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Dorli Muhr and João Rebelo

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Dorli Muhr

Wine&Partners
Peter Jordan Strasse 6/3
1190 Wien (Austria)
E-mail: d.muhr@wine-partners.at

João Rebelo

Department of Economics, Sociology and Management (DESG) and CETRAD
University of Trás-os-Montes and Alto Douro (UTAD)
Av. Almeida Lucena, 1
5000 – 911 Vila Real (Portugal)
E-mail: jrebelo@utad.pt or joao.rebelo@mail.telepac.pt

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Dorli Muhr^{*}, João Rebelo^{**}

Abstract

Globalization is challenging the very core of organizations and firms' strategies in the traditional European wine regions characterized by a *terroir* orientation, whose context shows that their wine small and medium enterprises (SME), are probably unwilling and unable to produce large and low-cost, standardised quantities of wine, with the sales supported by heavy marketing campaigns. The main aim of this paper is to present a business strategy that can be adopted for wine SME located in regions with high production costs and where tradition and *terroir* are relevant factors, to be introduced in the decision process. To achieve this goal, it is presented the case of five small wine producer-bottlers, located in the Portuguese conservative Douro Demarcated Region (DDR), that are developing an innovative approach through the adoption of an informal horizontal network nominated Douro Boys. The analysis conducted in this work allows us to conclude that we are in the presence of a very simple and informal structure of prospectors, with a high culture of innovation, searching niches in international wine markets.

Keywords: Douro, wine, small and medium enterprises, organizational strategies, innovation

JEL classification: D23, M31, Q13

1. Introduction

Since the beginning of the 90s of last century, as consequence of the astonishing export performance of the new world producers (Australia, New Zealand, Chile, Argentina and South Africa), the long dominant and established market position of the traditional wine producers' countries (France, Italy, Spain, Portugal) is under threat. With the excess of world wine production, the traditional wine producing countries witnessed a decrease in their domestic consumption, causing the need to export and, therefore, search for new markets, mainly in regional spaces of growing demand for wine, like North Europe, North America, Japan and China.

Given the present characteristics of the market demand, on the supply side, the wine industry is facing a set of challenges that embraces the whole chain, questioning the ways of grape producing, wine making, marketing and drinking. In this context, it is important to analyze the key issues related with SME innovation and strategic behavior as a mean to increase market competitiveness. Some of the SME boost their size through organic increase, either by making new investments or by merger and acquisitions, adopting strategies similar to the larger companies, i.e. producing large quantities of wine around the world and also entering the supermarket chain, basing its activities in brand building and access to the stock market. However, the majority of wine SME looks for market niches competing with comparable size firms (Remaud and Couderc, 2006).

^{*} Wine&Partners. Peter Jordan Strasse 6/3, 1190 Wien, Austria. E-mail: d.muhr@wine-partners.at

^{**} Department of Economics, Sociology and Management (DESG) and CETRAD - University of Trás-os-Montes and Alto Douro (UTAD), Av. Almeida Lucena, 1- 5000 -911 Vila Real, Portugal. E-mail: jrebelo@utad.pt or joao.rebelo@mail.telepac.pt

In traditional wine countries it is common a debate between conservative and liberal positions (Touzard, 2010). While in this debate the conservative side emphasizes a tradition and *terroir* orientation (a focus on the grape growing site and wine practices of the region), try to restrain the legal use of technical innovations which can harm the cultural image of wine (e.g., no chips, no GMOs, ...), the liberal side, using terms such as modernity, new technologies and brands, proposes an open use of innovations, like in other commodities, arguing that conservative position is the source of the wine crisis. This debate questions the role of regulatory institutions, as well the research and business strategies adopted by SME. In this discussion another point that has been highlighted is the high transaction costs associated to the top-down complementary between grape-growers, wine makers and wine traders. In fact, while the perspective of getting Appellation d'Origine Contrôlée (AOC) label encourages players to enhance production quality, it may lead to let up on efforts to maintain product quality once the label has been obtained, interfering with the overall image of the *terroir* and raising suspicion by consumers regarding product quality.

The main aim of this paper is to present a business strategy that can be adopted for wine SME located in regions with high production costs and where tradition and *terroir* are relevant factors to be introduced in the decision process. To achieve this goal, the paper presents the case of five small wine producer-bottlers, located in the Portuguese conservative Douro Demarcated Region (DDR), that are developing an innovative approach through the adoption of an informal horizontal network nominated Douro Boys. The paper is organized as follows. Section two briefly presents some concepts related with innovation and networks, giving special attention to the wine industry. Section three includes a socio-economic background of the DDR. Section four is dedicated to Douro-Boys case. Finally, section five closes with some final remarks.

2. Innovation and networks in wine industry: an overview

Innovation is the result of a decision process by economic players that add economic value to be shared by the society. OECD identified four types of innovation related with: (a) product (a good or service that is new or significantly improved); (b) process (a new or significantly improved production or delivery method); (c) marketing (a new marketing method, including significant changes in product design or packaging, product placement, product promotion or pricing), (d) organizational (a new organizational method in the firm's business practices, workplace organization or external relations).

From an economic perspective, research on wine industry innovation, has followed two main approaches (Touzard, 2010): (a) the institutional analysis pointing out the influence of technology and institutions on economic changes in this industry, contributing to build economic regimes and major conventions of quality (e.g., table wine vs AOC wine); (b) the analysis on innovation project, such as launching a new wine, adopting a new technology or process by grape-growers or cellars. The predominance of research has been the analysis of one component of the whole process of innovation, and specially, on topics

related with technology and product, being scarce the research on firms' organizational models.

