



Innovation management of German wineries: from activity to capacity—an explorative multi-case survey

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Abstract

Innovation is declared as key to success in increasing competition. This study explores the innovation activities of German wineries. A multi-case survey of 25 wineries shows rich innovation portfolios with diverse activities. The innovation activities of the wineries indicate diminishing product centrality in the industry, since innovation is pursued not only for products but for services, in investment and finance, in processes, and in marketing and sales. Wineries are characterized by intensive innovation and change activities. Intensive change might be rooted in bandwagoning effects, being pushed by trends and fads. Entrepreneurs in the wine business are urged to adapt to changes in customer behavior and to react to trends that they perceive to be important, resulting in diverse innovation ideas and change activities. The self-reliance seem to push entrepreneurs and smaller companies in the wine industry to increase their innovation portfolio in without regard for capacity or resource scarcity considerations or adequate strategic profiling.

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Keywords: Innovation; Strategy; Capacity

1. Introduction

Innovation is considered a panacea to compete in today's competitive markets. Literature and practitioners ask for innovative solutions to address increasing competition and multiple changes in the environment to which companies need to adapt (Johannessen et al., 1999, D'Aveni, 1994, Denton, 1999, Jenssen and Jorgensen, 2004). The aim of this study is to provide insight into innovation activities and the resulting changes looking specifically at entrepreneurial and small to midsize companies of the wine business.

An explorative multi-case survey on innovation management in the German wine industry analyzes innovation behavior and focal areas of innovation, as well as the intensity of innovation in an industry that is characterized by small entrepreneurs. On the basis of structured interviews with randomly selected German wineries, the study delivers insights on dimensions and activities of innovation and change and first ideas on innovation capacity issues by introducing proxies to assess it. The study reveals high intensity of innovation and change activities. It therefore raises ideas for future research in the direction of bandwagoning, capacity restrictions, and strategic profiling with aligned innovation management (Abrahamson and Rosenkopf, 1997, Abrahamson, 2000, Abrahamson, 1991).

The paper is organized as follows. Starting with a description of the German wine industry we then provide a view on the current status of research on innovation in the wine industry and a literature synopsis for innovation in the context of SMEs. Furthermore, the resource dependency theory is explained as guiding theoretical framework. In the following we provide information on the empirical approach and present the results of a multi-case survey. A section of discussion and interpretation of

Abbreviations: SME, Small and medium enterprises; RDT, Resource dependency theory.

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the results concludes the paper providing ideas for future research and also considering the limitations of this explorative study.

2. Wine and innovation theory

The wine industry is characterized by fragmentation and change. Besides industry background we therefore provide insight into the status of research on innovation management in that context. Special attention is given to the resource dependency theory as it should provide managerial advice for entrepreneurs in the specific industry to guide their innovation activities.

2.1. Wine business characteristics and the German wine industry

The German wine business is mature, with longstanding tradition but ongoing structural changes. Global supply and competition, changes in consumer behavior and preferences and international markets with individual, culturally influenced consumption and specific import barriers characterize the global wine industry with Germany as one of the most liberal markets characterized by heavy consumption (Gilinsky et al., 2008, Hoffmann, 2005). Germany is the fourth largest consumer market of wine in the world and the consumers drink more than 2 billion liters of wine annually (DWI, 2011) of which 40–45% is produced locally (Hoffmann, 2005, Hoffmann, 2010). Additionally, German wine producers are exporting almost 4 million hectoliters of wine (DWI, 2012). Considering an average annual wine production of 9 million hectoliters, Germany has hence developed into a hub for European wine sales (Scheuermann, 2012). Compared to Spain or Italy, each exceeding 20 million hectoliters of export, Germany is still a rather small player (OIV, 2012). The supplier side shows strong fragmentation. In the last 30 years, the number of wine growers in Germany was halved to about 50,000. Still, the average German producer owns less than 3 ha. The industry is therefore characterized by small and medium players. Despite their small size, wineries are generally highly integrated—from growing to harvesting to producing to sales and marketing. Wineries hence generally need managerial competence and attention for all value chain steps, also in regards to possible change and innovation. Average profitability in the German market is low (Oberhofer, 2011, Mend, 2009, Oberhofer, 2012).

Hernández applies the theory of convention to describe the transition of the wine industry in general, also applicable for Germany. From a historically local world of production with strong agro-focus, the wine industry develops via an industrial approach, to enter a market world of production (Sánchez-Hernández et al., 2010). While quality of the products dominates earlier stages in such an industry evolution, in the later stages efficiency and commercialization are increasingly taking over as keys to success. In the context of innovation, such a transformation should result in a shift of focus of innovation. One expects less product centricity in the innovation portfolio once the later stages of transition are reached (Guthey, 2008).

The integrated value chain coverage of the German wineries results in the need to develop competencies for multiple markets and therefore impacts innovation behavior. Additionally, the

wine business belongs to the world of agriculture with its dependency on nature. Furthermore, wine is part of the food and beverages market, with multiple sales channels as well as the strong relative market power of the distribution side. Given the products' high emotional utility, wine also shows characteristics of luxury markets. As a result, the characteristics of asset focused as well as consumer driven markets with high emotional value and complexity of the product need to be considered in the wine context (Orth et al., 2007). Satisfying the needs of the different worlds, the product complexity as well as the need to deal with the transition of the market as described and the underlying changes of consumers stretches the entrepreneurs and might require technical as well as marketing innovation competence (Dell'Era and Bellini, 2009).

The wine industry is apparently an interesting industry for research as the growth rate of scientific wine industry articles is five times larger than the average across scientific disciplines (Orth et al., 2007). Indeed, the wine industry with its characteristics, its transition, and the complexity is well suited for research on innovation management (Cusmano and Morrison, 2010).

2.2. Innovation in the context of SMEs and the wine industry

Innovation is key for companies to develop, grow, position, and sustainably secure profitability in competitive business environments, especially where there are changing customer needs (Johannessen et al., 1999, D'Aveni, 1994, Denton, 1999, Jenssen and Jorgensen, 2004, Wang and Ahmed, 2004, Hauschildt, 2004, Crossan and Apaydin, 2010). Additionally, economies are characterized to evolve from factor-orientation via investment to become innovation-driven, with even more need to be innovative to successfully compete in the markets (Woodward, 2005, Prajogo and Ahmed, 2006). Indeed, a current global study on future capabilities rate innovation management as the capability with strongest growth in importance of all capabilities (BCG, 2009).

Since the average German winery has less than 10 employees and annual revenues of less than €2 million, it qualifies as very small enterprise. Even the largest German private winery with its 60 employees and about 10 million Euros of revenues belongs to the small enterprises, as defined by the EU (Kommission, 2003). Hence, the literature and body of knowledge on innovation management referring to SMEs seems highly relevant.

While innovation theory is strongly developed (Wang and Ahmed, 2004), its application and explanatory strength is initially and primarily focused on larger organizations (Caputo, 2002, Gilinsky et al., 2008, Vermeulen et al., 2005). Indeed, a database keyword search delivers almost 29,000 hits for innovation with “corporate” and less than 2000 hits for innovation and “SME”.¹ Freel and Mazzarol deliver a concise overview on the genesis and status of innovation theory for SME with an increasing body of knowledge. Still, often contradictory perspectives are not resolved, even such basic ones as if size of companies impacts innovativeness positively

¹Data base research on Business Source Premier June 2012: 28.850 hits for innovation and corporates meanwhile 1.804 for SME.

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