The internationalization of wine SMEs in the midst of the economic crisis: pilot case studies from Greece, Albania & FYROM

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Abstract

Purpose of the paper: This paper explores the internationalization efforts of wine SMEs in three neighboring countries, namely Greece, Albania and FYROM. The aim is to identify particular issues faced by small wine producers in order to determine the variations among the countries.

Methodology: Multiple case study analysis was used. In depth interviews with two wine entrepreneurs from each country were conducted to examine the barriers they are facing with their export activities.

Findings: Interestingly enough, all three countries face similar barriers. The results indicate that negative Country of Origin Effect, Brand Equity and the Availability of Resources (due to their small size) are common and considered major export obstacles for the wine SMEs. However, although Greek wine SMEs have considerably more export experience and higher export performance, their negative Country of Origin Effect and Brand Equity remain major export obstacles.

Research Limitations: The main limitation of this study is the sample’s characteristics, which do not allow for any generalization of the results and is not necessarily country representative.

Research Implications: This research identifies specific common and prevalent export barriers that the investigated wine SMEs in the region face. Further research is required to explore each of the issues in depth. Furthermore, it is suggested that future research should focus separately on internal or external barriers in order to gain more comprehensive insights.

Originality of the paper: This paper, to the best of our knowledge, is the first to examine and draw conclusions on the internationalization of wine SMEs in three countries of the Balkan Peninsula in the midst of the current economic crisis.

Key words: Wine SMEs; internationalization; exports; challenges; cross-border

1. Introduction

Today SMEs are facing more competition than ever as they are more exposed to globalization and its forces than larger enterprises. Most of the SMEs that face these challenges feel the need to expand on international markets, especially through export.

Export has several advantages, for instance a) they are not capital intensive, since no new investments in terms of facilities, have to be made
in foreign countries, b) their reduced risk compared to other kind of investments since, in the worst case scenario, the value of the shipment will not be collected, c) they allow the firm to better understand the requirements of foreign markets and d) exporting allows to examine to what degree the firm and the products/services it offers can be competitive in foreign markets.

However, export presents disadvantages such as: a) additional costs for transportation and promotion are required, b) they are susceptible to barriers imposed by other countries, c) there is no direct contact between the exporting firm and consumers, d) it is characterized by increased difficulty in providing aftersales services and e) there is a level of complexity to export processes (Hajidimitriou, 2003).

Currently, exports are the main alternative for many SMEs in the food and drink sectors to survive and grow in an increasingly competitive environment; therefore, it is very important to research the export obstacles they are facing. To the best of our knowledge, this is the first qualitative research on the internationalization of wine SME’s in three different Balkan countries in the midst of the ongoing economic crisis.

Furthermore, the wine sector is important for the economies of all three of the examined countries (Greece, Albania and FYROM). Greece has an established history of wine export, while the other two countries are at the initial stages of this effort; nevertheless, the trends are quite promising.

Greece is the 13th largest producer of wine in the world. The existence of small vineyards is the sector’s main characteristic. Until 2009, 80% of the country’s wine production was sold in the domestic market. However, in the course of the last few years the volume and value of Greek wine export has increased substantially. Germany is the main market for Greek wines (appr. 50% of total exports) while the US market is the most promising one, with an increase in export of more than 35% over the past few years.

Similarly, wine production in Albania has increased both in volume and value in the past decade (Scalera and Elezi, 2012). In 2013, there was a 30% increase of the exported wine compared to the previous year (Albanian Ministry of Agriculture, 2013). The U.S. is the largest export market for Albanian wineries (Scalera and Elezi, 2012). The main producers are small vineyards or small cooperatives that often market their wines under an “established” regional name.

Likewise, the wine sector is very important for the agricultural economy in FYROM; it accounts for 20% of the country’s agricultural GDP and a significant percentage is exported (Dimitrievski and Kotevska, 2008). While the area cultivated with vineyards has remained the same, there is an increasing number of small private wineries, due to the breakdown of large wineries into numerous, small ones (Andersson and Ödlund, 2011). Europe and more specifically Germany, Croatia and Serbia, are the most important export markets for the country’s wines.

