

Small Wineries and Strategic Options: the role of Premium Bag in Box

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Abstract

The latest developments in the US wine market have renewed managers' interest in *bag in box* packaging as a strategic option. *Premium Bag in Box*, introduced by companies such as Black Box, transforming the traditional concept of this typology of packaging, can be considered as an example of innovation in the wine industry. USA accounts for a considerable market share (33% out of the total value, according to ICE, 2005) of all Italian wine export; but competition based on price, due to the "new world" firms aggressive strategies, constitutes the reason of a share erosion. By adopting the *Premium Bag in Box* solution, Italian small companies could elude this dynamic focusing their attention on the differences in wine and packaging perceptions between US and Italian consumers: this opportunity is empirically evidenced by the growing success of premium wine sold in USA. Notwithstanding the evidence of a reduction in delivery costs and at the same time, the chance to approach new consumers maintaining their *brand equity*, this new strategic approach asks for a cultural change in Italian entrepreneurs who, looking at the internal market, still feel the BIB as an indicator of low-prices (and quality) wine level. In this paper a SWOT analysis is performed to define a qualitative framework of threats and opportunities for small Italian wineries and to illustrate why *Premium Bag in Box* could represent a strategic opportunity for them.

Key words

Bag in Box, US wine market, Innovation, Packaging, Premium wine, Swot analysis

Introduction

The United States wine market is very attractive for Italian companies: it accounts for 33% out of the total value¹ of Italian wine export. The volume of exported wine towards US in 2005 accounted for 222,25 mln litres, (+ 8,95%, with respect to 2004) and its corresponding value was 978 million USD (+ 11,66%). The main role played by Italy in the US wine market requests to look carefully at all the changes that are occurring in the global wine Industry.

The first element to be considered is the change in global competition that took place in the last years. Italy risks to lose its leader position due to the growing popularity of "new world" wine in USA; for instance, Australian wine market share jumped up to 21% in 2004, from 3% in 1991. France is suffering this competition, as its global percentage slope down to the 30% in 2004².

Secondly, there is the structure of distribution in USA, that, as suggested by Cholette *et al.* (n.d.), is concentrated: top ten distributors control over half of US wine sales. Distributors prefer all those wines that are easily recognisable; it is a matter of fact that all those companies that invest money in advertising and promotion are preferred by distributors. The consolidation of great distributors, that is occurring both on the off-premise and on-premise

level, has serious implications for small companies, as it becomes difficult for them to market their products.

Although the difficulties listed above, US market remains very attractive for wine companies, as it has been estimated that by 2008 it will become the top world market for wine consumption (Vinitaly Press, 2005). The main problem is understanding how to reach this potential. Interesting suggestions are coming from changes in consumption evidenced by the emerging phenomenon of Premium Bag in Box sales growth. We call *Premium Bag in Box* (or PBIB) premium wine³ sold in 3 litres size Bag in Box

From a consumer's point of view, the concept and the acceptance of *Bag in Box* (BIB) in United States has changed consistently in the last few years; in fact, whilst during the nineties it was associated to downmarket wine⁴, recently the premium price paid for a 3 litres BIB shows the tendency to qualify this packaging with good quality wine.

In order to give evidence of new opportunities for Italian firms in this paper, we will firstly give a definition of innovation according to management literature. Then we will use the *buyer experience cycle*, as explained by Kim and Mauborgne (2001) to understand the interaction between the innovative patterns of PBIB and their possible perception in consumer's experience. Afterward we will study a business case concerning the US pioneer in PBIB adoption: Black Box Wines. Finally a SWOT analysis focused on small Italian wineries will be performed to define a qualitative framework of threats and opportunities in approaching this growing market.

A theoretical framework for innovation

Can a particular kind of packaging be considered an innovation? To give an answer in this section we will take into account some theoretical aspects suggested by Rogers (1965, 2003). He lists some questions that typically arise when people think about an innovation: "what is the innovation?"; "how does it work?"; "what are the innovation's consequences?"; "what will its disadvantages and advantages be in my situation?".

The problems of understanding what an innovation⁵ is and how it works are strictly related; for instance in management literature some authors, such as Davila *et al* (2006) and Christensen and Raynon (2004) define this concept starting from a deep understanding of its mechanisms and dynamics. The latter have studied the dimensions of innovation's intensity that can be classified into radical (for the lower end of the market and for a new market) and incremental; each category has different effects on firms' performance, target clients and business models. The most comprehensive definition of innovation is given by Rogers (2003): "An innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption... Newness of an innovation may be expressed in terms of knowledge, persuasion, or a decision to adopt" (p. 12). The peculiarity of newness is perceived by the market and interacts with consumers and their perceptions. Moreover, according to Kotler (in Grunert *et al*, 1997, p.4) "the idea may have a long history, but it is an innovation to the person who sees it as new". Thus, newness can be perceived by a consumer if he believes the products can offer more value with regard to existing products and to price (Grunert *et al*, 1997).

