Internationalization options for agri-food cooperatives: the case of Veronese Wine Growers' Cooperatives

Roberta Capitello, Lara Agnoli
University of Verona, Italy

roberta.capitello@univr.it

Poster Paper prepared for presentation at the 105th EAAE Seminar 'International Marketing and International Trade of Quality Food Products', Bologna, Italy, March 8-10, 2007

Internationalization options for agri-food cooperatives: the case of Veronese Wine Growers' Cooperatives

Roberta Capitello, Lara Agnoli
University of Verona, Italy
roberta.capitello@univr.it

1. Background

The growth of economies, the opening of markets, the trend of demand and the entrance of new producer countries are the main factors which have built the bases of development of the international trade of wine since 1990s. According to the FAO data, in 2004, 77 million hectoliters of wine were exported (almost 30% of world wine production), for a value of 20 billion US$. From 1990 to 2005, the growth of value has been higher (150%) than that of quantity (80%). That can be caused by the evolution of economic, social and cultural variables that have influenced the demand. Few countries control most trades: the top four countries (France, Italy, Australia and Spain) concentrate less than two-thirds of quantity, but more than 70% of value. In 2004, Italy supplied about one-fifth (in value and quantity) of the world wine export, but if it is closed to France in quantity (approximately 14 million of hectoliters), it is far from it in value (3,6 billion US$ for Italy against about 7 billion US$ for France).
In Italy, few regions have a relevant role in the international background. Veneto is the most active region. In 2005[1] it was able to generate the 28% of the value of Italian wine exports, followed by Piemonte (20%) and Toscana (16%).
Verona concentrates more than one-third of Veneto wine production and shows the highest export propensity, with an exportation higher than 500 million euros and about two-thirds of regional wine export. But these trades are concentrated on the hands of private companies, which export by tradition. The relationships with foreign markets are a new phenomenon for the cooperatives, stimulated by the foreign consumer's increasing attention towards Italian wines.
A lot of cooperatives have some problems in internationalize themselves. These troubles come from inadequate strategic management capability. In a lot of cases they aren't able to plain effective projects aiming to business growth through innovation, marketing and the ability to attract capitals (Garzoni, 2003). The cooperatives have to set off the "cooperative nexus" between members, board of directors and management, and to develop members' cultural bases to create transparency, consciousness and goal sharing.
There are different causes which carry a firm to internationalize itself: internal growth objectives, the development of an international image, problems in the domestic country, attractive factors of foreign market, imitation or competition mechanisms, following suppliers' or customers' development (Majocchi, 1997; Calvelli, 1998). The development of world trades makes internationalization patterns even more complex and firms have to build a set of organizational, managerial, economic, financial, informational and relational instruments (De Chiara and Minguzzi, 2002; Hassel *et al.*, 2003; Kalantaridis, 2004).

2. Objective and methodology

The objective of this research was to inquire into internationalization level of wine growers' cooperatives from Verona and into their awareness and capability in building relationships with foreign markets.
The choice of operate in a foreign market is a critical decision for a firm, not only because of the considerable investment, but also because it could be a hardly reversible choice in the short term. The exportation is the most used internationalization form by cooperatives because of the indissoluble bond of the production with the territory and their members.
The survey has been led in 2006 through direct interviews to the managers of the seven most active Veronese cooperatives abroad.
In order to obtain a wide and homogeneous set of information, a questionnaire composed by three parts has been elaborated. The first part regards the structural and strategic features of the cooperatives; the second part involves internationalization patterns through a set of widening questions for every foreign market. Finally, the third part concerns the business competitive orientation in the international market (Prospect 1).

[1] According to ISTAT data, Italy exported 3 billion euros in 2005.

