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“The Italian Wine Industry: Progress and Lessons”

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ABSTRACT

The Italian wine industry has produced some of the most celebrated and revered wines in the world. Lately, Italian wines have become a leading force globally. Yet, due to the nature and composition of the industry, the wines face many challenges selling both domestically and globally. This paper explores the history and traditions of Italian wine followed by some distinct characteristics of and challenges faces by the industry. A case study is included to offer another view of the challenges many Italian winemakers face. The paper then seeks to derive lessons from the industry and apply those lessons through a different lens to the global automotive industry. The lessons learned by the Italian wine industry are feasibly applicable to many businesses. Italian wine will likely remain both viable and an industry leader in years to come.
The Italian Wine Industry: Progress and Lessons

The wine industry across the globe has undergone major changes. Like many products, wine is now a global commodity and is an integral part of many economies. Even more, it is an immensely popular consumer good.

The wine industry in Italy, along with that of France, is quite possibly the most fabled and revered in the world. Of late, major changes to the overall industry have forced change in Italy. Despite challenges, Italian wine has progressed to be one of the best in the world. There are several lessons which can be derived from Italian wine. These lessons can even be applied to other industries operating in the global economy. Understanding the history of Italian wine and the effects of globalization on wine will yield a clear picture of the challenges Italian winemakers face. These challenges can be further understood to see their specific effects on a small, sustainable Italian vineyard in Tuscany. Finally a few distinct lessons learned by Italian winemakers can be applied to the global automotive industry to see how well automakers across the globe have responded to challenges they have faced.

I. History

A. Tradition

In order to best understand the current position of Italian wine in the global market, it is first important to review the history of Italian wine. Italy as a country has had a rich history in winemaking. In fact, wine predates most modern alcohol by centuries as it was made and
consumed in ancient Rome. The tradition of winemaking is one estimated to date back 3,000 years.  

The rich tradition of Italian wines is something the country prides itself on. The tradition is based on the unique nature of Italian wines. Many of them are made from grapes specific to geographic regions in Italy. These geographic regions can be unique in weather patterns and typography which lends certain characteristics to how grapes grow and the wines they produce. Many analyses of Italian wine describe this using the French term “terroir.” “Terroir” literally translates to “local” but has come to stand for wines with characteristics unique due to their rooting in certain geography. It is based on a belief about proclivity of grapes to produce outstanding wines by virtue of their location.

The great tradition and “terroir” of Italian wines gradually came under the purview of the Italian government beginning in the mid-20th century. In 1963 the government instituted “disciplinare di produzione” or product specifications to classify wines. These requirements created a formal appellation system for Italian wines. The disciplinare di produzione were strict guidelines regulating any number of characteristics of wine including the geographic area of production, alcohol content, grape varietals used for the wine, percentages of varietals that could be blended, vineyard and grape yields, and even labeling and aging requirements. These strict government regulations aimed to protect the great tradition of terroir and ensure consistency and high standards in any Italian wine awarded an appellation.

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2 Ibid.
3 Ibid.
5 Ibid.
6 Ibid.
The appellations first awarded were Denominazione di Controllata (DOC) and Denominazione di Controllata e Garantita (DOCG), with DOCG being the most strict and prominent appellation. Two other denominations have been included below these and they are Vino di Tavola (VDT) (translation: table wine) and Indicazione Geografica Tipica (IGT). As one scholar put it, under the Italian appellation system “tradition was institutionalized.”\textsuperscript{7} Laws regarding wine appellations have been reviewed and were tightened further in the early 1990s.\textsuperscript{8} Appellations are popular across the world for wine and other alcoholic beverages. They are said to be important “to protect the good name and distinctive character of famous wine regions and to ensure that consumers know what they are getting.”\textsuperscript{9}

\textbf{B. Composition of Italian Wine Market}

Aside from the appellation system of Italian wine, the makeup of the wine-producing market in Italy is imperative to understand. Italy has is dominated by vineyards which are small or medium enterprises (SMEs).\textsuperscript{10} The market is often labeled “widely fragmented” and includes “high market rivalry.”\textsuperscript{11} The market share which Italian companies hold is possibly the best characterization of the fragmentation and rivalry. One produced called CAVIRO leads market share in Italian wine with roughly 7\% while Bacardi, an international spirits powerhouse, places second with roughly 0.8\% market share.\textsuperscript{12} The other roughly 92\% of market share in Italian

\textsuperscript{7} Ibid.
\textsuperscript{8} Schweitzer.
\textsuperscript{12} MarketLine: 11.
wine is split amongst companies. Only two companies have a remarkable market share, and the other huge percentage is split presumably amongst a high number of SME wineries.

