

**Export intermediaries for small and medium wine growing estates: An investigation on prospects for Austrian wine growing estates**

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**Abstract**

The purpose of the research is to identify prospects for Austrian wine growing estates by using export intermediaries in order to achieve international standards. In the context of the present research paper, four manual-based interviews with experts were accomplished. The qualitative-inductive approach was chosen due to less research findings within the topic. Different types of export intermediaries were found to show auspicious possibilities to enter international markets for SME wine growing estates. Collaborative organizations were found to be the most promising. Implications for the using export intermediaries in wine export.

## **Introduction**

In a small domestic market like Austria, export is an important success factor for wine growing estates (Thurnher/Krautstoffl, 2007). The choice of adequate market entry strategies are the focus for managerial decisions regarding internationalization efforts.

Mainly in family run wine growing companies, extensive and time consuming internationalization strategies are meant well but often not feasible and away from the target due to the lack of resources. There is a “make” or “buy” decision in export efforts whereas the “make” implicates direct export and the “buy” refers to the use of export intermediaries (Peng et al, 2006)

Therefore the following research question arises: *“Which prospects are provided by the usage of export intermediaries for Austrian wine growing estates?”*

## **Method**

In the context of the present research paper, four manual-based interviews with experts were accomplished. Due to less research findings within the research field the qualitative-inductive approach was chosen. The interviews lasted between one to two hours and the results were recorded by the authors. Afterwards the authors transliterated and analyzed the interviews.

## **Theoretical Background**

According to the definition of the European Union almost all Austrian wine growing companies can be seen as small and medium sized enterprises (SME).

Especially for companies with low export volumes the use of export intermediaries offers a propitious possibility for initial exports. It seems that for Austrian entrepreneurs inhibition for using intermediaries exist due to the fact that cooperation with exporters is often felt as a domestic business only. Managers do not see themselves integrated in the internationalization process. (Langer, 2003) A reasonable number of organizations refrain from their plans to export wine due to the lack of resources, insufficient know-how or high risks and uncertainties that come with international sales. (Peng/Ilinitsch, 1998) According to Fernández and Nieto (2005) there is a clear relationship between ownership structure and the export engagement. Family run business tend to abstain from export business due to the involved risk whereas SME’s with a higher percentage of non-family ownership are looking for internationalization possibilities which are then included in their strategy development. The use of export intermediaries offers possibilities to establish international business relationships that would hardly be possible on a direct way. (Peng et al, 2006) The exporting company has two possibilities to export indirectly. On the one hand the use of international market organizations and on the other hand to export via cooperative institutions. (Albaum 2001)

## **Findings**

During the early stages of utilizing export activities, the goal is to use the best resources to achieve short- and long term strategic goals. Hence, organizations tend to expand to international markets if they cannot reach their targets only on the domestic market. (Albaum, 2001)

The market environment of Austrian wine growing estates has heavily changed within the last years. A rising density of high quality wines is becoming available because of a rapid upturn in domestic wine quality. (Klinger, 2008) The efforts of the World Trade Organization (WTO) and the European Union have influenced the former strict regulated European import/export markets, which leads to higher amount of market participants. (Bouzidine-Chameeva, 2006) Risk spreading turns to be more and more important within the strategic goals of wine growing estates. Therefore price stability based on less dependency from single markets influences the decision making process of companies. (Raabe, Miesbauer, 2008) The rising international awareness of Austrian wines originates more focus

on export within the Austrian wine industry. (Klinger, 2008) Motivation for exploring international markets is developing as well from generation interaction in family owned businesses by bringing in new resources and strategic developments from the upcoming generation. (Fernández/Nieto, 2005)

Since 1995 a sharp raise of Austrian Wine Exports can be observed. More important than the raise in Volume is the strong upstream in value. Figure 1 shows that from 2002 to 2009 the value of Austrian wine exports almost doubled, whereas the exported volume decreased from 80 million liters in 2003 to about 60 million liters in 2009. (no english version available)



Figure 1: Austrian Wine Exports in Volume and Value (Statistik Austria, 2009)

Due to the fact that Austrian Wine has developed its quality and therefore found it's USP in being authentic and non-interchangeable an attractive niche on international markets occurred and is supported by a high international reputation. Especially the rising demand for the indigenous grape varieties (Grüner Veltliner/Zweigelt) opens new export potentials and generates vintner's motivation to work internationally.

