# *WINE BUSINESS PRACTICES: A NEW VS OLD WINE WORLD PERSPECTIVE (REFEREED)*

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Abstract

This research investigates and compares some of the strategic choices made by small wine firms from two different new wine producing countries - Australia and New Zealand - and from one traditional wine producing region of France. This research was firstly conducted in 2003 in France with 103 wine firms interviews and then in Australia and New Zealand, with a total of 78 wine firms interviewed in 2004. The results obtained in the study lead to characterize business practices of these wine firms, and to discuss the links between their strategic choices and their general performance.

Some of our preliminary descriptive results show that firms from these two distinct continents behave differently in their strategic choices. First, Australian together with New Zealander wine firms are more export oriented than the French: 36% versus 10% of their total turnover comes from exports respectively. Secondly, Australian and New Zealander wine firms are more "entrepreneurial" than the French ones: their propensity to innovate and launch new products is much higher.

In order to explain these different business practices, an effort to match wine sector perspective and strategic management profiles is presented through a factor analysis and then a hierarchical cluster analysis. Some complementary explanations can be suggested: business practices are also clearly dependent upon

- the business activity (bottled wine versus bulk wine),
- and the main goal of the owner-manager (improving business economic performance versus increasing market share).

If one cluster is exclusively composed by French wine firms, the two others are a mix of new and old wine world firms.

## *Introduction*

On the eve of the XXI$^{st}$ century, the international wine business is driven by demand over supply: in 2004-2005, world wine production could exceed wine consumption by 70 to 80 million hl. In the coming years, as the new plantations made in California and in the Southern Hemisphere come into full production, and with an estimated steady annual increase in world consumption of only 1%, supply should structurally exceed demand by more than 70 million hl. New World supply imbalance has been the most important development affecting the wine industry over the past few years, as the producing markets of Australia and the US recently joined the EU countries (in particular Spain in more recent years) in creating surpluses. Much of this can be traced back to the strong economic growth during the 1990 decade, leading to frenetic New World plantings.

Meanwhile, the traditional wine producing countries are experiencing a decrease in their domestic consumption and non-producing countries are slowly opening their markets to wine and developing their domestic consumption. In this hyper competitive environment, large firms' consolidation continues in the New World, as national players seek to position themselves as global wine producers (Coelho and Rastoin, 2004). All actors try to capitalize on growing demand for wine in the 12 to 15 developed and developing markets which 'count' with as much as 85% of potential imports (North Europe, North America and Japan). In that context, what do we know about small (and medium) sized firms strategic positioning in the Old and New wine world? Some of these firms evolve in a same competitive area, but do they have same business practices?

The purpose of this paper is to explore these business practices and compare small firm strategic types in two different wine producing continents. To our knowledge, this kind of research is new for the wine sector, from an academic perspective. In this respect, small firm's business practices in other industries have mainly been described by three main strategic management behaviors (Miles and Snow, 1978). From another point of view, Miller (1986) showed that small firms are better characterized by simple or organic structure when choosing differentiation as a strategic posture. As shown by Miller or Miles and Snow, environment evolution also contributes to a better understanding of strategic choices in a dynamic perspective. Applying this theoretical background to the wine sector will lead us to propose three main wine firms strategic positioning and then test this tentative typology.

The remainder of the paper is organized as follows. Section 1 briefly presents the wine world strategic problematic and a literature review about small firm strategy practices, in order to try and identify what business practices in small wine firms could be. Section 2 presents the methodology: methodology and wine firms samples, questionnaire and statistical analysis. Results are presented in section 3. Finally, section 4 closes the paper with a summary and a discussion of the results.

## 1. Wine sector strategic perspective and theoretical background

### 1.1. Wine sector strategic perspective: Australia-NZ as compared to France in a 'global environment'[1]

While Old World wines, and French wines in particular, remain popular due to their image of quality and sophistication, the increasing importance of markets without strong traditions of wine consumption means that New World wines have had a chance to play a significant role in fuelling global wine's expansion in the past 10 years. Another underlying trend in the wine market has been a growing demand for more expensive, high quality wines. "Premiumisation" was particularly pronounced in the developed markets of North-western Europe, North America and Australasia, driven by consumers' tendency to become more sophisticated. As a corollary of the recent global grape and wine oversupply trend, several markets, including the US, the UK and Germany, have witnessed deep discounting as wineries looked to clear out excess inventory in order to make room for the large new vintage. Due to over-supply in front of them, therefore, having access to reliable and efficient distribution channels will be the key to wine firms success in the coming years.

To sustain their growth, wine producers will have two alternatives: either go along with the European supermarket chains, already controlling more than 60% of the sales of wine consumed at home, or with the other importing countries off-license chains and **become global** by investing in some of the main wine producing countries, **or develop a niche strategy** to differentiate themselves. Brand building and access to the stock market can be seen as a necessity for the first option, whilst implementing a "*terroir*" approach and mastering their international development will be a solution for the second.

Broadly speaking, world wine competition today can be seen as a confrontation between the 'Old World' (Italy, France, Spain and Germany) and the 'New World' (California, Australia, South Africa and some South American producing countries):

[1] Sources from Euromonitor (2004), d'Hauteville & *al*. (2004) and previous research.

- France and the ‘Old World’ in general have historically given a primacy to the origin of the grapes, and for centuries, have mainly promoted its ‘appellations’ through regional, family-owned businesses.
- Australia or New-Zealand and the ‘New World’ mostly support the grape variety choice, and in the past decades, its large integrated wine firms have been seeking to develop strong private brands.

Looking closer to the case of France, with an internal consumption which has been decreasing from 70% to 62% of its production in the past 20 years (1982 to 2002), the growth in exports has become highly necessary. The upward trend of the turn of the last century, taking exports as high as 31%[2] in volume, has stopped, however, and tougher global competition is now hurting both exported volumes and values. With very large volume of surpluses to also export, Australia, and New Zealand to a lesser degree, will become even more aggressive in the few growing importing countries. One main difference shown in our previous research (Couderc and Remaud, 2003) is that in France the added value is highly concentrated in the hands of the grape growers[3], when it seems to be the reverse in Australia: for the main products of the larger firms, the cost of grapes should not exceed 10% of the consumer price, in order to heavily invest the additional margins in marketing and branding. Concerning the four Australian leaders which commercialize almost 80% of the wine produced in this country (d’Hauteville & Remaud, 2004), the expected future return on investment in these next turbulent years will clearly decide upon the support they will continue (or not) to get from the financial markets and their shareholders. But what about the hundreds of smaller wineries which have emerged in Australia and New Zealand in the past 20 years?

Unable to compete on the same grounds with their market leaders, one should find in their evolution some of the well known characteristics of the Old World successful growers and ‘négociants’: a concentrated offer on the upmarket products, a search for a differentiation based upon the origin of the grapes and the skills of the grower-winemaker, combined with an increase in production costs (reflecting both more work expenditures and a lower yield) together with a higher price for their land, correlated with its geographic reputation…

[2] France’s export dependency is lower in volume, however, than Italy’s (33 %), Spain’s (34 %) and in particular Australia’s (38 %).

