

Planning Public versus Private Investment: Penedes Wine Route (Spain)

Case Study: An Exploration through the Resource Based View (RBV)

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Abstract:

Purpose: This case is an exploratory study of a particular area to identify emerging issues within the world of wine, including opportunities and challenges. These challenges are framed in the context of a tough financial settlement that has paralyzed public investment to the detriment of private investment. For this purpose, it is estimated that a number of companies (wineries) with similar attributes; through the focus of the Resource Based View (RBV) in order to perceive their future strategies.

Design/methodology/approach: Unstructured, face to face, in-depth interviews with several key players selected. All located in the Penedès Wine Route Area. The study includes five high-end establishments with similar characteristics. This selection has been agreed upon by two semi-public institutions: Consorcio Enoturismo Penedès [CEP] and Penedès Wine Routes in Spain (Rutas del Vino de España Penedès [RVP]. The interviews were performed with the owners / managers of these five wineries, who provided direct answers.

Findings: The study's goal is to address the pressing problems and maximize opportunities especially: management of the financial crisis, declining consumption of wine, efforts to gain more notoriety in domestic markets, and attract new international tourists. Importantly, those relating to the RBV conditions such as resources: valuable, rare, imperfectly imitable, and (dis) substitutability, emerge from this exploratory study. The main features are: tradition / history, territory / climate, perceived product quality (DO Penedès and DO Cava), and services ..., are harmonized to increase the benefit of the growing popularity of food and wine tourism in the area.

Originality/value: Originality and value, in this exploratory study, is manifested in a double feature: first, the study was partially focused on a region, which, despite its long history and tradition, has received little attention in the academic literature, especially in the last years. Secondly, the study adopts the RBV to facilitate understanding of the current issues affecting the world of wine. To date, this limitation is even more pronounced in the wine sector.

Keywords: Wine route, public / private investment in wine, Penedès (wine / region), resources, resource-based, and company (RBV) focus.

1. Introduction

The enotourism business, in recent years, has become an important component of rural development and regional promotion (Hall and Michel, 2002: 69). Wine tourism is consolidating its own market today, most importantly, it is extending into the main wine-producing countries in both the New and the Old World. In this process, in Europe, we must also add the role of some of those centenarian wineries. We can see museums, interpretive centers, or even more recently, the use of a signature architecture linked to hotels and wineries, exceeding the traditional concepts and becoming tourist and leisure products. All this evidences justifies the case study of the Penedès Wine Route.

Among the areas with designations of wine origin, various projects have been carried out to attract tourism interest in enology. We can consider the Penedès along with La Rioja and Jerez: as receiving a growing interest by the public. The Alt Penedès (DO Penedès DO Cava) have opted, in recent years, to offer a range of cultural tourism linked to the world of wine including its production and consumption.

Designation of Origin (DO) ensures the presence of specific grape varieties and not others; wine with a designation cannot be made from any variety to produce a certain type, following preparation protocols and vineyards voluntarily located within the natural region. All these regulations have given rise to a wine product that the consumer recognizes with name Penedès, This name is protected by the Control Board of the Designation of Origin and which therefore ensures a certain quality.

The DO Penedès is the most important denomination of Catalanian wines and one of the most important within Spain. At the same time, it is the area of planted vineyards, the volume of production and turnover, the number of wineries, the variety and the quality achieved for its wines, and for its prestige both nationally and internationally (Costa-Font et al, 2009). The stagnation of many projects in the time period (2009-10 to 2014-15) caused a simultaneous loss of public subsidies, but provoked an increase of private and joint investment. This case study aims to analyze this period, where the harsh economic crisis manifests itself at its highest point in a sector with a destination in the process of settlement and maturity with a strong influence of three large multinational companies. As Medina, X. and Tresserras, J. (2008) argue, we must not forget that this area has a certain proximity to major tourist areas of sun and beach (Sitges and the Costa del Garraf), and the metropolis of Barcelona. This means you are subjected to a multivariate typology of wine tourism customers, those customers are not always homogeneous, as in the case of other similar routes like La Rioja Wine (Martínez-Carrión, J.M. et al, 2010).

