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# **Internationalization of the Yarra Valley Wine Industry Cluster**

A thesis

submitted in partial fulfillment

of the requirements for the degree

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by

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## Abstract

This research investigates the ways in which firms in the cluster approach the process of internationalization through exploring the influence of business clustering and how it benefits firms in entering foreign markets. The purpose was to understand this process to enable firms to develop successful international strategies to expand in foreign markets. The focus of the study is on the Yarra Valley Wine Industry Cluster, the oldest wine growing region in Victoria, Australia. This research examined of Australian wineries to join together in order to achieve greater competitiveness in collaboration when entering foreign markets due to ever increasing global competition.

This paper was an exploratory study that used qualitative information gathered from the case study firms to provide practical framework for the execution of the research using a multiple-case study design.

The findings show the following: first, some of the wineries gain their perceptions of the foreign markets from their relationships with, as well as, by the input and suggestions of the distributors, agents, and partners in a particular market, while others seem to distance themselves from their international environments and only focus on serving domestic/local markets exclusively. Second, personal networks play an important role when it comes to the internationalization process of the wineries because they provide access to market knowledge. Third, cooperation among cluster firms plays a very limited role in assisting wineries in foreign market expansion; it has only been of benefit when it came to dealing with local issues. The cluster has played only a minor role, if any, when it comes to the internationalization of the cluster firms. Clustering has been identified as a place where wineries exchange knowledge, and techniques, in regards to wine production, or come together in a joint effort to sort out local issues. However, the cluster does not provide assistance to individual wineries entering international marketplaces.

In conclusion there was a distinctive lack of active support and organization from the cluster with regard to the international expansion due to the lack of leadership and joint direction among cluster members. This is where local government could take more proactive role to facilitate better usage of geographical clusters.

The findings could improve the company decision-making process. Understanding the advantages and disadvantages of clustering as a means for the future international expansion can be useful in helping to develop international strategies for firms. This would be of great significance to business practitioners because this may have a crucial impact on the competitive advantage of firms in foreign markets. In addition to having significant implications for practice, the investigation has implications for international business research because it provides a better understanding of the role of a cluster in the internationalization.

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# Chapter 1 Introduction

This research has investigated the ways in which winemakers from the Yarra Valley Wine Region have approached the process of internationalization, through exploring the influence of business clustering and how it could benefit organizations when entering foreign markets. The Yarra Valley Wine Industry Cluster is the oldest wine growing region in Victoria, Australia, with some of the oldest wineries operating within the region. Numerous publications, as mentioned in Chapter 2, have already addressed the benefits of belonging to a cluster, in regards to local synergies within the cluster region. What this research is attempting to address are cluster benefits in regards to internationalization and access to foreign markets. Accessing foreign markets for Australian wine producers is of high importance due to limited growth opportunities within national boundaries and increasing numbers of national competitors.

Within the Yarra Valley there are more than 80 wineries of different sizes and at different stages of entering foreign markets making it ideal for the purposes of this study. The chapter will start by addressing brief history and projected future of wine production in Australia in Section 1.1, followed by the problem discussion in Section 1.2. Section 1.3 addresses the purpose of the research accompanied by the research questions in Section 1.4. Section 1.5 concludes the chapter.

## 1.1 Australian Wine Industry

Australia is well renowned for its quality wines with traditions of wine making going back to the 19<sup>th</sup> century. Australian production levels make it the fifth largest wine producer and fourth largest wine exporter in the world (AWBC, 2005) after France, Italy, and Spain. In 2005, South Australia accounted for the majority of Australian wine production volume (nearly 50% of the overall Australian production AWBC, 2005). Following South Australia are New South Wales and Victoria. In the period 2005-06, Australian wine exports have increased by 7.8%, totalling 722.2 million litres of wine (ABS, 2006). The increase in wine volume was accompanied by an

increase in the value of exports by 1.6% making it \$2,757.9 million (ABS, 2006). The wine industry also provides additional employment within the retail, wholesale, and hospitality, industries on top of direct employment related to wine production. For the period of 2005-06 European Union remained the major regional destination for Australian wine accounting for almost 54% of total export volume (ABS, 2006). Second place for wine exports is North America accounting for some 35% of the total volume (ABS, 2006).

As this research focuses on the wine industry of one part of the Australian State of Victoria, it is important to provide some background information about the region. The State of Victoria is divided into five geographic zones: Central Victoria, North Eastern Victoria, North Western Victoria, Port Philip, and Western Victoria. Port Philip was identified as the optimal area for this analysis for a number of reasons. Firstly, the Port Philip zone is located around the Victoria State capital of Melbourne, making it more convenient for the detailed analysis. Second, Port Philip in 2004 accounted for almost 14% of wine grape value produced by the State of Victoria, whilst at the same time accounting for only 10% of the wine bearing area in the state (DPI, 2007). Third and most importantly is the fact that it includes one of the oldest and most famous wine growing areas in the state, the Yarra Valley region.

The Yarra Valley region is bordered by the towns of Emerald and Cockatoo to the south. The Plenty River marks its western border and Yarra River, which starts in the east, flows through the centre ending in Melbourne City (See Figure 1.1). The majority of vineries are centred round the towns of Coldstream, Healesville, Yarra, Glen, and Lilydale. The Valley is surrounded by the Great Dividing Range to the east, Plenty Ranges, to the west and the Dandenong Ranges to the south (Wine Diva, 2007). The altitude is between 50-400m, which creates cool climate growing conditions. The Yarra Valley is currently recognized as one of Australia's best cool climate regions, which is able to make classical wine styles from various grapes (Wine Australia, 2008). Throughout the year, frost can create problems combined with strong cold winds, which can occur in some parts of the region. On average, the region receives plenty of rain, but insufficient rainfalls occur just prior to harvest in March making it necessary to irrigate (Wine Diva, 2007). The most common form of

irrigation is the drop system; this delivers small amounts of water targeted at specific areas where the vines need it most.

**Figure 1.1:** Map of the Yarra Valley



*Map courtesy of the Yarra Valley Wine Grower Association*  
*Source: Yarra Valley Wine Growers Association (2007)*

The Yarra Valley is an internationally renowned region that has particular success in making Burgundian varieties of Chardonnay and Pinot Noir. The journey for Yarra Valley region began in 1837 when three brothers William, James and Donald Ryrie established a cattle property called Yerring Station (Wine Diva, 2007). Three of them planted first vines, and this act has been recorded as the first vineyard planting in Victoria (Wine Diva, 2007). Several years after the brothers planted vines, immigrants from Switzerland and Germany settled in the area and started planting the first commercial quantities of wine grape and established wineries. One of the first wineries established, St Huberts, Yering, and Yerinberg, produced wines to international acclaim and established the Yarra Valley's reputation in the 1900s (Wine Diva, 2007).

In the 1890s, an economic depression combined with customers shift to fortified wines and declining soil fertility (AWBC, 2005) led to the decline of the region as a

wine producer (Wine Diva, 2007). By the 1920's the last winery closed their doors (Wine Diva, 2007). 1960's is known as the beginning of the second wave for table wines in the region. The industry was revived by a medical doctor who saw the potential for a market return to table wines. Mount Mary vineyard was established by Dr. John Middleton as the pioneer of the second wave (Wine Diva, 2007)

The most recent, third wave came in 1980s and saw the arrival of James Halliday, de Bortoli, and the prestigious Moet, and Chandon, wineries (Wine Diva, 2007). All throughout the 1960's wine consumption was on the rise, which led to replanting the region. However, it was not until in the 1990's that the areas under vine in the Yarra Valley exceeded the high point of the 19<sup>th</sup> century (AWBC, 2005). Yarra Valley includes more than 80 different wineries, making it ideal for this research because of the sheer variety of wineries at different sizes and sophistication. Due to limited growth opportunities within the national borders, many of the wineries are expanding into international markets in order to improve growth opportunities. Later on in this chapter, we will discuss the future of the wine industry within Australia in regards to climate change and its influences on the region as well as future projected wine consumption.

### **1.2.1 Future Projections for Wine Industry**

The future for the Australian wine industry seems to be anything but certain. One of the biggest concerns for winemakers is what would seem an inevitable climate change taking place. Predictions by Dr. Leanne Webb (2006) from the University of Melbourne paint a rather uncertain future for winemakers in most of the current wine making regions throughout Australia. Predictions estimate that most of the regions would experience a temperature increase by as much as 1.1 degree Celsius by the year 2030 (Webb, 2006).

The climate change will result in the bud burst taking place earlier, as well as the harvesting happening earlier (Webb, 2005). Due to the warmer climate and earlier harvesting, grapes would not tend to develop complex flavour and aroma profiles

(Webb, 2005) as it would under normal circumstances. With the increase in the temperature, we would get lower grape quality, which would result in lower wine quality, depending on the skill of winemakers (Webb, 2005). In warmer temperatures more grapes per hectare (Webb, 2005) can be produced but the projected temperature increase would have an adverse impact on the production value (Webb, 2006), because of the decreased quality of grapes. Overall rising temperatures tend to have a significant affect on wine production.

Some suggestions to overcome the results of temperature rise include moving to currently cooler regions as well as higher altitudes (Webb, 2006) which would maintain the temperature to desired levels for premium wines. Because vineyards tend to have a life of thirty or more years (Webb, 2006) this is a serious issue for both current vineyard managers and anyone selecting new vineyard sites. Climate change is changing rain patterns, which alternately cause flooding or drought. Another result of climate change is the change in frost pattern occurrence, which would have damaging consequences to crop yield if it occurs outside the normal seasons. All of these would result in the change of crop yield and quality of wine produced if everything else remains the same.

Most of Australia receives relatively low rainfalls across the year and with temperatures rising it is likely to diminish even further. This is where the need for future irrigation systems arises (Webb, 2006).

Due to temperature increase and increased quantity of lower quality wine being produced per hectare it is likely that demand for low to medium wine will be on the down side due to the potential of oversupply, while premium wines will still be in high demand in Australia and internationally. This will have important implications for the majority of Australian wine producers in terms of their long-term plans. Current vineyards may need to consider relocation or face the possibility of increasing production costs in order to maintain their current quality levels.

## 1.2 Problem Discussion

This research will address the overwhelming issues that the Australian Wine Industry is facing at present and into the future, as previously discussed. The industry not only faces such issues as climate change which may limit the quality of crop but also it has been currently facing the issues of oversupply on the local and global markets. This is resulting in price cuts and decreased margins that could lead to mergers or acquisitions between wineries, in order to increase the market share and reduce some of the fixed costs related to wine production (explained in more detail in Chapter 3).

Increasingly, a number of firms are looking for opportunities in foreign markets and deciding to enter international markets. Firms face crucial decisions in choosing the most suitable market entry mode; problems in deciding on the marketing approach and marketing strategies for a particular market, and, among others, difficulties in maintaining their presence in foreign markets. The main problem being addressed here is *whether it would be necessary for some Australian wineries to join together to achieve competitiveness in collaboration to enter foreign markets or whether it should be done on an individual basis.*

Clustering of wineries is seen as another method used to create collaboration among cluster members as well as to create a common direction. These lead to further questions: *If wineries are to join together who will be the one to take the leading role and who will be forced to follow? Would the solution for Australian wineries be as simple as open competition and survival of the fittest, or are there some less aggressive methods that could perhaps help with improvement of competition in international markets and at the same time improve the survival rate of new wineries?*

Answering the above questions would provide potentially helpful information and have the far-reaching important implications on practice. It could improve the company decision-making process for the wine industry in Australia and offer better understanding of the role of a cluster in the internationalization process in general. Subsequently, understanding the advantages and disadvantages of clustering as a

means for the future international expansion can be useful in helping develop international strategies for Australian firms. This would be of great significance to business practitioners because this may have a crucial impact on the competitive advantage of firms in foreign markets. Besides having significant implications for practice, the investigation should have implications for international business research as well.

### **1.3 Purpose of the Research**

The purpose of this research is to shed new light on the nature of cluster development activities carried out in relation to the internationalization process and competitiveness of its members in a world arena. The focus of the research is on the Australian wine industry cluster in the Yarra Valley (see Chapter 3 for more details). This research attempts to identify the most influential factors that affect the internationalization process and achieving competitiveness of firms in the Australian Yarra Valley Wine industry cluster.

This research has three main objectives:

- a) The first objective is to review and analyze to what extent clustering influences the process of internationalization of firms within a cluster, and achieving competitiveness in the international market.
- b) The second objective is to develop and present a conceptual model that seeks to describe the underlying determinants and relationships between firms in a cluster, and how being a member of a cluster influences the internationalization process and competitiveness of firms.
- c) The third objective is to provide empirical validation for the purpose of confirming and refining the model, based on the empirical results in the wine industry cluster. This will include a detailed study of the Yarra Valley Wine industry cluster.

The findings of this study are to provide potentially helpful information about factors affecting the past evolution of a cluster generation, and could inform and possibly

improve future cluster development process. Knowing the factors that were central considerations in the cluster development process could improve the time frame and sustainability of cluster creation. Understanding the significance of particular factors could be useful in assisting in the development of new successful cluster groups in Australia. This would be of great significance to policymakers, business practitioners, and scholars, because choosing the means of cluster growth and development is vital, not only for regional but also for country advancement.

## **1.4 Research Questions**

To achieve the objectives of this research, the following research questions have been formulated:

1. Do the three main paths of internationalization identified in the extant literature explain the internationalization process of member firms in a cluster?
2. How do networks affect firms' in the internationalization process?
3. How does the cooperation among cluster firms determine success and competitiveness of firms in a foreign market?

## **1.5 Methodology**

This paper was an exploratory study and used qualitative information. Reflection on the research objectives and associated questions (explained in Sections 1.3 and 1.4), required the use of a qualitative research approach and within the most suitable research strategy, case study provided the practical framework for the execution of the research using a multiple-case study design.

The Yarra Valley wine industry cluster provided the dynamic context that pursues the research questions required. Along with using secondary economic data, this study utilized the interview method by conducting interviews with executives from cluster companies in the Yarra Valley.