The very nature of the SMEs which dominate the industry also has important ramifications on the nature of doing business when it comes to Italian wine. Winemakers in Italy typically operate under a vertical integration model. Many “vineyards” or “wineries” in Italy are so much more than grape-growing operations. These SMEs often grow, harvest, and crush grapes and later age and bottle the wine under one roof. The industry has seen some changes in this regard. As larger operations and bigger wineries have emerged, there has been some backward integration with winemakers sourcing grapes from third-party growers. A large number of winemakers are still very vertically integrated and own or lease their vineyards.

II. Globalization and Wine

A. The Old World versus the New World

Globalization is far from a secret or shocking development within the business world. It has affected myriad industries and the wine industry has not escaped major changes due to the phenomenon.

Potentially the most important change globalization brought on in the wine industry was the proliferation of so-called “New World” wines. Countries like Italy and France have now been dubbed “Old World” wine producers and are competing on a global stage with “New

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13 Ibid.
14 MarketLine: 17.
16 Ibid.
17 Ibid.
World” producers from South American nations and countries like Australia. The wine market has been divided between the “Old” and “New” worlds and aside from general industry competition, there is an ongoing battle between these worlds to become the preference of consumers. The Old World is marked heavily by tradition and there is a prevalence of strict appellation systems. The New World has become home to larger companies and major distributors as compared to the smaller vineyards of the Old World.

B. Consumption and Preferences

The main change in wine consumption has been where it is consumed. Formerly, wine was something many consumers enjoyed in the home. But there has been a shift in wine “culture” and globally more consumers drink wine in the restaurant and hotel sector. This trend can have important implications for sales and marketing techniques companies employ.

Also, during the 1990s a so-called “hedonistic” view became popular among wine drinkers. Information regarding the health benefits of wine was popularized. Accordingly, there was a shift in consumer preferences to higher quality wines. This has translated to a global tendency toward high-quality wines, which may indicate why consumers seem willing to consume low quantities of higher-quality wines as opposed to higher quantities of lower-quality wines.

C. Diverse Consumer Behavior

19 Bernetti, Casini and Marinelli: 308.
21 Ibid.
22 Ibid.
23 Ibid.
As the wine industry has globalized, many winemakers have come to realize they are no longer selling to an intensely loyal, often local consumer base within their own country. Consumers across the globe have obvious diverse needs, preferences, and ways of thinking about wine. Unlike products which serve universal needs, wine is based on the sometimes whimsical and hard-to-identify decision-making techniques of diverse international consumers.

Consumers are extremely divergent when it comes to wine-buying. These variances can often be viewed from a national level. One study aggregated and analyzed consumer decision-making across different nations. The study found English consumers prefer to have had prior experience with a wine before they purchase it but the French are more privy to trying something they have not had before.\(^{24}\) Spanish consumers often place strong priority on regions of origin and appellations while those issues are of much less importance to Australians.\(^{25}\) The study perfectly illustrated the highly variant preferences of global consumers.

Consumer preferences vary not only based on the national roots of the consumer but also on their involvement. Wine drinkers are often classified as “high-involvement” or “low-involvement.” Consumers who are high-involvement are likely to lend greater weight to appellations and origins of wine.\(^{26}\) Often times, region of origin of wines may be enhanced by competitive pricing and awards.\(^{27}\) There are even macro-level differences between Old and New World consumers – New World consumers tend to be more brand loyal while Old World drinkers care more about grape variety and region.\(^{28}\) Interestingly, one study found about 80% of all consumers would be prone to paying a higher price for environmentally-friendly and


\(^{25}\) Ibid.

\(^{26}\) Lockshin and Corsi: 12.

\(^{27}\) Lockshin and Corsi: 11.

\(^{28}\) Lockshin and Corsi: 9.
sustainably produced wines. Whether classified based on national residence, Old or New World, level of involvement, or even gender, global wine consumers exhibit highly variant behavior.

**D. Distribution**

Globalization has obviously had major effects on demand and distribution structures in the wine industry. Given the artisanal nature of many wines, direct-selling used to play a major role in distribution and sales. Currently, there have been attempts to majorly increase distribution of wines to take advantage of the global marketplace. Accordingly, commercialized marketing has become more popular than direct-selling. Implications for winemakers due to this change vary from structural sales force changes to new budgeting necessities.

