THE USE OF STRATEGIC ALLIANCES ALONG THE WINE INDUSTRY VALUE CHAIN.

Dr. Phil Bretherton  
Deputy Dean  
Faculty of Arts, Humanities and Education  
Central Queensland University  
Rockhampton  
Queensland 4702  
Australia  
Tel (61) 7 4930 6753  
Email: p.bretherton@cqu.edu.au
Abstract
This research looks at the use of strategic alliances along the value chain to achieve competitive advantage by securing access to resources and capabilities. Collaboration delivers a range of advantages, including access to resources, technologies and skills, ability to enter new markets, reduction of risk and spreading of costs. The propensity to enter into strategic alliances is influenced by firm, industry and environmental characteristics. The research is based on case studies of twelve New Zealand wineries, examining how strategic alliances are being used along the value chain. The analysis shows that it is essential to own the majority of key resources and capabilities if superior performance is to be achieved.

Keywords: strategic alliances, value chain, qualitative research, competitive advantage.

1. INTRODUCTION

This research examines the use of trust based strategic alliances in the New Zealand wine industry, using the value chain as the conceptual framework. This type of alliance is wide-spread in this particular industry and the industry itself is of significant importance to New Zealand in terms of its economic impact and for the leverage it offers to other primary products in terms of positioning in international markets. Qualitative methodology has been used because of the richness of data provided since the questions being asked concern why and how strategic alliances are being used in the particular context. New Zealand wineries are using strategic alliances to gain access to scarce and heterogeneous resources in the search for differentiation, leading to sustainable competitive advantage and superior performance.

2. LITERATURE REVIEW

2.1 The Value Chain
The value chain model helps in the development of an explanation for, and an understanding of competitive advantage, since competitive advantage is the result of the way firms organise and perform value adding activities, (Porter, 1990). Trust based strategic alliances along the value chain may be seen as distinct inter-organisational entities, to which partners commit particular capabilities and resources but do not involve exchanges or commitment of equity. These may exist between firms whose primary commitment is to the same set of value chain activities or to adjacent stages of the value chain. Since the primary purpose of strategy is to gain sustainable competitive advantage inter-firm co-operation should only be seen as a strategic alliance if it enables the firms to do so, (Varadarajan and Cunningham, 1995 and Porter, 1990). Networks of alliances along the value chain are constructed in an effort to access or develop key capabilities that contribute to sustainable competitive advantage and act as a stimulus to learning, (Hamel and Prahalad, 1989).

The value chain is an interlinked system of activities, with each stage of the value chain being linked to the next, affecting that that functions cost and effectiveness.
There are trade-offs between the various links in the chain, according to the organisation’s strategy, in order to achieve competitive advantage, (Porter, 1990).

2.2 Gaining Competitive Advantage through Strategic Alliances
Strategic alliances that bring together the complementary skills of partners enable companies to achieve competitive advantage by product differentiation and/or the lowering of production costs. Each partner concentrates on parts of the value chain that are most closely related to their core-competencies to maximise their contribution, (Hill and Jones, 1998). This has also been proposed by Varadarajan and Cunningham (1995) who support Porter’s (1980) view that competitive advantage is the result of either cost leadership or differentiation, with this positional advantage being the result of either distinctive capabilities and/or superior resources. Peteraf (1993) also suggests that the resources and capabilities should be heterogeneous, imperfectly mobile and that both ante post and ex post limitations to competition should exist. Grant (1991) also proposes that resources, whatever their source, are the key drivers of strategy and the search for sustainable competitive advantage. This competitive advantage can be achieved by the use of strategic alliances as shown in figure 2, where strategic alliance partners pool their resources and skills at various stages of the value chain. This leads to a positional advantage, of either cost or differentiation, which results in sustainable competitive advantage and superior performance that could not be achieved by either organisation individually.

The use of strategic alliances to achieve some stated advantage is extensively documented. The major implication of these discussions is that organisations should focus on the appropriate aspects of the value chain, drawing from the competencies possessed by the parties involved. The objective is to augment strengths, whilst ameliorating any weaknesses. This is achieved via the pooling, or sharing of explicit capabilities and resources, (Hamel and Doz, 1998, Varadarajan and Cunningham, 1995, Hamel and Prahalad, 1990 and Porter 1980).

Competitive advantage is viewed as an ability to create and sustain collaboration, with active collaboration taking place when companies develop mechanisms, structures, processes and skills for bridging organisational and interpersonal differences and achieving real value from the partnership. Organisations need to achieve five levels of integration, strategic, operational, tactical, interpersonal, and cultural. Knowing how to nurture a relationship of this kind is both an art, and an essential managerial skill. The capacity to collaborate needs to become a core competence, and should include an ability to conceive, shape and sustain a wider variety of strategic partnerships or networks. This involves the commitment of agreed capabilities and resources, many of which are non-equity based. Accordingly, such alliances may be easier to revise, re-organise, or terminate than strategic alliances that entail equity-sharing in a joint venture, (Hamel and Doz, 1998, Varadarajan and Cunningham, 1995 and Kanter, 1994).

