Wine business in a changing competitive environment – strategic and financial choices of Campania wine firms

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Abstract: Over the last few years, the wine industry has been undergoing a process of accelerated change, consequent to the constantly changing wine geography. This research aims to investigate, evaluate and analyse the degree and nature of success of the strategic process of the Campania wine firms, Italy. The research focuses on strategies implemented towards achieving sustainable competitive advantage. It is based on a survey of 180 companies, it is exploratory in nature and it follows a deductive methodological reasoning and hypothesis testing. The findings demonstrate that in the new competitive environment, Campania wine industry bears structural weaknesses as a number of enterprises are incapable to realise an optimal strategic process, with negative reflex on performance. On the other hand, in the regional context, there are also successful firms, able to develop and implement competitive strategies. This research conclusively incorporates primary, secondary and theoretical findings to provide managers with practical strategic planning directions for wine firms, both locally and internationally.

Keywords: competitive strategy; strategic process; marketing; performance; capital structure; financial choices; wine firms; SMEs; Italy; competitiveness.

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1 Introduction – the wine industry and market

Over the past few years, the wine industry and market have been changing at a pace that has left many wine firms disillusioned and unable to adapt to a constantly modified environment. The Organisation Internationale de la Vigne et du Vin (OIV) recorded a decreasing global wine production over the mid-late 2000–2010 decade, with over 260 million hectolitres being produced annually. 61% of production is realised by European Union countries, predominantly France, Italy and Spain. Italy, along with France and ahead of Spain, is the leading world producer with a market share of 17.5% of world production and 29% of European production.

The primary industry transformation of the past few years though, relates to the wine-production evolution of countries that do not have a corresponding historical wine-making tradition. These are the so-called 'new world countries' (Australia, New Zealand, South Africa, Argentina, the USA and Chile), where there are lots of large size firms that have achieved good performance and high market shares, while applying intensive production techniques and targeted marketing policies.

The value of Italian wine production in the latter part of the decade is estimated to exceed €8.3 bn and apparent consumption to exceed €5.2 bn. The *Denominazione di Origine Controllata e Denominazione di Origine Controllata e Garantita*

(DOC-DOCG)[1] wine production share is also in decline over the latter part of the decade and the estimates of ISTAT[2] indicate that it represented only 33% of total production. Another 28% of production is represented by *Indicazione Geografica Tipica* (IGT)[3] wines.

A significant part of country's production is exported, with reduction of prices and augmentation of volumes being the reasons of a positive performance of Italian foreign trade. In the latter part of the decade sparkling wines, DOC and DOCG wines accounted for over 50% of the income from exports (compared to well over 60% in the early years of the decade).

This changing environment has naturally enhanced competition and many firms made significant structural and competitive strategy changes; gradually forming three distinct types of wine firms:

- global enterprises, active in all segments of the beverage industry
- large national wine enterprises, focused on wine production and operating in an international context
- SMEs with niche strategies.

The above considerations are largely true for the Campania wine sector as well, which is additionally characterised by its comparatively high number of micro-enterprises.[4] Most Campania region wine firms are incapable of realising an effective and efficient strategic marketing process, adaptable to a changing environment. This has had an evident negative reflection on performance. However, in this regional context there are also successful firms, able to develop and implement competitive strategies adapted to sector change and capable of obtaining significant performance.

2 Research methodology

2.1 Research aim and questions

Increasing worldwide competition enhances the importance of the strategic management process in modern organisations. According to Harrison (2003, p.4), strategic management is a "process through which organizations analyse and learn from their internal and external environments, establish strategic direction, and implement those strategies, all in effort to satisfy key stakeholders".

This research studies and analyses the strategic choices of Campania wine firms as well as their wider strategic management process, performance and capital structure. The study focuses on competitive strategies, which are largely affected by the mono-product nature of SMEs that characterise the Campania wine sector. Historically and according to Modigliani and Miller (1958), researchers try to explain how firms choose their capital structure, since identifying an optimal structure can maximise the value maintaining that financial mix. Analysis and review of different approaches in literature confirm an optimal composition of financial sources. This must be compatible with the strategic profile of the firm in order to take part in the value creation process. It was therefore necessary for this research to define and answer the following research questions:

- What are the critical factors of success and/or failure of the Campania wine industry, both collectively and individually?
- What are the strategies adopted and the resulting performance by these regional firms?
- What is the capital structure of Campania wine firms?
- What practical actions are necessary to increase competitiveness, especially against the larger national and international companies?

Towards answering these critical questions, the following tasks were deemed necessary:

- a strategic analysis of the sector
- a performance analysis of major internationally listed wine companies and leading Italian wine-makers
- a performance and capital structure analysis of Campania wine firms
- identification of the root critical factors of success and/or failure of the regional wine firms.