The introduction of an innovation can influence many aspects related both to firm's management and market structure; furthermore it causes changes, both for buyers and for companies. To understand how an innovation works, we refer to the model elaborated by Davila *et al*. (2006): an innovation, whatever it is, incremental, radical or semi radical, can

involve 6 levers (value proposition, value chain, target customer, product and service, process technology, enable technology), that can be grouped in *Technological* innovations or *Business model* of innovations (see figure 1). According to this approach, an incremental innovation causes just small changes in one or more of the six levers whilst the radical one contributes to a significant change both in Business Model and in Technology levers.

Levers Type of Innovation	Business Model Levers			Technology Levers		
	Value Proposition	Value Chain	Target Customer	Product & Service	Process Technology	Enabling Technology
Incremental	Small change in one or more of the six levers					
Semi – Radical Business Model Driven	Significant change in one or more of the three levers			Small change in one or more of the three levers		
Semi – Radical Technology Driven	Small change in one or more of the three levers			Significant change in one or more of the three levers		
Radical	Significant change in one or more of the three levers			Significant change in one or more of the three levers		

Figure 1, The six levers of innovation for the three types of innovation (from Davila T., Epstein M., & Shelton R. (2006), *Making Innovation Work*, Wharton: Wharton School Publishing, p. 41)

Considering the source of innovation, according to Druker (1985), we can distinguish between internal and external to the firm. Internal could be a new idea elaborated by R&D whilst external should be determined by demographic evolution, changes in consumers' perception and knowledge. Often the innovation birth process is a combination of different elements both internal and external, and usually this mix is influenced by the company size. Considering the peculiarity of Italian wine industry structure, fragmented in many small firms, it is interesting to review some aspects of innovation in SMEs. A comprehensive review is given by Grunert (1997): in his work he underlines relevant structural problems and behavioural advantages they have to manage. The inconveniences related to organizational patterns can be synthesized in scarcity of finances and time, adequate knowledge about legal regulation and market analysis together with a lack of management skills. On the other hand it has been argued that SMEs have many advantages over large companies strictly related to the degree of flexibility to react to market changes: little bureaucracy, commitment and motivation of managers, R&D efficiency is much higher (they do not produce know-how that they will not use in the short term).

Is PBIB an innovation?

The attempt to fit the concept of PBIB in Figure 1 scheme provides some interesting results, although we are not merely interested in classifying it as an incremental or semi radical or radical innovation but we just want to underline its characters of newness. Firstly, being addressed to a customer whose profile could be different from the drinker of premium wine or previous BIB target profile makes of PBIB a Business Model innovation. At the same time, it

renews Value Proposition because the product sold on the market is presented through alternative channels of supply chain. As an innovation PBIB follows a life cycle.

Innovation life cycle has been described by Rogers (1965, 2003) and then among others, by Moore (1991). According to this approach, innovativeness is a criterion suitable to classify adopters in 5 typologies: innovators, early adopters, early majority, late majority and laggards (figure 2). Each adopter has his own distinct profile: differences can be found in the set of values, in the integration within the social system and in the willingness to run a risk. The diffusion of innovation process consists of various phases: the innovation, communication through some channels, over time, and among the members of a social system. Early adopters and innovators are the first consumers, but they account for a very little part of the market. The target, for a firm, should be “crossing the chasm” that is the borderline between the first consumers and the early majority. This is the a condition necessary for an innovation to succeed.