Together with the growth of the wine industry in New World Countries a systemic research on innovation appeared. This analyze was initiated by Porter (1998) in the California wine cluster and followed, for example, by studies in wine sectors of Australia (Alyward, 2004 and 2006), Argentina (McDermott, 2007), Canada (Wolfe et al., 2005) and Chile (Gwynne, 2008). Most of these works: (a) underline the role of innovation systems in the emergence and high performance of these countries in the international wine marketing, highlighting the relationships between firms and public research centers; (b) use the notion of cluster in order to assess the relationship between economic players (farmers, cellars, traders,...), research and development, government and professional organizations. Following the example of the New World, European Union (EU) also developed recently research in the wine industry cluster of France (Ditter, 2005, Remaud and Couderc, 2006), Spain (Larreina and Aguado, 2008), (Morrison and Rabelloti, 2010) and Portugal (Rebelo and Caldas, 2010). The generality of these studies are mainly concerned with the analysis of the regional innovations system and cluster, paying little attention to the networks between SME as a winning strategy in the global wine market.

The networks (Caffagi and Imacieli, 2010) are characterized by a common collective interest that can, or not, coincide with individual ones, and a contractual design (formal or informal) that needs to solve conflicts of interests concerning both the means and ends of the network. Distributional conflicts concerning the allocation of benefits, costs and risks among the partners may also arise, influencing the incentives to integrate the network. In terms of structures and governance the networks need be adapted to the external and internal environments that shape the observed activity of the main actors and above all the trustiness between them.

In the wine industry, the networks, either vertical or horizontal, are more frequent in the upper part of the chain linking grape-growers and wine makers, i.e., production networks, but are also found in stages of distribution and supply of services (Caffagi and Imacieli, 2010). The wine networks can be contractual, organizational (e.g. cooperatives, for profit and not-for profit enterprises) and mixed. Contractual relationships tend to be relatively more informal than organizational, using contracts not highly detailed. Contracts, even oral, are generally enforceable, litigation is low and disputes are generally solved through negotiations not through the judicial process.

As a business strategy, the adoption of a specific network depends on the characteristics and profile of its members. Remaud and Couderc (2006), based on a theoretical review, characterized the wine SME profile according the firms' behavior and configuration and competitive environment (Table 1). They conclude that a differentiation strategy based on a prospective behavior and on product quality image is most profitable and that the one based on defender or reactor behavior. The cost leadership is useful for a SME competing in a market dominated by price wars and the adoption of a simple or organic structure is linked to the phase of the product

Table 1 - SME profile

Firm behavior	Firm configuration	Competitive environment
<p>a) Defenders: Strives to protect their mature markets. One of their main objectives is to improve their production competitiveness.</p> <p>b) Prospectors: Lookers for new market opportunities, improving constantly product portfolio and basing their activity in a strong culture of innovation and entrepreneurial orientation.</p> <p>c) Analyzers: Stability of its offer, preferring to stay and compete in low competitive markets, being prepared to respond to unexpected market changes.</p> <p>d) Reactors: Show a passive behavior, having a complete lack of strategy and only try to survive in the markets where they compete.</p>	<p>a) Simple structure associated with marketing differentiation.</p> <p>b) Organic structure associated with new product differentiation.</p>	<p>i) Regarding price /promotion</p> <p>a) Low/Low</p> <p>b) High/Low</p> <p>c) Low/High</p> <p>d) High/High</p> <p>ii) Other variables</p> <p>a) Cost leadership</p> <p>b) Innovativeness</p> <p>c) Quality image orientation</p> <p>e) Product scope</p>

Source: Adapted from Remaud and Couderc (2006: 407-408)

3. Demarcated Douro Region: An overview

Archeological records sign the presence of vineyards in the Douro region since Roman times. However, the emergence of the present DDR dates from 1756, when it was recognized as the first demarcated region in the world, applying already a legislative framework similar to that currently used in the most famous traditional wine regions. DDR is a region where the *terroir* characteristics are present, as clearly expressed by UNESCO, when classified this region as a cultural evolving landscape and a world heritage site, according to the following: *Criterion (iii) - The Alto Douro Region has been producing wine for nearly two thousand years and its landscape has been molded by human activities; Criterion (iv) - The components of the Alto Douro landscape are representative of the full range of activities associated with winemaking - terraces, quintas (wine-producing farm complexes), villages, chapels, and roads; Criterion (v) - The cultural landscape of the Alto Douro is an outstanding example of a traditional European wine-producing region, reflecting the evolution of this human activity over time.*

DDR covers an area of 250,000 hectares, of which about 18% is occupied with vines¹. According to CERVIM (Centre for the Research, Study and Advancement of Mountain Viticulture), the DDR is the largest and most heterogeneous wine mountain region in the world, characterized by valleys strongly embedded by steep high slopes along the river Douro and its tributaries, dominated by shale and cold winters, hot summers and low rainfall. We are in the presence of hillside vineyard, being more than 40% of the vines installed in plots with a slope higher than 40% (Quatenaire Portugal / UCP, 2007), which makes mechanization very difficult and requiring manual labor, consequently, leading to high production costs.

