of the last century, despite their small size and their “old” specialization, Italian SMEs have succeeded in conquering important shares of the global market. This impressive result has been made possible by specializing in innovative, fashionable and well-designed quality products that are labelled as made in Italy (Rossi, 2014).

These data show the importance of Small and Medium Firms in general, and in Italy in particular. However, they do not always receive the appropriate attention. <<Empirically, the emphasis on large companies has led us to ignore (or study less than necessary) the rest of the universe: the young and small firms that do not have access to public markets>> (Zingales, 2000: 1629). Many financial scholars have investigated debt policy decisions in companies. There are also many empirical studies about the financing decisions of large and listed companies (Bradley et al., 1984; Auerbach 1985; Friend and Hasbrouck, 1988; Titman and Wessels, 1988; Barclay et al., 1995; Rajan and Zingales, 1995; Graham, 1996; Chen et al., 1998; Wald, 1999; Wiwattanakantang, 1999; Rossi et al., 2012), but the scientific community has only started to study the financial structures of small firms more recently.

In spite of this, there are a considerable number of relevant empirical works worldwide such as Constand et. al (1989), Van der Wijst (1989), Walker (1989a,b), Holmes and Kent (1991), Van der Wijst and Thurik (1993), Chittenden et al. (1996), Calcagnini and Iacobucci (1997), Hamilton and Fox (1998), Jordan et al. (1998) and Michaelas et al. (1999), and López and Aybar (2000).

Following these researches, this paper aims to study the determinants of debt policy decisions in agro food SMEs.

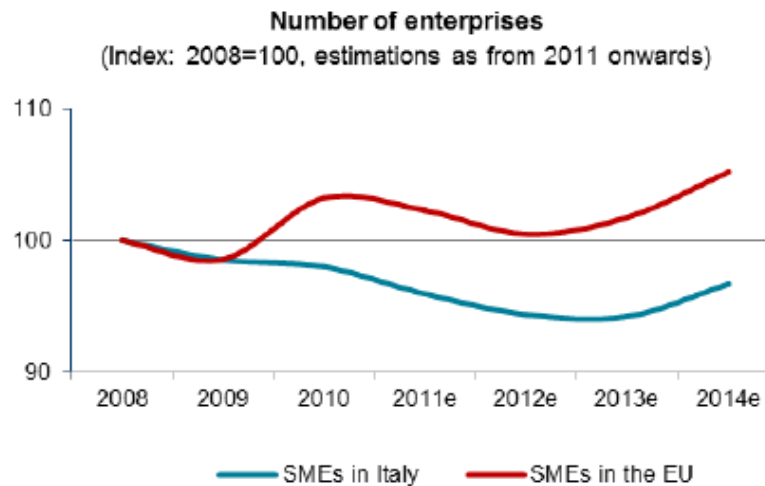
The structure of the paper is as follows. Section 2 describes main characteristics of the Italian Small and Medium agro food firms. Section 3 presents how the existing capital structure theories can be used to explain the financing decisions of SMEs. Section 4 explains the variables used in this research. The model employed, the econometric techniques developed, the empirical results, and the main implications are discussed in the fifth section. Section 6 concludes the paper.

## **2. PRINCIPAL CHARACTERISTICS OF ITALIAN SMES**

Before the analysis of the econometric model, it is necessary to define the main characteristics of Italian Small and Medium firms and to describe the variables in this model.

In terms of the number of SMEs, Italy has the largest SME sector in the EU (Figure 1).

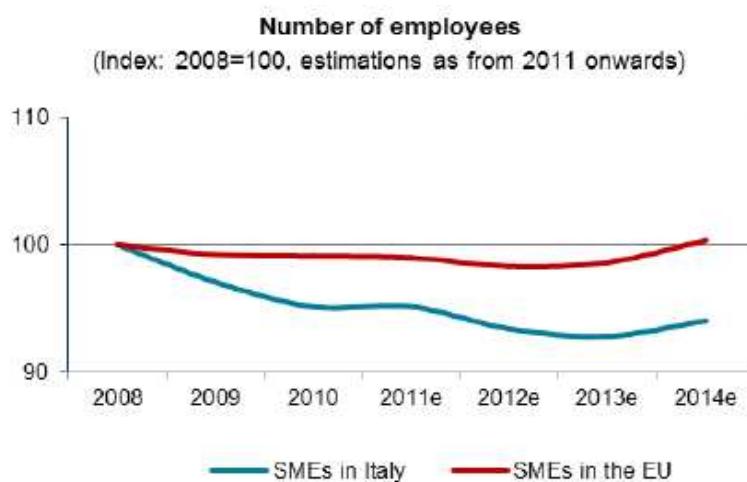
Figure 1. SME trends: number of firms



Source: European Commission, 2013

With 3.813 million SMEs, Italy has almost twice as many as Germany (2.066 million). However, this figure is misleading as the vast majority of Italy's SMEs are micro-firms with less than 10 employees (Figure 2).

Figure 2. SME trends: number of employees



Source: European Commission, 2013

In fact, Italy's share of micro-firms in all businesses, at 94.6%, exceeds even the EU-average (92.2 %). The downside of this is that those micro-firms contribute relatively little to employment and value-

added due to their limited size (European Commission, 2012). Yet they provide 3 million fewer jobs (12.2 million persons employed as opposed to 15.2 million) and produce only 56 % of the total value-added of their German counterparts. Italian SMEs are disproportionately located in manufacturing. Manufacturing SMEs account for 31% of value-added (compared with 21 % for the EU) and 25% of SME employment (EU-27: 20%).

There is a strong SME dominance in the manufacturing sector: although only 10 % of all Italian SMEs are active in this sector, one out of four employees in the SME sector work in manufacturing (one in five is the EU average). Manufacturing plays a decisive role for Italian SMEs (European Commission, 2013).

### ***2.1 Principal characteristics of Italian agro food industry***

The Italian food industry is a fundamental part of the country's economic system and represents an important sector of its manufacturing industry. In recent years the food industry has been affected by the wider decline and loss of competitiveness of the Italian industry. In fact, over the last decade, the food industry has closely followed the changes of the manufacturing industry, both regarding the levels of productivity and investment (Gallino, 2003; Toniolo and Visco, 2004).

The food industry evidently, further carries some contrasting (anti-cyclical) characteristics from the past. This has been true not only for the regular growth of food consumption, but also for the constant and consistent development of its exports within the previous decade (Brasili and Fanfani, 2006). An evaluation of the economic value of the agro food system in Italy by INEA showed a shrinking value added (VA) at basic prices in the primary sector, including forestry and fishing, as well as shrinking of agriculture's share of value in Italy's economy (Rossi et al., 2014).

Italy's products of designated origin continued to increase in number, to 210 registered PDO and PGI products (22.6% of the EU total). Most of Italy's PDO and PGI products are fruits, vegetables and cereals (nearly 40%), extra-virgin olive oil (19%), cheese (17.6%) and prepared meats (almost 16%). Neapolitan pizza has become Italy's second traditional speciality guaranteed (TSG), joining mozzarella.

According to ISTAT figures in the most recent sample survey made on structures and production on farms (SPA), in the latter part of the decade there were just under 1.7 million farms in Italy, with an UAA of 12,744 million hectares. Average farm UAA of 7.6 hectares continues to grow, showing an increase of 3.2% owing to the gradual decline in number of farms, in the face of substantially stable UAA. Italian agriculture continues to be made up mostly of small and medium-sized farms: 49.5% of farms have less than two hectares.

Concerning the financial statems, the principal problem is the low amount of equity that, in many cases, is at the minimum (legal) level (about €11,000). The undercapitalisation is typical of all Italian

agrofood system. It is nonetheless especially alarming if these data are viewed in conjunction with the investments made by companies that are already excessively indebted. This is a weakness for small and medium agro food firms that could undermine their competitiveness (Rossi et al., 2012).

### 3. THEORETICAL DISCUSSION AND EMPIRICAL HYPOTHESES

The most important study on capital structure is the seminal research of Modigliani and Miller (1958). This established the basis for the development of a theoretical body around the firm capital structure. The authors develop an important proposition: the valuation of a firm is independent from its financial structure. They arrive at this conclusion by starting from basic assumptions, such as perfect capital markets, no taxes, absence of agency and transactions costs and independence between the productive activity of the firm and the way it is financed. In a second step they enlarge the theory and relax these fundamental assumptions, also with the aim of approximating the theory to the firm reality.

Modigliani and Miller corrected their original research in 1963. They considered the fiscal impact on capital structure, and they concluded that firms would prefer debt to other financing resources due to the tax deductibility of interest payments.

Therefore, considering Fiscal Theory (FT), the effective tax rate should be positively related with debt. This claim was refused by some scholars. Pettit and Singer (1985), for example, have noted that fiscal theory cannot be applied to SMEs because these firms are less likely to be profitable and therefore less likely to use debt in order to get tax shields. Another important theory of capital structure is TRADE – OFF THEORY (TOT). This theory is based on the idea that a firm chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. TOT considers capital structure where I include not only the advantages of debt employment as a mode of financing but also its shortcomings from financial distress and agency theory viewpoints. As Warner (1977), Ang et al. (1982) and Pettit and Singer (1985) underline, big companies tend to be more diversified and fail less often, so size can be an inverse proxy for the probability of bankruptcy. In addition, small firms have bigger bankruptcy costs in relative terms.

