ITALIAN VITICULTURE BETWEEN TRADITION AND INNOVATION: A SURVEY ON THE BUSINESS DECISIONS OF WINERIES OF BASILICATA

Antonella P. Vastola[(1)], Lorena Cuseo[(2)]
[(1)] Università degli Studi della Basilicata
Scuola di Scienze Agrarie, Forestali, Alimentari ed Ambientali (SAFE)
Viale dell'Ateneo Lucano 10, 85100 Potenza, Italy
antonella.vastola@unibas.it

[(2)] Università degli Studi della Basilicata
Scuola di Scienze Agrarie, Forestali, Alimentari ed Ambientali (SAFE)
Viale dell'Ateneo Lucano 10, 85100 Potenza, Italy
loryc1986@libero.it

ABSTRACT

Most of the Italian economy has been experiencing, since late last year, an economic recession. The only exception to this scenario is that represented by those industries for which the characteristic feature of *made in Italy* is recognized by the market as a value. In addition to some manufacturing sectors, the agrofood industry is showing a dynamic against the negative trend. In 2011, respect to the previous year, the turnover of the Italian wine sector has increased by 9,2% (Mediobanca, 2012); while the export value increased of 11,5% compared to 2010. About volumes of wine selled, in 2011, Italy continues to maintain the leading position worldwide with 23.8 million hectoliters (+10%). The forecast about the vintage 2012 indicates a decline in volumes of about 9%, partly caused by the bad year, while exports grew by about 7% compared to 2011.

The data show a sector with a positive balance but the italian wineries have to take in account the changes in progress to define future strategies: the rising costs of non-renewable resources; the relationship between exchange rates; the new emerging countries (such example, Eastern European countries); new consumers (the Y generation, Asian consumers etc.); substitutive products (beers, wines with a lower alcohol content, dealcholized beverages etc.), the basic equilibrium between demand and supply of wine in the worldwide scenario (Oiv, 2012).

In the last years, the Italian wine has been able to maintain and to strengthen its position on the international markets, that's depends not only by the successful performance of the northern and central regions, historically suited, but also by an increase in both quality and quantity produced in the South and therefore also with the contribution of Basilicata.

The wine sector in Basilicata, although quantitatively limited compared to the national production, at the regional level represents a driving force towards other agricultural productions, also thanks to the growing acknowledgment received at national and international level, in particular by the wine Aglianico. In fact, the vintage 2011 was the first one for the denomination "Aglianico Docg Superior", that's has allowed the flagship wine of Basilicata to enter in the circuit of prestigious Italian wines as Barolo and Chianti.

The aim of this paper is to analyze, through an empirical survey carried out through a questionnaire to a sample of wineries in Basilicata, the business strategies of the past five years and their evolutionary dynamics in the context of this difficult economic environment.

Innovate and differentiate are the strategies that more than others allow wineries to compete in a context of tremendous global economic crisis, uncertainty and markets instability.

The combination of tradition and innovation is the winning strategy to address the change in the Italian wine industry. The tradition is tied to the value and image of *made in Italy*, from which the consumer expects a high level of quality and a high service content. Even if some data show that for small firms, the cost containment is still the only viable opportunity, tying the company strategies to a time horizon is often the short term, underestimating unconventional marketing initiatives (such as web marketing) and working, mostly, through conventional channels.

RIASSUNTO

La maggior parte dell'economia italiana è, dalla fine del 2011, in una fase di recessione economica, ad eccezione di quei settori per quali il connotato *made in Italy* è riconosciuto dal mercato come un valore. Oltre ad alcuni comparti manifatturieri, è il settore agroalimentare a mostrare una dinamica in contro tendenza. Nel 2011, il fatturato del settore vitivinicolo italiano è aumentato del 9,2% (Mediobanca, 2012) e il valore dell'export è cresciuto del 11,5%, rispetto al 2010. Rispetto ai volumi, nel 2011, l'Italia continua a mantenere la posizione di leader mondiale con 23.8 milioni di ettolitri (+10%). I dati previsionali della vendemmia 2012, indicano una contrazione dei volumi di circa il 9%, fenomeno in parte causato dalla cattiva annata, mentre le esportazioni sono in crescita di circa il 7% rispetto al 2011.