Similarly to the oldest wine regions of Europe, the property structure in DDR is skewed. The 45,160 ha of vineyards are distributed amongst 39,506 viticulturists, an average farm

¹ The economy of the region is not quite diversified, being based on wine industry and public support services to the resident population. The region has 257,100 inhabitants, with a population density of 46.62 inhabitants per Km² and, in the last four decades, lost 40% of its population, the remainder is aging.

size of 1.14 ha. However, roughly 35% of the DDR area is owned by just 810 viticulturists, an average of 19.7 ha. Most of these farms belong to producers-bottlers and traders of Port wine. In contrast, small and medium size viticulturists are mostly members of wine cooperatives (Rebelo et al., 2010).

Two categories of wines are produced in DDR²: Porto wine³ and still wines (quality wines produced in specified region, regional wine and table wine). Historically, the main production of DDR is Port wine, a product highly regulated since the creation of DDR. Table 2 includes the wine production in most recent years.

Table 2 – DDR production

	Port wine (hl)*	Still wines (hl)	DDR Production (hl)	Port wine/ DDR production (%)	Port wine/ Portuguese production (%)	DDR production/ Portuguese production (%)
2009	773,718	552,657	1,326,375	58.33	13.19	22.61
2008	871,864	502,047	1,373,911	63.46	15.33	24.15
2007	877,405	562,786	1,440,191	60.92	14.45	23.71
2006	867,107	850,766	1,717,873	50.48	11.50	22.78
2005	845,169	873,604	1,718,773	49.17	11.63	23.65
Total	4,235,263	3,341,860	7,577,123	55.38	13.10	23.36

Source: Authors computation from data collected in *Instituto de Vinho do Douro e Porto* - IVDP (www.ivdp.pt) and *Instituto da Vinha e do Vinho* - IVV (www.ivv.min-agricultura.pt)

The DDR annual average production is 1,515,425 hl (an average of 34.60 hl/ha), around 24% of the Portuguese wine production. Port wine represents 55% of the DDR production and 13% of the Portuguese production.

Port wine and still wines have different market positions. The Port wine has a story of more than two centuries of being sold in external markets, albeit cyclical movements. Recent data (Table 3) shows that presently the Port wine is witnessing a negative phase, expressed by a sales decrease in 11% in volume and 13% in value, between 2005 and 2009 (Rebelo and Caldas, 2011).

Port wine and still face different market demands. The Port wine has a story of more than two centuries of being sold in external markets, albeit cyclical movements. Recent data (Table 3) shows that presently the Port wine is witnessing a negative phase, expressed by a sales decrease in 11% in volume and 13% in value, between 2005 and 2009. Simultaneously, in the same period, the domestic demand remained relatively stable, around 13-14%, in quantity and 15-16%, in value. Unquestionably, it is a globalized product, sold around the world, although the main market is the EU (especially France, United Kingdom, Netherland, Belgium and Germany), followed by USA and Canada (www.ivdp.pt).

² Additionally it is also produced a small quantity (almost 2% of the total production) of a fortified Douro Muscat.

³ The final product Port wine includes an average of 115 litres of brandy added in 435 of must.

Table 3 - Sales of Port wine

	2009	2008	2007	2006	2005
Domestic market					
- Volume (hl)	110,160	125,100	128,430	130,860	129,330
- Value (10 ³ euro)	51874	59578	61704	64224	63029
- Euro/liter	4.71	4.76	4.80	4.91	4.87
Exportations					
- Volume (hl)	725,940	767,070	814,050	785,250	807,750
- Value (10 ³ euro)	300,266	316,222	342,550	331,685	341,930
- Euro/liter	4,14	4,12	4,21	4,22	4,23
Total					
- Volume (hl)	836,100	892,170	942,480	916,110	937,080
- Value (10 ³ euro)	352,100	375.800	404,254	395,909	404,959
- Euro/litro	4.21	4.21	4.29	4.32	4.32

Source: IVDP (www.ivdp.pt)

Regarding still wines, only a part of the total production⁴ is sold as AOC (*Appellation d'Origine Controlée*) wines (Table 4). In the 2005-2009 production's period the share of AOC wines in still wines tends to increase reaching the maximum (71%) in 2008. The remaining production (table wine) is essentially vinified by cooperatives (Quaternaire Portugal/UCP, 2007).

In 2009, the exports of DDR's AOC wines represent around 26%, in volume, and 30%, in value, with an average price per liter of 2.97 euro in the domestic market and 3.59 euro in external markets, averaging 3.13 euro/ liter.

Table 4 - Sales of DDR's AOC wines

	2009	2008	2007	2006	2005
Domestic market					
- Volume (hl)	222,453	279,369	308,520	268,956	230,481
- Value (10 ³ euro)	66,156	70,645	70,070	62,374	51,866
- Euro/liter	2.97	2.53	2.27	2.32	2.25
Exportations					
- Volume (hl)	77,202	74,646	69,822	58,140	49,545
- Value (10 ³ euro)	27,680	26,977	25,243	20,717	16,853
- Euro/liter	3.59	3.61	3.61	3.56	3.40
Total					
- Volume (hl)	299,655	354,015	378,342	327,096	280,026
- Value (10 ³ euro)	93,836	97,622	95,313	83,091	68,719
- Euro/liter	3.13	2.76	2.52	2.54	2.45
Sales of still wines/Production of year	0.54	0.71	0.67	0.38	0.32

Source: IVDP (www.ivdp.pt)

Regarding Port wine, until 1986, there is a separation between the areas of production and trade. This separation of production (vineyards in the Douro region) and maturing / marketing (trade companies in Vila Nova de Gaia) finally went so far that even a law was passed stipulating that port wine exports could only be carried out from Vila Nova de Gaia.