For these reasons, the first hypothesis could be:

*HYPOTHESIS 1.a (FT): "For SMEs the effective tax rate should be negatively related with debt"*

*HYPOTHESIS 1.b (TOT): "Firm Size and debt level should have a positive correlation"*

Agency theory investigates the conflicts of interests between shareholders and other financial stakeholders of the firm. Specifically, this theory considers the conflicts of interest between:

- shareholders and creditors, and

- shareholders and managers.

In SMEs, property and management are almost identified and therefore there will be a unique financial goal for these groups. However, the first conflict - between shareholders and lenders - may be particularly important for small firms. Myers (1977) maintains that the under-investment problem becomes more intense in firms with a high number of growth opportunities, and this fact will cause creditors to reduce their supply of funds to this type of firm. To mitigate this problem, firms could use short term debt. Even if, as Myers' claims, there is a negative relationship between debt and growth opportunities, some authors (Michaelas et al., 1999) believe that for SMEs there is a positive correlation between these two variables because SMEs mainly use short term debt financing.

*HYPOTHESIS II: "Short term debt should have a positive correlation with growth opportunities"*

In part, the debt structure of SEMs can be explained by the restriction of maturity length in the credit offered by banks. In this sense, small firms may use more short term debt than larger firms. In accordance with Bevan and Danbolt (2000), another hypothesis is

*HYPOTHESIS III: "Short term debt should have a negative correlation with firm size"*

Another important theory can be considered. With the existence of informational asymmetries between investors and managers, the PECKING ORDER THEORY (POT) has relevance.

Myers and Majluf (1984) argue that there exists a hierarchy in the financing funds of firms. Due to informational asymmetries, firms will prefer internal to external capital sources. This suggests that highly profitable companies will tend to finance investments with retained earnings rather than by using debt.

This theory can be applied to SMEs for the following reasoning: SMEs shareholders-managers want to preserve the profits of their firms, and therefore they prefer internal financing to external resources to finance firm activity. In case SMEs needed external funds, they would choose short term debt because it does not reduce managers' operability. For this reason the last two hypotheses are:

*HYPOTHESIS IV: "Leverage and firm profitability have a negative relationship"*

*HYPOTHESIS V: "SMEs use short term debt as debt financing"*

## **4. DESCRIPTION OF DATA SOURCE AND VARIABLES**

### ***4.1. Data source***

Starting from the European Commission SME definition, this paper considers a sample of small and medium firms in the agro food system. This sample has been extracted from AIDA, a database of Bureau van Dijk that contains economic and financial information from up to eight years from more than 200,000 Italian firms.

Following a similar analysis conducted by Sogorb-Mira (2002), I have selected those firms from this database that meet the following requirements:

- less than 250 employees,
- less than 40 million € turnover,
- less than 27 million € total assets,
- positive equity resources (shareholders' equity) and also positive net income over the whole period of study,
- not included in a bankruptcy process.

The number of firms in the sample is 77, for which I have accounting data for the five year period time 2007 – 2011, resulting in 385 observations of balanced panel data. This is a complete data panel, and it has a large number of observations.

#### **4.2. Variables**

For each hypotheses presented in section 2, an economic or financial aspect of the firm was taken into account. In this section I, present how to measure these attributes. Capital structure theory does not specify clearly this issue. Some researchers - such as Titman and Wessels (1988) or Harris and Raviv (1991) - conclude that the choice of appropriate both dependent and explanatory variables is potentially controversial. The variables that I intend to explain is SME capital structure, which I measure by:

- *Total Debt Ratio (TDR): Total Debt/Total Assets.*

However, as argued by Chittenden et al. (1996), Barclay and Smith (1999) and Bevan and Danbolt (2000), any analysis of leverage determinants based only on total liabilities can obscure the important differences between long-term and short-term debt. For this reason, in order to address this issue and obtain a better understanding of capital structure and its determinants, I also consider the following two measures of leverage:

- *Long-term Debt Ratio (LDR): Long Term Debt/Total Assets*
- *Short-term Debt Ratio (SDR): Short Term Debt/Total Assets*

The first ratio is a measure representing the percentage of a corporation's assets that are financed with loans and financial obligations lasting more than one year. The second ratio is a measure representing the percentage of a corporation's assets that are financed with loans and financial obligations lasting less than one year.

Regarding the explanatory variables in this study, I have selected several proxies that have been commonly used in the empirical literature.

- *Effective Tax Rate (ETR): Taxes/EAIBT+Depreciation,*

- *Non – Debt Tax Shields (NDTS): Depreciation/Total Assets*
- *Growth Opportunities (GO): Intangible Assets/Total Assets*
- *Asset Structure (AS): Tangible Assets/Total Assets*
- *Size (S): Natural logarithm of total assets*
- *Profitability (P): ROA= EBIT/Total Assets*

First of all, total liabilities, on average, amount to approximately 61% of total assets value. If I split total liabilities into fixed liabilities and current liabilities, the results are 10.2% and 50.8%, respectively, and show that debt financing for SMEs of our sample is mainly short term. These data support the last hypothesis (Table 1).

With respect to asset structure, the data indicate that intangible assets represent over 5% of total assets value, whereas fixed assets represent approximately 43% of total assets.

Regarding profitability, the average return on assets over the period analyzed is approximately 8%, but there is a great disparity between firms with a -97% minimum value to a 303% maximum value.

	TDR	LDR	SDR	ETR	NDTS	GO	AS	S	P
TDR	1								
LDR	0.3010	1							
SDR	0.8220	-0.2705	1						
ETR	-0.1611	-0.1850	-0.0611	1					
NDTS	-0.1043	0.1306	-0.189	-0.386	1				
GO	0.1244	0.2640	-0.039	-0.1589	0.2580	1			
AS	0.0149	0.2586	-0.1377	-0.2135	0.1109	-0.1581	1		
S	0.0231	0.071	-0.0154	0.0960	-0.0445	-0.0239	0.0479	1	
P	-0.1394	-0.248	-0.114	0.2672	0.0286	0.0222	-0.117	-0.015	1

Table 1: Correlation Matrix

Source: author's calculation

## 5. ECONOMETRIC METHODOLOGY AND EMPIRICAL RESULTS

The panel character of our data allows me to use a panel data methodology for my empirical research.

My panel data model may be represented as follows:

$$y_{it} = X_{it} * \beta + \eta_i + u_{it}$$

where y is the dependent variable,  $X_{it}$  is a 6x385 vector that contains all the explanatory variables,  $\beta$  is also a 6x385 vector with the variable coefficients that I pretend to estimate,  $\eta_i$  denotes the unobservable individual specific effect that is time – invariant, and it  $u_{it}$  is the random error, with i



denoting firms (cross – section dimension) ranging from 1 to 77 and t denoting years (time –series dimension) ranging from 1 to 5.

One of the main advantages of panel data models is that they provide the possibility to eliminate the problem linked to identification of the effects (Baltagi, 1995). Specifically, in cross section models there is a problem if these effects are orthogonal or not exogenous to the variables considered. To verify the character of the individual effects, the Hausman (1978) specification test is usually employed. This test is based on the null hypothesis that the individual effects are not correlated with the independent variables:

$$[H_0: \text{Cov}(\eta_i, X_{it})=0]$$

If I accept the null hypothesis, the individual effects should be random and the Generalized Least Squares (GLS) model with instrumental variable estimators is appropriate. However, if I find that  $H_0$  is false, the individual effects are fixed and the GLS estimator becomes biased and inconsistent. In this latter case, I will need to transform the original model, subtracting the average of the variables from it:

$$y_{it} - \bar{y} = (X_{it} - \bar{X}_i) * \beta (u_{it} - \bar{u}_i)$$

This is the within-group transformation model, and it is possible to use Ordinary Least Squares (OLS) to estimate its parameters, which will provide unbiased estimators. In this research, the result of the Hausman's specification test affirms the existence of correlation between the individual unobservable effects and the explanatory variables. Therefore, the choice should be the fixed effects and the within transformation model.

After the Hausman's specification test, I carry out the regression analysis. A general look at the results (Table 2) illustrates that all the correlations between variables are statistically significant, and the F joint test underlines the need to considering all the variables from a statistical viewpoint.

The two proxy variables that relate to Capital Structure Fiscal Theory show mixed results. The effective tax rate appears to have a significant negative relationship with company leverage, indicating that hypothesis I.a is rejected. One of the possible explanations for the sign of this effect could be that SMEs managers do not try to reduce their fiscal commitment through debt. Michaelas et al. (1999) and Sogorb Mira (2002) obtain this result, although there are different confidence levels. Jordan et al. (1998) also find a negative relationship, and they underline the fact that taxes influence debt only due to the effect over retained earnings.

Results show that there is a positive correlation between firm size and debt, suggesting that this variable determines firm leverage not only for larger firms but also among SMEs. For these reasons, hypothesis I.b is accepted: as Ang et al. (1982) and Pettit and Singer (1985) underline size firm is an inverse proxy for the probability of bankruptcy.

