



The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

Papers downloaded from AgEcon Search may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Influence Strategies in South African Wine Value Chains

Joachim Ewert¹ and Jon Hanf²

¹University of Stellenbosch, South Africa,

²University of Geisenheim, Germany.

jwe@sun.ac.za; jon.hanf@hs-gm.de

Received April 2015, accepted November 2015 available online November 2015

ABSTRACT

In development studies, the concept of a value chain is neatly connected with the process of upgrading i.e. firms are enabled to not only to act as bulk suppliers but instead to sell branded goods to (international) markets. However, the notion of upgrading has been challenged by several authors. For instance, with regard to the South African wine industry Ponte and Ewert (2009) show that a better outcome or 'deal' does not necessarily follow in the wake of higher value added.

Drawing on a number of detailed case studies, in this paper we investigate this conclusion in more depth. By doing so, we try to explain which paths South African producer cellars have or have not chosen, and why. As global value chain theory posits that the governance structure of value chains are of crucial importance, we will pay particular interest to the design of the chains as a success factor.

Keywords. Global Value Chains, Influence Strategies, Wine, South Africa, Upgrading

1 Introduction

In development studies, the concept of a value chain has been used to analyze international trade which comprises the activities that are required to bring a product from its conception, through design, sourced raw materials and intermediate inputs, marketing, distribution and support to the final consumer (Staritz 2011). In his early work the pioneer of value chain analysis, Gereffi (1994), describes a process of almost "natural" learning and upgrading for the firms that join global value chains (GVC). Thus, developing country firms were encouraged to develop their indigenous capabilities through a process of upgrading technical capabilities to meet global standards, with leading multinational enterprises playing a key role in the transfer of new technology, skills and know how (Humphrey and Schmitz 2004). Thus, 'upgrading' can be understood as a continuum starting with "process upgrading", then moves on to "product upgrading" (i.e. using higher quality material), and then on to "functional upgrading" in which the firm begins to design its own product and develops marketing and branding capabilities and begins to supply to customers directly (Staritz 2011).

Gereffi (1994) identified two major types of governance. The first was buyer-driven chains, where the lead firms are final buyers such as retail chains and branded product producers. The second was producer-driven chains. Here the technological competences of the lead firms (generally upstream in the chain) defined the chain's competitiveness. Gereffi et al (2005) later expanded this typology to the following governance patterns:

- Hierarchical chains represent the fully internalized operations of vertically integrated firms,
- Quasi-hierarchical chains involve suppliers or intermediate customers with low levels of capabilities, who require high levels of support and are the subject of well-developed supply chain management from lead firms,
- Relational and modular chain governance exhibit durable relations between lead firms and their suppliers and customers in the chain, but with low levels of chain governance often because the main suppliers in the chain possess their own unique competences and can operate independently of the lead firm,
- Market chains represent the classic arms length relationships found in many commodity markets.

As capabilities in many low and middle-income economies have grown, chain governance has tended to move away from quasi-hierarchical models towards the modular type, as this form of governance reduces the costs of supply chain management and allows chain governors to maintain a healthy level of competition in their supply chains (Navas–Aleman 2011). However, whilst it maintains short term competition in the supply chain it has allowed some leading intermediaries to develop considerable functional competences (e.g. design and branding) and in the long term these have the potential to emerge as competitors to their original chain governor (Kaplinski 2010).

However, this is not always the case. The notion of upgrading has been challenged by authors like Humphrey and Schmitz (2000) who argue, for instance, that upgrading into design, marketing and branding might be hindered by making exports subject to certain conditions, because multinational enterprises have no interest in transferring these core skills to their suppliers thus preventing them from accessing global markets (except as a supplier) for first world customers.

With regard to the South African wine industry Ponte and Ewert (2009:1647) show that the upgrading case is more complex than just improving product quality, better processes, and some functional upgrading. In this industry the upgrading activities have co-existed with demands for higher volumes of basic quality wines and hence increasing demands for bulk delivery instead of packaged wine. As the marketing of bulk wine results in lower marketing costs, and higher yields can be achieved, the overall profits have been better than the ones resulting from traditional upgrading activities.

Thus, even after two decades of continuous 'upgrading', South African producer cellars are still faced with a number of serious challenges. At the same time the strategic choices to be made are not self-evident or easy. Ponte and Ewert (2009) showed that a better outcome or 'deal' does not necessarily follow in the wake of higher value added. Here, drawing on a number of detailed case studies, we investigate this conclusion in more depth. By doing so, we try to explain which paths South African producer cellars have or have not chosen, and why. As GVC theory posits that the governance structure of value chains are of crucial importance, we will pay particular interest to design of the chains as a success factor.

The remainder of the article is organized as follows. We first outline types of governance structures of value chains and their underlying assumptions regarding relational contracts and networks. We then discuss their management and collective strategies highlighting the importance of influence strategies which chain governors can use to align the interests and actions of the other chain actors. In order to apply the theoretical approach in a specific setting we subsequently introduce the South African wine industry and the role of producer cellars within it. Lastly we discuss a number of case studies in order to illustrate the strategic choices that have been made and to suggest possible ways forward.