Organisations are encouraged to collaborate because of the range and scale of advantages that are possible. Partnering can provide access to the new and improved resources, technologies, skills and systems necessary to move a firm into a position where business goals can be realised. Advantages of this nature may include expediting entry to foreign markets, utilising economies of scale, amortisation of product and service costs, risk sharing, access to capital, as well as access to
capabilities such as managerial skills and functional knowledge. Competitive advantage is achieved because alliances offer the co-ordination and scale associated with large companies, but the flexibility, creativity, and lower overheads of small organisations, (Mattyssens and Van Den Butte, 1994, Rosenbloom, 1990 and Spekman, 1988). Small firms have the potential to be more innovative than large firms. Large firms seek access to the innovative and entrepreneurial potential of the small firm, with the smaller firm usually undertaking research and development and/or transferring its innovations to the larger firm. This type of alliance enables the large firm to overcome many of the rigidities of its size, (Doz, 1988). Hull, Slowinski, Wharton and Azumi (1988) argue that the larger the firm, the greater the benefit in forming an alliance with a small firm. They give two reasons why the large firm does not simply acquire the small firm. The bureaucratic nature of the large firm may stifle the innovativeness of the small firm, and also there is evidence that smaller firms are more innovative, relative to size. For the smaller partner it is expected that the largest potential costs are a loss of autonomy, and the possibility of being swallowed up by the larger partner. This may be particularly so if the larger partner has a hidden agenda in the formation of the alliance, perhaps seeking access to the small firm’s technology to enable it to develop the technology itself, or to take over the small firm.

The propensity to enter into strategic alliances is generally subject to firm, industry and environmental characteristics. Firms seek to create value propositions by re-arranging and re-synthesising existing processes and resources. This may be achieved by utilising established distribution channels and networks to leverage critical capabilities, or outsourcing non-core activities, (Varadarajan and Cunningham, 1995, Anderson and Narus, 1991 and Hamel, Doz and Prahalad, 1989). Egan (2001) proposes a relationship continuum with value chain partners, ranging from transactional relationships with some partners through to strategic relationships with others.

2.3 Summary
In summary, competitive advantage is a consequence of the organisation’s ability to organise its activities and add value, which in turn is impacted by the availability of both resources and capabilities. Access to these key resources and capabilities can be achieved through developing networks of alliances along the value chain, resulting in sustainable competitive advantage. Hence, competitive advantage is the consequence of achieving either differentiation or cost leadership, with each partner focusing on the part of the value chain where their core-competence is most applicable. The capacity to collaborate is a key competence in building such alliances which result in achieving the scale of a large organisation with the flexibility and creativeness of a small one.

2.4 Research Issues and Questions
This review of the literature leads the researcher to two key questions:
1) Why are trust based strategic alliances being used in the New Zealand wine industry?
2) How are they being used in value chain management?

3. METHODOLOGY
Since there is no fully developed, integrated model of trust based strategic alliances along the value chain, the research is exploratory, looking to develop and extend
theory rather than to test it, employing modified grounded theory, (Strauss, 1987). A qualitative, case study design, using both within-case and cross-case analysis, has been adopted as this yields rich data, more suitable for answering questions of “why” and “how” phenomena occur, (Yin, 1994 and Miles and Huberman, 1994). A purposive sample of twelve wineries was chosen, complying with the numbers suggested for such research, (Yin, 1994, Perry and Coote, 1994 and Eisenhardt, 1989). The Wine Institute of New Zealand uses three categories to classify wineries in New Zealand, category one: up to 200,000 litre, category 2: between 200,000 and 2,000,000 litres and category 3: over 2,000,000 litres. This research included under and over-performers in each category, the breakdown being: category three over-performer Montana, under-performer Villa Maria, category 2 over-performers Cloudy Bay, Grove Mill, under-performers De Redcliffe and Lincoln, category one over-performers Craggy Range, Kumeu River, Goldwater Estate, Te Awa Farm, under-performers Riverside Wines and Gillan Estate. The data was gathered using semi-structured interviews based on a well articulated protocol which was developed from initial unstructured interviews. This was amended as it was applied, for instance adding prompt questions after the initial interview, in order to encourage a greater depth of response and to allow the interviewees more opportunity to articulate their perspectives. However, the same key questions were posed to each interviewee to ensure consistency of data collection, (Yin, 1994). The questions were structured around the value chain model, as alliances tend to be formed to perform certain functions along the value chain, (Porter, 1990). Also company, industry and commercial reports were used to allow a better understanding of the organisations and their context and to achieve triangulation of the data, (Yin, 1994, Lincoln and Guba, 1985 and Jick, 1979). This approach has been taken to ensure that the research has been conducted in such a way as to achieve credibility, transferability, dependability and confirmability, (Lincoln and Guba, 1985).