## **1.6 Main Intended Contribution**

The findings of this study have some implications for decision-makers in general and for international business theory. While this study's focus was on the wine industry clustering, most of the findings could, with some caution be generalized to other industries also clustering.

The purpose of this research was to identify the role of clusters in the internationalization process of companies within a cluster. Understanding this could help firms developing international strategies to expand in foreign markets, as well as to assist in understanding for government bodies, and formal clusters, when it comes to formulating policies that are to encourage foreign activities of local firms. This is particularly apparent when the ever-increasing competition forces firms to think outside of their comfort zone to achieve a presence in the world market.

The research intends to contribute to knowledge by investigating the role of clusters and its influences on the decision-making process, in expanding to foreign markets, and by identifying the relationships between clusters and the internationalization process

## **1.7 Structure of the Research**

The subsequent chapters of the thesis are structured as follows:

- Chapter 2 presents a brief overview of the literature and theories related to the area of study. Initially the research question that the study intended to address is proposed. Further, the conceptual model used in this study is presented and this addresses areas of clustering, the internationalization process, and a networking theory.

- Chapter 3 puts the direction of the research into the research context to facilitate better understanding of the implications of the activities within clusters. The emphasis is on the Yarra Valley Wine Industry cluster.
- Chapter 4 explains the methodology and the method used in the research. It begins with the research philosophy and continues with the research approach, strategy and data collection method, and the analysis of the data, providing the framework for further research.
- Chapter 5 presents the results of the empirical research. It introduces the firms in case study format by highlighting the main characteristics of each company in the research sample.
- Chapter 6 includes the interpretation of the findings in relation to the literature, research questions, and preliminary propositions put forward in chapter 2.
- Chapter 7 concludes the research with implications for practice, theory, and future research in relation to cluster internationalization.

## **1.8 Conclusion**

The objective of this chapter was to introduce this study. This chapter has briefly outlined the purpose and research problem providing the basis for the research framework. The reasons for the research study were outlined and the methodology explained with the view towards the research objectives. The chapter briefly introduced the Australian wine industry and more specifically the Yarra Valley Wine industry cluster as one of the oldest and most well established wine growing regions in the state of Victoria. Finally, the underlying research questions have been introduced to provide a way forward for the literature review that is discussed in chapter two.

## **Chapter 2      Literature Review**

### **2.1 Introduction**

This chapter outlines the current academic and theoretical evidence related to the research including theories on clusters, the internationalisation process, as well as intra-firm networks. The purpose of this chapter is to create a framework that will be utilised during this study. The chapter starts with the underlying theory on industrial clusters in Section 2.2. It discusses theories about cluster formation and lifecycle. Section 2.3 addresses theories of internationalization, the types of internationalisation, as well as the firm's motivations to go international. This is followed by discussion of networking theory. Section 2.4 outlines preliminary propositions and the conceptual framework. Section 2.5 concludes the chapter.

### **2.2 Clusters: The Theoretical Background**

Over the past few years clusters have been attracting increasing interest from both academics and businesses. There have been many studies looking into regional and industry cluster studies. Clusters have been gaining popularity due to their ability to create synergy results for companies involved. One of the most famous clusters is the computer and semiconductor production cluster in Silicon Valley, California (Saxenian, 1994). This cluster creates suitable grounds for high-tech industry developments, gathering together hundreds of different size firms working in similar industries.

Clusters have been the buzz word over the past decade or so, but what exactly is a cluster? In 1998, Michael Porter defined clusters as follows: "Clusters are geographic concentrations of interconnected companies and institutions in particular field" (Porter, 1998, p.78). From this definition the essential elements can be seen that define what is a cluster and what is not. First of all clusters have to be located in a specific geographic location to facilitate communication and interaction among

cluster members. This aspect of the definition has been challenged on a number of occasions with varying degrees of success by groups attempting to create so-called “virtual clusters”. The members of these clusters are geographically separate from each other and that is where the importance of advancements in communication plays a vital role for the members to stay in contact and attempts to create a virtual cluster. However, following Porter’s definition, this research considers real (physical) clusters only, in order to determine first the main paths of internationalization of member firms in a cluster, second, the impact of networks on firms in cluster, and third, what factors determine success and competitiveness of firms in a cluster in a foreign market.

The second aspect of the definition is that members of the cluster are not only firms or companies. Cluster members could include research and educational institutions that are of benefit to the cluster. The third aspect implies that there is a boundary of who can be a member of the cluster and who cannot. Menzel and Fornahl (2006) believe that apart from being in the geographic proximity, cluster members need to be in technological proximity as well. Technological proximity is described as the ability for a member to be in a particular field (Menzel and Fornahl, 2006). Just because a firm or institute is physically located close to the cluster it does not mean that they have to be members of that cluster. In order to belong to the cluster members have to contribute to disciplines that cluster is actively involved in. This is why clusters are highly specialised.

The fourth aspect of Porter’s definition is the fact that cluster members have to be interconnected. Menzel and Fornahl (2006) refer interconnectedness to the exchange of goods, services, and information between firms and institutes. In order for this to be possible it requires high levels of mutual trust, technological proximity, as well as both horizontal and vertical complementarities of technological activities (Menzel and Fornahl, 2006), such as winemaking know-how and sharing of technological resources.

To facilitate the existence of a cluster, certain elements of the environment have to be present as well. The successful cluster usually contains four layers (Akoorie and Scott-Kennel, 2005). The first layer includes the core companies that are highly specialised and related firms within close geographic proximity, amongst whom is both simultaneously strong competition, and cooperation (Akoorie and Scott-Kennel, 2005). These firms are the flag holders of the cluster and usually have a strong influence on the direction of a cluster.

The next layer is consisting of supporting organisations (Akoorie and Scott-Kennel, 2005) Usually in this layer there are firms that are not involved in the core operation in the cluster but provides support services such as financial, legal, insurance, as well as providers of materials and equipment servicing (Akoorie and Scott-Kennel, 2005) necessary for the effective operations of the core companies. For example in the Yarra Valley one of the main support activity service providers are One Steel, and Bluescope Steel. They provide a majority of stainless steel specialised products employed within the wine production process.

The third layer includes the social infrastructure (Akoorie and Scott-Kennel, 2005) or so called “soft infrastructure” (Fowcs-Williams, 2001). The social infrastructure includes secondary and tertiary educational institutions, industry-training organisations, and professional, and trade associations (Akoorie and Scott-Kennel, 2005). The main element of this layer includes the linkages and relationship capabilities between elements of this layer (Akoorie and Scott-Kennel, 2005). The better the linkage and relationship the better and stronger the support provided to other layers.

The final layer of the successful cluster includes supporting physical infrastructure, (Akoorie and Scott-Kennel, 2005) also known as hard infrastructure (Ffowcs-Williams, 1997). This layer includes facilities such as transport, utilities, waste disposal, and other supporting physical buildings and infrastructures (Akoorie and Scott-Kennel, 2005).

Numerous authors have addressed reasons why firms like to be part of a cluster. For example, a new firm being formed would prefer to be part of the cluster, because the cluster would be able to provide it with role models and positive examples of an successful operation (Fornahl, 2003), the existing networks of a cluster can provide firms with ideas and places to show their market and technological potentials (Saxenian, 1994). According to Kenney and von Burg (1999) there is also evidence to indicate that firms within the clusters are more likely to receive financial capital and support than firms outside them. Karlsson, Johansson and Stough (2005) in their literature review, have identified that a number of authors has identified three types of clusters of spatial industrial clustering:

- The first is the pure agglomeration or the classical model which refers to job-matching opportunities and service economies of scale and scope;
- The second is the so called an industrial-complex model which refers to explicit links of sales and purchases between members of the cluster;
- The third and final model is the so called network, or club model, which refers to social ties and trust. This final model is also known as the social-network model.

Karlsson et al. (2005) talks about the emergence of industrial clusters in functional regions as the result of certain location advantages that the region has to offer. In other words, clusters are formed in places where certain advantages either naturally exist, or have been created there on purpose. Location advantages can change over time slowly as well (Karlsson et al., 2005). Karlsson et al. (2005) suggests that because no location advantages are fixed over time they can be the result of self organization within the region around an independently developed resource or an advantage that would naturally occur without major intervention. On the other hand Karlsson et al. (2005) state that because the advantage is not fixed over time it can also be created on the basis of conscious decision-making by either private or public policy-makers. This would mean that policy can have a meaningful role (Johansson and Karlsson, 2001) for the cluster's success. Karlsson et al. (2005) also mentions that although policies can create positive circumstances they can very likely create

negative affects as well. It would all depend on the long term goals that policies may want to achieve.

The formation of an industrial cluster depends on the dynamics of the region. The dynamics of the region is greatly influenced by number of possible resources (Karlsson et al., 2005). The resources are made up of four types of capital, including: physical, financial, human, and social capital, (Karlsson et al., 2005 and Gordon and McCann, 2000). Karlsson et al. (2005) and Press (2006) identify human capital through the presence of Universities or other research or educational facilities, while social capital is characterised by various non-profit organisations that are assumed to participate in the development of the social capital. Physical capital can be either natural or man-made, for example the existence of certain types of infrastructure that enables pre-existing natural resources to be used. A major influence on the dynamics of the region and creation or discontinuation of the cluster may be the entry and exit processes of firms and industries as well as labour and skill resources in the region. These processes can play a major role in the functionality or dysfunctionality of the industrial cluster (Karlsson et al., 2005 and Gordon and McCann, 2000). The following phenomena are of major importance for the dynamics of the cluster:

- Development of technology within firms, including education and retraining of the workforce, research, and development, and other forms of either production or process related developments;
- Technology spill-over affects which may generate new start-up incentives as well as inward direct investment based on the diffusion of knowledge;
- Availability and attraction of workers embodying skills, experiences and knowledge necessary for the cluster functions;
- Specialization within regions as a self reinforcing process that generates external economies of scale and scope;
- Cumulative change, based on the interdependence between transactions and different forms of economies of scale, where economic development creates growth in regional population (Karlsson et al., 2005, p. 14).

According to Johansson and Karlsson (2001) scale economies are very important to when it comes to explaining the existence of geographical clusters. They point out that scale economies imply certain location advantages for large functional regions. Karlsson et al. (2005) points out those large urban regions can develop specialisations in many diversified fields due to two forces at play; both internal and external scale economies can create a number of often interacting clusters within large urban environments. The internal and external scale of economies is important because they offer necessary cost savings.

Karlsson et al. (2005) suggests a number of phases that may occur during the creation of a cluster. Initially the firms in the core industry with localization economies may co-locate in a functional region (Fujita, Krugman and Venables, 1999). This grouping may attract suppliers with input and labour. “The environment of industry-specific input suppliers, and employment categories, as well as core firms themselves form an economic milieu, that is a cluster, which attracts such industry-specific firms to locate, remain, and even expand in the region” (Karlsson et al., 2005, p. 14). Clusters can be expected to emerge in any size environment, but as Karlsson et al. (2005) points out smaller clusters may need more support from local policy in their process of commencement. This may be due to the fact that the larger the regional cluster the more resources there are to go round, while for the smaller ones there may be limited resources that need to be specifically targeted or focused in the right areas, in order for a cluster to be successful. Therefore smart policy is essential to guarantee cluster development, and growth, especially for the smaller regional clusters.

Karlsson et al. (2005) suggests that even successful clusters may have a limited life span. Greene (2001) argues that sustainability of clusters requires constant innovation which should be based on leading-edge research, and research training. On the other hand Karlsson et al. (2005) argues true clusters should always develop around research universities, and this is not always the case.

According to Bergman and Fritz (2002) and Mahringer and Valderrama (1998) the sustainability of clusters is threaded by structural rigidities and cyclical disturbances.

It may be threatened first of all by its own structural inflexibility and then secondly by an external industry trend change. Karlsson et al. (2005) believe that there may be additionally two risks that may influence cluster sustainability. The first trend may be in the “form of fundamental technological change” (Karlsson et al, 2005, p 16) that may be in the form of a totally new production technology that may be prohibitive to use for the existing cluster producers due to the high cost of implementation. The second issue is that fundamental technological change may create a new product that may be a superior substitute for the existing cluster producers’ products (Karlsson et al., 2005). The second type of risk that has been identified is called the “cluster-competition effect” (Karlsson et al., 2005, p. 16). The authors argue that this type of risk may exist in the large regions that maybe hosting several different clusters and functions. The argument is that new, expanding, more profitable clusters may out-compete some of the existing clusters. The way that these new clusters may out-compete existing ones, is through competition for land, premises, and labour, by pushing up the price levels in that region. However, this is currently not evident within the Yarra Valley region (addressed within Chapter 6).

Although the literature has provided extensive knowledge in relation to clusters’ functions and synergy created for the companies involved in them, it has failed to explain cooperation of research institutes such as universities, with firms inside the cluster. Similarly, research on the impact of relationships between firms within clusters is lacking, despite the extensive literature on the importance of company synergies in order to survive and compete in the global marketplace. This lack may be partially attributed to the very nature of clusters. Most of the early cluster groups have spontaneously developed over time without any outside influence either from the government or any other entities. Due to the recent recognition of the success of such cluster models, governments have attempted to stimulate the creation of clusters in regions where potential has been recognized, or clusters at early stages have been identified in a process known as ‘reverse engineering’ (emulating successful clusters elsewhere).

While the extant literature has made substantial contributions to our understanding of the cluster evolution, very little effort was made about how to make clusters operational in the international context, the empirical literature on how clusters influence the internationalization process of the firms within the cluster, and how it shapes the base for the future cluster and firms' competitiveness, is quite limited., specifically as it applies to wine industry clusters. Since clusters play a vital role in regional and country development, this research is an attempt to provide some new observations in the nature of creation and further growth of firms within a cluster. In other words, understanding the role of clusters in the internationalization process of firms within the cluster could help firms in developing international strategies to expand into foreign markets. The research further proceeds by reviewing the theories of internationalization.

## **2.3 Theories of Internationalization**

The international business literature produced over the past few decades is typically characterized by the considerable diversity mainly caused by a different approach to the subject. The purpose of this section is to review and present the most cited theories of internationalization relevant to the research question.

