

Horizontal networks and collaborative marketing in the Tasmanian wine industry

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Abstract

In the past few decades, an increasing number of firms are forming relationships with each other as an alternative to traditional market exchange. A large amount of the literature in this area focuses on vertical integration between members of the supply chain. Far less research has examined networks formed by competitors in the same industry, and, their contribution to the marketing strategies of small to medium sized enterprises (SMEs). The wine industry is one such context where a large amount of collaboration and networking takes place, particularly at the regional level. This qualitative research study examines the role of horizontal networks in the Tasmanian wine industry. So far, preliminary analysis has revealed that the producers' size, background and business goals affect the value placed on this type of networking activity.

Keywords: networks, collaboration, marketing strategy, SMEs, Tasmanian wine industry.

Topic area: Business and marketing strategy for wineries.

Introduction

Globalisation, the economic downturn and changing consumer preferences are all contributing to what is now an intensely competitive environment for wine producers. These forces, together with changes in management thinking, are leading firms of all shapes and sizes to adopt a more relational approach to their market exchange and marketing practices. Although the management of buyer and supplier relationships is by no means a new issue in marketing (see Morgan and Hunt, 1994; Garbarino and Johnson, 1999 for example), in the past decade inter-firm relationships have emerged as a 'hot topic' in academia when examined from a network perspective (Möller and Halinen, 1999; March and Wilkinson, 2009).

Network scholars agree that the inter-firm relationships within a network can be vertically or horizontally integrated. Thus, they can include connections between suppliers, competitors, distributors, customers or any other industrial entity. Given the industrial marketing origins of network theory, the majority of extant research has concentrated on vertical networks, i.e. relationships between buyers and sellers, up and down the supply chain (Bengtsson and Kock, 1999). By way of contrast, horizontal networks consist of relationships between firms at a particular point in the value chain, i.e. competitors (Taylor *et al.*, 2007). Networks and relationships of this type have received much less research attention (Nygaard and Dahlstrom, 2002), despite the recognition that competitors can provide a strong source of complementary resources and up to date information for firms across a variety of industries (Möller and Halinen, 1999; Chetty and Wilson, 2003).

Recently, cooperative behaviour and collaboration within the wine industry has also been receiving increasing attention from academics and government. Particularly in the areas of wine tourism and regional development, where firms within and across industries are forming relationships and interdependences for mutual gain. As one wine industry commentator put it "fierce competitive rivalry between individual producers persists, but this has been supplemented by industry collaboration around marketing and innovation" (Marsh, 2000). A number of other academics have recognised the presence of networks and clusters within the Australian and New Zealand wine industries, and undertaken empirical work in these areas (Chetty and Wilson, 2003; Hall, 2004; Benson-Rea, 2007; Mitchell and Schreiber, 2007; Sutton-Brady, 2007; Taylor *et al.*, 2007).

This paper presents one element of a work in progress study on horizontal networks and marketing collaboration within the Tasmanian wine industry. An exploratory approach is taken, whereby qualitative data were collected via two stages. Firstly, four industry experts were interviewed in order to provide insight into the marketing issues facing the local industry. During the second, and present, stage of data collection, in-depth, semi-structured interviews with a sample of 15 Tasmanian wine producers have been carried out. The remainder of this paper is organised as follows. Firstly, the location and context of the study is introduced. A review of the relevant networking and SME marketing literature is then provided. Following this, the methods used to conduct the study are described, and a discussion of the study's preliminary findings concludes the paper.

The Tasmanian wine industry

Industry background

Since its rebirth in the 1970s, the Tasmanian wine industry has experienced significant growth through a number of independent producers and lifestyle seekers entering the market, coupled with some consolidation. Recently, the Tasmanian Government's active promotion of food and wine tourism, together with the formation of peak industry bodies and wine routes, has assisted to fuel growth and

consumer awareness of Tasmanian wines and their quality (Tourism Tasmania, 2004). However, the industry is still extremely small in scale, and accounts for less than 1 per cent of Australia's total wine output (Australian Wine and Brandy Corporation, 2007). Despite this, the state is considered to be one of Australia's most identifiable cool climate wine producing regions, offering ideal conditions for producing high quality Pinot Noir and sparkling wines (DPIW, 2009). For these reasons among others, Tasmanian wine producers have successfully positioned themselves at the premium end of the market, and are beginning to form strong networks within their industry and engage in collaborative marketing.

Industry structure and size

According to the Australian and New Zealand Wine Directory (2009) there are currently 92 wine producers in Tasmania. Approximately 86 per cent of these companies are small in size (Australian and New Zealand Wine Industry Directory, 2009), and together, account for less than 20 per cent of state's total yield (DPIW, 2007). While Tasmania's few larger producers dominate production and enjoy success in export markets, Tasmania's smaller wine producers are generally focused on the local and domestic market, and make the majority of sales through their cellar door.