**E. Asian Markets**

An official delegation of Chinese commerce officials, as well as other Chinese business officials, attended the 2013 Vinitaly Conference. Vinitaly is an annual gathering which brings together thousands of Italian winemakers in Verona to discuss their industry and talks have increasingly focused on the global marketplace for wine. The Chinese market, along with other Asian markets, represents a huge opportunity for winemakers despite some recent slowing of the

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29 Lockshin and Corsi: 14.
30 Bernetti, Casini and Marinelli: 8.
31 Ibid.
32 Ibid.
34 Ibid.
economy. But the Italian minister for Agricultural Policies noted that Italy is “rather behind” in markets throughout Asia, especially China.\textsuperscript{35}

The market for wine in China is growing beyond its current position as something limited to “corporate gifting culture.”\textsuperscript{36} This brings obvious new challenges. General consumer preferences and market composure will only be further diversified when they come to include consumers in Asia. In order to keep Italian wine not only viable internationally, but also as a leader internationally, the Asian market must eventually be somewhere Italian wines experience strong performance. This challenge is extremely two-sided. Winemakers in Italy can control and work to improve their efforts to be well-positioned for success in the market. In some ways, changing the wine culture in Asian is something that is far from the control of Italian winemakers and must be a trajectory change of its own.

III. Challenges for Italian Wine

A. Tradition versus Innovation

The appellation system in Italy was one with positive intentions. A Wine Spectator profile of Angelo Gaja, proprietor of the famous Gaja label from Barbaresco, mentions 1961 as a “turning point for Italian wines.”\textsuperscript{37} Italian wines rarely merited any respect from the rest of the world and were, at best, treated as “rarely serious.”\textsuperscript{38} The Italian government stepped into the wine industry to institute the strict appellation system presumably with intentions of changing that sentiment which surrounded the industry.

\textsuperscript{35} Erin Smith, “Italian producers look to international growth to escape domestic economy,” Harpers Wine & Spirit Trade Review, April 10, 2013.
\textsuperscript{36} Cathy Yang, “Italian winemakers take on France in Chinese market,” Reuters, December 14, 2012.
\textsuperscript{37} Mitch Frank, “Angelo Gaja: Italian Colossus,” Wine Spectator, October 31, 2011: 42.
\textsuperscript{38} Ibid.
But positive intentions do not always translate to success. Some of the most prestigious wines in Italy and in the world proudly bear the DOCG appellation. But the system has been the source of some problems for Italian winemakers.

The appellation system is geographically-driven. It is based on the subscription to the idea of “terroir” and the tendencies of certain grapes to grow especially well on certain land. Appreciation for terroir-driven wines is now decreasing. Consumers, especially in the New World, seem to now place lower priority on terroir-driven wines.

There is a practical problem with terroir-driven appellations which has led consumers to discount it. While certain grapes may grow well due to geographic location, leaving winemaking to the whims of the earth can be faulty. Weather patterns affecting geographic regions may enhance grape-growing, but they are obviously far beyond human control. For all the consistency the regulations provide, no one can guarantee consistently great harvest. The appellations regulate many more aspects which likely improve wine quality and consistency, but the base of the system is terroir-driven and consumers seem to think such a reliance on geography and weather is less practical.

The appellation system can be a barrier to innovation in winemaking. Scholars note that quality is not only achieved through specifications in denomination regulations. Increased acidity and tannins can create balance and consistency in wines. These factors can be controlled by winemakers and are independent of terroir. Such experimentation is often impossible when producing appellation wines. The strict regulations often hold winemakers back from experimentation which could yield an equally good, if not better, wine. One scholar

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39 Corrado and Odorici: 115.
40 Ibid.
41 Ibid.
42 Ibid.
bluntly pointed out that rigid appellation requirements have sometimes hampered “the innovative efforts of producers.”

Angelo Gaja’s story puts a face on the struggle between tradition and innovation. The *Wine Spectator* profile describes certain moves he made which were considered heretical by his father, who owned the vineyards he began working on. The nebbiolo grape is one which is used to make the vaulted Barbaresco wine, a trademark of the Langhe region in Italy which takes the name of the commune where it is produced. As Gaja began taking over vineyards from his father he ripped out many nebbiolo vines and replaced them with cabernet sauvignon grapes. He also cut yields “by 50%” and vertically integrated to do his own growing, no longer leaving control of the harvest to other growers. His first year was difficult and the residents of Comune di Barbaresco scoffed; but the next year he found ripe vines which produced “lean and light” wines.

Gaja wines now retail for hundreds of dollars. His story personifies the rigid adherence to tradition in Italian winemaking and the problems that can so often cause for innovation. The profile described Gaja as “challenging tradition to improve quality.” While Gaja Barbaresco maintains DOCG distinction, many of his high-retailing wines do not.