2 Governance of value chains

As capabilities in many low and middle-income economies have grown, chain governance has tended to move away from quasi-hierarchical models towards the modular type as this form of governance reduces the costs of supply chain management and allows chain governors to maintain a healthy level of competition in their supply chains (Navas–Aleman 2011). However, the majority of global agricultural product value chains are still governed in a more hierarchical style. Such value chains are defined by various authors as netchains or supply chain networks (Lazzarini et al. 2001; Hanf and Kühl 2005).

Such vertical (procurement) relationships involve exchange between adjacent stages of the value chain. Therefore, many organizations have to act in unison, with each organization mutually dependent on performance and actions of the others (Lazzarini et al. 2001; Brito and Roseira 2005). Thus, the crucial question is how to organize the participating firms along the value chain?

In this regard, all kinds of problems can occur. The first set of problems stems from conflict of interests among the different actors, which, in essence, means the well-known prisoner's dilemma (Gulati et al. 2005). Such problems can be solved by aligning the interests of the different actors through a range of formal and informal mechanisms e.g. contracts or routines (Baker et al. 2002; Granovetter 1985; Zaheer and Bell 2005).

The second set of problems addresses the alignment of actions of the different actors (Levy and Grewal 2000). Coordination problems arise whenever actors are unaware that their actions are interdependent, and whenever decisions are afflicted with uncertainty that makes the others' actions unpredictable (Gulati et al. 2005). Thus, in both cases partners fail either to share accurate knowledge about the decision rules that others are likely to use or to understand how one's own actions interact with those of the others (Gulati et al. 2005:419). Programming, hierarchy, and feedback, as well as culture, commitment and collective strategy are mechanisms for overcoming coordination problems (Kogut and Zander 1996; Thompson 1967). Simatupang et al. (2002) name logistics synchronization, information sharing, incentive alignment and collective learning as general coordination modes.

Studying global value chains in the agri-food business, two aspects matter most. First the relationships are established among heterogeneous firms (e.g. retailers, processors and farmers), and secondly, these relationships are built up to pursue a clear aim. Hence, vertical procurement relationships can be characterized as a strategic network disposing of a pyramidal-hierarchical structure (Gulati et al. 2000; Hanf and Kühl 2005; Jarillo 1988). This means that there is a focal company (Hanf and Dautzenberg 2006; Mentzer et al. 2001) that acts as a lead firm and, equally important, considers collaboration throughout the whole chain (Duysters et al. 2004).

In conclusion, it can be said that the focal company that strives to coordinate a value chain must develop a collective strategy that addresses both cooperation aspects as well as coordination aspects. As a (global) value chain consists of a multitude of independent firms scattered around the globe, successful chain management relies on the approach the focal company employs to influence the decisions and actions of their partner companies (Gaglyuk et al. 2013). Thus, influence strategies play a crucial role in the management of value chains (Belya and Hanf 2012).

3 Influence strategies in the context of value chains

Cartwright (1965) considers influence strategies to be "the methods by which influence may be accomplished" and Dahl (1957) defines them as "a mediating activity by A between A's base and B's response". Many researchers have applied the concept of influence strategies in different theoretical and empirical studies by using various classifications of influence strategies. For example, French and Raven (1959) and Raven and Kruglanski (1970) used the following classification: coercive, reward, expert, informational, legitimate and referent.

Coercive influence strategies enable an individual to mediate punishments to others. For example, to dismiss, suspend, or reprimand them, or make them carry out unpleasant tasks. It is usually based on the expectation of punishments and/or threats and relies on the belief that punishments will be forthcoming or rewards will be withheld unless the requested behaviour is exhibited (Blau 1964; French and Raven 1959). In the supply chain network context, coercive influence strategies reflect the fear of a network member to be punished if he fails to comply with the requirements of the focal company. However, consistent use of punishments and/or threats may encourage the affected firm to dissolve the trading relationship. Because of this, coercive influence strategies are normally employed when the influenced party's alternatives are limited (Bowersox et al. 1980). Hunt and Nevin (1974) dichotomized French and Raven's classification into coercive and non-coercive types. While the coercive type of influence strategies arise from punishment and reprimanding efforts, non-coercive types (reward, expert, informational, legitimate and referent) stem from rewards, high quality assistances, exchange of information and expertise, etc.

Reward influence strategies depend on the ability of the influencing party to offer or mediate rewards to others. It is based on the degree to which the individual can give others a reward of some kind such as recommendations, desired gifts, and increases in pay or responsibility. If a focal company can mediate rewards due to the access to resources which are valuable for other supply chain network actors, then it can make the actors perform in the way the company desires. A firm's ability to use rewards may increase after rewards have actually been employed, because the perceived probability of the promise to deliver is intensified (Cartwright 1965).

Expert influence strategies are derived from the skills or special knowledge of an individual or a group in a specific subject. This knowledge applies to the restricted area in which the specialist is trained or

qualified. The ability to use expert influence strategies depends on the scarcity and the need of these skills for others. It is worth mentioning that this kind of influence strategy may generate a response of trust and credibility. In the case of a supply chain network the ability of a focal company to use expert influence strategies can be achieved if the network actors perceive or believe that it possesses specialised knowledge valuable for them. For example, manufacturers are often expected to have special knowledge about new products and promotion to assist the dealers.

