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Article

Editorial: The new market challenges and the strategies of the wine companies

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Editorial

The new market challenges and the strategies of the wine companies

Abstract

In my new role as editor-in-chief of WEP Journal, I would like to share with you a brief summary of the experience of these early years. In this editorial, I will focus on certain significant data and highlight several topics that, more than others, have inspired the authors of the published papers, since they reflect the major concerns of the wine industry in this period.

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In 2015 WEP Journal closes its third year of activity. After the first opening issue, published in 2012 and edited by the Regional Editors, the journal commenced regular activity in 2013 with the publication of two issues per year, in line with the editorial plan.

Within this period (including the latest number in which this editorial appears), 7 issues have been published, comprising a total of 67 papers out of over 100 articles submitted to the Editorial Office. Over these years, about 150 reviewers have been involved, performing careful and scrupulous reviews. First and foremost, I would like to express my thanks to these reviewers and to the editors for contributing to the reputation of the Journal and to a level of quality that allowed it to be included in SCOPUS after only three years of monitoring.

The Journal's statistics for the last three years are extremely promising. Measuring them in terms of downloaded articles, the figures show that these downloads increased from 20,000 in 2013 to over 80,000 at the end of 2015, the third year of activity of the Journal. Considering that the Journal addresses a highly specific topic, we feel that this result is particularly significant, and today we would like to share our success with all our readers and, above all, with the authors who were the first to submit their papers.

WEP is a highly specialized journal: it deals with a specific product, wine, from an almost exclusively economic perspective. Within this well-defined and narrow field of interest, 30% of the total articles submitted in these years focused on the production system and the production environment, while about 25% addressed their research to analysis of the characteristics of the demand and of consumer preferences.

Another significant number of papers focused on trade issues (15%), while just a few dealt with policy matters.

Overall, the majority of the papers highlight the close attention of research towards certain particular topics that winemakers identify as crucial for the future success of their business, in the light of the threats and opportunities that characterise the global wine market.

In different ways, most of the papers indicate that, today, the major concerns of the wine producers are no longer related to the improvement of the technical-qualitative aspect of their products, but rather to knowing in advance the nature of an expanding and increasingly volatile demand and what the direct competitors are able to offer. The fact is that winemakers have realised that doing a good job in the vineyard and in the winery is not enough if they cannot also appropriately “defend” their wines when they are released on the market.

Since success is increasingly tied to the ability of the wineries to play in growing, complex and volatile markets, the fragility linked to an offer characterised by structural and financial constraints is accentuated, especially in this sector where the demand is, contrarily, extremely variable.

To address this problem, at least partially, the wine farms/wineries have to attempt to reach the end market independently. By stressing the level of the internal processing of the wine and preferably choosing direct channels, the wineries can not only benefit from the added value generated in the downstream stages of production, but can also partially offset the company's internal inflexibility (in the vineyard and in the cellar). In this way, indeed, the wineries can take advantage of the flexibility at marketing/trading level, expanding both their ability to explore new markets and the set of characteristics that distinguish the wines offered on the market.

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As regards the first aspect, namely expanding to new markets, the wineries can achieve commercial success by seeking new consumers in different markets, rather than by attempting to adapt to the preferences of those on a given market by modifying a well-defined core product. This allows companies to avoid dangerous homologizing processes and expensive structural changes, as well as the threat of unsold product issues which could lead to extreme contractual weakness or, at worst, the unwelcome role of mere price takers.

As regards the second aspect of distinguishing their products, winemakers can respond to the changes in consumer preferences by “inventing” new wines, acting not on the core product (which is moreover hard to modify in the short term), but on the extended and augmented product. To do so, the winemaker must not only maintain control of its wine in the trading phase, but also enhance the product, leveraging the characteristics of “experience” and, above all, the intangible characteristics of “credence”. In this way, the product can be differentiated with greater margins of adaptability to the different trends of the demand even in the short term.

However, these are not the only advantages that a wine company can achieve by managing the entire wine chain and enhancing the product through a variety of characteristics. By adopting such strategies, the wine company also has the chance to convert some of the positive externalities that it generates (primarily in terms of landscape preservation and protection of tradition) into marketable product characteristics or even, as in the case of wine tourism, into new goods and services produced within the company. These externalities thus become productive resources and elements that contribute to raising the winemaker's income.

