Strategic groups in the German wine industry – an empirical study

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Abstract
The essence of strategic positioning is to sustainably outperform competitors. Despite the vast literature on strategy and strategic choices the notion of strategic grouping is less explored for small and medium sized enterprise markets (Deimel, 2008) with scarce empirical support. An empirical study on strategic positioning of German wineries was realized in 2012 resulting in 321 responses. We interviewed the wineries on their key challenges, their strategic positioning, areas of innovation, and the impact on results and performance. The generated data allows to draw a landscape of strategic positioning of German wineries, their ambition to group close or different to competitors, and the implications on success and performance.

The German wine business is mature, with longstanding tradition but ongoing structural changes. Global supply and competition, changes of consumer behaviors and preferences, international market opportunities with individual culturally influenced consumption, and specific import barriers characterize the wine industry - with Germany as one of the most liberal markets. (Gilinsky et al., 2008, Hoffmann, 2005) Indeed, Germany is the fourth largest consumer market of wine in the world.

The supplier side in German wine is characterized by fragmentation. In the last 30 years, the number of wine growers generating their income with wine halved to about 20,000. Despite a still small average size of the wineries they are generally highly integrated - from growing to harvesting to producing to sales and marketing. (BMELV, 2011) Average profitability in the German market is low. (Oberhofer, 2011, Mend, 2009b, Oberhofer, 2012)

Given global competition, small business size of players, costly and capital intensive growth or expansion, and low profitability we expected that cost leadership as generic strategy can at
best be chosen by very few players in the industry and that the majority of the players will position via niche strategies, with innovation as a possible key lever. (Touzard, 2010) Indeed, the market characteristics nourished our expectations, that “intensity of rivalry” would be one main driver for strategic positioning, resulting in search for market niches by the market participants. We furthermore expected that niche players show better performance than “stuck in the middle” wineries and also more cost oriented clusters since they should be able to realize higher prices. Additionally, we expected service innovation and value-added services as rewarding strategies.

We invited more than 2,000 German wineries to participate in a scientific online survey to assess their strategic positioning and innovation strategy. The targets were selected of a database of 6,000 German wineries depending on access to their email address. Of the 361 participants 321 responses could be used for the analysis with a response rate of more than 15%. The participating wineries reflect the German wine industry by size and region. In regards to ownership there is a bias towards independent wineries.

Porters´ generic strategies (Porter, 2000) built the basis for the strategic questions. It was further combined with insights of strategic studies with focus on the wine business. Remauld and Couderc provide a concise overview on literature and empirical tests of strategic typology. (Remaud and Couderc, 2006) They explore strategies within the wine industry comparing the old versus new wine world. The resulting empirical evidence, that environment is an important strategic variable with implication on strategic choice and innovation also for the wine business, was used for our study. The authors identify three clusters in line with prospector, analyzer, and defender strategies (Miles et al., 1978) and conclude that environment interpretation (challenge vs. opportunity), strategic ambition and goal (market share vs. performance), and extend of internationalization (export) appear to be main cluster determinants so that they were included in our survey. Additionally, a clustering analysis for the German wine market provided guidance for our study. (Göbel, 2002)

We furthermore designed the questionnaire to be able to compare the wine industry against other industries. A recent study on strategy and organization (BCG, 2009) was used in creating our questionnaire to allow industry comparison.

Our preliminary results are briefly outlined as follows: The perceived challenges of the wineries in the German wine business are characterized by restriction in managerial freedom and uncertainty about future development. They are different from what leaders and managers of other industries declare to be facing. For the German wine business, the top challenges reported are increased bureaucracy, changing customer behavior, and societal responsibility, ranking low in the overall global study on managerial challenges where their top three challenges stated are intensive competition, increasing complexity, and economic uncertainty, ranking at the bottom for the German wine industry.

The landscape of the German wine business it is characterized by a rich portfolio of strategic positioning with strong tendency to profile rather close than distant to competitors. Premium and quality strategies are named to be pursued by more than 50% of the population. The
uncertainty about the future market development is influencing strategies and positioning as there is a tendency to avoid market niche approaches to obviously avoid risky decisions. Most respondents stated to position via quality leadership (36%) or price-value-strategy (33%) with the ambition to cover the whole market. Niche positioning (9%) and value-add strategies (3%) represent strategies with strong customer focus. The two extremes of differentiation are realized with cost leadership (5%) and premium offer strategy (15%). In the light of the market fragmentation a low population of cost leadership strategies was expected, the reluctance to focus was not. For the German brewery landscape for example, 6% of cost leadership, 20% of premium and 74% of niche strategy positioning are reported. (Freter, 2008)

Our analysis on positioning and success allows for several observations, some examples are provided here. The cluster of cost leaders proves to be successful in regards to their financial ambitions and results. This strategy is yet less promising to win new clients in the fierce competition in Germany. Indeed, those wineries are characterized by straight forward realization of measures to optimize their business. Innovation is of less importance. Meanwhile premium strategist score high on the success dimensions and the strategy certainly is suitable for market expansion, only 40% of the population was successful in transforming their positioning into expected prices – with negative impact for the ones not capable of doing so. Meanwhile characterized by innovation and export agility, they still struggle to deliver a winning service offering to fit premium expectations of customers.

Strategic positioning via quality leadership and price-value show almost identical results. A further indication of lack of differentiation. Quality and price-value is expected for all offers, hence not differentiating or value creating and quality assessment is complex. Indeed, looking at the performance reflects that the needed price positioning is often not realized.

Positioning via niches proofs best results on product and service quality and on client loyalty. Therefore, addressing focused market segments rewards when meeting the expectations of specific customer groups. Although business literature proposes to offer solutions and follow value-add strategies, the clusters with such strategies show inferior performance. Meanwhile characterized by creativity, innovation, and strategic view, the transformation of value add offerings into profitable business does not satisfy yet. An explanation is that a lot of market players with low differentiation offer value-added services without pricing them adequately to receive attention.

Overall, the wine business in Germany is a challenging market with a lot of complexity, but there exist a lot of opportunities for success and entrepreneurship. Strategic positioning on targeting niches can result in outperformance of competitors. Still, the industry seems to be characterized by product centricity and strategic behavior to be close to competitors. Niche and value-add strategies are yet in evolution.