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Postponement Practices in the Wine Industry: Comparison of Adaptation and Attitudes between California and Bordeaux

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Abstract

Purpose: *With worldwide growth of exports and private label brands, wineries must allocate production across an increasing number of sales channels before demands are known. Misallocation may simultaneously result in surpluses in some channels and lost sales in others. Postponement, the purposeful delayed differentiation of products, could help with this problem, and this strategy is used in other sectors. Yet extant research documents few success stories from food and beverage producers. We explore what factors may contribute wineries' use of postponement. In particular, how do wineries from a region with a tradition of managing multiple sales channels differ than wineries from newer regions?*

Approach: *We survey wineries in California (N=142) and Bordeaux (N=275) on current practices and predictions with respect to exporting, private labelling, and postponement.*

Findings: *Based on survey responses, Bordeaux wineries are more likely to export than those in California, but the latter anticipate greater export growth. While Bordeaux wineries are more likely to support multiple brands than those in California, the California wineries are more likely to source private label wines. In both regions, wineries with multiple sales channels are more likely to postpone. Postponement is practiced more extensively in Bordeaux than California, but at a shallower level.*

While this research is exploratory, possible practical implications follow. As the California wine industry matures, postponement usage is likely to increase, even if wineries themselves do not yet recognize the need for such practices. Also, labelling-level postponement may be sufficient to support expanding sales channels.

Key words: Survey, Postponement, Exports, Private Labels

1. INTRODUCTION

1.1. The Proliferation of Sales Channels

A new winery may bottle its wines under its own brand for sale in the local market. However, as wineries develop, they may add sales channels, often with different packaging and labelling requirements. Wineries may sell under a variety of brands, including second labels. In particular, the growing consumer acceptance of retailers' house brands has led growth in private label (Marque de Distributeur or MDD) wines and also co-labelled wines, wines bearing both the producer and retailer names. Likewise, the global wine trade continues to expand, even within within regions that have not traditionally supported exports. In order to export, wineries may need to translate labels or meet other requirements specific to the target market. Wineries everywhere face a growing need to manage multiple sales channels.

1.2 Postponement as a Channel Management Tool

With these opportunities come burdens, as wineries must allocate production across multiple sales channels before demand is known. Misallocation may result in surpluses in some channels and lost sales opportunities in others. A winery may hedge against demand uncertainty by postponing the finishing processes that differentiate each channel's products. While such delay may result in more complex production processes, as intermediate inventories must be stored and then finished at a later date, more flexibility results. Postponement is an established strategy in many industries; Van Hoek et al. (1999) provide examples from a variety of sectors, including a food producer that utilizes deferred packaging at a regional warehouse near the destination market.

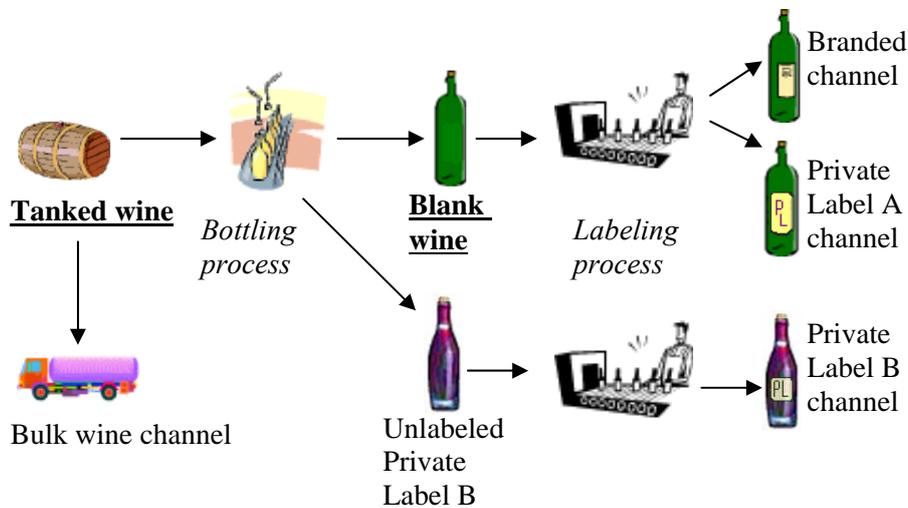
Many approaches to postponement exist; Zinn and Bowersox (1988) define the levels of form postponement: *manufacturing*, *assembly*, *packaging* and *labeling*. No specific mention of wine production and distribution is made, but the authors state the circumstances that may make different levels of postponement appealing to winemakers. While manufacturing postponement is not feasible for an agricultural product with a specific growth and harvest cycle such as wine grapes, assembly postponement may be appropriate for channel-specific or target market-specific blend recipes: perhaps a winery may adjust percentages of component varietals to meet the tastes of consumers in different export markets. Packaging postponement is appropriate when the product is sold in multiple sizes or formats, such as 750ml bottles versus magnums. Labelling postponement should be considered when the product is marketed under several brands utilizing the same bottling format. Delayed boxing and palletizing wine as appropriate for the intended destination can be considered as a final type of postponement.