[3] One of the main findings of this research contrasts with the widely accepted view in similar economic industrial sectors that ‘bigger is better’. In France, the ‘hectomaniac’ businesses significantly under perform medium-sized firms with significant vineyard properties… The fact that ‘viticulture’ is producing 50% more added value than the ‘wine firms’ is another revealing figure: it tends to confirm the primacy of the ‘origin’ over the ‘private brands’ in France.

With regards to ‘smaller’ firms involved in this highly competitive and globalized industrial sector, these environmental phenomena should reflect in the most frequent ‘configurations’ of strategy and structure of these firms, as per Miller (1986). Firstly, are they similar to the newly emerging firms of a French recent Appellation such as the Languedoc region? In France, the ownership structure certainly determines both the objectives and strategies of the small and medium enterprises (SMEs). A family control (for almost 90% of these) reinforces the need to strive for market niches and strong links to the ‘territory’. Although they can be quite profitable businesses (much more than the large ‘hectomaniac’ French firms), they are financially fragile during the cyclical crises hitting the wine sector. Also, about 50% of the wine produced in France is issued from one of 700 cooperatives, which have a main objective of maximizing payment to their grape suppliers, who are also their owners. This peculiar governance system renders their analysis more difficult, and any research should take this bias into account, in order to keep its pertinence (Couderc and *al*., 2003). Secondly, is the cooperative system in France following a convergent strategic firm positioning with the private French, Australian and New Zealand wine firms?

Finally, quite a few of these SMEs, either family owned or cooperatives, still produce some bulk wine to be sold to ‘négociants’ instead of maximizing their added value through bottling and then commercializing a ‘finished product’ on the home or export markets. Are their “business practices” different?

### 1.2. Theoretical background

A brief literature review about SMEs strategy shows that three distinct strategic approaches[4] can be followed by these firms (Miller, 1986 and 1996; Miller & Toulouse, 1986; Mintzberg & *al*., 1998; Déry, 2001). The first one characterizes small firm strategy through the firm behaviour (Miles and Snow, 1978; Miles and *al*., 1978; Davig, 1986; Miller, 1986; Marchesnay, 1988; Gimenez, 2000). The second one takes into consideration the firm’s environment, its strategic choices and the associated performance (Porter, 1980; Chaganti, 1987; Chaganti and *al*., 1989; Miles et *al*., 2000). A third approach focuses on the owner’s entrepreneurial behaviour (Lumpkin and Dess, 1996; Roper, 1998; Wiklund, 1999; Anderson & Atkins, 2001; McCarthy, 2003; Wiklund and Sheperd, 2004; Richard and *al*., 2004).

[4] There are also two other interesting approaches to mention, although they do not directly relate to our research. The first one is based on the resource based-view (Rangone, 1999) and the second one has a more global nature, which integrates the marketing paradigm of market orientation (Pelham, 1999). Our research will borrow the ideas and thoughts from the first two approaches mentioned before; simply because these approaches are more related to the strategic dimension of the firm, the focus of our research.

Miles and Snow (1978) proposed four strategic profiles that might be used to classify the firm's strategic approach or behaviour. The first group of firms, labelled "*Defenders*", strive to protect their mature markets. These markets might be captive, niche or proximity markets. Firms falling in this group are considered as expert producers, and one of their main objectives is to maintain and to improve their production competitiveness. At the opposite, firms classified as '*Prospectors'* are systematically looking for new market opportunities. To achieve this aim, they constantly improve their product portfolio. The strong culture towards innovation seems to be important for these firms to achieve product improvements. The CEO, or the owner of the firm, is consequently considered as having an entrepreneurial orientation. The third group of firms defined by Miles and Snow (1978) is labelled "*Analysers*". This group is characterised by the stability of its offer. These firms prefer to stay, compete and project themselves in safe markets. Therefore their strategic choices are very carefully analysed. Nevertheless, these firms are dynamic in nature, and because they have a good understanding about the markets in which they compete, they can adapt their strategies in order to respond to unexpected market changes. "*Reactors*", the last group defined by Miles and Snow (1978) typology, differs from the other three groups as these firms show a passive strategic behavior. Thus, these firms have a complete lack of strategy, reacting to environmental changes only because it is the only and last option they have in order to survive in the markets where they compete. Following Miles and Snow study in 1978, many authors have empirically tested this typology and extended this approach through the introduction of links with firms' performance. A brief review of some of the empirical research studies driven by the early work of Miles and Snow (1978) will help to explore these links.

Davig (1986) tested empirically Miles and Snow study among 60 SMEs: Prospector and Defenders perform better, from a profit growth point of view, than firms classified in the other two groups. The competitive advantage of the Defenders relies on the capacity to provide low price and good quality products and at the same time a strong customer service. On the other hand, Prospectors base their competitive advantage also on low prices and good customer services, although not as strongly as Defenders.

Another empirical study using Miles and Snow typology was conducted by Matsuno and Mentzer (2000). This study used a sample of 364 manufacturing companies. This study demonstrated the moderating role of the strategy type on the relationship between market orientation and economic performance. On one hand, the strength of relationship between market orientation and profitability (i.e. ROI) is greater for defenders than for both prospectors and analysers. On the other hand, the strength of the relationship between market orientation and market share growth, relative sales growth and new product sales (as a percentage of total sales) is greater for prospectors than for both defenders and analysers.

The last study we will mention is closely connected with the subject of the paper. Shoham and al. (2003) found that export performances of defenders, analysers and prospectors are connected with specific strategy and strengths. They also confirm that "*the Miles and Snow typology is a robust framework that can be used to systematically and substantively analyse competencies and strategies of firms that are diverse in terms of country of location, size, industry, and levels of export involvement*".

In a different perspective, Miller (1986) demonstrated that links exist between strategy and structure of the firm. A given strategy should lead to a specific firm structure and *vice versa*. Concerning the small firms, two configurations of strategy and structure are more appropriated: "simple structure" associated with "niche or marketing differentiation" and "organic structure" associated with "new products or niche differentiation".

Even though the research studies described above emphasised the strategic management profile of the firms, they also include, although tangentially, some elements about the nature of the environment. Contrary to the previous empirical studies, some researchers place the environment as the most important aspect of the analysis. Among these, Porter (1980) is very often quoted as a critical reference. However, the generic strategies identified by Porter do not seem to be applicable or relevant among SME. Rugman and Verbeke (1987) established that only one of Porter's generic strategies, namely 'focus', is useful when describing SMEs.

A different model was proposed by Chaganti et al. (1989). In this model, the competitive advantage of SME is firstly based on the achievement of competitive prices and secondly on the promotional capacity of the firm. The model suggests four different competitive environments: "low price/ low promotion competition"; "high price / low promotion competition"; "low price / high promotion competition"; "and high price / high promotion competition". The empirical study was conducted among 192 Canadian SME. The results of the research, once a factor analysis was conducted, shown that the sampled firms variables could be simplified according to four factors: cost leadership, innovativeness, quality image orientation, and product scope. The results very clearly showed the effect of the competitive environment on the firms' performance. Contrary to the Rugman and Verbeke (1987) findings, Chaganti (1989) found that a strategy based on low cost is only relevant and useful for SME competing on a market where its environment is dominated by price wars. On the other hand, a differentiation strategy based on the product quality image seems to be the most profitable strategic orientation.