I dati mostrano un settore con un bilancio positivo ma che deve tenere conto, per la definizione delle future strategie del cambiamento in atto: i costi sempre più elevati delle energie non rinnovabili; i rapporti tra i tassi di cambio; i nuovi paesi emergenti (ad esempio, i paesi dell'Est Europa); i nuovi consumatori (la Y generation, i consumatori asiatici etc.); i prodotti sostitituivi (birre, vini a basso contenuto alcolico, bevande dealcoolizzate etc.), l'equilibrio sostanziale tra domanda e offerta mondiale di vino (Oiv, 2012).

Se in questi ultimi anni, il vino italiano è riuscito a mantenere e consolidare la propria posizione nei mercati internazionali, ciò è dipeso non soltanto dalle performance produttive delle regioni del Nord e del Centro, storicamente vocate, ma anche da un incremento sia della qualità che della quantità prodotta nel Sud e quindi anche con il contributo della Basilicata.

Il settore vitivinicolo lucano, nonostante sia quantitativamente limitato rispetto alle produzioni nazionali, a livello regionale rappresenta un elemento trainante nei confronti delle altre produzioni agricole, grazie, anche, al crescente riconoscimento riscosso a livello nazionale ed internazionale dei prodotti enologici, ed in particolare dall'Aglianico. Infatti, il 2011 è stato il primo anno di raccolta dell'Aglianico Docg Superiore, riconoscimento che dal 2010 ha immesso il vino simbolo della Basilicata nel circuito dei vini prestigiosi al pari del Barolo e del Chianti.

L'obiettivo del lavoro è di analizzare, attraverso un'indagine empirica svolta tramite ad un questionario proposto ad un campione di aziende vitivinicole della Basilicata, le strategie aziendali degli ultimi cinque anni e la loro dinamica evolutiva nel contesto di questa difficile congiuntura economica.

Innovare e differenziare sono le strategie che, più di altre, hanno permesso alle aziende vitivinicole di competere in un contesto economico globale di forte crisi, d'incertezza ed instabilità dei mercati.

La combinazione di tradizione e innovazione è la strategia vincente per affrontare il cambiamento nel settore vitivinicolo italiano. La tradizione è legata al valore e l'immagine del *made in Italy*, da cui il consumatore si aspetta un alto livello di qualità ed un elevato contenuto di servizio. Anche se per le aziende di piccole dimensioni, il contenimento dei costi appare ancora l'unica strategia perseguibile ancorando, così, l'azienda a strategie il cui

orizzonte temporale è spesso il breve periodo, sottovalutando iniziative di marketing non convenzionale (ad esempio il web marketing) ed operando, principalmente, attraverso i canali tradizionali.

Introduction

Viticulture in Basilicata assumes a considerable importance in the economic, environmental, social and cultural development.

The local wineries, like the others Italian ones, operate in a very competitive environment not only caused by the changes of the global wine market, but also by the general economic situation far from encouraging.

The actual economical crisis has highlighted some critical issues of the regional productive system, in particular there are difficulties in the use of EU funds caused by the scarse ability of self-financing and by the financial straits to credit access.

Until 2007, there was a period of great expansion characterized by the emergence of new firms and the increase, in the average size, of existing ones. Afterwards, a period of stagnation is followed, in which the wineries of Basilicata have significantly limited their investments.

In 2011, the effect of the economical crisis as well the unusual high temperatures have a strong negative impact on production and sales, compared with 2010.

In the actual economical circumstance, it's strategical modelling business strategies taking into account: product quality, enviromental impact and sustainability of the production process, wine/winery/territory promotion through the most wide and actual communication systems.

Material and Methods

The survey methodology was based on interviews to the wineries producing the denomination "Aglianico del Vulture Doc" and located in Basilicata. The wineries sample is included in the wine guide AIS (Association of Italian Sommelier) "Duemilavini" 2012.

In the "Duemilavini" are surveyed, for Basilicata region, 16 wineries, those who have already participated to the survey were 6, to which we have added other 6 companies selected through the web.

The interviewed companies are medium and large size with prominent positions in the regional sector, as well small size companies but leading the market characterized by a rapid growth. All of them are located in the Vulture area, an ancient extinct volcano, and this is the *terroir*, where the Aglianico del Vulture DOC is produced.

The main purpose of the survey is to describe, through the sample, the main economic characteristics of the Basilicata wineries, to analyse their marketing strategies and critical issues faced, as result of the current economical crisis. For this purpose, it was drawn a questionnaire consisting of 17 questions and submitted in the period August – December 2012. The data collection was carried out, mainly, through direct interview with the owner, while only to few companies, the questionnaire was sent by e-mail.

