

## **An exploratory classification of the wineries in the DO Emporda**

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### ***Abstract:***

*Purpose:* The aim of this paper is to analyze the revenue models adopted by wineries, considering their: ownership, economic indicators, and Parker List punctuations.

*Design/methodology/approach:* A sample of 27 wineries located in Emporda, a county in the north-east of Spain, has been analyzed. Data were collected using secondary sources and wineries websites. Content analysis and descriptive analysis have been applied.

*Findings:* The exploratory findings represent four different groups of wineries, depending on the diversification strategy applied: from those wineries, focused only on the core business to other wineries that offer several complementary products and services. The majority of wineries are family businesses. Regarding the Parker List, the sampled wineries have increased their punctuations, and have been used to attract visitors. No differences were found regarding the economic indicators.

*Practical implications:* The classification of the revenue models allows wineries to adapt their strategies to improve their performance. The implications for customers are for the information about the complementary services and products those wineries offer. Finally, implications for administration are focus on actions to be taken to improve and make the sector more dynamic.

**Key words:** DO Emporda, winery cluster, family business, Parker List, revenue model

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## 1. INTRODUCTION

DeJean (2005) recalls that historically, France was the "showcase" of luxury (chefs, gourmet, sommelier, etc.) that have survived. Schimmel (1905) stated that class fashions change when the lower class has access to them. In particular, they find in wine and its pairing, the link to the desired object. That "democratization" of fashion and luxury and the growing interest of the new world together with emerging countries, produced a new phenomenon labeled by Lipovetsky (2000) as "emotional luxury". More recently, authors like Jarrett and Jarvis (2016) highlighted the cross-country differences to define both the intrinsic and extrinsic attributes of the high-end wines. The former are the most difficult to define but some consensus has been found for the extrinsic attributes, being the most valued the "friends' recommendation", "taste it in a suitable restaurant", "Parker ranking", "recommendation of a wine expert" and "taste something new". Most of them are related to gastronomy, haute cuisine and the notoriety of the Parker ranking (for a more in-depth relationship between the type of consumer and complementary products, see e.g., Casas Romeo et al., 2016).

Regarding the internal factors for a winery to succeed, the property of the organization has been also analyzed. Family-owned companies have implemented governance structures that are specific to their size, country, age, culture and supply chain (see e.g., Köhr, 2016). In order to survive in the market, some of them have searched for strategic elements or capabilities allowing them to grow and differentiate. However, studies such as Dyer (2006) and Schulze et al. (2001), among others, conclude that previous works are not analyzing the "family effect" on the organizational performance or on the agency costs.

Taking the abovementioned into account, the aim of this paper is to analyze the revenue model adopted by wineries, considering their: ownership, economic indicators and Parker List punctuations. To achieve this objective, this study adapts Surlemont's et al. (2005) classification used to define the revenue models in the haute cuisine sector.

## 2. LITERATURE REVIEW

### 2.1. Family-owned wineries

The definition or the delimitation of the concept of family business is complex. For that reason there is not a general accepted definition (Littunen and Hyrsky, 2000). However, the International Family Business Network has verified a definition of family firms developed by the European Union (2008): a firm is a family enterprise "which belongs to family over the time and at least one representative of the family is formally involved in the governance of the firm. Most of the share capital, with corresponding rights, is in the possession of family members who manage the business". Therefore, the essential elements to define a family business are: property, power and continuity. These variables are also used in other definitions in the literature. In particular, the property is one or several families; the management of the business

involves several members of the family; and to maintain the ownership and management of the company to the future generations.

The involvement of the family in the organizations' management and the creation of unique resources and capabilities (Habbershon and Williams, 1999) lead to contribute significantly on their performance (Chu, 2011). This better performance is due to a more efficient management of the resource of the organization (Carney, 2005), generating competitive advantage (Barney et al., 2001). For example, Gallucci et al. (2015) show that family involvement contributes positively to return of sales (ROS), together with the use and communication of a family-based brand, resulting in higher sales rates. The research found non-significant results on family as a product brand in the wine industry, because the purchasing behavior is influenced by: price, label, taste, and region of origin, among others. Therefore, consumers' image of the area, region or country could influence consumers' perception of a product (se e.g., Van Ittersum et al., 2003), and the impact on the purchasing behavior or decision could also be influenced (Vrontis et al., 2006).

Pearson et al. (2008) observed that family firms create more employment and revenue growth. Besides, in those organizations, employees contribute to better economic and financial results because they are: more motivated, loyal, and increase the truth among themselves (Tagiuri and Davis, 1996). Family firms in the wine industry are also associated with: excellence, tradition, and trustworthiness (Smith et al., 2013). The tradition, together with the origin, are the key elements to perceived quality (Menghini et al., 2007). The wine elaborated in family businesses would symbolize the family values and their traditions (Vrontis et al., 2016), as well as textures and flavors which are the link to cultural identity (Harrington, 2006). Therefore, in the current research, the ownership of the winery is analyzed as a possible variable that influences the revenue model adopted.