⁴ The IVDP only collects systematic information in AOC wines since 2005. Regarding to table wines (no AOC wines), whose market information is controlled by the *Instituto da Vinha e do Vinho* – IVV (a national organization), there is no detailed data.

This law was not repealed until 1986, when Portugal joined the European Union and its abolishment led to a true revolution in wine growing in the Douro region. The law of May 8, 1986 decreed that wine producers in the Douro region were entitled to export their products independently. However, some limiting conditions continue to exist. Vineyards must have at least 150,000 bottles and sales inventory for three years in store. In addition, the sales may only involve bottles and not casks.

The new ordinance initially only benefited the shippers who already owned *quintas* in the Douro region and were now able to market independent brands of single-quinta wines. Since the limitations mentioned above only apply to Port wine, the production of red wine (still wines) has seen increased immensely and new and interesting wines are being introduced to the market every year. The producers who previously only delivered grapes are now producing wine on their own and are gathering more experience with the vinification and cultivation. They increasingly understand how to make the best of the soil and the typical characteristics of their farms and are gaining more self-esteem.

4. The Douro Boys informal network⁵

As mentioned above, many growers in the DDR both with the Portugal's entry into the European Union (1986) and attracted by the demand of the international market for high end wines, started to develop their own label and bottled their wines themselves rather than selling the grapes to Port wine shippers as they did for nearly two centuries. These new start-ups produced red still wines predominately. While these new brands made by well known Portuguese families found heavy demand in Portugal, the entrance into international markets became quite difficult, as the wine growing region of the Douro was not known at all, and therefore did not represent a category to be included in the wine lists and shelves.

In 2003, the quality wise leading producers of the Douro Region (Quinta do Vallado, Quinta do Crasto, Quinta do Vale D. Maria, Quinta do Vale Meao and the port wine house Niepoort that also has opened a "table wine" range in the late 80s) discussed how they could put together their efforts to be able to gain more weight and importance on the international market. The goal was to "put Douro on the map", and to make sure that DDR would become an individual category in the check list of each wine buyer of the world.

It was clear from the very beginning, that the five producers would not cooperate in any commercial activity, and that the goal of this joint effort was not also to make the five brands better known, but that the common interest should only and exclusively be to build awareness for the Douro region worldwide. The parallel sales and marketing effort is exclusively the job of each of the five companies – a much easier job, once the appellation is known.

⁵ The described in this section is mainly based on knowledge that the co-author Dorli Muhr learned as a consultant in the conception, design and implementation of the Douro Boys project and also in oral and written information provided by each firm of the group.

The decision was taken to concentrate on Public Relations (PR) only: events, press releases and communication for wine experts (such as media, trade and gastronomy) in the target markets. The group also decided not to build an association or formal organization – the Douro Boys were and are an informal network: just five entities that in some occasions show their wines together, and in many others work individually and even compete against each other.

4.1 PR Strategy

The fact that the DDR was not known for the production of still quality wines, can be considered an advantage: the image and positioning of the region was not set, yet, at least concerning still wines. Ports were connected mostly with the big shippers, not to the *terroir*, who dominate the world market and very often led to heavy price competing wars. From the very beginning it was clear therefore that the group would focus on (red) AOC wines and adopt a “top to down” strategy: positioning the DDR as a high end wine region and as a new discovery for wine experts and wine lovers.

The PR Strategy was split in two chapters: All “Theory” = communication about the wines themselves - has to be very serious, rather technical, trying to explain the natural and scientific background conditions of the very individual character of Douro wines. In contrast to this serious and pedagogic content, the “Praxis” = moments of where and when the wines are consumed - will be relaxed, informal and driven by friendship.

The “informal” praxis was an important differentiation’s decision. The “serious” and more scientific approach to wine is usually adopted by French Châteaux or big international companies that also in their way to serve and consume wines are very formal (black tie dinners, elegant cocktail receptions.). The Douro producers wanted to highlight their small family owned structures and their direct connection to the earth by a more relaxed and distinctive attitude. It was agreed that no artificial title should be created for the group of five producers. As the main goal was to “put the Douro on the map” it was clear that “Douro” should be the focus of their title. Adding “Boys” to the Douro was the way to highlight the informal attitude of the group.

Douro wines are not “easy drinking” ones. Due to their high acidity and tannin contents they are mostly appreciated by experienced wine lovers. Therefore it was agreed, that PR efforts shall be focusing primarily on mature markets (Western Europe, USA) as well as on Portuguese speaking countries/territories (Brazil, Angola, Macau) where the character of Douro wines is already known. Within those markets “Generation Treaters” (experienced wine lovers with high knowledge and regular consumption of rather expensive wines) are the chosen target group.

4.2 PR activities and outputs

“Theory”: an in-depth presentation was created that explains the very special climate and soils of the Douro, the great potential of the original varieties, the historical development of the Douro wine industry, as well as the individual manners of wine making in the Douro. In seminars and workshops, this presentation is shown to the trade, to the press and

to sophisticated sommeliers around the world in order to provide them with sales-support, stories and background data. Wine professionals in all leading markets attended this seminar: in Germany (Hamburg, Munich, Frankfurt, Düsseldorf), Switzerland (Zurich), UK (London), USA (New York, Washington, Chicago), Denmark as well as in Angola, Macao, Japan, Hong-Kong and Shanghai. For 2011 events in Brasil are planned.