	TDR	LTD	STD
Constant	-0.5112 (-15.10)	-0.5230 (-17.88)	0.001* (0.065)
ETR (FT)	-0.1388 (-15.120)	-0.0909 (-10.997)	-0.0514 (-4.727)
NDTS (FT)	-0.6225 (-15.885)	-0.2111 (-6.995)	-0.3319 (-9.347)
S (TOT)	0.0779 (31.161)	0.0456 (22.05)	0.0331 (14.125)
GO (TOT)	0.1435 (8.781)	0.4010 (27.673)	-0.2343 (-13.785)
AS (TOT)	0.0345 (4.998)	0.1105 (17.337)	-0.0675 (-8.719)
P (POT)	-0.0654 (-4.881)	-0.0449 (-2.120)	-0.0455 (-3.21)
R2	0.1031	0.0922	0.033
F	331.85 p-value of 0.001	291.05 p-value of 0.001	92.29 p-value of 0.001
Number of observation	74	74	74

\*not significant

Table 2: Regression results

Source: author's calculation

Regarding the decomposition analysis of debt, it is possible to observe a positive relationship between size and both long term and short term debt. This result disagree with Bevan and Danbolt (2000), in fact larger firms employ more debt independently of its expiration because they have greater bargaining power with creditors. In this case, hypothesis III is rejected.

SMEs with more growth opportunities include more debt in their capital structures. Nevertheless, a significant negative correlation appears between the ratio of intangible assets over total assets and short term debt, which may illustrate the different time horizon of these types of assets and liabilities, causing us to reject hypothesis II. These results disagree with Michaelas et al., 1999. This result confirm Myers (1977): under-investment problem becomes more intense in firms with a high number of growth opportunities, and this fact will cause creditors to reduce their supply of funds to this type of firm.

The correlation between leverage and asset structure changes significantly depending on the type of leverage ratio used. Specifically, long term debt ratio is positively correlated with asset structure, while this correlation becomes negative if I consider short term debt ratio. The same result is obtained by Van der Wijst (1989), Van der Wijst and Thurik (1993), Chittenden et al. (1996), Van der Wijst (1997), and Sogorb Mira (2002).

The asset structure variable measures the ratio of tangible assets to total assets and is composed mainly of fixed assets, which tend to be long term in nature. The negative correlation between asset structure and short term debt ratio means that short term debt (current liabilities) is used to finance non-fixed assets, basically current assets. Finally, the negative coefficient on profitability provides evidence for the pecking order theory, where more profitable SMEs tend to use lesser debt when financing their activity. Small and Medium firms prefer internal resources to external ones as mode of financing.

## 6. CONCLUSIONS AND FUTURE DIRECTIONS

Scholars have noted that financial policy in SMEs can be explained by the most common capital structure theories. In order to obtain a more thorough understanding of the underlying forces that drive capital structure decisions in the SME sector, in this paper I have tested several empirical hypotheses, based on different financing decision theories, using a panel of 77 agro food Italian SMEs during the period 2007-2011. The three main capital structure theories considered are Fiscal Theory, Trade – Off Theory and Pecking Order Theory.

I both confirm some prior findings using an alternative more complete data set and extend the analysis using additional firm characteristics, such as nondebt tax shields and a decomposition analysis of firm leverage.

Contrary to expectations, taxes are negatively related to debt. The Trade–Off Theory allows us to extend the explanation of the financial behavior of SMEs. First, size and asset structure are both positively correlated with firm debt level, as stated by the theory. However, regarding asset structure, I obtain a positive correlation with long term debt level but a negative correlation with short term debt level. This may illustrate the maturity matching principle in SMEs where they try to finance their fixed assets with long term debt and their current assets with short term debt. Second, SMEs with more growth options seem to employ more debt, although this relationship becomes negative with short term debt. This fact may suggest that these types of assets are linked to a long term nature, and thus their financing should match it.

Finally, Pecking Order Theory seems to explain relatively well debt policy in SMEs. SMEs rely their financing on internal resources instead of turning to outside the firm.

Regarding future lines of research on SMEs capital structure, this study will improve by considering a broader time period analysis in order to elucidate whether capital structure in these types of companies changes during different economic cycles. Furthermore, the analysis could be enriched by taking a dynamic look at the issue and formulating dynamic models of debt policy with instrumental variables.

While the research controls for possible endogeneity through Hausman's test, it does not control for non-linearity. Future research can include the development and estimation of a generalized non-linear model specification. A solution should be the development of a non-linear equation model.

This is an exploratory research and so the results should be interpreted in light of some limitations:

1. the sample of firms is random;
2. the sample of companies could be expanded numerically.

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## **BOOK OF CONFERENCE ABSTRACTS**





## **AGRIFOOD MARKETING AND CHILDREN: A COMPARISON BETWEEN TWO DIFFERENT AGE GROUP**

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### **INTRODUCTION: CHILDREN AND FOOD MARKETING**

Children represent a particular target for marketers because of their peculiar characteristics: they change rapidly, acquiring new capabilities in a few years, and this makes a 3 years old kid different from a 9 years old one; on the other hand this is a particularly vulnerable target because of the lack of some cognitive skills compared to adults. Valkenburg and Cantor (2001), analyzing the most relevant features of children as consumers, identifying four age groups: the first one includes the so called infants and toddlers (0-2) who begin to be attracted by advertising; preschoolers (2-5) are the second group, characterized by the difficulty to separate reality and fantasy and by the focus on a single surprising particular; thirdly early elementary school children (5-8) start to have their first purchasing experiences while during the later elementary school years (8-12) tendencies and brands becomes relevant variables for their choices.

Marketers interface with children in different ways, for example through some techniques such as *dual messaging*, characterized by a communication style suitable both for children and parents (Schor, 2004) and *age compression*, which levers on children's desire to be adult (Oliverio Ferraris, 2010). Cairns *et al.* (2013) focused their study analyzing the nature of food marketing to children, highlighting that the most promoted products are poor in nutritional values, as also demonstrated by Molnar *et al.* (2008): from this point of view some food marketing initiatives have been accused of being unethical because of their negative consequences on children's weight problems (Schor and Ford, 2007). Fruit and vegetables, on the other hand, are less considered by marketers. According to Zeinstra *et al.* (2007) exterior characteristics are very important for preschoolers in order to discriminate healthy and unhealthy foods and this means that also colours play an important role (green is essentially linked to healthy foods); another kind of marketing tool particularly suitable for little consumers is represented by cartoon characters but also in this case they are usually linked to low nutritional value foods (Harris *et al.*, 2010) but De Droog *et al.* (2011) demonstrated, through an experiment that they can be an useful means to make fruit more appealing. Altintzoglou *et al.* (forthcoming) highlighted that children's involvement in the process of selection of a meal can be useful, in particular they analyzed the case

The study which will be described is already ongoing.

## THE STUDY

In order to understand the different effect of marketing tools on children's perception of healthy food the authors have analyzed and compared the different approach of 9-10 years old children and preschoolers through two qualitative studies. The methodology applied is modelled on children's cognitive capabilities, essentially based on interviews and drawings. Mauthner (2006), for example, suggests to organize individual interview for elder children and little groups of discussion for early elementary school ones: this choice derives from the fact that research with children has its own characteristics and it is important to respect kids' abilities. In the first case children were asked to observe and comment different fruit and vegetables images, presented in two different variations (with and without a packaging with the image of a popular character): these kids (who belong to the age group of later elementary school) showed a strong awareness about the importance of quality and freshness of these kind of food and, in fact, most of them refused the packaged product, (Baldassarre and Campo, 2014). The approach of preschoolers was very different, and this was demonstrated in another experimental study conducted in a second phase of this research: they were asked to choose their favourite food among healthy foods, presented with and without a cartoon stickers, and unhealthy ones, presented without references to a particular character: findings showed that those children tended to select healthy food because of the presence of stickers.

## CONCLUSION

The comparison between this two different age groups have confirmed that it is possible to make fruit and vegetables' consumption increase among children but it is necessary to apply different marketing initiatives. In the case of elder kids it is necessary to act in terms of communication (obviously it is fundamental also the role of parents, who are the main protagonists in the formation of children's food habits): in fact they have a more rational approach and do not appreciate elements typical of younger kids. On the contrary in the case of preschoolers it is necessary to consider that they do not consider concepts such as quality, origin and freshness but it is more important to attract their attention through a surprising element, which can be represented by characters.

Contributions of this study concern essentially the way marketers have to promote products among children, considering the age factor: this can be particularly useful in the case of food that kids do not love (fish, for example).

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## THE INFLUENCE OF WINE TOURISM ON THE INTERNATIONALIZATION OF ITALIAN SMES

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### ABSTRACT

Wine tourism has received growing attention in tourism literature (Bruwer, 2003; Koch *et al.*, 2013) and, during the last two decades, the number of contributions related to wine tourism has increased significantly (Williams and Kelly, 2001; Gómez, Molina, 2012; López-Guzmán *et al.* 2011; Maizza and Iaia, 2013; Cardinali *et al.*, 2010). Indeed, several studies on this topic have been conducted in many countries (Getz and Brown, 2006; Marzo-Navarro and Pedraja-Iglesias, 2012; Paniccia *et al.*, 2010), and various classifications on wine tourism thematic groupings have been identified (Qiu *et al.*, 2013; Duarte Alonso and Liu, 2012).

However, although different studies confirmed that wine tourism is a marketing and sales strategy for wine producers through creating a marketing opportunity to sell products (Getz *et al.*, 1999; Getz and Brown, 2006) and bringing market knowledge to producers (Szivas, 1999), there is a lack of studies describing how wine tourism can permit wine producers to start or to improve export activities.

At the same time, several researchers have analyzed a possible relationship between international tourism flows and international trade (Fischer and Gil-Alana, 2009; Santana-Gallego *et al.*, 2011), and different studies have confirmed that wine tourism exerts an influence on international sales flows (Getz *et al.*, 1999; Getz and Brown, 2006). However, most of these studies have followed a quantitative approach without focusing on the mechanism of sales stimulation starting from the presence of tourism flows. Therefore, there is a lack of exploratory and qualitative research focused on firms' behavior. Qualitative research could allow the identification of the processes that wine producers adopt to develop foreign markets based on tourism flows.