4.0 FINDINGS

<table>
<thead>
<tr>
<th>Value Chain Point</th>
<th>Montana</th>
<th>Villa Maria</th>
<th>Cloudy Bay</th>
<th>Grove Mill</th>
<th>De Redcliffe</th>
<th>Lincoln</th>
<th>Craggy Range</th>
<th>Kumeu River</th>
<th>Goldwater Estate</th>
<th>Te Awa</th>
<th>Riverside Wines</th>
<th>Gillan Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grape Growers</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Wine Making</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Domestic Dist</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>International Dist</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Capital</td>
<td>✓</td>
<td>x</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>HR / Skills</td>
<td>✓</td>
<td>x</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Proc. / Tech.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Learning</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

Source: developed from the data referenced in this research.
* A tick indicates a strategic alliance at that point in the value chain, a cross indicates no alliance.
As can be seen in table 1 both over and under-performing wineries are involved in long-term, trust based strategic alliances at various stages of the value chain and consider them of great importance. All wineries, except Te Awa Farm, use contract grape growers, this being a single vineyard winery and therefore not using them is a matter of strategy and positioning. The key is the percentage of supplies sourced from these alliances; those who source less than 50% of their total grape supplies are the over-performers; control of less than this has clear implications for gaining sustainable competitive advantage. Wine making alliances are only employed by the category one and two under-performers. This is clearly the core capability of a winery and if it is not an organisational resource then it is difficult, if not impossible, to gain sustainable competitive advantage.

The picture varies with distribution depending on served market. Four of the five under-performers carry out domestic distribution themselves, using their scarce resources to perform a function in which they have no core capability. All the over-performers use specialist distributors or, in the case of Montana, have developed the necessary capabilities; this indicates that the process of employing resources is also a key factor, particularly when there is an overall shortage of them. All the wineries use distributors in international markets and, almost without exception, they use a single organisation in each market with whom they have a long-term, trust based strategic alliance. The wineries obviously consider that international marketing is outside their capability base.

Alliances with capital providers have been chosen by four of the wineries, clearly those organisations that have used external sources of capital have been able to acquire the resources and capabilities that they needed to gain sustainable competitive advantage and superior performance, supporting the resource based theories proposed by Grant, (1991).

It is not possible to draw any conclusions with human resource/ skills alliances or procurement/ technology alliances as an equal number of over-performers and under-performers used them. However, learning alliances show a different picture, with Montana, Cloudy Bay and Craggy Range all targeting specific alliance partners from whom to learn in order to develop a particular core capability. This shows that this type of alliance can be used to bring a capability in-house, helping to build sustainable competitive advantage and superior performance, again supporting the theory, (Varadarajan and Cunningham, 1995).

5. CONCLUSIONS AND MANAGERIAL IMPLICATIONS
The analysis shows that extensive use is being made of strategic alliances at various stages of the value chain. With only one exception, all the wineries used this type of alliance to source a proportion of their key input, high quality grapes, including those wineries that specialise in single vineyard wines. It is significant that the under-performing wineries generally relied on a higher proportion of “alliance supplied” grapes than the over-performers, with one as high as 100%. This affirms, as posited by Grant (1991), that ownership of a significant portion of key resources impacts upon performance, that is, it is necessary to own an unspecified critical mass of any crucial resource if sustainable competitive advantage is to be achieved.
All the over-performers, plus Villa Maria, carry out all their own wine making and also they do not sub-contract to any other wineries, as they regard their winemaking capabilities and resources as being critical in gaining competitive advantage. All category one and two under-performers sub-contract some part of their winemaking or carry out some level of wine making for other wineries, with one winery having no facilities at all. This supports the proposal that ownership of key operations and manufacturing processes, that is, resources and capabilities, are essential in gaining competitive advantage, (Grant, 1998). This supports the proposition that strategic alliances along the value chain are an effective method of accessing resources and capabilities. As long as a sufficient proportion of these are owned by the organisation this will improve performance but these alliances are not sufficient when they are the sole or major source of the resource or capability.

The picture with regard to strategic alliances with domestic distributors is somewhat varied. As shown in table 1, all the over-performers, except Montana, use specialist distributors in the domestic market as this capability clearly lies outside their core capabilities. Both category three wineries felt that they had sufficient resources to warrant employing a sales force, which is necessary if the domestic supermarket channel is to be used, with its size, diversity of geography and merchandising requirements. In fact, Montana has identified this as a core capability and acts as a distributor for other brands, both domestic and imported. The category two wineries present a clear picture with the over-performers using a single distributor in the domestic market, whereas the under-performers use a sales-force. Their scarce resources would be better employed in functions where they can add more value, that is, in the vineyard and winery and they should utilise a specialist organisation’s resources and capabilities to carry out domestic distribution.

