

Integrating Environmental Attributes into Marketing Strategies of Wine Producers

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Abstract

Due to the fast technological advancement, pressures regarding environmental sustainability and social responsibility have become inseparable part of every industry. Wine industry, which is based on the agricultural products has a direct impact on the environment and consequently is involved in the general trend and increased concern of the environmental sustainability. Together with the high quality, contemporary and future consumers will expect the wine-growing and producing practices to be environmentally sustainable. This trend has the direct influence on the obvious shift of wine producers from corks to alternative twists as the top closures of the bottle. Occurring without actual tree removal, cork harvesting retains wildlife habitat in a uniquely biologically diverse landscape. Consequently important notion exists that fate of many species is tied to that of cork industry. This trend creates interesting relationship among cost reduction, environmental sustainability and customer perception and segmentation. More specifically, while alternative twist tops, other than corks, increase the ease of consuming the product, it decreases the customers' perception of oldness, which represents an important aspect of the wine consumers purchasing behaviour. This indicates the necessity of careful analyses of the different segments of the market regarding the preferences of ease of usage or age of wines keeping in mind the environmental sustainability. Consequently the main focus will be made on presenting the findings, which will demonstrate the interesting correlation of above mentioned aspects of viti/viniculture, followed by the recommendations on proper integration of the environmental attributes in overall marketing strategies of wine producers, as the means of motivation for maintaining environmental sustainability.

Keywords: competition, cork, environment, industry, marketing, strategy, viti/viniculture

Introduction

Gaining and maintaining market positions under increasing level of globalization, puts wine producers in a condition, where they should consider integrating "none-traditional" attributes in the marketing strategies. As the result of the increased pace of local or international competition, more and more target markets become saturated. This is backed by the worldwide overproduction of grape and inappropriate usage of available grape varieties. This general characteristic of the industry, contradicts the strengthening trend of preserving environmental sustainability, creating indirect opportunity for wine producers to differentiate themselves from that of competitors. Usage of corporate citizenship as a strategic tool for differentiation requires empirical evidences of actual benefits expressed by the higher growth margins and increased number of loyal customers. At the present, there is an obvious dearth of literature concentrated on evaluations of practical positive outcomes for the businesses as the result of being socially responsible corporate citizen. On the other hand, there is a lack of awareness among consumers, about what it really means for a company to operate proenvironmentally. This leads to the situation, when wine producers ask themselves how far they need to go to facilitate their products' positioning (Nowak, Washburn, 2002). The research project "Social Responsibility of Business – Challenges and Prospects", implemented by the Centre for the

Strategic Research and Development of Georgia, indicated a low level of awareness regarding environmental responsibility. Majority of the companies assumed that measures regarding protection of the environment should primarily be taken by companies, which produce a harmful impact on the environment in their business operations. These findings create the a background for presenting the concrete environmental issue, which could improve the appreciation of the corporate social responsibility from both – businessmen and consumer sides – by demonstrating the usefulness of careful analyses of the environmental aspects in wine production and deliberate delivery of "green messages" to target markets. The Georgian wine industry will be chosen as the matter of focus, taking into consideration its old traditions of wine-making and current interesting transitional period. The position of Georgian wine industry and the ongoing developments in international wine market strengthen the interest.

Georgian Wine Industry

Level of civilization of the culture can be measured by its viti-culture and oenology (Tyler, 2008). Based on the significant number of archaeological evidences, Georgia is regarded

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as the birthplace of wine. The word “wine” itself is believed to come from “gvino” - the Georgian word for wine (georgianwinesociety.co.uk, 2008). Representing the most integrated culture of the country, wine production is perceived as much more than just business industry. Possessing 525 different varieties of grapes, out of which only 37 is commercially used, indicates the vast potential of the industry. Historically, being the main source of the economic well-being of the country, the industry was always involved in political matters. “The first thing the conquerors were doing when invading Georgia, was cutting down vineyards ‘grown like a child’ (as the folk poem says) by Georgian wine-growers. The enemy believed that they could defeat the country by cutting down the vineyards. But vineyards were replanted and refreshed again and again (Georgian Journal, 2009)”.

Russia’s ban on Georgian wine can be considered as the modern example of historical experience. The independent French laboratory failed to find any trace of the chemicals based on which the official Russia was announcing the decision (Smith, 2006). Majority of political and even wine experts concluded that Russia’s ban on Georgian wine was politically motivated economic blockade. The loss of the biggest penetrated market made basic difficulties of Georgian wine industry more obvious. They can be summarised as: Lack of experience in integration of the industry outside the Soviet Union space; Lack of awareness of Georgian viticulture and oenology in other markets than post Soviet Union space; Lack of modern production facilities (Krigbaum, US-AID 2006). However, with an active participation of Georgian government in the international promotion of country’s wine, the initial vulnerable situation has been overcome and currently Georgian companies are targeting more developed markets with the plans of further modernization of production facilities. The 33rd World Congress of Vine and Wine in Georgia represents clear outcome of ongoing reforms within the industry involving the effective cooperation between private and public sectors.

