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Sustainability in Strategy: Maintaining a Premium Position for New Zealand Wine

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Abstract

Purpose*:* To situate sustainability within research and practice on long-term business strategy. We do this through the concept of business models and explore how firms in an industry adopt environmental sustainability in their strategies.

Design/methodology/approach*:* We discuss recent research on business models and relate it to the context of the global wine industry. Through the lens of one national industry, we explore the concept of sustainable business models and how firms can adapt their value-creating business models to address key threats and opportunities.

Findings*:* We present some parameters for firm and industry level strategic options and choice. We identify a number of theoretical issues of definition to be resolved and find that, whilst sustainable winegrowing might provide a new focus at an industry level, it remains

unclear whether this will become a threshold capability rather than a source of competitive advantage - that is, an entry level requirement to compete rather than a basis on which to outperform the competition as a factor for which customers are prepared to pay.

Practical implications: Business models are highly significant but poorly understood. Further research in this area, especially international, firm and regional level comparisons, will help managers to operate consciously from a model of how their entire business system works and to change their strategies to address global industry and market dynamics. This is particularly relevant for smaller industries such as New Zealand which is facing unprecedented problems of profitability and defence of its premium niche.

Key words: Business Models, Sustainability, Strategy, New Zealand

1. PURPOSE

Long before environmental sustainability became a key business issue, the focus in business strategy research and practice was on sustainable strategies - that is, long-run competitive success (Hamel & Prahalad, 1994; Porter, 1980). This paper seeks to situate the former, the newer concern of environmental sustainability, within the latter. We do this through the emerging literature on business models (Baden-Fuller & Morgan, 2010; Nenonen & Storbacka, 2010) and how firms adopt environmental sustainability factors in their strategies. Using the example of the New Zealand wine industry, we outline some key challenges for firms in the industry, focussing on the strategies of value-creation through Brand "NZ Wine" and Sustainable Winegrowing NZ (SWNZ), and offer suggestions for future research on business models in the global wine industry. From a largely volume-driven orientation in the 1980s, the New Zealand wine industry has developed its reputation for producing some of the world's finest wines through a niche product differentiation strategy. NZ white wines have been particularly successful, with its flagship varietal Sauvignon Blanc historically retailing at margins exceeding those of any other wines sold, particularly in the critical UK market (Robinson, 2008). However, some New Zealand wine companies, in common with firms in the sector worldwide, face problems of profitability which threaten the very survival of their businesses. Our paper explores how NZ wine companies are adapting their value-creating business models to address global wine industry trends, such as maintaining demand for its highly-regarded premium wines in the face of fast-growing global competition. Global trends in the industry influence all firms but the local response in this illustrative national industry case example (Siggelkow, 2007) prompts a wider research agenda. The paper proceeds by first examining the concept of sustainability in strategy and parameters that influence the selection of business models by firms in the industry. We contribute to a gap in the emerging literature on business models, with analysis at an industry as well as a firm level, and analysis of the impact of global strategic issues on the New Zealand wine industry guides suggestions for further research.

2. BUSINESS MODELS AND STRATEGY

At a theoretical level, a number of research issues are embodied in the concept of business models. Business models are used to express concrete observations as well as ideal abstractions of businesses (Baden-Fuller, Demil, Lecoq, & MacMillan, 2010), as a 'role-model/exemplar/ideal type' (Baden-Fuller & Morgan, 2010), to describe firms 'as if they were scale models', or are put forward as 'recipes' (Spender, 1989) to follow, adapt and innovate (Baden-Fuller & Morgan, 2010). Recent research at the forefront of business model conceptualisation in strategy considers definitions and approaches, making the distinction between business models and strategy (Casadesus-Masanell & Ricart, 2010; Teece, 2010), their emergence, and key success factors in their implementation and change, especially around innovation – whether fine-tuning or radical adaptation (Baden-Fuller & Morgan, 2010). Whilst there is a lack of research consensus on the components of a superior business model, the strategic management discipline has begun to focus on the business model as a determinant of firm performance and value-creation processes (Nenonen & Storbacka, 2010; Sánchez & Ricart, 2010; Zott & Amit, 2008).