Often single business cases are reason enough for SME's to consider internationalization. Export motivation may arise from positive fortune and some companies are pushed abroad by such incidents. (Westhead et al, 2004) This is approved by Graham (1999) whereas more than half of the polled companies stated that they exported for the first time because of an external initialized business case. Another strong but maybe underestimated motivation for internationalization of Austrian wine estates is the wine media environment, because worldwide known wine critics only evaluate products that are available on their home markets, especially in the premium wine segment high rankings within the most popular wine media are strong selling argument. (Klinger, 2008)

Primarily company resources influence the choice of market entry strategies, therefore SME's tend to use possibilities that tie up as few resources as possible. Examples include indirect export, direct

export or licensing. This type of organization tends to follow cooperation strategies especially when it comes to risky markets and little international experience. (Müller/Kornmeier, 2002) Figure 2 shows the likeliness of using different internationalization strategies.

Influencing factors	Market Entry Strategy			
	Direct Foreign Investments	Direct Export / Overseas Branch	Indirect Export	Licensing
<b>Company</b>	X	X		X
Product adaption required	X	X		
Intense Service	X	X		
Sufficient Resources	X	X		
Specificity of Process Technology	X	X	X	
Product Quality essential	X	X	X	
Possibility of Product Standardisation		X	X	
Goodwill of Country of Origin important		X	X	
Limited Resources			X	X
Technology intens Products				X
<b>Domestic Market</b>				
Big Market Potential	X			
Weak Competition	X			
High Production Costs	X			X
Small Market Potential		X	X	
Intens Competition		X	X	
Low Production Costs		X	X	
Efficient Export Promotion		X	X	
<b>Foreign Market</b>				
Big Market Potential	X	X		
Mean Political Distance	X	X		
Political Stability	X	X		
Restrictive Import Policy	X			X
Great Geographical Distance	X			X
Weak Competition	X			
Low Production Costs	X			
Promotion of Investments	X			
Weak Currency	X			
Restrictive Investment Policy		X	X	X
Intens Competition		X	X	
High Production Costs		X	X	
Liberal Import Policy		X	X	
Short Geographical Distance		X	X	
Strong Currency		X	X	
Insufficient Market Channels		X		
Small Market Potential			X	X
Great Cultural Distance			X	X
Insecure Political Environment			X	X

Efficient Market Channels			X	
<b>Legend: X = Influence on Strategy most likely</b>				

**Figure 2: Influencing Factors for Entry Strategy (Müller/Kornmeier, 2002)**

Dhanaraj and Beamish (2003) point out three groups of resources that are essential for the choice of the export strategy: Managerial or organizational resources, entrepreneurial resources and technical resources. In very few Austrian wine estates who have been working in an international environment for many years have set up structures to successfully place their products on foreign markets. Those are, depending on the company's size, internal structures or within already existing cooperation. (Miesbauer, 2008) Through the cooperation with an export intermediary a consistently sales-, and after sales organization may be provided that will also (according to the level of cooperation) take over costs and risks (Müller/Nagel, 2004)

The international comparison of low production yield obviously causes a low export volume as well, according to Benkenstein and Stephan (2004) the use of export intermediaries will be an adequate way for companies with a low export volume or low weak financial capacities, as the low turnover does not justify the establishment sales structures.

