Bordeaux 2016 Abstract Submission

Title
Competitive advantage and strategies of wineries of Castilla-La-Mancha (Spain)

I want to submit an abstract for:
Conference Presentation

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Keywords
Competitive advantage
Wineries
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Performance

Research Question
The purpose of this paper is to identify which are the strategies of the wineries that enabled competitive advantage in a changing context.

Methods
We use a unbalanced panel that includes 146 wineries. The method used is the Pooled Cross Section Time Series Technique, with the correction of Driscoll and Kraay

Results
Preliminary results identified different strategies related with the Corporate Governance and the Crisis Period. The strategies developed have been different between the capital-ownership structure.

Abstract
The purpose of this paper is to identify which are the strategies of the wineries that enabled competitive advantage in a changing context (New regulation of the CMO of wine in 2008) and at the same time has faced an economic crisis.

Castilla-La-Mancha –CLM- (Spain), the area chosen for study, is the greatest world producer of wine, with 470,000 ha and an average of 23 million hl per year (Magrama, 2015). The wine sector in the region, includes big wineries with national scope, i.e. García-Carrión and Félix Solís Avantis, and smaller ones (medium size), i.e. Marqués de Griñón or Osborne that develop a great commercial activity. Moreover, in CLM the presence of cooperatives is very important and representing over than 70% of the regional base wine production (15 Mill hl per year are manufactured by the coops). These cooperatives are integrated in higher level cooperative organization, such as cooperatives of second-order or third-order, shared with other food products.

The 21st century is still the major transformation of the wineries of CLM, as a consequence of the changes in their commercial activity. Hence in the 2000 year, CLM exports barely 2.8 Mill of hl, and in the year 2014, this rate achieves 11 Mill. In 2011, the exportations registered a record: 13 mill. hl. This situation is partly explained by the reduction of production’s costs as a consequence of changes in the CMO (Common Market Organization) regulation after 2008. Significant changes in yield by hectare, have become Castilla-La-Mancha in the most competitive region in the world based in prices.

New varieties of wine has been introduced with the aim to be approached to the Anglo-Saxon tastes. The result has been a growth in turnover of these markets, that permits increase the exportations of the SMEs wineries.

In addition, CLM is the largest recipient of EAFRD (European Agricultural Fund for Rural Development) funds. EU budgeted 267.7 Mill. € for Investments in Agri-Food Firms for the period 2016-2020 in CLM, mainly for wineries. This policy changes the strategies of the wineries to be competitive.

Against this background, Castilla-La-Mancha is an ideal space to understand the changes in the EU wine market.

For the purposes of this paper, we measure the Competitive Advantage of the wineries with different ratios. We use traditional ratios such as ROA or ROI.

Also, we consider the appropriateness of these ratios to measure the performance in the cooperative sector. Traditional ratios of profitability don’t reflect the objective of the cooperatives. For the non-profit organisations, the main purpose is the maximization of the income of cooperative’s membership. In view of these circumstances, we propose other measure, Profitability of cooperative member, and we compare the suitability of these measures for the different Capital-ownership structures.

The Competitive Advantage can be explained by different strategies adopted by the wineries, such as a Commercial, Financial or Investment strategies. All of them conditioned by variables of context (Size, CMO regulation, Capital-ownership structure)

With these indexes, we propose to test the following hypotheses:

H1: The Competitive Advantage can be achieved by the same performance measures, regardless of Capital-ownership structure.

H2: The context variables (Size, CMO Law and Economic Crisis) impact same way in the Competitive Advantage

H3: The strategies adopted by the wineries, change the Competitive Advantage in terms of Commercial Activity, Financial Structure and Investments.
We examine these relationships empirically. Our sample consists of the financial and income statements of wineries of Castilla-La-Mancha (code 1102 of Spain’s National Registry of Economic Activities) that operate in the region during the period 2004-2010. Financial statements of Participatory wineries are summarized in the SABI database (http://www.bvdep.com/SABI.html). The information of Cooperatives has been extracted of the Cooperative Registrar’s Office.

Our sample consists by 102 private wineries and 44 co-operatives. This sample is representative in terms of sales and production. Last, an unbalanced data panel was formed for the 2004-2010 period.

We measure the competitive advantage, as the difference between profitability and the average profitability of its industry. This measure identifies the position of the profit of the winery in his sector and is especially relevant during the crisis period, when the growth is not a real situation. (Amadieu, 2013)

Also, we discuss about the suitability of the profit/performance, when the objective function is not the same for the participatory and cooperatives wineries. We use ROA, ROI and Profitability of membership.

The independent variables are related with the different strategies developed by the wineries, classified by topic. The economic period distinguishing between pre-crisis and crisis. Capital ownership structure identifies Participatory and Cooperatives wineries.

Commercial strategies: Three variables for measure the commercial activity, First, if the winery exports or no (as a consequence of CMO law transformation). The Market Share to identify different roles in different market niches. Finally, Market segmentation to identify strategies related with the bulk or bottled commercialization.

Financial strategies: We measure the Total Solvency, to explain the chances of survival long term and the financial constraints to explain the troubles to the access of financial resources.

Investment strategies: the modernisation of the wineries is one of the most important changes during the 21st century. We measure the Replacement Policy and the amount perceived by the wineries of the EAFRD program.

To develop this study the Pooled Cross Section Time Series Technique has been used. The reasons, were, firstly, better fitness to the available data, because it is an unbalanced panel data model and has a higher dimension of the transverse section than the temporal section. The second reason was to guarantee valid statistical inference in the presence of a non-constant variance and an error of autocorrelation. Driscoll and Kraay propose an estimation of the variance and covariance matrix of the estimated parameters, which provide robust standard deviations with heteroscedasticity and autocorrelation in unbalance panels independently of the dimension of the transverse section.

Preliminary results (Castillo-Valero et al, 2015, Simon-Elorz et al, 2015) have identified, partially, the features of the Capital-ownership structure and the strategies adopted by the wineries to explain the performance.

Now, we go one step further in the study of Competitive Advantage, through the analysis of the strategies adopted by the wineries and the differences related with Capital-ownership structure.

References