### **2.3.1 Internationalization Process**

#### ***The Uppsala Model of Internationalization***

Since its emergence in the 1970s The Uppsala or stages model of internationalization has become the seminal work in the literature. The model attempts to explain firms' motivation to go international by using the behavioral theory, and the theory of the growth of the firm (Johanson and Vahlne, 1977, 1990). The theory sees internationalization as the gradual process in which a firm gradually increases its international activities. Johanson and Vahlne (1990) believe that process gradually develops as a result of the firm's increasing knowledge of the foreign market and its operations within it as well as its increasing commitment of the resources in the

marketplace. Johanson and Vahlne (1990) see this process as the gradual or step-wise process, where firms move gradually as they develop a good foothold on its previous position.

The Uppsala model has received many criticisms over the years but regardless of this, the model is still being widely used and discussed. One of the criticisms of the Uppsala model is that it tends to be too deterministic (Johanson and Vahlne, 1990). In other words, it says that the firm has to follow certain steps in order for it to go through internationalization process. Reid (1983) argues that firms have a choice as to what entry mode they choose to expand internationally, rather than it being predetermined by the previous steps and it is the marketplace that dictates the which mode the organization takes.

Forsgren (1989) also argues that Uppsala's process model may be important only at the initial stages of internationalization, due to the possible lack of market knowledge and limited market resources. At the later stage it may become of less importance especially if a firm already has committed resources to international activities in the past (Forsgren, 1989). This may be due to the fact that firms would not need to repeat some parts of the process if they have entered another market previously. Usually there would be a learning curve that companies may go through, and some of the experiences may be transferable across different markets. Coviello and Munro, (1995) argue that the traditional "stepwise" approaches to internationalization that have been discussed in the literature are generally only applicable in the context of larger traditional manufacturing firms and are not always applicable to the smaller more entrepreneurial, high-technology firms.

### ***Approaches to Internationalization***

The extant literature identifies three main internationalization approaches that firms take in order to become internationalized and they are all identified in the way in which company has come to that stage. The three approaches include 'traditional', 'born global', and 'born again global' (Bell, McNaughton, Young and Crick, 2003).

In the 'traditional' approach, firms are more reactive rather than proactive to their environments and they tend to move in small stages from trading in domestic to international markets (Bell et al, 2003). The move to international markets is usually a result of an unsolicited order or enquiry, or as the result of unfavorable conditions in the domestic market (Bell et al, 2003). According to Bell et al (2003) the objective of a 'traditional firm' would seem to be focused towards survival through an increase in sales volume, greater market share, or extending the product life cycle.

On the other hand there is 'born global' approach that some firms would seem have adopted. The 'born global' approach refers to firms that plan to internationalize from their inception, and they plan to enter multiple markets at once (Bell et al, 2003), unlike 'traditional firms' that follow a different chronological order. Dimitratos and Plakoyiannaki (2003) define 'born global' exporters as being entrepreneurial by nature with the global focus from the beginning (Bell et al, 2003). 'Born global' firms start very fast internationalization with little thought of defined boundaries and borders (Chetty and Campbell-Hunt 2004) with the view of the global market as a single market where they can create profits (Oviatt and McDougall, 1994).

The third type of approach to internationalization that has been identified is 'born global again'. The 'born again global' firms start off as 'traditional' firms but after experiencing a change in circumstances or as Bell et al (2003) puts it "a critical incident", it suddenly starts to internationalize. The 'critical incident' can be caused because of a new internationally orientated management, which quickly enters multiple international markets, making companies more like a 'born global' firm (Bell et al, 2003). Bell et al (2003, p. 348) also suggests that the 'born again global' firms' sudden change of focus from domestic to international markets can be triggered by new human or financial resources entering the firm, as well as access to new networks in foreign markets, acquisition of new product, or market knowledge, or some other critical incident.

### *Motives to Expand to Foreign Markets*

Firms would usually have different motivations to engage in the internationalization process. The motivation is usually the first step that a firm may use to identify its need to be involved in the internationalization process. Wiedersheim-Paul, Olson and Welch (1978) argue that companies may have two types of motivators; internal and external. Important internal motivators could be either excess capacity (Brooks and Rosson, 1982), or a unique product that a company may want to launch elsewhere (Johnston and Czinkota, 1982), or strategic advantage either in the form of marketing, or technological advantage (Johnson and Czinkota, 1982).

Havnes (1994) has divided the external motivators into so-called 'push' and 'pull' factors depending whether a company is acting proactively or reactively to its external environment. In order for a company to be acting proactively the most common reason is a better market opportunity to maximize profits in comparison to the domestic markets (Czinkota and Ronkainen, 2001). In other words it is driven by profit maximization once a company identifies that it may be able to earn more by expanding its operations internationally. Koch (2001) argues that internationalization may be used to offset seasonal fluctuations of demand and income in the domestic market. Other proactive factors may be access to unique or exclusive information that may be used to create an advantage for the firm (Czinkota and Ronkainen, 2001). This information can be either about the market situation, customer, or anything else that may be unavailable to other companies (Czinkota and Ronkainen, 2001). Another proactive motivator is that local markets may not be of sufficient size in order for them to attain the economies of scale (Koch, 2001). Therefore firms may be left with only one option and that is to engage in an internationalization process.

On the other hand firms may also engage in the internationalization process as a response to changing market conditions. One of the main reactive motivators is the increasing competition within the local market (Czinkota and Ronkainen, 2001) or in other words degrading competitive advantage locally. Because of its inability to compete highly successfully in the local market, a company may decide to engage in

the internationalization and achieve greater economies of scale (Czinkota and Ronkainen, 2001) and may allow it to be more successful domestically as well.

### **2.3.2 Networks and Internationalization**

Since the period after the Second World War an increasing amount of research attention has been paid to business networks and how they influence business operations. People are social beings who have always gathered in social groups to benefit from the advantages of being in those groups. Groups have allowed for specialization in terms of skills and production. This in turn would not have been possible if humans did not interact with each other on the regular basis. Unlike some other social animals that gather in packs to improve their hunting and survival opportunities, humans have been able to take a greater advantage of their social groups in terms of narrow specialization in areas and skills that would not permit that individual to survive on its own if left outside the group. Specialist skills such as poetry or art, does not create any tangible benefits for the survival of the group, but does create the feeling of belonging within the group. If a poet or an artist was left to look after him or herself without the hunter gathering skills necessary for bare survival, we would not have some of the greatest works of art that exist today, simply because poets and artists would have become extinct if their social group was not providing for them. This has enabled development of a wide range of skills and specialties that moved the society beyond bare existence, but which taken independently does not provide enough for the survival of the specialized individual.

Modern day people have the advantages of communication and interaction with each other over great distances in ways that could not have been foreseeable in the past. The modern digital world allows for communication to be conducted between different business partners on all four corners of the globe without the need for them to ever meet with each other. Dependence on networks arises in just about any aspect of human society and activity. This section of the literature review addresses the importance of networks in business in regards to the internationalization process.

Networks can facilitate transactions as well as cooperation in areas such as knowledge, production and transmission, aiming at product development, technical change, and other forms of business innovations (Karlsson et al., 2005). Networks can be defined as relationship connections between both individuals, as well as at the organizational level (Coviello, 2006). For the purpose of this research we will consider networks to be personal and business connections between individual cluster members, as well as the outside agents and organizations that may not necessarily belong to the same cluster, but play a major part in the delivery of products and services to the customer.

Networks can take number of forms. These can be both structures and flows (Parkhe, Wasserman and Ralston, 2006) depending on how they are organized. Networks can be impersonal, and institutional agreements (Furbotn and Pejovich, 1972) created to take advantages of positive or negative economic conditions. Networks can also be strongly based on the personal relationships between executives and organizational decision makers.

Differences in national cultures and attitudes toward cooperation, as well as willingness to trust the so called “outsiders” influences the maintenance or termination of partnerships (Park and Ungson, 1997). In countries such as Japan and South Korea, intra-firm and inter-firm networks are an important part of the general firms’ structural operations, as well as the economy as a whole. (Gerlach, 1992). Sakakibara and Dodgson (2003) point out that country specific, legal, and economic policy can have a significant affect on the formation and operation of inter-firm networks. In other words the governments can chose to use policies that may encourage creation of stronger networks or discourage it altogether. Networks are most commonly based on trust and mutual benefits and therefore they can be slower to create and maybe easier to destroy (Parkhe et al., 2006).

Networks are constructed by social capital through the formation and maintenance of trust, expectations, and obligations, between the members of the network. Morgan and Hunt (1994) maintain that trust between network partners most often leads to commitment between them as well. Therefore commitment between networks’

partners may be viewed as an additional asset that some companies may decide to utilize in their organizational strategies also. Uzzi (1997) mentions that trust may promote easier access to either privileged or difficult to obtain resources that may be used to enhance competitiveness. The trust and information flow between the members of the network may be viewed as a very important resource that members can use to identify further business opportunities as well as to avoid any possible drawbacks (Parkhe et al., 2006). Coviello and Munro (1995) have found that although network relationships can enhance internationalization efforts they can also constrain the scope and nature of market opportunities that can become available to a company. Or firms may become constrained to pursue other business opportunities that may arise outside their existing network operations.

Further more, social capital may mean better resources and international opportunities for a firm and can also provide means to overcome difficulties of being new in the foreign market (Arenius, 2002). Ellis (2000) has provided evidence for the important role that social ties play in internationalization. So-called social capital can take numerous forms from management contacts to customers' and suppliers' involvement with the organization (Coviello, 2006) which can greatly benefit operations both domestically and abroad. Social capital can provide positive impact on foreign market knowledge and create international growth opportunities (Yli-Renko, Autio and Tontti, 2002).

The extant literature has suggested that network theory is useful for understanding the internationalization process, particularly for smaller firms. Coviello and Munro (1995) suggest that smaller organizations tend to depend on their relationships with others in order to develop. According to network theory, markets are organized as a system of relationships between the number of players including customers, suppliers, competitors, and private and public support agencies, (Coviello and Munro, 1995) like local government, associations, Chambers of Commerce etc. Axelsson and Easton (1992) believe that strategic actions of firms are rarely limited to a single firm. They believe that the nature of a relationship established among others in the marketplace can highly influence and sometimes even dictate the future of the strategic actions.

Cappelin (2003) has identified four main characteristics of networks and network relations. The first is the link between two network partners (nodes) which is, according to Cappelin (2003) characterized by the precise direction that can show either mutual relationship, or a relationship of control or dependence of one member with the respect to another member within the network. In other words there has to be some gain for parties to be involved in this kind of relationship. The second characteristic is that each member is to have, or perform a specific function depending on his/her relationship or position with other members within the overall network; this is where skill or service specialization can occur. The third characteristic is that networks can be interconnected with other networks based on the links of its individual members. This may indicate that it may be difficult to identify exact boundaries of some of the networks because boundaries may seem to be quite fluid and flexible. The fourth and final characteristic of a network according to Cappelin (2003) is the relationship between members is strongly affected by past dealings of those members to each other. This is where a strong element of trust comes into play.

In the case of internationalization, Johansson and Mattsson (1988) suggest that a company's success during the internationalization process, while entering new foreign markets is more dependent on the company's relationships within both domestic and international markets rather than on its strategy and decisions as to what marketplace it should enter. One of the options for the firm is to use its existing networks and to expand its operations through its existing foreign contacts, and in that way transfer some of the strategic decision making to the network partner that is more familiar with that particular marketplace. Mattsson (1989) believes that network relationships may restrict a firms' growth potential as well.

Johansson (1991) suggests that inter-firm networks can be a result of two factors. The main focus of his observation is on transaction costs. He suggests that the more costly it is for firms' to establish a transaction (sunk costs) the more likely it is that those firms' would try to nourish that network and establish a long term relationship,

with the aim of recovering those sunk costs. The second factor is that time and resources invested in inter-firm networks may create opportunities for lower transaction costs between those firms (Johansson, 1991). Lower transaction costs may come as a result of a more intimate understanding of each others business.

In 1995 Coviello and Munro published results of their extensive research into internationalization of a number of high-tech firms. Their findings have confirmed the previous theories of roles and importance of networks for small size firms when entering foreign markets. Their results have indicated that a majority of firms have experienced quick growth within the foreign market which was credited to firms linking themselves to extensive established networks in a number of those markets. An interesting issue was raised by Coviello and Munro (1995) indicating that although networks enhanced the market development activities they have also placed constraints on the firm in terms of ability to pursue specific marketing opportunities and establishing new relationships with others. It would seem that relationships would commence or be terminated on the suggestions of major network partners (Coviello and Munro, 1995).

While entering overseas markets the best source to identify potential linkages was general business contacts, followed by customers in the targeted overseas market, the firm's own sales force, and existing linkage partners (Coviello and Munro, 1995). Coviello and Munro (1995) also point out that network relationship has a strong impact on deciding which market a firm should enter as well as which entry strategy is to be used.

### **2.3.3 Summary**

This research focuses on the process of internationalization of the cluster member firms and the internationalization process. Even though the internationalization process has been analyzed from different angles in the extended literature, examining the process with the focus on the internationalization of a cluster has been lacking.

This has represented the clear gap in past research. The following section outlines the conceptual framework based on the literature review.

## 2.4 Conceptual Framework

This section addresses the conceptual framework that has been used for this research. It uses the underlying theoretical background that has been identified in the literature review in the previous sections and creates propositions that are used for the creation of the research questions. In the previous sections we identified three major elements of interest for the purpose of this research. The main area was theoretical knowledge on *clusters*, including proposed creation, and workings, and the importance of different elements within the cluster. Then using the theoretical knowledge of clusters the research has examined the theories of internationalization. *The theories of internationalization and the internationalization process* is the second most important aspect of this research, as the research is to identify how companies within clusters go about entering international markets and their motivation behind it. The third and final aspect of this study is the importance of networks and more specifically *the use and importance of networks during the internationalization process of cluster members*.

Based on the literature review three main research questions have been devised:

1. Do the three main paths of internationalization identified in the literature explain the internationalization process of member companies in the cluster?
2. How do networks within the cluster influence the companies' internationalization process and competitiveness?
3. How does the cooperation among cluster firms determine success and competitiveness of firms' in a foreign market?