Until well into the first decade, all public investments, in its various forms, together with private investments (which are the majority) indicated generous business expectations, especially because banks offered loans with very desirable advantages. In this area, the Caixa Penedès, played a significant: historical, social, and symbolic role. The financial crisis that began with the Socialist Government (2008-2011), was aggravated by the housing bubble, which forced the next government of the Popular Party to seek an important bailout. Banks

were forced into financial restructuring through different channels. In the case of the savings banks, 45 savings banks reduced to only two (March 2015). Specifically, Caixa del Penedès, in 2010, transferred its banking business to SIP⁴ and wound up going out of business.

2. Objectives of the study

This research aims to increase awareness of the emerging wine environment in Spain during the economic crisis. What has prompted some entrepreneurs to invest and upgrade their strategies? There are two business sectors that have "resisted" or at least have "advanced" to ending the economic crisis in Catalonia: tourism and the wine environment. Their relationship is precisely the wine. Both sectors have representatives in their respected businesses with anticipated interests in enotourism industry. The following general research questions are examined:

How has the wine tourism sector reacted against the cooling of public subsidies?

What are the most important resources of the wine tourism industry?

What are the most significant opportunities for / in the wine tourism industry?

What are the major challenges affecting this industry?

This research contains several contributions. First, to address the above questions, from the perspective of industry players, the study contributes to the limited knowledge of academic research on entrepreneurship in a traditional sector such as wine / cava in one of the areas enoturistics pioneers of Spain (Penedès). The answer to the first question is a matter of cause / effect. Employers react first with amazement, then passively understand and that they had to react to those who could invest. Second, the results identified, as consequences, the research may also be useful for professionals as well as academics. Third, the study adopts a point of view based on resources (RBV) of the firm (Barney, 1991; Barney, Wright and Ketchen, 2001; Peteraf, 1993) as a theoretical basis to facilitate understanding of the issues investigated. Thus, the study also contributes, with a very limited sample, the proposal is to adopt the RBV to study the wine tourism industry.

3. Review of the literature

Regarding RBV of the company, according to Wernerfelt (1984), a resource is anything that means strength or weakness of a particular resource that can take different forms, including: brand names, machinery, capital, knowledge of technology within company, effective procedures, contacts with social networks, or contract of skilled high performance employees (Wernerfelt, 1989).

Several key publications have contributed significantly to the development of companies RBV way. This theory is intrinsically linked to the principles of firm resources, heterogeneity in terms of strategies or endowments (Barney and Hoskisson, 1989), immobility as a barrier to entry for new competitors (Barney, 1991), and sustained competitive advantage (Barney, 1991). A comprehensive review of the literature by Barney RBV, Wright and Ketchen (2001) confirms further extensions of this theory in new fields. These fields include entrepreneurship

⁴ SIP (Sistema Institucional de Protección). Also called "cold fusion" of the savings banks. With this figure, the entities are integrated into a superior entity, without losing its own personality.

(Alvarez and Busenitz, 2001), international business (Peng, 2001), human resources (Wright, Dunford, and Snell, 2001), marketing (Srivastava, Fahey & Christensen, 2001), and corporate governance (Castanias and Helfat, 2001).

Barney's work (1991) is very significant for this research. For example, this author explains that companies may own not imitable important attributes, rarity, or non-replaceable. However, those attributes can only be considered when resources help neutralize threats, and maximize opportunities in the business environment (Barney, 1991). The RBV analyzes the sources of competitive advantage, and identifies two scenarios. The first case concerns the heterogeneity of firms regarding "who control strategic resources" (Barney, 1991, p.101). The second hypothesis "that these resources cannot be perfectly mobile between enterprises" (Barney, 1991, p.101), with implications for long-term heterogeneity. The RBV considers the implications of the above assumptions, and helps in the analysis of "sources of competitive advantage" (Barney, 1991, p.101). Under strong resources and sustained competitive advantage, Barney (1991) identifies the following key attributes:

- Valuable resources: When the resources of a firm are valuable, they can lead or promote to an achievement or sustained competitive advantage. Moreover, when the value component is visible, it enables companies to implement strategies that can help improve their effectiveness and / or efficiency (Barney, 1991).
- Rare Resources: companies enjoy a competitive advantage when applied as a strategy, creating a certain value, while it is not applied simultaneously by many other companies. If many companies have a certain valuable resource, then it could be said that these companies have a similar opportunity to exploit the same resource. So, this resource is no longer rare. However, he acknowledges that it is possible that a small number of companies with a valuable resource in a particular industry, can be regarded as a competitive advantage. (Barney, 1991).
- Imperfectly imitable resources: The companies that are characterized by fulfilling this attribute are often strategic innovators, as they may be involved in strategies that other companies do not perceive and cannot be applied, or both, because these companies may lack the resources necessary (Barney, 1991). It is important that the history of the company, although not a strategic innovation can however be a key intangible element with competitive advantage. Moreover, the strategic management literature provides examples made of a unique historical situation now that cannot be imitated or controlled by competitors (Barney, 1991).
- Substitutability: The requirement that "valuable resources must not be strategically equivalent easily either not rare or imitable" (Barney, 1991, p.111.). On the contrary, if companies can acquire such resources, then any sustained competitive advantage is not observed.

Also, Barney (1991) holds up a framework in which both the heterogeneity of firm resources and the simultaneity of the four attributes discussed above, unequivocally, lead to sustained competitive advantage. Specifically, in the cellar and wine tourism environment, we identify a first draft research RBV and its recommendations in a study of Williamson et al, (2012), de Oliveira Wilk and Fensterseifer (2003). These authors, for example, have different situations

"vertical integration of the operations of a warehouse in the value chain of wine" (p. 23). Moreover, Williamson et al. (2012) explain that when the wineries are integrated vertically, management can see that the resource bundles of the wineries associated with the particular case of vertical integration outweigh the resource bundles of wineries that are not vertically integrated in the area administered "(p. 23-24).

In one of the few studies that focus on groups of wine, Fensterseifer and Rastoin (2013) recognize the value of the RBV in providing a degree of integration of the different concepts related to the creation of enterprise value and resources at the cluster level. Fensterseifer and Rastoin (2013) also proposed that the RBV perspective to consider a group as a unit of analysis rather than individual companies. Furthermore, in its investigation, the authors analyze the potential benefits obtained by wine companies of the group. Based on the RBV, these benefits are classified as: institutional, social, specialization, natural capital, and reputation (Fensterseifer and Rastoin, 2013). Finally, Pullman, Maloni and Dillard (2010) consider the RBV when investigating wineries' performance results from sustainability practices, such as water conservation. They realize a business model that prevails among wineries, so the main goal is the production of high quality wines which permits high prices. Moreover, the quality of wine is perceived to be enhanced awareness regarding environmental management, including terrestrial environmental practices in vineyards (Pullman et al., 2010).

4. Methodology

Development processes of the topics were consulted as an object of the study, including research questions. Those studies, for example, examine the resilience in the wine industry (Duarte Alonso and Bressan, 2015). The marketing initiatives that they executed were the strategic answers of the wine companies to a crisis situation (Duquenois, Gurao, and Le Roy, 2010), and the challenges they faced (Chaudhury, Albinsson, Shows, and Moench, 2014). RBV studies adopted from the company in a context of the investigation of wine were also considered (de Oliveira Wilk and Fensterseifer; 2003; Fensterseifer and Rastoin, 2013, Pullman et al, 2010; Williamson et al, 2012).

In February 2015 the Penedès Enoturisme website was analyzed and we contacted: Patronat del Vi i del Cava, Institut del Vi i del Cava, and Consell Regulador del Cava (CRC) [Cava Regulatory Council]. We collected their recommendations and visited, in March 2015, the area. Once we got the first in situ inputs, and following the advice of qualified and the most competent institutions, especially the Institut del Vi i Cava and Consell Regulador del Vi i del Cava, we decided to experiment with the wineries that had opted for a compact design model business (more global). We considered that the heterogeneity of the firm's resources (RBV), could be considered simultaneously with the four attributes suggested by Barney (1991) the result would be able to sustain the competitive advantage. We finally decided on the "compact" model. What do we mean by compact model concept? These are wineries that have invested, not only in opening their facilities to visits, tasting, shops ...and they have gone a step further and have dared to offer accommodations and cuisine. All selected owners have claimed to have been inspired by models of Napa / Sonoma or Australian designs. One

figure shows the difference between a conventional cluster model predominant in Spain and a compact model with more verticality as defined by Williamson et al. (2012).