The principal aim of this paper was to examine the internationalization process of small and medium-sized enterprises (SMEs), with a particular focus on the influence of international tourism on marketing strategies. To achieve this objective, eight case studies of Italian SMEs producing a specific type of wine (Bianchello del Metauro) have been examined. The case firms were selected as: they (a) had their headquarters in Pesaro-Urbino province, Marche region, in Italy, (b) produced Bianchello del Metauro wine, (c) owned a wine store or a farm for receiving tourists, and (d) organized events or initiatives for attracting tourists.

In this study, Italy was selected as the country of origin due to the long tradition in the production of wine, with a variety of types to which a specific local area corresponds. The Bianchello del Metauro production area, located in Marche region, was selected due to its closeness to the Adriatic coast, which has a strong touristic attractiveness, and to the presence of a relevant historical, cultural and artistic heritage, which still exert an influence on many craftsmanship based manufacturing activities. A single local production area was chosen to avoid the influence of location-related factors in the analysis of the observed cases.

Findings from the analyzed case support the argument that, in the majority of cases, international tourism permits wine SMEs to create a relationship/network with tourists' foreign market and to expand internationally. Moreover, what emerged is a network construction process, which starts from the visit of tourists to the company site and leads to contacts with importers, retailers or restaurants in the tourists' home country. A relational connection role is played by tourists, because of their willingness to have the opportunity to buy in their country the same products they enjoyed during their trip, and even to maintain a personal relationship with the wine producer. In several cases, international tourists suggested an importer to the wine producer or decided to contact an importer themselves.

Some relevant management implications can be derived from the results of this research. Wine producers should pay great attention for attracting tourists and creating personal relationships/networks with them, since this can help to expand to international markets. Therefore, proper organizational, communication and relational processes should be introduced.

As this paper was based on few case studies, a more extensive research should follow to measure the relevance of the mechanisms that emerged. Research should be also conducted in different regions of the same country and in different countries, taking into account the differences based on manufacturing firms' size.

**Keywords:** *tourism, wine tourism, internationalization, international strategy, small and medium-sized enterprises, Italy.*

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## **NETWORKS AND COOPERATION AS CRITICAL SUCCESS FACTORS IN WINE TOURISM**

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### **ABSTRACT**

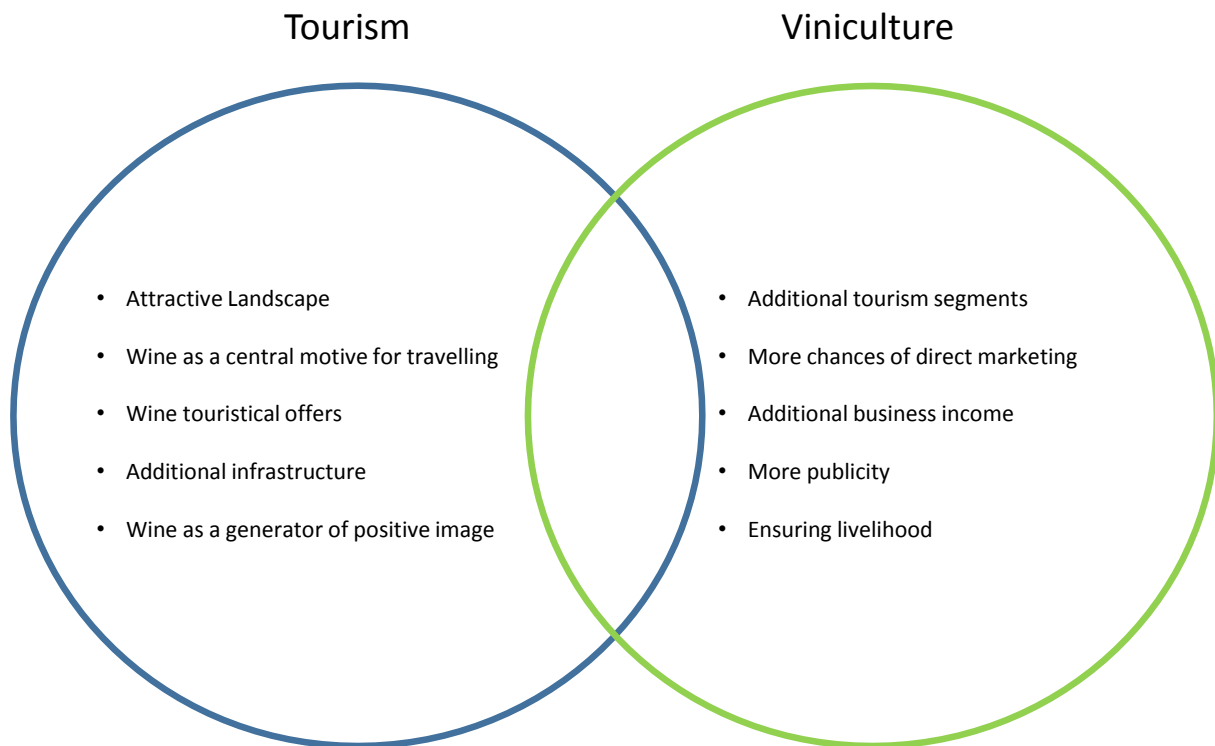
Wine tourism as a niche segment is very much influenced by the synergy of the viniculture and the tourism sector. Cooperation is vital to the success of wine tourism products. Only if cooperation works, positive effects arise. The paper will introduce the topic of cooperation and networks and their positive effects on wine tourism. In a first case study two examples of the same product in different German wine regions with different networks shall be introduced and their networks assessed. In a second case study the advantages of cooperation and strong networks regarding the implementation of a new countrywide tourism strategy in wine tourism shall be introduced, using the example of Cyprus.

### **THE IMPORTANCE OF COOPERATION IN WINE TOURISM**

Achieving existing synergies in between wine industry and tourism industry is very much depended on a cooperative approach amongst all stakeholders. Several scholars (Haart 2003, Schamel 2013 and Kagermeier 2011) outlined that truly successful wine tourism products can therefore only evolve in an atmosphere of cooperation of viniculture and tourism. Especially the wineries and wine-maker play a vital role, due to the fact that they do not only function solely as producers of the wine that tourists come for but form the framework conditions for the synergy of wine and tourism (Cambourne & Macionis 2000). Tourism has to be understood amongst winemakers as a rather lucrative provider of additional income and therefore is an arena to get engaged in. Primary fields of involvement, as already done in many cases, are to take on the role as gastronome or as hotelier. Another important branch would of course lie in the hand of the official policy makers as described for example by Van Westering & Niel 2003. Wine tourism seems to be working best, if taking place in a wine tourism cluster rather than as an isolated approach. Regarding the positive effects of synergy in the wine tourism sector there are many to be named, as Fig. 1 shows clearly:



Fig. 1: Positive effects of synergy regarding viniculture and tourism



Source: Authors translation and design on the basis of Kagermeier 2011: 71 and Müller and Dreyer 2010:12

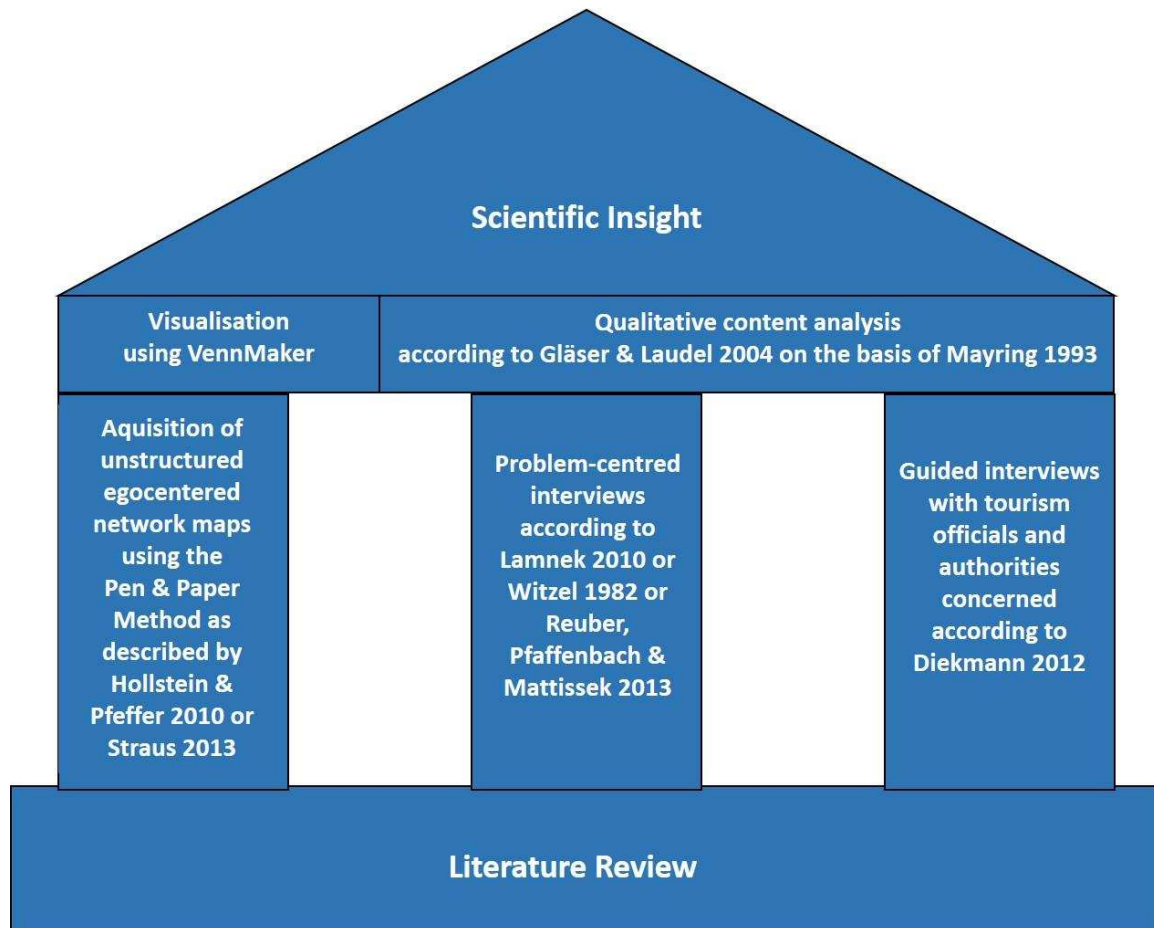
It becomes very clear how important and fruitful good cooperation can be, if done properly. The following case studies do emphasize this vividly. The first case study deals with the importance of proper networks that involve policy makers and their benefits regarding a wine tourism offer in the Moselle and Franconia wine regions in Germany. The second case study does illustrate the importance of good cooperation and strong networks regarding the implementation of a countrywide tourism strategy for the Republic of Cyprus.