“Praxis”: the Douro Boys have become famous for their parties and unconventional events. Legendary is a “pool party”, organized regularly during Vinexpo in Bordeaux. While most of the companies with high end wines focus on high end events, the Douro Boys invite their customers from all around to world to jump into the refreshing water and have a relaxed garden party in swimming trousers instead of wearing white tie and formal dresses.

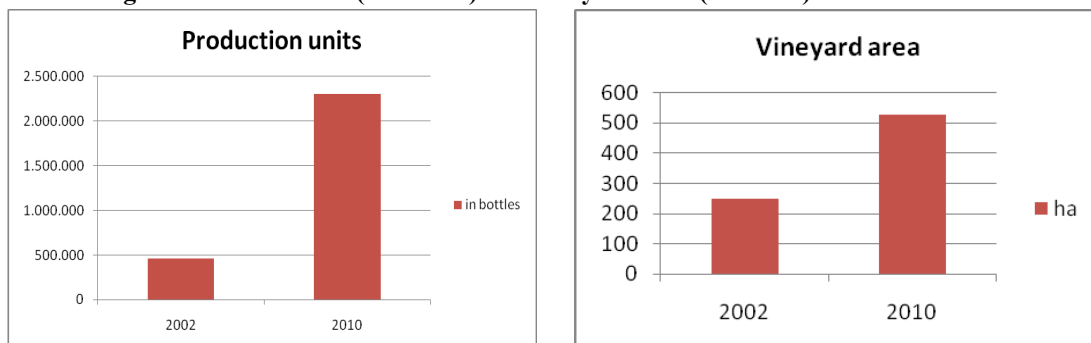
“Press Support”: little was known on the Douro, only a few people have visited this spectacular region. Therefore the most important duty was to deliver tailor made information to the press, and - most of all – impressing pictures. When the Douro Boys started their press relations in 2003, from the very beginning they got a sensational media output due to PR material that was perfectly adapted to the requirement of wine and travel journalists. The wines of the Douro Boys members have been highly rated and awarded in the past 8 years, in national and international magazines and newspapers. Recent ratings in the leading international wine magazines can see in Annex 1.

4.3 Economic evolution of Douro Boys members

Closely related to the Douro Boys PR strategy and inherent increase in wine sales, its members have been expanding production capacity, both in terms of grapes and winemaking structures. Annex 2 includes a brief description of the economic evolution of each firm.

In 2002, the five members were relatively equal in size and production of still wines. In the past 8 years the Douro Boys all together have grown (Figure1) from 240 to 526 hectares of vineyards, and from 460.000 to 2.300.000 of produced bottles of still wines⁶, an increase of 119% and 400%, respectively.

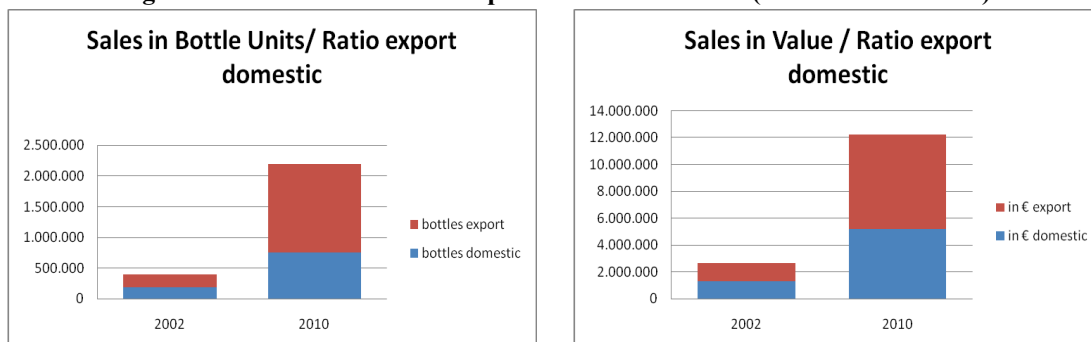
Figure 1 – Production (in bottles) and vineyard area (hectares) in 2002 and 2010



⁶ The Douro Boys concentrate its attention in the great potential of the still wines, not in Port wine, to increase the production and sale in domestic and export countries. Data of each firm have been collected and analyzed in February 2011.

As expressed in Figure 2, in 2002 the domestic and external market had almost the same weight and the average ex cellar price per bottle was almost the same in Portugal and in external markets. In 2010 the bottle units in export grew above average compared to the value of exports. In the past 8 years the average ex cellar price for export has fallen from 6.42€ to 4.68€ (to the DDR, in 2009 this price is 3.13€ - see Table 4). But the total sale in bottles units increased from 200.000 bottles to 1.450.000 bottles and in value 1.300.000 € to 7.000.000 €, which is an increase of 625% and 438%, respectively.

Figure 2 – Domestic sales and exports in 2002 and 2010 (in bottles and value)



Some of the Douro Boys created special brands for the world market with a slightly lower export price, assuming a cleat Top-Down strategy, i.e., they started to increase their image in the exporting countries and sold mostly high priced wines, than sold wines with lower ex cellar prices, and increased both bottle units and value. Some of them have “just” doubled their sales in bottles, since 2002, but raise ex cellar prices as well.