1.3 Barriers to Postponement and the Motivation for this Research

While postponement has been shown to improve efficiency as early as 1950, industry adaptation has been slow, with implementations predominantly in the automotive and high technology sectors (Yang et al., 2005). Agribusiness, in particular, has been cited by Van Hoek (1999) as one of the least agile adapters. Cholette (2009) considers a hypothetical

winery, as shown in Figure 1, with four distinct demand channels and demonstrates holding aside a portion of unfinished inventory, either at the labeling or bottling stage should significantly improve profitability when channel demands are uncertain, few other papers document actual practices by wineries. Yet a survey of California wineries (Cholette, 2010) shows that while some engage in some form of postponement, but that, overall postponement is not widespread or perhaps even understood. While immigrants in California have been making wine for centuries, prohibition and other obstacles have prevented Californian winemakers from having more than a few decades of engaging in sophisticated channel management strategies. We posit that a more established wine region may approach postponement different. We thus turn to Bordeaux, a region with its millennia of exporting and use of secondary labels. The research methodology, the exploratory findings, implications for practice and recommendations for further research follow.

Figure 1: Postponement and Product Differentiation



Source: Cholette (2009)

2. METHODOLOGY

2.1. Survey Design

Wineries from two regions are surveyed, California (US) and Bordeaux (France). The California survey instrument is shown in Appendix A. To encourage participation the survey is comprised of only 13 questions. Most questions are formatted to be either yes/no/NA (not applicable) or a yes/no/"no opinion" multiple-choice selections to make the survey simple, quick, and reduce the possibility of respondent error. Although it may seem inappropriate for yes/no questions, the N/A response was purposely included to encourage respondents who were unsure about their winery's status or confused by the question to select this option. During the translation into French for the Bordelaise wineries, a few questions were added. While these surveys are not identical, they overlap either directly or implicitly for the questions of interest to this research paper

2.2 Survey Methodology

As with the instruments, the survey methodology differs by region. This difference better permits the research to be conducted independently by separate researchers, as appropriate to the resources available. While the surveys were administered with a separation of two years, we anticipate little temporal distortion in the results.

We first target the population of wineries within California. The sample frame is the 1480 wineries found in the leading industry directory (Wines and Vines, 2006) that provide email addresses. According to Wine Institute (2008) statistics our frame represents 60% of the state's wineries. Each of the potential participants was emailed a letter in April 2008, requesting completion of the survey via an embedded link to Zoomerang. Incorrect or outdated information resulted in 124 emails bouncing. Three wineries with privacy concerns refused to participate. A few responses indicated that their businesses were misidentified as wineries, and, thus, that survey would be inapplicable. No follow up of non-respondents occurred, preventing further accounting for any non-response bias. It could be expected that wineries completing the survey are more likely to engage in exporting, private label, or postponement practices than a true random sampling of wineries. Yet no incomplete surveys were received, so wineries did not abandon the survey after discovering that they did not engage in the practices studied. Our 142 complete responses result in a 10% response rate. While low, it is favorable to other large scale internet based surveys such as that of Skjoett-Larsen et al. (2003) who receive 218 responses, for 8% response rate on a study of CPFR practices. More details on the California survey methodology are found in Cholette (2010).

We next contact 1378 Bordeaux wineries from an industry database; these 1378 comprise more than 15% of all Bordeaux wineries and are representative for the region in terms of size and operations scale. A team of students working towards a group project in Spring 2010 contacts participants via telephone. Lost participation results from a variety of reasons such as wrong numbers, unanswered calls, or respondents unable or unwilling to answer questions. A total of 275 complete responses are represented, resulting in a respectable response rate of 20%. As with the California respondents, there may be some non-response bias. The full details of the survey methodology are found in Berger (2010).