Informational influence strategies stem from the ability to provide information not previously available and the ability to demonstrate the logic of suggested actions with this information (Raven and druglanski 1970). They believe that even though the difference between expert and informational influence strategies is subtle, the influencing party tends to be well-informed, possess up-to-date information and, therefore, can persuade others. This kind of influence strategies does not demand to be a professional or an expert, but rather requires possession of new and up-to-date information and provides confidence to the influencing party in debating. For example, if a retailer has new information about consumer demands, then it can persuade suppliers to deliver their products and become a part of a supply chain network.

Legitimate influence strategies stem from internalized values which dictate that there is a legitimate right to influence and an obligation to accept this influence. This kind of influence strategy is based on some kind of a commonly accepted code or standard and usually involves positions and not personal qualities of individuals. It is also called position power and is sometimes accompanied by various attributes such as uniforms, offices etc. It is based on the belief by one firm that another firm has the right to prescribe behaviour (French and Raven 1959). For instance, at some food markets a small number of big companies hold a significant share of the market, which allows them to enjoy a powerful position in that market (Hanf et al. 2013).

Referent influence strategies are based on an individual's ability to be attractive for others and build loyalty and depend on the charisma and interpersonal skills of the influencing party. French and Raven define the source of referent influence strategies as "a feeling of oneness... or a desire for such an identity". Identification can be said to occur when an individual accepts influence because he wants to establish or maintain a satisfying self-defining relationship to another person or a group (Kelman 1958). It is difficult to identify specific instances of pure referent influence strategies in interfirm relationships, since this kind of influence strategies usually occurs in conjunction with some other kinds of influence strategies and plays a stabilizing role (Beier and Stern 1969). In the value chain context this kind of influence strategies is observed when firms want to join a network.

Belya and Hanf (2009) conclude that depending on the kind of influence the focal company possesses, the set of managerial mechanisms representing certain influence strategies could be adjusted accordingly: coercive influence strategy (monitoring, threat, punishment), legitimate influence strategy (cooperative norm, legalistic plea, legal contract), referent influence strategy (appeal, recommendation, request), expert influence strategy (expert advice, consultation, training), informational influence strategy (information exchange, debate, persuasion), reward influence strategy (promise, approval, reward). As will be shown in the case studies below, in the South African wine value chain various influence strategies are being used in order to align the interests and actions throughout the whole value chain.

4 Governance of the South African wine value chain

Although some innovations were introduced before deregulation and the opening of international markets in the early 1990s (Vink et al 2004), it is only in the last 20 years that the South African wine industry has seen major 'upgrading', mainly as far as 'product' and 'process' are concerned, but to some extent also 'functional' upgrading (Ponte and Ewert 2009).

However, once rewards and risk are factored into the analysis, the picture of South Africa's performance becomes more mixed. For instance, the package of specifications that are expected to be delivered has become increasingly demanding and sophisticated. While this has in turn stimulated further innovation its rewards have been limited and some types of risk have actually increased. Margins remain extremely low in the retail markets of most European countries, while the industry has only started to penetrate the more lucrative United States market.

Nevertheless, on balance the competitiveness of the industry is considerably stronger than 20 years ago (Fleming et al 2014). In these processes of upgrading, 'learning' from lead firms has played a key role. In the hitherto only analysis of the GVC for South African wine (with a focus on the United Kingdom), Ponte (2007) and Ponte and Ewert (2009) show that in the '*basic quality*' market it is local wholesalers, marketers and retailers that 'drive' or govern the chain. They do this on the basis of mainly three things:

strict demands on basic quality, price and promotional support. Here, the value chain is characterized by supply relations that offer little flexibility, low margins and demanding volumes and logistics.

Wholesalers, retailers etc. have increasingly been able to provide simple^{*} ready-made recipes and clear parameters to their suppliers based on so-called '*industrial*'[†] and '*market*'[‡] conventions. They tend to buy and blend ready-made wine, usually from the co-operatives and ex-co-operatives, on the basis of a sample of ready-made wine with varying degrees of input in the vineyard and cellar. The requested wine needs to be clean and drinkable and match specifications. Very important is that within the same season all bottlings are homogeneous. Guaranteeing a minimum volume is absolutely necessary (Ponte 2007: 45-46). Where cellars have created their own brand, consistency from year to year is very important in order to create and maintain '*brand loyalty*'. In the case of '*spot-buying*' there is no involvement by the buyer (Ponte 2007: 45-46).

By contrast the strand for '*top quality*' wines relies on territorial-based *domestic* (such as origin and terroir[‡]) and *inspiration* conventions. This strand tends to be less driven, because such conventions are less portable and thus more difficult to be operated at a distance by one group of lead firms. In this market, producers have more control over production processes and enjoy better returns. However, where *opinion* conventions play a role (e.g. the judgment of a well-known wine critic or magazine), more drive is at play, due to the easier portability of such a convention. This can offer substantial rewards to producers, but also expose them to high risk.

The '*middle range quality*' strand tends to be least driven, because it does not have a clear group of lead firms – producers, retailers, marketers and wine critics all have influence on its governance. As a result producers enjoy better margins. Here origin, industrial-type codes, varietals and brands are being viewed as indicators of quality.