## THE ROLE OF NETWORKS IN GERMAN WINE TOURISM PRODUCTS

In 2014, Harms conducted a study regarding networks in wine tourism. A social network analysis of wine experience guides in the Moselle and Franconia regions was undertaken, in order identify success factors of the Franconian guides in relation to their counterparts from the Moselle region. In-depth interviews were conducted, using ego-centered network maps (Fig. 2). The gained network data showed major differences within the networks. The successful Franconian wine experience guides profited from a network with a strong public policy maker in the center, who was responsible not only for the marketing of the group but also provided training, supplied the group with information and

supported them politically by installing them as the official tour guides of the region. He also acted as a gatekeeper to institutions and the media and did even provide lucrative offers to some of the group members.

Fig. 2: Methods used by Harms 2014



Source: Authors own design 2014

This created a working environment for the guides that was fruitful and gave them time to focus on their task. The network of the Moselle region on the other hand can be described as a compensatory network. Its main purpose seemed to be the compensation of the missing support from policy makers, the regional DMOs and tourist information offices. The number of financially failing stakeholders on the market seemed to be much higher than in Franconia. Successful guides did also show personal networks far more complex and often acted in the role of the Franconian policy makers for the Moselle region. Another interesting finding was that those guides seemed to have to rely much more on rather asymmetrical success-factors such as friendship and family ties than their counterparts in Franconia. In general, the guides in the Moselle region spend more time establishing themselves in the region than guiding guests. In summary, it can be said, that the study did show brilliantly how important

key players and high performers are needed in the center of such a network. Policy makers need to be involved and can contribute massively to the success of the network and its members.

## THE ROLE OF COOPERATION IN THE CYPRIOT WINE-TOURISM STRATEGY

In order to reposition the destination of Cyprus and to overcome the downturn of tourism performances in the end of the 20<sup>th</sup> century the Cyprus Tourism Organization developed the so-called “Strategic Plan 2010”. The field of product diversification was identified as main pillar and therefore the engagement of the wine industry in the tourism sector was aimed upon. By introducing the “wine-route-project” a whole number of individual subsidy-schemes was put in place to strengthen the local wine- and tourism industries, but especially their cooperation. Beside several weaknesses in the fields of implementation, product quality and marketing, the concept of the program might work as good example of progress due to the cooperation of the two sectors. The tourism side did profit from a consolidation in the field of identity and image and from a new segment within its diversification strategy. The wine industry profited largely in form of more cellar door sales and a deeper contact to the customer in the newly established or refurbished tasting rooms.

## SUMMARY

Overall it can be said that cooperation is inherent to the system of wine tourism. Due to the synergies of both sectors profit largely from true cooperation. On the other hand, the example of the experience guides from the Moselle region in Germany shows clearly how harmful not working networks in wine tourism can be.

**Keywords:** *Networks in Tourism, Viniculture, Cooperation, Social Network Analysis, Governance, Cyprus, Germany, Moselle, Franconia*

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## “NO FRENCH PLEASE, WE ARE IN FRANCE!”: THE USE OF FOREIGN NAMES IN RESTAURANTS AND FRANCHISES

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### ABSTRACT

France's unease with globalisation has been highlighted by several academics (Meunier, 2006; Waters, 2012) and opinion polls regularly confirm this. If concerns about the economy and social welfare chiefly account for this, there is also a cultural dimension. A fear of an *américanisation* of French society is prevalent, in particular as far as food is concerned, as shown by José Bové's crusade against *malbouffe*.

It is therefore surprising to observe an increase in the use of foreign names in the French restaurant industry in a country which famously cherishes its culinary heritage and identity. Restaurant chains and brands are currently incorporating more words and expressions of foreign origin, both in the media and face to face with the consumer on the high street.

This paper aims to examine the branding trends in the French hospitality industry with particular reference to restaurants and franchises, presenting the growing use of foreign names as a branding tactic. Using the existing theoretical background on the role of language in marketing and naming, it specifically considers the restaurant industry in France and compares it with what has been observed in other sectors like advertising (Martin, 2007). The study of the names of recent restaurant chains such as *Green is better*, *Mezzo di Pasta*, *Big Fernand* and *Milk* provides evidence to confirm this trend. The presentation of a field case study, analysing the names of restaurants in the *Arenas* business district in Nice gives further insight into this trend in this French industry.

**Keywords:** *France, restaurants, branding, naming, marketing, Frenghish, globalisation, food, language.*

## **AGRIFOOD FIRMS' RESPONSIBLE INITIATIVES IN THE ITALIAN REGIONS**

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### **ABSTRACT**

Firms are increasingly evolving corporate strategies into sustainable business practice, as well as environmental and social responsibility, to maximize values for their stakeholders, as a result of consumers' new orientation.

Agrifood firms are intensifying their efforts to develop corporate initiatives that are able to achieve economic, environmental and social goals. This is a consequence, among other factors, of the recent involvement of grocery large retailers in managing closer relationships with food suppliers whose strategies are oriented towards sustainable local development.

The paper aims to offer an analysis based on an empirical research on sustainable strategies of agrifood Italian firms. The research was conducted through a desk analysis on the Italian Chamber of Commerce national database, in combination with a web metrics analysis. Then, a survey on geographic localization of sustainable strategies among agrifood Italian firms has been made in order to highlight the emerging strategic perspectives adopted by agrifood firms as regards sustainability. The survey revealed the high level of interest by Italian agrifood firms in promoting sustainable projects, with the objective of following a sustainable approach for all their operations, according with consumers' pressure and large retailers' new strategies.

### **FIRST FINDINGS AND CONSIDERATIONS**

Many firms are adopting various responsible strategies and practices along with their supply chain, in order to face consumers' demand of ethical and social values. This is the case of large retailers in the relationships with their suppliers. Many Italian agrifood firms respond to this trend by adopting social responsible initiatives. Moreover, they try to achieve a closer relationship with their end-customers by activating specific communication tools which emphasize their responsible commitment.

The research presented in this paper is the result of a preliminary web-analytics based study. Data collected offer a landscape on some trends related to a responsible behavior adopted by agrifood firms. What emerges from the research is a different positioning of the regions of the country, depending on agrifood firms' interests in sustainable projects. The more innovative firms do not limit

their actions to producing organic food or selling ethical products, and they also invest in web promotion/communication activities.

However, future research is needed to better investigate aims, models, tools and practices used by agrifood firms in their relationships with both large retailers and consumers.

**Keywords:** *agrifood firms, sustainable business strategies, PDO, PGI, TSG, traditional products, organic farming, green-economy.*

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## EXPLORING THE TIME DIMENSION OF COUNTRY-OF-ORIGIN EFFECTS ON PORTUGUESE WINE

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### ABSTRACT

This paper introduces a time dimension into country image understanding in a wine context. We explore how consumer perceptions of Portuguese wine are influenced by past images, the image heritage (Rindell, 2013) of country image. In essence, consumer images are constructed using previous experiences as a framework, defined as the *image heritage*, when contact with the company, its products, competitors, or with the country occurs.

The exploratory study is based on qualitative data pertaining to fifteen ( $N=15$ ) semi-structured interviews. A purposive sampling method was used to select Finnish wine consumers, aged 22-50 years old, with different levels of knowledge and involvement in wines and Portugal. An abductive approach was chosen as we go back and forth between theoretical and empirical world (Dubois and Gadde, 2002). Part two with the same research approach will be conducted in Monaco 2014-2015.

Results indicate that image heritage, relating to both wines and country image is an important element in how consumers perceive Portuguese wines. A model was developed showing how consumers' image heritage in a COO-context relates to involvement, familiarity, stereotypes, previous experiences and social factors. Company influences relate e.g. to branding and brand communication, and other influences to competitors' images and general publicity. In practice, perceptions of Portuguese wines were closely associated with *vinho verde* wines and to two well-known brands, combined with positive price/quality evaluations. A lack of familiarity, information and involvement were influenced by Portugal's country image. Managers are encouraged to mix product specific with COO-approaches to recall positive consumer association.