According to Leonidou (2004, p. 297) there is need for further cross cultural studies that “would capture the variations in export barriers”. Based on the above, this research aims to identify the existing export
obstacles for wine SMEs in the selected neighboring countries and determine the most important ones. According to Key et al. (2004) the first step in the problem solving process is to identify the problem, so by identifying export barriers future research on how to overcome them can be conducted.

The qualitative approach, and more specifically a multiple case studies analysis, was used for this pilot study. Qualitative research is carried out in order to establish the framework for future quantitative research. Two wine SMEs with export experience and similar characteristics were selected from each country and in depth interviews were conducted from which conclusions were drawn.

The first section of this paper reviews the relevant literature. More specifically, recent bibliography on export barriers for wine SMEs is discussed and the research question is determined. Next, the methodology part follows and the aspects of the research and the characteristics of the sample are presented. Following that, the findings of the in depth interviews are analyzed and discussed. In the last section, the practical implications of this work are presented along with suggestions for further research.

2. Literature review

Export barriers/obstacles

Firms benefit from export in terms of sales increase, higher profits, independency from the home market, etc. According to Yanopoulos (2010, pp. 36), "potential benefits include corporate growth, capacity utilization, economies of scale, market diversification, and smoothing out business cycles." Alonso et al. (2014) argue that competition in the home market and opportunities in foreign ones motivate wine SMEs to focus their attention on international markets.

Despite the numerous benefits, there are several challenges companies need to overcome in order to expand in international markets (Karelakis et al., 2008). Export performance and the behavior of wine SMEs can be affected by internal, as well as external, factors or barriers (Maurel, 2009). Ramasawami and Yang (1990) identified four variables that affect exports: a) export knowledge, b) internal resource constraints, c) obstacles related to procedures and d) barriers exogenous to the business. The first two are identified as internal factors and the remaining two as external ones.

Internal barriers

Knowledge and resource constraints are mainly limitations of the firms’ ability to provide resources, such as financial, human and production capacity, which are necessary for the internationalization process (Ortega, 2003). Export knowledge consists of the management’s qualification level regarding internationalization activities, export practices and actions (Maurel, 2009). Olmos (2011) emphasizes the importance of human resources in wine SMEs in regard to their ability to penetrate international markets. Lack of qualifications and skills, related to export processes, are argued to be critical barriers that hinder the firms’ export performance (Pinho and Martins, 2010). According to Alonso et al. (2014) qualified
personnel is needed due to the complexity of the export processes. In contrast, Olmos and Vial (2014) argue that the increased availability of export services (from state agencies and private companies), has reduced the need for qualified personnel in wine SMEs.

Internal resource constraints (managerial, financial, etc.), are mainly associated with the firm's ability to support export processes (Pla- Barber and Alegre, 2007). According to previous studies, SMEs have a greater difficulty with overcoming these constraints as they avail themselves of fewer available resources compared to large firms (Pla- Barber and Alegre, 2007; Olmos, 2011). Karelakis et al. (2008) argue that there is a relation between the size and experience of wine firms and the difficulties they face during the export process. Moreover, the larger and more export experienced the firms are, the easier it is to overcome the barriers and to adapt to internal and external challenges (Lopez and Garcia, 2005).

External barriers

External barriers can be procedural ones, which are divided into two subcategories according Mariani et al. (2012), a) the tariff and b) non-tax tariff barriers. During the past decades, international trade has been facilitated by liberalization policies which had a positive impact on the wine industry. However, often tariffs are still imposed by several countries to indirectly assist domestic wine production (Mariani et al., 2012).

Non-tax tariff barriers are grouped into "labeling regulations, wine making practices, presence and levels of chemicals in the wines, certification and testing procedures" (Mariani et al., 2012, p. 35). Non-tax tariff barriers require firms to adapt, either in regards to the product and its quality or to documentation and other requirements (Chancy, 2002).

The Country of Origin Effect can either be an important obstacle or a competitive advantage. Wine SMEs from countries or regions with long winemaking tradition and reputation have a major competitive advantage (Agostino and Trivier, 2014). On the contrary, the same factor can be a barrier for SMEs in countries or regions without a winemaking reputation. Wine SMEs find it difficult to change the consumers’ perception about the quality of their products on international markets. Their limited financial resources limit the options for marketing and promotional activities and result in limited Brand Recognition (Easingwood et al. 2011; Maldfass and Caorsi, 2014), which in turn could assist in overcoming the Country of Origin Effect.

