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Regulating regional wine quality through smart expansion and leadership

Réglementer la qualité des vins régionaux par une expansion et un leadership intelligents

15 December 2021.

Bonnie Farber Canziani Erick T. Byrd

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PREO

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Introduction

- 1 New wine regions are emerging throughout the world. Within the United States, communities of grape growers and wine producers are appearing in almost all states. North Carolina is home to just under 200 wineries, up from a mere 12 in the year 2000. With a growing wine industry come issues of attaining and maintaining wine quality as well as understanding the best options for expanding the industry and its resident businesses.

- 2 State representatives have noted that there is a growing gap between the database of wineries listed with the North Carolina Wine and Grape Growers Council (NCWGG Council—the industry governing board) and the set of businesses that have state-issued winery licenses. This discrepancy leads to confusion and misunderstanding among both customers as well as industry participants, since possession of an operating license does not necessarily mean winery owner commitment to the greater good of the NC wine region. This is bad for the overall image, legitimacy, and branding of North Carolina's regional wine industry. The NCWGG Council has identified two ways to build and enhance the reputation of the NC wine industry: (1) produce high quality wine and (2) meet or exceed the expectations of visitors to NC wineries.
- 3 Extant literature is clear that the wine trade draws upon inferences about wine quality to differentiate regional markets¹. Markets promote wine quality cues such as certified origin and experts' evaluations to rationalize pricing levels and create value for a wine region². Evidence from Hojman (2015) shows that emerging wine regions are pursuing production of quality wines in novel ways, i.e., foreign and expert influence and award competitions. Most wineries are members of at least one wine related trade association. The top two membership associations for the NC wine industry are the NC Winegrowers Association (68.8%), and the NC Muscadine Growers Association (21.9%). Such membership often offers insights into business practices that create success.
- 4 However, there is only limited work³ on how individual firms' strategies influence regional wine quality and market strength. Studying individual firms can illustrate lessons on how private company policy affects wine markets. Leaders in emerging wine regions can employ strategies that support the quality of wine produced by new business entrants into the sector. This qualitative study documents smart winery practices that have impacted regional NC wine quality and strengthened general market demand, including exports to Asia. General findings are presented and two illustrative company cases are described.

Method

- 5 Home to more than 2300 grape-bearing acres (approximately 1000 acres of muscadine) and more than 500 growers, North Carolina (NC) is the 11th largest grape-producing state in the country⁴. Due to a varied and nurturing environment, a wide variety of grapes are grown. Over 64 different types of grapes are used in the production of NC wine. Top vinifera grapes include Chardonnay, Merlot, Cabernet Sauvignon, Cabernet Franc, Chambourcin, and Viognier. The top muscadine grapes include Carlos, Nobles, Magnolia, Doreen, Isons, Tara, and Triumph. The state divides its wine regions in a variety of ways, including Mountains (West), Piedmont (Central), and Coastal area (East). The eastern side of the state produces more muscadine wine, and historical narratives suggest Manteo, North Carolina is home to the original muscadine mother vine from circa 1584. An estimated 78% of the wineries in North Carolina use at least 75% NC grapes and/or fruit.
- 6 Convenience sampling was combined with qualitative data acquisition techniques such as snowballing and data saturation⁵. Data gathering methods included in-depth interviews of 13 NC winery owners/managers (names suggested by the NCWGG Council). These interviews were supplemented by a targeted online survey to 20 additional winery owners/managers, and researcher intercept interviews at statewide wine industry meetings. To be interviewed as a winery leader, the subject's winery must have been continuously operating since before 2010 and the subject must have held a leadership position on the NCWGG Council, on one of the NC wine associations, or in a similar activity. These screening measures were used to locate respondents with enough traction in the NC wine industry to be considered a leading spokesperson for discussion purposes in this paper.
- 7 The 33 respondents represented 17.8 percent of wineries listed with the North Carolina Department of Agriculture and Consumer Services database and tourism website in 2018. The dataset included the top 15 wineries in the state measured by employment, revenue, and production level, as well as 18 others. The sample comprised four commercial wineries (50,000 cases or more per year); five others were mid-sized and 24 were generally small wineries producing 5000

cases or less annually. The commercial wineries had existed for 15 years on average compared to 11 years in general. Most wineries (75%) are located in rural areas. The sample was evenly distributed across the three mountain, piedmont, and coastal wine regions. Most wineries (92.0%) were located within 15 miles of a major highway which permitted easy access for tourism.