**Keywords:** *COO-effects, country image, image heritage, wine industry, Portugal*

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## **THE OPEN INNOVATION FRAMEWORK IN THE ITALIAN WINE SECTOR: GENERAL EVIDENCES**

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### **ABSTRACT**

**Purpose:** The aim of this paper is to analyse the application of the open innovation model in the Italian wine sector.

**Methodology:** Following a qualitative research approach, the existing literature on open innovation is analyzed. The application of a single method approach is directed to verify the innovation model adopted by company of the wine sector.

**Originality/value:** Investigating the state of art of innovation in the Italian wine sector, the paper verify that this sector it is moving toward an open innovation model.

**Practical implication:** The paper is the first step of an empirical research related to prove the existence open innovation in the Italian wine sector. Future researches will be conducted in this direction.

### **INTRODUCTION AND RESEARCH QUESTION**

The paper investigate the concept of the open innovation model in Italian wine sector by identifying practices which help to describe innovation typologies adopted by wine companies: closed innovation model or open innovation model.

The research presented is the first step of an extended work in order to understand the impact of the open innovation on the wine business sector.

Through a qualitative research approach, the international literature is examined supposing that innovation is crucial for wine companies to compete in our economy (Vrontis et al., 2011). In this vision, an open and collaborative interaction among companies could be used to overcome disadvantages and penalization due to the SMEs size.

This short paper is structured in five sections. After the introduction, in the section two will be analyzed the literature related to open innovation in agrifood sector and specifically in wine sector. Section three describes the adopted research approach. Section four illustrates the research results. Section five proposes final consideration, limits and the future perspectives of this study field.

The research question of the paper is the following: How the open innovation model is characterized in the wine business sectors?

## LITERATURE REVIEW

Among studies on open innovation, the pioneering work made by Pearson and Ball (Peterson *et al.*, 1979; Griffiths, Peterson 1973) is an useful example of research directed to develop open innovation background.

Rothwell and Zegveld (1985) supported the network model of innovation; they called it the interactive model of the innovation process, emphasizing the interactivity of the innovation process with the stress on exchange, sharing, interaction and feedback among the actors intervening inside and outside the company.

The evolutionary dynamic of the macro and micro environment produces effects on product, process, organization and market innovation. These evolutionary aspects of the innovation process highlight the importance of knowledge transfer and the notion of absorptive capacity (Cohen, Levinthal, 1990) as being crucial to learning, expressed as a multiplicity of interactions in the dynamics driving of cooperation, exchange and sharing of knowledge (Rothwell, 1992; Senker, Faulkner, 1996).

In innovation process knowledge is a critical asset, that could confer the ability to recognize the value of new information, assimilate it, and apply it to commercial ends. These abilities collectively constitute the firm's absorptive capacity. The internal investment in R&D impacts directly on the absorptive capacity and on its cumulative character (Machlup, 1984; Foray, Lundvall , 1996), so the firm's resources will be able to fully recognize and exploit the value of new external information, that could be adopt to improve firm's products, productivity and reputation (Fombrun, Shanley, 1990; Lin N. 1999)

The linear view of innovation, focused on science and with a strong tendency to be "closed", was progressively replaced by an "open" and interactive view based on the continuous learning of all the actors involved.

Chesbrough (2003, 2006) define the open innovation paradigm, which assumes that innovation is based on firms' necessity to combine their internal and external technological developments to realize successful innovations able to create added value for the firm. The author focused on topics like the degree and type of openness (i.e. outbound or inbound), effectiveness, context and process.

The cooperation among companies and the sharing of knowledge between related industries in wine sector is important to competition and in creation of competitive advantage (Porter, 1985; Porter, 1998).

In this sense, there's a gap in the literature about the understanding of the open innovation in the different stages of the innovation process, from the idea generation to the commercialization phase.

## **METHODOLOGY**

The research approach adopted reflects the qualitative research approach (Maylor and Blackmon, 2005; Myers, 2013). In this way, following the analysis of existing literature on open innovation, the study investigates on the existence of open innovation models in the Italian wine sector.

Therefore, it is given attention to the following aspects:

- the definition of open innovation model;
- the analysis of wine sector in order to verify or thesis.

The data acquisition was carried out through a single method approach (Yin, 1994) developed on secondary sources from national and international literature (reports, newspapers, websites, articles, paper and scientific books) in the period from 1973 to 2014.

The secondary source includes:

- two database, in particular Ebsco and Google scholar, in which have consulted articles through the following key words: 1. innovation models 2. open innovation; 3. wine sector; 4. open innovation in wine sector;
- the existing literature on innovation models in wine sector;
- documents published by trade association, like Fedevini, and banking institution, as Mediobanca survey on the wine sector.

## **DISCUSSION AND FINDING**

The wine companies are different from other manufacturing companies. They are more dependent on natural resource; consequently, companies in the agrifood sector are often considered conservative, slow-growth, in which innovative activities are less likely to occur. The implementation of cooperation among companies for sharing knowledge and promoting open innovation is, generally, a well accepted concept. At the same time, companies of wine sector are based on production and commercialization of their products with local and family procedures which make the quality of product unique.

In this respect, they benefit more from the interaction with downstream partners (retailers, distributors) and customer so as to introduce on the market new product of success (Rossi et al 2012).

We find that open innovation is increasing in Italian wine sector: companies develop and commercialize new ideas in cooperation with other partners.

An example is given by Zonin. This firm recently refocused its R&D strategy on open innovation paradigm by introducing a strategy inspired by consumers (consumer inspired) such as My Feudo Project.

The project involved 13 wine bloggers and experts by providing them the assembly kit of Bordeaux blend, from the firm's Sicily estate. Each expert proposed his own blend that has been evaluated and discussed on a web platform specially created for the project.

Merlot, Cabernet Sauvignon and Petit Verdot: these are the samples wines that participants received in order to combine grapes in different percentages to reach, after all the experiments needed, the perfect assembly bottled. Finally, wine has been tasted in a discussion table between the company and the participants in the Vinitaly 2010.

Another sample is given from the collaboration between H-FARM and Vinitaly International: it is the H-ACK WINE, a marathon 24 hours non-stop, held March 1, 2014 and entirely dedicated to the development of ideas and projects to innovate digital communication in the wine industry.

Concerning traceability an interesting case is given by "E-wine, tracing the bottle". This project is made up to provide an electronic ID card for bottles. The innovation consist in apply a "clever label" that contains a wider range of informations to direct consumers and distributors.

Some internal innovation were found: the Agricultural Cooperative Firm named "Il Raccolto". The innovation introduced by this merging consist in a sustainable and efficient production that aims to rationalize all the inputs (water, fuel, chemicals, etc.) in order to realize an innovation process that is able to ensure, at the same time, higher profits for extension of land and an appreciable level of sustainability.

The finding of our analysis are interesting.

The model of open innovation was proposed as a way to share experience, cooperate with consumers and competitors, suppliers and clients, that contributing to the development of new ideas and projects related to wine.

This linkages and complementarities could define the boundaries of a critical masses characterized by unusual competitive success (Porter, 1998) in the wine field. The linkage allow companies to operate more productively in accessing information, developing new technology, improving production and developing products in line with costumer tastes.

In this direction, the present study allows to compare the general model of open innovation through its principles, hypothesized by Chesbrough, and the specific model of open innovation in the wine sector as represented below by table 1.

Open innovation Model	Principles	Open innovation Model in the Wine Sector	Example
	1 Not all the smart people work in our organization.		H-Ack Wine
	2 External R&D can create value for our organization.		E-Wine-Tracing the bottle
	3 Internal R&D is needed to grasp that value.		Il Raccolto Agricultural Cooperative
	4 We have to be involved in basic research to benefit from it, but the discovery does not have to be ours.		-
	5 If we make better use of external and internal ideas and unify the knowledge created, we will win.		My Feudo Project
	6. We should optimize the results of our organization, combining the sale or licensing of our innovation with the purchase of external innovation processes whenever they are more efficient and economic.		-

Table 1 – Comparing open innovation model in the Italian wine sector

In the table 1 we matched the examples listed in this section with principles hypothesized by Chesbrough.

The H-Ack Wine (<http://www.h-farmventures.com/>) is a sample that not all the clever people work in the own company. This digital brainstorm was proposed to share experience and expertise contributing to the development of new ideas and digital projects relates to wine.

E-Wine-Tracing the bottle (<http://www.torinowireless.it/>) is an innovation engendered by Torino Wireless Foundation and Industria Grafica Eurostampa SpA, that could be adopted by each wine companies in order to create value. The smart label, allows manufacturers to differentiate their products, uniquely identify its production, make more visible the quality of its production processes through integration with the traceability system within the company, reconstruct the geographical distribution of consumption of its products and therefore perform targeted marketing actions.

The Agricultural cooperative “il Raccolto”, in order to achieve technological and process innovation for the improvement company’s efficiency in production and environment, implemented a new technology of precision agriculture to monitor the main qualitative characteristics of the products during harvesting and proceed to a study feasibility to develop qualitative data in correlation with the input of cultivation and characters of soils business.

My Feudo project by developing an "open source" conception of wine, open to ideas and to interactivity with its audience, reveals step by step the progress of participants and the process of creating the blend on blog. This project unified the knowledge accomplished by consumers and firms' R&D function.

