

Strategy and Leadership in U.S. Wine Businesses: 15 Years On

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Abstract:

Purpose: This investigation compares and contrasts results from a 2015 investigation into strategy and leadership in US wineries with data from a 1999 survey.

Design/methodology/approach: Meta-analysis of gaps in prior wine business research, 2000-2015. Survey instrument using structured questions sent via Internet to a database of 11,784 wineries from the Unified Grape and Wine Symposium mailing list, yielding 338 usable responses.

Findings: Economic cycles and laws and regulations are consistently critical challenges, while climate change has emerged as a major concern. Respondents report remarkable stability in performance indicators (growth in sales, profits, and employees), as well as no major changes in strategic responses to challenges in their competitive environments.

Implications for practitioners: Developing skills in marketing, entrepreneurial thinking, strategic planning, and negotiation is of paramount importance for practitioners - and educators of the next generation of wine business leaders.

Keywords: Strategy, Leadership, Decision making, Wine business education

1. IMPORTANCE OF THIS INVESTIGATION

The core content of a strategy includes a diagnosis of the situation at hand, the creation or identification of a guiding policy for dealing with the critical difficulties, and a set of coherent actions (Rumelt, 2011: 79). In the global wine industry, for example, superior leadership and strategy execution are said to be the highest predictors of sustainable growth (Remaud and Couderc, 2006; Swaminathan, 1995; Taplin, 2006). The wine industry has weathered boom and bust and recovery cycles over the 2000-2015 period. When facing challenges in the external and competitive environment, however, it is vastly more difficult to invest time and money in a new direction (Jordan et al., 2007; Sull, 2009). In a recession, for example, it is difficult for businesses to consider learning new managerial skills (Gulati et al., 2010). So, “the time to learn is when things are going well” (Wells, 2010: 31). In other words, the moment to formulate and implement a strategy is *before* you realize you need one (Rhodes and Stelter, 2009; Wells, 2010: 5). How can a manager become more inspirational and resilient, or at least deter overconfidence about environmental conditions and changing competitor power? (Kahneman, 2011; Sull, 2009) The answer: via learning how to build or acquire knowledge resources and capabilities that will stand the test of time, i.e. crafting a sustainable competitive advantage (Nguyen and Slater, 2010).

An earlier investigation, based on a random sample of the universe of Northern California wineries in 1999, informed wine business research and pedagogy at the birth of an undergraduate wine business strategy concentration (Gilinsky et al. 2000). Today, that program has reached adolescence and evolved into newer MBA and executive programs involving wine business curriculum. To what extent have there been major changes in wine business strategy and leadership, as well as wine company performance (e.g. sales, profits, staffing) over the intervening years? On what areas should wine business researchers and practitioners focus for the foreseeable future?

Following is a review of empirical research into wine business leadership and strategy, featuring a meta-analysis of the wine business literature to identify important gaps. We then present the survey methodology and findings to guide further research and practice. The Appendix presents the survey instrument used in this investigation.

2. LITERATURE REVIEW

There has been an explosion of research into wine industry business practices over the past 15 years, accompanying the proliferation of specialist peer-reviewed journals in the field (e.g. *International Journal of Wine Business Research* (previously the *International Journal of Wine Marketing*), *Journal of Wine Research*, *Journal of Wine Economics*, and *Wine Economics & Policy*). In addition, research specific to the wine industry has also appeared in more general business journals (e.g. *British Food Journal*, *Business & Society*, *Journal of Cleaner Production*, *MIT Sloan Management Review*).

Table 1 presents a meta-analysis of published research, by subject area and journal title, from the specialist journals during the period of January 2000 – June 2015. This was accomplished inspection of tables of contents back issues of all of the journals via online library databases such as Ebsco and ABI/Inform and Emerald. While prior wine business researchers have investigated numerous issues, the number of studies with a focus on management have been comparatively few (18 or about 3 percent) in relation to the host of studies about wine marketing (38 percent), economics (18 percent), production/operations (14 percent), tourism (5 percent), and sustainability (4 percent).