Miles et *al*. (2000) investigated whether or not SMEs have different organisational structures and strategic positioning, depending upon the nature of the environment (stable v/s dynamic). Therefore, they described in their study the characteristics of the proposed strategies for each of the environments. They identified 7 distinct firms groups, supporting the idea that business practices are linked to the SMEs competitive environment.

**1.3. Research propositions**

To conclude with this theoretical background, we will try to match the wine sector perspective (its environment evolution) with the strategic management profiles of the firms. Concerning wine consumption, one distinction can be made between dynamic consumption markets: North America, United Kingdom, New-Zealand, Australia for example; and stable or declining consumption markets, specifically in France. Looking at the wine firms sample, one can differentiate between French wine firms which mainly evolve in a stable or declining domestic consumption market and Australian / New-Zealander wine firms which evolve in dynamic consumption markets (domestic and export markets). This leads us to propose three main "configurations" (Miller, 1986) to be tested:

- The first expected wine firms configuration should be characterised by a more organic structure (Miller, 1986), and a Prospector behaviour (Miles and Snow, 1978). The business practices of these aggressive and entrepreneurial firms (Miles & *al*. 2000) should lead to new product orientations (Davig, 1986) and more efforts to develop their product image (Chaganti, 1989),. These wine firms should mostly be located in the New World (in our case, in Australia and New-Zealand) with a stronger export market-orientation.
- Another wine firms configuration should be characterised by a simple structure (Miller, 1986), or a Defender behaviour (Miles and Snow, 1978). Their business practices should reflect more a "*terroir*" product orientation or niche differentiation (Miller, 1986). Product image, seen as a competitive advantage, should refer to traditional wine values. These firms should be more specialized and mature-product firms (Miles & *al*. 2000). It will be assumed that they are located in the Old World (in our case, in France) with both domestic and export orientations.

- The last wine firms configuration could regroup firms with a simple structure (Miller, 1986) but with Analyser or Reactor behaviour (Miles and Snow, 1978). In this case, "traditional" would not characterise the product, but rather the firm behaviour. These firms should not follow a clear strategy policy, but rather need some time (maybe too much) to react to dynamic environment. The assumption is that they correspond to many French wine firms, which are slow to detect changes in consumer behaviour, in particular in foreign markets.

## 2. Methodology

### The wine firms samples

Data were collected with two samples of small to medium size wine firms through an interview of the owners / managers, running their business in Australia, New-Zealand and France (Languedoc-Roussillon region). The objective of this exploratory research was not to obtain a significant representation of the wine industry in these countries.

*Australian and New-Zealander wine firms*

39 small wine firms were interviewed between April and July 2004 in a face to face situation[5]. All these wineries are located around Adelaide: McLaren Vale, Barossa Valley, Clare Valley and Adelaide Hills. To complete this first sample, the questionnaire was sent to 320 wine firms located in Australia and New-Zealand. 40 questionnaires have been sent back, 29 from Australian wine firms and 11 from New-Zealand. It therefore does not constitute a representative sample of the wine industries in these countries. Our aim was rather focused on a better understanding of how these wine SMEs strategically position themselves in the highly concentrated wine sector of Australia and New-Zealand.

*French wine firms*

In 2003, we took part in a research called "Development factors of the agro-food firms in the Languedoc-Roussillon region[6]". The primary sample included 483 face-to-face questionnaires, but 339 agro-food firms were finally selected. In this sample, we differentiated the wine firms from the others. Our database of Languedoc-Roussillon wine firms is therefore limited to the companies having a wine activity and legal publication of their

[5] This research was financed by UMR MOISA Research Lab. (National Institute of Agronomic Research – Montpellier Center) and School of Marketing (UniSA – Adelaide).
[6] This research was financed by the National Institute of Agronomic Research (INRA) and Languedoc-Roussillon Region.

accounts obtained from the "Coface-Scrl" company[7]. 103 firms corresponded to these criteria.

*Final Australian, New-Zealander and French wine firms sample*

In short, this sample includes 166 wine firms. We eliminated the smallest firms with less than 3 employees as well as the 5 biggest wine firms (more than 100 employees), in order to have the same employee criteria selection in France and in Australia / New-Zealand. 59% of small wine firms are located in France (Languedoc-Roussillon region), 34.4% are located in Australia and 6.6% in New-Zealand. The main characteristics of these three samples are as follows.

Figure 1: Wine sales range of Australian, New-Zealander and French wine firms

| | | | AUS - NZ - LR | | | |
|---|---|---|---|---|---|---|
| | | | Australia | New-Zealand | Languedoc-Roussillon | Total |
| Total wine sales range 2003 | < 1 m° | Count | 11 | 1 | 22 | 34 |
| | | % within Total wine sales range 2003 | 32.4% | | 64.7% | 100.0% |
| | | % within AUS - NZ - LR | 19.3% | | 22.4% | 20.5% |
| | 1 to 5 m° | Count | 26 | 6 | 31 | 63 |
| | | % within Total wine sales range 2003 | 41.3% | 9.5% | 49.2% | 100.0% |
| | | % within AUS - NZ - LR | 45.6% | 54.5% | 31.6% | 38.0% |
| | 5 to 10 m° | Count | 14 | 3 | 14 | 31 |
| | | % within Total wine sales range 2003 | 45.2% | | 45.2% | 100.0% |
| | | % within AUS - NZ - LR | 24.6% | | 14.3% | 18.7% |
| | 10 m° and more | Count | 6 | 1 | 31 | 38 |
| | | % within Total wine sales range 2003 | 15.8% | | 81.6% | 100.0% |
| | | % within AUS - NZ - LR | 10.5% | | 31.6% | 22.9% |
| Total | | Count | 57 | 11 | 98 | 166 |
| | | % within Total wine sales range 2003 | 34.3% | 6.6% | 59.0% | 100.0% |
| | | % within AUS - NZ - LR | 100.0% | 100.0% | 100.0% | 100.0% |

Concerning firm size, we differentiated each country firms through their sales size as by Deloitte[8] (2003): less than 1 million $AU (20.5% of wine firms sample), between 1 and 5 millions $AU (38% of wine firms sample), between 5 and 10 millions $AU (18.7% of wine firms sample) and more than 10 millions $AU (22.9% of wine firms sample).

Concerning the number of permanent employees, there is no significant difference between each country: the average is around 17 permanent employees. On the other hand, differences are significant about part time employees: Australian wine firms employ 7.4 part time employees on average in comparison with 6.3 in New-Zealander wine firms and around 4 for Languedoc-Roussillon wine firms.

[7] This company has specialized in supplying financial information compiled from French firms compulsory reports.

[8] http://www.deloitte.com

Australian and New-Zealander wine firms are more bottle-oriented (85 and 97% of the sales on average) than Languedoc-Roussillon wine firms (49%). The smaller Australian wine firms, the more bottle-oriented they are. It's the opposite for Languedoc-Roussillon wine firms which are more bulk oriented. In Languedoc-Roussillon, wine firms sell 83% of their turnover (on average) to the domestic market.

Finally, Languedoc-Roussillon wine firms are the oldest (1955 on average), then N-Z wine firms (1965) and Australian wine firms (1974).