According to the 4th and the 6th principles we are not able to match any examples. Italian producers aren't usual to spread their recipes or preparation methods and there are no cases of firms that have developed new products to yield recipes to other producers. At the same time we should specify that a good part of Italian grapes require particular climatic and land conditions that made the production unique, or at least special.

## CONCLUSION

The wine sector in Italy is one of the industrial sectors of the national economy with the 0,83% of 2013 GDP (Federvini annual report 2014), with a high ranking in terms of employment, turnover and value added investment.

For the wine companies, as well food companies, adopt an effectiveness innovation process to successfully introduce and develop new products to the market has become one of the most important strategies. (Garcia Martinez, 2013; Karantininis et al., 2010).

The analysis shows that wine sector companies open their business model more in the development phase of the production, My Feudo Project, Il Raccolto Agricultural Cooperative, and the commercialization phase, H-Ack Wine, E-Wine-Tracing the bottle, with downstream partners.

This is the first step of analysis realized on the open innovation in the wine sector, at a later stage we will further develop the analysis.

Empirical studies on this topic have been conducted on high-tech industries (equipment computers, information and communication technology or pharmaceutical industries), instead in agrifood sector and in particular in wine sector investigations there are relatively scarce. Future research will be conducted in this direction. We will identify a sample of wine companies in order to verify their adoption of open innovation model, as a model that could ensure increased competitiveness and endanger long term value for the companies.

**Keywords:** *innovation models, wine sector, open innovation, wine sector open innovation.*

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## CHOICE OF BURGUNDY RED WINES: DIFFERENCES BETWEEN STAKEHOLDERS AND CONSUMERS

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### ABSTRACT

The present study was carried out in Burgundy (France). Two categories of stakeholders (upstream and downstream) in the Burgundy wine-producing sector and consumers were surveyed. Forty Burgundy red wines were presented to both panels. The study focuses on (1) the criteria used by the stakeholders to make their own choice before supplying wines to consumers, (2) the criteria used by consumers in choosing wines. Two criteria were studied: intrinsic and extrinsic. The aims are (i) to study the degree of consensus or disagreement among professionals in their representation of Burgundy red wines, (ii) to study consumer preferences for wines and (iii) to check whether wines judged to be good examples by professionals are enjoyed by consumers, and vice-versa. Sensory tests were carried-out in order to measure the typicality judgment of professionals and consumer preferences. Finally, a conjoint analysis was used to measure the importance of the extrinsic attributes for the stakeholders in the differentiation and the commercial positioning of wines and for consumers in the buying wine.

The study shows that for intrinsic attributes, the position of wine-industry professionals influences the sensory response. For consumers, differentiation of wines is difficult.

For extrinsic attributes used when selecting wines, respondents make basically the same choices, whether wine-industry professionals or consumers.

### INTRODUCTION

Wine is a complex product which is characterized by a multitude of attributes. During their decision-making process, consumers have to pay attention to several different factors when selecting wines, especially when they are unable to taste before buying. In some cases, they need to ask the seller for advice. Stakeholders have an important role. It is their job to identify the choice attributes that consumers consider important when choosing wines so that what is on offer is presented in an appropriate way. We investigate which factors are at work when selecting wines for purchase. Two criteria are chosen: the intrinsic (sensory) and extrinsic (labelling, brand, etc.) characteristics. This study focuses on two separate categories of wine stakeholders, namely those who work in the upstream stages of the wine industry (in production) *vs.* those who work downstream (finished

product), and studies their representation and selection of wines for their supply. Previous research has investigated the most important attributes when choosing wines (Corduas *et al.*,2013), Loison *et al.*(accepted for publication) studied interjudges (des)agreement for two categories of wines, but no comparaisons among different stakeholders and between professionals *vs.* consumers has been made. The purpose of this study is to answer these questions: (1) Which attributes are considered important by professionals and is there a difference between the two categories? (2) Which attributes are considered important by consumers when choosing wines?

## **MATERIALS AND METHODS**

Forty middle-of-the-range Burgundy red wines were selected, illustrating as far as possible the diversity of supply. Forty professionals from the Burgundy wine industry (20 from upstream and 20 from downstream) and 296 consumers participated in the study. They were not trained beforehand. The professionals were asked to mark the level of exemplarity of wines, first visually, then, independently, based on aroma and taste. This holistic sensory approach was devised by Ballester *et al.* (2005). Consumers were asked to mark their appreciation of wines (6 wines/ person) in the same circumstances. Finally, all participants had to rank 16 cards from a conjoint design in order to estimate the relative importance of extrinsic attributes.

## **RESULTS AND DISCUSSION**

The results of the ANOVA for both the visual and the smell and taste evaluations highlight a significant interaction between job status in the wine industry and the wine tasted. The location of the job (upstream *vs.* downstream) influences professionals' representations of Burgundy red wines. Accordingly, the sensory results for the two categories of professionals were studied separately.

### *Intrinsic attributes: Bipolarisation of wines*

Fisher's LSD was used and wines were ranked by ascending mean exemplarity and preference scores. Differences can be observed between each mode of evaluation and participants. For visual evaluation, the amplitude of mean exemplarity scores was much more diversified (from 1.85 to 8.15 ) and therefore better discriminated with upstream than downstream professionals (from 2.27 to 7.98). For consumers, the mean preference scores were less diversified (3.33 to 6.82). All participants (professionals and consumers) agreed on the wines noted as poor examples of Burgundy red wines. They agreed less about the good examples.

For the smell and taste evaluation, the mean scores were lower for each category of professionals, and for consumers it was impossible to differentiate between wines. The multiplicity of sensations relating

to the smell and taste evaluation contributes to the disparity of judgments as to exemplarity making it difficult for consumers to choose between wines.

*Extrinsic attributes for wine selection*

The results from the conjoint analysis were computed separately for each category. Table 1 shows the importance of each attribute for upstream and downstream professionals and for consumers. The most important attribute for upstream judges, downstream judges and consumers is brand name (respectively 41%, 36% and 27%), then price (21%, 24% and 24%). The least important attribute is appellation for upstream judges but for downstream judges and consumers grape variety is least important. These results show that, for extrinsic attributes used when selecting wine, the respondents have basically the same choice, whatever their position (upstream vs. downstream) in the wine industry. This result is shared by consumers.

Table 1: Value of relative importance of extrinsic attributes of wine

	Upstream	Downstream	Consumers
Appellation	6.23	12.972	14.699
Grape variety	11.038	9.979	11.013
Price	21.53	24.091	24.748
Brand name	<b>41.311</b>	<b>36.422</b>	<b>27.434</b>
Award	19.891	16.536	22.106
Average score of importance			

## CONCLUSION

The results of this study focus on local wine actors (Burgundy) and it would be interesting to compare these results with other wine stakeholders from different regions.

*Keywords:* red wines, upstream/downstream stakeholders, typicality judgment, conjoint analysis, Burgundy, consumer preferences.

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## **A CONCEPTUAL MODEL TO DEVELOP DATA GATHERED FROM UNSTRUCTURED SOURCES INTO MARKETING KNOWLEDGE**

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### **ABSTRACT**

The aim of this paper is to assess, with a view to marketing strategies, the potential of a marketing intelligence software application designed to extract information from non-structured web sources (typically websites and social media). The paper also proposes a conceptual model that SMEs can use to transform simple qualitative and quantitative data into knowledge that is useful for supporting the decision-making process in the context of international marketing.

### **INTRODUCTION**

The considerable spread of social networks on the web enables access to an extraordinary wealth of information (Chiarvesio and Di Maria, 2008; Kotler et al, 2012), which for SMEs in particular has considerable potential value. Indeed, the speed and flexibility with which technological networks move information, symbols and narratives make these resources easily accessible and exploitable, provided that companies are able to create an efficient system for extrapolation and subsequent learning (Rullani, 2006). The dynamic nature of information thus acquires further value from the various forms of inter- and intra-organisational social interaction (Rullani, 1994; Nonaka 1994; Dagnino, 2000), which enable its enrichment, selection and dissemination, facilitating the evolution of knowledge.

The objective of this study is thus to assess, with a view to marketing strategies, the potential value derived from the extrapolation of information from “non-structured” web sources, understood as those typically found in blogs, forums, social networks, web sites etc. (Costantinides and Fountain, 2008). To this end a special marketing intelligence software application was designed and implemented by a team of researchers including the authors of this paper (Scorrano et al, 2013).

This paper also puts forward a conceptual model that can act as a driver of interpretation and learning. Using this model, information can be extrapolated and transformed into knowledge that is useful for managerial decisions.

## **THEORETICAL CONTEXT AND DEVELOPMENT OF HYPOTHESES**

### *Non-structured sources and orientation to the consumer*

In the current competitive context, characterised by rapid change, globalisation and the intensification of competition in all sectors, analysis of consumer behaviour and consumer relations with the brand and the product are fundamental for the acquisition of competitive advantage (D'Aveni, 1994). Knowledge of the cognitive and behavioural elements that characterise the purchasing process (Mowen, 1995; Peter, Olson, 1996; East, 1997; Dalli, Romano, 2003; Solomon, 2004) is becoming increasingly important to the creation of value for the client (Cantone 1996; Wayland, Cole, 1997) and hence the creation of economic value for the company (Guatri, 1991; Copeland, Koller, Murrin, 1991; Guatri, Sicca, 2002).

The spread of social networks further enhances this situation and the role of the consumer in marketing processes (Schmitt, 1999), making it necessary to carefully monitor the content of the web. It has also become necessary to interpret conversations and to create one's own «conversational relations» (Stokes, 2000) founded on the application of marketing techniques and tools that exploit the potential of bi-directional communications (Brioschi, 2005).

