Padua 2017 Abstract Submission

I want to submit an abstract for:
Conference Presentation

Corresponding Author
Matteo Migheli

E-Mail
matteo.migheli@unito.it

Affiliation
University of Torino

Co-Author/s

Name	E-Mail	Affiliation
Valentina La Porta		University of Torino

Keywords
Growth strategies; wineries; Italy

Research Question
Which type of growth (i.i. internal or external) increases the profitability of wineries most?

Methods
Balance sheet data analysed through econometrics

Results
Investments in innovation are those, which increase winery profitability most.

Abstract
Firms adopt different strategies to grow. This growth entails several economic variables such as sales, employment, market shares and profits. Some strategies are based on mergers and acquisitions (so-called external growth), others on increasing the number of plans and/or on expanding those already existing (so-called internal growth). The extant literature shows that both strategies are able to increase the profitability of a firm. However, the current research has paid little attention to the growth strategies used by wineries. These are particular firms, as they belong to the primary sector (where internal growth has been the most used, if not the only, expansion strategy for centuries), and the quality of the product depends crucially on the location of the vineyards. In this paper we explore the impact of the different expansion strategies of wineries on the profitability of the firm. The contribution of the paper is therefore to show which strategy (internal or external growth) has the largest impact on the profitability of the firms. The sector of wine production is a particular subsector of agriculture. As such, it presents the main characteristics of the primary sector, and some others, which complicate the choice of the sample of firms to use in a study. The first problem is weather variability: the profits of a firm in the primary sector are heavily affected by the climatic conditions of each specific year. Second, the quality of the wine depends crucially on other specific factors such as the chemical characteristics of the soil, which increase the variability of confounders, when we run an empirical research on a large sample of firms sparse in a wide area. To avoid this problem (i.e. to minimize the confounders) we selected a sample of 25 medium-size wineries located in Piemonte (North-West of Italy). This reduces the variability in terms of climatic conditions and of variety of products. We use balance sheet data of these firms over a 14-year period to identify the effects of the different types of investments on the profitability. This last is calculated simply as total profit and as profit as a percentage of profit on total revenues. The balance sheets are publicly available. There are two reasons to use these measures of profitability. The first is that these are easy to calculate and are not subject to manipulations aimed at making a specific result to emerge. The second is that they provide immediate messages for both the academics and for the managers of wineries. Our expectation is that both strategies of growth have a positive impact on the profits of a firm (i.e. we expect that the investments are made to increase the profitability, or, at least, the total profits).

However, we also expect that investments in new fields may have the same profitability either in the case they are acquired through internal or through external growth. However, also in this case, a winery may buy new fields, as the managers expect them to be more profitable than those already used for the current production. We use random effect panel estimation, after checking (by the means of the Heckman test) that this is the best estimation strategy, given our data. Indeed, the Heckman test reveals that the fixed effect estimates do not differ significantly from those obtained using random effect estimation. Contrary to some of our expectations, we find that the only type of investments that are able to increase the profits and the profitability of a Piedmontese winery are those in innovation. However, we may interpret this result as follows: the new fields are exactly as profitable as those already used for production. This is an interesting result, as it shows that these investments have constant (and not decreasing) returns. Investments in patents show a positive a robust contribution to the profits, controlling for investments in other assets, turnover and other characteristics at firm level. This result is however interesting, as it shows the importance of innovation in a traditional sector such as the production of wine. This result supports a recent tendency found by the literature, which shows that innovation is nowadays relevant to enhance the expansion and the growth not only of the industrial companies, but also of firms involved in productions that are more traditional. The results of our paper are only the first attempt to study how we can promote the growth of wineries in terms of profits. Further research will have to examine the impact of internal and external growth on other indices of profitability, and will have to investigate on which type of innovation the wineries concentrate their investments. In particular, there may be some innovations, which increase profits and profit margins more than others. Moreover, some innovations may also be aimed at attracting more tourists in the area; this would generate positive externalities both on the territory and on the other wineries that are located in the same area. Finally, it will be interesting to distinguish between innovations of process and innovations of product.