5 Case studies: producer cellars and their integration into value chains

At the time of publication, the papers by Ponte (2007) and Ponte and Ewert (2009) did not contain any firm specific experiences. This paper supplements those earlier analyses by presenting three case studies. They also add value to our understanding of value chains in that they were done in 2014 – eight years after Ponte and Ewert's initial field work in 2006. For the purposes of the study we selected 11 producer cellars[§], based on a random purposeful sampling method. We selected at least one cellar per wine district (as distinguished by South African Wine Industry Statistics (SAWIS)). In each case we used a questionnaire mailed in advance, supplemented by a lengthy interview with^{**} the general manager/CEO (in some cases assisted by accounting staff) and follow-up calls and e-mails^{††}.

After analyzing the case material, we could distinguish three types of 'value chains': the bulk wine seller, the branded bulk wine seller, and the branded company. For the purposes of the paper we discuss one case from each of these categories^{††}.

Cellar A: the bulk wine seller^{‡‡}

This cellar could be described as 'traditional' in the sense that 96.5% of its production is sold in bulk to one local producing wholesaler and one European importer. The cellar does not know which labels their wine goes into. Only 3.5% is sold in bottle through self-marketing, less than half of it in overseas markets. Judged by the prices the cellar fetches in the local market, all of its bulk wine falls into the 'basic' category^{§§}.

This is a cooperative producer with 16 members. Together they farm 725 ha of vineyard. The average

* In an industrial convention, uncertainty about quality is solved through the actions of an external party which determines common norms or standards and enforces them via instrument-based testing, inspection and certification.

[†] A market quality convention applies in transactions where there is no uncertainty about the quality of the product. Price is the main management form and differences in price are equated with differences in quality.

[‡] In this category also credence attributes like 'organic' and 'sustainability' fit in.

[§] Since the late 1990s South African wine co-operatives have organizationally and legally been moving away from the original, traditional co-operative model, some converting to fully-fledged companies owned by shareholders. To reflect these changes the then umbrella body for the co-operatives decided to rename co-operatives and former co-operatives 'producer cellars'.

^{**} All 11 cellars responded positively and granted interviews with management.

^{††} In compliance with an ethical undertaking, the names of the cellars and the interviewees have been kept confidential.

^{‡‡} The general manager has held this post for the last 10 years. He holds a B.Sc. degree in Agriculture from the University of Stellenbosch. The interview was conducted on 10 April 2014.

^{§§} I.e. R6.81 per litre in 2013.

yield is 9.98 tons per ha. Over the last 20 years the most important innovation at the cellar has been the shift from a '70% white wine to a 70% red wine cellar'. The reasons behind the production shift were market signals, i.e. the growth in the demand for red wine in international markets. Although the cellar does not engage in self marketing, it's most important clients both export to a number of European countries, including Russia.

In the cooperative's 'quality approach' the signals emanating from the cellar's most important client play a key role. The latter is a producing wholesaler with whom it has had an 'evergreen' contract for the last ten years***. The wholesaler prescribes the wine styles and analytical characteristics with regard to the different products. However, regarding the viticultural practices the cellar and its members decide independently how they are going to achieve those objectives. The wholesaler's viticulturist and soil scientists are only consulted when new plantings and trends are at stake. The discussions around different styles, prices etc. take place some six months before the first tasting, at which point the wholesaler makes the first payment. The rest follows when the tastings are to everybody's satisfaction. All in all this amounts to a hands-off approach as long as the cellar complies with the wholesaler's wine styles.

The approach of the European importer is similar. However, because the importer's grapes from their own vineyards are also processed at cellar A, their wine makers are continuously involved during harvest time. In this sense it leans towards a hands-on approach.

Even though the cellar's relationship with the producing wholesaler stretches back over decades and there is a strong element of trust, the latter does the cellar only limited favours. One the one hand, some ten years ago the wholesaler accepted 70% of the cellar's wine as top class (and paid the appropriate price). Last year only 15% made top class ^{†††}. On the other hand, operating in the bulk wine (commodity) business the client becomes more selective when market conditions change. In an environment of easy substitutability, retaining a reliable marketing channel is an asset in itself.

It is highly unlikely that this hands-off relationship, governed mainly by industrial and market conventions, will change. Although management seems to entertain the idea of not renewing the 10 year long-term contract, the reality is very different. To embark on an own brand, value-adding trajectory is difficult and very costly. Not only would this require considerable investment, thereby further weakening the cellar's financial situation ^{†††}, but experience over the last ten years or so have shown that the market does not necessarily reward better quality.

Cellar B: the branded bulk wine seller^{§§§}

This is also a co-operative, although one with considerable organisational innovations (e.g. a separate company is responsible for the marketing of the wine). Twenty eight farms grow 1800 ha of vineyards, producing an average yield of 17 tons per ha. Seventy one percent of all plantings are white grapes, with Colombar, Chenin Blanc and Chardonnay providing the backbone. Although only 10% of the blocks are graded ^{***}, 'every block is earmarked for a specific market'.

Ninety seven percent of the cellar's sales are in bulk, the rest is bottled; 25% of production is sold in terms of a long term contract to a local producing wholesaler, the rest to individual clients on an ad hoc basis. This includes direct sales to overseas customers (40%). The most important export markets are Continental Europe, North America and Scandinavia.