The struggle between tradition and quality in Italian winemaking is more than an interesting narrative. It has true market applications. The conception of quality was often driven by the DOC and DOCG standards but winemakers like Gaja began to experiment. It was

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43 Corrado and Odorici: 114.
44 Frank: 49.
45 Ibid.
46 Ibid.
47 Ibid.
48 Frank: 42.
49 Corrado and Odorici: 112.
discovered that high-quality wines could be made outside of appellation requirements.\(^{50}\) But even if the wines were high-quality, they often included blending percentages which fell outside of requirements and thus they received no recognition as DOC or DOCG.\(^{51}\) In fact, the so-called “Super Tuscans,” leading Tuscan wines from the now famous region of Tuscany, were long sold with labels denoting they were VDTs or “table wine.”\(^{52}\) Even though they were acknowledged as some of the best wines in the world, their composition was outside appellation requirements and thus could not receive denominated recognition.\(^{53}\) The main problem, as pointed out by authors of a review of Italian wine from 1997-2006, is that the appellation system may have codified something contrary to market movements.\(^{54}\)

There have been attempts to make reparations for this issue. The “Indicazione Geografica Tipica” or IGT denomination was introduced in response to the Super Tuscan issue.\(^{55}\) While IGT ranks higher than table wine, it still falls below DOC and DOCG on the scale.

Of late, Italy has seen a proliferation of wine guides. These guides, sometimes led by celebrity-status individuals, have become a widely popular alternative to denominations when it comes to assessing wine quality.\(^{56}\)

Overall, the struggle between tradition and innovation has been a problem in the recent evolution of the Italian wine industry. Today, consumers pay ultra-premium prices for many fine Italian wines which do not bear the DOC or DOCG label. The label and appellation system still provides for outstanding wines. Appropriate innovation has also taken place thanks to winemakers like Gaja, and that innovation has been a service to Italian winemakers everywhere.

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\(^{50}\) Corrado and Odorici: 114.
\(^{51}\) Odorici and Corrado: 157.
\(^{52}\) Ibid.
\(^{53}\) Ibid.
\(^{54}\) Corrado and Odorici: 114.
\(^{55}\) Odorici and Corrado: 157.
\(^{56}\) Corrado and Odorici: 115.
The market is increasingly style-driven as opposed to terroir-driven and “independent winemakers diffused a modern approach.” It seems a balance has been struck between tradition and modernity.

**B. Small and Medium Enterprises**

Intensely split market share amongst thousands of winemakers indicates just how fragmented and competitive the Italian wine industry is. The domination of Small and Medium Enterprises (SMEs) in the Italian wine industry has translated to several problems when it comes to international viability of the industry.

Most notably, distribution is a huge issue for Italian winemakers. They face competition from behemoth international wine companies wherever they go. And many of them are constrained by SME budgets. They simply cannot offer the marketing or promotional features which huge firms do with such ease. International distribution is a preliminary issue. Once Italian wine makes it to the international location, strong sales performance becomes the next issue. Moving bottles off the shelf with little marketing or promotional incentive is extremely difficult. The use of commercialized marketing to sell wine is replacing direct-selling. This has a huge effect on distribution networks for Italian wine because direct-selling is often such an important component of communicating the wine value.

Similarly to issues with distribution, Italian SMEs find fierce competition with international producers difficult to overcome. Communicating the true quality of many Italian wines is the main competition point, but it is hard to achieve with lacking marketing budgets and

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57 Corrado and Odorici: 122.
58 Bernetti, Casini and Marinelli: 314.
59 Ibid.
less direct-selling.\textsuperscript{60} Meanwhile, large international companies can offer endless promotions and host numerous events to push their brand and increase its visibility.

In that same vein, retailer power is extremely high in the wine industry. The promotional power maintained by huge retailers like supermarkets can truly make or break customer loyalty to a certain brand.\textsuperscript{61} Combined with the lack of marketing budgets from which so many SMEs suffer, this retailer power could be detrimental for little known Italian brands.

\textbf{C. Satisfying Diverse Preferences}

Italian wine firms now face a globalized market. Despite the many challenges already mentioned, many firms have enjoyed success in this marketplace. The United States is likely the best success story for Italian wines. The US has been referred to as one of the “most open markets in the world”\textsuperscript{62} for wine and Italian wines boast a market share of roughly 30\% of imported wines sold in the US.\textsuperscript{63} Almost a third of wine exported from Italy is sold here in the US and stateside sales of Italian wine rose by 16\% in 2011.\textsuperscript{64} Outside of the US, Germany is the leading importer by volume of Italian wine while the United Kingdom is the leading importer by value.\textsuperscript{65}

Sustained growth and future success presents a clear challenge to Italian winemakers. While the US is a success story, the country is far behind sales of other winemaking nations in Asian markets. An overview of the necessities for successful global performance of Italian wine came to some important conclusions. The global wine market is clearly one of diverse consumer

\begin{itemize}
\item Corrado and Odorici: 111.
\item Bernetti, Casini and Marinelli: 308.
\end{itemize}
preferences. Consumer tastes vary based on buyer involvement level and preferences for quality and differing price points.