To obtain general information about the wineries, the questionnaire presents an introductory section devoted to general business data, such as the company size based on the number of bottles produced in the 2011 vintage.

The first section of the questionnaire refers to changes in the international market, national and purchasing behaviour of consumers occurred in the last five years. The second section examines the changes perceived by the surveyed companies in terms of turnover and changes in corporate strategies over the past five years. The third section focuses on target markets and distribution strategies. The fourth and last section gives to the producers the possibility to highlight the main business strategies, promotion and communication used and the future perspectives.

Results and Discussion

The survey confirms the presence of a high quality production in which the early stages of the production chain appear to be strongly integrated since the winemaking process is carried out, mainly, by wine growers. On the other hand, the marketing strategies are, often, carried out in a "traditional" way without the help of professionals. So, it happens that they are not, always, able to satisfy the needs of actual markets.

The data relative to company size based on the number of bottles produced in the 2011 vintage (Fig. 1), showed that only 25% of companies surveyed make a production that does not exceed 250,000 bottles, while 42% of companies have an annual production between 40,000 and 80,000 bottles and 33% reported a production of less than 15,000 bottles.

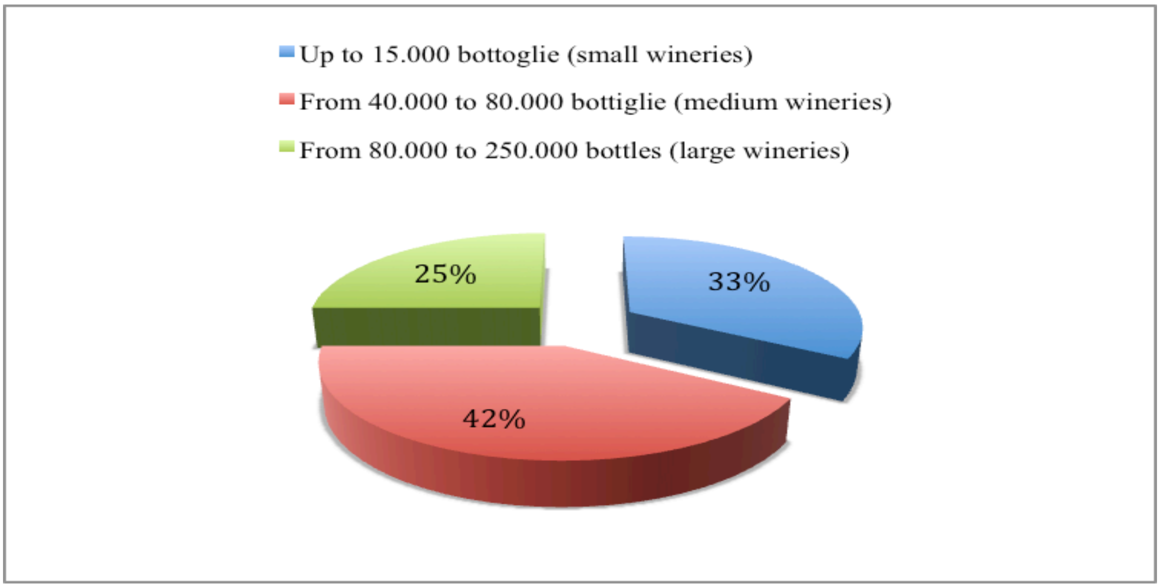

Fig.1 – Wineries economical size (number of bottles produced in the 2011 vintage)

Such productive dimensions reflect, on average, those of Basilicata as a whole. Farms of small-medium size and with a familiar management represent the majority of the manufacturing regional base. In some cases, such situation represents a constraint for a transformation of the industry and to implement competitive strategies, such as the enhancement of experiences and traditions that should take into account a contest of globalized markets and new technologies.

Almost all of the wineries surveyed have perceived a market's change over the past 5 years, mainly from 2007 to 2011. The changes concern with the reduction of the domestic sales for 42% of them, the shift of the wine demand from the domestic market to the foreign markets for 33%, while 15% of the sample identified the changes of consumer taste. Only 8% of companies surveyed noted a general difficulty to penetrate markets.

In the last five years, the changes that have affected the domestic market are due to, for the 58% of companies surveyed, a request for cheaper wines and less alcohol, for the 34% to the decline in consumer spending and the bottled wine, while for the 8% of the sample at the request of quality wines (Fig. 2).

