

Pathways To Wine Export Innovation: A Study of Romanian Winemakers

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Purpose: Romania is one of the top fifteen wine-producing countries in the world, but much of its wine is sold and consumed domestically. Romania winemakers are seeking ways to innovate for export markets in order to gain sales and make inroads into the global wine arena. The purpose of this study is to determine the drivers and barriers to wine export innovation, so that winemakers are guided in creating new pathways to exporting and can increase the global demand for and competitiveness of their products.

Method: Seven wine companies were visited in Romania in the major wine-producing regions, and a total of thirteen in-person interviews conducted with managers and owners. The companies ranged in sales revenue and ownership structure, reflecting the diversity of the industry. Five Romanian wine industry experts were interviewed for additional insights.

Findings: Internal-to-the-firm factors driving the export innovation push include international market focus and a passion for excellence; external drivers include domestic sales declines, and an influx of foreigners to the industry. Counterbalancing are significant internal or firm-level barriers. Among these are self-referencing and low production economies. Challenges also come from outside the firms. Notable external barriers are a negative country image and an underdeveloped domestic wine market.

Practical Implications: Recommendations are offered for firms to strengthen Romanian wine exports, such as using an innovation protocol, and developing products that incorporate native Romanian grapes. Following these pathways will better ensure Romania's export success.

Key words: Wine exports, marketing, innovation, Romania

1. INTRODUCTION

Since the end of the Communist era and Ceaușescu regime in 1989, Romania has been revitalizing its wine industry through privatization, reconditioning vineyards, and modernizing production, much of this funded by the EU, which it joined in 2007. While Romania has consistently been a leading wine producer, ranking between 9th and 16th in the world in total volume (Trade and Data Analysis 2008), it only exports about 2% of its production (APEV 2010, OIV 2010, OIV 2012).

Romania is poised for wine export growth. The industry aims to increase significantly its wine exports, and has a millennium-long tradition of winemaking. The key to success may be innovation, as it has been for “new world” producers elsewhere. The purpose of this study is to understand drivers and barriers to export innovation, so that Romanian wine companies can find new pathways to and success in exporting. This study is important insofar as wine producers in Romania are intent on transitioning from providers of large bulk wine mostly for domestic consumption, to providers of quality, distinctive wine clearly of Romanian origin and for international consumption. Innovation is required for a successful transition, in order to break into the highly competitive and commoditized global wine market.

2. METHOD

The leading wine industry association in Romania, APEV, agreed to participate in the study, with seven firms serving as case sites. Each company was visited at its main operations in Romania, and one to four senior managers or owners per company interviewed. All interviews were conducted individually in person, following a semi-structured protocol. A total of thirteen interviews were completed and audio-recorded over three weeks, each lasting one to five hours. In one case, a group interview was done with three managers. The firms ranged considerably in sales level, employee number, ownership structure, length of operation, degree of exporting, location, and business-production approaches. This theoretical sampling approach better ensured a variety of perspectives and insights on the Romanian wine industry.

Individual interviews were also conducted in country with five Romanian wine industry experts: a consultant, professor, retailer, journalist, and trade association executive. Interviews ran one to three hours in length and were audio recorded. The expert interviews provided a more complete picture of wine export innovation in Romania.

All interviews were done in English or Romanian, with translation provided by a bi-lingual research assistant where needed. The recordings were transcribed and edited, producing approximately 700 pages. For data analysis, the interviews were triangulated to compare perspectives within, across, and outside the firms. The transcripts were iteratively reviewed and interpreted to identify these perspectives until data saturation was reached. A written report of the study was sent to all interviewees for feedback and corrections.

3. FINDINGS

The findings are organized in terms of a) the firms’ export innovations, b) internal and external drivers of export innovation, and c) internal and external barriers.

3.1. Export Innovation

Export innovations are mostly incremental rather than radical, yet entirely appropriate for the early development stage of the modern Romanian wine industry. Romanian producers are making small, gradual innovations to improve the global competitiveness of their wines. These improvements are in all facets of the export business, from marketing (e.g. rebranding via new names and eye-catching labels) to production techniques (e.g. combining traditional with modern vinification methods). The innovations have thus far not significantly elevated Romania's export stature because of their small, fragmentary nature. As noted by a marketing director of one of the wine firms, these improvements are quite small, indicative of the beginning stages of the modernizing efforts:

"I'm just working now [on innovation]. And we are working now on our strategy. So is—we are at the beginning of these things—but just thinking how to do it."