3. FINDINGS

We present the results from California and Bordeaux side by side to explore regional differences in practices and predictions. As findings include almost twice as many Bordeaux wineries as California wineries, comparisons are presented in percentage terms. While the nature of the survey instrument forces California wineries to respond to all questions, some of the Bordeaux respondents occasionally do not respond to questions, so percentages may not sum to 100%.

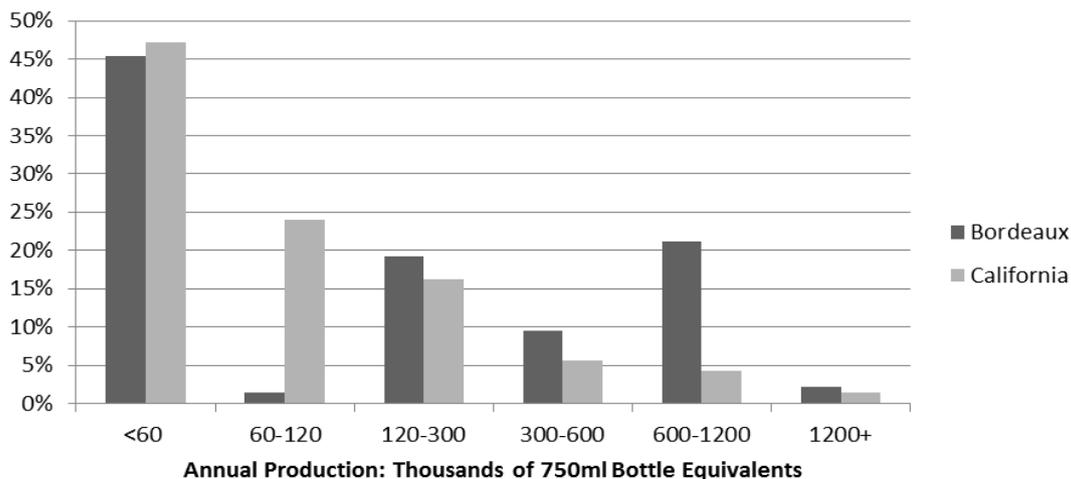
3.1 Winery Size

The size of a winery is likely to influence its propensity to engage in many practices that we ask about. In particular, due to economies of scale, market reach and firm maturity, we would expect larger wineries to be more likely to export and support multiple sales channels.

We suspect they would also be more likely engage in postponement practices. Thus, it is important to consider whether the samples are representative of their population. Figure 2 presents a percentage breakdown of the wineries size, as measured by annual output of 750ml bottles. Although no definitive information is publically available for the population distribution for California, Cholette (2010) shows that the respondent distribution is comparable with those from other state winery surveys. Data published by the Interprofessional Council of Bordeaux Wines (CIVB, 2009) and the analysis presented in Plan "Bordeaux tomorrow" (2010) show that the results of the collected sample of Bordeaux region reflect the true size distribution of Bordeaux wineries.

Figure 2 shows that almost half the wineries in both regions fall within the smallest size category, and very few can be categorized as large (more than 1.2 million bottles of annual production). While the percentage of California wineries monotonically decreases by size, in Bordeaux, a fair number of wineries are of medium size. In fact, the second largest size group in Bordeaux produces between 600 to 1200 thousand bottles per year. Over the last few decades Bordeaux has experienced consolidation; the number of independent producers decreased from 20,000 in 1987 to 9100 in 2008 while, in the same time interval, the average AOC vineyard area increased from 5 ha to about 15ha (CIVB, 2009). While a greater proportion of larger respondents are found in the Bordeaux sample, the two groups of respondents are roughly comparable by size. We do not define sizes below 60,000 bottles, as we expect very small wineries will likely not engage in most of the practices surveyed.

