

Supplier Satisfaction within the Australian Wine Industry

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Abstract

The Australian wine industry is experiencing an oversupply of grapes with many relationships between grape growers and winemakers becoming strained. This had led to inefficiencies in the value chain which could harm the industry's ability to produce a quality product demanded by consumers. The area of investigation for this project is supplier (grape grower) satisfaction and aims to provide a model exhibiting the constructs that relate to satisfaction in relationships between grape growers and winemakers. A qualitative testing involving grape growers has uncovered that trust, commitment, flexibility, communication, honesty and shared goals, buyer size and power are constructs related to satisfaction.

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Introduction

Wine industries are rather unique. They are industries that involve the production of grapes, the transformation of those grapes into wine and the marketing of such wine products. It is one of the few industries where a business can be involved in primary and secondary production and the marketing of the products they produce. The producers of wine products obtain their grapes from either vineyards they own or from grape growers who sell their grapes to the wine producer. In order to obtain the grapes they need, a winemaker must liaise with the grower to obtain grapes of a required specification and therefore a productive inter-firm relationship must exist. However, in recent times certain relationships between grape growers and winemakers have become strained and these relationships are the area of discussion for this paper.

The following document outlines the research topic that the author is undertaking including the marketing issue being investigated, the research methodology, and a synopsis of the progress made so far.

The Australian Wine Industry

The Australian wine industry is considerable in terms of the area under vine and the production of grapes. Winetitles (2007) states that in 2006 the total area under vines was 168,791 hectares with a grape crush of 1.85 million tonnes. Winetitles (2007) lists 2146 companies which commercially sell wine, of which two companies, Foster's Group and Hardy Wine Company account for approximately 42% of all branded wine sales with the top 22 companies accounting for 82% of total sales. Therefore the remaining 2,124 producers compete for 18% of the total sales of branded bottled wine and consequently sales are consolidated in favour of the largest wine producing companies.

The Australian wine industry is currently facing a number of problems. Global oversupply of wine, international and domestic retail consolidation and decreasing returns for wineries and grape growers are currently forcing the industry to rethink its position (Hobley & Batt, 2005; Deloitte & WFA, 2006). New planting of vines in the late 1990's and early 2000's have led to falls in grape prices and wine production increased faster than sales. The increase in production volume has coincided with a less than equal increase in sales with a current wine inventory level of 2.1 billion litres in 2006. As a result of this excess some wineries have been cancelling and not renewing grape supply contracts (Speedy, 2006) much to the detriment of grape growers. However, the wine industry is moving to a scenario of undersupply of grapes due to climatic conditions (drought and frost) and strategically the industry is also repositioning to focus on the production of quality wine (as opposed to quantity) with an emphasis on regional branding (WFA, 2007; AWBC, 2007).

As a result of the actions of certain winemakers during the period of oversupply of grapes, many relationships between themselves and grape growers have become adversarial and resulted in inefficiencies which may harm the Australian wine industry. These buyer-seller relationships are the issue to be address by the research project and are further discussed in the next section.

Buyer-Seller Relationships

The relationship between a grape grower and a winemaker is essentially a buyer-seller relationship as winemakers buy grapes from the grape grower. There is little quantitative information available regarding the relationships between winemakers and grape growers, however it has been noted that the winemakers have the power in the chain and some have exploited their position to gain terms that are favourable to them at the expense of the grape grower (The Senate, 2005; Lummus, 2004; Fraser, 2003). There have been remedies posited by numerous individuals with Hobley and Batt (2005) discussing that wineries need to develop closer long-term relationships with grape suppliers, that mutual trust and understanding is needed between the two (Fraser 2003) and that there should be greater risk sharing between the two value chain member (PIRSA 2005). The Senate (2005) argued that to aid the development of relationships between the two, codes of conduct and collective bargaining should be established.

As has been discussed earlier, winemakers in the Australian wine industry have been cancelling supply contracts and not maintaining business relationships due to an oversupply of grapes. The cancellation of contracts is a result of a position of power as discussed by Cox *et al* (2001) who noted that BS relationships are driven by the power maintained by the other organisation in the relationship and the organisation that has the greater power will wield whatever necessary action to maintain that dominant position. Within a wine industry context, the winemaker has the power to accept or decline the supplier of grapes from grape growers and can use their dominant position to demand certain requirements from grape growers. This occurrence is exacerbated in an economic climate where grapes are in oversupply.