Results

- 8 Participating wineries agreed that consistent quality of the overall product (grapes, wine, and visitor experience) that a region produces is vital to its success. If a wine has a fault it should not be sold as a standalone product or offered in a tasting room for visitor consumption. There was no belief, however, that prioritizing a specific grape or type of wine should be pursued as a method for increasing perceived wine quality in the state. Recognition of and support for grape and wine diversity was a primary philosophical belief across the studied winemakers.
- 9 Smart expansion strategies reported were numerous and are exemplified in Table 1 which outlines practices of two dominant wineries for eight distinct strategic activities. Wine Business A (a mid-sized operation) has adopted a cost-focused operational strategy coupled with leadership focused on increasing the tangible physical quality attributes of the NC wine product. In contrast, Wine Business B (a commercial-sized operator) has devoted attention to product line differentiation into higher tiered wines, with companion strategies of value-added production techniques and the creation of an NC Fine Wine Society that would make NC wine more visible to influential wine experts. Each company, in its own way, has had immeasurable impact on driving the real and perceived quality of NC wines forward.

Table 1: Divergent Paths to Smart Expansion and Regional Wine Quality.

Strategy Description	Wine Business A	Wine Business B
Product line pricing	Development of two brands with separate distribution for moderate and lower-priced wines and craft beer	Development of family brand with jointly distributed premium (\$55) and moderate wines (\$15-\$33)

Operational focus	Loss prevention and cash flow maintenance through value-pricing; reduces impact of grape quality and variation on wine sales	Revenue enhancement through differentiation of premium-priced wines and general price increases overall on goods and services
Brand image management	Moderate wines are traditional; Separate 'fun' brand image with emotional labelling for value wines	Family-based branding based on history/culture; Creation of premium linkages to NC Fine Wine Society
Support processes	Moderate wines (US\$17-\$32) in bottles while value-priced wines sold in 500 ml cans (US\$9)	Linkage of <i>Appassimento</i> grape drying technique to justify raised wine prices on core wines
Grape quality controls	Incorporate into diverse product lines based on grape quality	Contract and invest in B2B grape grower relationships
Leadership role	NC Winegrowers Association's Quality Alliance Program (QAP)	NC Fine Wines Society and Annual Competition
Validation of wine quality	Laboratory-based quality analysis to determine the absence of faults	Judgments by Advanced Sommeliers, Court of the Master Sommeliers
Regional industry philosophy	Ensure the commercial viability of North Carolina Wines by providing a voluntary, objective screening system and supporting market expansion through local and export strategies	Promote fine wines that are 100% North Carolina Grown & Vinified ("A rise in tide raises all boats") and support increase in NC's reputation for fine 'award-winning' wine

Discussion

- 10 Strategies have emerged to handle the different issues arising from a rapidly growing regional wine industry in North Carolina. Some strategies related to pricing and product line development are mostly determined by the competitive intensity among leading wineries that is building in the NC wine industry. Goals of industry leaders tend to be largely explained in terms of sustaining or growing company profitability and increasing regional and brand visibility for quality wine.
- 11 Responses of older firms to the entrance of new wineries varied, but for the most part, subjects exhibited a commitment to regional reputation building by encouraging established wineries to reach out to

other wineries in their local areas. However, some tension exists between older and newer wineries in terms of their definitions of what quality means in North Carolina. With the overall increase in the number of NC wineries, issues of making wine from fresh grapes versus concentrate juices have arisen (the latter is seen as undesirable).

- 12 There are also concerns about what an NC winery visitor experience should look like. For example, some wineries are popping up in downtown areas with no facility tours or vineyard landscapes. This is seen as drawing down the reputation of wine tourism in the region. There is evidence that older wineries expect newer wineries to toe the line in deferring to their wisdom about what the NC wine product and winery experience should be. Given the aforementioned commitment to diversity in wine and grape production, this creates a dilemma that needs to be addressed with more clarity in association and council meetings.