Looking at the research questions there are number of other questions that can arise. Addressing the first question we could also ask:

*What is the motivation for a firm within a cluster to go international?*

*How do firms identify potential foreign marketplaces?*

*What factors does a culture play in deciding which marketplace is to be entered?*

In regards to networks there are number of questions that may arise:

*How important are personal connections and relationships when developing foreign expansion?*

*How do networks within a cluster influence the firms' daily operations?*

*Who takes the leading role within the network?*

Finally, in regards to cooperation within firms' in the cluster there are a few additional questions that may need addressing:

*How important is it to be part of an association within the cluster?*

*Apart from joint promotion, what are some other benefits that an organization within a cluster may gain from cooperation?*

Based on the previous research questions and literature review, the following propositions have been created:

**P1.** Cluster supports cluster members in international activities.

**P2.** Within the cluster, firms will choose to go international on their own if they feel that local market has been saturated, or they may have lost competitiveness against other larger players in the domestic markets.

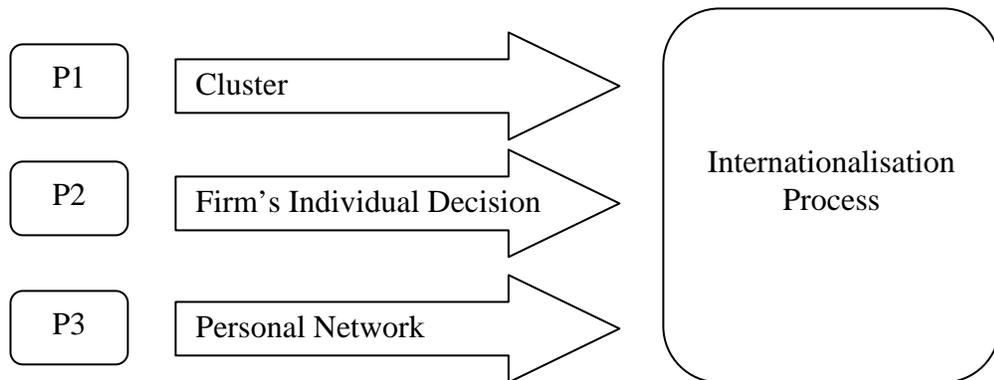
**P3.** Personal networks are of greater importance to the success of the internationalization process rather than those of the whole cluster group.

To summarize, this research will analyze the following central proposition:

**P: Firm's cluster membership is directly related to firm's internationalization process.**

These propositions provided a basis to guide data collection and analysis. A conceptual model presented in Figure 2.1 was generated as a basis for conducting the investigation.

Figure 2.1: Conceptual Model



The above framework outlines the major assumptions of research.

## 2.5 Conclusion

The purpose of this chapter was to provide a brief review of the literature on the internationalization research, and networks, in relationship to clusters. This discussion serves as the theoretical starting point for defining the frame of reference and as the building blocks of the conceptual framework proposed in Section 2.4 of the research. From this base, a set of preliminary propositions and an initial conceptual framework have been developed as a foundation for conducting the empirical investigation. The next chapter places the study in the research context, which discusses the Australian economy and the Australian wine industry including the Yarra Valley Wine Industry cluster.

## **Chapter 3      The Australian Wine Industry**

### **3.1 Introduction**

This chapter will look at the development of wine across centuries and its importance as a commodity throughout history. It will start by looking at the early historical evidence of the origins of the wine production and consumption from onset to modern day. This will be followed by the introduction of old world wines, from Italy, France, and Spain, thereafter the chapter will look at the origins and developments of the Australian wine industry and the arrival of the first settlers from the Mediterranean region. Finally, the development of the wine industry in the Yarra Valley will be explained, which is the primary focus of this research.

### **3.2 Early Beginnings of Winemaking**

Most historians believe that wine was discovered by accident in the region between the Nile and the Persian Gulf (Life in Italy.com, 2008; Verango, 2006). Due to the lack of the written historical evidence there is some level of discrepancy between historians, with some placing the discovery of wine in the Neolithic Period some 8,500-4,000 B.C. (Silverman, Castaldi and Baack, 2007) while others placed it much later in the period of around 4,000-3,000 B.C. during the formation of the first civilizations (Life in Italy.com, 2008). Some limited archaeological evidence was uncovered that pushes wine production dates in Georgia and Iran from 6,000-5,000 B.C. (Berkowitz, 1996 and Archeo News, 2003). One thing is for certain, that wine was discovered once people stopped being nomadic hunter-gatherers and started creating permanent settlements (Verango, 2006).

The permanent settlements have been created because early man has managed to cultivate both plants and animals that were able to provide sufficient source of food and it was no longer necessary to lead a nomadic hunting lifestyle. Once the permanent settlements have been created it allowed for the creation and development

of cultures. Once small settlements grew into city-states, trade began to develop throughout the Mediterranean, the wine, and winemaking techniques spread throughout the region (Life in Italy.com, 2008). The spread of grapes and winemaking has been credited to Phoenician, Greek, and Roman traders that have spread their knowledge of winemaking throughout the Mediterranean region and finally through much of the rest of the Europe (Life in Italy.com, 2008).

The walls of the ancient caves have been discovered with drawings of grape seeds indicating that man had been familiar with grapes since ancient times (Life in Italy.com. 2008). Historians believe that the first grape fermentation was most likely an accident that has occurred with the help of wild yeast, which was probably present when grape skins were held in storage (Life in Italy.com, 2008). Fermented spirit was most probably first created in Egypt and Persia because by 3,000 B.C. there was evidence both regions were in possession of what appeared to have been simple early winemaking methods (Life in Italy, 2008 and Verango, 2006).

In ancient Egypt, the grapes were grown in the fertile Nile delta region. The most likely variety was a white wine made from what is known today as the Muscat grape of Alexandria. The Egyptians would stomp on the grapes and then ferment the grapes in large vats. They had also associated wine with the God Osiris and it was widely used during funerary rituals (Life in Italy.com, 2008 and Verango, 2006). The scenes of winemaking have been found on tombs from the Old Kingdom period (2650-2152 B.C.). These tombs also included lists of offerings to gods that also included wines. By the end of the Old Kingdom tombs started to include wine as a canonical set of provisions for the afterlife (Verango, 2006).

In Persia, wine was also considered to be directly connected with gods. Today it has been considered that some of the finest grape vines originate from its ancestral species cultivated by the Persians. Historically speaking, Persians were not the ones that have spread the winemaking techniques through out the known world. The master seafaring Phoenicians are credited by historians to have been the ones that have spread the winemaking techniques to areas such as Greece and Italy and in particular the region of Tuscany (Life in Italy.com, 2008). The earliest European

wine production evidence was discovered at archaeological sites in ancient Greece, dating back to around 4,500 B.C. in sites that are located in modern day Macedonia (Discovery News, 2007 and Zeenews, 2007). Traces of some wild wine have also been discovered in ancient China dating back to period between 2,000 and 1,000 B.C. (Sytu, 2008).

It is also believed that the Greeks that settled in Italy and Sicily had been of great benefit when it came to exporting their knowledge of winemaking. The Greeks had been so impressed with the mild climate that they called Italy, Oenotria, or the land of the trained wines (Life in Italy.com, 2008). A Roman writer Pliny the Elder has written down some of the methods used by the ancient Greeks. Ancient Greeks used partially dehydrated gypsum to mix with grape juice before the fermentation and some form of lime after the fermentation had been completed. This method was used to reduce acidity in the wine. In Ancient Greece wine was closely connected with Dionysus, God of Revelry and wine who was often mentioned in the works of Homer (Frederick, 2007). Greeks were the first nation to export wine. Their exports spread throughout the Mediterranean basin; with amphorae and Greek artwork and writing have been found throughout the region. Greeks have even been credited for spreading the wine into Egypt as well (Verango, 2006). Ancient Greeks had also established winemaking colonies throughout the region that included some of the modern wine growing regions of Europe. These regions include Sicily, Italy, Southern France, and Spain (Fagan, 1996).

Etruscans who settled in central Italy were responsible for the early wine production in Italy. When the Romans came they had further improved winemaking techniques learned from both the Greeks and Etruscans (Life in Italy.com, 2008).

From around 300 B.C. to the beginning of the Christian era, the Roman population exploded and together with it a demand for wines also. During that period the population grew to over one million and because citizens as well as slaves were drinking wine, it led to the increased demand for wine production (Life in Italy.com, 2008).

The Romans loved drinking wines with their meals. As the alcohol content was much higher than the wines we have today they would tend to dilute it with large quantities of water. Based on records they preferred sweet wines, and their most prized wine was white wine from the Falernian region near Naples that was believed by them to be the best wine growing region (Life in Italy.com, 2008).

Sometimes Romans would add unusual flavours to their wines. They liked mixing honey with their wine to make an aperitif they called mulsum. In addition, the Romans liked adding herbs and spices, but the most unusual mix was the large quantity of salt water that would have made the wine flavour extremely bitter. They were also known to add chalk to some of their wines to reduce the acidity (Life in Italy.com, 2008). During the time of Cleopatra it was common to dissolve pearls in wine in order to improve the health of wine drinkers. Cleopatra has her own legend by promising Marc Anthony that she will “drink the value of a province” in one cup of wine (Frederick, 2007). Overall it is clear that during that time there was no real set standard for handling wines and it was very much an experimental period of winemaking. This was also the case with wine consumption.

The Romans made many contributions and improvements to the winemaking process. They added props and trellises, also improving the Greek presses that had been used for extracting juice. Their most significant contribution was the classification of which grapes grew best in which climate (Life in Italy.com, 2008). This led to an improved quality and increased annual yields.

The Romans were the ones that identified aged wines tasted better, and they had started preferring wines that were ten to twentyfive years old. They also identified that wines kept in tightly closed containers improved with age. The Romans become the first to store wine in wooden barrels. It is most likely that they were also the first to have glass jars and corks for their wines (Life in Italy.com, 2008).

One of the earliest written examples of wine consumption comes from the Bible, and the impact of wine became more evident in Mediterranean cultures as the region stabilized under the Roman Empire. Roman Imperialism was of great benefit when it came to the spread of winemaking techniques. Romans spread winemaking

throughout most of the Roman Empire including places such as Northern Africa, and Southern Europe (Britannica, 2007). The regions of North Africa and southern Spain ceased to produce wine due to the rise of Islam and the Islamic code that strictly forbid the consumption of any alcohol including wine (Life in Italy.com, 2008).

The spread of winemaking techniques throughout Europe was significantly assisted by the spread of the Catholic faith that used wine as part of its ceremonial rituals. After the fall of the Roman Empire around 500 A.D. it has led to war and invasions throughout Europe. The Catholic Church was the only stable institution during those dark periods in early European History. The spread of winemaking under the Catholic Church throughout Europe has taken winemaking techniques to places such as England, where varieties of Sherry, Port, and Madeira have been enjoyed (Life in Italy.com, 2008). After the fall of Rome the demand for wine dropped and it was only practiced by Roman Catholic Monks during the Dark Ages, but it became popular again during the Renaissance period (Life in Italy.com, 2008). In the late 19<sup>th</sup> and early 20<sup>th</sup> centuries the Italian wines were often criticized for their poor quality, and that is when the government decided to intervene. This led to new wine regulations “*Denominazione di Origine Controllata e Garantita*” (DOCG) being introduced in 1963 and has resulted in a significant improvement in the quality (Life in Italy.com, 2008). This is one of the reasons why Italian wines are now some of the world’s finest wines. In regards to regulating wine production, the French predated Italy by introducing “*Appellation d’origine controlee*“(AOC) which was introduced into law in 1935, and has regulated any agricultural products, including wines that derive its qualities from its “terrior” (Celine, 1998).

Wine production in France originated around the 6<sup>th</sup> century B.C. when Greek settlers colonized Southern Gaul. Grape growing and winemaking quickly flourished with the founding of the Greek Colony of Marseille (Kilber, Taylor, 1995). The Roman Empire had recognized the quality of wine being produced from the regions in southern France and therefore had decided to dedicate those regions specifically to winemaking. During the time of St Martin of Torus (316-397), he was actively involved in spreading of Christianity, as well as the planting of vineyards for wine production. (Patrick, 1952). After the fall of the Roman Empire during the Middle

Ages, Christian monks maintained vineyards and winemaking techniques. Monasteries had maintained winemaking traditions because during the turbulent times of the Middle Ages they had enough resources and reasonable security, but more importantly they had motivation to produce a steady supply of wine for mass services as well as a generation of additional income (Babor, 1986). This was the reason why during that time some of the best vineyards had been owned by monasteries, and wine produced considered superior to other vineyards (Patrick, 1952). Slowly over time the nobility increasingly acquired a taste for wine, which led to extensive development, hence nobility, instead of the Church, owned vineyards. The French revolution confiscated many vineyards that were owned by both the Church and nobility (Seward, 1979). Although most of the vineyards had changed ownership, it had very little influence on the domestic wine consumption; until around the 1850's most French wine was being consumed domestically. The Industrial revolution and the spread of railroads, along with the improvements in transportation, led to a reduction of transportation costs, and had significantly increased French wine exports (Kladstrup and Kladstrup, 2001).

The Christian monks in France, as well as Northern Italy kept accurate records of their winemaking techniques and practices of grape cultivation, and it is these records that helped various regions determine the most suitable grape varieties relating to their soil. By the 1800's France was recognized internationally as the best winemaking country in the world (Life in Italy.com, 2008).