Management describes the cellar's business model as a being a 'top supplier of branded bulk wine' – 'branded' in the sense that the cellar knows the brands and labels for which its wines are destined. Management emphasised that this strategy or business model has to be distinguished from the 'anonymous' bulk or spot market, where wine is traded as 'industrial wine', and where in their view the clients are less reliable and the margins lower. For these reasons the cellar does not do business in this market.

*** This means that the wholesaler guarantees the purchase of a certain volume of wine for a ten year period, but prices are negotiated every year.

††† This does not necessarily mean that the average quality has risen dramatically over the last ten years. In this case it simply meant that in times of recession the market for more expensive wines had shrunk.

††† In 2013 its 'acid test' (i.e. cash flow) ratio was 0,11:1 (compared to the sector average of 0,38:1 in 2012) and the own vs. loan capital ratio was 23% : 77% - also weaker than the sector average of 27% : 73%.

§§§ The general manager has held this post since 1991. He holds Diplomas in Agriculture and Cellar Technology from Elsenburg Agricultural College and a Business Diploma from the University of Stellenbosch. The interview took place on the 11th April 2014.

**** 'Block grading' means that grapes are graded in the vineyard as class A, B etc., with a final (chemical and visual) check when arriving at the cellar).

South African producers have taken their place in the branded bulk wine market, keeping 'paper trails' for clear identification. The cellar in question has been in that market for some time. Management 'visits' the market every year. It has its established clients to whom new ones are added every year – clients who are prepared to pay higher prices. It invests 'in the market, relationships and contacts'. At the same time it gets rid of low price markets. As a result the cellar does not experience tiny margins or drastic price fluctuations. This investment had already paid off during the red wine glut of some ten years ago when the cellar had remained largely unaffected by declining prices. Their experience has led management to the conclusion that 'either a [wine] business goes full-on for a market with lower profits and high turnover (i.e. good cash flow) and adapts its farming strategy and business plan accordingly or it is overtaken by events'.

Management does not see it as a contradiction to 'good' client relations that the latter 'specify wine styles, taste profiles (e.g. treatment with wood) and give advice regarding vineyard practices'. The cellar keeps a record of all wine making processes and actions. These are inspected by both local and overseas buyers. In addition the local client visits the vineyard blocs two to three times per year to verify whether the specified practices have been followed. Overseas clients do it only once, at the beginning when the blocs are selected. Thereafter a check is done only once per year when the wine is tasted and discussed. Thus the local buyers operate in a more hands-on and overseas clients in a hands-off way. Proximity seems to be a factor in the two different approaches.

Although management is acutely aware that the cellar has to remain competitive, it is convinced that it is steering the right course. The value added, own brand strategy is not an option, because of the enormous costs involved⁺⁺⁺⁺. The current business model seems to serve the cellar well. Its financial situation is the healthiest of all three cellars discussed in this paper.

Little surprise then that the manager described the cellar's vision as 'keeping and growing its top ranking [as a 'branded bulk' supplier] by preserving its values, produce high quality products and market it as economically possible both locally and internationally'. According to him the cooperative members support this direction wholeheartedly.

Cellar C: the branded company ^{###}

This is only one of two cellars in our sample that does exactly what GVC theory suggests, viz. create its own brand, add value and sell it through self marketing. Approximately 97% of its wine is sold in packaged form, most of it as 'bag-in-box'. However, as we shall see below that does not necessarily mean that they are in the best financial position.

Whilst the cellar is a company (since 2006), it has retained the 'pool' principle. It consists of two production sites, specializing in red and white wine production respectively. With a pressing capacity of 110 000 tons, 160 farming units and 202 members, it is one of the largest cellars in South Africa.

Over the last 15-20 years the cellar has gone through a profound transformation, essentially shifting from juice and distilling to drinking wine production.

In order to have more control over the supply chain, the cellar established its own distribution business in the domestic market. This delivers directly to supermarket chains, liquor groups and independent liquor traders in both the urban and the rural markets of South Africa.

For distribution in the domestic market it has staff employed at the sales company, plus personnel at 14 branches countrywide. The export market is managed by a specialist marketer and logistics staff in Cape Town, near the harbour and airport.

Sixty-nine percent of all vineyards are under white grapes, with Colombar and Chenin Blanc providing 29% and 24% respectively. Thirty-five percent of all blocks are graded, supplemented by visual inspection and sugar and temperature measurement at delivery.

++++ During the interview the general manager gave the following example: to move 8.4 mill litres of bulk wine costs R 2.8 mill. If the same volume was bottled, it would require an investment of R 91.1 mill. Bulk transport of this volume requires 350 containers, but 900 when bottled. The latter operation is 32 times more expensive. To 'bottle' a 9 litre carton is R20 more expensive in South Africa than in Europe.

The general manager has been in this position since 2006. He is a qualified Chartered Accountant. The interview was held on 15 April 2014.

In 2013 90% of production was drinking wine. Eighty-five percent of the cellar's wine is sold in the domestic market (mostly blends), 15% overseas (mostly varietals). In the local market 99% is sold under its own label, in international markets 20%^{\$\$\$\$}. In 2013 the most important export market was France - most of it in bulk. The next two biggest markets were the United Kingdom and Germany. In the United Kingdom market the cellar is involved in a joint venture with a British partner who handles the distribution. However, the cellar has retained sole ownership of the brand.