Today, thanks to the development of the Web and information technology, only a small part of the information contained in digital sources is in structured form, most of it being either semi-structured or non-structured (typically web sites and social media) (Walker, 2012). While extraction from structured sources is facilitated by the presence of consolidated languages and retrieval techniques, the legibility of non-structured documents is made more complex by the ambiguity of the natural language. This in turn makes it more difficult to process them using software. In the last few years, the development of Information Extraction techniques (IE) has produced text mining models (Rajman and Besançon, 1998) for acquiring significant concepts from non-structured sources (Tianhao Wu, 2002). These tools use Natural Language Processing (NLP), a type of semantic research which, by seeking to mimic the mechanism of human learning, yields results containing semantically linked concepts (Chowdhury, 2003).

## **HYPOTHESES**

In accordance with managerial and empirical literature, in this paper it is hypothesised that the proposed conceptual model represents a driver of interpretation and learning with which to extrapolate information from non-structured web sources and transform it into “useful knowledge”. The latter is understood as information which, from a marketing viewpoint, accurately reflects the dynamics of the sector in question (Nova, 2000).

The methodological procedure followed in order to reach the set objective entailed: a) the conception and description of the software's functions, considering that it needed to be able, in a clearly defined context, to find, classify and analyse the occurrences of specific words useful for supporting the interpretation of competitive scenarios and the fine-tuning of business strategies; b) the description of the conceptual model via which to extract the information, process it and transform it into knowledge useful for marketing-related decision-making; c) experimentation of the model on real-world cases and description of the results obtained.

## THEORETICAL CONCEPTUAL MODEL

The proposed conceptual model was conceived in view of the software's architecture and functions (Semantic Marketing Intelligence), borrowing from the question-answering perspective and adapting it to marketing-oriented purposes (Voorhees,1999; Cooper and Ruger, 2000; Kwok et al. 2001).

Two key aspects of the model described below are the *operational framework* (including the preliminary phase before extraction of the data and the processing and visualisation phases) and the *interpretative framework*, regarding the interpretation of the data in order to obtain knowledge useful for decision-making.

- The model framework envisages three dimensions of operational analysis:
  - Pre-identification of the variables: it supports the identification of the sources from which information is to be extracted. This enables the creation of a database that can be personalised by classifying the sources by type and the geographical area of reference. Specifically, the variables were identified on the basis of painstaking analyses designed to answer the following questions:
    - *What?:* Defining the object of investigation;
    - *Who?:* identification of the type of actor for which the information will be extrapolated;
    - *Where?:* Identification of two spatial dimensions: 1) geographical (e.g. United States); 2) virtual, which involves the identification of the non-structured sources on which to conduct the research. Following a bottom-up logic, it activates a crawling process based on a set of search queries that enable detection of the textual content that is most closely associated with the relationship between *research term* and *information source* (e.g. wine buyer/wine blog).
  - Processing of information content: this phase starts with the selection of one or more sources from those previously inserted in the database. Extraction of the sources from

the database can be filtered by recourse to “key words” (derived from international glossaries or using a specific ontology), which makes the selection more effective.

- Visualisation of the output: the *Knowledge Presentation* module makes it possible to manage a tag cloud, which is a visual representation of the most frequently recurring concepts associated with the pre-selected key words and the content of the analysed sources.
- The construction of the *interpretative framework* of the tag cloud followed the quantitative content analysis approach (Berelson, 1952; Krippendorff, 1980; Weber, 1990). Adopting the logic of text mining (Bolasco, 1997; Feldman and Sanger, 2007), which underpins the content analysis method, the object under investigation and any sub-categories identified are considered *context units*, while the words or groups of words highlighted by the tag cloud are considered *analysis units*.

The “bag of words” (i.e. the mass of analysis units) will be interpreted by filtering the words that appear most relevant in that they answer the following questions:

*How?*: i.e. how the conversation is conducted in the pre-identified non-structured sources.

This serves to identify the themes of the messages and the channelled conversations about the product itself. This dimension includes words that identify a product’s attributes, often classified by the managerial literature into extrinsic (raw materials, production methods, marketing elements) and intrinsic (product’s physical or sensory characteristics, its place of production and its uniqueness) attributes (Olson and Jacoby, 1972; Teas and Agarwal, 2000). In the assessment process, intrinsic elements generally prevail over extrinsic factors, assuming greater overall importance in the consumer’s perception and assessment of the product.

*Why?*: i.e. for *what reason the conversation is conducted*. This takes account of elements linked to the utilitarian and functional value seen from a psychological viewpoint (Kempf, 1999). This category thus includes words describing attributes that are both functional and psychological – pertaining to nutrition, health, aesthetics, service quality, sacrifice, personal preference etc. (Blackwell et al. 1999; Cronin et al., 2000; Gallarza and Gil, 2006).

*When?*: i.e. *when the conversation is conducted*. This includes searches for subjective and emotional benefits linked to the need for fun and enjoyment. These categories include words that express the pleasure and enjoyment of consumption and are thus the expression of the Symbolic and Experiential value assigned to it (Holbrook and Hirschman, 1982; Babin et al., 1994; Sheth et al. 1991; Sweeney et. al. 1996).

The proposed interpretative dimensions and the process of assigning words to each category meet the current need to engage the consumer. To this end, the proposed method starts with the product’s



extrinsic and intrinsic attributes cited above in sub-point *How?*, passing through psychological abstraction (sub-point *Why?*) and finally reaching its hedonic attributes (sub-point *When?*), which represent the end-point of the process of product perception by the consumer.

## CONCLUSIONS AND MANAGERIAL IMPLICATIONS

Today, verifying the tendencies and needs of the market by means of a careful analysis of web sources represents a significant opportunity for companies (Feldman and Sanger, 2007). However, the dynamic and complex nature of the wealth of information made available by these sources obliges companies to equip themselves with the technical tools necessary for an efficient extrapolation of the data, and to adopt managerial models that can facilitate the transformation of data into useful knowledge.

Implementation of the marketing intelligence software illustrated here represents an innovative and technologically advanced approach to supporting SMEs in the process of extracting information from non-structured web sources. The conceptual model developed was conceived as a set of guidelines that facilitate the retrieval of useful information regarding competitors, markets and the financial system via a process that enables companies to:

- c) identify the sources most suitable for their specific knowledge purposes;
- d) personalise the database (by type of source and geographical area of reference). This enables analyses to be replicated in time and space, broadening the spectrum of the research or studying the same sources in greater depth.

**Keywords:** *marketing intelligence, information extraction, consumer behaviour*

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## THE IMPACT OF INTANGIBLE ASSETS ON THE WINE FIRMS VALUE: SOME EMPIRICAL EVIDENCE

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### ABSTRACT

**Purpose** – The aim of the paper is to analyse the market value of large size wine firms both in European countries with a historical market traditions and in extra European countries, to investigate the impact of intellectual capital on total amount of firm value. Specifically, the research plans to examine distinctly weight of human capital and relational capital in each evaluated wine firms, in order to appreciate if firms that invest on intangible assets achieve an increase of their market value. In this direction, the final purpose is to assess existence and impact of “European effect” in these firms operating in the field of wine industry.

**Design/methodology/approach** – We propose a quali-quantitative approach with an empirical analysis. Following the analysis of existing literature on the wine industry and intellectual capital, the research has been across three levels. First of all, the empirical study has been carried out analysing a sample of listed companies included in Mediobanca’s Wine Survey 2014. Then, we have considered the market value of thirty one companies from different countries, in order to define the amount of goodwill as difference between market value and book value. Subsequently, it has been determined the value of human capital, multiplying the amount of labour costs with an efficiency indicator of each company, and the value of relational capital as the amount of advertise costs of the same companies. At a second stage, the research means to study, on the one hand, the human capital in correlation with both the market value and the goodwill of each firms, on the other hand, the relational capital in correlation both with the market value and the goodwill of each. The analysis of the collected data has been developed using the statistical model of bivariate linear regression. Finally, the aim is to check both the existence of an “European country of origin effect” and a “extra European country of origin effect” of human and relational capital on value of wine firms, and if the value of intellectual capital has a greater impact in European country then in extra European country. The sources of research are of secondary nature (documents, reports, news, newspaper articles in open source, documents and scientific books, databases).

**Originality/value** – The methodology is focused to demonstrate the existence of economic opportunities, deriving from investment in both human capital and relational capital, especially with reference to the “European effect”. In the last few years, the competition between wine firms is very intensified and for this reason is significant to define strategies on intellectual capital, in order to build

competitive advantage compared to competitors. Starting from the Resource Based View theory, it is investigated the relevance of origin country on development of internal resources such as firms' intangible assets. So, the analysis configures our future research through definition of comparative methods to assess the intangible assets' impact of non-listed firms, and through evaluation of Italian absence weight in the world listed market.

**Practical implications and limitations** – This paper verifies how “European effect” impacts on human and relational capital and in which component of intellectual capital wine firms have to improve investments. In this regard, it is believed that the analysis of international competitive situation and the relevance of investments in human and relational resources in the market can be used by firms to build business strategies, based on potentialities of wine industry. The limitations of the research depend on the nature of analyzed firms, only listed ones. This means that many firms with a historical tradition are excluded from assessment, such as Italian firms, because of undercapitalization phenomenon and niche production.

**Keywords:** *wine firms, economic evaluation, intellectual capital, human capital, relational capital, European country of origin effect.*

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