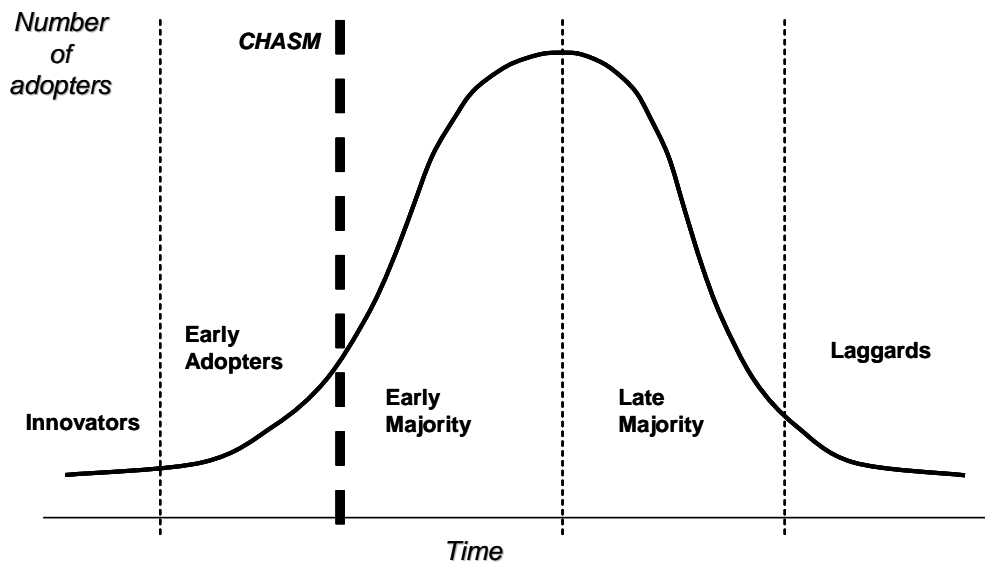


Figure 2, the diffusion of innovation

A useful tool to evaluate the innovative aspects of PBIB for buyers, is the Buyer Utility Map (Kim and Mauborgne, 2001); as shown in figure 3, this framework shows the possibilities of creating different utility proposition from existing products. There are up to 36 possibilities of renewing the product. As suggested by Kim and Mauborgne (2001), it is used to deliver more of the same utility at the same stage of the buyer's experience. For instance a firm should work only on one of these 36 sections, alternatively they should take into account more than one solution for renewing its products. In figure 3 the main characteristics of innovativeness related to the PBIB are evidenced:

The Six Stage of the buyer Experience Cycle

	Purchase	Delivery	Use	Supplements	Maintenance	Disposal
Customer Productivity	Time reduction in buying wine; 3 liters PBIB is cheaper than 4 glass premium wine bottles		No wine wasted: you can pull a glass of wine	No need to buy any other supplement good (corkscrew)	Wine can be maintained for a long time reducing wastes	The container can be recycled
Simplicity	The box can be easily carried in shopping charts	Easy to transport	Although innovative, PBIB contains wine and the customer should not change all his consumption habits		3 liters PBIB can be easily kept in the fridge or in the kitchen	Just out the bag out of the carton.
Convenience	In Supermarkets PBIB is near bottled wines and purchase is facilitated by some elements contained on the carton (cartons explain that 3lt are equivalent to 4 bottles)	Mail delivery is cheaper	Use is easy: just pull the tap		Some PBIB have a nice design and can be kept on the kitchen shelves or in the fridge without any problem	After use cartons can be easily disposed saving space (more easily than with bottles)
Risk	No cork smell	Glass is more fragile than a carton box	Container safety reduces risk for self damaging		Risk of oxidation is reduced	No risk of get injured with broken glasses
Fun and Image			New idea of premium wine		The box can be nice to be seen in the kitchen	
Environment and Friendliness			Everyone can serve himself			

Figure 3, Buyer's Utility Map for PBIB

The introduction of PBIB enhances customer productivity. At the earliest stage of his buyer experience – while purchasing- customer saves time and money. 3 litres PBIB is the equivalent of 4 bottles. When a customer has to buy wine for a special occasion (for instance a dinner with some friends), he has to spend time in choosing 2 or more wines. PBIB solves this problem, and by choosing it, customer saves money as the cost of 3 litres of premium wine sold by bag in box is lower than the cost of buying the same bottled quantity.

Once the carton has been opened, the customer could pull only a glass of wine and the BIB ensures a good maintenance of wine for a time longer than a bottle, as the risk of oxidation is reduced.

Using BIB is easy: no additional instruments are requested like a corkscrew.

Even the disposal is facilitated: carton reduces the risk of getting injured (that is higher with broken glasses), and the space of trash; as glass bottles, BIB are 100% recyclable.

The higher risk that BIB can reduce is cork smell; closures alternative to traditional cork can reduce this risk (we are referring to synthetic corks, screw caps and some new corks), that is very high in wine bottles and becomes more relevant if the price of wine grows. PBIB has no risk of cork smell.

Another risk reduced is the risk of broking bottles: BIB is more resistant and less fragile than glass; so it becomes easier sending it by ordinary mail.