To the best of our knowledge, no previous cross country research has examined the barriers to the internationalization process of wine SMEs. In this paper the aim is to understand if the internal and external barriers that have been identified in the most recent relevant literature occur in the examined countries (Greece, Albania and FYROM). As Davies (2008) suggests, the qualitative approach allows for the examination of different perspectives; in this case the perspectives of the six wine exporters from these three different countries are investigated.
3. Methodology

The objective of this research is to understand what wine SMEs perceive as export barriers in the three neighboring countries that have been examined (Greece, Albania and FYROM). In consideration of the aim of the study, which is to comprehend the barriers and draw comparisons, a qualitative approach was employed. An additional reason for choosing this approach was the difficulty of obtaining data from emerging markets in contrast to developed countries (Burgess and Steenkamp, 2006).

The multiple case studies analysis method was used in order to explore and understand the barriers that the wine SMEs from the three countries face. By using this type of analysis comparisons can be drawn so the selection of the firms was done very carefully (Yin, 2003). By comparing the differences and similarities among firms, knowledge on the subject of wine export SMEs may be further expanded (Van Wynsberghe and Khan, 2007). Given all the above, in depth interviews with six wine entrepreneurs were conducted in order to understand the export barriers that wine SMEs in these countries are facing.

Sample

Certain criteria were used in order to select a homogeneous sample of wine SMEs and receive meaningful answers. Firstly, only experienced exporters were interviewed in order to receive appropriate answers from SMEs that are currently active in export activities. More specifically, five of the SMEs have been exporting for over 10 years. Next, over 30% of their total production had to be exported. An additional criterion was for the firms to export to developed and mature markets (the US, Europe, Australia, etc.). It should be noted that all respondents consider their wines to be of average to high quality and of average price compared to the price index of the countries they export to. All of them target middle-income level customers. Finally, all entrepreneurs, with the exception of one, have modified the package and label of their products in order to export to international markets. All interviewees were contacted by phone and they accepted to participate without any incentive. Because of the criteria set, the sample cannot be characterized as random, since many wineries operate in all three countries and do not necessarily meet the sample’s selection criteria.

Methods

A semi-structured interview guide was designed with the assistance of academic colleagues with expertise on wine. In addition, it was analyzed and discussed with a wine entrepreneur to check its clarity and cohesion. The first section includes general questions on the firm’s profile, main activities and products. The second part focuses on the barriers and challenges wine entrepreneurs face regarding their export activities.

The guide, accompanied by a cover letter explaining the aim of the study, was sent in advance to the enterprises. Interviews were arranged with the SMEs representatives. Due to the nature and complexity of the questions, the owners or general managers of the SMEs were interviewed since they have a more comprehensive view of the current situation. Their
anonymity was guaranteed by the researchers in order to receive detailed, open and sincere answers. To increase the accuracy of the questions the interviews were conducted in the respondents’ native language and lasted approximately one hour each. The six interviewees are identified as Gr1, Gr2 for the Greek SMEs, Al1, Al2 for the Albanian ones, and FYR1 and FYR2 for the SMEs from FYROM.

4. Analysis

As noted earlier, the sample consists of six wine SMEs with similar characteristics regarding their export experience, the percentage of exported sales, the quality and price of their products, and their target consumers and markets. The export barriers presented to the respondents were: a) country specific factors (country of origin, regulations, logistics, bureaucracy, export taxation, political instability and country relations), b) financial barriers (transportation costs, production costs, quantities produced), and c) marketing related barriers (brand awareness, competition, cost of marketing related activities, customer perceptions).

A brief discussion on the interview findings follows in the next session. The focus is on the most important factors as identified by the firms’ representatives.

Wineries from Greece

The export barriers the Gr1 firm is facing are mainly a consequence of limited resources; more specifically, they arise from the high investment requirements needed to increase the winery’s production capacity and upgrade its equipment. The lack of (necessary) resources (financial and human) to support the necessary marketing activities is also considered as an important export barrier. There is a need to continuously invest in human resources and upgrade the vineyard and its facilities in order to remain competitive in the developed international markets. These obstacles are similar to the ones analyzed in the literature regarding wine SMEs compared to larger size firms (Pla-Barber and Alegre, 2007; Olmos, 2011).