The decline in domestic sales is due to the economic crisis that reduces incomes and purchasing power, in such a way that consumers have reduced consumptions in general and in particular those related to food. The consumption of wine, is no exception to this trend, and it shows a constant and stead decrease, so much so that, for the first time in 2011, Italian wine is bought more abroad.

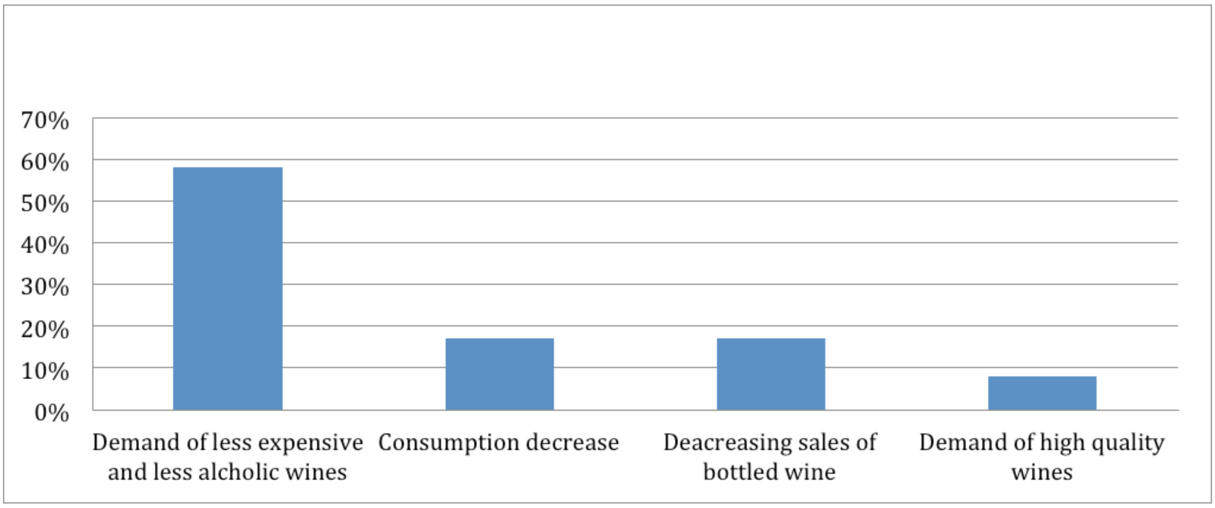

Fig. 2 – Changes in the domestic market (2007- 2012)

In addition, the negative trend in domestic wine consumption is also linked to changes in lifestyle/consumption especially among young people. Basically, the wine has changed its function and use: from a traditional drink frequent in the diet of all days, has gradually become a drink for occasional consumption linked to particular events.

On the basis of the evolution of taste, the most popular and consumed wines are those so-called "easy to drink": less complex, fresh, pleasant, a low-alcohol content, but always with a high quality image.

The decrease in sales has led to a reduction in sales by 30-50% in half of the companies of the sample, around the 10-20% for the 33% of wineries, while the 16% of them did not detect reductions in revenue over the last two years. The principal reasons for the decline in turnover are: the contraction in sales volumes and the reduction of the sale price (Fig. 3).

The reduction in turnover related to the increase in costs, has contributed to reducing company profits significantly. The increase in production costs has affected the 75% of the wineries and concerned, above all, in decreasing order financial costs, services, taxes and labour costs. In the last 6 years, the 75% of small companies and the 20% of the medium ones have reacted to the economic crisis focusing on the reduction of production costs in the vineyard and in the winery reducing, mainly, personnel costs.

The strategy of cost reduction, in case of declining turnover, provides low profit margins, although in the medium-long term a decisive rationalization of expenses not supported by adequate investments, may adversely affect the quality of the product. On the other hand, such strategy allows a good quality/price relation in order to maintain the domestic market share and to expand the exports.