Five out of six category one wineries use a single distributor in the domestic market, probably as a result of their small size and their absence from the supermarket channel, the exception being Riverside Wines, the only one to participate in the domestic supermarket channel. This decision is dictated by size, with considerable volume being necessary to support a sales force. Competitive advantage for these small wineries, with limited resources and capabilities and, therefore, limited strategic options, is achieved as a result of the choice of distributor, channel selection and the management of the relationship, rather than the fact of having a sole distributor, as this is the only realistic strategy available to them. Their resources would be better employed in the vineyard and the winery, as these are the core capabilities and resources of a winery and where most value is added.

International distribution is more varied, with the most successful strategy, adopted by the over-performers, being the use of a single distributor in each market, linked with participation in the key markets, in this instance the UK, USA and Australia. Villa Maria has been successful in the UK and the USA, but has only just entered the Australian market, whereas Montana is established in all three, although only relatively recently in the US, due to volume constraints. Both category two over-performers participate in all three key markets, using a single distributor, but the under-performers are not in all three markets. The situation with the category one wineries is more complex, because of the limited availability of product. Craggy Range is in the UK and Australia and is seeking distribution in the US. Kumeu River and Goldwater Estate are in all three markets and Te Awa Farm is in the US and the UK but is still developing its international distribution due to its relative youth and,
currently, limited volume. Thus, all of the over-performers are in at least two of the three key markets, with the longer established pair being in all three. Both under-performers are only in one market, due to limited availability of wine but it may also be a result of limited working capital. However, there is consensus that a single distributor in each overseas market is the established strategy for New Zealand wineries, with Kumeu River the only exception. Six out of seven of the over-performing wineries participate in all three of the key international markets, the UK, the US and Australia. The critical factor here is having sufficient resources and capabilities, that is, an adequate supply of value for money wine, to adopt the optimal strategy, participation in all key markets, the entry strategy of using a sole distributor is a given in the New Zealand wine industry. The actual capabilities of international marketing, sales and distribution clearly lie outside the New Zealand wineries and all of them have chosen strategic alliances to access them.

The support functions are also a focus of strategic alliances, with several of the wineries having financial partners, such as Craggy Range, Grove Mill and Cloudy Bay. These partnerships are managed on a relational basis and underpin the resource base of the wineries. In terms of human resources the key focus is in retaining staff and developing their skill sets into capabilities and supplementing these with targeted learning alliances. Technological alliances are not widely used but Craggy Range has been innovative with its alliances with software suppliers and vineyard and winery equipment vendors. The procurement function is mainly for packaging, storage equipment and similar requirements and this is mainly done on a contractual, transactional basis, supporting Egan’s (2001) relationship continuum model.

Insert figure 1 here

Figure 1 shows how the over-performing wineries have organised their value chains and this may prove useful to industry practitioners. It attempts to encapsulate the qualitative data into a model that shows how to organise each phase of the value chain in order to gain sustainable competitive advantage. Obviously, the individual relationships will be different for each organisation but they should be configured as shown to maximise the likelihood of success.

The contribution that this paper makes is to compare the value chain management of over and under-performing wineries and to propose reasons for this performance difference and also to model the potentially most competitive value chain, as an aid to practitioners.

6. FUTURE RESEARCH

This research is exploratory and needs to be extended to other countries and industries in order to develop normative models for managing strategic alliances along the value chain, at which point explanatory research can be implemented.

7. BIBLIOGRAPHY AND REFERENCES

JICK, T. D. (1979), Mixing Qualitative and Quantitative Methods: Triangulation in Action, Administrative Science Quarterly, 24, 4, 602-611.
ROSENBLOOM, B. (1990), Motivating your international channel partners, Business Horizons, March-April, 53-57.
Figure 1 Strategic alliances along the value chain in the NZ wine industry (over-performing wineries)

- Alliances with capital providers (resources) (mainly relational)
- Learning alliance (capabilities) (relational)
- Wine making/viticultural equipment alliances (mainly transactional)
- Packing, storage equipment (mainly transactionally)

Firm infrastructure

HRM

Technology

Procurement

Operations (viticulture and winemaking)
100% winery owned, no outsourcing or sub-contracting

Outbound logistics. Mainly in-house

Marketing and Sales

Domestic

International

Sole distributor (relational)

Sale force

Sole distributor (relational)

Winery owned 50%+

Contract grape growers <50% (mainly relational)

Inbound logistics