2.2 Research hypotheses

Studies in the management field recognise the existence of several performance measures, such as market share, growth, profitability and customer satisfaction (Hitt et al., 1998; Lumpkin and Dess, 1996). In this paper performance is measured with:

a *Sales growth rate*: in today's rapidly changing environment, companies often have to grow quickly in order to achieve the many advantages of economies of scale. One tested and widely applied method of achieving rapid growth is through acquisitions. Often the most effective way to deal with a competitor, or prospective competitor, is to buy it. Public companies can use their shares as a currency to make acquisitions. This leads to the following hypothesis:

H1 Internationally listed wine firms and leading Italian wine makers achieve a higher growth rate in sales than Campania wine enterprises.

b *Profitability*: the prediction here is less straightforward. If on one hand managerial efficiency could be improved by an appropriate compensation package with stock options or other remunerations linked to share price, on another hand too much emphasis on the stock price could result in misleading attention to short-term performances. Furthermore, the managerial incentives could be higher in SMEs, where most of the potential pay-off relates to the controlling shareholders (DeAngelo et al., 1984). Therefore, the following hypothesis is constructed:

H2a International and Italian wine firms achieve a higher growth rate in return on investment (ROI) rate than Campania wine producers.

H2b International and Italian wine firms achieve a higher return on equity (ROE) rate than Campania wine producers.

c *Leverage*: as private firms face significant constraints in raising external equity, it is very likely that their financial structure is unbalanced toward the debt. SMEs, especially during growth periods, usually stretch their debt capacity to the limit. Thus, it can be assumed that leverage is higher for Campania SMEs. This gives rise to the third research hypothesis, outlined below:

H3 Campania wine firms use debt more than internationally listed wine firms and leading Italian wine makers.

2.3 Methodological approach and tools

This research is essentially an exploratory research (Selltiz et al., 1976) as it seeks to explore the strategic management process, performance and capital structure of Campania wine firms. A valuable outcome of the above is the identification and isolation of the various factors and interrelationships that set a solid scientific basis for further analysis and research.

A significant methodological tool of this research was the collection of secondary data regarding the major wine companies present in AIDA (Bureau Van Dijk), Mediobanca[5], ISTAT, INEA[6], ISMEA[7] and Campania region databases. The acquired data has substantially helped to define the context of research in both industry and organisational terms (e.g., number of firms, size, capital structure, performance).

Primary data on the other hand was collected through a dual and parallel study of a survey analysis and case study analysis. This study in fact uses both qualitative and quantitative methods. Specifically, the quantitative analysis, that is a mono-variable and bi-variable statistical analysis of data, transforms the information into variables, while the qualitative analysis is an analysis of content, realised through the documentation acquired on field and organised with thematic criteria related to the initial research hypothesis.

2.4 Value of research

The research is valuable to both the academic and the industry communities. Regarding the former, this research investigates a business and geographic area in need of collective and comprehensive scientific analysis. An analysis necessary to understand contextual and organisational factors and their effects, which will in its turn, allow proper prescriptive work to take place. Regarding the business community of the related firms, this research provides explicit findings whose utilisation will allow a rational, methodical and well based implementation in a practical strategic context. Finally, this research constructs a solid basis for further research; either to refine current findings or to be applied in more specific contexts such as strategic marketing, branding and communications.

2.5 Research limitations

This research is in effect exploratory and its findings are far from final. They rather represent a starting point, a base for further research and analysis. For this reason the empirical results should be interpreted in view of some limitations: the sample of firms is random and does not fully conform to the criteria of statistical representation; the sample of companies could be expanded both numerically, but also geographically (e.g., to include firms of other regions of Southern Italy); the corporate performance analysis would be more revealing if it covered more years.

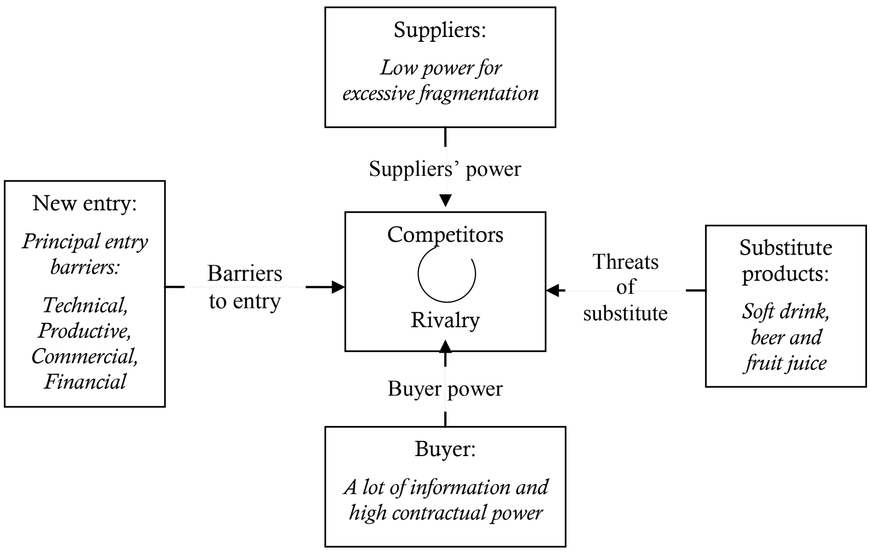
3 Secondary research results – a wine industry analysis

Towards comprehending the competitive conditions in the wine sector, it was deemed necessary to also determine the sector attractiveness level and to analyse the performance of the leading international and Italian wine firms. Secondary data obtained from the wine industry survey (Mediobanca, 2009) have provided the bulk of the information necessary towards the above.

