Winegrower or Winemaker? Influence on Business Efficiency in Burgundy
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Abstract

In the French vineyard of Burgundy, the share of harvest sold as fresh grapes, grape must or juice has increased from 10% to 16% from 2000 to 2010. This trend of outsourcing pertains on the core stage of business for wineries: the wine-making process. The present research explores the strategies of the wine stakeholders with respect to outsourcing versus integration of the wine-making process by analyzing original and recent data issued from the 3,430 wine estates located in Burgundy in 2011.

Summary

The paper presents first the range and limits of outsourcing vs. integrating in the wine industry. Then, a principal component analysis highlights the latent variables explaining the different strategies of stakeholders in Burgundy, with a special insight between the viticulturists and the winemakers. The results show that the choice of the business model is moreover under the influence of the level of the appellation applied for selling wine.

Even though outsourcing is considered by literature on management science as a useful trait for efficient business everywhere by reducing the agency costs, it was found that, most often, the stakeholders who process top quality products are prone to integrate the stages of working out. Other factors taken into consideration are the risks of loss of core knowledge and increased costs. The main raison of the integration is the quality control from raw material to process and sales, which is a key factor for addressing the expectations of the market’s premium segment. In the wine industry, both figures occur in various countries and vineyards, however, recent publications found that the profitability increases with vertical integration.

The results obtained through data analysis indicate that important differences exist between the winegrowers: most of them are winemakers whereas some are viticulturists. The business model chosen between outsourcing vs. integration, matters for business efficiency more than the size. The magnitude of efficiency is comparable between the business models and the size categories among the same business. Those who integrate all the stages of wine-making process are likely to be more profitable.

Instead of finding the best way to make profitable business in the wine sector in Burgundy, our study highlights the diverse ways of doing so, indicating that the diversity of wines, the mosaic of small and large companies are not limiting factors for making excellent wines and providing good business in the same time. Inside this diversity, the appellation, i.e. the terroir of origin, is a key issue. More prestigious the wine is, and higher the price, better integrated is the wine-making process. This indicates that outsourcing is not a way for business efficiency into the French wine sector, at least for top quality wines such as Burgundy ones.

Keywords: Wine industry, business model, outsourcing, Burgundy

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