**The questionnaire**

Although these two researches had a different aim, the survey in Australia and New-Zealand (2004) included some identical questions (see Appendix 1) which were issued from the French research (2003). Some questions concerned the corporate governance of the firm: the owner, the manager, the capital structure, the strengths and strategic goals of the firm. Other questions concerned the employees and the activity (wine production and sales, innovation), as well as the firm environment: export and domestic activity and distribution channels.

**Analysis method**

*A stylized description of SMEs strategic choices*

The small firm heterogeneity makes it difficult for researchers as well as professionals to categorize them. However, one can pinpoint several common features in this business category (Julien & Marchesnay, 1988; Marchesnay, 1993; d'Amboise & Muldowney, 1988; Wtterwulghe, 1998): the central role of the manager, the turbulent environment of the organisation, its type and its line of business (relevant markets).

Some proxy variables have been chosen in order to 'stylize' four main determinants (or 'concepts') governing these small firms' strategic choices, as described by these authors[9].

1. *The owner (manager) aim:* financing and managing a business is risky. If, during the firm formative stage, the owner-manager behaves as an "entrepreneur", his propensity to assume risky decisions and investments will decrease as there is more and more to lose. From an evolutionary point of view, managers' attitudes can

[9] This analysis approach differs with data collection from studies mentioned above. Usually, strategic types are defined with four self-typing paragraphs and respondents identify the one that best describes their organization. A recent paper from Desarbo and *al*. (2005) used a different way, based on Conant and al. (1990) works, to describe Miles and Snow typology. The 11 items describe strategic posture in contrast with competitors of the firm.

change (Ang, 1991), and the generic approaches to the manager's attitude (Schumpeter, 1942; Smith, 1967; de Woot, 1968; Kirzner, 1973; Miles & Snow, 1978; Drucker, 1985; Laufer, 1975; Stanworth & Curran, 1976; Casson, 1982; Gasse, 1988; Julien & Marchesnay, 1988; Marchesnay, 1988; Couderc, 2000; Couderc & Remaud, 2002) present some common characteristics related to the three stylized attitudes of the manager: the manager with a "*patrimonial*" attitude; the manager with an "*entrepreneurial*" attitude; the manager with a "*managerial*" attitude.

2. These owner-managers evolve in a turbulent *environment*, especially if they export a large part of their productions. The environment influences the firm management because SMEs firm have little possibilities to control it. The business environment includes the firm relevant markets: domestic *vs* export markets, distribution channels and competitors. Of course, SMEs can evolve in some market spaces left opened by the biggest firms (Penrose, 1963). Furthermore, SMEs can privilege local sales, good customers relationship, … One can suppose that competition is higher in foreign markets than in the local sphere. This means that prospectors should be more export oriented than firms with any other strategic behaviour.

3. Furthermore, SMEs will try to limit the competition dangers by exercising one or few specialized *activities* through product differentiation or specialization. In order to satisfy the customer, the owner-manager will privilege the quality of his relations, adapting his production to customers' needs and necessities.

4. Finally, the owner-manager relies upon a more or less structured *organization*. In SMEs (especially for the smallest), the structure is rather simplified or not too formalized. The smaller the company, the less the number of hierarchy levels. In that case, the owner gives his orders directly to his employees, and intelligence circulates very quickly.

Dealing with SMEs, the size, the positioning within the wine sector (bulk or bottle), the age of the company and the country always appear as independent variables of great importance, and will therefore be systematically used as control variables in the analyses.

### Statistical analysis

In order to check the validity of the 3 expected SMEs strategic configurations presented above, the statistical analysis was conducted in four steps: 1-descriptive analysis; 2-factor analysis; 3-hierarchical classification (cluster analysis); 4-discriminant analysis.

To conduct the factor analysis, the four sets of proxies describing these wine SMEs strategic positioning (manager's aim, activities, organization and environment) were used. As an analysis in principal components was carried out, qualitative data were transformed into binary answers (1 for the chosen modality and 0 for the other answers).

The *owner-manager aim* concept was described with the following variables: family business (yes or no), most important strength (with 3 modalities: wines with premium quality, competitive prices, good relationship with customers), firm's main goal (with 2 modalities: increasing market share, improving economic business performance), ways to reach this goal (with 3 modalities: developing domestic market, developing export market, improving products reputation).

The *activity* concept was divided in two parts between the products (bottle and bulk percentage of sales) and innovative activities: launching of new products during the last three years (yes or no), reasons for innovation (with 3 modalities: renewing old products, penetrating new markets, building brand image), innovative products percentage of current sales.

The *organization* concept was characterised by 5 items: more or less than 20 permanent employees, percentage of commercial staff, managerial staff, and production staff.

The last concept is the *environment*. We used 3 items to describe it: percentage of export and domestic activity, percentage of domestic sales with the 4 largest customers.

The aim of this factor analysis was to summarize the information in one or two components for each concept describing small firm's strategic management. All the scores obtained were next used to conduct a hierarchical classification (Ward method). The last step was to realize a discriminant analysis in order to characterise the different clusters.

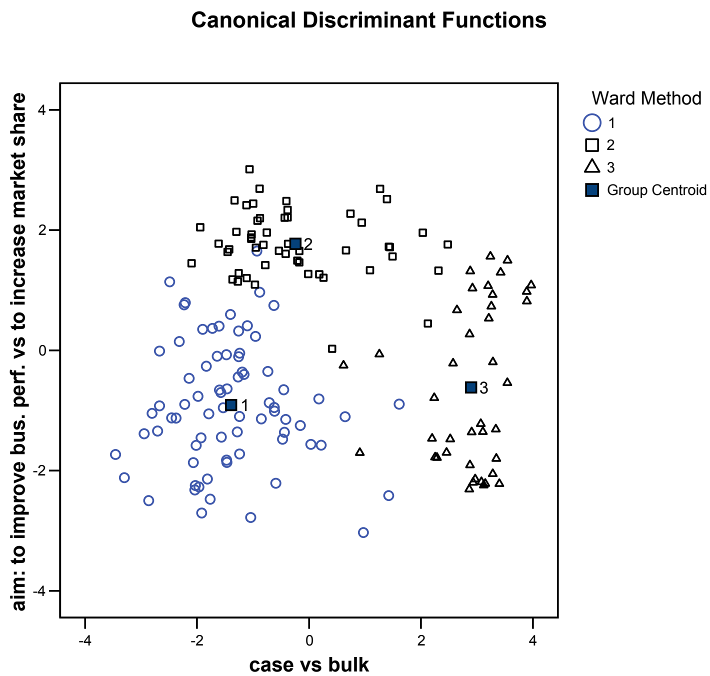
## 3. Results

The different scores obtained with the data reduction analysis on the four factors were sufficiently high in total variance representation (41 to 80%) to induce a significant hierarchical analysis (Ward method). We identified three groups of wine firms which can be characterized as follows (see appendix 2 for more details).

One group is mainly composed with Languedoc-Roussillon wine firms (cluster 3). These firms are mainly small (less than 1 million sales range). Group 1 contains more Australian and NZ wine firms. Group 2 contains more Australian and Languedoc-Roussillon wine firms.