[Insert Figure 1 here]

The representatives of the six entities contacted accepted the invitation to participate in the investigation. Four of those winery managers agreed to be interviewed face to face in their wine cellar: a married couple own a restaurant in the center of Barcelona; the other owner agreed to send us his assessments through email. Therefore, a total of 7 people were involved (five are representatives of the winery and two are managers). Despite several attempts to get information from other wineries throughout 2015, we had little success and those attempts were discarded. Knowing that the percentage of the sample, unfortunately, does not allow us to generalize the results, interviews with six respondents was varied. The interviews averaged two hours each and were supplemented with a one-hour tour of the wineries, restaurants, hotels and, in two cases, visit to the vineyards, allowing other observations.

The content of interviews and electronic answers were transcribed verbatim by the investigators. In the following sections, textual comments from participants are coded as follows: BC-1 * (Winery Collaborator 1, [*] two co-owners), BC-2 (Winery Collaborator 2), BC-3 (Winery collaborator, 3), and so on. Key features of the six participating wineries show clear differences between them, for example exports were between 2% and 28% of total production for different wineries (2014). One winery employs 48 employees. Three wineries have more than 10 employees. The other two wineries have less than 10 employees.

Obviously, these employees are considered fixed contracts and some more are contracted to absorb seasonal needs. The BC-1 is located in the actual town of Sant Sadurn d'Anoia, BC-3, BC-5 and BC-6 are located less than 20km from the center of the village, and BC-2 along with the BC-4 are located in the periphery. Regarding the types of operating systems, there are two wineries (BC-4 and BC-5) where there are little external contracts, and. The European Commission (2015) considered this type of winery is exclusively a family model in different degrees, and all are considered small, except one winery is medium size. The more professional type is the BC-1. The other wineries, have different degrees of outsourcing: production, marketing, etc by external professionals. As for the different strategies presented by Hoskisson Barney (1989), all these wineries manifest different resources (development of the RBV) that are creating competitive advantages (Barney, 1991). For example, the BC-1 has products in their store worth around € 400, 5 types of cava, three white wines, one red wine and one sweet wine (their own brand). Regarding their restaurant services and accommodations, they have average prices and overnight stays in high season are really high. Their website is very interactive and has notoriety, and is in five languages. The BC-2 has prices and facilities that are more luxurious and their strong point is the SPA and accessories. Their vineyards produce 3 types of red and 2 white wine. They seek a stronger position in the international premium market. The BC-3 offers 8 types of cava from the Penedès region, 8 red wines, 6 white wines, 4 rose wines and maintains a wide range from different DO in Catalonia, Spain and other countries, its strength is its enogastroturism (marriage between wine and food). This model is oriented to domestic customers and has good acceptance in social networks. BC-4, only presents its own products: 7 types of cava, one white wine and one red wine. Its additional strong point is that it offers visits by: balloon, helicopter or plane,

taking advantage that it is close to a sports airfield. It has an attractive website. The recent BC-5 conversion through strong private investment, is characterized by its own products (more than 10 types of cava, 4 white wines, 3 rose wines, 7 red wines, and 2 sweet wines). Their prices range from € 6 to 80 €, one exception, a cava sold for € 100 last year. The case of the BC-6 is similar to the previous winery but with less than half the wines and a higher price range. Their website is basic.