The main export barrier for the Gr2 winery is the quantity of wine produced which is not sufficient to sustain the firms’ export activity. In order to address this issue and further increase production capacity, significant financial resources have been invested. However, this has resulted in a very low return on investment, which has affected the firms’ overall financial stability. In addition, the Country’s Image and the Country of Origin Effect are also considered major export barriers. This is in accordance with the findings of D’Alessandro and Pecotich (2013), who suggest that the Country of Origin Effect is often used by consumers as an evaluation tool regarding the quality and price/value of the product.

Wineries from Albania

One of the main export barriers that both Al1 and Al2 are facing is the Country’s Image in international markets when compared with other
wine producing countries. More specifically, the respondents from wine exporting SMEs state that people perceived the quality of their wine products to be of lower standards. In addition, all said that they face difficulties in complying with US market regulations; the fact that they are different than E.U. ones makes this task more challenging. These findings are similar to Mariani et al. (2012), who argue that non-tariff barriers are perceived as too complex for SMEs to overcome and can negatively affect international trade.

Wineries from FYROM

The representative of FYR1 identified the intense competition in developed markets as their main export barrier. Similarly, Lopez and Garcia (2005) suggest that SMEs find it more difficult to overcome export challenges than large enterprises. Another significant barrier is the region’s lack of reputation as a wine producing area. In addition, the fact that the country is not an EU member and that the Balkan countries are not perceived as producers of good quality wines, is also an obstacle.

According to the respondent from FYR2, a major obstacle is the fact that the country is not associated with the production of high quality wines yet. As regards the firm’s recognition (brand awareness) in international markets, they face difficulties in implementing marketing strategies, since they cannot fully support them due to limited financial resources. Another challenge is to meet the export requirements to EU countries/markets.

5. Discussion

Interestingly enough, some common export barriers for the wine SMEs have emerged as the most challenging ones among all three countries. In particular, negative Country of Origin Effect, Brand Equity and Availability of Resources were reported as the main obstacles for the wine SMEs in the three countries.

Negative Country of Origin Effect

The Country of Origin Effect has a strong impact on wine consumer perceptions (Agostino and Trivier, 2014). There is a consensus among the respondents that the Country of Origin Effect hinders their export performance. Furthermore, the wines produced in Albania and FYROM are perceived by local consumers to be of inferior quality compared to imported ones. Firms operating in these countries face major obstacles when persuading international consumers of the quality of their products, because their country’s image, as perceived by foreign consumers, is still not positively associated with the production of high quality wines. This can be explained by the fact that wine exports from these two countries have only recently started, whereas Greek wines have had a longer presence in international markets. Interestingly enough, negative country of origin impact involves Greek wine SMEs as well.

Availability of resources

Due to the small size of the wineries, most of the respondents consider the lack of available resources a major drawback in their exporting efforts.
Interestingly enough, Greek wine exporting SMEs face more financial difficulties in comparison to the ones from emerging wine exporting countries, illustrating the depth of the recession that Greece is facing. The findings of Wickramasekeraa and Bianchi (2012), which identify the lack of financial resources, the limited quantity produced and the lack of skilled staff, as the main hindering export factors, are in line with the sample examined in this study. The above are often observed in SMEs and a result of poor organizational and financial performance. According to Ortega (2003), there is a limitation of strategic options for SMEs due to the availability of resources; these limitations prevent them from building a sustainable competitive advantage. Although informal associations and wine producers’ clusters from the specific regions have been established, in many cases they have not been capable of supporting export activities. Other forms of collaboration with structured, formal associations could offer a solution to overcome export obstacles.

Building brand equity

According to Nowak et al. (2006) all wineries seek to build their Brand Equity. Similarly, other studies indicate that developing a strong brand identity is particularly important for wine SMEs (Miller and Chadee, 2008).

Brand Equity emerges as a major issue; however, although its importance is well understood by entrepreneurs, it appears to be an issue that cannot be easily addressed. Significantly, this is an issue for Greek wine SMEs too, even though they have more export experience than those from Albania and FYROM. Apparently, Brand Equity is not related to the overall Country of Origin Effect. Previous studies on the branding strategies of wine SMEs have concluded that the formation of clusters and networks improve “brand awareness” (Vlachvei et al., 2012). However, in the majority of the cases examined, wine associations either do not operate in their areas, or if they do, their contribution is considered to be minimal.