Table 1 — Wine Business Research in Specialist Journals, 2000 – 2015

(Ranked by frequency in each subject area)

Primary subject area/topic	<i>IJWM</i>	<i>IJWBR</i>	<i>JWE</i>	<i>JWR</i>	<i>WEP</i>		TOTAL*	% of total
Marketing	60	81	23	63	15		242	37.5
Economics	18	15	52	25	3		113	17.5
Production / Operations	2	3	4	79	3		91	14.1
Case study / Industry history	23	13	34	17	1		88	13.6
Tourism	15	8	0	6	3		32	5.0
Sustainability	0	5	2	15	5		27	4.2
Finance	0	6	10	2	1		19	2.9
Management	5	5	0	6	2		18	2.8
MIS/ E-commerce	8	7	0	0	0		15	2.3
TOTALS, BY JOURNAL	131	143	125	213	33		645	100.0%

*Through 30 June 2015, excludes articles in press.

Names of journals:

IJWM = *International Journal of Wine Marketing* (1989-2006), succeeded by *IJWBR* in 2008.

IJWBR = *International Journal of Wine Business Research*, published by Emerald since 2008.

JWE = *Journal of Wine Economics*, published online by American Assoc. of Wine Economists since 2006.

JWR = *Journal of Wine Research*, published in print and online by Taylor & Francis since 1990.

WEP = *Wine Economics and Policy*, published online by Elsevier since 2012.

Source: Authors' examination of journals' tables of contents, abstracts, and key words in tables of contents in library databases such as EBSCO, ABI/Inform, and Emerald.

The most recent studies of wine industry management, of which leadership and strategic management are a subset, report a number of important strategic learning needs and leadership capabilities. Small Australian producers need to focus less on developing technical expertise and more on financial acumen, strategic ability, marketing knowledge, HR planning, and general management skills (Aylward and Clements, 2008; Charters et al., 2008). Chilean producers need to foster collaboration in marketing activities and shared access to information and technologies (Felzenstein and Deans, 2013). French producers need to make investments in quality, overcome labor difficulties, manage team differences, reposition brands in the marketplace, and build trusted customer relationships (Bouzdine-Chameeva, 2006; Mora 2006). The Spanish wine industry needs to intensify efforts to improve infrastructure, marketing and education to assist producers to confront challenges and achieve long-term survival (Alonso and Liu, 2012). US producers need to understand the marketplace, learn agricultural and consumer cycles, develop people and communication skills, and share best practices via intra-industry coalitions and networks — working for the industry as a whole — rather than merely for the self-interest of their particular firms (Brown and Butler, 1995; Gilinsky et al., 2000).

3. METHODOLOGY

The current investigation replicates an anonymous cross-sectional survey of wine business leaders (Gilinsky et al., 2000). The 1999 random sample was constructed from a database of 368 firms listed in the *Wines & Vines* (1999) and *Wine Business Monthly's Wine Industry Directory and Almanac* (1996). In 2015, the universe consisted of 11,784 wine businesses from the Unified Wine and Grape Symposium mailing list of United States wine producers. In 1999, the questionnaire was 20 pages in length and organized into four sections: 1) the business and its demographic characteristics; 2) perceptions of environmental opportunities and threats; 3) perceptions of critical leadership characteristics and strategic and competitive best practices; and 4) self-reported performance over the past three years. For the 2015 data collection effort, a condensed version of the earlier survey instrument was created, retaining the same demographic, perceptual, best practices, and performance questions, but reduced from 80 to 15 questions (available from authors upon request). Internet survey software (SurveyMonkey) replaced mailings of paper questionnaires via the U.S. Postal Service. The response rate for the 1999 study — after three mailings — was 22.6% or 83 firms, while the response rate in 2015 — after two e-mailings — was 2.9%, or 338 firms. The lower response rate is possibly attributable to the fact that wine business research has grown exponentially as shown previously in Table 1, and the industry has become inundated with surveys.