3.1 The attractiveness sector

Strategy is ultimately a process of dealing with competition; and strategic decision making ultimately needs to consider competitors' potential reactions to available strategic actions. A fundamental premise of sector analysis is that industry profitability levels are not a historical accident, nor the result of specific influences onto a sector, but determined by the very structural characteristics of the sector. A widely acceptable historical view is Porter's position that sector attractiveness is determined by the profitability that firms can achieve in the sector and usually this is measured with return on capital invested (ROI) (Grant, 1994). Additionally, Porter has constructed a five-forces model to describe industry competitive structure, hereby presented adapted to the contemporary wine industry (Figure 1).

Figure 1 Diagram of Porter's Five Forces applied to wine sector



Source: Adapted from Porter (1980)

In fact a sector has a catalytic role on its constituent firms, when it has the potential to achieve a ROI greater than the capital cost. The Italian wine industry has a good rate of ROI (6.3%); however this is lower than for beverages firms (9.2%) and Italian industrial firms (13.0%) (Mediobanca, 2009). This gap may be explained by the hyper-competition that characterises this sector at national and global levels. If additionally this research considers the effect of entry and exit barriers, it is possible to understand the degree of competitive pressure in the wine sector. Also, the barriers are different mechanisms that have correlations, with the conjoint presence giving different combinations of risk/profitability.

The wine sector presents a low and risky profitability (Figure 2) because the entry barriers are low. The new global industry players (new world producers) are a demonstration of how low these barriers are and how they cannot shield firms present in the sector or ensure anything above moderately satisfactory profitability. At the same time, high exit barriers do not allow disinvestment, as the wine sector requires specific fixed initial investments, thus disallowing the elimination of marginal producers, that might have otherwise 'balanced' the forces within the competitive arena.

Figure 2 Competitive pressure degree in wine sector

		Exit barriers	
		Low	High
Entry barriers	Low		**Low and risky profitability**
	High		

Source: Data processed by Porter (1980)

3.2 Internationally listed wine companies

The wine industry survey (Mediobanca, 2009) has realised a performance analysis of aggregate accounts of a panel of nine international groups, with turnover above €200 m, all of which make and/or sell wine and are listed on global stock markets. The results cover the period from 2001 to 2008 (Table 1).

Table 1 International listed wine companies

Company	*Country*	*Financial year ends*	*Turnover (in € '000)*	*Wine as % of turnover*	*Export as % of turnover*
Foster's Group	Australia	30 Jun 2007	2,718.864	51.5	36.8*
Constellation Brands	USA	28 Feb 2008	2,563.005	89.0	46.2
Distell Group	S. Africa	30 Jun 2007	621.273	n.d.	18.9
Vina Conchay Toro	Chile	31 Dec 2007	389.874	100.0	80.5
Boizel Chanoine Champagne	France	31 Dec 2007	359.420	100.0	39.0
Vrnaken Pommery	France	31 Dec 2007	286.830	100.0	43.7
Sektkelleri Schloss	Germany	30 Jun 2007	281.327	79.9	61.3
Yanatai Changyu Pionner Wine	China	31 Dec 2007	253.912	78.8	< 10
Laurent Terrier	France	31 Mar 2008	249.430	100.0	67.2
TOTAL			7,723.935	69.8	42.0

Notes: *Does not include Asia and the Pacific, which are considered as home country.

Source: Data processed by Mediobanca (2009)

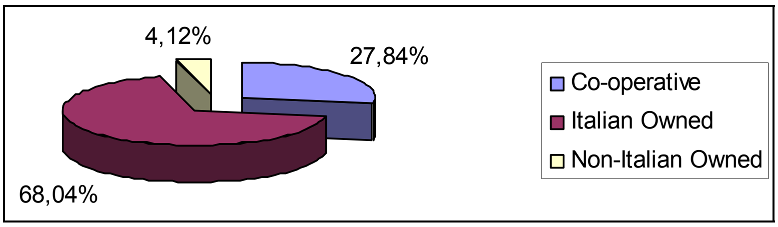
It should additionally be noted that there was a reduction in turnover, which declined by 10.3% from €8.6 bn to €7.7 bn in the last year.[8] The most dynamic sales growth shown was by the Chinese group Yantai, which achieved a 36% increase on the back of strong growth in domestic demand (with the Chinese market accounting for over 90% of the company's total sales), followed by Chilean wine-maker Vina Concha y Toro which reported a 23.3% increase, and for which exports, which represented 81% of turnover, were up 28% in terms of volumes, with sales to Europe and Asian in particular.[9]

In the last year the main earnings margins (expressed as a percentage of turnover), were systematically higher than those for the previous year. Net profit halved as a percentage of sales, however, from 12.9% to 5.9%. The most profitable company, measured by net profit as a percentage of turnover was Yantai with 23.3%, followed by Foster's at similar levels (21.2%). The ROE for the last year for the aggregate was 7.5%; down sharply from the 21.3% posted in the previous year due to the one-off charges taken by constellation; Yantai stood out also in terms of average of ROE with 19%, behind only Foster's (21%) and ahead of Distell (17%) and Vina Concha y Toro (14.3%). Net equity proved to be smaller than borrowings, with the net worth/borrowings ratio standing at 88.9%, the lowest in the entire period and far from the high of 126% reached in 2002. Still, net equity stripped of intangible assets did not even reach one-seventh of total outstanding borrowings, representing just 13.3% of them in percentage terms, down 24 points from 2001, and here again recording a low for the whole period [Mediobanca, (2009), p.14].

