

Today's Wine Industry: Sparkling Ideas or Business As Usual?

An Empirical Study of German SMEs

Anna Rosinus

Hochschule Mainz (University of Applied Sciences Mainz), Germany

anna.rosinus@hs-mainz.de

As winemaking originated in ancient times, it can be seen as one of the oldest industries. Up to now, a vintner's business model has gone through several stages of development, affecting production process, target group(s), value proposition, and to a certain extent revenue model. Today, wine has become a mass product, and is often purchased in supermarkets, drugstores, and discounters. In Germany for example, more than 75% of wine consumed is purchased in retail, at an average price of less than 3 Euros. For individual wineries this development in purchasing behavior as well as willingness to pay represents one of the biggest challenges (next to climate change and rising input prices). Nonetheless, there is an impressive amount of successful and attractive SMEs that partly made their way through several generations of ownership and various business models.

The purpose of this research is to (1) find out which business models can be identified in today's wineries, to (2) identify patterns in the paths of successful business model innovation, and to (3) assess whether there are blind spots in the scope of potential business models that have not yet been covered.

Next to a literature review covering the state of the art of research in the field of business model innovation with a particular focus on winemaking, a theoretical framework for the development of innovative business models is designed, and an empirical study analyzing practical business model innovation amongst German wineries is undertaken. The major limitations of the empirical study are that it is mainly focused on several German wine regions as well as SMEs selling at least part of their production under their own brand, and that success is not quantified, but defined as (a) continued existence of the winery plus (b) the owner's assessment of its performance.

The framework for business model development follows the idea of a morphological box by first disassembling a business models' parts in order to then reassembling hypothetical combinations. The business model definition used is adapted from Gassmann et al. (2014) and Johnson (2018), and is comprised of the four categories value proposition, customer segments, value chain architecture and revenue model. The different forms of the four categories mentioned above are derived in a mixed approach by being taken partly from literature (e.g. Gassmann et al., 2014 or Taran et al., 2016), partly from own experiences, and partly from the empirical study. Hereby, the different forms are not intended to meet MECE criteria, i.e. for each category more than one form might be applied and the forms chosen don't claim to be exhaustive. Having defined 9, 18, 8, and 16 forms respectively, theoretically more than 20.000 generic business models can be designed.

After a rough analysis of more than 20 in-depth interviews, first answers to the research questions can be formulated:

(1) In the wine industry, business model innovation is less about starting a new business with a totally new business model, but more about switching to a different business model, sometimes in the course of succession. Amongst the businesses analyzed for this study, there are only a few wineries that follow exactly the same business model. The greatest similarities were found in the revenue model category: All wineries face the problem of rising input prices for bottles, energy etc., and all follow a fixed price model with the only discrimination being a discount for intermediaries and gastronomy. Nonetheless, the price range of the different companies varies a lot, mostly because of different value propositions and target groups. The value proposition is always a material good (wine, sparkling wine, spirits, juices, sometimes jam, oil etc.). However, there are several forms ranging from commodity to pyramid, quality leader and prestige product. Sometimes additional services are offered such as tastings, seminars and further events. Customer segments are B2C and B2B, often intermediaries such as retailers, specialty stores, or agents. When focus is on B2B customers, sometimes typical ABC-rules are applied, and some of the quality oriented, higher price wineries also target niche customers such as wine lovers, collectors or enology experts. Concerning the value chain architecture, there are still many businesses with full vertical integration, but there are also (smaller) wineries, which outsource many of their activities (from vineyard to cellar). A few winemakers take sustainability issues into consideration, and produce organic wine. The biggest disagreement is the amount of automisation vs. handicraft used in the production process.

(2) A number of trends or typical developments can be identified for the different categories; however, these trends often go into opposite directions (such as direct vs. indirect sales or machine vs. manual work in the vineyards). A common – and apparently successful – path is the shift from a quantity-focused production of bulk wine to a quality focused production of higher-priced wine sold to specialty stores and gastronomy.

(3) In Germany, production of classy white label wine seems not yet as popular as in international markets. Many winemakers use social media marketing, but only a few really invest in community building (there are lots of communities for wine lovers, but these are not operated by vintners). As far as I'm aware, there's no individual/customized wine, yet. Some of the revenue model forms, such as auctions or dynamic pricing, are already used by distributors such as online shops etc., but may in the future also be applied by individual vintners.

So far, only a rough analysis of the theoretical as well as empirical material has been undertaken, so the next steps are mainly focused on a more detailed and systematic analysis.

Results from the theoretical part of this research may be transferred to other industries and may serve as a methodology for business model innovation projects in practice. The findings of the empirical part will help vintners close to their retirement in succession planning questions or unsuccessful businesses in improving their situation. In general, the developed framework will help to get a clearer picture of the industry landscape, which may be useful for individual businesses, industry associations as well as governmental bodies that intend to support the industry.

Key words: Business model innovation, Wine industry, Succession planning

Reference list

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