Business models are highly significant to business organisations 'but are poorly understood – frequently mentioned but rarely analysed' (Teece, 2010). Changing business models involves issues of opportunities and barriers, the role of learning, strategic agility and foresight. Importantly:

> the ability to take advantage of these structural changes [globalization, deregulation and advances in ICTs] by innovating in business models can explain firm's [*sic*] current and future competiveness (Sánchez and Ricart, 2010: 139).

The term 'business model' has been much used and abused (Magretta, 2002), being interchangeable with 'strategy'. A simple definition sees them as stories that explain how enterprises work, answering such fundamental questions as who are the customers and what do they value (Magretta, 2002). Zott and Amit's definition is informed by configuration and design: "a structural template that describes the organization of a focal firm's transactions with all of its external constituents in factor and product markets" (2008:1), though the focus of a business model is external, on the firm's exchange with its partners. Definitions converge upon analysis, value-creation, a focus on external linkages, especially with customers, profitability, resources, processes and strategic choice (Casadesus-Masanell & Ricart, 2010; Sánchez & Ricart, 2010; Teece, 2010; Zott & Amit, 2008). Crucially:

> the perspective based on business models emphasizes the importance of interdependencies in the firm's performance and productivity (Sánchez & Ricart, 2010: 140).

A successful business model represents a better way than the alternatives and, when used correctly - that is, as a planning tool - it forces managers to think rigorously (Magretta, 2002). It is not a strategy: it describes how the parts of the business system fit together though it does not take competition into account (Magretta, 2002). A sound understanding of one's business system is one thing, but out-performing the competition relies on positioning, which is conceptual rather than financial (Teece, 2010).

Business models link activities in the value chain, relating stories to numbers – projections, forecasting, spreadsheet analysis and assumptions. When managers operate consciously from a model of how their entire business system works, every decision provides valuable feedback, so that:

> Profits are important not only for their own sake but also because they tell you whether your model is working. When business models don't work, it's because they fail either the narrative ... or the numbers test (Magretta, 2002: 89-90).

To clarify the relationship between business models and strategy, the former is more generic than the latter but the two should be analysed together, according to Teece 'to protect advantage resulting from new business model design' (2010: 179). A business model may be explicit or implicit but focuses on 'deep truths' about customers' needs and their willingness to pay, how value-creation is structured - created, delivered and captured - and is rooted in a specific context (Baden-Fuller & Morgan, 2010; Teece, 2010). In terms of context, Casadesus-Masanell & Ricart (2010) clarify that a firm's strategy involves the choice of business model and that in stable competitive environments the two may be closely related, making differentiating between the two problematic. When external factors force the strategic choice of a new business model, however, the two concepts can be clearly seen to differ (Baden-Fuller & Morgan, 2010). Taking the analysis of the environment further, the interaction between management actions and environmental trends is in permanent disequilibrium and firms need the capability 'to build and sustain their performance while changing their business model at the same time' (Demil & Lecocq, 2010).

The links between marketing and strategic management are brought together by Zott and Amit (2008), who find that the business model is a 'valid and distinct construct' from a firm's product market strategy but that the two are complementary. They go further, and empirically show their joint impact on firm profitability, finding that:

> novelty-centered business models [as distinct from efficiency-centred] – coupled with product market strategies that emphasize differentiation, cost leadership, or early market entry – can enhance firm performance (2008: 1).

Whilst arguing for this complementarity, and for a wider view of the boundaries of the firm and the context of its strategy, Zott and Amit (2008) take a narrow of view in terms of 'how to compete' rather than how to interact. Nenonen and Storbacka (2010) propose a wider framework of 12 inter-related components of a business model, design principles, resources and capabilities as they each relate to market, offering, operations and management, and propose that they should be seen as constellations of design elements that are orchestrated by a single theme to co-create value for customers and providers (2008: 52). We see business models as very much embedded in a broader network or business system (Araujo & Easton, 1996; Moore, 1996; Whitley, 1999), as value-co-creating (Nenonen & Storbacka, 2010: Normann & Ramirez, 1993; Ramirez, 1999; Srivastava, Shervani et al., 1999; Storbacka & Nenonen, 2011) and that the parameters for managerial understanding may be local, regional, national or global, but should be further researched at an industry rather than only at firm level. There may be a tendency for business model research to focus overly on the firm, albeit within a wider focus on co-creation of value, rather than the collective and collaborative. Our intended contribution is to add these collective industry dimensions to research on business models.