Brand Identity can also be developed by “positive winery experiences”, as suggested by Nella and Christou (2014). According to their findings, service quality at the cellar door can facilitate the creation of Brand Equity. Overall, visits to wineries are considered a marketing tool that enhances Brand Equity. Brand Equity can also be built by the “tasting room experience” (Nowak et al., 2006): based on their findings, wineries can cultivate long term relationships and build Brand Equity by offering positive tasting room experiences. However, the issue should be further investigated and the ways wine SMEs in the region are currently striving to build Brand Equity should be identified and assessed.

6. Conclusion: implications for further research

This paper provides an insight into the export efforts of wine SMEs from the Balkan Peninsula and more specifically from Greece, Albania and FYROM. The aim is to understand the export constraints that wine
SMEs in the region face. Through in depth interviews, common obstacles to export efforts of wine SMEs were identified. The results of this qualitative research indicate that issues of negative Country of Origin effect, Brand Equity and Availability of Resources, are common in wine SMEs in the investigated region.

Interestingly enough, despite the country’s overall position in the wine market (Greek wineries are by far more experienced in terms of exports and are larger wine exporters) the negative Country of Origin Effect still hinders the producers’ export performance and is perceived to be a major obstacle. In addition, weak Brand Awareness is also identified as an important barrier. Various ways of building Brand Equity have been extensively analyzed in literature, including membership in producer/exporter associations and participation in wine routes (Vlachvei et al., 2012; Nella and Christou, 2014). Apparently, SMEs lack the resources to build Brand Equity and to have a strategic approach towards export and the means to expand their international activities. The respondents in this study did not appear convinced about the effectiveness of associations and other collaborative schemes and actions. This perception is significant and should be further explored.

The previously mentioned “cross border” issues and obstacles should be further studied both at the regional and the country level. Although wine SMEs operate in different economic and political environment they face similar challenges. Despite the fact that common barriers have been identified, common solutions do not seem appropriate due to country-specific factors. However it is worth examining if the successful strategies implemented by some wine SMEs could be adopted by other small, local wineries.

The interviewees presented their perspective regarding the export barriers they face, most of which are in accordance with the ones identified in literature. These barriers however, are very difficult to overcome, due to the wineries’ size. The situation has become more serious due to the ongoing financial crisis in all three countries. A possible solution might be the formation and establishment of collaborative arrangements between wine SMEs, (formal or informal partnerships, associations and cooperations). Future research should examine the forms of cooperation that wine exporters in these countries could establish in order to overcome common export barriers.

Furthermore, the negative Country of Origin Effect, which is an external barrier, requires governments and export associations to take initiatives and actions, as well as lobbying efforts by producers. The degree to which wine exporters are willing to participate in the efforts to change consumers’ perception regarding the country of origin has to be further explored. The need for further research on the topic becomes greater when considering that all interviewed producers appeared very skeptical about the efficiency and effectiveness of these actions, even if they do not require major direct investments (collaborations, membership in wine associations and wine routes, provision of services like winery tours/ wine tasting, etc.).

The identification of these issues has practical implications for wine SMEs with less export experience since it provides an insight for the
challenges they will most likely face during their export effort. For “more export experienced” ones, the identification of these common parameters leads them to seek solutions either at a firm or at a collaborative level. In addition, the results are of value for policy-makers and individuals involved in the design of Cross-Border collaboration programs among the regions of specific countries. Furthermore, this study provides a relevant and recent literature review on identified export barriers and sets the framework for future quantitative research on the topic.

Research limitations and recommendations for future Research

The main limitation of this study is that no additional methods of qualitative analysis were employed. Furthermore, due to the sample's size and the criteria used for sample selection, the sample cannot be considered representative of all the wine exporting firms in these countries.

The results of this research provide an insight into the internalization barriers of wine SMEs and intend to serve as the basis of further research. Some aspects that have emerged during the interviews and are worth exploring in the future are the processes of selecting and evaluating the international markets. Furthermore, an in-depth analysis of the solutions implemented in established wine producing countries and wineries is required in order to explore their applicability in the region. Finally, this research provides an insight into the challenges exporters face, which, despite the difference in environments, are inherently the same for wine SMEs in the region.

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