According to the criteria based on which international wine industry is divided in OW and NW producers and which covers long, uninterrupted history of winemaking, Georgia - known as the cradle of winemaking - can be referred as OW producer. On the other hand, existing reality of current condition prevents the industry from being included in OW producers and puts it as the potential NW producer. Another criterion, describing OW and NW producers as countries within and outside Europe, cannot be referred to Georgia, taking into account its geographical location on the cross-road of Europe and Asia. Above discussed situation can be translated into Initial phase of strategic flexibility, based on the careful observation of intense competition between OW and NW producers.

As the result of the graduate research undertaken by the author, aimed to analyse the current competition between OW and NW wine producers, ongoing trends in global wine market and the key factors for success were distinguished. The following trends: - Consolidation of producers, distributors and retailers; The shift in consumer preferences towards high quality wines; Overproduction of grapes; Increasing concern of the environmental attributes of wine industry, and increasing focus on emerging markets – were accompanied by such key factors for success as effective

network within the industry, between private and public sector; strategic approach to international wine industry; R&D as the basis for new technologies and variety combinations; stringent regulatory and appellation control system; sufficient marketing of available viticulture; attracting the foreign investments; and economies of scale and scope. History and tradition, rich repository of grape varieties (525 different varieties and only 37 studied and used in production), characteristics of health-beneficial microsomas in Georgian grape varieties, pure ecology, high level of the involvement of foreign international organizations in the development of Georgian wine industry represent number of competitive advantages. Merging the trends of the international wine industry and key factors for success, together with the competitive advantages of Georgian wine industry, stand for the crucial direction before concentrating on particular issue, in this case the cork stopper, to ensure the sustainable integration in the international wine market.

Cork Industry

Obvious trend in international wine industry covering the shift from corks to alternative twists as the top closures of the bottle can be considered as the opportunity for improving the level of awareness of the importance of the environmental issues in penetrating the target markets. Becoming more cautious regarding the environmental attributes, represent one of the main characteristics of the contemporary wine-consumer. “Consumers want to know what you are doing to make the environment or your community the better place and how it is embedded in the company culture. Consumers are savvy enough to know, if you are doing it for company reasons (winebusiness.com, 2009)”. Together with the high quality, contemporary and future consumers will expect the wine-growing and producing practices to be environmentally sustainable.

Covering around 2.7 million hectares of Portugal, Spain, Algeria, Morocco, Italy, Tunisia and France, cork oak landscapes represent a main source of income for more than 100,000 people and maintain one of the richest biodiversity among the forest habitats, including globally endangered species such as Iberian Lynx, the Iberian Imperial Eagle and the Barbary Deer (Rainforest Alliance Report, 2009). Harvested without actual tree removal, cork production belongs to the unique system, balancing the needs of biodiversity conservation and people (earthtrends.wri.org, 2007). The cork is extracted from the thick bark of the oak without damaging the tree. Actually, regular cork stripping prevents a bark from aging and maintains the health of the tree and overall ecosystem of the forests (Non-Wood News, 2009). Water retention, soil conservation, carbon storage, desertification and soil erosion represent other important characteristics of the cork industry. Ecological values of cork can be summarised by the following table 1.

Cork is used for the variety of products, from floor and wall coverings to fishing buoys. In spite of the number of the segments existing in cork industry, bottle stoppers represents 70% of the total value of the cork market (corkqc.com), emphasising the crucial importance of the wine industry in maintaining its economic value, which ensures the sus-

Table 1. Ecological Value of Cork

Cork
A natural resource, renewable, biodegradable and recyclable
<ul style="list-style-type: none"> • Natural cork is an environmentally-friendly material that completely biodegrades or can be readily recycled without creating any significant secondary waste. • After use as a stopper, the cork biodegrades without producing toxic residues or may be recycled into other products.
High environmental values, low environmental impact
<ul style="list-style-type: none"> • 1 tonne of natural cork stoppers (357,143 stoppers) comes from 10 ha of <i>dehesa</i> or 1.3 ha of dense cork oak forest. • To obtain 10t of cork harvesters strip 400 young trees (25 kg/tree/cycle) or 167 mature trees (60 kg/ tree/cycle). • Trees don't die after harvest. • 1 t of virgin cork and 7.3 t of waste cork are produced and used for granulate or cork board for insulating or other uses. None of the cork is wasted. Even the fine particles of cork dust are collected and used as fuel to heat the factory boilers. • 2t of CO₂ is fixed per 1t of natural cork stoppers
Source: Torres, 2006.