3. NEW ZEALAND WINE INDUSTRY 2010

3.1. Overview

We first assess the current business models among New Zealand wine companies and the local and global context for change. In common with enterprises in the sector worldwide, New Zealand wine companies face major problems of profitability. The business models which have worked for them in recent years, with new product development, innovation, and market development driven primarily by growth in production volumes of Marlborough Sauvignon Blanc (MSB), no longer serve the industry well and require adjustment. In response, companies in the industry are changing their value-creating strategies and adopting business models ranging from addressing internal cost efficiency rather than innovation, to low price (but not necessarily low cost) rather than quality focussed differentiation, and even moving to bulk/commodity positioning. Some have responded to the twin challenges of financial precariousness and maintaining a premium position by resisting bulk trading in international markets, but others have not. There is no 'one size fits all' and, whilst there is a symbiosis of business model diversity at the industry level, at the operational level there are concerns about its long-term direction which may resonate with other players in the global industry.

In diagnosing the current situation of the NZ industry Deloitte (2010) reports declining profitability, decreased grape prices, high inventory levels and high debt among New Zealand wine companies. Smaller wineries especially ($0-$1m of revenue) face unprofitable case sales and competitive pricing which prompts expectations of further cost reductions to move to 'a more sustainable business model' (2010: 9), although Deloitte observes that costs have been reduced so much in recent years that any further cuts will substantially affect profitability even more. Overall, Deloitte finds a clear split in the proportion of income from net case sales between smaller and larger wine companies ($5m plus), with smaller ones having greater volumes of sales in grapes and bulk wine sales in comparison with 2009. The lower price of bulk wine and grapes returns even less for wineries under $5m in revenue. Bulk wine sales, on the other hand, have not become significant for larger companies. It would appear that the larger firms have had the most to lose from 'dumping' of bulk wine, through the potential damage to New Zealand's quality reputation, and have 'managed the situation carefully'. Variation between the best and worst performing firms has increased from 2009-2010 such that the variation is much less among large firms than among small: e.g. firms of $0-1m of revenues range from 52% loss to 31% profit with an average 31.9% loss; $10-20 of revenue – 4% loss to 2% profit – average 1.2% loss; $20m+, 1% profit to 38% profit – average 7.8% profit (Deloitte, 2010). High inventory levels are a problem but companies below $20m of revenue have reduced production although the $20m+ category has increase production and has rising inventory levels – the impact of the large firm releasing this inventory will maintain price pressures, especially for the smaller wineries. However, a number of wine businesses in each category generate a reasonable return, prompting Deloitte to argue that:

> there are viable business models to suit wine businesses of various sizes and circumstances" (2010: 15). ...: "Any decrease in the price achieved has a knock on impact throughout the industry and has the potential to cause significant pain. It is considered that cases of this are already occurring (2010: 19).

Rather than struggling to meet demand as in the past, the New Zealand industry now faces being a price taker, according to Deloitte, with the global recession and the high NZ$ squeezing companies further in the near future. To address the industry's future, the two key collective strategies being pursued by the industry body and its member companies are sustainable wine production and new market development which are discussed next.

3.2. Sustainable Wine Growing

In terms of strategic developments, the New Zealand wine industry sees itself as a leader in wine sustainability, which is:
An integrated part of our access to international markets and distribution channels as well as our positioning with consumers and retailers (NZW, 2010: 7).
The main platform for this is the Sustainable Wine Growing New Zealand (SWNZ) programme. Begun in 1994, the industry aims to have 100% of wineries accredited to this independently audited sustainability programme, which currently encompasses 93% of the vineyard area and 85% of production, by 2012. Some of the key aspects of the programme include: a Scorecard system for measurement, benchmarking and reporting; the Grape Futures project research programme for nil residue wine grape production; the web-based Greenlight spray diary tool for management and analysis; a Winery Waste Code of Practice, including sustainability indicators; and NZW's MoU with Organic Winegrowers NZ (NZW, 2010). Clearly linking its long-term strategies in the area of environmental sustainability with wider strategic concerns, the industry sees the need for an approach which balances 'practical commercial applications and evolving market requirements' and links quality, production and marketing – with unity around Brand "New Zealand wine".