As previously mentioned, the Australian wine industry is moving to a scenario of undersupply of grapes and strategically focussing on the production of quality wine and regional branding. Quality in wine is derived from grapes (grape production and grower inputs) and in a scenario of undersupply, and with a focus on quality production, certain grape requirements (quality and legally based) maybe not be replicable by purchasing alternate growers' produce. Legal requirements will be of importance due to the strategic shift towards regional branding. Legally if a claim for a region of origin is given on a wine bottle label 85% of the wine bottle's contents must be sourced from that region (i.e. if a wine bottle states "Barossa Valley Shiraz" 85% of that bottle's wine must have been made from Shiraz grapes sourced from the Barossa Valley). The looming undersupply issues and a focus on quality and regionality will shift the power in the relationship from the winemaker to the grape grower and therefore satisfying a grape grower in both a monetary and relational sense will become important for winemakers. Ideally this will lead to more effective buyer-seller relationships between these two value chain members.

Effective buyer-seller relationships have been widely acknowledged as critical to the success of the firms, with longer term relationships more beneficial to both parties than short term relationships (Morgan & Hunt, 1994; Wilson, 1995; Morris & Carter, 2005). The basis of buyer-seller relationships exists in the concept of Relationship Marketing which is concerned with establishing, maintaining and enhancing strong long-term relationships with customers. Elements of these relational exchanges have been posited, with a consensus that relationships strong in trust, commitment and satisfaction are successful for both parties (Morgan & Hunt, 1994; Wilson, 1995; Ziggers & Trienekens, 1999, Kwon & Suh, 2004; Bigne & Blesa, 2003; Morris & Carter, 2005; Hobley & Batt, 2005).

The notion of collaborative relationships has been discussed by Wilson (1995) who states that collaborative relationships enable trading partners to become more efficient and cost effective, with the customer (buyer) benefiting from more reliable supplier of products and inputs and improved product quality. However little has been explored into the benefits to the supplier, with Wilson (1995) discussing that the supplier achieves greater customer loyalty and more sales.

Study Rationale

To ensure quality production, winemakers must liaise with grape growers in a positive and constructive fashion. Therefore a supplier must be satisfied with their relationship with the buyer or the supplier may withdraw from the relationship. The notion of supplier satisfaction has had limited investigation. Wong (2000) discussed that satisfying end customers (end users of the product) is not only the effort of the buyer but also the supplier as the buyer out-sources the production of inputs to the supplier. Wong (2000) discusses that when suppliers' needs are satisfied suppliers are more willing to help companies meet the needs of the end product users and that buyers need to "enlist" the full support of their supplier to do this. As both the supplier and buyer are working to satisfy the needs of the end user and that their goals are compatible, supplier satisfaction would lead to customer satisfaction.

Current work by Lynlee Hobley (Hobley, L., 2006 pers. comm. 15 December) from Curtin University, Western Australia is involved in investigating the grape grower winemaker relationship from the buyer side (winemaker side). The project the author is conducting will test the supplier (grape grower) side of the relationship with an emphasis on supplier satisfaction.

Methodology

The study will involve the use of both qualitative and quantitative marketing research techniques. Qualitative in-depth interviews will be performed with grape growers to better explore the relationship issues they have with winemakers and will lead to the development of a theoretical model for testing using a quantitative measurement. Concepts and issues gleaned from the in-depth interviews will be used to create and adopt scale items to be used in a quantitative (questionnaire measurement). Scale items will be tested for reliability and validity in a pilot, small-scale questionnaire with final scale items to be used in a final measurement testing the constructs of supplier satisfaction from the grape grower perspective. The final measurement will involve the testing of a structural equation model using multivariate analysis which will present a model of supplier satisfaction.

Contribution to Knowledge

The research project will increase knowledge in a number of areas. The research will contribute to the field of knowledge regarding relationship marketing in particular inter-firm relationships and buyer-seller relationships. The project will be focussing on supplier satisfaction with the exposition of the constructs of supplier satisfaction within the grape grower/ winemaker relationship in the Australian wine industry. The supplier side of the relationship (grape grower) has not been previously explored and the study will aim to

accomplish this. A reason why the grape grower side of the relationship has not previously been studied may be due to an emphasis on buyer (winemaker) satisfaction as this value chain member currently holds the position of power in the chain. The wine industry has been focussed in the past on quantity production which is winemaker dependent, while the strategic move of the industry toward quality production and regionality is grape grower dependent. Therefore the supplier side of the relationship should be examined. The area of supplier satisfaction has also not been exposted to a high degree in the literature and this study will aim to add to this body of work.