3.3 Leading Italian wine-makers

Owing to ISTAT's particular analysis methods and the structure of domestic wine sector, it is not possible to have accurate data on Italian wine-makers. However, some interesting data do emerge from the Mediobanca's Wine Industry Survey (2009), carried out on 97 main Italian companies (Figure 3) operating in the wine sector, and which represent 48% of the national wine production and 53% of total exports [Mediobanca, (2009), p.5].

Figure 3 Legal status of population firms (see online version for colours)



Source: Data processed by Mediobanca (2009)

The top five Italian wine-makers by turnover include four cooperatives (Table 2).

The first important indicator is sales growth rate, which in the last year increased by 6.6%. The cooperative companies were slightly less dynamic, registering an increase of 4.7%, whereas the other Italian companies were more so, with a growth of 6.9%. The four non-Italian companies reported a strong increase, of 23%. The 97 companies under review here posted an average turnover of €41.6 m, with an average headcount of just over 100 staff. The ROI came in at 6.3%, down 0.7 percentage points versus the previous year and returning to 2004–2005 levels, whereas ROE diminished from 6.0% to 4.1% (2.5 points below the high recorded in 2005). These indicators' performance was driven by trends in operating costs and taxation: ROI suffered from the decrease in margins and was hit by the new increase in capital invested, driven by substantial capital spending (€242 m, near the 2004–2005 average figure, following the high recorded in 2006); whereas ROE was reduced by higher labour costs and interest expense, as well as by the higher incidence of tax rate.

Table 2 Top five Italian wine-makers by turnover

	Registered office	*Turnover 2008 (€ M)*	*Ownership structure*
Gruppo Italiano Vini (GIV)	Calmasino (VR)	288.0	Cooperative
CAVIRO	Faenza (RA)	281.3	Cooperative
CAVIT*	Ravina (TN)	154.8	Cooperative
Mezzacorona*	Mezzacorona (TN)	142.5	Cooperative
P. Antinori	Firenze	138.3	Family-owned[10]

Notes: *CAVIT's financial year ends on 31 May and Mezzacorona's on 31 August.

Source: Data processed by Mediobanca (2009)

The breakdown of the companies covered in this survey, by ownership structure, shows that the cooperatives and non-Italian-owned companies were the least profitable in terms of ROE: the former, for obvious reasons, do not offer many of the upstream phases in the production filière (shareholders produce grapes and wine, which are transferred to cooperative firms for further processing and sale), whereas the latter have limited commercial operations, being structured mainly through suppliers to non-Italian sales networks controlled by their parent companies.

The financial structure is also uneven: given that net equity chiefly consists of those fixed assets, which are typical of the upstream phases of the wine-making filière (i.e., land and property), the cooperatives appear to be relatively under-capitalised: the net worth/borrowing ratio standing at about 59%.

The 97 companies at the end of the above-presented period had capital invested equal to approximately €4.4 bn, but the survey shows that the companies' relationship with financial markets continues to be negligible; only six out of the 97 companies included in this survey have an interest in the stock market, and that only indirectly.

The above show that competitive success is not linked to size/structure. In fact specialisation and flexibility appear to represent the right way to obtain significant profitability. Success is shown to be linked to an entrepreneurial ability to find unexplored market opportunities and to set up and realise strategies able to exploit the typical Italian wines. The key to success, in short appears to lie within strategic and marketing approaches, rather than managerial, technical or structural ones (without the latter being inconsequential of course).

3.4 The Campania wine sector

Campania is a region with a wine tradition of ancient origins and it is one of the first and most important centres of settlement, cultivation and study of wine in the world. The most dedicated area in Campania is Avellino province, but Benevento province is the area that has the largest extension of vineyards with 11.226 hectares, followed by

Avellino (7.519 hectares), Salerno (6.079), Caserta (5.135) and Naples (2.557) (ISTAT, 2005).

The production structure is composed by less than 2,000 firms that are concentrated in Avellino and Benevento (90%) (Pomarici et al., 2006). The enterprises that produce wine only for self-consumption, with a production capacity of less than 100 hl, represent the majority of Campania wine firms (84%). The artisan enterprises, that produce between 100 and 500 hl, are about 370 and represent 9% of the total; while medium and large enterprises (that produce more than 500 hl are only 140 and represent 7% of the total (Pomarici et al., 2006). 61% of the medium-large firms are agricultural, 35% industrial and only 4% are cooperative. In Benevento province there are four of the six regional cooperative firms, the other two being located in the Avellino and Salerno provinces.

In Campania there are 325 firms with commercial orientation. A significant number of these firms sell their wine to other firms; however there is a contraction of this phenomenon. In fact the enterprises that commercialise wine with their own brand are 236, with a growth of 34% between 2003 and 2006 alone. This is another indication of the dynamically changing situation and Campania is the only region of South Italy that has seen such a remarkable increase.