Spain had an abundance of native grape varieties that led to the early development of viticulture in this region. Archaeological evidence shows that grape cultivation was present as early as 4000-3000 B.C. Carthaginians have significantly improved winemaking techniques and after waging a number of wars with the rising Roman Republic, Spain was conquered by the Roman Empire (Robinson, 2006). Following Roman rule, Spanish wine was exported and traded throughout the Roman Empire. After the fall of the Roman Empire, Spain was invaded by a number of barbaric tribes, very little is known of that period. In the 8<sup>th</sup> century AD the region was conquered by Moors. Although Moors were Muslims, and followers of strict Islamic law that forbade them using alcohol, they were somewhat flexible with it in Spain and also a

few caliphs and emirs owning vineyards and drinking wine. Wine sales were outlawed, but at the same time wine was included as a subject to taxation across Moorish territories. In the 12<sup>th</sup> century Spanish wine was exported to England, and they were considered to be of a very high quality by the English consumers of that period (Robinson, 2006). After the discovery of the Americas by Christopher Columbus in 1492, it created new export markets, and new territories for winemaking in the New World. Spain saw the development of the wine production industry in Mexico, Peru, Chile, and Argentina (Robinson, 2006).

European Imperialism of the 15<sup>th</sup>–19<sup>th</sup> centuries greatly helped with the spread of wine production throughout the world (Silverman et al, 2007). During the spread of vine growing practices to the rest of the world, modifications were made to suit the new types of soil and climate, and this process created new styles of wine. European countries and their well-established traditions of winemaking, felt threatened by this seemingly new and experimental winemaking. Many of the European winemaking countries and regions were concerned about protecting the national identity of their wines. This has led to the separation of world wines into two main categories mentioned below.

In terms of the world wine industry, two distinct groups have been identified. The first is the so-called “Old World Wines” which include European wines by the three largest producers in volume France, Italy, and Spain. The “New World Wines” are those countries such as the United States of America, Australasia, South America, and South Africa. Of these New World wine countries, the largest producer by volume is the United States of America (ranked 4<sup>th</sup>).

In regards to wine naming styles currently, there is no universally accepted system. The most common wines are named using either of two of the most prominent systems, Varietal and Appellation. The appellation system was first used in France and it is a system that names wines based on the region, or a specific area in which the wine has been produced called “Appellation d’origine Controlée” (AOC) in 1935. The main idea behind this system is that certain geographical locations, due to “terroir” or the land where the grapes are grown, were better for production of certain

grape varieties, and therefore better for some styles of wine. One excellent example of this is Champagne, which is produced in the Champagne region east of Paris, France (Silverman et al, 2007). The centre of the industry is the city of Reims where all the main champagne ‘houses (such as Lanson, Mumm, Perrier, Jouet, Moët, and others) have their headquarters and ‘caves’, which are chalk cellars, originally used for manufacturing and storing champagne, and are today used as tourist attractions. Based on this, no other wine with a degree of carbonation can be called Champagne unless it comes from the Champagne region. More commonly, other regions call it sparkling wine (*vins mousseux*), or if the secondary fermentation technique is used the term “methode champagnenois” or method “*cremant*” may be used. Geographic indicators (GIs) ruled in 2005 by WTO as a fair way for EU to protect regions that develop their own kind of goods. GIs are maintained by the EU as being a fair way of preventing other producers from exploitation in a geographic tendency in other parts of the world (The Sydney Morning Herald, 2005).

The other convention for wine naming is Varietal and this is the descriptive naming convention based on the type of grape used to produce a wine. This convention is predominantly in the U.S.A. (Silverman et al, 2007) as well as Australia and New Zealand. Some examples of the Varietals today include Chardonnay, Shiraz, (Syrah in France) Pinot Noir, Cabernet Sauvignon, Riesling, and Merlot. In recent years wine producers, particularly in the case of wines from the rapidly growing region in the South of France, have begun to use varietal labelling, recognizing that their export dominance is being eroded by the ‘barbarians’ from the New World producers who use varietal labelling. French labelling is often incomprehensible to their customers (both in France and elsewhere). French producers, particularly in Bordeaux use a blend of varietals for their wine, usually Cabernet Sauvignon, Merlot, and Cabernet Franc, information is not usually given on the label. Even wines from Burgundy, which uses a single varietal, Pinot Noir, are not labelled as such. However, less traditional producers in the South of France are making extensive use of varietal labelling to compete against New World producers.

An overview of the Australian wine industry is in the following section.

### **3.3 The Australian Wine Industry**

In 2005 Australia ranked sixth largest wine producer in the world, producing 1.4 billion litres of wine (Department of Foreign Affairs and Trade, 2008). Consistently, over the past years Australia is ranked in the top 10 wine-producing nations worldwide. Possessing large territory with almost every climate and soil types makes Australia one of the wine producers able to produce almost every major wine style (Department of Foreign Affairs and Trade, 2008). Over the years Australia has consistently been exporting in excess of 400 million litres of wine to large international markets which also included “old world” wine-producing nations such as France, Italy, and Spain (Winebiz, 2006).

Wine grape growing is produced within all six states and the two mainland territories. However the main production areas are located in the southeast part of the continent, in the states of South Australia, New South Wales, and Victoria (Department of Foreign Affairs and Trade, 2008). Currently wine is being produced in over 60 regions reflecting the wide range of climates and soil types that are being utilized. However, three regions have played a significant role in the development of the industry and they include the Hunter River region north of Sydney, New South Wales, the Barossa Valley in South Australia, and the Yarra Valley in Victoria (Department of Foreign Affairs and Trade 2008).

Grape wines were first introduced to Australia in 1788 (Silverman et al, 2007) in a settlement near Sydney, their origins can be traced to the Cape of Good Hope (Fosters Group, 2007). The earliest commercial vineyard was established by John Macarthur (Department of Foreign Affairs and Trade, 2008). Early vine growing was focused primarily on the production of table grapes, as a source of fresh fruit.

In 1822 Gregory Blaxland, shipped 136 litres of wine to London where it received a silver medal by the forerunner of the Royal Society of Arts. A larger shipment of Blaxland’s wine some five years later, was also been awarded a gold Ceres Medal (Department of Foreign Affairs and Trade, 2008). It was not too long before the

winemaking spread throughout other European settlements in Australia (Fosters Group, 2007).

At the beginning of the 20<sup>th</sup> century Australia was exporting around 4.5 million litres of mainly full-bodied dry red wines to the United Kingdom (Department of Foreign Affairs and Trade, 2008). United Kingdom remains the largest Australian wine export marketplace. In the 2006-07 period United Kingdom has accounted for 269 million litres worth (approximately AU\$977 million) of Australian export wine closely followed by United States of America, at 215 million litres, worth AU\$ 856 million. Further exporting markets included Canada, Germany, and New Zealand (Department of Foreign Affairs and Trade, 2008).

**Table 3.1 Area of White Grape Varieties 2006 and 2007**

<b>White Variety</b>	<b>Ha/2006</b>	<b>Ha/2007</b>	<b>%Change</b>
Chardonnay	31,219	32,151	3.0
Sultana	6,611	5,781	-12.6
Semillon	6,236	6,752	8.3
Riesling	4,400	4,432	0.7
Sauvignon Blanc	4,661	5,545	19.0
Colombard	2,767	2,757	-0.4
Muscat Gordo Blanco	2,433	2,568	5.5
Verdelho	1,697	1,782	5.0
Viognier	1,026	1,369	33.4
Traminer	781	843	7.9
Pinot Gris	1,352	2,469	82.6
Chenin Blanc	710	683	-3.8
Trebbiano	315	226	-28.3
Muscat à Petit Grains Blanc	197	226	14.7
Muscadelle	196	157	-3.1
Marsanne	162	200	2.0
Doradillo	105	96	-8.6
Crouchen	106	101	-4.7
Palomino	66	53	-19.7
Roussane	57	58	1.8
Other white grapes	5,254	4740	-9.8
<b>TOTAL White</b>	<b>70,680</b>	<b>73,153</b>	<b>3.5</b>

Source: Winebiz (2008)

**Table 3.2 Area of Red Grape Varieties 2006 and 2007**

<b>White Variety</b>	<b>Ha/2006</b>	<b>Ha/2007</b>	<b>%Change</b>
Shiraz	41,115	43,417	5.6
Cabernet Sauvignon	28,103	27,909	-0.7
Merlot	10,593	10,790	1.9
Pinot Noir	4,254	4,393	3.3
Grenache	2,025	2,011	-0.7
Ruby Cabernet	1,468	1,203	-18.1
Petit Verdot	1,456	1,387	-4.7
Mataro	875	794	-9.3
Cabernet Franc	575	606	5.4
Sangiovese	425	479	12.7
Malbec	424	390	-8.0
Durif	402	452	12.4
Tempranillo	328	354	7.9
Muscat à Petit Grains Rouge/Rosé	265	265	0.0
Tarrango	172	130	-24.4
Barbera	156	159	1.9
Meunier	184	116	-37.0
Nebbiolo	88	90	-2.3
Touriga	53	53	0.0
Other red grapes	4,748	5,334	12.3
<b>TOTAL Red</b>	<b>98,111</b>	<b>100,623</b>	<b>2.6</b>

Source: Winebiz (2008)

Tables 3.1 and 3.2 clearly show that there is a much larger area under red wine grape varieties indicating higher popularity of red wine consumption. Grape vines take a number of years once they are planted until they are ready to produce fruit for wine. Once the vine is established, it usually is not replaced by another variety for a short period of time. However, during the short history of the Australian wine industry, it has already experienced several occasions where old vines have been uprooted, due to disease, shifts in preference, and the economic climate. This is further discussed in the section below.

In the early 1800's the Hunter Valley in New South Vales was one of the first regions where wine production developed. It was followed by Tasmania where wine had been produced since the early 1820s. In Western Australia the first winery was built in the 1830's that was followed by the first Victorian wine production facility established in the Yarra Valley in 1838. Many of the wineries in South Australia were established in the period between 1830's and 1860's. The last place for wines

to be established was Queensland, where the first vines were planted in the 1860's (Fosters Group, 2007).

Major developments in the wine industry happened in the 1860's when a new wave of European immigrants added to the skilled workforce and it was necessary to further develop the important commercial infrastructure (Silverman et al, 2007). In the mid-1800's a small yellow aphid-like insect, phylloxera, lives and feeds on the roots of grapevines until the plant vine dies, had devastated Europe by destroying millions of acres of grapevines across the continent (Fosters Group, 2007). It was in the 1870's that phylloxera spread to some vineyards in Australia and this forced the government to enforce strict quarantine legislation that is still in existence today. This has helped to prevent it spreading to some of the vine growing areas, and this is why some of the oldest vines in the world can be found in places like Barossa, where vines are still growing on their original roots (Fosters Group, 2007).

Before the 1950's the primary focus of the wine industry had been the production of fortified wines. The main reasons why fortified wines were the main focus was the additional alcohol provides the wine with the protection against microbiological attack and making it at the same time more suitable for storage and transportation (Fosters Group, 2007).

In the 1960's there was a major shift in the production of sparkling wine varieties. The later part of the 1960's saw another major shift towards the increasing demand for the red wine varieties. This shift towards the red wines was credited to the large increase of immigrants and a strong economy at that time (Fosters Group, 2007). The late 1960's saw an increase in immigrants especially from the Mediterranean region where they had a long history of wine consumption.

In the 1970's there was a major increase in the demand for semi-sweet fruit driven aromatic wines. The 1970's also witnessed the introduction of the first wine cask ('bag in a box') which was first introduced by Angoves in 1965 (Fosters Group,

2007). 1965 also saw the first wine promotion organization being established, the Australian Wine Bureau (Porter, 2003).

At the end of 1970's another shift in preference occurred that was increased demand for the dry white table wines, and this was when the Chardonnay demand boomed. Chardonnay continued to be the wine of choice through the 1980's and is still one of the most prominent varietals produced today (Fosters Group, 2007).

Since the mid 1980's both governments of Australia and New Zealand have gone through great economic reforms where the majority of farming, rural subsidies, and aids have been removed through great liberalization of the economy. This had a goal of increasing the competitiveness of each region. It has resulted in significant cost cutting that resulted in a number of jobs being lost and an increasing number of younger generations trading rural for urban lifestyles resulting in a brain drain. As a result, only larger wine producers are able to maintain competitiveness through economies of scale, whilst smaller wine producers had to suffer significant fixed costs related to production as well as the inability to attract young talent into the industry.

Drought relief has been mentioned as not being available for Yarra Valley farmers, because of them being close to metropolitan Melbourne they are not eligible for any government support. This has been pointed out by some of the smaller wineries as a point of unfairness in comparison to some of the other regions that are able to receive similar support by national or local government. On the other hand larger producers, or to be more precise, producers that occupy larger land areas are less concerned about drought or frost because they have their risk spread out across larger geographical areas.

As it was earlier identified, there are two very distinct groups of producers within the Yarra Valley Wine Industry cluster. Large producers are able to spread their risk from crop failure by spreading their crop geographically whilst smaller producers risk higher crop failure. Producers with a smaller area under wine are faced with another option of producing wine purely from their own grapes or perhaps purchasing grapes

from other growers. With purchasing grapes from other growers the winery is able to minimize its risk from failed crops due to natural circumstances in exchange for a slightly higher cost of grapes for their wines. While increasing costs of wine production through the external supply of grapes, wineries are able to focus on the production of a better quality wine as well, and put more effort into the creation of their own market brand. It seems that most of the wine makers still believe that they have to be growing their own grapes and that they are producing their own wine brand, while in fact they could be focusing on making their existing brand more profitable by improving brand recognition and better production control.

Due to increasing risks of climate change, wineries should be looking towards clustering in order to minimize their risks. Or currently it is more likely that smaller growers are to suffer total or major loss due to frost or drought. If on the other hand they are to work more closely with others in cluster interconnecting their resources and efforts, they are spreading their risks and improving their chances of some gains from something that may have resulted in a major or total loss of an annual crop. All they would have to do is allow some degree of loss of direct control over the full process in exchange to a guaranteed share in the final revenue of the cluster.

In the 1980's Australian Wine and Brandy Corporation (AWBC) had been established as a regulatory body funded by statutory levy (Porter, 2003). In the late 1980's and early 1990's Australian wine started to break into the traditional European market. This was achieved through Australian winemakers establishing joint ventures with European markets, and some have even began acquiring foreign wine companies (Porter, 2003). Australian wines were perceived as clean and fresh fruit driven whites and robust reds. The exporting demand was for large quantities of Australian red wines, which started off the red wine boom that continues today (Fosters Group, 2007).