Literature review

The traditional view of competition is one in which all firms are driven by profit maximisation, and compete equally for their share of resources and consumer demand (Hunt and Morgan, 1995). However, few industries precisely follow this model. Instead, firms vary according to their size, their focus, background, organisational structure, resources and expertise. These factors along with others complicate the market system, and suggest for a firm to be effective, they should engage in collaborative activity and networks rather than compete head on with other players in their market (Polenske, 2004).

The term 'network' has been used to describe a wide variety of industrial and social phenomena (Achrol, 1997). For example, many define a network broadly as the web of contacts that exist between actors in an industry (Håkansson, 1986) or as a set of connected business relationships (Anderson *et al.*, 1994). In line with this, a network can incorporate firm linkages that are not necessarily intentional, and, a firm can be connected to, and influenced by, other firms without even being aware that they do so. Others have defined a network more precisely, and in doing so, depict the presence of intentionality, mutual interdependence and some form of allegiance towards achieving a common goal (see Cook and Emerson, 1984 and Easton, 1998 for examples).

Cooperative networks, both formal and informal, offer a number of benefits to small and medium sized enterprises (SMEs). In particular, they can provide capabilities and resources the firm would otherwise be unable to access, and the ability to compete with larger firms through collaboration and creating a stronger market presence (Bernal *et al.*, 2002). Networks can also provide a valuable means of gaining marketing skills and technological know how (Buttery and Buttery, 1994).

Additionally, many of the constraints and uncertainty SMEs experience can be offset by the supportive environment networks provide (Donckels and Lambrecht, 1997; Ingley, 1999). However, inter-firm relationships within both vertical and horizontal network arrangements do not always thrive. In particular, engaging in horizontal network activity presents a unique set of challenges, namely managing opportunistic behaviour among competing enterprises. In the wine industry, many wine producers resist engaging in network activity with their competitors (Correia *et al.*, 2004) despite the recognition that if a wine region is to be successful, wineries need to work together and cooperate with their commercial rivals (Telfer, 2001).

In one of the few studies that have examined competitor networks in the wine industry, Brown and Butler (1995) investigated whether networks of this type could provide a source of competitive advantage for entrepreneurial wine businesses in the U.S. Overall they found that competitor networks were most valuable for the industry-specific knowledge they provided, and although they were strongly associated with growth in the participating firms, there was no evidence to suggest that participating in competitor networks improves firm profitability (Brown and Butler, 1995).

Outside of the wine industry, network researchers have studied the effectiveness of cooperative marketing associations (Palmer, 2002), the role of competitor networks in establishing international competitiveness and export markets (Bernal *et al.*, 2002; Ghauri *et al.*, 2003), and the contribution of horizontal networks to strategy planning and development (Möller *et al.*, 2005). Within Australia and New Zealand, horizontal networks have largely been investigated as part of broader research projects on inter-firm relationships in the wine industry (see Mitchell and Schreiber, 2007 for an example). This subset of literature does cite evidence of horizontal integration within wine routes and wine tourist associations, however a solid understanding of how these arrangements operate, and their relative importance to a firm's marketing strategy is still absent. What's more, the overriding focus of much of the work in this area has been on understanding the benefits of networking activity to wine tourism and the development of wine routes. This has provided valuable insight into the drivers of successful relationships between the wine, tourism and food industries and whether collaboration leads to competitive advantages for such operators (Telfer, 2001). However until now, the role of horizontal networks within the context of the firm's *overall* marketing strategy has not been fully explored.

This study aims to address this gap by examining cases of collaborative marketing within a horizontal network of SME Tasmanian wine producers. By doing so, the researcher hopes to uncover what is the relative importance of horizontal competitor networks in the Tasmanian wine industry and for what reasons SME wine producers engage in horizontal network activity. It is anticipated that the research findings will contribute to the existing knowledge of inter-organisational relationships, and provide suggestions as to how wine producers can collaborate with their competitors so to benefit both their own marketing practices and the wine industry as a whole.

Method

Data collection process

In order to address the research issues above, data were collected in two stages. During the first stage, exploratory, face-to-face interviews with four industry stakeholders were carried out and various industry meetings and events were attended. The primary purpose of this phase was to obtain insight into the marketing issues facing the industry and what networks may be present.