Table 3 Top 15 Campania wine-makers by productive capacity

Companies	*Registered office*	*Ownership structure*
La Guardiense e Janare	Guardia Sanframondi (BN)	Cooperative
Cantina Sociale di Solopaca	Solopaca (BN)	Cooperative
Vinicola del Sannio	Castelvenere (BN)	Family-owned
Cantina del Taburno	Foglianise (BN)	Cooperative
Val Calore	Castel San Lorenzo (SA)	Cooperative
Matilde Zasso	Pozzuoli (NA)	Family-owned
Feudi di San Gregorio	Sorbo Serpico (AV)	Family-owned
Mastroberardino	Atripalda (AV)	Family-owned
La Vinicola del Titerno	Massa di Faicchio (BN)	Family-owned
Grotta del Sole	Quarto (NA)	Family-owned
Antica Hirpinia	Taurasi (AV)	Cooperative
Colli Irpini Monte Sole	Montefusco (AV)	Family-owned
La Vinicola del Vecchio	Telese Terme (BN)	Family-owned
Cantine Federiciane	Marano (NA)	Family-owned
Romano Foravate	Ottaviano (NA)	Family-owned

Source: Data processed by Pomarici et al. (2006)

The territorial distribution of firms that produce wine under their own brand, places first Avellino (28%), followed by Naples (25%), Benevento (23%), Caserta (14%) and Salerno (10%). Most of these firms have a production between 100,000 and 1,000,000 bottles (Pomarici et al., 2006). The regional classification in terms of productive capacity, finds in the first five places four cooperatives firms; three of which are located in the Benevento province (Table 3). These firms account for 40% of the Benevento province production capacity, while the Avellino province is home to the three largest private enterprises.

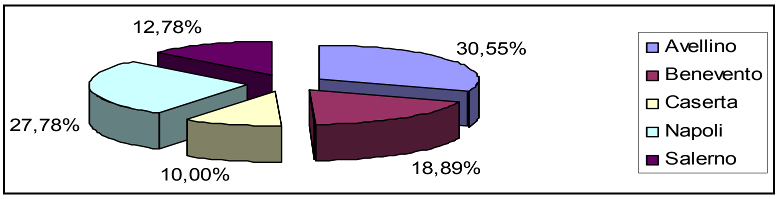
4 Primary research results

4.1 Industry, performance and capital structure analyses

The primary research rests on a survey of 180 companies that commercialise wine under their own brand and have at least 100 hl of production capacity. The sample is equal to 30% of the total population of these enterprises.

94.4% are production firms and only 5.6% are transformation firms.[11] The territorial distribution of firms shows a predominance of Avellino, followed by Napoli, Benevento, Salerno and Caserta (Figure 4).

Figure 4 Territorial distribution of population firms (see online version for colours)



Source: Data processed by http://www.Vinocampania.It

Avellino province presents the largest number of transformation firms (60%), followed by Naples province (30%) and Benevento province (10%).

One of the first structural characteristics of the regional wine industry is its strong integration with the primary sector (Rossi, 2008a, 2008b). In fact almost all enterprises have their own vineyards; however, they do not satisfy production needs, so external contributions also become very important. This is a critical success factor of the Campania wine firms and one to be paid attention to in the context of a successful strategic process.

Regarding the ownership structure it is possible to categorise them into two groups:

1 family owned firms (89%)

2 cooperative firms (11%).

Regarding family-owned firms, there are three different legal statuses:

1 company (48.15%)

2 sole trader (25.92%)

3 partnership (14.82%).

One of the most notable results is the small size of wine firms. 70.4% of enterprises have a turnover of less than 1,000,000 euro. Their small size is confirmed also by their number of employees who, in 79.6% of cases, is less than ten people. The Caserta, Salerno and Naples provinces have the highest number of micro-enterprises, while the Avellino and Benevento provinces have a stronger presence of larger firms (Rossi, 2008a, 2008b).

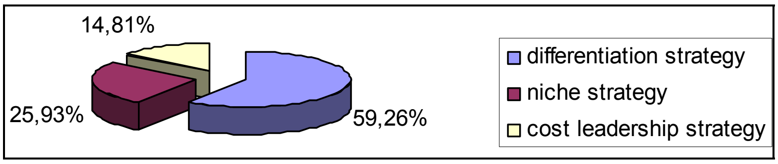
Another confirmation of the small average size stems from the firms' net equity. Their balance sheets show that the average capital is about 430,000 euros, with strong differences throughout the sample (the range is from a minimum of 10,000 euro to a maximum of about 11,000,000 euro). However the balance sheets do also indicate an annual equity growth.

The data show that the principal problem is the low amount of equity that, in many cases, is at the minimum (legal) level (about €11,000). The undercapitalisation of Campania SMEs is similar to the wider Italian wine system. It is nonetheless especially alarming if these data are viewed in conjunction with the investments made by companies, which are already excessively in debt. This is a weakness for Campania wine firms that could undermine their competitiveness.The results demonstrate that the Campania wine firms are under-capitalised. This is a problem in itself, since a large part of investments is covered through excessive debts. Almost all the firms in the sample do not respect the uniformity temporal criterion among finance sources and invest capital. The low capitalisation could influence the growth processes of firms and the under-capitalised enterprises could be merged with or acquired by international firms. Few differences exist between different regional provinces, except Avellino, which has a stronger large-firm presence with the average net equity being more than 600,000 euro. This area includes the top three Campania wine-makers in terms of turnover, but also many micro-enterprises. The largest of these firms have in fact an equity that is almost equal to that of the largest national firms.