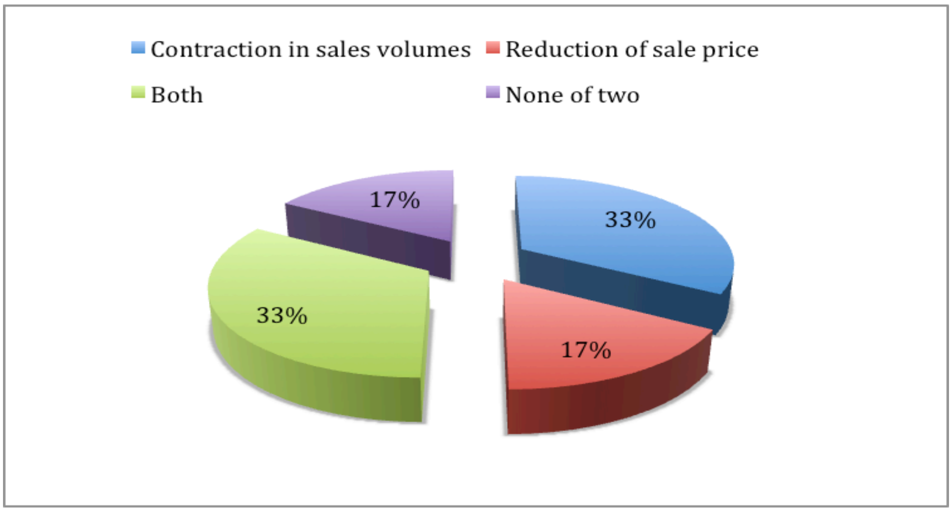

Fig. 3 – Reasons for the decline in turnover

About the target markets and distribution strategies used, all the interviewed wineries operate in the domestic and international market thanks to increasing quality of their products, covering the various situations that the market imposes. It is clear that to face the decline in sales in the domestic market, to increase exports becomes strategic.

The difficulties associated with the international trade, such as the logistic and bureaucratic barriers, are driving the costs hardly sustainable by local wineries that need adequate support from local public institutions.

Among the leading export countries there are: Germany, Switzerland and the United States of America. Those are followed by: Austria, Japan (to which in recent years there has been a slight increase in exports), Belgium, the UK and Canada. In addition, an interesting market for local wines is represented from Eastern Europe, with a strong relevance of Russia.

With regard to the marketing of quality wines, the distribution channels used by the wineries turn out to be multichannel.

Direct selling and Ho.Re.Ca appear to be the most widely used distribution channels. Each of the 12 wineries surveyed have a website, but only 42% of them, besides the use of Ho.Re.Ca and direct sales, have set up an e-commerce channel. A quarter of the wineries use both: Ho.Re.Ca and the large-scale distribution (DO). In particular, this channel is used only by the three largest companies of the sample, because their capability to satisfy request in terms of quantity and price. Another quarter of the wineries utilize exclusively the direct sale channel and only one company trades exclusively with the Ho.Re.Ca. (Fig. 4).

The advantage of direct sales is based on the contact without middlemen between the producer and the consumer. But even most important, it can be exploited the link between the wine and the territory the grapes come from: this element is stronger and richer when it links with the wineyard history or the personal commitment of the owner or the reputation of the firm, or when the products is an outcome of a more complex social or civil engagement, as it happen.

In most wineries, the sales function is often performed by the owner, this is because it is often not recognized the added value that a professional marketing expert could have. This highlights the widespread difficulty of companies in implementing trade policies aimed at expanding market space, but amply justified by the high trade costs against the revenues generated.

A single large-sized company entrusts the marketing of its wines to a network of exclusive agents, who may work for several companies at the same time.

