

## Padua 2017 Abstract Submission

### I want to submit an abstract for:

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### Keywords

New Zealand, wine exports, marketing, growth, internationalization

### Research Question

By which options can resource-limited wineries from a small market like NZ internationalize to large markets like the US?

### Methods

case study archival research and interviews

### Results

We discuss three models: Model I, incremental growth over time; Model II growth by means of acquisitions and mergers; and Model III internationalization by alliance.

### Abstract

Context

Montana Wines was approximately the 20th New Zealand winery to penetrate the US market. Unlike its predecessors, Montana Wines entered this highly regulated market by means of an innovative strategy - the use of symbiotic marketing. Such a strategy had been used before. For example, when - because of its foreign status - British Airways was not allowed to fly internal domestic routes within the highly regulated Republic of South Africa, it entered an agreement with a local franchisee who was allowed to do so by virtue of being a local firm - and the latter did so in airplanes painted with British Airways livery and crew wearing British Airways uniforms. In the wine sector, Montana pioneered the use of symbiotic marketing by a winery seeking to enter a highly regulated market.

Theoretical Positioning

Traditionally, small firms catered to local markets, while international business was the realm of large multinationals with prevalent access to resources (Dana, Etemad, and Wright, 2000). Hence, internationalization theory focused on large firms with adequate finances as required for the hefty expenditures involved in internationalization.

How, then, could one become large enough to internationalize? We identify two common means: Model I, incremental growth over time and Model II growth by means of acquisitions and mergers. In either case internationalization was time consuming, costly or both. A more innovative, less capital-intensive alternative is also possible - international marketing by symbiosis.

New Zealand

Traditionally, NZ wineries began to export after 8 years (growth stage) of existence, and looked to do so via international wine shows and press (Beverland and Lockshin, 2001). The first significant exports of NZ wine

commenced in 1963 and totaled a modest \$41,000 in value (Wilson and Goddard, 2004). Exporting was the key agenda for the formation in 1976 of the Wine Institute, which recognized the significant opportunities for quality New Zealand wine exports (Mabbett, 1997). The value of wine exports increased to \$700,000 by 1980, and by 2004 had reached over \$760 million (Wilson and Goddard, 2004).

Wine overtook wool exports in value for the first time in 2007, when – according to New Zealand Winegrowers Association (NZWG) – the industry sold a billion glasses of wine in nearly 100 countries in 2007 (Wine Institute of New Zealand, 2007). In terms of the significance of exports to the New Zealand wine industry, total production was 147 million liters that year, with 76 million being exported and 51 million liters being sold domestically. These figures would suggest a huge reliance on the success of New Zealand wine in foreign markets.

The wine industry appears to have benefited from a halo effect from advertisements used abroad promoting tourism in New Zealand, which emphasizes the freshness and purity of New Zealand's landscape (Wilson and Goddard, 2004). The Wine Institute of New Zealand was instrumental in developing a generic New Zealand marketing brand that has developed an international reputation for high quality wines that demand premium prices in the major export markets (Wilson and Goddard, 2004).

### Montana Wines

Entrepreneur Ivan Yukich planted vines in 1934 and made his first wine sale in 1944. It was 1961 when his sons established Montana Wines, which was operated as a family business. Their first export was in 1980. Clearly, Model I applies here.

In 1986 Montana Wines took over a facility of Penfolds NZ. In 2000, Montana acquired Corbans Winery. In 2001, UK-based Allied Domecq paid \$1 billion for Montana Wines. In 2005, Allied Domecq was acquired by Pernod-Ricard, N°2 in the wines & spirits sector worldwide. Model II made possible rapid change.

### The US

The US wine market presents a huge opportunity for any New Zealand winery. The sheer size and expenditure of the market provide a massive incentive for wineries from around the world to enter at the prospect of increased sales and huge product exposure (Cholette, Castaldi and Fredrick, 2005). The difficulty of entry is matched by the difficulty to which is it to succeed in a market riddled with regulations and saturated with cheaply produced wine (Foster and Spencer, 2002).

Rather than use a slow Model I approach or costly Model II strategy, Montana opted to enter the US market by means of a trade partnership with a party capable of symbiotic marketing. The selection of the optimal partner took almost 18 months and was in essence a function of philosophical and cultural fit between the two partners (Beverland, 1998). Agreement was finalized with the leading fine wine importer and distributor in the US, Seagram Chateau and Estate Wines Co. This was a formal arrangement in which both parties had long-term goals to achieve. For Montana, the objective was to efficiently penetrate the US market. For Seagram Chateau, the objective was to increase profitability by sourcing wine from NZ. The final agreement was very much based on an equal partnership with both parties investing in the process. Due to the way the relationship was formed, both partners are able to react very quickly to any changes in the market place. Ultimately it was the relationship between the people that made the process a success.

Symbiosis helped Montana acquire knowledge in areas such as technology, packaging, labels, distribution, and markets. US consumers associated the name Montana Wines with the State of Montana, rather than with Montana Wines vineyards in Marlborough, New Zealand, and the name Marlborough further caused confusion, being associated not with New Zealand wine, but, rather, Marlboro cigarettes. Hence, Montana Wines were marketed in the US under the brand Brancott Estate.

### The Lesson

This case illustrates how, a firm from a small isolated economy can accelerate its internationalization process and achieve success beyond what it could have achieved alone.

In order to develop its capabilities and to become successful Montana developed and maintained relationships with various network partners. Training and knowledge sharing amongst winemakers both internally and through national and international networks allowed Montana winemakers to improve their skills and to create quality wines for which they have won several national and international awards (Chetty, 2005).

Manufacturing technology was acquired through the company's relationship with two French wineries, Champagne Deutz and Cordier. This technology improved product quality and provided the product differentiation essential for Montana's international expansion. Montana was also been allowed to use the Deutz brand on its wine label

greatly helping increase international sales (Campbell-Hunt, 2001).

The signing of Montana's symbiotic marketing agreement created history not only for Montana but also the New Zealand wine industry and its growth as a player on the global wine market. While it came at a time where the New Zealand wine industry was growing rapidly as it was, the alliance provided an example for other New Zealand wineries to follow and showed it was possible for a relatively tiny wine producing company to succeed in such a huge and competitive market (Beverland, 1998). Exports of New Zealand wine into the US rose 60-fold in 10 years (Gaiter and Brecher, 2007).

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