## **2.2. Revenue models in haute cuisine**

The analysis of the revenue models, in this research, is based on an existing study which proposed to classify the haute cuisine restaurants depending on their diversification. Specifically, Surlemont et al. (2005) observed that chefs in haute cuisine, sometimes focus on satisfying, their customers through their cuisine, and the profitability is a secondary objective. That type of chef is concentrated on his/her restaurant (core business) to improve his/her cuisine and obtain rates and awards, like Michelin stars (or be in the Parker List in the wine's case). On the other hand, there are other chefs that manage several complementary activities or businesses to increase the: profitability levels, to minimize the risk, or to get more notoriety. Depending on the revenue sources of these restaurants, the authors have identified three revenue models:

- (1) *'watch your sales basket'*: the group in which restaurants focus only on the core business
- (2) *'have as many baskets as you can'*: in this group the restaurants based their model on the diversification to exploit all possible sources of revenue
- (3) *'have the baskets you can handle'*: the group is built with those restaurants that chose to diversify only in some sources of revenue, so the diversification is lower than in the previous group (partial diversification).

### 3. METHODOLOGY

The sample of this research consists on wineries operating in Emporda, located in the north-east of Catalonia (Spain), between the Pyrenees and the Mediterranean Sea, “La Costa Brava”. This region has its own Designation of Origin (DO Emporda-Costa Brava). According to Institut Català de la Vinya i el Vi (INCAVI, 2016), 1,770h in Emporda are under the DO, with an average production of these wineries of 46,300 hl. The identified population of wineries in the Emporda region has been 61 firms. Two steps were followed to collect data. The first was to gather data from the website and the second was to use the economic data available. Information of 57 wineries websites could be gathered (see also Hashim and Murphy, 2006; Da Silva and Alwi, 2007). The information collected for this study consisted of:

(a) Ownership and people behind the organization. This information was divided into family-owned business and other types of ownership. This variable is important because, in Spain, family businesses represent 57% of the Spanish Gross Domestic Product (Instituto de la Empresa Familiar, 2015).

(b) Activities offered. This information refers to the complementary activities and products offered by the sampled wineries: such as hospitality services, oil, cheese, and other products.

(c) Awards or recognitions of wine. This variable is based mainly on the Parker Rating System, which is based on a 100-point system to measure the quality of wines. In this research, the wines with more than 89 points, and its evolution within the last three editions are considered.

The economic indicators were gathered from the database Sistema de Análisis de Balances Ibéricos (SABI). Information of only 27 wineries was available in this database. The indicators used were (see also Gallucci et al., 2015): (a) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and (b) Returns on Assets (ROA). The time period analyzed consists on data from 2012 to 2015, although not all the wineries have the last year available. So, although the number of wineries in the province is 61, the final sample analyzed is based on only 27 wineries, which have a website and their economic indicators are available.

The analysis of data followed an inductive and interactive process (Miles and Huberman, 1984; Strauss and Corbin, 1998). The data gathered from multiple data sources is qualitative, which is appropriate when the research is exploratory (Ghauri et al., 1995). The study is based on a qualitative interpretation of the data and the literature research, in order to identify and refine theoretical foundation of the arguments.

### 4. RESULTS

#### 4.1. Revenue models identification

**Group A.** The first group includes 7 cases (26%) which are firms that focus on the core business (no diversification): to create products derived from grapes, like wine, cava or vinegar; and to offer tourism activities related with the production of wine, like visits to the cellar, wine-tasting,

or wine-selling. This group is equivalent to '*watch your sales basket*' proposed in Surlemont et al. (2005).

**Group B.** The second consists of 8 wineries (30%) which diversify into another source of revenue, like producing other products or other economic activities, but not both. The diversification activities chosen are either in products, specifically olive oil (2 businesses), or in economic activities like accommodation (3 businesses), museum (2 businesses) or restaurant (1 business). The level of diversification is partial, so this group is similar to Surlemont et al. (2005)'s '*have the baskets you can handle*'.

Finally, the remaining 12 firms are involved in all possible sources of revenue. Following the Surlemont's et al. (2005) classification, it would refer to '*have as many baskets as you can*'. The wineries had diversified into elaboration of a) other products: like olive oil, honey, eggs, salt, b) other activities like: restaurants, accommodations, courses, museums or showrooms, health spa's, c) different kinds of events and guided visits.

**Group C.** The third group has 6 wineries (22%) that developed two types of activities, mainly related to restaurant activity and the organization of special guided visits. This group could be considered as a mix between group B and group D.

**Group D.** The fourth group contains 6 wineries (22%) that develop all possible businesses from the maximum possible number of sources. Specifically, they diversify in four or more sources of revenue.