5. Results

We wondered how long had the winery been in existence. Participants' responses indicate that: BC-3 BC-4 and BC-5 are centuries-old, BC-2 and BC-6 have little over a century of existence and BC-1 is an innovative concept from the viewpoint of architecture and functionality. It opened ten years ago, even though the vineyards and wineries had changed owners several times through the years. According to participants, all originating wineries produced mainly still wines; however, the production of cava in the region started several centuries ago by hand. DO Cava in Spain was created in 1991. All the participating wineries continued their production of still wines and also produced cava simultaneously. These arguments in history and tradition are reinforced even more in the following comment from BC-4: "We have 350 years of history, 70 of which have been in the production and bottling of cava"... BC-5, explained that the winery is owned / run by the 14th generation; this winery already existed in 1666, and produced its first sparkling wine in 1884. Similarly, BC-3 stated that "our first bottle of sparkling wine market was produced 120 years ago. "The strategic importance of the history of the wineries is also featured by Getz and Brown (2006) when referring to different regions of Bordeaux and Burgundy "castle-name brand" (p.147). Similarly, as Gade (2004) notes the historic importance in French viticulture, it is associated with both experience and extensive knowledge. (Serrano, D. 2015)

Another important resource, which conforms to the function of immobility and heterogeneity, is represented by the municipality of Sant Sadurn d'Anoia, where we have said that most of the cava is produced in Spain, BC-5 one of the oldest wineries states, "here we have the climate, which is ideal for grape production," adding "we only focus on ... native varieties: Macabeo, Parellada, and Xarello ... we want to remain faithful to the origins of the product and the territory ". BC-1 is a producer of higher-end cava (Reservas and Gran Reservas) and of course wine, recognizes the heterogeneity of the cava industry "our crops develop with no large changes thanks to a microclimate in this region. We harvest grapes at their optimal stage of ripening, without external manipulation (for example, no addition of sugar)". Apart of the appearance of the product, there is an overlap between owners: BC-1 and BC-2. Both explained that the idea of building a compact complex had its benchmark on a trip to Australia made almost 10 years ago. BC-1 states: "... When we saw the advantages of publicizing the product as part of a wine-tasting visit, with contact the terroir and having high-end dining experience ... we had doubts about hotels and accommodation. Fortunately, we received a family inheritance and with great effort, in the end, we decided to add accommodations... "BC-2 tells us, "I made a professional tour of Napa Valley. When we finished the formal aspects and saw those wonderful wineries with SPAs, we canceled the return ticket and took a week to inspect the area, and added, it was like a dream that I really

wanted to do. It ceased to be a dream. When my father gave us [two brothers] in 1998, S-XVIII century farmhouse ... The reforms lasted five years and, almost ruined us."BC-3 has been a part of operating a vineyard for over a century. The size of the operation was limited, however its nuclear business is an old restaurant (inn) at a crossroads. He explains: "We've always had visits to the vineyards and the wineries, but we wanted to expand to a worldwide business, and take a step further and risk an additional project to expand the restaurant ... in terms of accommodations, at the moment, they are closed. It is our next goal to open those accommodations, the advantage is that we already have some rooms, the downside is that we invested our savings, knowing public subsidies can die before us ... " BC-4, has a very special appeal, the winery is close to a sports airfield (with a use agreement) and the added value of panoramic balloon trips. Next, the restaurant space is not open if not with prior demand. BC-4 says: "The crisis has forced us to close the restaurant. We had a fabulous chef and a great team.... Clients gradually stopped coming ... We tried opening on weekends ... until we had to stop. A year ago, we subcontracted to new system that allows us to use the restaurant for banquets and weddings ... increasingly MICE tourism is encouraged, if it continues, we could consider reopening the restaurant". BC-5, apart from having the widest range of products, has resolved the issue of accommodations, reconverting an old family owned castle into a comfortable leisure space (with a SPA) and multipurpose rooms. Finally, they converted an old oil mill annex to a brasserie: "While the business was not doing well we rented the property to different people. However, that did not work out well. We decided to adapt and transformed it into brasserie and chill-out. Now, this place is used for filming commercials. Several celebrities have passed here like: Shakira, Messi, etc. "BC-6 the main claim is definitely enoturistico:" ... an original experiment, is spending the night in "dry stone barracks put up in the middle of the vineyard" [Aboriginal artifacts of older garrisoned villagers to protect them from cold or storms, also to store farming tools and supplies]. These buildings have aroused a lot of ethnographic interest in the area. Although it has generated controversy among defenders they have left the items as they were and give them a commercial use. However, these buildings are on private land and heritage assets management considers low public impact. In any case, it appears to represent an added value, and, potentially an immobile heterogeneous following the discourse developed by Barney (1991).