Progress to Date

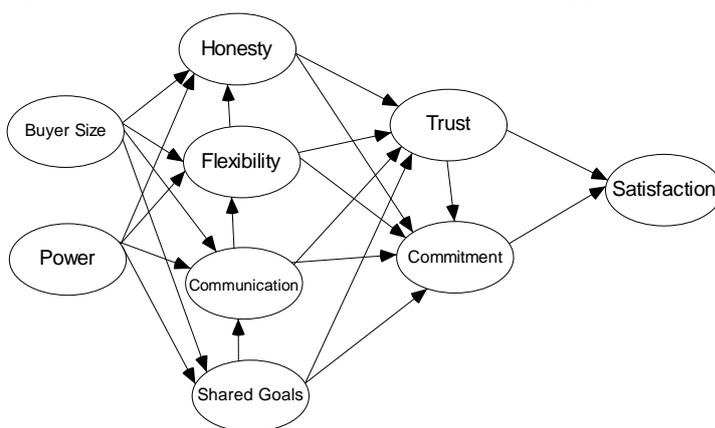
The study has progressed to a stage where qualitative in-depth interviews with grape growers have commenced and are ongoing. 13 formal and informal interviews have been conducted to date discussing grape growers' opinions in relation to their relationships with winemakers. The major findings have been that grape growers wish to have relationships that are high in trust, communication and commitment.

Grape growers were particular in pointing out the current effect of the oversupply of grapes in the industry was having on their relationships, with winemakers in many instances, using their position of power to exploit growers. Many incidents were discussed where grape growers were pressured into accepting the often unfair and very low payment terms from the winemakers, as the winemakers knew that the grape grower had no other options to sell their grapes. Winemakers were also notifying grape growers that they would not accept their grapes (when earlier in the season said they would) late in the growing season when grape growers had little chance of negotiating with another winemaker for the sale of their grapes. Comments were made that some winemakers were harshly downgrading the fruit quality of the accepted grapes meaning that the grape grower would receive less money for that crop, and some grape growers had little recourse when this occurred. The power situation dictated by the winemaker was also exhibited in the terms linked into contract, with some terms not reasonably achievable for the grape grower in the hope that this would lead to contracts being cancelled or fruit downgraded in quality and hence price. Overall there were numerous discussions that the power imbalance within some of the relationships diminished the grape growers' satisfaction. Many of these power imbalances and diminished relationships occurred when the grape grower was selling their grapes to large scale production winemakers as opposed to small winemakers. Winemakers' communication was also a problem within the relationship between grape growers and winemakers in large companies. Whereas in a relationship with a small winemaker, the grape grower would generally only communicate with one person (i.e. the winemaker) however in a relationship with a larger company the grape grower would have to communicate with many more people; for example a grape grower liaison officer and manager, a viticulturalist and a winemaker and in some cases this led to the grape grower receiving different messages from different people which confused the grower and diminished their satisfaction. The quality and content of communication was of great importance to grape growers, with comments in all discussions that grape growers wished to have honest dialogue between themselves and the winemaker even if the information in the discussion was not favourable to them. Grape growers preferred to be told "upfront" that there was a problem so that a remedy or possible options could be rapidly formulated.

Many grape growers did acknowledge that they had, in the past or present, constructive relationships with purchasers of their grapes, be it grape grower liaison officer or winemaker. Generally they mentioned that this was the case in the past and when they had a personal relationship, as opposed to a purely transactional relationship, with the winemaker. The personal relationship involved a greater level of communication between the two parties where each party was clear in their obligations and responsibilities. These personal relationships were often based on “handshake” agreements as opposed to strictly contractual relationships and generally were flexible in their terms. The grape grower could discuss problems with the winemaker and a mutually beneficial remedy was generally agreed upon. Grape growers felt that these relationships, where both parties were “happy” resulted in a higher quality of grape production (*ceteris paribus*) and hence financially beneficial to both parties. Grape growers also noted that if the winemaker had similar goals or ambitions to themselves then both cooperated to make the best product they could. If both the grape grower and winemaker had similar goals, for example the production of high quality grapes to be made into a high quality wine, then their relationship was positive and constructive and the grape growers noted that they gained satisfaction from this. Pride in the grape growers’ produce and the final wine product was of great importance to most growers and led to satisfaction. Grape growers understood that the industry was in a “difficult” situation (i.e. oversupply of production) with many discussions that they wanted the winemaker to be financially profitable and successful. This idea may result from the “tight-knit” rural communities where everyone helps each other in bad times, which are prevalent in wine industries.

The main issues that have come from the interview to date, in regards to grape grower satisfaction were that honesty, flexibility and communication and shared goals engendered trust and commitment within the relationship and that trust influenced commitment and both trust and commitment influenced satisfaction. The influence of buyer size (company size) and power also had an effect on these constructs. A graphical representation of these constructs is shown in Figure 1. It is envisioned that this model will be tested in the quantitative stage of the project.

Figure 1- Model of constructs influencing supplier satisfaction based on grower interviews



Issues for Discussion

The main issue I wish to present is related to the model exhibited in Figure 1, particularly related to the constructs of “Buyer Size” and “Power”. My query is “are these constructs properly positioned in the model”? and general issues related to the theoretical validity of the model.

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