

Best Practices for Boosting Exports by US Wineries

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Introduction

On May 24, 1976, during the US Bicentennial celebrations, a blind taste test of California versus French wines was conducted at the Paris Intercontinental Hotel. Assembled judges were nine of France's leading wine experts. In the first tasting of white wines, California wines claimed three of the top four spots. In the second tasting of red wines, a 1973 Cabernet from California's Stag Leap Wine Cellars took the top spot followed by three French wines. This event was a landmark in the international growth of the California wine industry. It marked the end of the French monopoly in global fine wines and put California's boutique wineries on the world map (Peterson 2001).

About 95% of US wine production takes place in California. (Wickham et al 2001). Between 1986 and 2000 US wine exports increased from \$35 million to \$560 million, yet the US still only holds a 4% share of the world export market (Wines and Vines 2001). While US wineries have enjoyed sustained growth in domestic and international markets, competition from imports now constitute about 20% of the US domestic market (Wine Institute 2000). Tremendous inroads have been made by Australian and Chilean wines into the US market in recent years. During 1995-1999, Australia increased the value of its exports to the US by 243% and Chile by 152% (Wine Institute 2000). Australian winemakers now show signs of doing to US and French wines exactly what US wines did to French wines a quarter century ago. In Cabernet tastings these days, Australian wines often beat American and French wines (Peterson 2001).

The wine industry is undergoing global consolidation. During the year 2000, two mergers and acquisitions involving Australian companies created new multinationals. Australia's Foster Group bought Napa Valley-based Beringer Blass Wine Estates for \$1.9 billion and Australia's Southcorp bought premium winemaker Rosemount for \$725 million (Echikson et al 2001). The wine industry is being transformed from a fragmented domestic industry into a global competitive industry.

US wineries must shift their perception of competitive threats from the old-world wine producers (France, Italy, Spain) to also include the new-world wine producers (Australia, Chile, Argentina among others). They must defend their position in the increasingly competitive domestic market as well as aggressively pursue opportunities in the evolving global marketplace. While the entry barriers into the US domestic market seem relatively low, the entry barriers into the global market are formidable, calling for new strategies and competitive practices (Barney 2002; Porter 1986). In this study, we focus on documenting best practices of 133 exporting US wineries with regard to improving export performance in global markets. Analysis of these best practices will help US wineries compete more effectively against new and old-world wineries, to enhance their position in global markets. They will also help improve the attractiveness of US wineries as acquisition candidates for multinational new entrants.

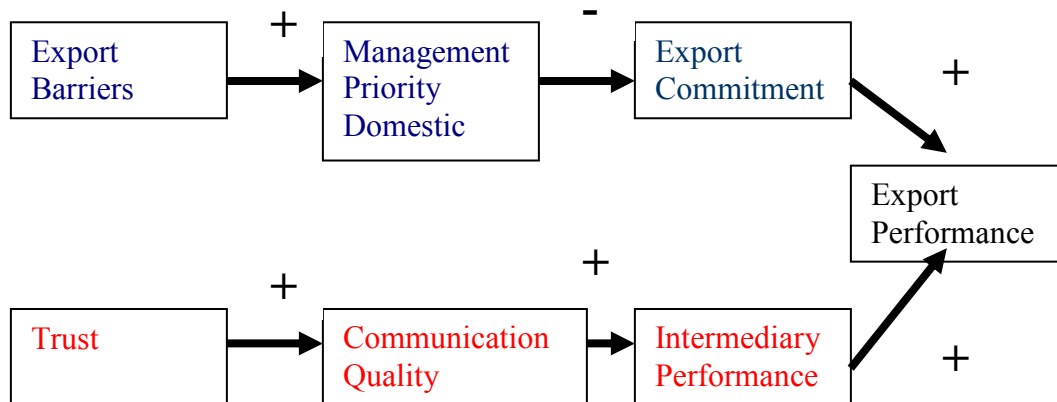
The next section reviews the extant literature, develops an initial conceptual framework and identifies key success factors affecting export performance. Hypotheses are derived on the interrelationships between these key success factors and export performance. The methodology for testing the framework, and the results are presented next. Finally, best practices are

summarized for the managers of US wineries to enhance exports in the increasingly competitive global environment.

Conceptual Framework

The conceptual framework for this study, grounded in the strategic management, marketing and export literature, posits that export performance is the result of two sets of factors that are internal to the firm and external to the firm (Cavusgil and Zou 1994). Internal to the firm are variables such as export commitment, management priority to exports, and perceptions of export barriers (Ireland and Hitt 1999; Axinn, Noordewier and Sinkula 1996). From the strategic management literature, a critical resource for export performance, external to the firm, is its relationship with an intermediary in the export market (Peng and York 2001). These may be either distributors who take title to the goods, or agents who facilitate exports without taking title to the goods. Variables such as trust and effective communication with the intermediary result in better intermediary performance, which, in turn, enhances export performance (Bello and Gilliland 1997).