Some Romanian companies are going beyond generic export innovation strategies to develop tailored innovations for specific foreign markets. In all these instances, the underlying capability is market orientation. An example is the creation of a sweet wine for a region and segment of the U.S. wine market, namely older black women living in the south. A Romanian wine company had noticed sales of sweet wines in this region during visits to the U.S., and through presentations of sweet Romanian wines found a receptive audience in this population. Guided by market research and leveraging its wine expertise, the firm developed a high quality sweet wine to be used as an accompaniment to a main course or dessert. The design was based on quickly adapting its wine producing capabilities to meet the need of a particular foreign segment, also known as market orientation.

Other forms of export innovation leverage geographic advantages. Although Romania does not have the ideal climate for all varieties of wine grapes, it does have a few areas that can produce very high quality grapes. The Dealu Mare area is one of these. On more or less the same latitude as the Bordeaux region of France, Dealu Mare can produce wines approximating the earthy complexity of their Bordeaux cousins. One company is using this geographic advantage in its export marketing, specifically by highlighting to foreign buyers that they can experience the quality of a Bordeaux yet less expensively by drinking their Dealu Mare wines:

"they [French Bourdeaux wine makers] have 700 [parallel]. I have 680. Here is the parallel, here is the parallel, you know [showing a map of Romania]....So if you are looking for something like French wine, may you try...Romanian wine.... We have this opportunity."

Another geographically related innovation is the mixing of domestic grapes such as Fetească Albă and Tămâioasă with noble grapes such as Sauvignon Blanc and Pinot Gris to create unique blended wines, as explained by the owner of a wine firm that is exporting.

"...we want to produce something which is very particular, you know. We cannot make Merlot or Cabernet Sauvignon blend. You can find those things in France, you know. But if you are coming with some Feteasca Negra, which is a Romanian grape variety, it's something different. That I think is the thing that we innovate."

These native grapes appeal to foreign consumers who are looking for new tastes, especially terroir-related. Most of the Romanian companies noted they are developing and exporting such wines with the aim of distinguishing their products in highly competitive the global wine market.

3.2. Export Innovation Drivers

There are many internal (or within the firm) drivers of export innovation; each of these drivers propel and direct company efforts to bring new wine products to other countries. Perhaps the most essential driver is an international marketing focus, which is an organizational emphasis on understanding and satisfying customers outside of Romania. Firms displaying this focus engage in market research (e.g. talking to and observing consumers in other countries); practice market segmentation to identify and pursue profitable niches (e.g. creating distinctive wines for each segment in China); and customize or adapt any or all elements of the marketing mix to increase consumer acceptance of their exports (e.g. providing a bottle hanger with a map and explanation of Romania and its terroir). In explaining the firm's strong export growth, a senior manager of a wine firm attributed its success to an international marketing focus:

“We have trained employees who can understand the markets and produce the information in varied forms when we want to approach a market.”

Another driver is management knowledge of, interest in, and openness to the international wine business. Firms vary in degree of familiarity with the international wine trade. The more innovative firms tend to have managers/owners who are either foreign themselves or travel widely and regularly outside of Romania to gain an appreciation of how wine is sold, consumed, packaged, promoted, distributed, and made elsewhere. Frequent attendance and participation in international wine fairs and competitions is one avenue of exposure and learning.

The third driver is passion for excellence. The firms that are more innovative bring passion to their business, and this is true of small, boutique vintners as well as large, volume wine houses. For the former, the passion verges on “art,” on creating wines that are distinctive, sublime, and beautiful; for the latter, it is about constantly improving quality and price so that their wines are ultimately best in class, even if targeted for middle-brow non-connoisseurs or wine “newbies.” When passion is present, the companies are driven to innovate.

Along with internal drivers, externalities around Romanian companies impel them towards export innovation. The one externality is the EU. Romania has received SAPARD funds from the EU to modernize its wine industry, including replacing aging plant and equipment that were holdovers from state-owned enterprises. The EU has also provided funds for promoting Romanian wines abroad, and introduced regulations so more of the wines are safe to consume and exportable. Managers, such as the sales and marketing director of a firm below, noted that EU regulations are ferreting out questionable producers or practices:

“EU regulations are actually helping us because they will clear the market of the faux wines that the fakes. Because the money that comes from the European Union is also bringing control, to make sure laws are applied correctly. And the ones who don't comply will be shut down. Anyone making the faux wines will be shut down.”