Figure 3 includes information on exports in 2002 and 2010. In 2002 the top exporting countries were Europe (UK, Germany, Switzerland and the Netherlands) and the USA. Until 2010 the Douro Boys increased the range of exporting countries mostly to Europe (UK, Germany, Switzerland, Poland, the Netherlands, Denmark, ...), to Brazil, to China and USA.

Relatively to the domestic market, while the production has increased by 227%, the average price per bottle is almost the same (2002: 7,17€; 2010: 6,91€, 2.2 times the average of DDR).

4.4 Self assessment

Whereas nine years have elapsed since the beginning of the network and the size of the firms has increased significantly, each one was demanded to make critical analysis (in five/six lines) of the network, highlighting their strengths/weaknesses and opportunities/threats, as well what should be the path and future developments, taking into account the present international wine environment. The opinions are the following:

– **Quinta do Vallado**

Although built in 1716, and belonging to the same family (Ferreira) since many generations, the first real challenge, in terms of the marketing of our wines, only happened approximately 20

years ago. In fact, until then, our activity was limited to the production of Port wines, which were sold 'in bulk' to our Family's Port House- Ferreira.

But when we decided, in the nineties, to start a new project, involving not only the production, but also the bottling, and marketing of our wines, focusing on dry wines, and with a new brand, we soon found out that we were too small, and with limited means, to show to the world a new brand from a region which was not 'on the map' for still wines.

By chance, we found out that, at the same time, a few other producers, with similar size, and 'business culture', were facing similar challenges. Therefore we joined our forces.

The idea was good, we made a plan, and it was successfully implemented:

- Access to the most influential wine, travel and generalist media in the world*
- great exposition in these media*
- great ratings to our wines, result of the quality, but also of the 'exposition'*
- strong contribution to the image of the 'Douro Valley'*
- strong impact in the recognition, and image, of our brands*

And all this was achieved with 'limited and affordable' means. "

João Alvares Ribeiro, Quinta do Vallado

– Niepoort

Niepoort has a long history going back to 1842, starting as a negociant. It always was a small company that didn't own any real estates (not even the lodge in Vila Nova de Gaia).

The change started by buying the Quinta de Napoles in 1987 to produce ports and Douro wines. In the first phase (1987 to 1999) Niepoort had no financial means and made everything under bad conditions. Phase 2 (till 2004) brought some steps in being more professional and creating better conditions for making and aging the wines. Phase 3 started with the entrance of a fine winemaker, Luis Seabra, and going more and more natural and making better, finer more distinctive wines. Phase 4 consists in building a new Winery at Quinta de Napoles and buying the Osborne Cellar in Villa Nova de Gaia – both giving space, capacity and logistic capacity to grow. This step is crucial for the quality of our wines.

Creating the group of Douro Boys was important for the Douro, for Portugal and for Niepoort in helping the Momentum of phase 3 and phase 4. Niepoort more than doubled turnover from 2002 to today and is about 4 times the size in turnover from 1987. in Property we went from 0 to 62 hectares today.

The Douro Boys have done more for Douro and Portugal in 7 years than all the other producers together in 20 years. The great thing about the Douro Boys is the fact that we are not too many. We have 5 fantastic producers each with a different style. Very different styles indeed which is important and healthy.

We got a driving force that keeps the "organized" and working in the right direction with meticulous work and creative actions.

Dirk van der Niepoort, Niepoort Vinhos

– **Quinta do Crasto**

Our new project with Quinta do Crasto started in 1994 with the first production of a Douro wine and selling older stocks of Vintage and Late Bottled Vintage Ports.

Until 2002 we had great challenges and tremendous efforts to succeed in the international market once Portuguese wines were practically unknown.

With the creation of the Douro Boys project in 2002 new opportunities came along and we were able for the first time to gain access to key media and opinion makers in the wine world.

With the recognized high quality of the Douro Boys wines, although some wines are produced in very small volumes, we were able to create a critical mass for Douro wines around the world and today we can clearly see very positive results, although there is still a great deal of work to be done.

With the unique natural conditions of the Douro valley, our indigenous native varieties and historical background of each of our family owned Quintas we can certainly aim for higher goals in the future and the potential is enormous.

Miguel Roquette, Quinta do Crasto

– **Quinta do Vale Meão**

The Douro Boys project started in 2002 and we had just launched our first wines one year before, so practically for us there is no “before and after.”

Wine is probably the most scrutinized product in the world. When you aim at the high end of the market you must gain access to the different media that deal with wine in order to have your wines favourably reviewed, and this implies not only a total commitment towards quality but also to attract the attention of those media. The Douro Boys formula has proved to be very effective since we obtained coverage in the media that would be unthinkable if each of us would act individually and definitely contributed to “put the Douro on the map.”

Our main strengths are of course the quality and originality of our wines but also the historical background of our properties and our families, the attractiveness of the Douro landscape, and the fact that our visitors are welcomed by the very owners of the estate.

I see the use of social networks and the promotion in the emerging markets (Far East, South America, Eastern Europe...) as the main opportunities we should exploit.

Francisco Javier Olazabal, Quinta do Vale Meão

– **Quinta Vale D. Maria**

At the end of 1993, when leaving Quinta do Noval, it was my ambition to contribute to the development of independent producers in the Douro, thus not only contributing to the establishment of a new and strong wave of innovation in the region, but also complementing, and at the same time diminishing, the Region’s dependence on one single type of wine: Port.