3.3. New Market Development

In its latest *Annual Report* for the financial year ended 2010, the industry figures indicate continued growth (NZW, 2010). Over the past financial year, total exports increased by 5%, down from more significant increases of 14% for the year ending 2008 and 20% for the year ending 2009. However, exports reached the targeted NZ$1billion mark for 2010. The way forward, according to NZW, is to maintain production at 265,000 tonnes of grapes to enable a restoration of supply and demand balance in the industry (NZW, 2011). Positioned under the collective generic brand "NZ Wine" promoted by the peak industry body, New Zealand Winegrowers (NZW), NZ's highly distinctive premium-quality wine brands have achieved average price premiums of 10-20% over wines from other countries in most international markets, with a notable peak in the Chinese market, at 180% from previous years (NZW, 2010). It is envisioned that further strategic development and international recognition of a (super) premium product positioning for NZ wines that is distinct from that associated with lower-end countries' products will safeguard NZ's prudently built high-end niche strategy developed over the last two decades. But can this be achieved? To grow export sales further, the industry recognises the need for additional investment in marketing its wines as part of a platform to generate NZ$2billion in export revenue by 2019 (NZW, 2010: 11). While a general industry consensus has been reached regarding the potential benefits of a generic branding strategy, the specific roles and interactions between industry stakeholders/items including buyers, distributors, retailers, wine writers and labelling characteristics are much less well-understood.

This broad generic strategy takes into account the relevant wine styles, varieties and special features of New Zealand as a wine producer, and proposes specific strategies for each key target market. Activities focus on promotional events including public relations and fostering relationships with trade representatives, media and consumers. With initial investments of approximately NZ$3m in generic promotions, these were increased to NZ$6 million in 2010 (NZW, 2010: 13). The new NZW brand strategy focuses on the industry's innovation, improvement and diversification away from the dominant focus on MSB to a broader spectrum of quality NZ wines, for example, Pinot Noir, Syrah and aromatics. The theme of 'discovery' was the focus in international events including the emerging Asian markets of Singapore, Tokyo, Hong Kong, Seoul and Shanghai, as well as the traditional UK, Australia and USA markets. The number of NZ wineries participating in these events has considerably increased (NZW, 2010). While NZW has been instrumental in the industry's development, a number of key trends in the local and global context shape how firms understand and adapt their business models, which are now addressed (and summarised in Appendix 1).

4. STRATEGIC ISSUES FOR THE NEW ZEALAND WINE INDUSTRY

4.1. Managing Production Growth

The New Zealand industry has undergone rapid growth in recent years based on the number of producers, total production and exports as summarised in Appendix 2. However, despite its growth, the industry remains very small on a global scale, with production in the current vintage of around 266,000 tonnes and exports amounting to NZ$1.041b (NZW, 2010: 28), less than 1% of both global output and exports. In terms of grapes planted, NZ's production profile is centred on classic French varieties with Sauvignon Blanc comprising around 50%, Pinot Noir 15% and Chardonnay 12% of the total vineyard area (NZW, 2010: 30). This profile shows New Zealand's high commitment to a single variety, MSB, which now presents a strategic challenge to the industry in terms of over-supply. Hence some commentators have observed a need to reducing NZ's relatively high dependency on its flagship variety, positioning other grape varieties as equally premium products and further developing selective demand for NZ's other cool-climate, premium varieties (Clarke, 2002; Johnson & Robinson, 2007). Appendix 2 points to a shift towards a niche-focused, high-quality product positioning, which has been a successful antecedent to solid industry growth since the 1980s (NZW, 2010). The average yield fell from 14.4 tonnes per hectare in 1990 to 8 tonnes in 2010 as growers replaced high-yielding, lower-value crops in a shift towards lower-yielding, higher-priced grapes whilst simultaneously adopting viticulture practices designed to emphasise quality over quantity (NZW, 2010).

4.2. Managing Demand

In contrast to the pre-1980s production-led era, a marketing-oriented strategic perspective emerged in the industry in the 1980s (Lewis & Prince, 2004). The current context is one of proactive export marketing, establishing new markets, securing existing markets and staving off competition. Appendix 3 illustrates the increases in NZ wine exports from 1997 with further demand growth forecasted to 2019 (NZW, 2010: 11), which is likely to be achieved as exports continue to be dominant with all size categories of NZ wine firms exceeding 50% in export sales (Deloitte, 2010). While the higher-value NZ wines have typically been exported, lower-priced imported, largely Australian, wine has been used as a substitute to meet the traditional demand for lower-end wines in the domestic NZ market (Barker et al, 2001). This is further supported by the figures in Appendix 2 indicating a 680% increase of wine imports by volume from 1990-2010. A considerably more modest consumption increase of 45% was observed for NZ wines in the local market.