The above show that the regional wine system is based, with few exceptions, on micro-enterprises, which are, by nature, often incapable of holding a pro-active attitude towards the changing and intensifying competitive environment. This appears in fact, to be the principal weakness of the regional wine sector. Additionally, and reinforcing this problem, Campania wine firms are mostly family enterprises, strongly linked with the region and its traditions, and this reflects on competitive strategy decision-making processes and corresponding practices.

Regarding competitive strategy approaches, the results show that a large part of the regional wine firms pursue differentiation strategies (59%), a minor part (about 25%) pursues niche strategies and even fewer choose cost leadership strategies (Figure 5).

Figure 5 Competitive strategies of Campania wine firms (see online version for colours)



Source: Research results

Though the above strategies are claimed to be followed, it is not easy to determine if they are indeed implemented, to what degree, in what manner and how successfully. Frequently, it appears that they are simply general statements of a principle or mere general directions; instead of articulated and systematic processes that need to be formulated, implemented and monitored in order to be successful. This phenomenon is a factor of failure of the Campania firms. Moreover, it is indicative of an operative and circumstantial (as opposed to strategic) approach to a changing competitive environment, that requires a different conduct to pursuit a substantial and sustainable competitive advantage.

Throughout the research, entrepreneurs were often unable to verbalise the key elements of their strategy and there was confusion between size and strategy, because the term ‘niche’ was perceived as synonymous with ‘small’. In many cases entrepreneurs did not explicitly formulate their strategy, with only 37% of the sample even claiming to have a written plan. Even in most of these cases though, the strategy is not communicated, but to a few key people in the firm, while the plans themselves cannot be objectively termed ‘strategic’ as they are predominantly (80%) one-year plans.

The analysis of organisational structure, shows that 74% of enterprises have a ‘simple structure’ (Mintzberg, 1983), characterised by a simple architecture, a minimum of organisational units, the absence of staff organisation and little and informal planning. This organisational structure presents fundamental gaps in commercial functions (particularly regarding marketing) and in financial functions. In the case of 83% of the firms in the sample, the financial decisions were taken by administrators without appropriate training.

Further concerns are raised by the bi-variable analysis. The combination of organisation structure, net equity and strategic planning give important results: the complex organisational structure is linked with an evolved legal status; the complex organisational structure is linked also with a high net equity, and these enterprises present also a strategic planning that is more formalised. This means that firms with a high turnover and a higher number of employees have higher net equity and pay more attention to the strategic processes.

To verify the effectiveness of strategic choices and their success, it is important to further undertake a corporate performance analysis. Strategic choices have some reflections on the corporate performance indicators (Hitt et al., 1998; Lumpkin and Dess, 1996). The first indicator to consider is the average turnover, which in 2007 was above 1.5 million. A comparison with data for 2006 shows a growth of 2%. However, this data is influenced by the excessive heterogeneity of the sample. Cooperative firms have the highest turnover (about 3.5 million euros), but this group presents greater uniformity. The company group has an average turnover over 2.5 million. In this group it is possible to find the two firms in the sample that have the highest turnover (22 and 14.65 million euros). This group is also characterised by high heterogeneity.

4.2 Testing the hypotheses

It is assumed in H1 that internationally-listed wine firms and leading Italian wine makers would exhibit a higher operating revenue growth rate than Campania wine firms. The results from the empirical analysis support H1: Italian companies grow at a faster pace as do international wine makers. Though listed international firms had a major reduction in turnover (declined by 10.3% from €8.6 bn in 2006 to €7.7 bn in 2007), this contraction was entirely attributable to constellation. Not considering this effect, the aggregate turnover would have in fact, increased by 4.5%. This is consistent with the findings of Mayer and Alexander (1991). A plausible justification for this result may be found both in the enhanced financing capacity and in the share liquidity advantage (Capasso et al, 2007).

The average ROI in 2007 was 4.1%, with an increase of 2.3% compared with 2006, but ROI value is far from the value of the major Italian wine enterprises (about two percentage points). Between the four groups, there are no strong differences. ROE is stable: from 3.0% in 2006 to 3.1% in 2007. The increase of 0.1% is a rapprochement of ROE of the sample of firms, compared to the 97 large companies. Actually, though the difference with the major national wine enterprises is about 1%, the difference with the international enterprises is in fact, still high (–4.6%). The low value of these indicators is due to the low value of capital turnover (for ROI) and the high impact of debt costs on net income (for ROE). The exiguous EBIT, in fact, is further eroded by the cost of financing. The value of these indicators has a double significance: on the one hand it indicates a corporate growth, and on the other it represents a structural weakness of Campania wine firms. In particular, companies present a high value of ROI and ROE. Cooperative enterprises present a low value (4.01% ROI and 2.69% ROE), but the individual enterprises are the firms that present the lowest profitability (2.67% ROI and 2.15% ROE). There is a twofold explanation of the low profitability of these groups: cooperatives' societies are not integrated upstream in the chain, while the other groups have a very limited commercial operation because their choices are often subject to decisions of national or international distributors. Frequently, in fact, they represent the suppliers of commercial networks.