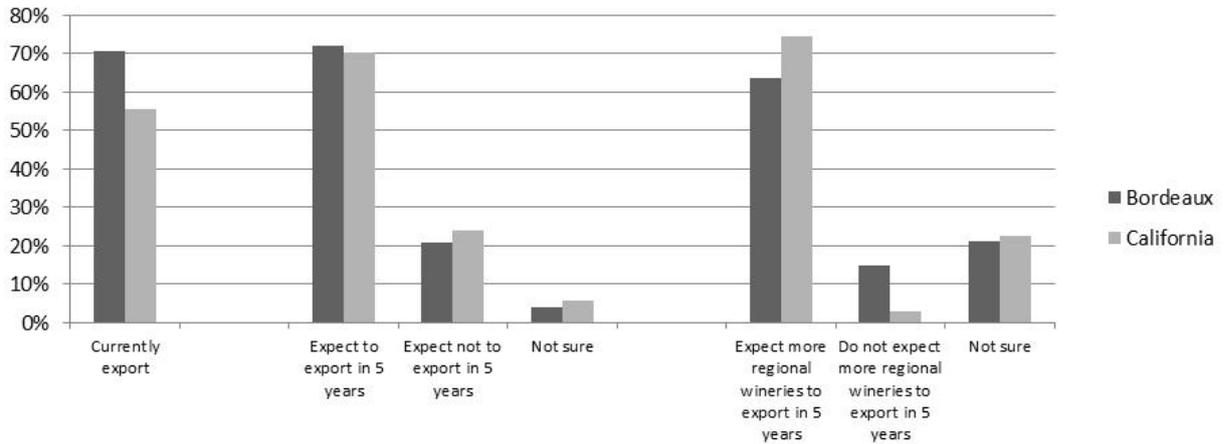
Figure 2: Sizes of Bordeaux and California Respondents



3.2 Summary of Exporting Practices and Expectations

Figure 3 summarizes the responses for wineries in each region with respect to their current and anticipated future exporting practices, and also predictions for whether more wineries in the region will export in the near term. A slight majority (56%) of the California respondents export compared to 71% of the Bordeaux respondents. However, Bordeaux wineries do not anticipate greatly expand exporting practices in the next 5 years, with only a 1% increase expected within the group, compared to a 14% increase for California.

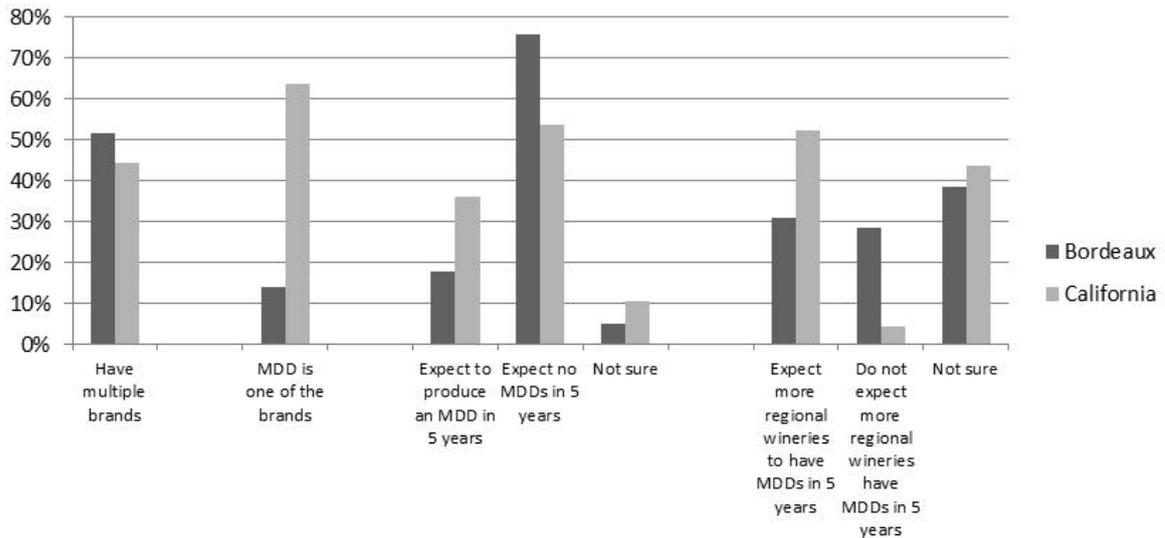
Figure 3: Exporting Practices and Predictions, by Region



3.3 Secondary and Private Labeling Practices and Expectations

We next consider secondary labeling practices, where Figure 4 summarizes the related survey responses side by side, revealing some interesting differences between the regions. Bordeaux wineries are more likely to produce multiple brands, with a slim majority (52%) of the respondents having more than one brand, compared to only 44% of those from California. However, when asked whether any of those multiple brands are private label/Marque de Distributeur, MDD, very few (14%) of the Bordelaise respondents with multiple brands had them, compared to a strong majority (63%) of California respondents with multiple brands. Although the tradition of second labels is associated with Bordeaux, it is still surprising to see such a strong difference between the regions.