The richness of the Douro Region and its promotion could be developed into new fields using the different characteristics that make it unique in the world - its geography, soil and microclimate; the numerous different high quality native grape varieties; the different style of wines those grapes can produce, from all styles of Port and other fortified wines (Muscatels) to white and red still wines; all the different properties (Quintas) and their ancient history. All serve to accentuate and enhance the uniqueness of the region.

*Following these guidelines, I started to develop different wines and Ports produced exclusively from grapes grown in different Quintas. After having started, in 1994, helping projects owned by different proprietors, namely Quinta do Crasto and Quinta do Vallado, it was very natural to start looking at having my own vineyards. **Quinta do Vale D. Maria** was acquired from my wife's family in 1996.*

Here, at Quinta Vale D. Maria, with its old vineyards full of an extraordinary diversity of grape varieties, I was able to consolidate the idea of the Douro's uniqueness in producing completely differentiated wines of a world class quality. This was achieved also by complementing the most modern oenological technology with the most traditional way of making wines in the Douro: using lagares and foot treading.

Both at Quinta Vale D. Maria and at the other projects I was working with back then, it was very clear to me and the rest of all our friends that only a full cooperation between all of those in full motion in the Douro, Niepoort and later in 2001 Quinta do Vale Meão, would enable the region and all of us to create the sufficient critic mass to present ourselves into the world of wine with the maximum strength.

The birth of the Douro Boys came as the natural step by turning the original very informal cooperation between all of us into a more formal, organized and thus effective group of producers.

As a group we were able to spread our actions across the wine world, both together and in our different individual travels. We were also able to show around that the Douro wines' quality was not just a matter of luck or individual achievement but a real movement across the region, with a capacity to extend many different quality brands around the world.

With us together were able to make the Douro region say a much stronger "Present" in the world of wine.

Cristiano van Zeller, Quinta Vale D. Maria/Van Zellers & Co.

5. Conclusions

Globalization is challenging the very core of organization and firms strategies in the traditional European wine regions characterized by a *terroir* model, whose context shows that its wine small and medium enterprises (SME) are probably unwilling and unable to produce large and low-cost, standardised quantities of wine, with the sales supported by heavy marketing campaigns.

The research applied to SME wine strategy shows that inter-firm networks are able to take advantage from knowledge-based interdependence connecting the several enterprises as knots of the networks. This normally creates an environment in which participants are prone to cooperate and discouraged from exiting or defecting. For it to be profitable and enforceable, it implies the need for an adequate governance model.

The Douro Boys case shows how a very single and informal network can be the engine of a strong development of small producers located in a region where the famous Port wine is produced, but its still wines were unknown at all, and therefore did not represent a category to be included in the wine lists and shelves. This informal association has been active in the wine international market through collective presentation of its wines in tastings, fairs

and other events. A coordinated strategy for the distribution of wine abroad is not an objective and has appeared only by chance. The possibility of more formal coordination has been discussed, but not advanced, due to the difficulty in defining reciprocal obligations, in costs and benefits.

The positive economic results of the initiative can be associated to: (a) a clear objective (concentration only on public relations, essentially in marketing differentiation) and an adequate model of governance (simple and informal network); (b) members that are prospectors (lookers for new market opportunities), having a strong export orientation and a high culture of innovation on product, process and marketing.

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Annex 1 – Ratings of Douro Boys wines in leading international wine magazines, in 2010

United Kingdom	USA	Other countries
<p><u>Decanter World Wine Award</u> Regional Trophy Winner, Quinta do Vale D. Maria 2006 Gold Medal, Quinta do Vale D. Maria 2006 <u>International Wine Challenge,</u> Gold Medal, Quinta do Crasto Red 2008 <u>Steven Spurrier, Decanter, January 2011</u> “Meandro 2008. The 'second' wine made by genius Francisco Olazabal from a blend of eight local grapes, dominated by Touriga Nacional. Full of fruit and spice, fleshy yet firm with a true Douro grip and very good value. Drink 2010 - 2016.”</p>	<p><u>The Wine Advocate</u> Quinta do Crasto Vinha da Ponte 2007 (95 points) Quinta do Crasto Reserva Old Vines 2007 (94 points) Niepoort Redoma 2007 (94 points) Quinta do Crasto Vinha Maria Teresa 2007 (93 points) Niepoort Vintage 2007 (93 points) Niepoort Redoma Reserva Branco 2008 (93 points) Quinta do Vale Meão 2008 Douro Red (93 points) Quinta do Vale Meão Meandro 2008 (90 points) <u>Wine Spectator Magazine. Top 100</u> rank 22, Quinta do Vallado Douro Reserva 2007 (96 points) Other ratings in 2010: Quinta do Crasto Vinha da Ponte 2007 (96 points + Spectator Selections) Quinta do Vallado Douro Reserva 2007 (96 points + Spectator Selections) Quinta do Crasto Vinha Maria Teresa 2007 (95 points) Quinta do Vale Meão red 2007 (95 points) Niepoort Vintage 2007 (95 points) Quinta do Vallado Touriga Nacional 2007 (94 points) Quinta do Crasto Reserva Old Vines 2007 (93 points) Quinta Vale D. Maria 2007 (93 points) Quinta do Vallado red 2007 (93 points) Quinta do Vallado Sousão 2007 (92 points) Niepoort Redoma Tinto 2007 (91 points) Niepoort Charme 2007 (91 points) Quinta do Vale Meão Meandro 2007 (91 points) Niepoort LBV 2005 (90 points) <u>Wine Enthusiast Magazine</u> The Top 100 Cellar Selections of 2010 contain 6 Douro wineries, 4 of them are Douro Boys quintas: rank 49, Quinta do Crasto Reserva Old 2008 (94 points) rank 67, Quinta do Vallado Reserva Field Blend 2007 (94 points) rank 93, Niepoort Batuta Tinto 2008 (94 points) rank 99, Quinta do Vale D. Maria Tinto 2007 (93 points) <u>Wine & Spirits Magazine</u> The Top 100 wineries of the world Quinta do Vallado and Niepoort Other ratings in 2010: Best Douro red wine, Quinta do Vallado reserve field blend 2007 (96 points) Niepoort Charme 2007 (94 points) Niepoort Vertente 2007 (90 points) Quinta do Vallado red 2007 (Selection of best 12 red wines from Douro Valley)</p>	<p><u>Wine Access Magazine, Canada</u> Top 101 Wines of 2010 rank 12, Quinta do Crasto Douro Reserva Old Vines 2007 (95 points) <u>Leading Danish Newspaper BT</u> 5 stars, Quinta do Vale Meão Meandro 2008 <u>Hong Kong International Wine and Spirits Fair</u> Gold Medal, Quinta do Vale Meão Meandro 2008 <u>V International Wine Contest, Brazil</u> Gold Medal, Quinta do Crasto Reserva Old Vines 2007</p>