Moreover, PBIB promotes a user-friendly daily consumption of premium wine; some companies are producing PBIB with a very attractive and nice looking carton, and this makes them nice to be seen stored in the kitchen.

To sum up briefly, we can say that PBIB can add all the benefits coming from BIB to the benefits coming from the consumption of premium wine; if we think about a drinking

occasion like a party, we can imagine how the easy-to-use container helps people to get more friendly with premium wine as they can serve easily by themselves.

With these premises it is now understandable why, although BIB packaging has been introduced several decades ago, the evidence of this newness can be registered by a shift in consumers' perception and demand. Delicato Winery⁶ reports some data about its customer's profiles: households of two or more people with a total income of \$70,000 and more; consumers under 35 years, who are fascinated by convenience and non-traditional format; consumers 45 years and more attracted by convenience, ease of use, and value. According to Delicato (2005), 91% of PBIB purchases is originated from a consumer that shifts from 0,750 or 1,5 litre size. Many of these evidences related to US market dynamics have been confirmed by the case study explained in the next paragraph.

Case Study: Black Box Wines

A leading role in PBIB growth has been played by Black Box, a company settled in California that collects and bottles wine from many wineries; we have interviewed his founder, Mr Ryan Sproule. Recently Black Box has dealt a production and sale agreement with Pacific Wine Partners. The company was founded in 2002 and the production in 2005 had already reached 1,5 million boxes. The original idea of the founder was to sell premium wine in BIB using not only the supermarket channel but also the specialised wine shops and Horeca.

The new concept emerged during a journey in Europe, where Mr. Sproule observed that on the supermarkets' shelves the BIB was diffused more than in USA. After a few months the PBIB was launched, and its purpose was to combine all the functional benefits coming from the adoption of the BIB solution with the premium wine values.

As a new product and combining lower prices with a nice functional packaging it should be addressed to a different segments of customer: married women aged 30- 40 who buy wine for all the family, restaurants and party organizers, people who have to bring gifts for special dinners. All these consumers segments have something in common: attention to price, necessity of wine properties preservation after the opening and interest in tasting good wines.

The possibility to preserve wine for more days, after having opened the packaging, helps the diffusion of PBIB also in small families. In addition, price is accessible: Black Box PBIB purchase is less expensive than the same quantity of premium wine bottled.

All these elements explained the success of Black Box Wines. Furthermore, the company has not invested in advertising: the success came after winning some awards in wine competitions. The choice of not investing in advertising was taken as a consequence of the high initial investments to found the firm: about 500,000 USD involved all the financial resources available. On the other hand, obviously a first-mover strategy has created a temporary monopoly and generated profits.

A swot analysis for Italian small wineries

After having illustrated the theoretical aspects of an innovation and considered the PBIB as one of the possibilities that a firm can have to look at a market, we need to understand if a PBIB can be an important and real strategic option for Italian small wineries.

The term “Swot analysis” is used by marketing managers and management scientists with reference to the “commonest mechanism for structuring audit information to provide a critical analysis” (Brassington, Pettitt, 2003: 908) in order to understand the chance of development for a sector, land or business. Particularly it considers the strategy as a bundle of actions that (in our case) a firm takes capitalising on its strengths and avoiding or fixing its weaknesses, to respond to opportunities and threats in a certain environment. Sometimes known as TWOS or WOTS-UP (referring to Underlying Planning), the SWOT is built on two different environments: whilst threats and opportunities focuses on the market’s patterns, strengths and weaknesses concerns the internally controlled factors even if in a dynamic context. Therefore, this kind of useful tool is aimed to a better comprehension of objectives and related strategies (in the long term) and actions (in the short one).

Thus, the first and most important step is to clarify the object of analysis: in our case we consider all the small Italian traditional wineries characterized to be family-owned. In fact this is the common structure of wine business in Italy.

Secondly, it is necessary to underline some general factors that have to be considered in order to deal with a foreign market. Italian internal wine sector is affected by an international competition, where “New World” countries are attacking consolidated market share, offering good products at a lower prices or promoting it with new exotic images. Considering this factor together an internal market characterised by a stagnant demand (and the related situation to be saddled with overcapacity) that forces producers to find new strategies to deliver their entire production, Italian small firms are constrained to look abroad. But, is the traditional Italian winery able to operate, for instance, in US? Generally, the main problems they have to deal with are: the understanding of consumers preferences and behaviour, the way the firm is capable to offer competitively attractive products, the managers’ ability to consider the impact of regulations and the political environments of US together with commercial rules and standards required. In other words, to summarize, a firm must consider sociological, technological, economic/competitive and political/legal environments.