Another external driver is the changing domestic wine market, notably its growing price-sensitivity and sophistication. The Romanian economy entered a period of severe decline starting

in 2008, so income-strapped consumers bought less or cheaper wine. Romanian wine producers, who till this point focused on the domestic market, subsequently faced overcapacity and cost pressures. Concomitantly, consumers began shifting purchases from sweet to semi-sweet wines, moving toward the wine preferences of developed markets. The two changes are spurring Romanian companies to emphasize exporting, in the hopes of making up lost revenues from domestic sales, as well as developing and selling dryer wines at home that also appeal abroad.

A third driver is the influx of foreign investors, owners, and experts in the Romanian wine industry. These individuals are bringing technology, methods, capital, and ideas to the industry, helping to drive up the quality of local wines so they can be accepted internationally. For instance, vinification experts from South Africa and Australia are introducing ways of making very low-temperature fresh wines with clean finishes. Importantly, they are injecting “a different mentality” into the trade, whereby new approaches to the wine business are encouraged and fostered.

Another barrier is historically rooted and cultural in nature. Through Communism and the Ceaușescu regime—a system and period that rewarded aggression, betrayal, and self-interest—trust and generosity were severely eroded as social values. People were forced into production “cooperatives.” A consequence is that the wine industry, which is relatively small and should therefore be easy to organize, has not executed a comprehensive export strategy (as for example in Chile). Instead, each wine company competes with others in ways deemed excessive and harmful. As one interviewee said, “in Romania the majority of producers want their neighbors dead.” Such open hostility works against cooperative actions to elevate exports for all. A noted wine expert keenly observed the vestiges of this dark history:

“I just think Communism meant that we could survive if you got rid of the others, no matter how. So it’s very difficult [to bring about cooperation among wine firms].... We keep thinking of ourselves as being sick morally. You know it’s been twenty, more than twenty years [since the end of Communism].”

The last external driver is Romania’s long tradition of wine making. Romanians clearly take pride in making wine before the Romans did, and having their wines served in the royal courts of Europe. Romanians continued to make wines in modern times but the industry suffered during the Communist era. As the number of wine producers was reduced through government-mandated centralization, quality gave way to quantity, as described by one wine company owner:

“...during the last fifty years, when the Communist regime ran this country, we made such a bad name in wine, because they were looking just for the quantity and just for the money. And most of the wines that you are finding outside of Romania—Romanian wines—are the most cheap wines. So in the minds of consumers outside of Romania, they are making, they are thinking cheap you know.”

The winemaking heritage motivates Romanian companies today to regain that past glory by developing, showcasing, and selling wines to other parts of the world. Yet the international wine trade has changed considerably since the glory days, and historic know-how—which may have been lost in the intervening years—does not guarantee success in the present.

3.3. Export Innovation Barriers

Several barriers constrain Romanian firms from innovating for export markets. One barrier is the relatively high cost of domestic production. While labor costs are competitive, the yield of wine grapes per hectare is low due to old vines and difficult growing terrain. About 12 tons per hectare of grapes can be harvested from vineyards in Romania, compared with 25 tons in Italy or Spain. This low yield translates directly and immediately into a price disadvantage for Romanian wines on foreign markets, such that other significant innovations have to be embedded in the wines to compensate for their higher cost. This is a challenge when the price-quality ratio has dramatically dropped over the last decade on the global wine market, bringing superb wines at low prices to many consumers, from both the new and old worlds.

Another critical barrier is self-referencing. Self-referencing means using oneself as the standard. While this is not true of all Romanian companies, the tendency to look inwardly toward the domestic market and industry rather than outwardly impede development. This internal perspective is generally limiting given that the highest standards and best innovation practices in the wine industry are outside of Romania. The domestic market is relatively undeveloped and immature; making wines for these buyers is in effect “lowering the bar” as one interviewee put it. The outward look by contrast elevates the wine-making and -selling enterprise by establishing “stretch goals,” stimulating innovations of various forms.

The most widely observed barrier by interviewees is a negative country image. The negative image is deepest in Western Europe, Romania’s chief export market. The image carries with it perceptions that wine from Romania is of low grade, forming a low ceiling against premium prices and significant demand. The image results from past and present conditions. Past conditions include Romania’s emphasis on volume production of inexpensive sweet wines during the Communist period, when sugar was added to mask imperfections, and Ceaușescu’s long dark reign that ended in violent revolution. Present conditions include the controversial emigration of Gypsies or Romas into Western Europe, as well as Romania’s lackluster economic performance and political strife. The country of origin liability in the EU was expounded on by one wine maker:

“...Romania is selling, like I said, a bad image. So it’s hard to sell—not a bad image, just about wine, but a bad image before because you know all the changes that has been made here in Romania were so slow. We are in the bottom of the list, we are from the edge—we and Bulgaria, in the EU, you know.”