Thus, the first contribution of this research is the adaptation of the existing classification proposed by Surlemont et al. (2015), giving a more detailed description of the different sources of revenue. Although the sample is small, it was possible to clearly identify 4 groups instead of three as in Surlemont's et al. (2015) proposal. The number of complementary activities could be important to improve the performance. Those results also allow to state that businesses in the same sector (food and beverages) could have similar revenue models, however differences and specifications could be found. The diversification in the wine industry in other sectors, related to the tourism sector or co-related to it, is a strategy to increase competitiveness (Presenza et al., 2010; Koch et al. 2013; Duarte-Alonso and Liu, 2010). For example, Dowling and Getz (2006) observed that the quality of wine is not enough to attract tourists to the vineyard, it is necessary also to create memorable experiences. But the challenge is to create a unique experience. According to Mitchell et al. (2002), there is a combination of several factors such as: cuisine, ambience, attitudes, among others. In the same way, Beames (2003) claims that a successful wine tourism requires: resort facilities, local products, related events, instead of the classical cellar visit.

#### **4.2. Ownership, economic indicators and Parker List punctuation**

Using the groups defined for wineries, the variables "ownership", "economic indicators" and "Parker list punctuation" have been used to complete the description.

For *ownership*, table 1 summarizes the results into three different types: family businesses, non-family businesses and cooperatives. It could be seen that the majority of wineries are family-owned companies, with the highest percentage of this ownership in the second group (diversification into another source of revenue), 88% or 7 firms, which also contains cooperatives. On the other side, group C has the lowest percentage of family business but the highest percentage of cooperatives. The first group, the one not diversifying, has no cooperatives and the highest percentage of non-family business, although the most common ownership is the family.

**Table 1**

Ownership characteristics by revenue model (in number of wineries and in %)

Group	Family business	Non-family business	Cooperative
A	5 (71%)	2 (29%)	0 (0%)
B	7 (88%)	0 (0%)	1 (13%)
C	3 (50%)	1 (17%)	2 (33%)
D	4 (67%)	1 (17%)	1 (17%)
<b>Total</b>	<b>19 (70%)</b>	<b>4 (15%)</b>	<b>4 (15%)</b>

The second variable analyzed is the *economic indicators* of wineries. For the period analyzed (2012-2016), no significant conclusions could be extracted because no differences were found. The numbers are only exploratory and not presented because the data is not available for all years considered neither for all groups. Based on the available data, the great majority of wineries have an unstable evolution during the analyzed years. Considering the average EBITDA per groups, the last group presents the better indicators but not for the entire period, followed by group B which has increased in 2016. Groups A and C present lower average results but while the group A increases in 2016, group C decreases. In terms of ROA, the situation is similar, i.e., the last group presented the best ROAs during 2012-2014 but in the last year, the best result was for group C.

Regarding the *Parker List punctuation*, both the wines punctuation and their evolution have been analyzed. In general terms (see table 2), the number of wineries that become part of the Parker List has increased for all the groups described. However, the number of award-winning wines has decreased throughout the most recent editions of the list.

**Table 2**

Parker list punctuation and evolution by revenue model (number of wineries and number of award-winning wines)

Group	2012			2014			2016		
	Number of wineries	Wines' points		Number of wineries	Wines' points		Number of wineries	Wines' points	
		80-89	90-95		80-89	90-95		80-89	90-95
A	2	10	2	3	10	6	3	3	8
B	1	2	0	0	0	0	2	2	3
C	1	2	0	2	3	2	3	3	1
D	3	20	9	4	12	6	4	16	2

If the analysis is presented by groups, the fourth (group D) has the highest number of wineries and wines in the Parker List. Group A is ranked in the second place and its main characteristic is that the number of wines with the highest punctuation has increased. The other two groups present lower levels of punctuations and awards, but while group C increases the number of wineries, the evolution of group B is irregular because they lost their awards in 2014 but recover them in 2016. The results are related to Duarte-Alonso and Liu's (2010) findings who observed that wine-makers have the priority to increase the quality of their wines before being involved in tourism and hospitality sector.

## **5. CONCLUSIONS**

The aim of this paper is to analyze the revenue model adopted by wineries, considering also: the ownership, economic indicators, and Parker List punctuations. The results of the exploratory analysis allow extracting the following conclusions.

First, the wineries could be classified by revenue models depending on their diversification as the restaurants are (Surlemont et al., 2005). The contribution of this study is the split of one of the groups, the one with the maximum diversification, in two groups. The final result is four different groups of wineries that have also been defined according to their: ownership, economic indicators, and punctuation in the Parker List.

Second, regarding the other analyzed variables, family business is the most common type of ownership, although the group with the highest percentage of families managing wineries is not achieving the highest average of the economic indicators (not in line with previous studies such as Gallucci et al., 2015). As also found in Surlemont et al. (2005), the highest economic indicators are for the group with the greatest diversification. Group D is also presenting the highest amount of wines awarded in the Parker List (see Ali et al., 2008; Jones and Storchmann, 2001). Thus, it is important to use internal and external factors to classify the wineries.

Implications of this research are for wineries, which can implement different levels of diversification and know the relationship with other variables. Also, customers have several opportunities to enjoy the diversification. The administration, which could help in promoting or taking actions to help wineries to improve, and improve the sector performance.

This research is not free of limitations. The sample used is one of the most important as well as the data available for each of them. In addition, no details are available of which activity is adding more value to the winery.

Future work will focus on obtaining data from the primary sources in order to define in more detail each cluster. Another future line would be comparing different regions in order to analyze if there is a pattern on cellars' performance and ownership.

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