Consistent with the principles of multifunctional diversification in agriculture, such business strategies allow the farms to perform a more environmentally and socially sustainable activity, without affecting their ability to compete on less secure and global markets. Moreover, management of these externalities helps reduce the risk of market failures. The wine sector is increasingly investing in this direction, both through specific product innovation (as in the case of organic wines) and by implementing more complex strategies of corporate social responsibility (CSR). Although at present the figures are not particularly significant, it is important not to underestimate this phenomenon, especially considering that in the near future the aspect of responsible consumption will have a growing impact on consumer preferences.

In the old winegrowing countries, the strategy of distinguishing the wine through specific intangible characteristics has a long tradition in all the designation of origin products. Introducing a concept of quality closely bound up with territorial typicality implies that the same product cannot be produced elsewhere. Here the advantage is not only that of differentiating the product on the market but also – and this is the principal anticipated improvement – of concretely contributing to counter the effect of globalization. Indeed, although the process of globalization starts from a comparison of consumer goods, it actually often ends up as a comparison

of the different production areas, and this inevitably leads to the delocalization of productive processes from less competitive areas, which are abandoned, to more competitive ones.

However, at least for those wine companies with the required financial resources, globalization and the delocalization processes represent not a threat but an opportunity to internationalize their activities, expanding on new markets and settling in new production areas. The marketing strategies of these companies, pivoting on a brand strength associated with quality wines, reflect both these aspects, leveraging the territorial dimension for some wines and the grape variety for others.

It emerges clearly, therefore, that the future of wine companies will increasingly depend on their ability to adapt to the external environment, not being carried away by passing trends, while also remembering that the price to be paid for inflexibility can sometimes be very high.

According to Darwin's *Origin of Species*, if we can say that in nature it is not the strongest of the species that survives, nor the most intelligent, but rather the one most adaptable to change, in the wine market it is not necessarily the best winemaker that will survive but the one most responsive to change.

In a provocative way, this parallelism highlights the fact that just a few companies in the market can boast strong positions related exclusively to the excellence of a product unchanged over time. Instead, for the majority, competitiveness means being able to change, thus avoiding dangerous homogenization, while at the same time being able to “interpret” and go along with market trends.

In such a scenario, marked by very complex equilibriums, is there a way to prevent the production of wines boasting a quality linked to tradition being seen as conservative and inflexible in relation to the market? Is there a way to avoid falling into the dangers Keynes indicated by saying that “... the difficulty lies not so much in developing new ideas as in escaping from old ones”?

I believe that one of the best approaches, which has already been chosen by some wine companies, is to address a world in which everything is constantly going faster not by closing in upon oneself but, on the contrary, by plunging into this world: not changing one's identity but “expanding” it. The winemaker should, therefore, not act only on the core product but should look beyond – both within the company and at market level – adopting different lines of action that we could summarize as follows:

- at company level:

- Seeking to define the optimal company boundaries, in terms both of controlling its own wine up to the end market (deepening strategy) and expanding the range of goods and services produced, opening the company to new productive activities that can be achieved with the same structural endowment (broadening strategy, such as wine tourism);
 - Expanding the core product, by enriching it with features additional to those of experience that distinguish it, primarily also bringing out other intangible characteristics, i.e. of credence, typical of an extended and augmented product;
- at market level, operating in terms:

- Of market boundaries, looking for "new destinations" for the wines produced;
- Of new models of consumption, going beyond the trends to cater to new diets (i.e. vegan and organic wines) or different lifestyles; being able to grasp the preferences of consumers who, in accordance with the post-modern ideals, in their purchasing choices want not only to satisfy a need but also to express their personality.

The notion that a wine is not merely the contents of a bottle has been around for decades, but what is becoming increasingly evident in recent times is that, by exploiting this notion, winemakers can define strategies which reconcile objectives of competitiveness in the markets with the technical and financial rigidity that characterizes their activities. However, all this costs the wine companies a considerable price, starting with the greater risks they assume in maintaining control of the wine up to the end market. Nevertheless, the productive sector has realised that this is the only way to survive the changes, and many producers that adopted this vision have drawn useful benefits from this practice.

These considerations derive from analysis of a process that many winemakers have already undertaken, confirming the extreme liveliness of an entrepreneurial class that has always had the ability to innovate without "repudiating" its origins. Nowadays, winemakers have the opportunity of combining pride in a life-choice with an increasing degree of professionalism. This is an approach of "resilience" which today's winemakers have increasingly greater opportunities to valorize tangibly in their marketing strategies, turning their identity values into the crucial lever of their brand, rather than the expression of a proud and sterile refusal to accept a changing world.

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