Absolute levels of NZ wine purchased in the domestic market (56.7m litres) now exceed those of imported wine (35.1m litres), with imported wines accounting for less than 40% of domestic sales in the NZ market. This may reflect a shift of NZ consumer tastes towards more highly positioned wines, a preference for local products, and overall increasing popularity of wine consumption, which parallels increasing demand levels for wine globally (NZW, 2010). It is considered critical that the future supply matches global demand with growers being market led, preventing a ‘cheapening’ of New Zealand wine in international markets (Deloitte, 2010: 4). Rising global demand for premium NZ wines (despite the current slowing of growth in many national economies), coupled with output increases highlight the export dependence of NZ wines and the reality that the most additional output must now be exported - and by many small producers operating in distant markets. Increased pressure on margins is expected to weaken the quality image of NZ wines and may (eventually) serve to reduce New Zealand’s competitive position in international markets based on its relatively high cost structure of production (Lewis & Prince, 2004). This is seen as one of the key challenges for NZ winegrowers as quality at a low price is not easy (NZW, 2011) and suggest the need to adopt an appropriately strategically balanced portfolio for its future success.

Regarding export market destinations for NZ wines, of total exports amounting to NZ$1,041m, 30% were shipped to each of the UK and Australian markets, with a further 20% exported to the United States (NZW, 2010). Exports were dominated by MSB, comprising 82% of exports in 2010, up from 76% of 2008 export volume. However, recent reports show an emerging demand for New Zealand Pinot Noir. Considerable short/medium-term strategic activity has centred upon capturing and securing market share in the US, a market of growing strategic importance in recent years (NZW, 2010). Although the UK is still New Zealand’s leading export market for wine volume terms (NZW, 2010), the US and Australia are also significant. In fact, at $327m, the value of NZ wines exported to Australia exceeded those shipped to the UK ($299m) in the financial year ended 2010. This projection reflects the current rapid growth in largely underserved US wine markets, as well as export profile differences across these markets. Although data decomposing total effects observed is currently unavailable, middle-range wine exports appear to be distributed predominantly through highly competitive, price-discounting UK supermarkets, whilst higher per-litre prices are achieved from these or higher-end wines exported to more specialist US distribution channels such as fine wine retailers (Lewis & Prince, 2004).

4.3. Global Competition

Like many other industries, the global wine industry is characterised by increasing levels of competition in recent years. France, Italy and Spain have generally been recognised as the dominant producers in the global wine industry with NZ, in comparison, producing approximately 0.2% of global production (Commerce Commission, 2000). The growth in world trade, primarily driven by increased production in the so-called “New World” wine producing nations of Australia, Argentina, Chile, New Zealand, South Africa and the United States has meant a further decline EU share of the world wine trade (Anderson & Berger, 1999). Vast increases in plantings, principally in Australia and the US, but also relatively large in NZ, have been made causing industry analysts to (correctly) predict significant future over-supply of wine and falling prices at the time (The Economist, 1999). The latest NZW Annual Report (2010), however, suggests a generally opposing trend of continued growth of export/domestic demand, as well as production increases (as addressed above). The industry’s recent development may be valuable for illustrating the patterns of increasing competition and supply in the global industry. In particular, wines of rapidly improving quality are being marketed at relatively low prices by emerging New World wine nations, such as Argentina and Chile. Potentially providing high perceived customer value, these products may pose a significant threat to NZ’s carefully-built premium quality positioning and higher-priced wines. Based on their local cost structures, efficiencies and characteristics, these typically developing countries may be able to produce their wines at a fraction of the cost of that incurred by NZ wine producers. So, the strategic NZ industry vision is centred upon differentiation, such as through continuing to discover, innovate and diversify from the focus on MSB, and sustaining effective marketing, including new varieties, as (super) premium products (Benson-Rea et al, 2003). Potential sources of competitive advantage for NZ include its clean, green national/product image, a history of industry collaboration (for example, establishment of NZW and co-ordinated initiatives such as SWNZ), and a reputation for premium quality wines.