A discriminant analysis with the three groups as dependent variables showed that *aim* and *product activity* variables are the two functions which differentiate these three groups.

Figure 2: Discriminant analysis




The first component concerned product activity: case v/s bulk. Group 3 is mainly bulk-oriented and groups 1 and 2 more bottle-oriented. The second component concerned firm's aim (improving business performance versus increasing market share).

***Cluster 1***

Within this firm group, the most senior manager or the CEO claimed that the main firm strength is the quality of the wines (52.1%) along with a good relationship with customers (17.8%). Their strategic goal is (for 74%) to improve economic business performance and then to increase market share or to achieve economy of scale. These objectives are based on a significant export activity (37%). Sales development in these markets is the main way for these companies to reach this goal (35.6%) followed by "to improve the reputation of my products" (27.4%) and "to develop domestic markets (21.9%). Around 19% of current sales are directly connected to new products activity (innovative differentiation). The first reason for developing and launching new products for the innovative firms is to build brand image (48%) and then to penetrate new markets (31%). The ownership status for 59.5% of these companies is family business (other status: 25.7%; cooperative: 14.9%). For 46.6% of these firms, the most important metric they used to say that their wine firm performs well is sales growth (in volume or in value) and then customer attention. From a financial perspective, the most important ratio they used to define their financial performance is for 33.8% "net operating margin". For the other firms (23.5%), EBIT or net operating cash-flow are the most important criteria.

Around 90% of the turnover comes from bottle sales. Domestic markets constitute a large part of the outlets (around 63%). Concerning the wine firms for which we have the information (around 67%), 50% of the sales are realized in their local area and the other part in the other states. These companies export a significant part of their turnover (37% in 2003) and the share of export turnover has remained nearly the same over the last 3 years. The main reason (53%) for exporting is to answer new business opportunities. North America is the main destination in the export activity followed by the UK and Ireland. On the domestic market, the largest distribution channel is sales to distributors / agents (26.7% of outlets). The other channels are other wine firms (20.8%) and Super/hypermarkets (French distribution channels, 19.6%).

The size of these firms is relatively small: 20.7 employees on average, with a significant share for part time employees (23%). The functions are split as follows: a part is allocated to production functions (8 employees, or about 49% of the firm permanent employees on average), then management tasks (2.6 employees, or about 24.7% of the firm permanent employees on average), and finally sales staff (2.2 employee, or about 19.7% of the firm permanent employees on average).

In a more general way, this firm group seems to be easy to characterize from a business practice perspective. Indeed, these firms are bottle oriented (more than 85% of the turnover). The strategy followed by these small firms is an innovative activity + export orientation. Their aim is to improve economic performances and the criteria measuring it are relevant: net operating margins, EBIT, net operating cash-flow.

***Cluster 2***

As above, the wine firm manager claimed that the main strength of the firm is based on the wines quality (57.7%). But for 11.5% of the manager, two strengths are appearing as more important: a good capacity to adapt and to innovate, and competitive prices. The strategic goal is increasing market share for 94.2% of these firms. In comparison with the first group, these firms are less export oriented (23.5% of the turnover) and sales development on the domestic market represents the main way for these companies to reach their goal (44%), followed by developing export markets (32.7%). Around 14% of current sales are directly connected to new products activity (innovative differentiation). The first reason to develop and launch new product for the innovative firms is mainly penetrating new markets (55.8% of these firms) and renewing old products (18.6%).

The ownership status for this cluster is equally distributed: around 1/3 for each (family business, other status, and cooperative). For 40.4% of these firms, the most important metric they use to say that the wine firm performs well is sales growth (in volume or in value) and then customer attention. From a financial perspective, the most important ratio is (for 23.5%) “EBIT” or “net operating cash-flow”.

The national market constitutes a significant issue (76%), and 41% of domestic sales are realized within a local area. These companies do not rely much upon export (24% in 2003) and the export turnover share decreases over the last 3 years (from 29.6% in 2001 to 23.6% in 2003). In this respect, there is a significant difference between Australian / New-Zealander and French wine firms. The first ones are more export oriented (around 30%) than the French. The main reason inciting these companies to export is to answer new business opportunities. Relatively to all the answers, “the domestic market is saturated” is an important reason for these firms to export. Export countries are heterogeneous: French bordering countries (Benelux, Germany, Switzerland, UK and Ireland) for 65% of export sales and then North America for 21% of export sales. On the domestic market, the two largest distribution channels are other wine firms (34.7% of outlets) and distributors/agents (20%) or super/hypermarkets (18%).

One third of this wine cluster is made of wine cooperatives. They are relatively less bottle-oriented (60% against around 83% for the others capital structure status), more domestic market oriented (84% against 76% for family businesses, and 69.5% for other status), and less innovative products oriented (4.6% of the current revenue comes from new products activity against 12.8% for family businesses, and 25,2% for other status).

These firms employ a staff of 31 on average, with a weak share of part time employees (19.5%). The repartition by function is as follows: a significant part allocated to production functions (12 employees, or about 50% of the firm permanent employees on average), management and sales tasks (4 employees each, or about 20% of the firm permanent employees on average). A significant difference appears among wine cooperatives and other firms. Cooperatives of this cluster employ 28% of permanent employees (on average) in their sales staff against 11% and 17% for family business and other status. About firm size, different comments can be made: the smaller the wine firms, the bigger the share of bottles sold; the larger the firm, the greater the export share; the smaller and the larger the firms (less than 1 million and more than 10 millions of sales), the fewer innovative activities they have.

Indeed, capital structure seems to have a significant impact on business practices. Cooperatives are less bottle-oriented than the others firms. Two strategic choices can be identified: "subcontracting" based on bulk wine sales to other wine firms or bottles + own brand + distributor or direct channels.

***Cluster 3***

The wine firm manager declared again that the main strength of the firm is the quality of the wines (60%). The strategic goal for 52.5% of these firms is improving economic business performance and for 35% increasing market share in their national market (around 96% of the turnover). Improving the products reputation is the main way for these companies (27.5%) to reach this goal. This group did not develop and launch much new product over the past three years. Only 5% of current sales are directly connected to new products activity (innovative differentiation).

The ownership status for half of these companies is ‘cooperative’ and 45 % are family businesses. All the firms of this cluster are located in France (Languedoc-Roussillon region). For 35% of these firms (as for group 1), the most important metric they used to say that the wine firm performs well is the customer attention and then a production capacity used in full (22.5%). From a financial perspective, the most important ratio they used to say that the wine firm performs well is for 55% of these firms to better remunerate the cooperative members. For the others firms (21%), self financing capacity is the most important criterion.

This cluster is mainly bulk-oriented (96% of the sales) with no difference among the capital structure of the firms (cooperative or family business). National market constitutes the main outlet for their wines (96%) and a large share is commercialized within a local area (64 % in LR region). These companies do not have a real export policy (4% in 2003) and the export turnover share decreases strongly over the past 3 years (10% in 2001). In the domestic market, the main distribution channel is sales to other wine firms (63% of outlets), followed by sales to super/hypermarkets (10%) and cellar door sales (10%).

The size of these firms is the smallest: 13 employees on average, with a significant share of part time employees (27.6%). The repartition by function is as follows: a big part allocated to production functions (63.5% of the firm permanent employees on average), management tasks (20% of the firm permanent employees on average), then sales staff (13.4% of the firm permanent employees on average).