The overseas buyers visit the cellar once per year during which wines are tasted and specifications are discussed and agreed upon (e.g. alcohol levels, styles etc.). In addition the clients check for compliance with standards like ISO 22 000, HCAPP, IPW and WIETA. These compliance and traceability checks include visits to a sample of member farms. Although in its infancy local supermarkets like Makro and Spar are beginning to take the same general hands-on approach.

Although this cellar does more value adding than any other in our sample, this does not translate into the best financial performance^{*****}. The big investments over the last 15 years or so still make themselves felt. At times when the Rand was strong against European currencies, the cellar actually made a loss on its bottled exports. However, through its strategy of supplying (mostly bag-in-box) wine for specific markets, the cellar has established itself as 'the No.1 volume brand' in South Africa. In the United Kingdom market its brand is amongst the top 20 selling labels (by volume⁺⁺⁺⁺⁺).

The cellar's value chain for the South African market is a hierarchical one, fully integrated from production to distribution. The chain with its overseas markets however, is a relational and modular one. The fact that it has a strong domestic base and is the sole owner of a successful brand, puts it in a strong bargaining position. Whether packaged or in bulk, the cellar has developed such competence over the last 15 years or so, that it can operate independently of any overseas lead firm. Whilst past investments still weigh heavily on the cellar's finances, its independence is perhaps the biggest gain since deciding to go the value adding route.

6 Influence strategies in the value chains for South African wine

To determine the 'quality' of a bottle of wine on the basis of quality conventions is one thing. To deal with price negotiations and business practices is another. Put differently, all things being equal, not all 'basic' wines, for instance, sell for the same price. The latter depends very much on the 'strategic' approach and the business practices of the buyer, i.e. retailer, wholesaler etc.

As suggested by the case studies above, various influence strategies play their part in the value chains for South African wine. When prompted during the interviews the *coercive* strategies were uppermost in managers' minds. At least two of the cellars had had negative experiences with both European and local retailers (i.e. supermarket chains). Cellar B has experience of a continental discounter's 'killing strategy'. The manager was saying how the same discounter offered to buy 'big' volumes at low margins. However, during subsequent negotiations it tried to reduce the margins as a matter of routine, let alone offer an increase.

Cellar C shared this experience. Their manager revealed how the same discounter uses an Italy based importer to do the negotiations for them, describing them as 'intimidating'. Contracts would be awash with specifications, only for the importer to find fault once the wine had been shipped. In the view of the manager the discounter was 'hiding' behind the importing company to keep its own image of 'corporate citizenship' clean. Both agreed that this particular discounter's strategy was to make suppliers increasingly dependent on them whilst turning the screw. 'Everybody thinks it is not going to happen to them, just for [the discounter] to take the next uninformed supplier on a ride with only one goal in mind: to suck him dry. At first the supplier does not realize this and sticks it out in the hope of a better deal which never comes. In the meantime the discounter has already lined up the next unsuspecting fool with the promise of big volumes and no margins'. Both managers were adamant that this kind of dependence was to be avoided at all costs, because 'how do you get out of that situation if...alternative markets don't exist?'

After a steep learning curve in the first ten years after entering the international market, cellar B has succeeded in ridding itself of those kinds of buyers. In the process they have become much more circumspect. Before striking a deal 'we study the history of the organization, as well as their modus

\$\$\$\$ To give some idea of the magnitude of the business: In 2008 the cellar's total production was 75 mill litres; of these 45 mill litres were sold under its own label in the domestic market, and 15 mill litres in the export market. A further 15 mill litres were exported in bulk. Of these 3 mill litres were packaged in the UK, incl. bottled wine.

***** In 2013 the cellar's own vs. loan capital ratio was 30% : 70%, the 'acid test' or cash flow ratio 1,0 : 1,2.

++++ General manager, personal communication, 15 April 2014.

operandi in the domestic and international market'. They have achieved a position in the market where they sell most of their wine to brand owners whose attitude is one of 'we are in this market place together', and who are interested in stable relations over time and prepared to offer higher than average margins. According to the manager the cellar is now in a position where 'we can choose to whom we sell our wine'. At the moment the main clients are established local producing wholesalers, new wholesalers and exporters in the domestic market and supermarket chains overseas.

Whilst cellar B escaped from their negative experience relatively unscathed, cellar C was less fortunate. Their manager listed a whole set of coercive techniques used by one particular British supermarket chain. This included: demands for price reductions every time the Rand weakened against the Pound; demands for very low promotion prices, especially when the Rand remained strong against the Pound after the onset of the financial crisis in 2008; demands to pay for shelf space, although the cellar had been a supplier since 1993; demands for unique packaging in order to prevent customers making price comparisons between supermarkets; insistence to pay for the stock not sold in terms of the sales estimate ('joint business plan'), whilst the supermarket itself had failed to do the agreed promotion.

Conflict over these issues resulted in unilateral de-listings with a significant decline in packaged exports. According to the manager these practices became more severe after a big American supermarket chain entered the UK market in 1999. Often it also seemed to become more aggravated after new senior appointments had been made at the buying firm and these people tried to fashion a new strategy.

According to the manager of cellar C 'the strategy of overseas supermarkets has not yet reached South African shores ^{#####}', and the cellar has not yet experienced a de-listing. However, 'threats like these happen every day and seem to part of the game'. In one case a buyer told the cellar that the sales of the latter's brand were so favourable that it weakened his bargaining power'. Subsequent action by this procurer cost his business and the cellar a decline of 25% sales in one year.