Now, according to the Swot tool, we are going to analyze more in depth, strengths, weaknesses, opportunities and threats specifically for Italian wineries that want to export in US a PBIB.

Strengths

Export oriented wine sector

Most Italian companies are export oriented: in the wine business, being a niche producer does not mean not having any contact with foreign markets; on the contrary, many small producers are more appreciated worldwide than in Italy. Being export oriented means having a good knowledge of distribution channels and an important experience in international “game’s rules”.

A huge portfolio of high quality varietals wines

Italy offers a wide range of varietals wines: at the present time wine sold in US in Bag in Box size is Table Wine and it is made of Chardonnay, Cabernet and Merlot. Half of the wine sold in USA belongs to these three big Varietals (according to AcNielsen scanning data 2005, the 56% of wine sold in USA is Chardonnay, Cabernet, and or Merlot); important dynamics are affecting the other varietals. The fourth place in the list of the preferred varietals in the period 2002 – 2004 was yielded by White Zinfandel but it has been recently overtaken by Pinot Gris. It is worth noticing that Pinot Gris is a wine that belongs to a category of product dominated

by imports. One of the driver of this success has been the ability of Pinot Gris producers to answer to the need of trying something new shown by premium and super premium consumers. Italian producers have the chance to launch new products putting together the traditional varieties and new marketing concept.

Weaknesses

Supply fragmentation

In Italy supply is fragmented: there are 790.000 wineries and the area reserved for grape production is the 54% (about 7.128.000 hectares) of the total hectares reserved to agriculture (about 13.200.000 hectares)⁷. As a consequence, wineries are mainly small and there is a big number of labels and wines produced. In this framework it is difficult to emerge and have visibility in the international market competition: even if for quality (or niche) production the firm dimension is not so decisive as in other agriculture productions, in order to be attractive for retailers in foreign market, Italian firms have to organise sufficient quantity of supply. Cooperation within firms could be a solution for a low production.

Rigidity

Firms' rigidity influences the way a company thinks about innovation. In this section we are going to understand what causes rigidity. As demonstrated by Leonard Barton (1992), there is a paradox in firms because core competences simultaneously enhance and inhibit development.

Core competences, as described by Teece et al (1990: 28) are "a set of differentiated skills, complementary assets and routines that provide the basis for a firm's competitive capacities and sustainable advantage in a particular business". When an innovation is introduced, all the four dimensions of a core capability - the skills and knowledge base, the managerial system, the technical system and values and norms- are involved. Lieberman and Montgomery (1988) show that when a competence is institutionalised (when it becomes part of the organization) it may cause an incumbent inertia. If we consider wineries, a source of rigidity is the company's set of value and norms, in other words *tradition*, that, if institutionalised, becomes a constrain. Referring to Italy, we can say that tradition is an institutionalised value for wineries, that are often strictly related to the owners and the family. We are going to study three aspects of wineries that are responsible for rigidity: *family*, *owner* and *managers*. These three roles, even if they are distinct concepts, can match up.

When we talk about family, we refer to the company's founders and their values. Family influences production strategies, such as the varieties choice (planting new varieties), or the decision to be part of the DOC or DOCG system. Referring to Tuscany there are some ancient wineries that still belong to families that played a very important role for the development of the region and its wines (such as Chianti or Brunello). Many of these families have been involved in Consortia's life: it's easy to understand how family tradition influences firm's strategies.

The second element are the current owners: they can belong to the family and be involved in firm's activity⁸. Decisions taken by the owner are influenced by his set of values. It can happen that owners share family's values (this possibility increases if owner belongs to the family).

Thirdly, concerning management skills, new challenges require knowledge that traditional managers may not have. For instance, merchandising the PBIB is different with respect to the bottled wine.

The level of coincidence of the three elements influences a firm's rigidity: if there is a full coincidence, and the three different roles are played by a unique person, rigidity can arise. The identification of the three roles in an unique person can reduce the number and the quality of information coming from the environment, and, especially from customers. As observed by Druker (1985), an innovation can bore, because there is the intention to give to the client what has a value for himself. A manager, that is not fully involved in the family, and that is not a direct stakeholder (as he is not the owner), can be more rational in observing customers and in understanding what is a value for them.

To conclude, we can say that innovation is adopted if it fits to the values and norms of the firm and if owners and manager are pro – innovations and one of the motivations is if management is willing to develop new skills that are necessary for implementing new products.