Figure 4: Secondary and Private Label Practices and Predictions, by Region



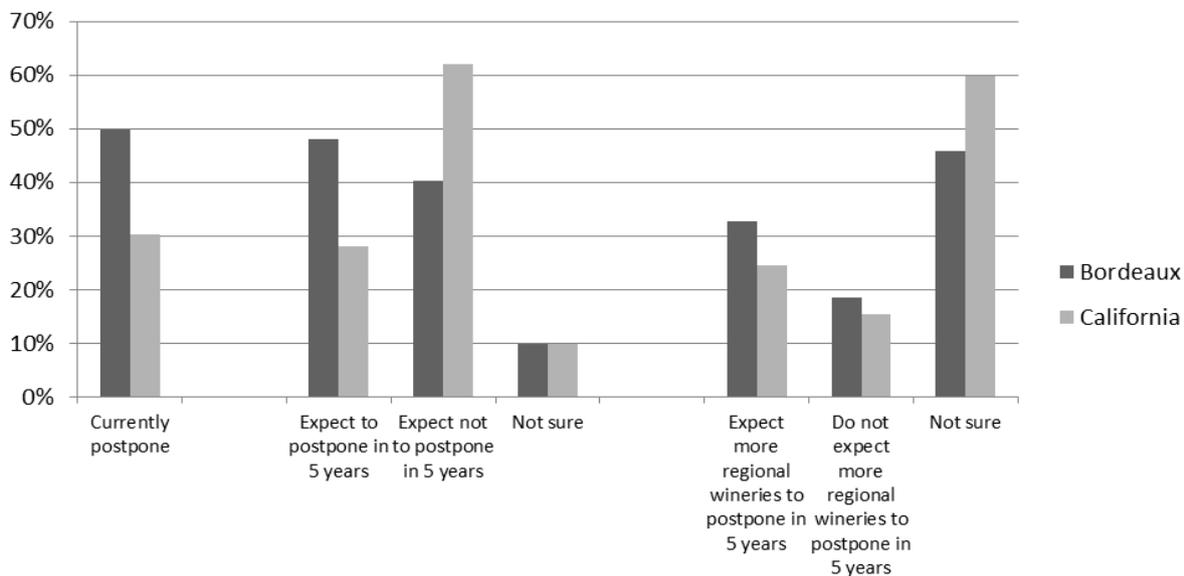
When asked for prediction, Bordeaux winemakers seem lukewarm to private label wines, only 18% of the respondents expect to produce a private label wine, an increase from the 7% who currently do. In a question specific to the French survey instrument, Berger (2010) notes only 4% of the Bordelaise respondents sell more than 10% of their wine through the MDD channel. Californian respondents are likewise not enthusiastic about this channel; only 36% of respondents expect to have a private label in 5 years, a modest rise from the 28%

who currently do. As seen by the last column in Figure 4, respondents in both regions had less certainty about regional growth in sourcing private label wines. Nonetheless, 52% of California respondents and 31% of the Bordeaux respondents expect more wineries in their region to produce private label wines. Comparing these figures to the low responses to the prior question, it appears both groups recognize that private labeling is a growing channel, but they prefer to leave it to neighbors. Private labeling is not the most desirable sales channel from a winemaker's perspective, with lower profit margins and prestige and the danger of the private label retailer switching to another winemaker. We would expect California wineries would rather sell their excess or less select wines as *second vin* rather than as MDD.

3.4 Postponement Practices and Expectations

Our final survey results that can be compared across regions relate to postponement. Figure 5 shows that half of the Bordeaux respondents practice some form of postponement, compared to the 30% of the California respondents. There is not much enthusiasm for the practice, as respondents in both regions expect a slight decrease in future practice, and the most popular response for predicting neighbors' adoption of the practice is "not sure." While it might be expected that larger wineries are more likely to postpone than smaller ones, an examination of the Bordeaux responses does not suggest size matters greatly: the rate of postponement ranges between 49% and 56% in all size categories with more than 6 participants without apparent correlation to production volumes. As discussed in Cholette (2010), while a greater percentage of the medium to large California respondents use postponement, the small number of total participants engaged in this practice prevents much more than speculation.