Prospect 1 – Scheme of the questionnaire used for the interviews

Sections of the questionnaire	Collected information
1) Structural and strategic characteristics	- Size (members' number, vineyard surface, members' deliveries) - Organization chart - Production identity - Relationships with members - Products portfolio - Commercial choices (channels and markets)
2) Internationalization patterns in every foreign market	- Year of entrance and occasions of first touches - Typologies of exported wine - Distribution channels - Sources of information - Straights - Weaknesses - Necessary services - Main competitors and their strategies
3) Business competitive orientation in the international market	- Supply differentiation strategies - Communication strategies - Interorganizational strategies - Views of future development

3. Results

3.1 Structure, organization and main strategic choices of wine growers' cooperatives

The main structural, organizational and strategic characteristics of interviewed wine growers' cooperatives are:

- they have a heterogeneous size, through which they can realize an effective supply concentration. In fact, three cooperatives have less than 300 members, but other wineries have 900 members and the biggest one has 1.500 members. The total extension of the member's vineyard is bigger than 1.000 hectares for more than a half of the cooperatives. The biggest has 4.200 hectares of vineyard. The majority of the cooperatives processes 10.000 tons of grapes, but the biggest achieves about 60.000 tons;
- the most widespread business organization is the hierarchic-functional one, with a general manager who is the oenologist too. He is not only responsible for production process, but also for the other business functions (marketing, administration, supplying, quality control). In some cases he is helped by collaborators, who have specific functions (like accountancy and technical services to the members);
- the prices of grapes are fixed by the most classic parameters (for example, altitude, production area, variety, appellation of origin, sugar contents), but, recently, some innovative parameters have been introduced, like organic growing and, more frequently, the adhesion to quality projects for the appellations of origin. These are elements which involve the problematic themes of the relationships with members and the trend of the cooperatives to looking for new integration forms with members, in order to place the products range at a higher level. This repositioning must be based on the management of the vineyard which aims at underline the "terroir" peculiarities, the protection of landscape and environment and the consumer's wealth;
- in every cooperative there is at least a viticultural expert, who provides a systematic extension service to the members and who is often helped by external consultants, especially in grape harvest period. Moreover, the cooperatives send newsletters and organize periodical seminars

(exclusively on technical themes) to try to involve members in corporate choices, but they still can't make aware members on economic and strategic choices;

- the products portfolio is limited and specialized on wines that belongs to the area of the appellation of origin, even if, in last years, the cooperatives purchase grapes or bulk wine from other firms to differentiate and complete their product range;
- production is mainly oriented on appellation of origin wine, to the detriment of table wine, especially for red wine;
- cooperatives still mainly sell bulk wine (more than 70% of sold quantity), although the sale of bottled wine is increasing. In this way the wine growers' cooperatives focus themselves in market segments where the supply is often very crowded and dominated by price competition and where the product appears undifferentiated and not recognizable. The sale proceeds of almost all cooperatives have been increasing in last five-year period. This fact shows that they can follow the incessant market evolutions, from an economic point of view too;
- the most used distribution channel on domestic market for bottled wine is the short one, through direct contacts with the modern distribution system, through HO.RE.CA. and through their own points of sale. The most widespread long channel turns to agents.

3.2 Internationalization patterns

Internationalization is a new strategy for the wine growers' cooperatives from Verona, which traditionally operate on domestic and, more frequently, on local markets. The majority of them still considers exportation as a marginal strategy in their business life. In fact, in 2005 foreign market absorbed 30% of wine in quantity. However, there is a different export propensity: the export share goes from 7% to 60%.

Territorial connection has a basic role in foreign supply: two-thirds of exported wine are appellation of origin wines, and the other third regards table wine with geographical indication. More than a half of exported wine is bottled and in almost all cooperatives there is the trend to increase this share to augment the added value and to keep the corporate and territorial identity of wine.

Almost all cooperatives have a countries portfolio sparsely differentiate. In these years they are trying to penetrate in new markets, even if they continue to export in countries which with they have well-established commercial relationships.

The market risk seems to be particularly high: 91% of exports is concentrate on only two countries and, in 2005, Germany absorbed more than two-thirds of the exports (Figure 1). Only one wine growers' cooperative seems to pay attention to this problem and has a wider countries portfolio, where Germany has a share of only 16%.