The Australian wine industry has achieved significant success in the 1990's on both the domestic and especially international markets (ANZ, 2001). In the United Kingdom seven out of 10 leading wine brands were Australian (Porter, 2003). The

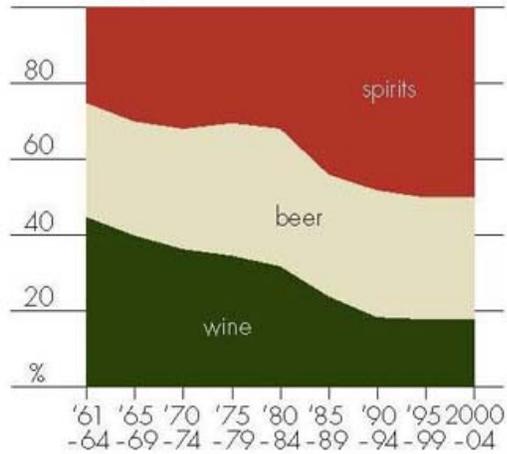
wine industry has been very successful in delivering growing quantities of quality products that has been in line with the modern consumer's lifestyle (ANZ, 2001).

In the period 2006-07 combined domestic and international wine sales have totalled at around 1.23 billion litres, with 449 million litres sold domestically and 786 million litres sold internationally. The total value of sales is accounted for \$2.87 billion (Department of Foreign Affairs and Trade, 2008), that was an increase from \$2.8 billion for the previous period (Austrade, 2008). This was around a 4.4% increase between these two time periods.

However, looking at the bigger picture, over the past few years there has been increasing production of wine from Australia. It would seem that the Australian wine industry is selling increasing amounts of wine into the global marketplace that has shown a limited growth over the same period (ABARE, 2006). Due to the relatively small population the Australian wine industry is very much dependant on exporting markets in order to sustain the quantity produced. The Australian wine industry is heavily reliant on exports for their produce due to the large quantity produced and relatively small domestic consumption. In 2006-07 around 36% of total sales sold domestically, 84.9 % of local consumption is covered by table wines, whilst sparkling and fortified wines accounted for 8.8% and 3.8% respectfully (Department of Foreign Affairs and Trade, 2008).

Specific concern in regards to this wine has been the global trend when it comes to the proportion of consumption compared with other alcoholic beverages. The decrease of per person consumption of wine has been on the decline and has nearly halved in the past 40 years (see Figure 3.1below). In the 1960's the average was around 7 litres and in 2004 averaging 4 litres per person (ABARE, 2006). This may have some serious implications for the wine producers throughout the world, especially because wine consumption has declined in all the major producing countries that are driven by stricter drink driving laws. Stricter laws governing the advertising of alcoholic products (such as The Evin Law, France 1991), as well as what seems to be a declining knowledge of wine amongst the younger age groups.

**Figure 3.1: Global Alcohol Consumption (1961-2004)**



Source: ABARE, 2006

The table below shows the production trends of some of the major wine producing countries. The highlighted section shows Australian production that has been steadily increasing whilst some other countries have been experiencing fluctuations and a decline. This may have mixed results for the Australian producers. First of all the Australian domestic market is quite small and therefore is very much dependent on exports to other nations, and with the increasing production trends it may become increasingly more dependent and volatile to global changes in consumption and preferences. All of this may put Australia in a difficult situation.

**Table 3.3: World Wine Production (million litres)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
France	6 004	5 510	5 427	6 294	5 977	5 339	5 000	4 749	5 880	5 470
Italy	5 877	5 056	5 714	5 807	5 409	5 229	4 460	4 409	5 328	4 907
Spain	3 040	3 322	3 022	3 266	4 179	3 094	3 642	4 037	4 191	3 330
United States of America	1 888	2 618	2 050	2 075	2 660	2 300	2 540	2 350	2 232	2 546
Argentina	1 268	1 350	1 267	1 589	1 254	1 584	1 270	1 323	1 550	1 520
<b>Australia</b>	<b>673</b>	<b>617</b>	<b>742</b>	<b>851</b>	<b>859</b>	<b>1 077</b>	<b>1 220</b>	<b>1 086</b>	<b>1 471</b>	<b>1 434</b>
South Africa	899	881	816	914	837	647	834	956	1 016	905
Germany	864	849	1 083	1 229	1 008	908	1 014	819	989	898
Chile	382	455	547	481	667	565	574	687	655	805
China	437	401	439	489	534	559	561	600	657	731
Other Central Europe	720	763	643	485	558	513	498	591	604	603
Portugal	948	591	358	760	784	671	779	709	720	577
Romania	766	669	507	566	545	546	546	546	617	575
Hungary	419	447	434	334	430	551	333	389	527	485
Greece	409	407	454	433	500	356	348	387	454	437
Russia	205	223	192	220	257	259	248	353	368	371
Moldova	409	319	192	216	270	342	371	444	349	351
Brazil	232	274	218	319	300	297	312	262	320	320
Austria	211	180	270	280	234	253	260	253	258	242
Other	1 810	1 761	1 707	1 706	1 548	1 631	1 673	1 604	1 692	1 692
Total	27 463	26 694	26 082	28 314	28 811	26 721	26 483	26 551	29 877	28 199

**Prepared:** July 2007, Updated annually (AWBC)

**Source:** The Global Wine Statistical Compendium, 1961-2005

Table 3.4 below shows that some of the more traditional wine consuming nations such as France and Italy have been experiencing a decline in wine consumption whilst Australia's consumption has been rising. However, Australia started from a much lower base, as its principally British migrant stock (until the post war period) brought with them their imbibing habits of beer, spirits, and tea. Table 3.4 also shows that consumption is rising in other nations such as Chile, China, and Brazil, which have not been so commonly associated with large wine consumerism. This perspective may open a whole new market of opportunities within these nations that have recently started developing an increased taste for wines, or possibly only targeting specific segments within the more traditional wine consuming nations.

**Table 3.4 Per Capita Consumption - Highest Consuming Countries (L/person/year)**

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
France	63.2	60.2	60.2	61.3	59.5	58.2	57.0	58.2	54.7	54.8	53.7
Italy	56.0	54.5	53.8	55.4	54.9	53.5	52.4	51.0	51.1	49.4	48.1
Portugal	55.9	54.5	52.5	50.7	50.6	45.9	46.8	46.3	52.6	47.9	46.6
Croatia	48.2	35.8	45.1	47.2	45.0	42.0	43.2	42.5	42.5	42.5	42.5
Switzerland	41.0	40.8	40.9	41.0	41.4	43.1	42.9	42.0	41.4	40.9	38.9
Spain	31.3	31.0	35.9	36.4	35.0	34.5	34.8	34.1	33.6	33.4	33.8
Denmark	27.1	27.8	28.8	29.6	29.5	30.5	33.2	31.9	31.8	32.0	32.8
Hungary	26.6	30.3	29.0	29.2	31.6	31.5	32.1	34.8	31.6	31.9	32.1
Uruguay	29.8	30.1	30.7	30.5	32.0	32.0	31.9	32.0	32.0	32.0	32.0
Austria	33.1	32.6	31.0	31.0	31.0	30.6	28.3	29.6	29.3	29.6	29.5
Argentina	38.2	38.2	37.5	35.1	34.3	33.7	32.1	31.6	32.1	28.6	27.9
Greece	24.5	24.1	24.7	27.0	28.1	26.2	26.9	22.1	22.3	26.7	27.3
Romania	23.7	24.3	30.1	19.7	25.9	23.2	21.0	22.2	22.6	26.0	26.5
Germany	22.1	23.0	22.9	23.1	24.0	24.5	24.3	24.6	24.4	23.7	23.8
Netherlands	14.6	15.0	15.4	14.0	16.0	19.5	20.8	20.7	22.1	22.2	22.7
<b>Australia</b>	<b>18.2</b>	<b>18.1</b>	<b>18.8</b>	<b>19.5</b>	<b>19.7</b>	<b>20.3</b>	<b>20.6</b>	<b>20.5</b>	<b>21.3</b>	<b>21.9</b>	<b>22.5</b>
Belgium-Luxembourg	23.0	23.0	23.0	22.1	22.1	25.8	22.4	25.4	22.1	22.2	22.2
New Zealand	16.6	16.2	17.0	16.1	16.3	18.7	17.9	17.1	18.1	19.2	20.8
United Kingdom	12.1	12.9	14.0	14.2	14.4	15.4	16.6	16.7	18.7	18.9	19.9
Ireland	6.1	7.0	7.8	8.7	9.9	11.0	12.2	12.7	13.7	17.1	18.5
USA	6.9	7.4	7.5	7.6	7.6	7.4	7.4	7.7	8.1	8.3	8.5

**Prepared:** July 2007, Updated annually (AWBC)  
**Source:** Australian Wine and Brandy Corporation

Table 3.4 lists the wine consumption changes for the ten-year period between 1995 and 2005. It is evident that while in some countries per capita wine consumption has been decreasing, there are other countries such as Denmark, Hungary, Romania, Netherlands, New Zealand, UK, and Ireland where consumption has been on the rise. The countries that are on the rise may be considered as potential future markets.

Wine production presents significant economic industry in Australia. According to 2006 Census it has employed 28,000 people in both winemaking and grape growing (Department of Foreign Affairs and Trade, 2008). On top of that it also provides additional employment within the retail, wholesale, and hospitality industries. In 2007 there were total of 163,951 hectares of bearing vines and a further 9,825 hectares of non-bearing vines. The number of hectares of bearing vines has more than doubled since 1996-97 (Department of Foreign Affairs and Trade, 2008).

The Australian wine industry has a significant connection with the tourism industry as well, and a majority of the vineyards cater for tourists by providing restaurants, function facilities, along with accommodation. Vineyard tours are becoming increasingly popular and many tourist agencies provide bundled packages that may include one or more vineyards on their list. Both domestic and international tourists account for an important share of the Australian export earnings, employment, and taxation income (Department of Foreign Affairs and Trade, 2008).

### **3.4 Yarra Valley Wine Industry**

The Yarra Valley is Victoria's oldest and one of the most internationally renowned wine growing regions tracing its history back for more than 160 years (Yarra Valley Wine, 2007). Vines were first planted in the Yarra Valley in 1838 (Yarra Valley Wine, 2007) when three brothers William, James, and Donald Ryrie established a cattle property called Yerring Station (Wine Diva, 2007). The three of them planted the first vines, and this act has been recorded as the first vineyard planting in Victoria (Wine Diva, 2007). Following that, several years after the brothers planted vines, and immigrants from Switzerland and Germany settled in this area, and started planting first commercial quantities of grapes and established vineyards (Wine Diva, 2007). Winemaking practices have continued to spread throughout the 1860's and 1870's. One of the first wineries established, St Huberts, Yering and Yering produced wines to international acclaim and established Yarra Valley's reputation in the 1800's (Wine Diva, 2007).

Due to the economic depression in the 1890's and the increasing demand for fortified wines, along with declining soil fertility (AWBC, 2005) it has led to the decline (Wine Diva, 2007) of wine growing in the Yarra Valley. The last winery ceased operating in 1921 (Yarra Valley Wine, 2007).

In the 1960's the industry was revived by a medical practitioner, who encouraged the return of table wines, and the Mount Mary vineyard was established by Dr. John

Middleton as the pioneer of the second wave (Wine Diva, 2007). In the 1980's there was a third wave with the arrival of James Halliday, de Bortoli and the prestigious Moët & Chandon wineries (Wine Diva, 2007). For the Yarra Valley there has been a slow return towards its previous reputation. It was not until the 1990's that the area was replanted, actually exceeding the wine growing areas of the 19<sup>th</sup> century (AWBC, 2005). Currently the Yarra Valley has more than 80 different vineyards of different sizes; with some being quite small hobby-sized operations whilst others like de Bortoli dominate the region's wine production.

The Yarra Valley is currently recognized as one of Australia's best cool climate regions and is able to make classical wine styles from various grapes (Wine Australia, 2008). Within the region, there are two types of soil. On the northern side of the valley is more traditional areas with a grey to grey-brown colour on the surface, and loamy sand to clay loam in consistency with red-brown subsoil's very often impregnated with rock. Most of the soil is relatively acidic and low in fertility. On the southern side of the valley is deep and fertile red volcanic soil (Vinismo, 2008).

It has had particular success with making Burgundian Varieties of Chardonnay and Pinot Noir (Wine Diva, 2007). Currently there are around 3,800 hectares of land under vine within the region (Vinismo, 2008). The annual output is around 19,000 metric tonnes of grapes valued at around \$20, million (Vinismo, 2008). The majority of grapes crushed (65%) are of red varieties while the balance is whites (Vinismo, 2008) this is quite different when compared to the national trend, where the majority of wines produced are white wines.

Currently the valley has 3,800 hectares in vine production that totals around 2% of the Australian vineyard area. Red wine grape varieties predominate over the white variety accounting for some 64% or 19 000 tonnes. White wine varieties account for only 36% of the total. The average value of the wine grapes is A\$1,700 per tonne that is significantly higher than the Australian average of A\$860 per tonne. It is estimated that the Yarra Valley wine industry contributes around A\$250 million to the local economy Annually it is estimated that around 2 million litres of wine are

exported from the Yarra Valley (Yarra Valley Wine, 2007). Table 3.5 shows the average number of litres exported to each region for the period of 2000-2006.

**Table 3.5: Wine exports – Yarra Valley (2000-2006); per region**

	<b>Average Litres</b>
<b>Middle East</b>	6,295
<b>Europe - Other</b>	17,731
<b>Oceania</b>	55,425
<b>South East Asia</b>	76,440
<b>North East Asia</b>	160,623
<b>Europe - EU</b>	571,088
<b>North America</b>	645,580

Source: Australian Wine and Brandy Corporation (AWBC, 2005)

The above Table 3.5 shows that large exports are directed to North American and European markets with the combined value of more than 1.1 million litres. This may be due to language and cultural similarities as well as wine consuming habits.

Currently within the Yarra Valley there are more than 80 vineyards of different sizes and of different international process involvement. All the firms are in a geographical proximity within the borders of the Yarra Valley and as expected belong to the Yarra Valley Wine industry Cluster. Since the focus of this research is on the internationalization process of cluster firms, the Yarra Valley Wine Industry Cluster is ideally fit for these purposes.