Generally speaking, this firm group is rather bulk-oriented. The main strategy developed by these companies is a "subcontractor" or intermediary’s strategy relying upon bulk wine sales to other wine firms.

**4. Discussion and conclusion**

The main result of this exploratory research is a confirmation of significantly different business practices in a new vs old wine world perspective. Cluster 1, with almost all the Australian and New-Zealander wine firms, has a significant innovative activity and bottle wine production + export orientation. The main strategic goal of these SMEs is to improve their economic business performance. Cluster 2 is more heterogeneous. The strategic goal of these wine firms is to increase their market share. These firms are bigger (30 employees on average) and are mainly located in Australia and France. The third group, with almost exclusively Languedoc-Roussillon wine firms, is characterized by the absence of innovation and is rather bulk oriented.

The firm activity (bottle + innovation + export versus bulk + domestic market + no innovation) has a major role in the firm management orientations. The second discriminant axis is the principal *aim* of the firm, which is differentiating cluster 1 from cluster 2. Can these clusters be associated with the three main ‘configurations’ derived from the Miles and Snow framework?

Two groups seem to have a clear strategic positioning or business practices. *Cluster 1* clearly corresponds to the first theoretical group, as it is characterized by a *prospector* behavior and a new product orientation. These firms are relatively more located in the New

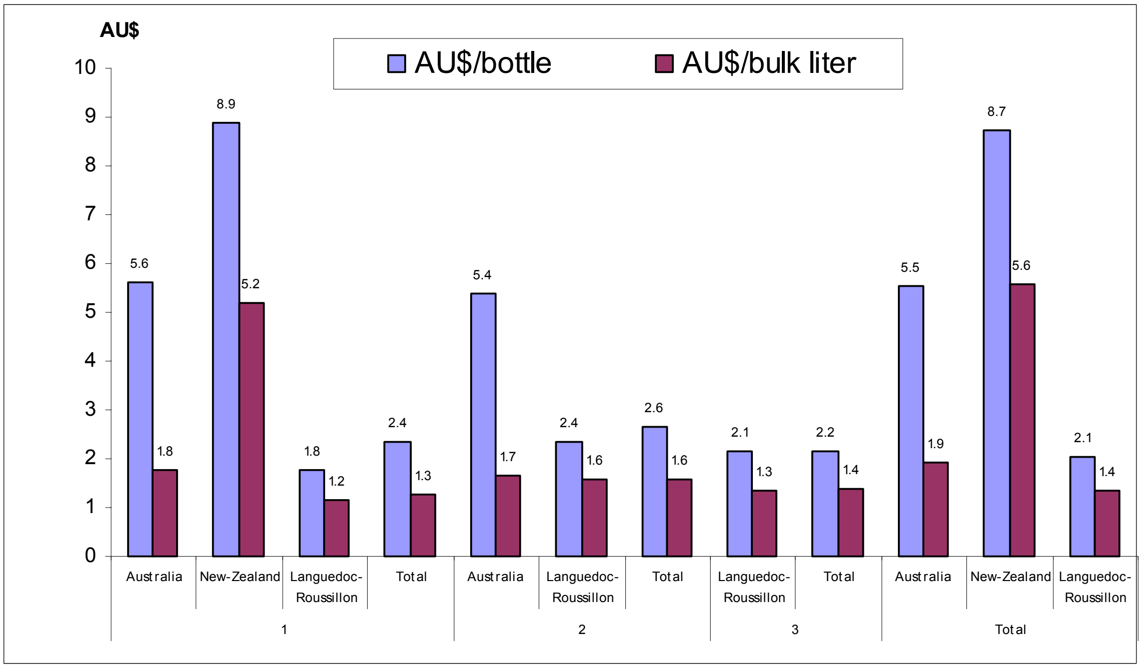
World and have the strongest export orientation. This cluster is more innovative, with more than 18% of 2003 revenue based on new products launched during the past three years. *Cluster 3* clearly corresponds to the third theoretical group, which was characterized by an *analyzer* behavior, but, due to a more stable consumption trend, these firms have adopted a *reactor* attitude.  They are exclusively located in the Old World, with only domestic and bulk wine sales. This cluster is the less innovative with less than 5% of 2003 revenue issued from new products. *Cluster 2*, finally, seems to better correspond to the second theoretical group, as characterized by a *defender* behavior. But their business practices are more difficult to interpret. These firms are bigger than the ones from the other clusters. They are basically seeking to increase their market share, but seem to be bound by some efficiency constraints.

Figure 3: Theoretical classification of the three wine firms groups

| | | Environment evolution | | |
|---|---|---|---|---|
| | | On the decline | Stable | Dynamic |
| Firm behavior | Prospectors | | | ***Cluster 1*** |
| | Defenders | | ***Cluster 2*** | |
| | Reactors | ***Cluster 3*** | | |

When we try to relate these clusters to their economic performance, measured by their turnover per bottle or per liter of bulk, we don’t observe large discrepancies among them (Figure 4). Thus, cluster 2 has the highest turnover per bottle (2.6 $AU/bottle) and per bulk liter (1.6 $AU/liter). This strategic positioning is a consequence of both the history and the firms’ geographic origin. Even if these points didn’t clearly appear as discriminant variables in the cluster analysis, the following results show that for each cluster, the country of origin and the capital structure have an impact on the activity level.

Figure 4: Turnover per bottle and per bulk litre for each cluster * country




New-Zealander wine firms have the highest selling price per bottle (8.7 $AU/bottle on average) and per bulk liter (5.6 $AU/liter). Australian wine firms are in the second position with 5.5 $AU/bottle and 1.9 $AU/liter of bulk. The Languedoc-Roussillon wine firms have the lowest revenue by volume sold with a relatively weak distinction between bottle (2.1 $AU/bottle) and bulk (1.4 $AU/liter). Concerning the capital structure, a clear difference appears between cooperatives (1.8 $AU/bottle) and the other status (family businesses and others) with around 3.25 $AU/bottle turnover.

The purpose of this exploratory research was to constitute a first step to better describe wine SMEs business practices. Although these small businesses are by far the most numerous, they have received very little attention in the past. If we find some links between their strategic 'configurations' and their general performances, they still have to be refined in order to propose some operating clues to their owner-managers.