Business-to-business strategies for resource sharing

- 13 In order to stabilize the network of organizations in the state, an ethic of mutual support has permeated the industry. The thinking is that a larger and closely knit industry has more power to achieve social and regulatory changes that would benefit NC wine makers. One avenue pursued involves business to business (B2B) strategies that the already established wineries use to share financial resources, expertise, and infrastructure with new entrants.
- 14 Such tactics include investments in new grape grower/existing winery partnerships. These arrangements also promote consistent quality of ingredients and improve wine product outputs across the region by helping growers identify grapes that do well in the region. Winery leaders are sourcing quality grapes through business to business contracts with new growers, advising them on what grapes to plant and how, thus ensuring that growers have readymade clients or distribution channels and wineries have the grapes they need.
- 15 Existing wineries also provide just-in-time operational consulting/services to other wine businesses starting up, particularly in

terms of meeting agricultural and safety standards that are obligatory under state and federal regulations. Some wineries invite small winery operators to join in already paid for workshops and certification programs as well. In addition, existing wineries offer custom crush services with winemaker consultations to small wineries or grape growers new to the region who cannot afford equipment or upgrades in technology. By nurturing these relationships, larger and entrenched wineries are coopting agreement and support for pursuing local and state political agendas regarding the production and sale of wine, as well as gaining fruitful intelligence regarding their neighbors and fledgling competitors.

Pricing concerns

- 16 Pricing was an especially difficult topic for the subject wineries in the study. Traditional low-cost leadership was not identified as a feasible strategy for any of the smaller NC wineries in the study due to winemaker assertions that high costs and limited financial resources of small business owners required them to set high prices on the wine or go out of business. There is no sense of a reality check on whether consumers are willing to pay for medium-high priced NC wine. The high level of winemaker confidence in their pricing strategies was a potential concern given the literature on pricing in the wine field that suggests that wine prices depend on both perceived value⁶ and perceived quality⁷.
- 17 Product line price differentiation was only noticed with medium-sized or larger wineries. One winery achieved a margin of success by distributing both a lower-priced canned beverage and a moderately-priced bottled wine line. Packaging was identified as critical as was up-selling the product by sharing a story to support higher pricing⁸.

Product expansion or innovation

- 18 In general, respondents felt that there was no excess grape or potential bulk production in the state (except for fresh muscadines sold as table grapes). Wineries were highly dependent on individually grown or contracted crops to produce the desired number of wines and cases each year. There was no interest in getting behind a blended product as other states have done⁹. However, various larger wineries

were pursuing alternatives to bottling for wine distribution, e.g., keg wines for event and restaurant distribution.

- 19 Product line extensions were popular expansion tactics, due to a winery's ability to leverage existing facilities and equipment and produce alternate streams of revenue. Wineries in North Carolina have expanded into cider and mead, and have built distilleries to produce spirits and fortified wines. Extensions into new product lines are interesting since they affect previously described relationships between leading wineries and new entrants. Given that the allocation of facilities and equipment space and time is a zero-sum game, established wineries can either allocate slack to their own product expansion efforts or to the needs of other wineries. Thus, the degree to which they select the former course of action could affect future levels of cooperation. It is conceivable, nonetheless, that some extensions would benefit both parties. For example, expanding distillery functionality might provide opportunities to serve other wineries interested in creating fortified wines, such as brandies or ports.

Increasing attention to quality checks

- 20 A great deal of attention was paid to the idea that the quality of NC wine has increased dramatically, due to the level of competition among longer-held existing NC wineries and the fact that the leading industry members are working with new entrants in sharing knowledge and information. A small set of wineries have led the charge regarding the formation of the NC Wine Quality Alliance which is now housed in a local community college with a viticulture degree program and subsidized by the state. In addition to testing bottled wines for faults, this initiative offers continuing education and certification in fault training; it is also investigating the potential of creating certified bottle labels specifying fault free wines. In order to catch faults prior to bottling, juice sampling will be employed in the near future. However, study participants acknowledged that more wineries need to participate in the program.