A second barrier is an under-developed domestic wine market. The market is under-developed in that Romanian consumers a) prefer sweet wines in large quantities over dry wines of high quality; b) are highly price sensitive, requiring “gratuities” such as deep price discounts to buy; and c) resist newer and more sophisticated wines popular outside of Romania. This profile describes most, though by no means all, Romanian wine consumers, and indicates the market is relatively infant in development of a wine culture. Because Romanian producers are predominantly focused on satisfying these consumers, interest is much lower in serving foreign markets, which require very different and often more complex and sophisticated products, marketing, and innovation strategies.

DISCUSSION

Based on the above identified facilitators and barriers, several recommendations are presented that winemakers can follow as pathways toward wine export innovation.

Leverage competitive advantages in sweet-wine making, domestic grapes, and good terroir. Since sweet wine-making knowledge is considerable in Romania, companies should create and export sweeter wines. The emphasis should be on quality, subtle variation, and pairing with a range of foods, not just desserts. Domestic grapes unique to Romania such as Fetească Albă offer the opportunity to distinguish Romanian wines on the international market. Blends can be made with these grapes, appealing to foreign consumers seeking more unusual or newer wine flavors. Dealu Mare and other areas of Romania offer good terroir and grape growing conditions. While it seems premature to highlight terroir in export activities since Romania itself is not well known, it is never too early. Globally, terroir has become the basis of projecting a premium image for wines and distinguishing one from others.

Enter into export markets where Romania has a positive to neutral country image, and move away from countries where it has a country of origin liability, notably Western Europe. Because country image and wine perception are so closely intertwined, it is difficult to make significant headway in markets where Romania has a strong negative country image. The image forces a low price ceiling on Romanian wines in Western Europe, and all trends point to continuing decline in wine consumption in that region of the world. The more effective long- and even mid-term strategy is to export to countries where Romanian products will meet less resistance. The largest potential markets in this regard are China and the U.S. These two markets are also more open to bottled wine from Romania, allowing producers to move up the value chain to more premium positionings over time.

Shift from an internal domestic market focus and self-referencing to an external international market focus and global-referencing. Although this will be a challenge to do because of the heavy dependence of Romanian winemakers on domestic customers, it is necessary for development of the industry and its ability to export successfully. The competitiveness of Romanian wines is held back when they are made with the local, not foreign, consumer in mind. The local consumer is indeed changing, gradually maturing in wine preferences; however the market will never be large enough to absorb all production, and will be encroached by imports, now that the large duties on foreign wines have been removed.

Implement a formal export innovation protocol. The most innovative companies in the world rely on a formal innovation protocol in developing new products. This study revealed that Romanian companies engage in incremental export innovation, an indication that a formal protocol is not used. A formal protocol refers to a set of pre-established steps and guidelines to identify, design, and execute innovations systematically and routinely. Along the way, the protocol weeds out low potential projects so that finite resources are applied to the most viable endeavors.

End excessive competition and engage in export cooperation. The small scale of the Romanian wine industry puts it at a clear disadvantage relative to leading wine producing countries. Even the largest Romanian wine producers are dwarfed in output, sales, and facilities relative to the international behemoths of Constellation, Pernod Ricard, and Gallo Wines. The only way to make inroads into foreign markets is to develop a cooperative strategy that pools resources among Romanian wine companies, and directs those resources toward a marketing strategy to promote Romanian wines in general, not specific brands. Romania can look to the model of

another emerging country, Chile, for lessons on the value of export cooperation. The Chilean wine industry has become a global success by cooperatively promoting the industry as a whole through advertising, trade shows, and distribution incentives. Individual firms participated in these collaborative efforts, benefiting all in terms of rising international sales.

Cultivate and elevate Romanian cuisine, tourism, and HORECA trade. Due to the interfaces among wine, food, culture, and places, interest in Romanian wine by foreigners rests in large measure on appreciation for Romanian food, culture, and sites. Thus along with improving Romanian wines for greater international acceptance, there should be a corresponding cultivation of Romanian cuisine, tourism, and the HORECA trade. Foreign travelers to Romania may visit vineyards, see how wine is made, sample vintages, and stay at inns that cater to their wine tourism needs. Winemakers must highlight captivating features of the Romanian culture, and weave these qualities throughout activities and sites to create positive, memorable experiences for tourists and wine consumers. Paradoxically, it may be the maligned Roma or Gypsy culture, which Romanians distance themselves from, that may draw foreign visitors and interest in the country.

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