4.4. Industry and Firm Governance

The importance of international trade has been increasingly recognised in both global and NZ domestic contexts. Further growth opportunities exist in currently untapped Asian markets and the NZ Government is among many which increasingly recognise the need for global trading partners, especially in regional and sub-regional trade deals. Significant opportunities may arise as a result of lowered trade barriers, such as the elimination of tariffs for NZ wines in the Hong Kong and Singaporean markets, the recent NZ-China Free Trade Agreement and government support for wine trade initiatives. Further free trade agreements are being scoped by NZ with Korea, Japan and India and on the extension of the Trans Pacific Partnership (including the US) free trade grouping (NZW, 2010). Other recent initiative at the industry level include EU Overseas Market Access, continued government funding for the Wine Export Certification Service, a government project to investigate options for control of bulk wine exports. The NZ industry is represented in the World Wine Trade Group.

At the firm level, with only 67 of the total of 672 NZ wineries classified as medium/large producers by volume (NZW, 2010: 29), the majority of NZ wine companies are small firms. Whilst a number of the world's largest wine and beverage companies have NZ operations, only Pernod Ricard's NZ operations, and potentially those of Constellation Brands, have achieved a size comparable with other global producers. In the financial year ended 2010, only 6 of New Zealand's 672 wineries had sales exceeding 4million litres, whilst over 600 had sales of less than 200,000 litres (NZW, 2010: 29). Deloitte (2010) point to large number of insolvencies across NZ wine companies, with a significant number of bank foreclosures, large indebtedness and falling land prices. Reasons for these structural problems relate to: over-optimism ('a gold rush') about returns based on historic grape, wine and land prices; over-commitment and exuberance leading to heavily-leveraged new entrants – often by investors and property developers (Gregan, 2010) with no connection to farming, wine or horticulture. As a small producer with relatively high cost structures, preserving New Zealand's super premium positioning poses an important industry challenge under its ongoing resource constraints. The industry may have grown too exuberantly and there are now threats to quality and the risk of 'cheapening' - at least of its reputation in international markets. Adequate planning of the industry's long-term goals is therefore pivotal in an attempt to secure the industry's future performance (Benson-Rea et al, 2003).

4.5. Distribution and Retail

Domestically, sales figures indicate that traditional specialised outlets account for only 30% and supermarkets have become the dominant player, accounting for approximately 50% of wine sales by 2000 (Commerce Commission, 2000). The emergence of supermarkets as the dominant wine distribution channel in the domestic market, coupled with the significant size and scope of operations of these distribution channels, has led to a considerable increase in retailer power and as a result, retailers have been placing increasing pressure on producers' margins (Brodie et al, 2008), which, in light of the relatively high cost structure of NZ production, may pose a threat to particularly smaller producers' business. Supermarkets hold huge power and make considerable discounts on wine (Hollebeek et al, 2007), which may represent a dual detrimental effect. First, any lower prices offered by supermarkets may damage the business of smaller (independent) retailers which are unable to match these based on their lack of scale/scope in operational activity and resulting efficiencies. Second, discounting of NZ wines in export markets incurs a threat to the prudently-built premium positioning of its products, and may result in a lack of consumer willingness to pay full price for a particular product at the close of the promotion. Some overseas retailers, such as Tesco's in the UK, also market house-brand NZ wine, which may serve to further increase the retailer's power, as well as extracting margins and market share from NZ producers. As a partial response to the growing levels of retailer power and to differentiate themselves from traditional retail channels, many wineries now offer direct sales and associated wine tourism services. Winery visits provide a platform for socialising, learning and entertainment, which may contribute to building perceived customer value. These activities also provide the winery with potential future relationship marketing opportunities with particular customers, as opposed to purchases made largely anonymously through traditional channels. Despite these producer attempts at generating increased customer value which traditional wine retailers are unable to provide, wine companies also pursue strategic relationships with traditional channels, as well as distribution networks, supporting their future sales.