**Appendix 1: Identical questions used in the French and Australia-New Zealand surveys**

**1 – Is the company a family-business?** *yes = 1, no =2* └─┘

**2 – What is the background of the *owner*?**

- University level ............................................ = 1
- TAFE education ........................................... = 2 └─┘
- Secondary school ........................................ = 3
- Self-taught: .................................................. = 4

| **3 – In your opinion, which are the 2 most important strengths of your winery?** | |
|---|---|
| - Competitive prices (lower than competitors prices)<br>- Wines with premium quality .................= 2<br>- Good relationship with customers.........= 3<br>- Good customer intelligence systems ....= 4<br>- Good capacity to adapt and innovate ...= 5<br>- Other, specifically.................................= 6 | *First* └─┘<br><br>*Second* └─┘ |

| **3 – What's the main strategic goal of your winery?** | |
|---|---|
| - To increase market share (in volume or in value)<br>- To improve economic business performance<br>- To achieve economy of scale ..............= 3<br>- Other, specifically.................................= 4 | └─┘ |

| **4 – What are the 2 most important ways used by the firm to reach the previous goal (Q2)?** | |
|---|---|
| - To develop domestic market.................= 1<br>- To develop export markets ..................= 2<br>- To improve the reputation of my products = 3<br>- To develop training for the employees..= 4<br>- To reduce the production cost .............= 5<br>- To hire executive staff..........................= 6<br>- To hire sales staff.................................= 7<br>- Other, specifically.................................= 8 | *First* └─┘<br><br>*Second* └─┘ |

**5 – What are the 2 <u>most important</u> reasons for you to export today? *(Please, range from the most important reason to the less)***

- Domestic market is saturated ......................................= 1
- To seek new business opportunities............................= 2
- To grow existing business opportunities.......................= 3 1st └┘
- Export sales are a source of higher profits ..................= 4
- The firm has a very good understanding about foreign markets = 5 2nd └
- Management believes that the firm can achieve economies of scale by exporting =
- Other reasons, specifically:..........................................= 7

**6 – What are the 2 most important metrics (different than financial) you use to say that your winery performs well?**

- Market share of the winery...................= 1
- Full capacity of production ..................= 2
- Customer attention (*to retain*) ..............= 3 1st └┘
- Number of lost customers ....................= 4
- Number of customer complaints ...........= 5 2nd └┘
- Sales growth (*volume*) .........................= 6
- Sales growth (*value*) ............................= 7
- Other, specifically:................................= 8

**7 – From a financial point of view. What are the 2 most important financial criteria you use to say that your winery has good business performance?**

- Gross operating margin ..........................................(*Gross operating surplus / Total Revenue*) = 1
- Net operating margin (*Operating profit / Total Revenue*) = 2
- Self financing capacity ...........................................(*SFC / Total Revenue*) =
- ROA (*Operating profit / Total assets*) =
- ROE (*Operating profit / Equity capital*) = 5 *second* └
- EBIT (*Earnings Before Interest & Tax*) =
- Net operating cash flows.........................................= 7
- Other criteria, specifically: ......................................= 8

**8 – How many new products you have developed and launch during the last 3 years?**

(e.g.: new varieties, new brands, new packages, etc…) |__|__|

**9 – How much of the current Total Revenue (%) is explained by the new products** developed and launch during the last 3 years?

|__|__| %

**10 – Why does your firm care about new product development?** ***Please, rank from the most important reason to the less***

- To renew old products............................ = 1
- To penetrate new markets or new segments =
- To build brand image of the company..... = 3 *first* |___|
- To be able to sell more expensive products =
- To arrive before to the market than competitor = 5 *second* |___
- Other, specifically:.................................. = 6

| **11 – Total wine sales in <u>volume</u> in 2003? (cases, bulk and cask)** | **12 – Total wine sales in <u>value</u> in 2003? (cases, bulk and cask)** |
|---|---|
| *Number of* CASES: |____________| (12 bottles x 750 ml) | CASES: |____________| in AU$ thousand |
| BULK : |____________| (litres) | BULK : |____________| in AU$ thousand |
| CASK: |____________| (litres) | CASK: |____________| in AU$ thousand |

| **13 – Number of permanent employees *of your business* in equivalent full-** | | **Number** |
|---|---|---|
| Position in the business | A. Production | |
| | B. Sales staff for Australia market | |
| | C. Sales staff for Export market | |
| | D. General management, executive, | |
| | H. Others functions | |

**14 – Number of part time (or casual) employees in the financial year 2003** *(1st July 2002 – 30th June 2003)***?** └─┴─┴─┘

14.1 – Could you estimate how many equivalent full time this number of part time employees represent? └─┴─┴─┘

**15 – Where do you sell your wine (***as a % of the total sales value***)?**

| | |
|---|---|
| 1.1 - **Domestic market** | └─┴─┴─┘ % |
| 1.2 - **Export Market** | └─┴─┴─┘ % |

**16 – *In the DOMESTIC market*. What is the proportion of your total domestic sales from your 4 largest direct customers, by value?**

└─┴─┴─

┘ %

## Appendix 2: Clusters characteristics and statistical analysis

Table 1: Wine firms country within the three groups

| | | | AUS - NZ - LR | | | |
|---|---|---|---|---|---|---|
| | | | Australia | New-Zealand | Languedoc-Roussillon | Total |
| Ward Method | 1 | Count | 36 | 9 | 29 | 74 |
| | | % within Ward Method | 48.6% | 12.2% | 39.2% | 100.0% |
| | | % within AUS - NZ - LR | 63.2% | 81.8% | 29.6% | 44.6% |
| | 2 | Count | 20 | 2 | 30 | 52 |
| | | % within Ward Method | 38.5% | | 57.7% | 100.0% |
| | | % within AUS - NZ - LR | 35.1% | | 30.6% | 31.3% |
| | 3 | Count | 1 | 0 | 39 | 40 |
| | | % within Ward Method | | | 97.5% | 100.0% |
| | | % within AUS - NZ - LR | | | 39.8% | 24.1% |
| Total | | Count | 57 | 11 | 98 | 166 |
| | | % within Ward Method | 34.3% | 6.6% | 59.0% | 100.0% |
| | | % within AUS - NZ - LR | 100.0% | 100.0% | 100.0% | 100.0% |

Table 2: Wine turnover range for the three wine firm groups

| | | | Total wine sales range 2003 | | | | |
|---|---|---|---|---|---|---|---|
| | | | < 1 m° | 1 to 5 m° | 5 to 10 m° | 10 m° and more | Total |
| Ward Method | 1 | Count | 10 | 37 | 11 | 16 | 74 |
| | | % within Ward Method | 13.5% | 50.0% | 14.9% | 21.6% | 100.0% |
| | | % within Total wine sales range 2003 | 29.4% | 58.7% | 35.5% | 42.1% | 44.6% |
| | 2 | Count | 10 | 14 | 15 | 13 | 52 |
| | | % within Ward Method | 19.2% | 26.9% | 28.8% | 25.0% | 100.0% |
| | | % within Total wine sales range 2003 | 29.4% | 22.2% | 48.4% | 34.2% | 31.3% |
| | 3 | Count | 14 | 12 | 5 | 9 | 40 |
| | | % within Ward Method | 35.0% | 30.0% | 12.5% | 22.5% | 100.0% |
| | | % within Total wine sales range 2003 | 41.2% | 19.0% | 16.1% | 23.7% | 24.1% |
| Total | | Count | 34 | 63 | 31 | 38 | 166 |
| | | % within Ward Method | 20.5% | 38.0% | 18.7% | 22.9% | 100.0% |
| | | % within Total wine sales range 2003 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Table 4: Wine activity and environment for the three wine firm groups

| Ward Method | | % cases sales | % bulk sales | % domestic market | % Export market | Current total revenue (%) from new products |
|---|---|---|---|---|---|---|
| 1 | Mean | 88.5754 | 11.2702 | 62.92 | 37.08 | 18.74 |
| | N | 73 | 74 | 74 | 74 | 70 |
| | Std. Deviation | 23.30499 | 23.18289 | 31.641 | 31.641 | 25.388 |
| 2 | Mean | 77.0012 | 22.9988 | 76.41 | 23.59 | 14.38 |
| | N | 52 | 52 | 52 | 52 | 52 |
| | Std. Deviation | 30.60301 | 30.60301 | 20.224 | 20.224 | 24.136 |
| 3 | Mean | 3.5809 | 96.4191 | 96.01 | 3.99 | 5.28 |
| | N | 40 | 40 | 40 | 40 | 39 |
| | Std. Deviation | 9.73375 | 9.73375 | 7.806 | 7.806 | 16.752 |
| Total | Mean | 64.3231 | 35.4620 | 75.12 | 24.88 | 14.07 |
| | N | 165 | 166 | 166 | 166 | 161 |
| | Std. Deviation | 42.01069 | 41.97462 | 27.509 | 27.509 | 23.637 |