4. FINDINGS AND DISCUSSION OF RESULTS

Respondents in 2015 are predominantly smaller producers: 80 of the respondents annually produce more than 100,000 9L cases (12 x 750 ml bottles); 88 respondents produce between 5,000 and 100,000 cases, and 124 produce less than 5,000 cases. Privately held wineries represent 89 percent of respondents; nine percent are publically held and two percent are

cooperative wineries. Figure 1 shows the age of the wineries. Table 2 shows self-reported performance indices for the three years prior to survey completion in 1999 and 2015.

Figure 1: Respondent Business Age, Years, 1999 and 2015

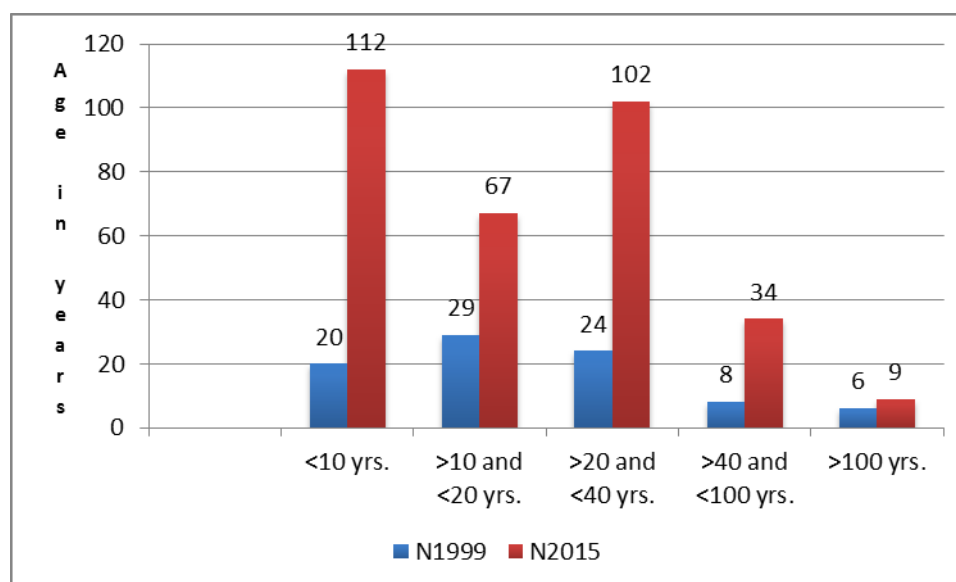


Table 2: Prior Three Years' Performance, 1999 vs. 2015

1999	Increased	Decreased	Stable
Sales growth	82.9%	9.8%	7.3%
Profit growth	84.2%	8.5%	7.3%
Employee growth	56.1%	40.2%	3.6%
2015			
Sales growth	81.8%	5.2%	13.0%
Profit growth	73.8%	4.8%	21.4%
Employee growth	42.3%	8.1%	49.6%

4.1 Strategic challenges

Strategic challenges are represented by critical challenges, environmental forces, and managing challenges. Critical challenges are consistent with those from the 1999 survey, suggesting how little the wine industry has changed in terms of its perceptions of the major challenges (see Table 3). For privately held firms, the majority of critical challenges are regulation and taxes, distributor control, and building customer relationships and databases. Managing and building customer databases is of highest importance for public companies — customer acquisition may be viewed as a path to higher valuations in the stock market.

Younger firms appear to have expressed greater concern about economic cycles than older firms, which are more concerned with consumer demographics. Environmental forces, shown in Table 4, somewhat reflect those in the 1999 survey: regulations and economic factors remain dominant, albeit climate change has emerged as a concern for over 1/3 of the respondents. As shown in Figure 2, strategic responses are split among the choices provided in the survey, likely a reflection of how breadth of management styles and strategic options has grown since 1999. Although neither staff size nor age appear to moderate strategic response, production capacity does have an impact: smaller wineries (those producing less than 5,000 cases) focus more on training, skills, and management control than do larger wineries, which is intuitive inasmuch as that small producers typically are characterized by a “hands-on” approach by management and ownership.