tainability of the unique ecosystem discussed above. WWF (World Wildlife Fund) 2006 report indicates that in spite of the growth in international wine production since 2000, the cork stoppers market has not experienced the same increase, and tendency of decline in production becomes more and more obvious. The report outlines number of factors negatively influencing the cork industry: Strong marketing of alternative closures; General tendency of blaming cork for tainting the wine; Appearance of cheaper wines in global wine market produced for quick consumption; Lack of awareness among consumers regarding importance of a cork industry leading to the confusion in expression of preference and choice.

But the most influential factor, under which above mentioned issues can be summarised, is the intensified global competition, which divided the international wine market into NW and OW, involving fundamental structural changes in production, consumption and trade (Berneti, Casini, 2006). Challenges of current environment of the industry basically include threat of overproduction of grapes; consolidation of forces among producers, distributors and retailers and shift in consumer preferences (Jenster, Cheng, 2008). And those who adapt faster to this reshaping environment are gaining significant competitive advantages. The fast adaptation to the developing environment is perceived by the number of the international competitors as the signal for integrating alternative top closures to the production practices. Exactly this can be considered as an additional opportunity for Georgian wine industry to differentiate its products from that of competitors.

Material and Methodology

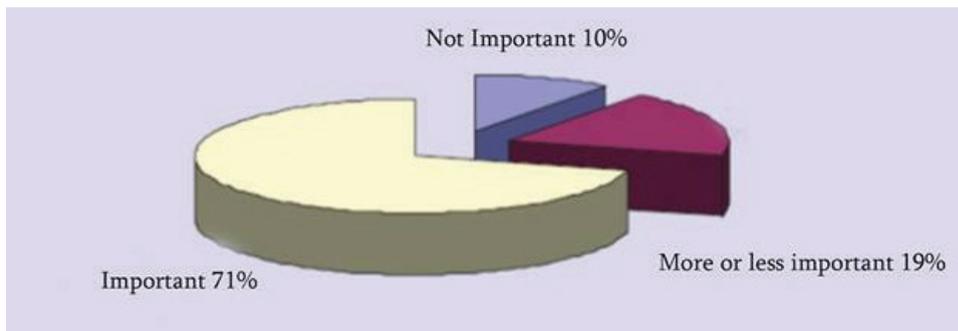
The paper concentrated on: Conducting literature review on cork industry developments, searching, collecting and analysing secondary data about environmental attributes involved in wine production, analysing secondary data about the existing attitude towards CSR form companies and customers. Collecting and analysing information about Georgian wine industry, based on the cooperation with the Wine and Vine State department under the Ministry of Agriculture of Georgia. Relevant articles and researches were available based on the access to Cambridge and Anglia Ruskin University libraries, as the master graduate of Anglia Ruskin University, Cambridge. Cooperation with the leading Georgian wine-producer companies represents another important part of the paper.

Qualitative research was undertaken, using questionnaire and personal interviews with TOP 4 Georgian wine companies and representatives of SAMTREST (Currently Georgian National Wine Agency). The basic goal of research was to obtain information about the impact of the ongoing tendency in cork industry on the leading Georgian wine producers, also to find out the level of awareness among companies regarding the importance of maintaining the cork as the top closure and its links to CSR. Research concentrated on outlining the future plans of the companies regarding alternative twists. Current presence in international market and potential target markets were important subject of interest as well.