Firms first need to isolate macro-level trends in consumer preferences. Italy, and its highly diverse wine selection, is a great draw to many consumers. Accordingly, it has been recommended that firms do more to push the personalities of each of their wines. Further, consumers certainly are drinking less wine, but that wine is of a higher quality. While gaps between the highest- and lowest-priced wines have increased of late, gaps between wine qualities “are at an all-time low.” The old, barely-developed table wine is a thing of the past – consumers have made their quality demands clear. By isolating macro-level trends, firms can better approach the market preferences so greatly diversified by globalization.

D. Government Barriers

Italian bureaucracy is infamous for inefficiencies and high levels of corruption. Combined with a stagnant domestic economy, this can be a problem for an Italian business. Some interesting quantifiers of the bureaucratic effect on Italian wine found the for every liter of wine produced bureaucracy “has an ‘equivalent weight’ of adding 100 working days, 6 cents a bottle and two kilos of paper…” As Italian wine exports are growing immensely, it is clear the bureaucracy may not be as “suffocating” as some business leaders believe it is. Nonetheless, it is worth consideration in any overall assessment of the industry.

IV. Salcheto: A Case Study

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66 Odorici and Corrado: 155.
67 Bernetti, Casini and Marinelli: 9.
68 Odorici and Corrado: 156.
69 Smith.
70 Ibid.
Salcheto is located in Montepulciano, in the fabled Italian winemaking region of Tuscany. Salcheto is a pioneer and unique among international and domestic competitors. The winery operates out of a state-of-the-art environmentally-friendly building in Montepulciano. The facility is unparalleled in energy independence and sustainability. Salcheto additionally pioneered measuring carbon dioxide emissions resulting from the production of their wine and released a carbon footprint beginning with their 2009 vintages. The winery keeps careful measurement of their carbon dioxide emissions and operates at almost full energy independence. As of late 2012, new bottles include a digital Quick Response (QR) code which allows the consumer to track carbon emissions of a given bottle. Additionally, all pesticides employed by Salcheto are completely sustainable and bees are utilized to monitor pesticide levels. Salcheto is certified by CSQA (A government-approved agri-food certification service) under ISO 14064 standards which govern international greenhouse gas emissions.

The vineyard produces several wines along with some other good including an Italian liquor and beer. The leading wines are:

1. Salco Vino Nobile di Montepulciano DOCG: Salco is the premium label produced by Salcheto and is made of grapes from the most mature sections of the vineyard. Adorned with a new label designed each year by professional artists, Salco is an exclusive vintage with an average annual production of just 13,000 bottles.

2. Vino Nobile di Montepulciano DOCG: The Vino Nobile is Salcheto’s “most important wine” and it typically ages for 24 months in different oak barrels, followed by a year in the bottle. Average annual production is roughly 55,000 bottles.

3. Chianti Colli Senesi DOCG: The Chianti is Salcheto’s “everyday wine” and ages for 3 to 6 months in oak barrels. It has an average annual production of roughly 55,000 bottles.
The US is a market rife for opportunity for Italian wines. Sales of Italian wines enjoyed steady growth even through the recessionary US economy and close to 33% of all wines exported from Italy are sold in the US. Salcheto has achieved some sales in the US, but has had trouble growing those sales. Sales have been lacking at best and have varied from 10,000 to 15,000 bottles annually in the United States. Optimal sales levels, in the view of the company, should increase somewhere in a range of 20,000 to 40,000 bottles annually, resulting in final US bottle sales of 40,000 to 55,000 annually.

Potentially the biggest problem facing Salcheto are the limitations of being an SME. The firm is rather small. Distribution is often the biggest problem faced by firms expanding in the US. Currently, Massanois Imports in Washington, DC, hold exclusive stateside import rights. In a phone conversation, one of Salcheto’s owners described the problem of pairing with just any distributor. The company has trouble achieving high stateside sales when they are part of a huge distributor’s portfolio. Being one of hundreds or thousands of choices in a portfolio relegates the brand to a line in a selection book. This certainly does not communicate the full value of Salcheto’s truly sustainable and environmentally-friendly wines.

One way to stand out in a distributor’s portfolio and communicate the value of a wine is through marketing and branding. Salcheto has concentrated its efforts and investments on sustainability and, as compared to other huge brands, is a wholly-Italian, certified green company. Due to this concentration of effort and funds, Salcheto does not enjoy as many opportunities to promote or market their wine in the US. The firm simply cannot offer the vast marketing budget of a large-scale enterprise. Given the heavy environmental investments of the company, one would imagine buyers would be made aware of and appreciate that. But another

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71 Kovalyova: 88.
72 Phone interview with Ron Prashker, owner, conducted February 12, 2012.
73 Rossi: 114.
market shift in wine is the move from direct-selling to commercialized marketing. Thus, presenting the true environmental value of the brand without a budget, in a market of decreasing direct-selling is difficult.