6. Discussion

The results, particularly in relation to opportunities for the wine tourism industry are strongly aligned with the conditions attached to the valuable and competitive elements targeted by Barney (1991). A summary of the findings, the addition of RBV and differential contribution offered by the cava is presented in Figure 2.

The suggested association is evident with respect to the heterogeneity and immobility of resources, two fundamental aspects mentioned in the RBV literature, e.g. Peteraf, (1993), while the main product, the cava is produced by all the wineries. Each of these companies may have a different business philosophy, and even in terms of products, each focusing on a wide range of products, while others, in a large part, of limited range, or only in high-end products cava. There different varieties of cava, with different geographic locations, different microclimates; moreover, despite trying to SMEs, there are different levels of quality,

production, and services to wine tourists. However, each is seeking there general idea of communication on the basis of their business philosophy, we can even rank their website depending on the type of customer that "scans".

[Insert Figure 2 here]

The attributes of Barney (1991), and its alignment with the results presented with the following statements: Valuable resources: Arguably, in the context of this study, the municipality under investigation (Best wine / cava from Penedes) a) where the grape varieties used in the production of Cava are generally of Macabeo, Xarello and Parellada varieties, this combination is a valuable resource. Similarly, the production process originally inspired by the region of Champagne (Cava Institute, 2015) and adapted for centuries or decades to develop the character and identity of wine Cava. Other less prominent valuable resources (due to sample size and the wineries) are the presence of high-end sparkling wines, or the development of new jobs through the Halal and Kosher certification and certified organic products sparkling wine identifies additional valuable resources to the Cava industry. Most importantly from our interest in this study: the perception of "supporting role" and the growing importance of wine tourism and gastronomy (complementing the consumption of cava) are the leading ways of improving valuable resources.

Rare Resources: The high concentration of companies with DO Cava, from micro to large, in Sant Sadurn d'Anoia area, about 80 companies, according to some participants, is a scarce resource that cannot be easily replicated in other small municipalities. If we include the high-end products and educational experiences, it could be used to enhance the brand image and reputation of cava. Similarly, climate and geographical environment of the region represents a scarce resource in the context of the production of cava. These circumstances, closeness to the coast and the proximity to Barcelona, wine/cava tourist Routes increase the imperfectly imitable resources.

Imperfectly imitable resources: The conditions described above have allowed, despite the crisis, to build "compact" wineries with private initiative, some high-end expectations (two of six in the sample have a SPA). This allows important implications for the reputation of the wine tourism industry and therefore represents a further step as imperfectly imitable resource.

Substitutability: While other prominent sparkling wines (Champagne, Asti Summate, Blanquette de Limoux), the Cava wines have become the "Spanish Champagne" (Cava Institute, 2015). However, in order to continue building its brand image and attract future consumers, we must strengthen the perception of value, including promotional efforts and creating content on social networks. The Barney (1986) argument seems to fit in this context.

7. Conclusions

Improvements in cava wines from the DO certification Cava in the 80s and weak but progressive development of the wine tourism industry in the area, shows that the worst of the crisis had passed. It seems the crisis, the financial collapse and closure of the Caixa de Pensions del Penedès in the territory affected big companies and small companies differently. Private initiative and winemakers perseverance with certain resources, has uncovered a

peculiar vitality within the area that deserves to be analyzed by the academic literature. The collection of perceptions of the representatives of the wineries that have opted for the "compact mode" of wine, as well as perceptions of official institutions such as the Institute of Cava, have been essential for analysis despite the small number of wineries. The transcendental topics investigated were key resources within the wine industry, and the opportunities and challenges using the RBV theoretical framework. The overall results highlight the importance of tradition / history and the uniqueness of the territory (for example, climate, and use of local grape varieties as key resources). The strategic efforts were extracted to explore opportunities and position for their products and services. Consequently BC-1 to BC-6 are gaining acceptance and recognition both nationally and internationally. Many entrepreneurs have realized that the crisis must be diversified and not be so dependent on the domestic market. The usefulness of the method RBV to investigate current issues in the wine industry is also demonstrated. The study results appear to align with the RBV literature, particularly with the attributes analyzed by Barney (1991), namely: valuable, rare and imperfectly imitable resources and difficult to replace.