Annex 2 – Economic evolution of Douro Boys members

Quinta do Vallado

Quinta do Vallado was first mentioned in 1716. The history of Quinta do Vallado can be divided in 2 different periods. Since its foundation, and until 1987, the main activity was the production of Port wines (Ferreira). The second period started in 1990, when the main activity became the production and commercialization of white and red still wines, under the brand “Quinta do Vallado”. When starting with the Douro Boys project, Quinta do Vallado was cultivating a total wine growing area of 63 hectares. Now, in 2011 the quinta cultivates 105 hectares of vineyards. The production of wines in bottles has increased by 300%. In 2009 the cellar was increased and a new fermentation warehouse and aging warehouse, with a capacity to hold up to 1200 barriques, were built. In 2005 Quinta do Vallado has inaugurated a “Country Hotel” in the historic main Quinta building. In 2011 more guest rooms will be added.

Niepoort

Niepoort was established in 1842 and had been a classic port wine shipper until the late 1980s. In 1987, Niepoort started to have vineyards on its own. Quinta do Carril and Quinta de Nápoles included 25 hectares of old and new planted vineyards. The first red wine “Robustus” has been vinified in 1990. Redoma, Batuta, Charme and Vertente followed in the upcoming year. Since starting with the Douro Boys project, Niepoort has increased the size of vineyards from 42 hectares in 2002 to 70 hectares in 2010. The wines of Niepoort have been known in international markets already before the foundation of the Douro Boys, and the image of Niepoort and the charismatic owner Dirk Niepoort has opened many doors and magazine pages to the Douro Boys group. Niepoort itself has created a new table wine with exciting labels for each different market, *Diálogo* in Portugal, and set the base for an incredible export success with this typical Douro wine.

Since the 2007 harvest, the wines are vinified in the New Quinta de Nápoles cellar. A luxurious cellar in terms of space: throughout 5000 sq. m. of space, there is plenty of room for many small details that function perfectly and are remarkable in quality. After nine years of planning, the cellar was built – in just nine months.

Quinta do Crasto

Quinta do Crasto was first mentioned in 1615. Since 1994 it is an independent self-marketing quinta, and apart from the fundamental part of port wine for every Douro quinta, started with red wine vinification. Now, only the very best port wines are bottled under the label of Quinta do Crasto, the remaining wines are sold in bulk to Port shippers. In 2002 the vineyard area had a total size of 70 hectare, now it has increased to 230 hectare of vineyards. Quinta do Crasto invested in modernizing the vineyards. The production of wines in bottles has increased by 200%. Also Quinta do Crasto is investing in wine tourism. In 2011, Quinta do Crasto will open a wine shop for Douro Tourists.

Quinta Vale D. Maria

The history of the brand “Quinta Vale D. Maria” started in 1995, when Cristiano van Zeller purchased his first vineyard “Quinta de Vale de Mina”, to which he added Quinta do Vale Dona Maria in 1996. In 2002, when starting with the Douro Boys project, he had a total area of 15 hectares of vineyards. Now he produces wines from 40 hectares of vineyards. The production of bottles increased by 200%. In the last years a guesthouse has been constructed and the old lagares remodeled along with the construction of a new press house and a maturing cellar.

Quinta do Vale Meão

The history of Quinta do Vale Meão dates back to 1877, when great grandmother of owner Francisco Javier de Olazabal, legendary Dona Antónia Adelaide Ferreira purchased these 270 hectares of land. In 1998, Francisco Javier de Olazabal, former president of A.A. Ferreira, and his son developed the project “Quinta do Vale Meão”, and launched the first wines in 1999. When starting with the Douro Boys project in 2002, the quinta cultivated 50 hectares of vineyards. Today Quinta do Vale Meão cultivates 81 hectares. The production of bottles has increased by 200%.