*Factor analysis results (all the KMO and Bartlett's test were significant)*

## Owner-manager aim: the two first components were used

**Total Variance Explained**

| | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| Component | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 2.027 | 22.523 | 22.523 | 2.027 | 22.523 | 22.523 | 1.830 | 20.336 | 20.336 |
| 2 | 1.653 | 18.365 | 40.888 | 1.653 | 18.365 | 40.888 | 1.410 | 15.669 | 36.005 |
| 3 | 1.354 | 15.050 | 55.937 | 1.354 | 15.050 | 55.937 | 1.386 | 15.398 | 51.404 |
| 4 | 1.213 | 13.474 | 69.411 | 1.213 | 13.474 | 69.411 | 1.380 | 15.332 | 66.736 |
| 5 | 1.094 | 12.159 | 81.571 | 1.094 | 12.159 | 81.571 | 1.335 | 14.835 | 81.571 |
| 6 | .841 | 9.342 | 90.912 | | | | | | |
| 7 | .382 | 4.242 | 95.154 | | | | | | |
| 8 | .246 | 2.729 | 97.884 | | | | | | |
| 9 | .190 | 2.116 | 100.000 | | | | | | |

Extraction Method: Principal Component Analysis.

**Rotated Component Matrix[a]**

| | Component | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| first goal - business eco perf. | -.942 | | | | |
| first goal - increase market share | .922 | | | | .149 |
| Way - to develop domestic market | .106 | .840 | | -.407 | |
| Way - to develop export market | | -.829 | | -.447 | |
| Strenght - comp. prices | | .118 | .900 | | .208 |
| Strenght - wines quality | | | -.752 | -.142 | .482 |
| Way - to improve the reputation of my product | | | | .926 | |
| Strenght - relationship | | | | .233 | -.854 |
| family business | .252 | | | .269 | .547 |

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 6 iterations.

## Innovation activity: the two first components were used

**Total Variance Explained**

| | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| Component | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 1.572 | 31.439 | 31.439 | 1.572 | 31.439 | 31.439 | 1.556 | 31.115 | 31.115 |
| 2 | 1.435 | 28.708 | 60.147 | 1.435 | 28.708 | 60.147 | 1.344 | 26.873 | 57.988 |
| 3 | 1.156 | 23.126 | 83.273 | 1.156 | 23.126 | 83.273 | 1.264 | 25.285 | 83.273 |
| 4 | .639 | 12.786 | 96.059 | | | | | | |
| 5 | .197 | 3.941 | 100.000 | | | | | | |

Extraction Method: Principal Component Analysis.

**Rotated Component Matrix[a]**

| | Component | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| why innovation - to build brand image | .907 | | -.311 |
| why innovation - to penetrate new markets | -.855 | | -.431 |
| Innovative activity | | .838 | |
| J_2 - how much of the current total revenue (%) ...? | | .798 | -.187 |
| why innovation - to renew old products | | | .968 |

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 5 iterations.

## Product activity: one component was used

**Total Variance Explained**

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 4.786 | 79.764 | 79.764 | 4.786 | 79.764 | 79.764 |
| 2 | .726 | 12.098 | 91.862 | | | |
| 3 | .304 | 5.062 | 96.924 | | | |
| 4 | .142 | 2.362 | 99.286 | | | |
| 5 | .041 | .682 | 99.968 | | | |
| 6 | .002 | .032 | 100.000 | | | |

Extraction Method: Principal Component Analysis.

**Component Matrix**[a]

| | Component |
|---|---|
| | 1 |
| % cases sales | -.990 |
| % bulk sales | .988 |
| au moins 75 % bulk | .908 |
| au moins 75 % bouteille | -.900 |
| 100 % bulk | .828 |
| 100 % bouteille | -.715 |

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

## Organization: two components were used

**Total Variance Explained**

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 2.069 | 41.381 | 41.381 | 2.069 | 41.381 | 41.381 | 2.011 | 40.229 | 40.229 |
| 2 | 1.596 | 31.919 | 73.300 | 1.596 | 31.919 | 73.300 | 1.654 | 33.072 | 73.300 |
| 3 | .997 | 19.930 | 93.231 | | | | | | |
| 4 | .223 | 4.464 | 97.694 | | | | | | |
| 5 | .115 | 2.306 | 100.000 | | | | | | |

Extraction Method: Principal Component Analysis.

**Rotated Component Matrix**[a]

| | Component | |
|---|---|---|
| | 1 | 2 |
| Employees (tot) - 20 and more | .900 | |
| Employees (permanent) - 20 and more | .875 | |
| % managerial staff | -.597 | .132 |
| % production staff | .252 | -.911 |
| % commercial staff | .130 | .898 |

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

## Environment: two components were used

**Total Variance Explained**

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 2.031 | 67.694 | 67.694 | 2.031 | 67.694 | 67.694 |
| 2 | .969 | 32.306 | 100.000 | | | |
| 3 | 2.220E-16 | 7.401E-15 | 100.000 | | | |

Extraction Method: Principal Component Analysis.

**Component Matrix**[a]

| | Component |
|---|---|
| | 1 |
| B_1 - % domestic market? | -.993 |
| B_1 - % Export market? | .993 |
| B_3 - DOMESTIC MARKET - What is the % of total sales value that represent your 4 largest customers? | .243 |

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

*Discriminant analysis results*

**Wilks' Lambda**

| Test of Function(s) | Wilks' Lambda | Chi-square | df | Sig. |
|---|---|---|---|---|
| 1 through 2 | .102 | 363.527 | 16 | .000 |
| 2 | .405 | 144.238 | 7 | .000 |

**Structure Matrix**

| | Function | |
|---|---|---|
| | 1 | 2 |
| REGR factor score 1 for activity | .860* | -.223 |
| REGR factor score 1 for environment | -.297* | -.074 |
| REGR factor score 2 for innovation | -.230* | .028 |
| REGR factor score 2 for org° | -.146* | .042 |
| REGR factor score 1 for aim | .070 | .810* |
| REGR factor score 1 for innovation | -.125 | -.245* |
| REGR factor score 1 for org° | -.050 | .176* |
| REGR factor score 2 for aim | .032 | .098* |

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions
Variables ordered by absolute size of correlation within function.

*. Largest absolute correlation between each variable and any discriminant function

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