One of the most frequent reasons of SME's to decide against international activities is a lack of know how. Inadequate language knowledge, insufficient market information and lacking knowledge of international payment modalities as well as risk avoiding possibilities are a few. (Hollstein, 2005) Indirect export provides the possibility to compensate these weaknesses and to use the market information and experience of the export partner. (Forscht et. al., 2004) Providing and developing the missing know how is one of the central assignments of export intermediaries, long term successful partnerships are characterized by a long lasting close collaboration. (Fung et. al. 2007) Toften (2005) sees a clear direct relationship between using broad information possibilities and success. Another reason for using export intermediaries is the concentration on core competences, so wine growing estate owners or managers have to question themselves which activities are no core competences and may therefore be out sourced. (Matzler et. al. 2004) The lack of language skills may be a disadvantage especially in informal communication and will make personal contacts more difficult. (Anderson/Rasmussen, 2004)

One of the main questions in export marketing is the choice of the target market. The selection is based upon an evaluation process with the possibilities a foreign market offers to a company. Within this, the goal setting for certain markets will be an important point when deciding on whether to start doing business in an international market. (Albaum, 2001) With the selection of the target market, a choice about the entry strategy must be made. Both of these decisions have to be classified within the highest level of decision making about the international strategy of a company. (Koch, 2001) Two aspects have to be considered separately: The cultural distance to the target market and the complexity of the product. The complexity and therefore the need of explanation have to be seen as an important factor as well, when deciding about an entry strategy. (Peng et. al. 2006) Thus the need for cooperation is increasing the more the cultural environment of the target market differs from the cultural environment in the country of origin. (Müller/Kornmeier, 2002)

A major internal factor for successful export collaborations is the willingness of the management to out - source the international activities of a company. Especially for SME's in the early phase of internationalization external support is an important step for the prosperous development of international activities. (Hutchinson et. al. 2006)

Networks offer various possibilities to solve or soften companies problems on international markets. Thereby it can be distinguished between horizontal and vertical networks. Vertical networks or

“Marketing Channel Networks” are formed by companies within the supply chain. Opportunities of improvement are evaluated and realized together. Horizontal networks consist of companies within the same industry and formed to work together on markets that provide sufficient possibilities for all members of the network. (Ghauri et. al. 2003) Within the networks the consistent organization of the coordination and communicational structures as well as the communication atmosphere should be seen as a central element to ensure the productivity and the efficient processing of the network operations. (Rössl, 2006)

Another success factor is the choice of the right partner. Basically there are three different types of indirect export partners: domestic traders with an international focus, trade representatives and collaborative organizations. (Albaum, 2001) Klinger (2008) spots good chances for trading companies if they are working cost efficient, well organized and above all show high competence, as an example the Italian “*Marc de Grazia Selection*” may be mentioned.

Trade representatives are independent contractual partners that manage customer relations and sales management on one or more target markets. (Fuchst/Apfelthaler, 2002) In Austria there are still few professionals that might cover the demand. A reason for this may be the former lack in willingness of wine estates to incorporate external consultants. This would enable possibilities to use a more professional and open approach for the following generation of winegrowers. (Mittelbach, 2008)

Due to the globalized markets, especially SMEs are forced to utilize synergy effects more and more. Those effects are in many cases self – induced by founding or joining collaborative SME organizations or institutions. (Karaev et al, 2007) Klinger (2008) and Mittelbach (2008) are spotting good possibilities mainly in horizontal networks of wine estates from different wine growing regions and therefore different grape varieties and products but with a similar quality approach eg. “*Premium Estates of Austria*”

### **Managerial Implications**

The use of export intermediaries is not very common in Austria. Therefore internal prerequisites and market criteria are given by the authors that implicate an indirect form of internationalization.

Internal prerequisites:

- insufficient resources
- great importance of product quality
- possibility of product standardization
- keen goodwill of the country of origin

Market criteria:

- domestic market:
  - limited market potential
  - intensive competition
  - efficient export promotion
- international target market:
  - intensive competition
  - liberal import policy
  - limited market potential
  - great cultural distance
  - efficient trade channels

### Further research

Especially fundamental export literature as well as basic SME literature does not extensively address indirect export possibilities. The numerous articles written in journals show that intermediary export organizations are in keen interest for SME researchers. Emphasis is put on collaborative export organizations and network performance. The authors recommend further research in the fields of export cooperation and horizontal networks. Having an insight of the Austrian wine research it can be seen, that most research activities are in technology and oenology. Wine business research is just at the very beginning in a country whose wine industry is fast growing in terms of its contribution to the domestic value added.

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