Empirical analysis of company profitability (H2) shows that there are significant differences regarding ROI and ROE. International and Italian companies achieve a higher profitability than Campania firms. These results are consistent with Mayer and Alexander (1991), but they are in contrast with the results of Rondi et al. (1994). The low value of these indicators, for Campania wine firms, is the result of the low capital turnover for ROI and the high impact of interest expenses for ROE. In fact, low operating revenue is eroded by financial costs.

These data illustrate the weakness of strategic choices of a large part of the enterprises of the sample. The problem is more relevant to those enterprises that do not have formalised planning. For these firms, there is a problem of effective strategic implementation. The micro-enterprises appear incapable of implementing a proper strategic process, adequate for a changing industry and market. This problem is relevant also to cooperatives firms largely for the same reasons. Overall, these firms do portray a tendency for strategic management, but very often they are distracted by the difficulties of a hyper-competitive sector, appear incapable of distinguishing between strategic and operative decisions, and lack the knowledge/training/education to appreciate, let alone formulate and implement, proper strategic marketing management processes.

The analysis of financial structures shows that all firms in the sample have excessive debt, and in particular bank debt. In fact the capitalisation index is less than 55%, with some small differences within the four groups. In this case, sole trader and partnership groups have very similar values, with a very low level of net worth/borrowing ratio (about 51%), followed by cooperative firms, whose net worth/borrowing ratio is 56%, and lastly companies (61%). All firms present an elevated level of debt which is reflected upon their investment decisions.

The data also show that Campania wine makers use more financial leverage compared to other firms. This result supports H3 and confirms the conclusions of Rondi et al. (1994) and Pagano et al. (1998). Campania wine firms are very small companies and are consequently more exposed to the information asymmetries. The use of high proportions of debt in their financial structure can therefore be explained by the pecking order theory (Myers and Majluf, 1984).

Finally, empirical analysis of investment policies show an increase of materials immobilisation (+18.5%) and a low growth of intangible immobilisation (+1.93%) for Campania wine firms. However, the increase of fixed assets has not interested in the same way all the companies in the sample: cooperatives show little growth of immobilisation (+2.74%), because they do not control the upstream phases of the production process. Italian wine firms also share this tendency. In fact, in the wine sector, only few international firms have increased their budget of intangible assets (research and development, brands, expansion costs), but they are a small percentage of the leading companies.

5 Conclusions

The research has combined primary data with secondary ones to reach some specific findings regarding the Campania region wine firms. These findings relate to industry, strategic, marketing and structural issues. Their interrelation and interpretation can lead to conclusions that may substantially and practically assist researchers and practitioners in their work at both the industry and the organisational level.

1. The research has demonstrated various fundamental strategic problems of Campania firms, relating to competition, decision making and other factors. However, it was also found that some firms are able to implement winning strategies, objectively measured by performance data.
2. The single most important characteristic of these successful firms lies in their marketing approach and specifically in their ability to understand (and even predict) market trends and consumer behavioural patterns; and to adopt appropriate and timely strategies.
3. For these firms (see Table 4), size does not appear to be a factor of success. On the contrary, proper strategic formulation and implementation processes are.

Table 4 The top five Campania wine-makers by performance indicators

Company	*Competitive strategy*	*Sales growth rate*	*ROI*	*Net worth/ borrowings ratio*
Feudi di San Gregorio	Differentiation	5.53%	4.60%	78.0%
Mastroberardino	Differentiation	2.89%	7.57%	110.0%
Terredora	Niche	6.88%	6.05%	83.4%
Vinicola del Titerno	Niche	11.25%	4.27%	111.5%
Agricola del Monte	Niche	10.85%	5.25%	71.2%

Source: Research results

4. Additionally, these successful enterprises can be categorised into three groups:
   - large firms with a formalised structure, pursuing differentiation strategies
   - cooperatives that gain strength through strategic partnerships
   - micro-enterprises with actual (as opposed to claimed) niche strategies based exclusively on typical[12] or organic products.

On the antipode of the above successful firms, lie naturally the Campania firms that still have not managed to balance tradition and innovation, and who still share the mark of Campania's Achilles heel: the inability and/or unwillingness to adopt proper strategic marketing processes

5 In terms of prescriptive conclusions, the obvious advice is to adopt proper strategic marketing processes. Beyond this, the research recommends mergers and acquisitions as the means to growth and the achievement of proportional cost economies (scale and scope).

6 Regarding the financial aspect, this research's structural analysis found that there is low enterprises' capital and high financial exposure, which produces a double negative effect: firstly, high interest expenses that have a negative impact on performance, as they erode the low operating revenue; and secondly, the resulting vulnerability of many local high-quality wine firms to acquisitions from larger international wine-makers.