Salcheto also has a limited capacity. They would certainly like to enjoy a higher level of sales, but they cannot willingly increase capacity. The vineyard produces DOCG wines and is geographically-limited. Further, production at vineyards is limited to the harvest produced by the owned-acreage. This puts the firm in a difficult place for potential partnerships. Companies in the US have understandable hesitation – if sales of Salcheto were to take off, and demand increased, it could not necessarily be met due to the limited capacity.

The firm also produces wines which vary greatly along price points. The Chianti Colli Senesi falls at a lower price point near $20 per bottle, while the premium Salco Vino Nobile is produced in limited capacities and can retail for closer to $100 per bottle. Distribution networks in the US should work to recognize the price points of certain wines to derive where they may best sell.

Unfortunately, these problems which Salcheto faces are illustrative of the issues faced by so many Italian firms. The SMEs throughout the Italian wine industry often face distributor issues, lacking marketing budgets, and limited capacities. Even in a burgeoning international market for Italian wine like the US, these problems can place serious limitations on sales ability. The effects likely worsen in markets like China, where Italian wines have yet to enjoy the prominence which they do internationally.

One potential solution to increase bottle sales in the US would be a sales approach with greater diversification. Sales platforms should be expanded from liquor store retail to include supermarket retail and restaurants. Increasing the number of places in which Salcheto is sold
would make obvious strides toward increasing bottle sales. Specifically, aiming to partner with companies that have nationwide networks like Darden Restaurants, Inc., and Whole Foods Markets is beneficial. Darden operates the Capital Grille, which maintains a vaulted wine list overseen by Master Sommelier George Milio tes, and the Tuscan-themed Olive Garden which has a wine list that only includes a few truly Tuscan wines. Whole Foods touts a staff including trained sommeliers and ample signage communicating wine backgrounds, along with a heavy focus on environmentally-friendly and organic brands. The wide networks and many restaurant and supermarket locations these companies operate can get increase sales for Salcheto easily. For example, placing 10,000 bottles of Salcheto in 63 of 331 Whole Foods Markets would require annual sales of roughly 160 bottles at each store. The partnership is low-risk for these companies because they only have to sell a low inventory of bottles, and even with these low numbers Salcheto can attain their desired increase in sales levels. Even more, Salcheto’s environmental, truly Tuscan brand may be just what these companies are looking for.

Despite the advantages of this potential solution, these companies may still have great reservations stemming from Salcheto’s limitations. Huge popularity of Salcheto in Olive Gardens or Whole Foods locations can lead to an increased demand which the company may not be able to supply. On the other hand, the value of the brand may never be fully communicated because of current inability to provide a substantial marketing budget and serious decreases in direct-selling. And this solution, were it to work, would solve sales issues only in America but would leave sales quandaries in other countries unanswered. Salcheto is a strong brand which is unique, truly environmental, and produces great wine – but even such positive attributes can be held back by the many issues which weigh down Italian winemakers.

V. Lessons
Despite the challenges Italian winemakers face, Italian wine has become a leading force globally. It has enjoyed great success against its Old World competitor France in becoming the preference of Americans and Brits. There are many players responsible for the success of Italian wine and they teach us the following lessons.

A. Rectifying Tradition and Innovation

The appellation system in Italy is, in many ways, vaulted and revered. Within Italy, consumption of denominated wines has been on the rise.\textsuperscript{74} The potential problem of hampering innovation is something both the government and market have responded to.

The example of the Super Tuscans was point out earlier. These high-quality (and often high-price) wines fell outside of appellation requirements. They also represented great innovation on behalf of Italian winemakers. The government, in response, gave in a bit. They created a new denomination, Indicazione Geografica Tipica (IGT) which these Super Tuscans and other wines could bear. This prevented them from being classified as mere table wines. The new denomination, while still ranking below DOC and DOCG, was a unique concession from the strict Italian system. It likely helped to both reward and encouraged innovation to a degree.

The Italian market also responded by paying more attention to consumer guides for “quality reputations” of wine.\textsuperscript{75} The shift from ascribing only to denominations, and more to guides shows a general market concession: quality is contained in denominations, but not limited to them. Such a market concession is important to encourage innovation and experimentation in winemaking.