Following this, 15 Tasmanian wineries were selected, and the owner/managers interviewed using a semi-structured interviewing technique. These firms were all recognised members of at least one horizontal network within the industry, and their representatives were asked to comment on a range of topics including their firm's current marketing strategies, their involvement in, and reasons for joining, horizontal networks, the benefits networking provide, and what marketing collaboration has taken place within these networks. On average, face-to-face interviews lasted one hour. An interview guide was developed in line with the major themes arising from the literature, and use of open ended questions allowed the participant to discuss the topics and issues most important to them (Kvale, 1996; Denzin and

Lincoln, 2005; Veal, 2005). During each interview, the interviewer sought to engage in conversation-like dialogue with the participant, rather than asking a list of set questions that “impose categorical frameworks on informants’ understanding and experiences” (Arnould and Wallendorf, 1994, pp. 490). This was considered important in light of the research aim to explore participants’ understandings and perceptions of horizontal networks in their own terms (Patton, 1987). Observations and field notes were also made during visits to the wineries and while attending industry events. These complementary data contributed to the knowledge and understanding of the industry and context for the study.

Shaw (1999) suggests that the collection of social data is best conducted in an environment where the phenomena naturally occur and the internal logic of participants is allowed to emerge. Therefore, all interviews were collected at places of convenience for the wine producer, such as at the cellar door or in the participants’ homes. Interviews were conducted during the months of September and October 2009, and were all audio-recorded and transcribed by the interviewer shortly after the interview taking place.

Location and sample

In the research reported here the individual firm was considered the unit of analysis. Palakshappa and Gordon (2006) suggest that the organisations involved in collaborative relationships (i.e. networks) may have differing objectives for, and perceptions of the relationship. In line with this, a sample of Tasmanian wine producers that had taken part in an interstate collaborative marketing event within a horizontal network was chosen, so to ensure the study’s participants had an understanding and experience of the phenomena in question (Maykut and Morehouse, 1994). This purposive sampling technique allowed the researcher to select participants who were most likely to provide ‘rich’ data (Patton, 2002). Furthermore, the researcher used a set of sampling criteria when making selection decisions, and paid careful attention to the feasibility of access and the relationships she had already established with the study’s participants (Maxwell, 2005). In depth interviews were conducted with as many of the participating organisations as possible, and in each case, the interviewee was either the firm’s owner or manager, so to ensure a valid account of the research phenomena was obtained (Palakshappa and Gordon, 2006).

Preliminary findings and discussion

As mentioned previously, this work in progress paper reports on the preliminary findings of wider research study of horizontal networks in the Tasmanian wine industry. Preliminary analysis of the data suggests that horizontal networks do in fact occupy an important role in the marketing practices of SME wine producers, with many participants citing supporting the local industry and brand exposure as reasons why they engage in horizontal network activity and collaborative marketing events. Interestingly, almost all of the participants viewed other Tasmanian wine producers as equals rather than competitors. The major themes that emerged from the preliminary analysis of the data will now be discussed in more detail below.

Overall, the majority of this study’s participants felt that being part of a horizontal network (e.g. the state industry body, or a more informal social network within their region) was important to the success of their business. The degree to which participants support this view does however vary, with differences noted according to the winery size and capabilities, background and motivations for being in business. The participants who placed the most significance on horizontal networks and collaborative marketing activity were either very small firms who benefit from the exposure collaborative marketing events create, or firms whose cellar door and wine tourism occupies a significant focus of their business. The following comment in relation to collaborative marketing was made by one participant who had previously worked as a wine distributor, “in all honesty it is really insignificant...well not insignificant...but

it is not the same as going to visit the marketplace yourself”. This was in stark contrast to a comment from a very small producer with no cellar door who stated “The challenge for us is actually getting known, which is why we rely so heavily on collaborative things...I guess we are the little ones waiting for the crumbs from the big ones’ tables”.

Among the reasons for engaging in horizontal networks and collaborative marketing activity, the most prevalent was to support the local industry and to be seen to be doing the right thing. Comments like “we want to support the Tasmanian wine industry as well as our own brand”, “I think it’s more about getting the Tassie name out there, and your business will benefit from that in the long run” and “The biggest thing for me is to promote Tasmania. The more Tasmania gets promoted the more we will get promoted as well” suggest collaborative marketing provides a mutual benefit for both the individual producers and the region as a whole.

Finally, despite what some commentators have noted about inter-firm rivalry and competition within horizontal networks, the findings here suggest this is not a significant issue in the context of the Tasmanian wine industry. There are many possible reasons for this, namely the size of the industry and the large number of smaller players. As one participant noted “because Tasmania is so small...we can barely make a noise unless we have got a few wineries together”. This was supported by a number of other comments that implied if there is competition between producers it is of a friendly and healthy nature. The participants also agreed that in order for the industry to prosper and grow, cooperation and mutual respect among producers is important. The statements: “If all producers do their best they are not really competing against each other they are helping each other be recognised as a region” and “It is not so much a ‘them’ thing it is a ‘we’ thing” clearly illustrate this point. This level of cooperation supports the previous work by Telfer (2001), and suggests that when managed effectively, collaboration between competitors can provide a number of benefits for SME wine producers.

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