### **3.5 Conclusion**

This chapter has looked at the development of wine across the centuries from its early beginnings in Egypt and Persia until the modern day. Then, looked at the origins and developments of the Australian wine industry with the arrival of the first settlers in the 1780's as well as the spread of wine growing throughout Australia, followed by

some modern trends in regards to global production and consumption of wine, and how it may affect the Australian wine industry. Lastly, the chapter examined the development of the wine industry in the Yarra Valley and its development through this period.

The Yarra Valley Wine Industry Cluster has a long and significant history as a winemaking centre in Victoria, Australia. It has attracted a large number of wine growers due to the soil quality and favourable climate, in order to produce grapes that can be transformed into premium wines.

## **Chapter 4: Research Design and Methodology**

### **4.1 Introduction**

The validity and reliability of any research depends largely, on the methodology employed by the researcher. This chapter outlines the methodology, the applied research strategy and research methods employed in the study. Section 4.2 introduces the qualitative method followed by the grounded theory discussion in section 4.3. Section 4.4 deals with the research procedure covering data collection and analysis. Section 4.5 concludes the chapter.

Existing theory and research context have been discussed in previous chapters in order to provide an understanding of the contextual characteristics related to the cluster formation, and internationalization process as well as the network theory of wine clusters in Australia. Some issues have been identified as crucial to a firm's internationalization. These issues have provided a basis for establishing the preliminary research questions and developing some preliminary propositions, as presented in previous chapters.

This chapter describes the method chosen to explore the phenomenon of, and develop theoretical explanations, and propositions, about the Australian wine clusters foreign strategy. Since this research uses qualitative research methodology, the chapter discusses the rationale for using this particular approach. Described are the sampling criteria, data gathering, and analysis procedures. Discussed is the validity and reliability of the research design and the process of theory grounding is outlined.

Consistent with the aims and objectives of the study discussed in Chapter 1, the next phase involves the empirical investigation of the perceptions and behaviours of Australian wine firms regarding the factors that promote, and those that impede their internationalization process. The perceptions and behaviours will be compared with the preliminary propositions that have emerged from the literature review. From this

process, relevant variables will be identified and an explanatory conceptual framework will be developed.

## **4.2 Qualitative Method**

As previously noticed, the literature is relatively sparse in explanatory research concerning conditions for the internationalization process of firms in clusters. In particular, there are few market-specific empirical studies and none examining the Australian wine clusters. There are few studies available in regards to the New Zealand wine industry and the internationalization process they went through (Akoorie, 2004; Beverland and Lockshin, 2006). The few New Zealand examples have been used as the basis for further exploration of the issues within the Australian market (Akoorie, 2004; Beverland and Lockshin, 2006). For this reason, a qualitative approach has been selected as the research strategy for this investigation.

This approach has been chosen with consideration of the theoretical polarities (Silverman, 1993) that exist among the various schools of social science. Especially, the quantitative/qualitative split is the subject of ongoing debate in much of the theoretical writing on methodology. Silverman (1993) states that “there are no principled grounds to be either qualitative or quantitative in approach. It all depends on what you are trying to do” (p. 22). Therefore, rather than providing a discourse on the relative merits of one approach above the other, attention is given to providing a rationale for using the qualitative method as having the most potential for answering the research question (Morse, 1994). This study briefly outlines and compares the main features of each approach. From this comparison, the suitability of the qualitative approach for the research is assessed.

Qualitative methods can be used to uncover and understand what lies behind any phenomenon about that, little is yet known (Strauss and Corbin, 1990) and are appropriate when the requirement is to build new theories, synthesize existing theories (Ragin, 1987) or develop a theoretical framework that can then be subjected to hypothesis testing and quantitative analysis. Therefore, a qualitative strategy is

appropriate, since the internationalization of members of a wine cluster is a phenomenon about what little is known, and there is no guiding conceptual framework for the Australian wine industry managers. A qualitative approach allows you to uncover the essence of the phenomenon by realities provided by the participants in their first-hand accounts, such as the influencing factors of the internationalization process of companies in clusters, as well as the importance of personal and professional networks.

Qualitative and quantitative approaches are not mutually exclusive. Each of them observes different realities and has respective analytic advantages. While the goal of quantitative research is to segregate and delineate categories as precisely as possible *prior to* undertaking the study, and then to establish accurately the relationship between them, the goal of qualitative research is segregation and delineation of analytic categories *during* the process of research (McCracken, 1988). Morse (1994) identifies the goals of qualitative research as being generally the development of theory, description, explanation, and understanding.

Qualitative research usually looks for patterns of interrelationships between many categories rather than, as with quantitative research, the sharply delineated relationship between a limited set. McCracken (1988) characterizes this difference as the compromise between the exactitude of quantitative methods and the complexity-capturing ability of qualitative ones, or, according to Ragin (1987) between “more” and “less” precision. Kirk and Miller (1986) further clarify the difference between the two approaches in stating that a qualitative observation identifies the presence or absence of something, in contrast to a quantitative observation, that involves measuring the degree of which some feature is present. On this basis, the qualitative approach is consistent with the aims of this research.

The justification underlying the research strategy for this investigation is the need to describe and compare the phenomena associated with the process of internationalization to construct theory for the purpose of deriving useful explanation, and the understanding of the central phenomenon: the internationalization process of

the firms in a cluster. The goal is to establish the features and characteristics of the process, rather than measuring the extent to which the feature exists, therefore indicating a qualitative approach to be more suitable. In supporting the use of descriptive research to provide information of the greatest utility to practicing managers, Root (1988) criticizes data-driven research to be theoretically sterile. He suggests that understanding small business may best be achieved by collecting descriptive data and then determining the most appropriate theory. Root (1988) also suggests the use of in-depth case studies in this regard as a method particularly relevant to small business. He claims that the development of small business research strategies takes an open-ended approach, since each individual business varies in organizational structure and management control.

Lack both a theoretical model and empirical work in the area of the internationalizing firm in clusters suggests the need for context-specific theory development. Such theory development may also contribute to refinement of general theories of the internationalization process. Such contributions are required particularly in the area of internationalization, given the contradictory view in the extent of literature pertaining to large firms and “stage models” (explained in more details in Chapter 2).

In addition, considering the basic differences between quantitative and qualitative research, a qualitative strategy appears appropriately fitting with the overall requirements of the study. Generally, the research requirement is for descriptive research to enable theory-building focusing on a phenomenon that is process-based over time. Furthermore, these processes may be context-specific requiring subjective and interpretive analysis, rather than objective analysis. For that reason, a qualitative approach is appropriate, particularly given that the purpose of this research is to help develop a universal theory.

## 4.3 Grounded Theory

Of the various types of qualitative research available, that of a grounded theory is perhaps, the most well developed for the purpose of building theory. As described by Strauss and Corbin (1990) “a grounded theory is one that is inductively derived from the study of the phenomenon it represents. [In grounded theory], one does not begin with a theory, then prove it. Rather, one begins with an area of study and what is relevant to that area is allowed to emerge” (p. 23). Blackman (1983) describes a grounded theory as “the processes of generating hypotheses, [provisionally] testing hypotheses, collecting data, integrating categories, and constructing theory [that] occur *simultaneously* and are guided and integrated by the *emerging* theory” (p. 284). The grounded theory approach is:

- An initial attempt to formulate categories that illuminate the data at a *first level* of broad, descriptive analysis;
- An attempt to ‘saturate’ these categories with appropriate cases in order to demonstrate their theoretical relevance. This *second level* of analysis involves data reduction and identifies various relationships among the categories;
- At the *third level* of analysis, developing these categories into more general analytic frameworks with applicability beyond the research setting (Silverman, 1998).

At each level of analysis, a successively higher level of theoretical abstraction is applied in the data reduction process. The general form of the grounded theory method provides the guiding basis for the analytic approach used in this investigation.

### 4.3.1 Grounded Theory Procedure

Grounded theory has a unique mode of information processing and is specifically aimed at systematically generating theory through a method of “constant comparative analysis” (Glaser and Strauss, 1967, pp. 101-116, cited in Strauss and Corbin, 1990).

Through the grounded theory methodology, the concepts and their relationships are not only generated but they are also tested provisionally. Normally, data are compared and similarities and differences are identified, from these categories, and their characteristics are produced and hypothesized relationships are suggested. At the same time concepts, categories and hypotheses are continually verified, supplemented, or modified as more data are collected. Data are gradually reduced in quantity and diversity and ideas are generated on a higher level of generalization in conceptual abstraction, thereby bringing out “underlying uniformities in the data” (Blackman, 1983, p. 288). “Consequently, according to Blackman, “the emergent theory is integrated, consistent, plausible, [and], close to the data” (p. 288). Strauss and Corbin (1990) summarize the analytic procedures of grounded theory as being designed to:

- Build rather than merely test theory.
- Give the research process the rigor necessary to make the theory “good” science.
- Help the analyst to break through the biases and assumptions brought to, and that can develop during, the research process.
- Provide the grounding, build the density, and develop the sensitivity and integration needed to generate a rich, tightly woven, explanatory theory that closely approximates the reality it represents (Strauss and Corbin, 1990, p. 57).

The major importance of the grounded theory method is to progress around the chosen empirical field, sampling and analyzing data from interviews, field notes, and other documents, using established methodological guidelines but without a fixed prior commitment to an imposed frame of reference regarding types of data, avenues of research, or theoretical orientation (Strauss and Corbin, 1990, Yin, 1989; Eisenhardt, 1989).

The methodological procedure includes the use of a coding paradigm for data reduction, making comparisons and asking questions in relation to the data for

conceptual precision and specificity, theoretical sampling and collection of data, until theoretical saturation of each category has occurred (Morse, 1994; Eisenhardt, 1989). Theoretical saturation occurs when, first, no new or relevant data appears to emerge regarding a category. Secondly, the category development is dense insofar as all the paradigm elements, along with variation and process, are accounted for. Thirdly, and the relationship between categories is well established and validated (Strauss and Corbin, 1990).

Important also in grounded theory is the going back and forth between inductive and deductive thinking, where the constant interplay between proposing and checking of concepts and relationships against actual data is what makes the theory “grounded” (Strauss and Corbin, 1990; Eisenhardt, 1989; Miles and Huberman, 1984).

The general features of qualitative research and the grounded theory method have been discussed. Furthermore, the specific analytic procedures for the current study must be established. The following section details this research procedure and discusses in depth the analytic techniques and processes relating to the field study.

#### **4.4 Research Procedure**

Having outlined the basic features of the grounded theory method of qualitative research, the particular aspects of research design and the associated analytical approach for this investigation are specified together with reasons for their selection.

In designing the research plan, a pre-structured approach was adopted, by identifying areas of interest and formulating sets of questions that could be used to further explore the main areas of interest. This allowed the analytical procedures chosen for the investigation to be clarified and made explicit so that the set of methods used for capturing the relationships and patterns within the data are valid and verifiable (Yin, 1989; Silverman, 1993; Morse, 1994). By formalizing and structuring the methodological approach to the research, data collection was also focused and bounded. This helped in containing the study within time and cost constraints,

furthermore, yield more economical, comparable, and potentially generalized findings, that enabled some pre-analytic, anticipatory data reduction (Miles and Huberman, 1984). Therefore, the research design specified the logical sequence that connected the empirical data to the study's initial research question (Yin, 1989), looking at the current internationalization process of each participant, followed by the influence of networks and cluster on further internationalization processes.

The research design included three phases:

1. development of a provisional concept,
2. collection of empirical data, and
3. analysis and theory construction.

The following sections explain the elements of the research design and the analytical approach that was employed/adopted for each of the three research stages.

#### **4.4.1 Provisional Concept**

During this stage, the research question was formulated and a provisional conceptual model was constructed. As discussed in Chapter 2 formulation of the research question and development of the conceptual model explained in Chapter 2, Section 2.4 were based on an analysis of the literature. In establishing the initial conceptual framework for the study, the analytical approach was one of comparison between the research question and the provisional model. From this process of comparative analysis, the links between the various emerging themes and constructions were identified for research and aligned within the underlying framework. As recommended by Morse (1994) the theory obtained from the literature was used as a template for comparison, from that began the first step in reaching full comprehension of the research setting. The concept phase then continued to undergo further refinement throughout the fieldwork, or data collection, and analysis phases.

For grounded theory as explained by Strauss and Corbin (1990) the research question was required to first, give the flexibility and freedom to explore a phenomenon in depth in order to develop theory, second, help the investigation to remain focused throughout the project. While the initial question started out broadly (see Section 1.4), it became progressively narrow and more focused during the research process, as concepts and their relationships were discovered to be relevant or irrelevant (Strauss and Corbin, 1990) and at the same time remain focused but yet wide enough to accommodate any unforeseen conditions that may be relevant to this research. The provisional framework presented in Section 2.4 outlined the major dimensions of the study, such as relationships between networks within clusters and the internationalization process, within that the main categories, key factors, presumed relationships, among them, and the underlying theoretical assumptions about the phenomena were described as part of the internationalization process of firms in cluster.

#### **4.4.2 Empirical Data Collection**

During this stage of the research fieldwork focused on obtaining data for comparison of Australian wine firms' perceptions and behaviours in relation to belonging to the Yarra Valley Wine Industry Cluster in the process of internationalization that included more than 80 wineries. Participating firms were randomly selected from the list provided by the Yarra Valley Wine Growers Association. The data collection phase was approached through multiple case studies that allowed comparisons to be made. Empirical data gathering techniques included in-depth personal interviews, guided by a semi-structured questionnaire, and determined based on theoretical sampling. This sampling method involved three types of sampling at successively higher levels of analytical abstraction. This is the key element of the grounded theory process. Using grounded theory terminology, these three sampling techniques are: *open sampling* at the broad initial stage, *relational and variational sampling*, that identifies emerging relationships between variables, and *discriminate sampling*, that confirms the relationships between the variables and verifies the theoretical

framework underlying the study. All three sampling techniques that were used in this research are explained in more detail in the following sections.