\textsuperscript{74} Odorici and Corrado: 157.
\textsuperscript{75} Odorici and Corrado: 154.
The innovation has been successful. Many vinters have traveled down Angelo Gaja’s path and their methods, heretical a few decades ago, now produce outstanding and expensive wines. Italy has also seen a major proliferation of two white varietals: pinot grigio and prosecco.  

These varietals have played a significant role in increasing popularity of Italian wines in general. As consumers have come to enjoy these specific wines, they have found cause to more deeply explore other Italian wines.

B. A Shift to Quality

Research shows that consumption pattern can vary widely according to any number of consumer characteristics. Consumer priorities can differ due to anything from national residence to gender. There has been one clear market shift in consumption that applies across the board. Consumers across nations now show a proclivity toward high-quality wines. Italian vinters have come to understand this. Low-quality, regional table wines used to be prevalent throughout Italy. Now, they seem a thing of the past.

The shift toward quality has been extremely positive for Italian wines. There is a general belief that the Italian wine industry produces quality vintages. Paired with the variety of unique regional varietals, Italian wines have set themselves apart and become a leader globally.

C. Embrace of Globalization

The wine industry in Italy has developed to a point of planning for success in global markets. Vinitaly, the annual Italian wine industry conference, hosted its 47th annual event in Verona this spring. The conference has long been forward-looking. For the first time this year,

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77 Ibid.
it was announced that a 2008 Brunello di Montalcino would be introduced in China, Russia, Japan and Brazil.\textsuperscript{78} While the average wines sales from exports in Europe are 18%, exports accounted for 50% of Italian wine sales in 2012.\textsuperscript{79} Winemakers have innovated toward quality, and embraced the opportunity the global market presents. They clearly face challenges and hit roadblocks. The case study company, Salcheto, has hit roadblocks in the US but has enjoyed huge sales numbers in Germany. The industry has proven itself forward-looking, even as part of the so-called “Old World.”

D. Cooperatives?

\textit{Wine Spectator} also recently profiled Oscar Farinetti, the Italian business mogul behind Eataly. Eataly began as a superstore of all things Italy from wine, to meats, cheeses, and cafes. These stores were meant to bring the Italian lifestyle and quality goods all under one roof. The chain has enjoyed immense success expanding throughout Italy and to New York City. Plans for the next decade include openings throughout Europe, the Middle East, and other sections of the United States of America.

Farinetti has long been involved in the Italian wine industry, owning two vineyards of his own. He self-proclaims his mission to be the maintenance “of time-honored traditions” of Italian wine.\textsuperscript{80}

Signor Farinetti has also proposed some interesting ideas which may provide future direction to the Italian wine industry. He proclaimed his interest in maintaining quality in wine – clearly an industry trajectory. In the profile, he also discussed the possibility of expanding Vino

\textsuperscript{79} Smith.
Libero which is a cooperative of wineries. While cooperatives are far from the norm in Italy they may be an answer to the problems which plague SMEs. Cooperatives can offer larger capacities and brand selections to major buyers. Whether or not cooperatives will become common in Italian winemaking is yet to be seen, but this sort of innovative thinking marks an improvement in the industry and shows lessons have been learned.

VI. Lessons Applied

Italian winemakers learned three important lessons over the past few decades: they must reconcile tradition and innovation, they can shift to satisfy consumer preferences for quality, and they should embrace the now global wine market. These three lessons can be applied to the global automotive industry. Some lessons have been learned and executed by automakers in certain countries, while those in other countries have yet to learn them.

The global automotive economy has been suffering for several years. Economic collapses, recessions, and heavy debt problems in any number of countries have affected that economy. In both similar and different ways, automakers across the United States, Europe, and Asian have had to formulate responses to ensure not only future success, but basic survival.

Recently, automakers from certain countries have experienced something of a rebound. Asian automakers have seen their success increase over past decades thanks to high-quality, competitively-priced automobiles. More recently, American automakers have emerged from dramatic restructuring in 2007 through 2009 to enjoy sales growth. Estimates put sales growth for American automakers at 15% for 2013; the growth was well over 13% in 2012.\(^81\) The story for European automakers is quite different. Many of them operate in continually stagnant

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economies. One report noted the third quarter of 2012 was particularly difficult for Italian auto
giant Fiat. Fiat saw a 13% drop in sales across Europe, and without their 58.5% ownership in
Chrysler the company would have post a loss of $364 million.\(^\text{82}\) Thankfully for Fiat, Chrysler
earned a $381 million profit that same quarter, which was quite a saving grace.