Results and Discussions

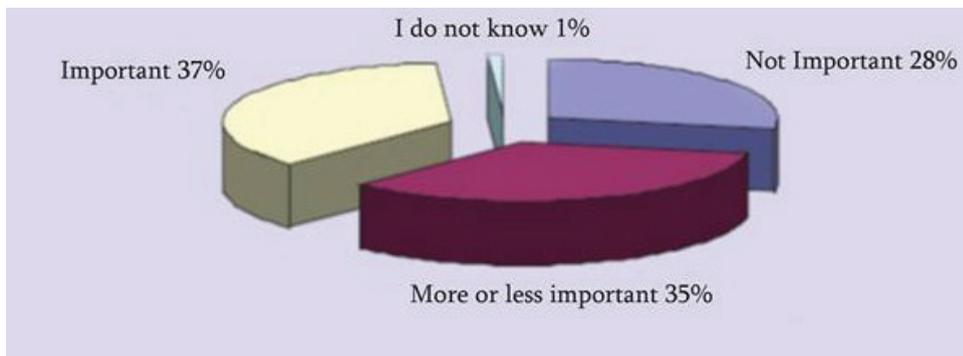
According to the leading companies of Georgia, cork stoppers needed for wine bottles are imported basically from Portugal and Spain, two major cork exporter countries. This indicates to the direct influence on the ongoing shift occurring in the cork industry. In spite of being 100% importer of cork, the lack of awareness among respondent companies regarding its ecological and economic values was obvious. Therefore majority of the companies were quite tolerant regarding alternative twist tops, referring to the tendency as the result of intensified global competition, which put them in the condition where they should take measures for reducing costs necessary for competing in different segments of the saturated international markets. However, leading players of the Georgian wine industry understood the importance of aged wines in the perception of consumers, primary threat of which is top closures other than corks. Representing one of the obvious competitive advantages of Georgian wine, history and tradition stand for the basic barrier for rapid substitution of cork stoppers in local production. Important result of literature review was to find out what companies and customers think about CSR and its integration into business practices. Results show that there is the huge opportunity for educating customers and at the same time insuring the positioning as the socially friendly company into their minds. Despite the fact that 71% of the company recognizes the importance, it is paradox that vast majority of them experience lack of information about the cork industry as the one of the most environmentally friendly industry.

Importance of CSR and Business for the Development of the Country – Company view



Source: CSRDG

Importance of CSR and Business for the Development of the Country – Public view



Source: CSRDG

Presence in the international wine market, which is divided in Old World and New World, represented other subject of research. Basic goal of this was to find out how Georgian companies are meeting the tendency of increasing wine consumption in developed and emerging markets. Post-Soviet space, the EU, Asia, the USA represent the basic markets where Georgian companies are exporting their products and trying to get the niche market positions taking into account the low production capacity. According to the respondents, Eastern Europe and the USA belong to priority target markets, based on the relatively more obvious increasing rate of wine consumption. General characteristics of the contemporary customer, which is becoming more and more environmental-oriented, should be outlined here. With the increasing rate of wine consumption, Georgian companies should take into consideration the increasing environmental concerns, and focusing on the specific environmental attributes involved in cork industry, would create an opportunity for differentiating themselves from competitors.

Being the cradle of the wine making is the most important message that Georgia can deliver to the rest of the world, which will, at least, create the interest of the contemporary consumer. If this message is backed by "green" notes based on the cork, the image of the Georgian wine will be strengthened as the product of the industry, which is oriented towards the combination

of tradition and innovation in both production and marketing, especially when cork is considered to be the “green” product which itself fits with the current marketing and consumer trends. The basic threat when targeting consumers with pro-environmental marketing strategies, is the underestimation of the worthiness of changing their consumption behaviour based on the benefits to themselves and to society as a whole (Rangan, et al, 1996). This threat is relatively eliminated when referring to the priority segment of the Georgian wine, consisting of the uniqueness and age oriented wine consumers, who do not have to change much in their purchasing behaviour. Informing them about coherence between their consumption pattern and environmental attributes would ensure their loyalty and motivate them to promote the same purchasing behaviour to other segments as well, which can be considered as the additional prospects for Georgian companies, target markets of which are determined by available unique grape varieties and limited production capacity.

Conclusion

The purpose of this paper was to emphasise the importance of cherishing environment once again by stakeholders of wine industry. Intensified globalization, resulting in hyper competition, tempts companies to underestimate the consequences of their competitive moves. Obvious shift from cork stoppers to alternative twist closures represent pure example of this. Lack of awareness of importance of cork industry for the unique ecosystem creates inadequate perception of this shift among consumers. Informing contemporary customers about specific environmental issue involved in wine industry fits current marketing and consumer trends, which can be considered as the motivation for companies to formulate pro-environmental marketing strategies.

Ongoing developments in global wine market, which involves obvious trends and key factors for the success of OW and NW producers, together with the competitive advantages of Georgian wine industry represented the important subjects of interest. Merging of above mentioned factors was needed to create sound background for concentration on the specific environmental attribute and its integration in marketing strategies of the wine producers.

Known as the cradle of winemaking, Georgian wine industry can effectively use “green” messages by demonstrating its pro-environmental approach, especially when the whole volume of the industry’s output is using the cork stoppers. This is backed by consumption behaviour of target consumers, who, despite the lack of knowledge, still prefer wines with cork closures, which are associated with quality and age.

Based on the issues discussed in the paper, Georgian wine can gain the competitive place in the international market. With proper integration strategy, relevant policy and Strong international promotion, which will make the potential consumers aware of the country with the ancient culture of winemaking, providing completely different taste to them, using the unique grape varieties with the pro-environmental production practices, it will be possible to place Georgian

wine among the most prestigious wines of the world.

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