By comparison cellar A has been spared the icy hand of coercive pressures. As mentioned above it has two main clients who buy over 90% of the cellar's wine. With both it has long term contracts, spanning ten and three years respectively. As a result there can be no question of a sudden, unilateral de-listing.

Which does not mean that it is all harmony. What matters for both parties are the annual price negotiations. From the cooperative's point of view it is the price minus production costs that determines the pay-out for its members. In this regard the cellar takes the price (per litre) for the region (i.e. Stellenbosch) ^{\$\$\$\$\$} as its opening position. According to the cooperative's manager the negotiations usually involve a 'knocking of heads' and is not just an empty ritual. Under the circumstances, it favours the cellar when there is a scarcity of wine at a certain 'price point'. In times of 'good' harvests, of course the opposite is true.

However, in this case the specification of the wine is rarely questioned, because both clients are closely involved in the wine making side. As in the case of cellar B, the clients can be said to exert an *information influence strategy* in that they possess market knowledge which they use to shape particular vineyard practices and produce specific wine styles. They only differ in the way they go about it: overseas clients mostly in a hands-off way (although insisting on a 'paper trail'), while the local wholesalers are involved in a decidedly hands-on manner. The cellars agree to this kind of involvement not because they themselves lack the wine making expertise, but because the clients want to make sure and demand it.

Although these kinds of relationships appear to be rather prescriptive and perhaps somewhat one-sided, they are not without their *rewards*. In the case of cellar B the rewards lie not only in the mutual trust between them and their brand-owning clients, but also the bigger margins the latter are prepared to pay. In the case of cellar A the dependence on their two big clients is counterbalanced by the kind of security and stability long term contract offer. Both cellars are only too aware of the risks involved in going the self-marketing route. Instead their strategy is to combine bulk production with more than the usual degree of stability.

^{#####} In general South African retailers demand from their suppliers that the latter comply with their product standards, less so with process and ethical standards as in the case of overseas retailers. It remains to be seen whether SA retailers will follow suit.

^{\$\$\$\$\$} As ascertained by South African Wine Industry Statistics (SAWIS).

7 Conclusion

All three cellars in our case studies do most of their business in the value chains for 'basic' wine – both in South Africa and overseas. Over the course of twenty years, in the post-regulation, export era of South African wine, they have all encountered various influence strategies used by their clients – whether it is local wholesalers, exporters or overseas supermarket chains. At least two of the cellars had to deal with pronounced coercive strategies, especially in the early years when they were still finding their way in the export markets. Initially attracted by the promise of big volume sales, they soon discovered that this came at the price of paper-thin margins and de-listings. While one cellar has succeeded in jettisoning these kinds of clients, the other has graduated to the number volume brand in the South African market, thereby lessening its dependence on overseas clients. Nevertheless, it has to deal with a local market dominated by four of five retail chains, where hitherto unknown coercive practices are becoming increasingly common.

However, even the less coercive clients, both local and international, use definite influence strategies in the value chains in which they operate. This manifests itself mainly in the vineyards practices and wine styles that they 'demand'. They can do this, because of their intimate knowledge of the markets in which they do business.

Prescriptive as they may be, these demands do not come without rewards. In a global wine market characterised by overproduction and fierce competition, these lie mainly in more trust, reliability and margins that are more than paper-thin.

Literature

Baker, G., Gibbons, R., and Murphy, K.J. (2002). Relational contracts and the theory of the firm. *Quarterly Journal of Economics*, Vol. **117**: 39-84.

Belya, V., HANF, J.H. (2012). Managing Russian Agri-Food Supply Chain Networks with Power. *Journal on Chain and Network Science*, Vol. **12** (3): 215-230.

Belya, V., HANF, J.H. (2009). The Two Sides of Power in Business-to-Business Relationships: Implications for Supply Chain Management. *The Marketing Review*, Vol. **9** (4): 361-381.

Beier, F.J., Stern, L.W. (1969). Power in the distribution channel, in Stern, L.W. (Eds), *Distribution Channels: Behavioral Dimensions*, Houghton Mifflin, Boston, MA: 92-116.

Blau, P. (1964). *Exchange and Power in Social Life*, New York: John Wiley: 117.

Bowersox, D.J., Cooper, M.B., Lambert, D.M., and Taylor, D.A. (1980). *Management in Marketing Channels*, New York: McGraw-Hill.

Brito, C., Roseira, C. (2005). A model for understanding supply chain networks. *Journal on Chain and Network Science*, Vol. **5**: 55-63.

Cartwright, D. (1965). Influence, leadership and control. In J. G. March (Ed.), *Handbook of organizations*. Chicago: Rand McNally: 1-47.

Dahl, R. (1957). The concept of power. *Behavioral Science*, Vol. **2**: 201-215.

Fleming, E., Mounter, S., Grant, B., Griffith, G., and Villano, R. (2014). The New World challenge: Performance trends in wine production in major wine-exporting countries in the 2000s and their implications for the Australian wine industry. *Wine Economics and Policy*, Vol **3** (2): 115-126.

French, J.R.P., Raven, B. (1959). The bases of social power, in Cartwright, D. (Eds), *Studies in Social Power*, University of Michigan Press, Ann Arbor, MI: 150-167.