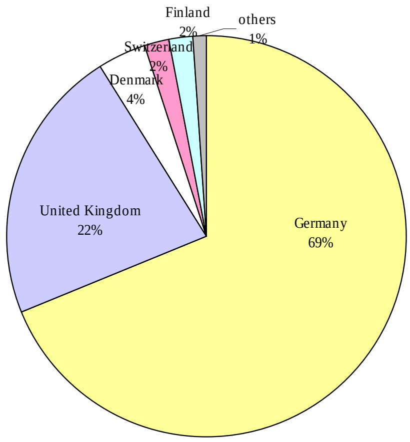
Considering the features of target countries from the demand and from the competition point of views, three different patterns of internationalization management have been identified: a) consolidation strategies; b) growth strategies; c) penetration strategies.

a) consolidation strategies

They concern two main foreign markets of the cooperatives from Verona: Germany and United Kingdom. There are long term commercial relationships with these markets; some cooperatives started to trade in 1960-70 with them, but they must renewed their strategies to defend their position.

German consumer is moving his preferences from beer to wine, but he reveals a high saving propensity. New competitors from East Europe and New World drive the cooperatives to characterize their wine with original sensory profile linked with the origin area and the corporate image, and to offer a good value for money. There are some difficulties in competition for appellation of origin wines, which are sometimes replaced by the varietal table wines with geographic indication. Moreover, the sales of bulk wine to importers-bottlers are preferred, because of complexity in managing the network marketing for bottled wine. Nevertheless, historical commercial relationships with German distribution channel and the affection of German consumer for wines from Verona, known during trips, help in maintaining stable and lasting commercial relationships.

Fig. 1 – Top 5 export countries for the interviewed cooperatives



The cooperatives seems to be less hopeful in their capability in defence of English market. The increasing achievement of wines from New World, the rapid evolution of consumer's preferences, who are always looking for new sensory experiences, and who are relegating the Italian production toward a middle-low level, the exigent claims of the modern distribution system from a packaging and a labeling point of view, request pressing reaction of Veronese cooperatives. It's important to persist in this market, because it is exigent and in the forefront. In this way, the cooperatives can effectively learn to manage the other foreign markets too. But, in the same time, it request strong managerial and financial capability in promotion, both in a corporate level and in an institutional level, product innovation, relationship skills, especially with the modern distribution system and big importers, in addition to a more flexible regulation.

b) growth strategies

These strategies are developed in countries like Denmark, Finland and Switzerland, where the cooperatives started to export in the 1990s. Potentially, in these markets, there still are interesting possibilities of growth.
The competition strategy is based on the original quality of appellation of origin wines, recognized by consumers. In fact, the exports in Denmark have increased more than six times from 2000 to 2006 because of the growing demand of appellation of origin red wine from Verona.
Nevertheless, a critical point consists in the supply fragmentation and in the weak coordination between firms, that interferes with an effective and timely procurement of these markets, and sometimes it provokes a price speculation, and a gap in joint promotion activities of the appellation of origin.
Moreover, the relational and contractual capability towards the modern distribution system and the state monopoly is indispensable.

c) penetration strategies

These strategies support the recent entry, occurs from 2000, in new international markets, such as Holland, Belgium, United States, Japan, Canada, Sweden and Norway, whose consumptions have favourable forecasts of growth.
In spite of the strong competition of the traditional producer countries, first of all France, and of the New World, particularly United States, Australia and South Africa, the wine growers' cooperatives are conscious of the competitive capability of products range which is very appreciated by consumers. In fact, their typical productions are recognizable and have a good value for money. Particularly in the markets of North and Center Europe, the increasing tourist fluxes toward Italy favour the direct knowledge to consumers about the local production and the cooperatives.
The main difficulty for the cooperatives is the lack of experience in the management of these markets, which are often distant and different from a cultural point of view (for example Japan). For this fact, new forms of information and communication are request. Moreover, there are bureaucratic problems (United States), barriers in entrance created by big importer companies (United States), by state monopoly (Canada, Sweden and Norway) or by the modern distribution system, which imposes his own private

labels (Belgium). The lack of specialized human resources who operate with foreign markets is an additional problem.