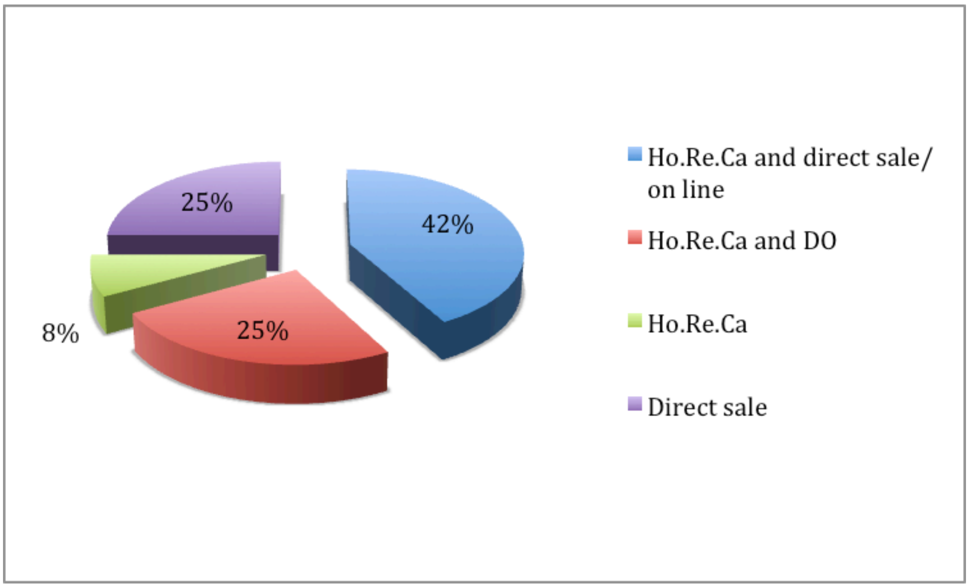

Fig. 4 – Distribution channels

Another priority of the companies is that related to the product communication, due to an awareness of a certain weakness of the territorial brand.

Despite this knowledge, the media used to communicate the product belong to the category of traditional channels, such as participation in trade fairs, promotion through a direct contact in the wineries.

According to the report OperaWine (joint initiative between Vinitaly 2012 and Wine Spectator), the 80% of large Italian producers use at least one instrument of the social web and the remaining 20% is going to do it. The advantages of using this tool are obvious to most major manufacturers, who use it to consolidate its position on the domestic market and as a springboard to reach, at a glance the largest global audience. The use of social networks is not yet too common among the small producers of Basilicata, and this condition usually is accompanied by an unattractive website. This condition does not depend by the costs to apply this technology becouse it can be easly achieved also by the small wineries becouse some tools, available on the net, allow you to self-evaluate your own website, over a number of parameters including: the spread (number of users who have visited the company website), in a few seconds your website but also that of competitors, while also providing information on the characteristics to be improved. VinTank Social Connect (www.vintank.com) is a platform that can monitor the conversations that take place on the web and having as subject the wineries and their wines.

What seems to be missing, despite the wineries recognize the importance of communication by the web, is the break between a traditional/known way to communicate the wine and the “adventure” in a world still unexplored and therefore considered dangerous.

In 2010, only a medium-sized firm, it is distinguished from the others, for the realization of a cultural event called "Night Harvest", in which the wine becomes a real means of communication. The idea of a wine made from grapes harvested at night is supported by the results of some studies that affirm the high concentration of aromatic compound during the night. This occurs for the late-ripening grapes such as Aglianico, because during the ripening period the temperature range between day and night is high. The plant, to protect the berries from the thermal effects, concentrates inside the aromatic compounds that have also the function of elasticize the peel to avoid breakage, thereby avoiding inter alia undesired fermentation during transport. Low temperatures allow: stable product quality, starting with the conservation of flavour, but also an energy saving of 50-60%, when it need to cool down the grapes before pressing.

Looking at strategies to address future challenges, a sustainable production system is one of the goal. Actually, in Italy the price of power is higher with respect that charged in the other countries where our domestic productions compete. The production of electricity through photovoltaic panels is part of the evolution of alternative energies that are being imposed in all countries of the world.

One of the wineries interviewed has developed a photovoltaic system to develop environmentally and ethically strategies for energy. Another company participates to a national project for a sustainable production of wine. The project called *Magis* is one of the most advanced in the world, as acknowledged by the OIV, and it is based on the best techniques of precision farming. In the first year of application, *Magis* allowed to save an average of 9% of agrochemicals, while also choosing the best selective and safe molecules, and to reduce by over 30%, on average, the use of fertilizers. A less intensive use of technical tools means a spare of water and energy, with less carbon dioxide released into the atmosphere. In complex, *Magis* led to an average reduction in production costs of 15,4%.

Conclusions

The wine sector in Basilicata, although quantitatively limited compared to the domestic production, represents, at the regional level, a driving force towards other agricultural productions, also thanks to the growing acknowledgment received at national and international level, in particular by the Aglianico: the regional flagship wine.

In spite of the their, on average, medium-small economical dimension, local wineries are facing the actual economic situation, combining strategies that look at costs containment without taking into account the need in of new markets/consumers. The combination of tradition and innovation is the winning strategy to address the change in the Basilicata wine industry. The tradition is tied to the value and image of *made in Italy*, from which the consumer expects a high level of quality and a high service content. Even if some data show that for small firms, the cost containment is still the only viable opportunity, tying the company strategies to a time horizon is often the short term, underestimating unconventional marketing initiatives (such as web marketing) and working, mostly, through conventional channels.

Aknowledgements

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