Table 3: Critical Challenges, 1999 vs. 2015

Top Three Challenges for My Business

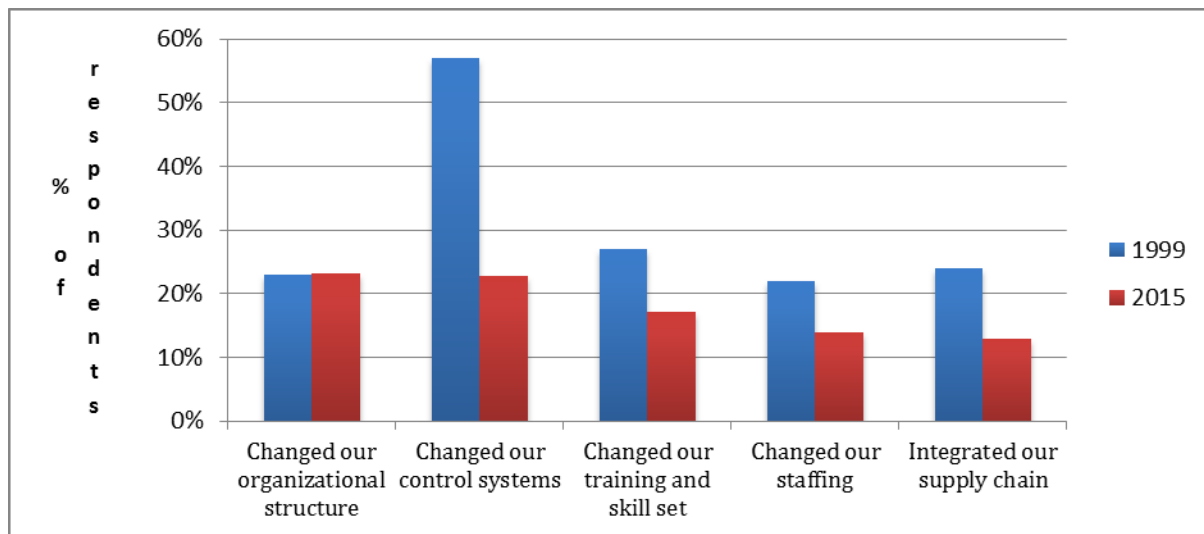
	1999		2015
Marketing	60%	Marketing	34%
Channel competition/distribution	58%	Channel competition/distribution	22%
Government regulation	45%	Government regulation	20%

Table 4: Environmental Forces, 1999 vs. 2015

Most Important Force Impacting My Business

	1999		2015
Increasing costs	60%	Climate change	34%
Entry of larger rivals	58%	Economic cycles	22%
Government regulation	45%	Government regulation	20%

Figure 2: Strategic Responses to Challenges, 1999 vs. 2015



4.2 Leadership characteristics

Consistent with the 1999 survey, we investigated how wine industry leaders felt about their own characteristics and how they got into leadership positions. Skills, vision, and achievement are again rated highest as leadership characteristics as shown in Table 5.

Table 5: Skills for Future Leaders, 1999 vs. 2015

Top Five Skills			
	1999		2015
Finance & accounting	94%	Finance & accounting	14%
Marketing	92%	Marketing	14%
Operations	82%	Negotiation/bargaining	13%
Talent management	81%	Strategic planning	13%
Strategic planning	79%	Entrepreneurial thinking	12%

5. CONCLUSIONS AND FUTURE RESEARCH DIRECTIONS

Based on a first-cut examination of the above data, the United States wine industry appears to be characterized by remarkable stability or some might say lack of dramatic changes, at least in terms of performance indicators, strategic management issues, and desired leadership qualities, regardless of changes in the external environment. Over the fifteen years between investigations, economic cycles and laws and regulations remain as critical challenges, while

climate change is emerging as a major concern. Respondents note no major changes in strategic responses to challenges in their competitive environments. Developing skills in marketing, entrepreneurial thinking, strategic planning, and negotiation continue to remain paramount for practitioners — and educators — of the next generation of wine business leaders. Surprisingly, given the emergence of Internet channels, direct-to-consumer marketing and the use of big data to understand changes in consumer behavior, technology prowess is of lesser importance than finance and accounting skills. Marketing and operations skills are most highly sought by smaller wineries; larger producers indicated a tendency to be more fraught with talent management issues. As indicated by the meta-analysis of the literature above, the winery management area (including human resources and information systems management) remains a relatively understudied field. As respondents' country of origin in these investigations is solely American wineries, expanding this investigation via collaborations with researchers in other regions could increase understanding of regional differences, permit comparisons among producing nations and help pinpoint research and pedagogy to meet the specific regional needs of wine producers across the globe.