3.3 Critical factors in international markets

The internationalization patterns showed how the wine growers' cooperatives from Verona are unavoidably involved from international dynamics which condition the wine sector.
Some cooperatives seem to suffer them passively, but the others are conscious of the changes in progress and they are even more orienting their sales towards international markets.
The critical factors which are faced by the cooperatives in foreign markets are:

- a business organization not much export oriented, insufficient specialized dedicated human resources, troubles in relations in foreign languages and lacking experience in operating with foreign countries;
- lacking contractual and communication power with commercial intermediaries and the modern distribution system;
- troubles in management of specific problems of every destination market (for example, state monopoly in Canada or Norway, administrative and normative problems in USA);
- production identity loss for bulk wine or if the modern distribution system imposes its private label;
- strong product, price and service competition by big international wineries and beverage companies;
- lack of coordination in production, promotion and information retrieval between wineries of a same appellation of origin; this obstruct an unique image of territory through the distribution channel, until the consumer;
- a sometimes contradictory and not much dynamic public support in services providing and from a normative and administrative point of view.

4. Conclusions

The entrance in foreign markets by the interviewed wine growers' cooperatives seems to be always linked with fortuitous events. It doesn't comes from a previous market survey. In this way, the cooperatives often operate in situation not fully consciousness, and they are dominated by market mechanisms, which deprives them of contractual power. The cooperatives ask a better synergy with public institution for training and professional updating activities, marketing information supplying and a higher normative flexibility to facilitate foreign trades.
Some cooperatives use the aggregation instrument to surmount these troubles. They involve other wine growers' cooperatives or trading companies with a better experience abroad. Business aggregation is an efficient penetration instrument in foreign markets, which can solve normative problems and satisfy commercial intermediaries and consumer too, by supplying a larger products range.
Finally, the promotion of the link tourism-typical products from firms, private and public institutions can be another instrument to build foreign consumer's trust.

References

Berni P., Capitello R. Dalla Bernardina E. (2006), *La filiera vitivinicola*, Rapporto 2006 sul sistema agroalimentare del Veneto, Regione Veneto, Veneto Agricoltura, Padova.

Calvelli A. (1998), *Scelte d'impresa e mercati internazionali. Strategie, organizzazione, finanza*, Giappichelli, Torino.

Cesaretti G.P., Green R., Mariani A., Pomarici E., edited by, (2006), *Il mercato del vino. Tendenze strutturali e strategie dei concorrenti*, Franco Angeli, Milano.

Garzoni A. (2003), *Il governo dell'azienda cooperativa*, Egea, Milano.

De Chiara A., Minguzzi A. (2002), *Success Factors in SMEs' Internationalization Processes: An Italian Investigation*, Journal of Small Business Management, n. 40 (2), pp. 144-153.

Hassel A., Höpner M. , Kurdelbusch A., Rehder B., Zugehör R. (2003), *Two Dimensions of the Internationalization of Firms*, Journal of Management Studies, n. 40(3), pp. 705-723.

Kalantaridis C. (2004), *Internationalization, Strategic Behavior and the Small Firm: A Comparative Investigation*, Journal of Small Business Management, n. 42 (3), pp. 245-262.

Majocchi A. (1997), *Economia e strategia dei processi d'internazionalizzazione delle imprese*, Giuffrè, Milano.
Touzard J.M., Draperi J.F. (2003), *Les coopératives entre territoires et mondialisation*, Les Cahiers de l'Economie Sociale n. 2, Institut de l'Economie Sociale, L'Harmattan, Paris.

Contact Information

Roberta Capitello
Dipartimento di Economie,
Società e Istituzioni
University of Verona
Via dell'Artigliere, 8
37129 Verona (Italy)

Phone: +.39.045.8028721
Fax +.39.045.8028558
Email: roberta.capitello@univr.it