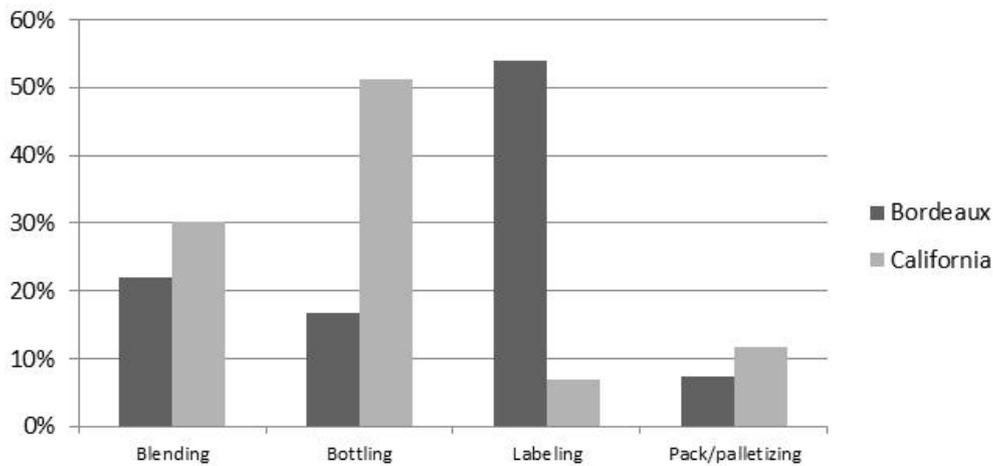
Figure 5: Postponement Practices and Predictions, by Region



Considering the wineries that postpone, we survey at what stage they start. Figure 6 shows that practitioners of postponement in California are more likely to postpone early, at the blending or bottling stage, whereas the majority of Bordelaise postponement practitioners wait until labeling. This result contradicts the accepted wisdom among postponement experts, which is that firms with more experience and sophistication in their operational processes tend to postpone earlier in the production process. For example, Van Hoek (1999) finds not only that food companies lag behind other sectors in adopting postponement, but also that

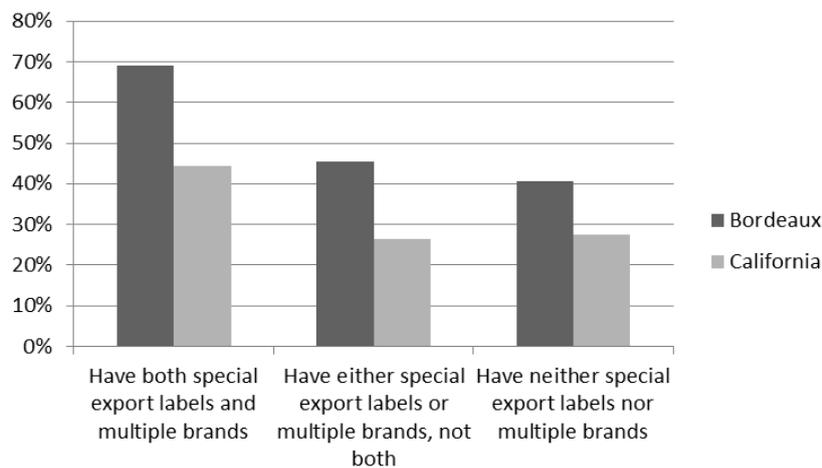
their level of postponement is often the most shallow, occurring at the very end of the production process, with the implication that this illustrates the relative inexperience in the sector.

Figure 6: Stage of Earliest Postponement, by Region



Wineries with multiple sales channels requiring product differentiation should be more likely to postpone. Such sales channels would include specially labeled exports and multiple brands. Figure 7 categories wineries as to whether they support both special export labels and multiple brands, only one of these channels or neither of them. Two results stand out; first, wineries with multiple channels are more likely to postpone. Next, postponement usage is greater in Bordeaux than in California for all three categories.