Our multi-stage model of export performance, based on these internal and external factors, is shown below. The upper branch of the model reflects the internal perceptions of management. If management perceives that export barriers are high, they are likely to give relatively greater priority to the domestic market and reduce the resource commitment to exports. The lower branch of the model reflects the distribution thrust in the external marketplace through intermediaries like agents or distributors. Trust in the intermediary is hypothesized to be positively related to Communication Quality, which is hypothesized to be positively related to Intermediary Performance. Export Commitment (internal) and Intermediary Performance (external), are both hypothesized to be positively related to Export Performance.



Methodology

An annual directory (Wines & Vines 1999 Directory and Buyers Guide, 1998) was used to generate our sampling frame. Based on field interviews with 24 winery, distributor and industry association executives, and a review of the relevant literature, two survey questionnaires were designed, developed and pre-tested, one version for exporters and another one for non-exporters.

In March 1999, both surveys were mailed to 1012 wineries along with a cover letter explaining that they should complete the exporter's version only if they had exported during the last three years.

Thirty-four surveys were returned as undeliverable, resulting in a reduced sampling frame of 978 wineries. The number of usable returned surveys was 236, representing 103 non-exporters and 133 exporters. Overall this represents a 24% response rate. The results presented in this study relate only to the 133 exporters.

We used the three-dimensional Export Performance Scale (EXPERF) by Zou, Taylor and Ostland (1998) to measure the performance of a company's export program rather than the performance in any specific product-market. The three dimensions of the EXPERF scale are financial export performance, strategic export performance and satisfaction with export program. Sample measures and reliabilities of all our variables are provided in the following table.

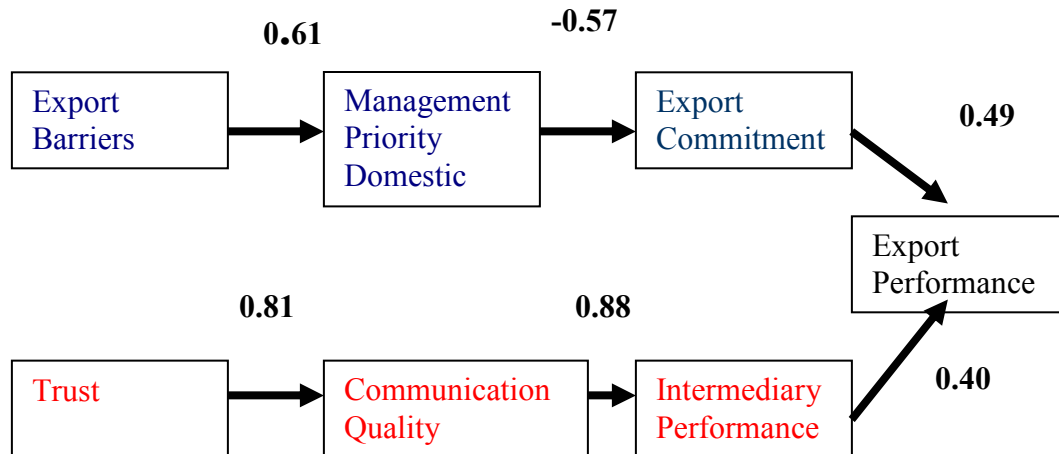
No.	Variable	No. of Items	Sample Measure	Cronbach's Alpha
1.	Financial Export Performance	3	Our export program has been very profitable.	0.82
2.	Strategic Export Performance	3	Our export program has improved our global competitiveness.	0.91
3.	Satisfaction with Export Program	3	Our export program performance has been very satisfactory.	0.93
4.	Intermediary Performance	3	This intermediary has fully met our expectations.	0.93
5.	Communication Quality	3	Overall, communication with this intermediary is clear and effective.	0.94
6.	Trust	5	This intermediary keeps promises it makes to our firm.	0.85
7.	Export Commitment	5	What sets us apart from our competition is that we are probably the most serious in our export efforts.	0.88
8.	Management Priority to Domestic Market	3	There is still a lot to do in the domestic area before we turn our major efforts to the international markets.	0.84
9.	Export Barriers	6	It is extremely difficult to find the right partners (agents, distributors, etc.) to sell one's wines in export markets.	0.77

Each of the above measures has a 5-point Likert response scale going from Strongly Disagree (1) to Strongly Agree (5).