Gagalyuk, T., Hanf, J.H., and Hingley, M. (2013). Firm and whole chain success?: Network management in the Ukrainian food industry. *Journal on Chain and Network Science*, Vol. **13** (1): 47-70.

Gereffi, G., Humphrey, J., and Sturgeon, T. (2005). The governance of global value chains. *Review of International Political Economy*, Vol. **12**(1): 78-104.

Gereffi, G. (1994). The Organisation of Buyer-Driven Global Commodity Chains: How US Retailers Shape Overseas Production Networks. In Gereffi, G. and Korzeniewicz, M. (Eds), *Commodity Chains and Global Capitalism*. Westport, CT: Praeger.

Graovetter, M. (1985). Economic action and social structure: the problem of embeddedness. *American Journal of Sociology*, Vol. **91**: 481-510.

Gulati, R., Lawrence, P.R., and Puranam, P. (2005). Adaptation in vertical relationships: Beyond incentive conflicts. *Strategic Management Journal*, Vol. **26**: 415-440.

Gulati, R., Nohria, N., and Zaheer, A. (2000). Strategic Networks. *Strategic Management Journal*, Vol. **21**: 203-216.

Hanf, J.H., Belya, V., and Schweickert, E. (2013). Who's got the Power? Discussion of Power Distribution in the German Agribusiness. In JAMES, H. (ed.) "The Ethics and Economics of Agrifood Competition", The International Library of Environmental, Agricultural and Food Ethics, Vol. 20, Springer International Publishing AG, Cham, Switzerland: 211-226.

Hanf, J.H., Dautzenberg, K. (2006). A theoretical framework of chain management. *Journal on Chain and Network Science*, Vol. **6**(2): 79-94.

Hanf, J.H., Kühl, R. (2005). Branding and its Consequences for the German Agribusiness. *Agribusiness: An International Journal*, Vol. **21**: 177-189.

Humphrey, J., Schmitz, H. (2004). Chain Governance and Upgrading: Taking Stock. In Schmitz, H. (Ed) *Local Enterprises in the Global Economy*, Cheltenham: Edward Elgar: 349-82.

Humphrey, J., Schmitz, H. (2000). Governance and Upgrading: Linking Industrial Cluster and Global Value Chain. IDS Working Paper 120, Institute of Development Studies, University of Sussex, Brighton.

Hunt, S.D., Nevin, J.R. (1974). Power in a channel of distribution: sources and consequences. *Journal of Marketing Research*, Vol **11** (May): 186-193.

Jarillo, J.C. (1988). On strategic networks. *Strategic Management Journal*, Vol. **9**: 31-41.

Kaplinsky, R. (2010). The Role of Standards in Global Value Chains and their Impact on Economic and Social Upgrading. Policy Research Paper 5396, World Bank.

Kelman, H.C. (1958). Compliance, identification, and internalization: three processes of attitude change. *Journal of Conflict Resolution*, Vol **2**: 51-60.

Kogut, B., Zander, U. (1996). What firms do. Coordination, identity and learning. *Organization Science*, Vol. **7**: 502-518.

Lazzarini, S., Chaddad, F., and Cook, M. (2001). Integrating Supply Chain and Network Analysis: The Study of Netchains. *Journal on Chain and Network Science*, Vol. **1**: 7-22.

Levy, A., Grewal, D. (2000). Supply Chain Management in a Networked Economy, in: *Journal of Retailing*, Vol **76** (4): 415-429.

Mentzer, J.T., Min, S., and Zacharia, Z.G. (2000). The Nature of Inter-firm Partnering in Supply Chain Management. *Journal of Retailing*, Vol. **76**: 549-568.

Navas-Aleman, L. (2011). The Impact of Operating in Multiple Value Chains for Upgrading: The Case of the Brazilian Furniture and Footwear Industries. *World Development*, Vol. **39**(8): 1386 – 1397.

Ponte, S. (2007). Governance and upgrading in the South African value chain for wine. Stellenbosch: Trade Law Centre for Southern Africa, University of Stellenbosch, South Africa.

Ponte, S., Ewert, J. (2009). Which Way is 'up' in Upgrading? Trajectories of Change in the Value Chain for South African Wine. *World Development*, Vol **37**: 1637-1650.

Raven, B.H., Kruglanski, A.W. (1970). Control and power, in Swingle, P. (Eds), *The Structure of Conflict*, Academic, New York, NY: 69-109.

Simatupang, T.M., Wright, A.C., and Sridharan, R. (2002). The knowledge of coordination for supply chain integration, in: *Business Process Management Journal*, Vol **8**: 289-308.

Staritz, C, Gereffi, G., and Cattaneo, O. (2011). "Editorial". *International Journal of Technological Learning, Innovation and Development*, Vol 4: 1-12.

Thompson, J.D. (1967). *Organizations in Action*. McGraw-Hill, New York.

Vink, N., Williams, G., and Kirsten, J. (2004). South Africa. In K. Anderson (Ed.), *The World's Wine Markets: Globalization at Work*. Cheltenham: Edward Elgar.

Zaheer, A., Bell, G.G. (2005). Benefiting from network position: firm capabilities, structural holes, and performance. *Strategic Management Journal*, Vol. 26: 809-825.