7 The research has further surfaced a deficiency regarding the degree and nature of investments. Specifically, the need was pinpointed for investment in tangible assets to be supported by investments in research and development. Investments that aim for product and process innovations; brand repositioning along a higher (consumer-perceived) quality; and market and consumer knowledge towards development of ideas, creativity, originality and consumer-focused tactics.

8 As far as product and brand design are concerned, it was found that the two need to be interlinked and developed in parallel. Specifically, Campania wine makers should continue to valorise their autochthones vines because they are appreciated and preferred by consumers, both locally and internationally. These wines have a strong cultural link with the region and this is both a practical, but also a brand advantage (Thrassou and Vrontis, 2009; Vrontis and Paliwoda, 2008). For this reason it is important to 'rediscover' the values and cultural cues that identify the region, and to build a brand image that positively exploits this advantageous mental interrelation in the perception of consumers, for marketing purposes. In essence, regional wine firms can create added brand and economic value by utilising an already existing cultural asset.

9 The above allow the research to reach another conclusion, by extrapolation. Specifically, the need for collective actions/interventions within the wider strategic and marketing processes. The wine industry is important to the region, so it is in the benefit of all stakeholders, be it individuals, businesses and governments for it to be developed. Support by governments, institutions and professional/industrial associations/chambers should be secured, organised and maximised.

10 Beyond external collective action though, the wine firms between themselves should learn to collaborate, both formally and informally (Vrontis and Papasolomou, 2007). Especially in areas such as the building of international brand image, human resource development and attraction of external support (among many others), cohesion and collaboration is vital. The creation of relationship networks, formal and informal, that facilitate action, will also create value in terms of social capital. These

social capital nets are both means and goals of localities' development, and require the support of all local institutions (Vespasiano and Martini, 2008).

The essence of the above conclusions can be encapsulated in three fundamental guiding principles that must be applied towards achieving the desired competitiveness of the Campania wine enterprises:

a understand and adopt proper strategic marketing processes throughout the organisation and with a long term view

b utilise the sustainable competitive advantage of the link with the region to strengthen and refine both the product and its brand image

c pursue cost efficiencies and economies of scale, be it through social support, collective actions, intra-industry networking or mergers/acquisitions.

The position the Campania wine enterprises are in is neither new nor surprising to the business world. The elements of incessant change, intense competition, difficulty in adaptation, financial pressure and uncertainty are the rule rather than the exception in the 21st century (Vrontis and Thrassou, 2007). Like in most industries of most of this increasingly globalise business world, the wine firms of Campania, Italy, will probably go through a long period of change, self-reflection and experimentation. Unavoidably some will fail and some will come out of it stronger than before.

Campania wine firms though, do have something positive to build on. They have a tradition, they have an already existing brand image to utilise, and perhaps more importantly: the harsh competition is largely with other regions/countries of the world and not necessarily between themselves. Individual firms therefore do not stand alone.

Further research is clearly necessary; not only to additionally test and refine these findings, but also to concentrate on the areas that this (essentially exploratory) research has identified as critical factors of success and/or failure. It is recommended that particular attention should be paid to the marketing processes, with focus on branding and marketing communications, which appear to hold the key to competitiveness and are potentially the cornerstone of the whole strategic structure.

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Notes

1 Italian wines which are grown in certain specified areas and which conform to certain regulations may be styled Denominazione di Origine Cointrollata (DOC). The classification Denominazione di Origne controllata e Garantita (DOCG) is awarded to DOC wines of particular quality. Wine must conform to the DOC criteria for at least five years before they can be classified as DOCG.

2 ISTAT is the Italian national statistical institute.

3 IGT is the second of four classifications of wine recognised by Italian government. IGT wines are labelled with the locality of their creation, but do not meet the requirements of the stricter DOC or DOCG designations. In wine terms, it is considered the rough Italian equivalent of the French vin de pays designation.

4 Micro-enterprises are all enterprises with less than ten employees and turnover less than 2,000,000 euros.

5 Mediobanca is the leading investment bank in Italy.

6 INEA is the Italian national agriculture institute.

7 ISMEA is the Italian national agriculture and food services institute.

8 This contraction was entirely attributable to constellation which deconsolidated some of its activities in 2007 which reported 2006 sales amounting to €1.3 bn.

9 This information is important to understand how different strategic choices are possible to pursuit a sustainable competitive advantage. In fact, the success is related to analysis of internal and external factors, of market trends and opportunities in the new competitive environment.

10 A family-owned firm is a firm in which one or more members of one or more families have a significant ownership interest and significant commitments toward the business' overall well-being.

11 Production firms are the enterprises that realise all phases of production process starting with selection of the grapes and ending with bottling the finished wine. Transformation firms are all the enterprises that have not a production of grapes but they transform the grapes of other producers.

12 Typical products are strictly tied to their area of origin, as they derive their characteristics from the pedo-climatic, technical and organisational peculiarities of the terroir they come from. Typical products may be considered in their 'collective dimension', as the result of a social construction made by some actors along time and within a territory on the basis of some local resources; this construction is validated by the outside by other actors (the consumers, the state), sometimes by institutional means (such as the geographical indications). They are linked not only to the skills of a group of firms, but also with locally created public goods and with the history, habits and culture of the local community (Marescotti, 2003).