Convergent and Discriminant validity were assessed using a Structural Equations Measurement Model (EQS software) of 6 independent latent constructs measured by 25 Likert scale items. The Measurement Model had an average absolute standardized residual of 0.04 and a Comparative Fit Index of 0.94, adequately establishing both Convergent and Discriminant validity. A second order Confirmatory Factor Analysis of the 9 items constituting the Export Performance

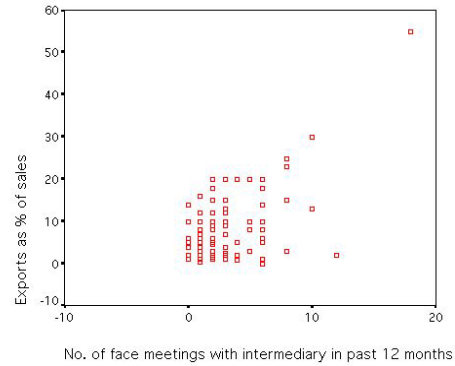
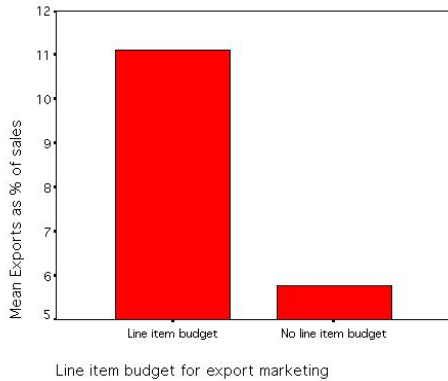
(EXPERF) scale also had a good fit with the data (average absolute standardized residual of 0.05 and Comparative Fit Index of 0.93). Thus, we could take the average of the 9 items as our measure of Export Performance. The full model was tested using a multi-stage structural equations system with 7 latent constructs measured by 26 items. This model has an average absolute standardized residual of 0.07 and a Comparative Fit Index of 0.92, providing evidence for the robustness of the results.

Results



The coefficient estimates of the full structural model are presented along the relevant paths in the above figure. All estimates are standardized and statistically significant at the $p=0.05$ level. As hypothesized, along the upper branch of our tested model, we found a positive relationship between perceptions of export barriers and management priority to the domestic market, and a negative relationship between management priority to the domestic market and export commitment. Along the lower branch of the model, as hypothesized, we found positive relationships between trust and communication quality, and communication quality and intermediary performance. Finally, and most importantly, both export commitment and intermediary performance had strong positive relationships with export performance.

To get more insight on the relationships between export performance, export commitment and intermediary relationships, we plotted additional data from our survey questionnaire. We use exports as a percentage of sales as another indicator of performance and whether a winery had a separate line item budget for export marketing as an indicator of export commitment. The bar chart on the left below clearly shows that those wineries that had separate line item budgets did significantly more exports than those that did not. The scatter plot on the right below shows that there is a general trend towards an upwardly sloping line, indicating that those wineries that had more face-to-face meetings with their intermediaries during the past year achieved better results.



Best Practices

From our empirical results, it is clear that best practices for boosting exports by US wineries encompass at least two dimensions. First, the better performing wineries have overcome the perceptions that export barriers are high. Their managers have designated exports as a high priority and supported export programs with necessary resources such as separate line item budgets for export marketing. Second, the better performing wineries have systematically cultivated relationships with agents and distributors to create win-win partnerships in export markets. Regular, face-to-face meetings with intermediaries are required to nurture such relationships.

Faced with increased competition from new-world producers in Australia and Chile, and global consolidation, US wineries have to make the transition to more professional management. One example of this was the appointment of Mr. Lewis Platt, former CEO of Hewlett Packard, as CEO of Kendall-Jackson winery in February 2000. Part of this management transition must involve education about the benefits of exports. All too often, the attitude of the smaller, family-owned wineries is that they are content with the revenue and growth opportunities in the domestic market. They do not foresee the possibility that Australian or Chilean companies may do to the domestic US wine industry what the Japanese manufacturers did to the domestic US automobile industry over the past three decades. Where US wineries, such as Gallo and Wente, have been proactive in exports, they have reaped rich rewards. Researchers, consultants and public policy makers must all get involved in this education effort to enhance the competitiveness of US wineries. Even old-world producers in France, Italy and Spain need to design and implement defensive strategies against these new competitors.

The global wine industry is evolving in the direction of becoming increasingly strategic in its orientation. The basis of competition is shifting toward brand-building through advertising, promotion and distribution, especially in the mid-tier premium segment (Wickham et al 2001). As the major players in the distilled spirits industry look for an entry into the global wine market, attractive takeover candidates will be wineries that have established brands and distribution competence. US wineries that want to improve effectiveness in these areas will need assistance in identifying available agents or distributors in different country markets. They will also need training in relationship management of alliances, partnerships and strategic networks. Consultants, researchers and industry trade associations have an important role to play in these areas.

Wineries will have to adopt the best practices of fast-moving consumer goods companies. There is need to focus on the consumer, provide higher quality at lower prices, and demystify the wine consumption experience. As retailers such as WalMart, Carrefour and Tesco expand globally, large conglomerates offering a portfolio of alcoholic beverages can leverage their size to negotiate better deals with such international accounts. Which traditional wineries succeed in this transition from the domestic to the new global marketplace will be of great interest to analysts, investors, consultants and the wineries themselves.

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