Opportunities

PBIB market trends

A persistent trend in recent years in the US wine market is that of Bag in Box wine sales. In USA, 2001 Bag in Box wine sales accounted for the 18% of the total⁹; the sizes of Bag in Box are mainly two, 5 and 3 litre. The first change we noticed concerns size: in 2001, the 5 litres market accounted for 95- 98% of the total BIB sales, according to AcNielsen Supermarket Scanning Data. Supply was concentrated in three major companies (Wine Group, Constellation Brand and Gallo). In 2003 the situation was changed: consumers preferences turned into the 3 litre size, and in the period 2003 – 2005, 3 litres sales had a growth of about 160%. The revolution also involves price: the most relevant growth in 2004 was in Bag In Box with a price over 16 USD, that account for the 24% of BIB market¹⁰. We can see the growth of 3 litres BIB sales in figure 4; in particular 3 litres BIB sales in the period September 2003 – August 2005 registered a growth of 170%.

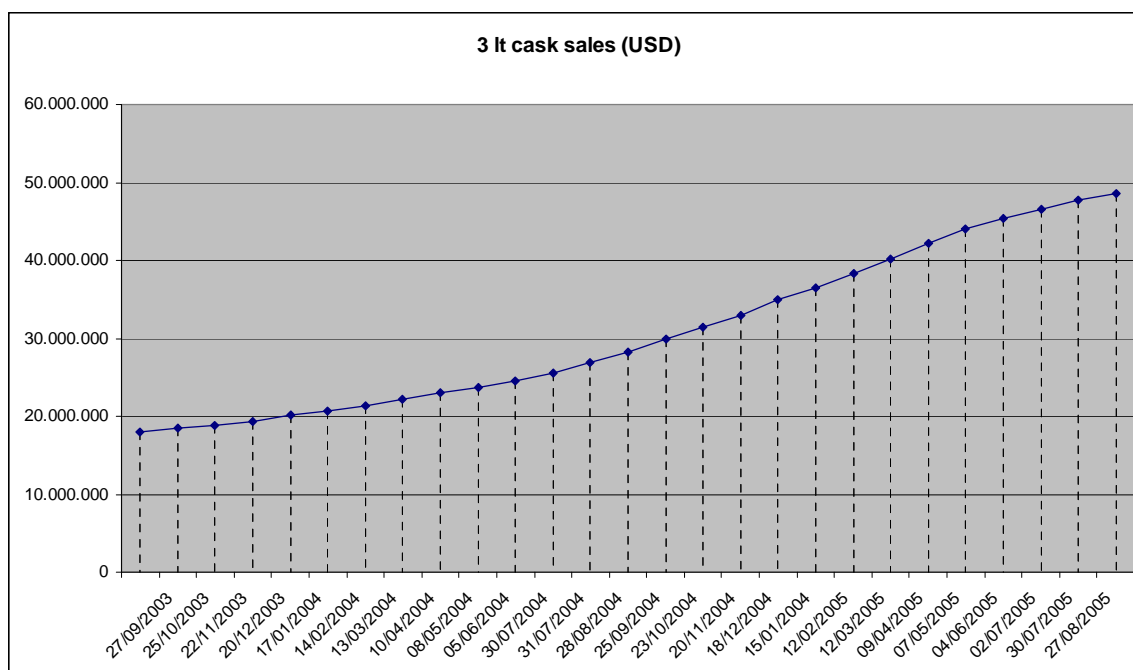


Figure 4, 3 litres BIB Sales in USA (AcNielsen)

In the case of PBIB, the first consumers in USA have already been reached. The presence of PBIB in retailers, an adequate communication programme, and the enthusiastic feedback coming from first consumers have helped PBIB to cross the chasm. The market trend seems to confirm that PBIB successfully got (or it is going) over the chasm (figure 4).

Influences of media trends

Sometimes being small but flexible firms together with an updated study of market trends can give the chance for a competitive advantage. For instance, the Pinot Nero phenomenon and the so called “Side Effect”: in February 2004 the table wine share sold by Food store in USA was 1,2% out of the total; after the release of *Sideways* movie, at the end of October 2004, sales grew up to 1,4%; in May 2005 the DVD was released and sales jumped to 2%¹¹. This is only an example of how trends and unexpected events can affect the winemarket.