Managing regional wine quality reputation

- 21 In part, respondents attributed the industry's growing interest in increasing NC wine quality to the fact that the region's customer base is changing; both customer educational level and consumer taste palates are increasing in sophistication. This has led to more wineries participating in recognized wine competitions, regional and international trade shows (Hong Kong) and other opportunities to test their wines against accepted external standards.
- 22 A strong belief about influencing the wine influencers was exhibited among these study participants. Several leading wineries are jointly funding a blogger summit to create more awareness and real estate via the internet. Two respondents also desire to organize additional trade tasting for high-end wine writers where wineries bring their best wine, not the lesser wines they exhibit at local wine festivals. Plans exist to make the high end event open to the public to showcase and elevate the perception of NC wines with key players
- 23 External validation is also being pursued through the efforts of a three-year-old NC Fine Wine Society that has had annual Wine Galas in 2017, 2018, and 2019 where recognized trained sommeliers are employed to select a set of winning wines. So far, a purported 30% of the wineries in NC are participating in this activity. For the most part, these high-end promotional initiatives are coming from individuals who already enjoy a certain level of social capital in their cities or regions. The low level of participation so far in the Fine Wine Society suggests that the strategy may have to be reviewed as to its ultimate goal. It may gain visibility for a select number of NC wine brands, which could have an umbrella effect on the region in general, since 'a rise in tide floats all boats' according to the Society's web page. But inclusion is an important value in modern U.S. society, so it may be worth revisiting the group's plan and strategy to clarify what more can be done to engage more wineries in the event.

Conclusion

- 24 The results from this North Carolina study seem to reflect a New World¹⁰ perspective where regional reputation depends very little on promoting grape and wine types dominant in a region. Conversely, due to small business start-up costs and artisanal visions for wine making, most NC winery owners are highly resistant to low-tier pricing, thus bulk and blend products are not popular strategies¹¹. So the North Carolina wine product is diverse and each winery is highly dependent on the winemaker's personal vision.
- 25 Leading wine businesses in North Carolina have significant impacts on perceived and real regional wine quality. Established NC wineries are enticing new industry entrants to join in efforts to increase wine quality across the board by addressing common product faults that can be observed through testing and dealt with through science. Leading wineries are also stressing regional brand image formation through sharing of business intelligence, external validation, experiential wine tourism and cellar door retailing.
- 26 It is important to underline that individual firms are taking on role responsibilities that exceed the usual industry board and council memberships. Largescale quality and reputation enhancement initiatives are being hosted and sustained through the financial and physical support from wine industry leaders. Study results are generalizable to emerging wine regions with a mix of established and new businesses whose owners can cooperate in joint efforts to improve and sustain wine quality and markets.

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English

The wine industry in North Carolina (NC) has grown from 12 wineries in 2000 to nearly 200 wineries in 2019, with 10 new wineries opening annually. The biggest concerns for fast growing industries is ensuring product quality and sustainable markets. Businesses that occupy dominant positions in the region have much at stake and also have responsibility for ensuring that newcomer wineries uphold the goals of quality wine and experiences for winery visitors. This paper reports on qualitative interviews with winery leaders in North Carolina to comprehend their influence and their strategies for facilitating wine quality and sharing knowledge among wineries across the state. The paper provides insights to any emerging wine region that is focused on wine quality and strengthening regional wine economies.

Français

L'industrie du vin en Caroline du Nord (NC) est passée de 12 établissements vinicoles en 2000 à près de 200 établissements en 2019, avec 10 nouveaux établissements ouverts chaque année. Les plus grandes préoccupations pour les industries à croissance rapide sont de garantir la qualité des produits et des marchés durables. Les entreprises qui occupent des positions dominantes dans la région ont beaucoup à perdre et ont également la responsabilité de s'assurer que les nouveaux établissements vinicoles res-

pectent les objectifs de qualité du vin et l'expérience acquise pour accueillir les visiteurs. Cet article rend compte d'entretiens qualitatifs avec des dirigeants d'établissements viticoles de Caroline du Nord afin de comprendre leur influence et leurs stratégies pour faciliter la qualité du vin et le partage des connaissances entre les établissements viticoles de l'État. L'article fournit des indications à toute région viticole émergente qui se concentre sur la qualité du vin et le renforcement des économies viticoles régionales.

Mots-clés

économie, hégémonie, qualité, région, stratégie

Keywords

economy, leadership, quality, region, strategy

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