The reason for such divergent pictures of success and failure across different automotive
industries can be boiled down to a basic understanding of lessons Italian winemakers learned (or
a lack thereof). The auto industry, especially in the United States and Europe, is quite steeped in
tradition. Labor unions have long played a huge role in both industries. Traditionally, those
unions improved the lives of many workers and gained huge bargaining powers. Looking to the
recent success of American automakers compared to the stagnation of their European
counterparts, part of the tradition has not been balanced with innovation. In Europe, even during
the recessionary economy of late, labor unions were largely unwilling to renegotiate contracts.\(^\text{83}\)
This came in the face of huge decreases in demand which made the maintenance of excess
capacity unnecessary and wasteful. American automakers, on the other hand, rectified the
tradition of unions with innovative reductions in excess capacity.\(^\text{84}\) Much of this was due to
government restructuring; bailouts required serious reductions.\(^\text{85}\) Even Ford, which survived
taking no bailout cash, brought the United Auto Workers to the table to better match capacity
and demand.\(^\text{86}\)

American automakers may not deserve too much credit for negotiating with unions if
those parameters were required as part of restructuring. Much like the Italian wine industry

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\(^{82}\) Tom Walsh, “Tom Walsh: Europe’s auto industry holds lessons for US,” *Detroit Free Press*, October

\(^{83}\) Ibid.

\(^{84}\) Ibid.

\(^{85}\) Ibid.

\(^{86}\) Ibid.
though, the producers and the government have to be part of solutions of tradition and innovation. Many automakers combined negotiations with reductions in dealership numbers and dismissal of many brands.  

American automakers can also be credited with following market demands for quality vehicles. They have included numerous technology additions to vehicles and dramatic redesigns. Market developments have been followed closely. Consumers have shown a tendency to reject electric cars but a propensity to embrace hybrid vehicles. Accordingly, Americans are focusing on hybrid cars and even adding hybrid features to non-hybrid vehicles to respond to those market needs. Similar to Italian vinters, American automakers are shifting towards quality perhaps in direct response to evolving market preferences and to increase both domestic and international viability. The performance of European automakers in this realm has been quite dismal and they seem to lack innovative solutions.

Some automakers have clearly learned to rectify tradition and innovation while also shifting towards quality to satisfy new preferences. Tradition in the auto industry includes any number of characteristics like labor unions or large variety of brand and dealership locations. In the American restructuring each of these specific aspects was addressed. Conversely, in Europe the labor union aspect especially has not been rectified.

An embrace of the global marketplace is something which American and European automakers can take a cue from Asian automakers. Executives of stateside outlets of Toyota and

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87 Ibid.
88 Plache and Krebs.
89 Ibid.
90 Ibid.
91 Ibid.
Honda recently testified on Capitol Hill about future needs of the auto industry. It is no secret that Asian automakers have long enjoyed great success in the American market and elsewhere. The very presence of these executives testifying on the Hill is perhaps the best evidence of that. These companies have brought competitive products into our market and, in setting up their American operations, have also provided the country with jobs. Overall, automakers outside of Asia can do a better job of responding to the global economy. Any recovery from the downward trends of the past several years will likely leave automakers better positioned to take advantage of the opportunities the global market presents.

While winemakers and automakers may not be able to identify too much with one another, the auto industry can certainly apply the lessons Italian winemakers have learned. In fact, some of them have. American automakers seem to have been particularly successful in balancing tradition and innovation. Asian automakers seem to have had the best response to the opportunities of the globalized economy. Both have engaged in a shift to quality. European automakers have fallen behind. In the end, the lessons learned by Italian winemakers can be applied across this and other industries. The problems that plague Italian winemaker, after all, are not that uncommon in business. Yet, given the peculiarities of the industry, the effects of the problems have often been unique.

VII. Conclusion

Pliny the Elder once famously proclaimed “In vino veritas” which translates to “In wine there is truth.” Wine, especially in Italy, has come a long way over the past century, and certainly since the Romans were making it thousands of years ago. Whether or not Pliny was

right in his proclamation is certainly up for debate. But in the Italian wine industry, there have been many truths which have come about. These truths have helped Italian winemakers to do better business, and can be feasibly applied to businesses and industries across the globe.

Many industries have grappled with balancing tradition and innovation. In the present day, consumers seem to increasingly demand quality across the board. And globalization is now far from a recent phenomenon. It is a fact of life for anyone who does business. Ignorance of that fact will only hinder potential for any industry.

Italian wine has come from being a local novelty to a world power. There are many players and stakeholders involved in the industry whose actions can be credited for ushering in a new era for Italian wines. The rich history and unique characteristics of the industry have led to many positive developments. Some of these characteristics are also responsible for challenges. This analysis indicates that Italian winemakers have done well in responding to the changing economy and facing their own challenges. Italian wine is well-positioned to remain a top performer in the market for years to come. There has indeed been truth in Italian wine for the industry domestically and locally.
WORKS CITED