Figure 7: Use of Postponement and Presence of Differentiated Sales Channels, by Region



4. CONCLUSIONS

4.1. Practical Implications

Two implicit assumptions of this research are that the California wine region is in transition and that this transition may lead it to adopt the practices of a more established wine region, such as Bordeaux. Our exploratory survey supports this assumption to a certain degree; California respondents anticipate exporting practices to grow in the next five years,

whereas Bordeaux respondents have expectations that are closer to stability. Both regions converge upon an expectation that around 70% of the local wineries will export.

In both regions there is less enthusiasm for private labeling, but an expectation that it will increase. Private label wines, while less prestigious and profitable than branded wines, do represent a valid sales channel for wine that might otherwise go unsold. Despite the worldwide growth of private label wines, Bordelaise respondents have multiple brands, yet report using private label channels less than their Californian counterparts. Perhaps Californian wineries may be able to emulate the Bordelaise in using a *second vin* to allocate excess or less choice wine. Of course, such practice still requires effective channel allocation.

Although the level of enthusiasm for or awareness of postponement is not high in either region, the greater percentage of Bordelaise respondents, especially those who manage multiple sales channels, utilize this practice. As more California wineries export and, potentially, engage in private labeling or secondary labels, they will likely face allocation problems. Additionally, Bordeaux wineries that do export report higher usage of special export labels, perhaps due to exporting to a greater variety of countries. Thus, it seems likely that California wineries, despite their lack of enthusiasm for or knowledge of postponement, may soon adopt this practice. While postponement practices are more pervasive among Bordeaux than California respondents, as expected, we find that the level of postponement practiced in Bordeaux is shallower than in California, predominantly at the stage of labeling. Despite what some academic literature may suggest, perhaps a simpler implementation of postponement is appropriate within the wine industry.

4.2. Recommendations for Future Research

By design this research is exploratory, and brief surveys have inherent limitations. In particular, little to no opportunity exists for clarifying why particular practices are followed or opinions are expressed. Engaging in a more in-depth investigation with a smaller group of participants, perhaps in a focus group, would result in a deeper understanding of the industry perceptions of postponement and private label practices.

This study compares only two regions. We plan to expand this interregional study by including additional regions. In particular, we expect to be able combine survey results from some wine producing areas in Italy. Through evaluating the practices and attitudes of additional regions we hope to improve our understanding of how the wine industry is evolving worldwide and predict the operational strategies that will be necessary for support.

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Appendix A: Survey Instrument

1. What size is your winery, in 9-liter caseⁱ annual sales? (*select one*)

Fewer than 5,000 cases	
5,000 to 9,999 cases	
10,000 to 24,999 cases	
25,000 to 49,999 cases	
50,000 to 99,999 cases	
100,000 to 499,999 cases	
500,000 + cases	

Exports

2. Does your winery export? **YES NO N/A**
 3. If so, do your exports require different labels/packaging? **YES NO N/A**
 4. Do you anticipate exporting in the next five years? **YES NO N/A**
 5. Do you anticipate that more California wineries will export in the next five years? **YES NO No Opinion**

Other Brands

Note: We define *Private Label* brands are those owned by a retailer or off-premise channels, such a supermarket's or restaurant's house brand. Co-labeled brands include the winery's name.

6. Does your winery bottle multiple brands? **YES NO N/A**
 7. If so, are any of these brands private label or co-labeled wines? **YES NO N/A**
 8. Do you anticipate having private label or co-labeled brands in the next five years? **YES NO N/A**
 9. Do you anticipate that more California wineries will have private label or co-labeled brands in the next five years? **YES NO No Opinion**

Postponement Practices

Note: We define postponement as holding wine at an unfinished stage to better meet market demands.

10. Does your winery engage in postponing the finishing of wine? **YES NO N/A**
 11. What is the earliest stage of postponement? By earliest stage, we mean at what point do you first purposefully delay activities. (*select one*)

Blending of wines	
Packaging (Bottling)	
Labeling	
Packing (Boxing/Palletizing)	
N/A- no postponement	

12. Do you anticipate engaging in postponement in the next five years? **YES NO N/A**
 13. Do you anticipate that more Californian wineries will engage in postponement in the next five years? **YES NO No Opinion**

Optional Identification Section. We realize that you may value your privacy and may wish to return the survey anonymously. Please feel free to do so and skip the last question.

14. Would it be okay to contact you for follow-up questions? **YES NO**
 If yes, please provide an email address: _____

ⁱ American cases are 12 bottles. The French survey uses 750ml bottle equivalents, as cases are often 6 bottles.