4.6. Marketing

In addition to company brands, the generic umbrella brand "NZ wine" may be viewed as a brand constellation or hierarchy composed of a number of elements. The specific intended strategic positioning for Brand "NZ Wine" is a continued top-end focus through ongoing brand building activity with the purpose of developing the value of Brand "NZ Wine" (NZW, 2008). The relative role of Brand "NZ Wine" to other brand elements, such as a wine's region of origin or producer label, will also need to be made more explicit in the industry's overall integrated marketing communications (IMC) programme. NZW (2010) further highlights the importance of assuring integrity in the marketing of Brand "NZ Wine" by continuing to consistently deliver on the generic brand's promise focused on a discourse of quality and associations of 'Pure Discovery'. The promise made by Brand "NZ Wine" is thus to, at a minimum, meet customer expectations if not exceed these. In this context, continued industry collaboration and communication are of foremost importance in sustaining future success, e.g. by appropriately co-ordinating national, regional and individual wine company marketing activity.

5. DEVELOPING SUSTAINABLE BUSINESS MODELS

Some key challenges facing the NZ wine industry were outlined in the previous section, including issues of production, demand, competition, governance, retail and marketing (Rabobank, 1999). To conclude we integrate some business model concepts to suggest research directions. The industry challenges must be addressed at firm and industry levels, through individual business model adaptation and industry collaboration. Because the industry is so small and distant from its key markets (and relatively young), sustainable business models for NZ wine companies will not emerge at the firm level in isolation from the wider industry context, specifically generic marketing trough the collective Brand "NZ wine". Theoretically, moving away from the idea that value is primarily created inside the firm, we believe that investigating business models as 'a broader conceptualization of value co-creation' in order to capture that co-creation of value among actors in the industry network has the potential to be a fruitful avenue of research (Benson-Rea, 2005; Nenonen & Storbacka, 2010).

Research suggests a number of different theoretical perspectives on the ways in which brands may serve to create value. First, the managerial resource-based view (Barney, 1991), in which, as intangible, market-based assets, brands create financial value for the firm, e.g. in the form of shareholder value (Doyle, 2000). This posits the need for ongoing investment for brands to retain or enhance their value, as recognised by NZW (2010). The second is the legal/socio-political-economic view, addressing the Government and national interest. The governance challenges section above outlined the potential for significant opportunity arising from increasing trade liberalisation being scoped by the NZ Government currently and in the future. Third, the geographic perspective on value chains (the *filière*) focuses on innovation, historical background pertaining to particular areas, and institutional/social linkages. The qualities of any wine have long been associated with the particular locality (*terroir*) in which it is grown and made, reflecting an underlying relationship between a wine and the place where the grapes were grown including cultural attributes, such as localised traditions of viticulture, winemaking and wine business (Barker et al, 2001: Moran, 1993) and on on co-ordination and co-operation among industry participants anchored in an agribusiness/rural lifestyle (Lewis & Prince, 2004). Terroir has thus become a global indicator of wine quality (Vaudour, 2002) and its persistence as a key global indicator of wine quality, the extensive references to region in wine marketing, and a NZ domestic history fraught with inter-regional competition, confirm that the industry and its products remain highly regionalised, despite the impact of various national institutions (Barker et al, 2001). Fourth, under the customer perspective brands are perceived valuable (providing utility) to customers such as through establishing/maintaining trust through adequate and known product quality levels, which may serve to reduce consumers' perceived purchase risk.

We propose the integration of all of these with a focus on firm level business models. Further strengthening the strategic role of Brand "NZ Wine" to extend its value network may occur through linking the brand to other identities which share some degree of matching or similar brand positioning. Such identities may include other brands (e.g. through strategic alliances), people (e.g. employees, endorsers), places (e.g. country of origin, terroir), and/or items/things linked to the brand (e.g. causes, events). This complex network of potentially value-creating brand relationships is a model of increasing degrees of future collaboration and further leveraging of particular strategic relationships, in the global wine industry and beyond, which represents the way forward for achieving continued industry growth.

6. CONCLUSIONS AND FURTHER RESEARCH

This paper has used the concept of sustainable business models in the wine sector, and the key challenges affecting one national industry and its future. At an industry scale, SWNZ might provide a new focus for the strategic direction of NZ wine that confronts the challenge of finding a niche to replace the historical premium extracted by MSB. SWNZ will certainly enhance the NZ industry's reputation, built as it is on the country's reputation for quality agricultural and horticultural production. However, sustainable winegrowing may become a threshold capability rather than a source of competitive advantage, i.e. an entry level requirement to compete rather than a basis on which to outperform the competition as a factor for which customers are prepared to pay. It may be that this industry is merely at another stage of development and that it will settle into equilibrium with a wider range of business models among firms, which includes more bulk/commodity trading without damaging the quality reputation of Brand "NZ Wine". SWNZ can enhance the industry level positioning but it may not be enough to maintain the industry's premium prices.