PBIB cuts delivery costs

Shelf price is calculated by adding to the cost of production (out of cellar), transport costs, freight and taxes, retail mark up, distributor mark up, importer mark up (depending on the sale channel used). Among other strategies, the use of bag in box helps in cutting expedition costs. For instance, whilst the average weight for a 0,75 glass bottle is 0,37 kg and represents 35% of the total weight of a glass bottle of wine, the weight of BIB, instead represents only the 5% of the total weight; sending 3 litres BIB to USA from Italy is about 13% cheaper than sending four glass bottles¹². Moreover, glass is more fragile than BIB and thus in a delivering, it can decrease the assurance's costs.

US consumers' perception of 3 litres BIB

There is a different perception in the US market in comparison with Italian and European both concerning consumers and distributors. The size of the box makes the difference: 5 litres is perceived as a downmarket wine, and the price for a 5 litres BIB is lower (per litre) than a 3 litres, as shown in figure 5.

Another element that makes of a PBIB an innovative packaging is the way it is merchandised by distributors on the shelves: more similarly to a bottle than a 5 litres BIB, PBIB is not settled on the shelf near a 5 litres BIB. For instance, Albertson (a popular retailer) has a special section for PBIB. The resenting shelves process that is involving many chains, such as Albertson and Kroger, will surely have many consequences on the whole wine distribution system in USA: PBIB is sold with screw cap, because convenience is becoming more and more important in USA market. These differences help Italian companies to maintain their brand equity because entering this market is not a second best solution and the perceived quality level offered by the whole brand can remain the same. In fact, for a company that produces premium wine, selling in a different channel or with a different package can represent a risk to be misunderstood by the target customer and in the long period this can reduce the value given to the firm by stakeholders opinion.

	Avg Price/Unit	Price/Liter of Wine
3.0L Premium Wine Category		
Black Box	\$19,64	\$6,54
Voyage by Origin	\$18,96	\$6,32
Boxing Roo	\$17,52	\$5,84
Delicato Bota Box	\$16,44	\$5,48
Hardy's Stamp of Australia	\$16,40	\$5,46
Banrock Station	\$16,28	\$5,42
Stonehaven	\$16,00	\$5,33
Carmenet	\$15,80	\$5,26
Sutter Home Little Pink Box	\$10,34	\$3,44
Corbett Canyon	\$9,68	\$3,22
5.0L Boxed Wine Category		
Inglenook	\$10,87	\$2,17
Almaden	\$10,44	\$2,08
Peter Vella	\$10,19	\$2,03
Franzia	\$10,02	\$2,00
Cattani	\$9,84	\$1,97

Figure 5, Boxed wines by size and price

Threats

Aggressive supply strategies from New World wineries

There are significant differences in market shares between pioneers and followers. In this paragraph we want to underline the benefits that US firms can get from being first movers, that can be otherwise considered as barriers for me-too firms. This has got consequences even on the PBIB, that runs the risk to be defined as a new world product, as the pioneers were US companies. As shown by Carpenter and Nakamoto (1989), “the pioneer can become strongly associated with the product category as a whole and, as a result, become the ‘standard’ against which all later entrants are judged” (p. 286). When the so called *ideal attribute combination* is ambiguous, consumers perceive the pioneer’s product better than later entrants’ ones. This has got some implication for me-too strategies, that are going to fail when there is an ambiguity in attributes. In the case of PBIB delays in entering in the market would be very dangerous for small firms, as the US PBIB is getting affirmed as the standard model, and it is influencing consumers’ preferences.

Competition based on price

Competition in USA follows several dynamics, but some recent events in wine market, have contributed to create the idea of a competition based on price. In 2003 Charles Shaw, a label bottled by Bronco Wine Co., a company owned by Franzia, was involved in a strategic operation called “Two Buck Chuck”: the packaging promotes the idea of a popular wine that shows a care in some details such as the use of synthetic cork, and foil capsule; the retail price was very competitive, 1,99 USD a bottle¹³ (Posert & Franson, 2004). The success of this market operation that was carried in Trader Joe’s 188 stores, contributed to create and enforce the difficulties that small companies had to face in the attempt of surviving in USA market.

Substitution risk on international market

Being export oriented means that a lot of Italian wines are available on international markets; as a consequence, the substitutability among wines that belong to the same price segment, can

be very high; furthermore the substitutability effect increase the less the buyer is aware and expert. This problem is not often perceived by producers: it happens that the personal involvement of producers in the companies (especially if they are familiar wineries), enhances the idea that their wine is unique and make them deny the possibility that someone could choose indistinctly among their wine and another. In an environment as the one we have described, competition is easier for all those companies that produce famous wines with very important brand, and they are only a few in Italy: the majority of wineries are, instead small companies that do not have a precise strategy or that decided to follow a niche strategy (and sometimes they exasperated the concept of niche), mainly based on the concept of *terroir*; the contraposition between niche and market is a consequence of companies' values. USA market is relevant for the existence of all those small wineries export oriented; their contractual power against retailers and distributors and, widely, the market itself, is extremely weak. Shelf price discriminates the success of a common Italian wine, due to the high level of substitution.