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APPENDIX

Survey Instrument Used in This Investigation

I. Company Information

1. Ownership [*Circle one.*] PRIVATE PUBLIC COOPERATIVE
2. Number of years in business:
3. Number of employees:
4. Primary location / appellation of origin:
5. Number of 12 x 750 ml cases produced (please check one response):

_____ < 5,000

_____ 5,001 – 10,000

_____ 10,001 – 20,000

_____ 20,001 – 50,000

_____ 50,001 – 100,000

_____ 100,000 – 1,000,000

_____ 1,000,001 +

II. Strategic challenges

6. Which of the following do you see as the most critical challenges facing your company / industry today? (*Choose top 3*)
 - a. Regulations and taxes
 - b. Distributor control
 - c. Global competition
 - d. Managing and building customer relationships, brand awareness
 - e. Access to capital
 - f. Succession planning
 - g. Other: [open-ended answer]
7. Which of the following environmental factors (regulatory, macroeconomic, geopolitical, etc.) has the MOST impact on your business today? (*Choose top 3*)
 - a. Climate change
 - b. Economic cycles
 - c. Laws and regulations
 - d. Cross-industry competition (other beverages)
 - e. Technological innovation
 - f. Consumer demographics
 - g. Other: [open-ended answer]
8. How do you (or did you) manage (or overcome) these challenges? (please check one response)

- a. Changed our organizational structure
- b. Changed our management style
- c. Changed our staffing (increased or decreased)
- d. Changed our training and skills
- e. Changed our systems for management control, procedures, etc.)
- f. Integrated our supply chain (Direct to Consumer expansion (DTC), supplier acquisition, etc.)
- g. Other: [open-ended answer]

III. Leadership characteristics

9. How does someone come to be recognized as a leader in this industry? (please check one response)

- a. Education
- b. Skills
- c. Background
- d. Vision
- e. Style
- f. Strategy
- g. Achievements
- h. Intangibles
- i. Some event
- j. Other?

10. Which business skills will leaders need to develop in order to compete successfully in the future? (please check one response)

- a. Operations
- b. Marketing
- c. Information Tech
- d. Finance/Accounting
- e. Talent Management
- f. Scientific knowledge
- g. Presentation Skills
- h. Statistical Analysis
- i. Sales Experience
- j. Strategic Planning
- k. Entrepreneurial Thinking
- l. Foreign Languages
- m. Social Media Savvy
- n. Negotiations/Bargaining

11. Which core values are needed in order to compete successfully in the future? (*Choose top 3*)

- a. Commitment to environment
- b. Commitment to community development
- c. Commitment to employee well-being
- d. Commitment to preserve the business for successive generations
- e. Commitment to dealing fairly with suppliers and customers
- f. Commitment to honesty and integrity

IV. Performance characteristics

12. My firm's last three years' sales: (*Check the appropriate trend description below*)

- ___ Increased over previous three years
- ___ Declined from previous three years
- ___ Was about even with previous three years

13. My firm's last three years' profits: *(Check the appropriate trend description below)*
- ☐ Increased over previous three years
- ☐ Declined from previous three years
- ☐ Was about even with previous three years
14. My firm's last three years' growth in total employees: *(Check the appropriate trend description below)*
- ☐ Increased over previous three years
- ☐ Declined from previous three years
- ☐ Was about even with previous three years
15. My firm's last three years' charitable activities: *(Check as many of the appropriate trend descriptions below that apply)*
- ☐ Donated proceeds from events held at my winery
- ☐ Donated wine to auctions and other events
- ☐ Donated a percentage of revenues from wines sold
- ☐ Donated a percentage of profits from wines sold
- ☐ Created a special brand or label linked to a specific charitable cause
- ☐ Other: [open-ended answer]