It is important to explore whether an emphasis on sustainability provides opportunities beyond the price of entry necessity. A somewhat atomistic view of strategy sees each firm and its exchange relationships around: '[w]hich parties to bring together to exploit a business opportunity, and how to link them to the focal firm' (Zott & Amit, 2008: 5). Whilst key strategic decisions may rest at the enterprise level, this view excludes parties or actors involved but with which the firm does not transact (Zott & Amit, 2008). A unified, cohesive strategy for value-creation for the NZ industry is envisaged through Brand "NZ Wine", integrated with other relevant elements of the wine brand identity, especially SWNZ. The NZ industry is attempting to sustain its prudently-built premium quality positioning, through a networked, collective effort. This may need to be updated through a new 'supra-brand' to replace the threatened national premium image (Hamlin, 2011).

In research terms, how do we understand agency when we talk about a nation with respect to wine products? If, for example, NZ Wine is the actor, how do we talk about national interest, sectoral interest, collective action and individual firms in a context where there are collective interests, collective rents, and shared fates? Further research is warranted on how one might effectively strategise sustainability for "NZ Wine" and/or how the boundaries between corporate and national brand might be better theorized and acted upon by national and corporate actors. A number of research issues emerge for the global industry around the business models adopted by firms within regional industries. At the macro level, comparative study of industry economic structures and development trajectories would enable finer-grained analysis of the context for business model choices, strategies and successful business model change. This would also imply exploration of the relationship between institutions, marketing strategies and practices set against global, regional and national market conditions. How do firms identify opportunities, and how does this affect the profitability and relative effectiveness of wine business performance? In a global industry, what constitutes identity? At the firm level, inherent in the development of innovation and new business is the availability of resources and capabilities in terms of investment, labour, and human capital. To change their business models (to reconfigure them) should firms engage in 'co-opetition' to secure the resources, capabilities and positioning they need with actors in the larger industry network (Storbacka & Nenonen, 2011)? Global value chains and value systems imply an understanding of the importance of market and customer assessments and forecasts, and of network interactions and governance modes in the transition of strategy and structure. We see these issues as inextricably linked to wider technical research into areas such as flavour, aroma, grapevines and other technical projects and innovations, including environmental sustainability.

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APPENDICES

Appendix 1: NZ Wine Industry - Key Challenges

Dimension	Key Challenge
Production	- Managing growth under supply/resource constraints, current over-capacity and composition of the NZ industry - Continued high quality - Production planning - Controlling production costs
Demand	- Growing global demand, new markets - Strategically balanced market portfolio - Domestic demand faces challenges - More discerning consumers, recession
Competition	- New entrants - Collaboration - Innovation
Governance	- Collaboration - International trade barriers - Renewed interest in cluster policy
Retail	- Managing increasing retailer power - Pressure on premium prices
Marketing	- Further international development of generic Brand "NZ wine" - Top-end focus - Brand building - Assuring integrity - Bulk commodity trading
Economic	- NZD will remain high - Access to capital difficult - Excise and other levies - Interest rates - Drop in per capita income - Low wage growth

Sources: NZW 2008, 2009, 2010 Annual Reports; Brodie et al (2008); NZW (2011); Deloitte (2010)

Appendix 2: NZ Wine Industry - Key Growth Indicators

Indicator	1990	2010	Change
Number of wineries	131	672	413%↑
Producing area (hectares)	4880	33,428	585%↑
Average yield (tonnes per hectare)	14.4	8	*-44%* ↓
Tonnes crushed	70,000	266,000	280%↑
Wine exports (million litres)	4	142	3,450% ↑
Wine exports ($million)	18.4	1,041	5,558% ↑
Domestic sales of NZ wine (million litres)	39.2	56.7	45% ↑
Imported wine (million litres)	4.5	35.1	680% ↑
Imported wine ($million)	27.8	200 (est*)	700% ↑

Source: NZ Winegrowers Annual Reports, * Import values not reported in 2010 Annual Report

Appendix 3: NZ Wine Exports 1997-2010 and forecast for 2019