Firms cannot use Denomination if they want to use BIB

In Italy there are 33 DOCG, and there are more than 300 DOC, according to the data released in 2005 by Mipaf. Each DOCG is regulated in production, bottling, treatment grape, and in all the phases of production. Consequently even packaging rules are established and many DOCG do not allow the use of any other packaging apart from glass bottle. Generally speaking, the implementation of box is allowed only for table wines and IGT wines. The role of Denominations was to facilitate commercialization through brand recognition, as remarked by Odorici and Corrado (2004). Now it seems that rules do not encourage trade, because they do not let company to use the package they prefer (in this case the box).

This high protection barrier encourages the export of special wines, a broader category, based on varietals.

Development and diffusion of Italian Sounding wines

The recent diffusion of the so called "Cal Italian" wine makes competition harder. In California there are many firms that produce wine made with Italian Varietals Grape, such as Barbera, or Sangiovese, such as Franzia. These companies can offer a boxed wine that looks Italian at a very low price. Small Italian companies cannot face their strong competition because often the US consumer is not well informed about the mechanisms of Denomination of Origin system and more generally in recognition of the authenticity of Italian products.

Conclusions

PBIB promotes a new marketing concept of wine: the case of Black Box explains the several reasons that justify the buyer choice of PBIB. The final result of this product innovation is an easier, cheaper and more palatable consumption of premium wine for the US consumer: the association of good quality wine with a daily use brings to a growing popularity the brands that have already launched their products on the market.

The success of Premium Bag in Box innovation provided Black Box a temporary monopoly, that has generated profits. As a pioneer, Black Box played a very important role for follower companies: Italian wineries should consider the hypothesis of implementing a "me-too" strategy in order to get benefits from this important growing market.

The biggest problem for these companies is rigidity that influences both a truly perception of consumers' preferences and the difficulty of implementing new managerial skills that remain

too much related to those old factors of success (such as DOC, *terroir*, and the role of family) that are no more sufficient to survive in a competitive market.

We should also underline the role of distributors: the strategies adopted by US distribution could soon affect European markets, such as UK, where there is a good perception of boxed wine (and UK is another important market for Italian wines); latest investments made by US distributors in Europe, suggest that PBIB could really become a global phenomenon in a few years.

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Notes

¹ Source: ICE 2005, <http://www.ice.it>

² Agrisole, 2005, april, n.13 (<http://www.agrisole.it>)

³ According to Rabobank (2003) premium wines are those with prices included in a range of 5-7 Euros for a 0,75 bottle. In this article we refer to a general idea of Premium Wine rather than an exact range of price that moreover is sensible to currency change

⁴ Brassington, F. & Pettitt, S. (2003), *Principles of Marketing*, New Jersey: Prentice Hall International Editions

⁵ Several definitions of innovation exist in marketing and management fields. For a complete review of these definitions see Shilling (2005). This author classifies innovations in four groups: the first dimension focuses on its nature and more specifically if it concerns product or process. The second group enhances the intensity of the change produced and defines innovations as radical or incremental. Under the competence perspective, innovation can be classified as competences enhancing or competences destroying. The last aspect to be observed is if innovations are modular or architectural.

⁶ We are referring to data released by Delicato Winery during the symposium “The innovators Showcase” that took place in Napa, California on the 27th October 2005; http://www.nextinwine.com/docs/Delicato_AIWP.ppt

⁷ Source: Istat , Census 2000

⁸ A strictly related problem is the proportion of elderly people in the ownership of agriculture firm. For instance, only 2% of entrepreneurs in Italy has less than 30 years.

⁹ Source: World Wine Report, 2001 (Wine Business Monthly)

¹⁰ Wine Business Monthly; the figures refer to volume of sales scanned by AcNielsen and to shelf prices.

¹¹ AcNielsen, 2005

¹² To collect data about BIB and glass packaging costs, we have visited container producers' web sites, such as Rapak (www.rapak.com)

¹³ According to Trader Joe's different prices could be found in different states, as the price reflects taxes and costs for shipment