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Figure 1- Differences between the dominant cluster model in Spain and the compact model with winery influence from the New World. Original elaboration.

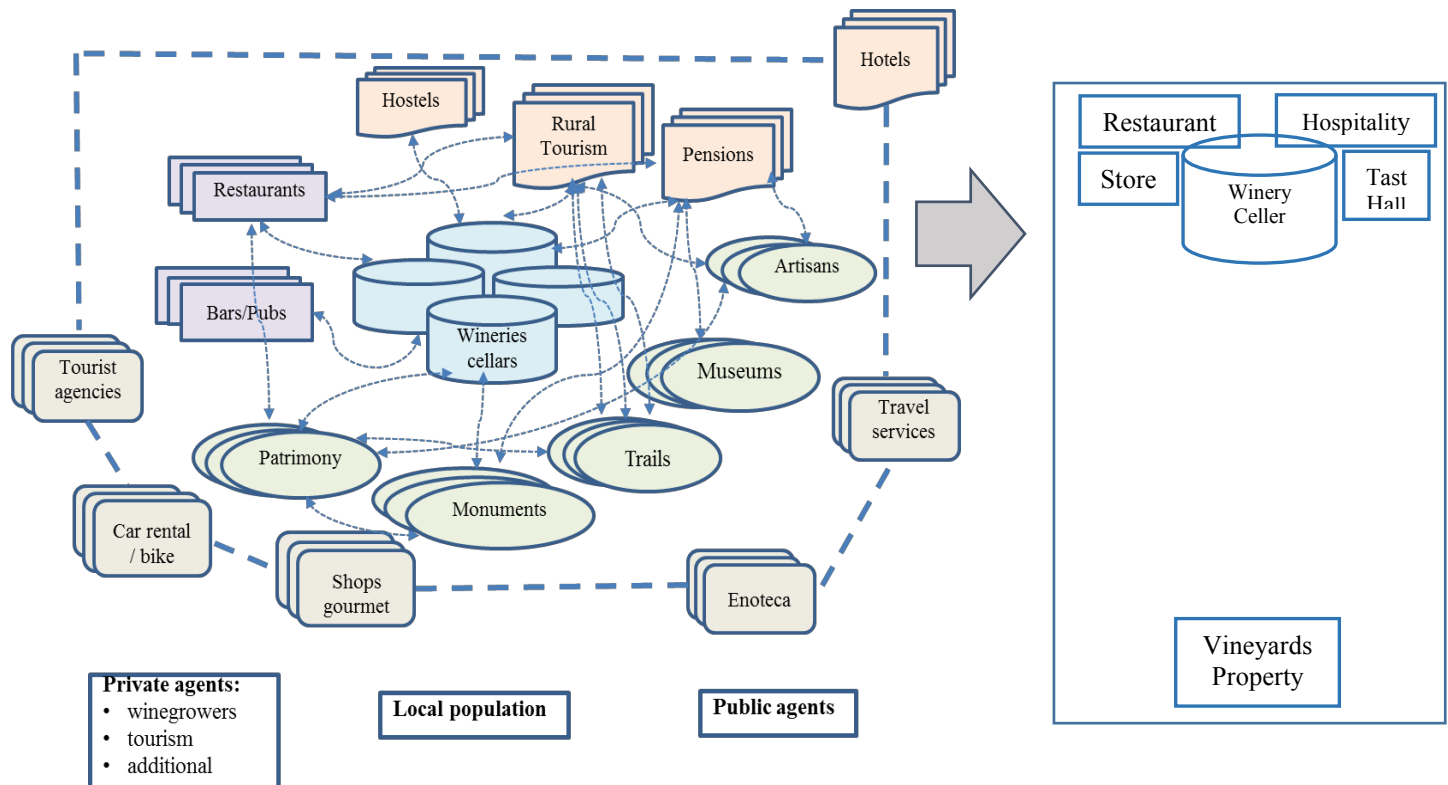


Figure 2 - Ranking of visitors to the Spanish Wine Routes. Most recent data from 2015 confirms that Penedès Enoturismo continues to be the leader in wine tourism with an increase of 11% (497.310 visits).