### *Theoretical Sampling*

The sampling reasoning for the study was that of theoretical sampling that is a fundamental component of the grounded theory method. The basis of the grounded theory method is theoretical sampling of happenings, incidents, and behaviours, that are indicative of categories, their properties, and dimensions, so that they can be developed and conceptually related (Strauss and Corbin, 1990). Further, Glasser and Strauss (1967) define theoretical sampling as “sampling on the basis of concepts that have proven theoretical relevance to the evolving theory” (p.176). In their viewpoint, proven theoretical relevance specifies that concepts are considered significant because they are continually present, or notably absent, when comparing incident after incident, and are of adequate importance to be given the status of categories. Strauss and Corbin (1990) describes theoretical sampling as a process of data collection that is controlled by the emerging theory, the aim being to sample events, incidents, situations etc., in order to develop categories and conceptually relate or link them. Eisenhardt (1989) suggests that cases may be chosen to replicate previous cases or to fill theoretical categories and provide examples of the range in variation using exceptions to patterns.

The three sampling procedures corresponding to those of theoretical sampling are: open sampling, relational and variational sampling, and discriminate sampling. These three sampling procedures are first described and then related to the current study.

*Open sampling* illustrates the initial phase of data collection in theoretical sampling. During this phase, the selection of interviewees is relatively indiscriminate in the sense of being open to possibilities for sources of relevant evidence. Sampling is purposeful and systematic, yet open to persons, places, and situations that will provide the greatest opportunity to gather the most relevant data about the phenomenon under investigation. For example, with the first case in the study, a

planned interview was conducted with the General Manager of a company that then led to a subsequent interview with the International Marketing Manager. The second informant provided an important additional perspective so for this case the two interviews yielded a more complete picture of that firm's international/business experience. Data collection at this early stage of the research was also directed based on recommendations by informants and industry contacts.

The initial data gathering was followed immediately by coding and analysis that then guides the next interview and the same process is repeated. An important part of sampling is making comparisons to facilitate interviewing adjustment, so initial concepts can be evaluated then discarded, modified, or replaced, by those arising during the research process (Strauss and Corbin, 1990).

*Relational and variational sampling* characterizes the identification of emerging relationships between variables as the data collection progresses beyond the initial cases. Sampling during this phase aims to uncover and validate emerging conceptual relationships. This involves tracking a category while in the field and through questioning and comparison, seeking as many differences as possible at the dimensional level in the data (Strauss and Corbin, 1990). An example in the study involved seeking cases for comparison between relatively experienced and inexperienced exporters, concerning issues in international activities.

*Discriminate sampling* confirms the relationships between the variables and verifies the theoretical framework underlying the study. During this phase, sampling becomes deliberate and directed at making choices about who and what to sample. The purpose of this type of sampling is to verify the theoretical explanation and to fill in, and expand underdeveloped categories. An example of discriminate sampling was the need to return to the theoretical literature during the field investigation and to more closely examine aspects of the internationalization process to verify the emerging theoretical explanations.

During this discriminate sampling stage if additional cases yield little that is new and incremental learning is minimal, common themes are identified, relationships, and initial propositions are confirmed or disconfirmed, and then saturation is reached (Morse, 1994; Eisenhardt, 1989). For the current study, this point signalled the end of data collection with a total of eight cases. While discriminate sampling plays an important role in testing, it is actually built into each step in the grounding process. Theoretical propositions were compared constantly against the reality represented by the data and only those that were found repeatedly to be consistent with this reality were built into the theory. The essential feature of sampling and analysis in the grounded theory approach was this overlapping of data analysis with data collection (Eisenhardt, 1989).

### *Case Study Method*

As mentioned earlier, the research setting for the study is that of the Australian wine industry clusters. The views of firms who belong to the clusters related to the internationalization process have been collected and compared. These firms form the unit of analysis at the individual level. The purpose of these comparisons was to explore issues concerning the expansion to foreign markets and the perceived likelihood of succeeding as a part of a cluster or individually. The perceptions, attitudes, and export-related behaviour of the firms engaged in international activity are the subject of the study, with senior personnel participating in the interviews as the informants.

Comparison in its broadest sense is defined as the process of discovering similarities and differences among social phenomena (Oyen, 1990). There are several features of the comparative method that are particularly in harmony with the requirements of this research. First, the comparative method is essentially a case-oriented strategy, where cases are examined as a combination of characteristics. Each case is examined and compared with all other relevant cases, to arrive at modest generalizations. Second, the comparative method is especially well suited for the task of building new theories, because this highlights deviating cases and variations, and requires explanation of

them. Third, it is usual to work with small, theoretically defined sets of cases, with the boundaries of the study set by the investigator (Ragin, 1987). These features also characterize the grounded theory method that, as previously noted, is termed by its founders “the constant comparative method” (Glaser and Strauss, 1967, pp. 101-116, cited in Strauss and Corbin, 1990). Comparison is the central strategy in the analytical approach and is used in all three phases of the research procedure for the investigation.

The case study method is considered the most appropriate strategy for collection of the data, based on the nature of the research question and the research approach (Eisenhardt, 1989). According to Yin (1989), case studies are preferable when the research question leads to exploratory, descriptive, or explanatory theories, in examining contemporary events, but where the relevant behaviours cannot be manipulated. Ragin (1987) elaborates on case-oriented studies that are by their nature sensitive to complexity and chronological specificity, both are features in the current study. Ragin (1987) argues that case studies are therefore well-suited for addressing empirically defined outcomes of this type and are also often used to generate new conceptual schemes.

Eisenhardt (1989) notes that case study research is particularly appropriate in a theory-building approach, because the method does not rely on previous literature or prior empirical evidence. Furthermore, case studies are generalizable to theoretical propositions and not to populations or universes (Silverman, 1993). From this discussion, the comparative method indicates a multiple-comparison case design where comparisons can be made on several levels (micro-macro, within and cross-case, etc.) concerning the internationalization process of the firms in a cluster.

### ***Multiple Case Studies***

According to Miles and Huberman (1984) multiple-comparison case design increases the scope and accordingly, the degrees of freedom in the study. By comparing cases, the range of generality of explanation can be established, together with the conditions

under which that finding will occur (Strauss and Corbin, 1990; Miles and Huberman, 1984).

Case studies are holistic (Ragin, 1987) in that each individual case represents an entire study in that convergent evidence is sought regarding the facts and conclusions for the case in relation to the provisional theoretical framework. The conclusions from each case are then considered to be the information requiring replication by other individual cases (Strauss and Corbin, 1990; Yin, 1989). While complete theoretical saturation is the ideal outcome for the current study, the number of replications for this investigation is dependent on the extent of saturation achievable within the time scale for the study and the desired level of certainty about the multiple-case results for theoretical sufficiency.

Guidelines for a feasible number of cases for the study have been established with reference to the literature. Regarding manageability of size in a multiple-case design, Ragin (1987) contends that the case-oriented approach is limited in terms of the difficulty in maintaining attention to complexity across a large number of cases. He indicates that eight cases is a “modest number” and 20 cases is “thorough” (p. 50), while drawing attention to the associated number of possible comparisons that increases geometrically as the number of cases increases. Eisenhardt (1989) states that while there is no ideal number of cases, generating complex theory with convincing empirical grounding is difficult with fewer than four cases. To establish the parameters for the current investigation, a number of eight cases are accepted as a basic guideline.

Furthermore, of the possible sources of evidence for the study, those of documentation in the form of relevant news clippings, reports, and articles published in the international and national business media, and archival data such as official trade statistics, together with personal interviews have been selected for data collection. This has facilitated triangulation and has proven to have general relevance to the study through theoretical sampling.

## *Interviews*

Among the variety of qualitative techniques available for this investigation, personal interviews and focus group interviews were initially considered as appropriate for the study. These alternatives were chosen as options because each provides an interactive setting in that to reveal the dimensions and variables relating to the Australian experience of overseas market entry. The focus group method was eliminated because of time and other pressures on the availability of senior management personnel. Prior to in-depth interviews an ethical approval had to be obtained from the University of Waikato. Ethical approval correspondence is available in Appendix 2.

In-depth interviews were perceived as more appropriate, since the investigation is intended to clarify issues of a perceptual and factual nature. Because case studies are usually about human behaviour and social processes, Yin (1989) regards interviews as one of the most important sources of case study information, and McCracken (1988) views this instrument of enquiry as particularly powerful in revealing an individual's perceptual reality, providing the opportunity to see the content and pattern of their experience, and view the world as they do themselves. Uncovering this perceptual reality for Australian wine industry companies is the principal aim of the investigation.

For this investigation, personal interviews were conducted with appropriate top-level managers of eight winemaking firms that currently operate in the Yarra Valley wine cluster. The in-depth interviews followed an open-ended discussion format. Interviews were semi-structured. They were controlled through use of an interview guide listing the topic areas to be covered in the discussion (see Appendix 1). The set of topics was derived from the preliminary conceptual framework and initial propositions (Strauss and Corbin, 1990; Yin, 1989). This format attempts to balance adaptability and flexibility, with control and rigor, but not rigidity. Interviews were controlled by the question guidelines not only in providing a general structure for the

discussion, but also in ensuring that the same questions were addressed by each informant.

Flexibility existed in following new areas of investigation that might not have been anticipated or planned and still appeared to provide insight into the area of investigation. This was important because it allowed greater use of data-relevant situations arising in the field. The aim was not to produce summary statistics about a set of observations and for each individual case to develop depth of understanding and insight (Strauss and Corbin, 1990; Eisenhardt, 1989). Such adjustments in the current study are the addition of cases to probe particular themes or issues that emerge from previous cases (Eisenhardt, 1989). Process changes of this nature were systematically identified and noted together with the situations giving rise to them. However, adaptability and flexibility did not mean changing the purpose or objectives of the study to suit the cases that were found (Yin, 1989). The use of semi-structured format for this type of focused interview as opposed to the use of a fully structured questionnaire is supported also by other qualitative scholars and researchers such as Miles and Huberman (1984).

### *Correspondence*

From the Yarra Valley Wine Growers Association (2007) that has a base of 82 companies, a random selection was taken to select potential participants. Prospective participants were identified by name and position title from the data base and contacted one at a time by letter (see Appendix 2)

Prospective participants were initially contacted by letter explaining the proposed subject and nature of the research and inviting them to participate (see Appendix 2). The relevant senior manager from each firm was then telephoned for his/her agreement to be personally interviewed by the researcher and to make suitable arrangements for this interview. The question guidelines were mailed to participants several days before the scheduled interview to enable them to give thought to the areas of questioning and to allow access to specific data if required for some

questions. Participants could also clarify before the interview any areas of questioning about what they were uncertain of. Interviews with case participants were conducted on an informal discussion basis using the interview questions as guidelines.

All participants were personally interviewed over the phone by the researcher and those conducted for the current study were of one hour duration. In all instances the interview was conducted with one informant who was the most appropriate respondent for the company. All interviews were recorded on tape and fully transcribed. Transcribed interviews were in the range of around 7-8 pages for each vineyard with a total of 56 pages of all interviews. In addition, notes were taken during each interview, systematically written up in memorandum form and included an analysis. Brief contact summaries were also prepared immediately following each interview. These transcriptions, notes, and summaries provided not only a basis for data analysis, but also served a number of other purposes including guiding and planning for the next interview.

#### **4.4.3 Analysis**

The analytic strategy for the empirical investigation combines the grounded theory approach based on Strauss and Corbin (1990) with the procedures for analyzing qualitative data developed by Miles and Huberman (1984) to facilitate addressing the initial proposition in the research. As previously outlined, the procedure builds theory through both inductive and deductive processes based on questioning and comparison.

The analytical techniques used in this research include prioritizing, ordering, and displaying the data for examination, as suggested by Miles and Huberman (1984) and the coding system developed by Strauss and Corbin (1990). Furthermore, the issues of validity and reliability of the research findings are also addressed in following the sections.

### *Inductive and Deductive Processes*

The analysis of the data by applying the grounded theory included both inductive and deductive thinking to generate and test hypotheses regarding possible relationships (Strauss and Corbin, 1990).

Inductive thinking concerned the discovery process in generating theoretical conceptualization and correlation from the data. Deductive thinking included hypothesizing about the conditional dynamics to the phenomenon and testing the hypothesis against the evidence (Strauss and Corbin, 1990).

Grounded theory requires the researcher to enter the field without pre-formed theories but with some initial propositions. In this process questioning is guided by patterns developing in the analysis and hypotheses generated in the field (Morse, 1994). Induction culminates in concept formulation and the elaboration of initial theoretical ideas (Ragin, 1987).

Data collection, analysis, and theory generation occurred concurrently as advocated by Strauss and Corbin, (1990). This concurrent process is known as the constant comparative method of analysis (Glaser and Strauss, 1967). As explained this method of analysis indicates that the researcher is constantly gathering more data, analyzing this, comparing the analyses to past analysis, and then gathering and analyzing more data in order to clarify the emerging theoretical relationship amongst the variables.

As Ragin (1987) suggests, hypothesizing in grounded theory is a product of the constant comparison and questioning throughout the data collection and analysis, that are tested through replication and confirmed to form conceptual uniformity or disproved on the basis of deviations and exceptions in the data. This part of theory building is deductive because initial theoretical ideas serve as guides in the assessment of relevant similarities and differences. Without theoretical guides the

search for underlying similarities and differences could be endless (Ragin, 1987). The analytic approach of the present study included inductive and deductive processes of grounded theory. When an interview informant has highlighted a point that could be of interest, exploring further it is included in any subsequent interviews. For example, coloration between that climate change and the number of hectares under vine and its influences on future production, those points are explored further with that participant as well as with any further interviewed informants.

### ***Validity and reliability***

Research *validation* is permitted through rigor in developing clear methodological protocols so that another investigator may follow the development of the study (Morse, 1994). Validity in qualitative research is assessed based on establishing and confirming empirical evidence as the ‘real world’ in terms of subjective and objective realities. In this study, a multiple methods or triangulation strategy has been used in the field research and is advocated as a validity check (Yin, 1989; Eisenhardt, 1989) in order to be able to provide cross references between vineyards and compare similarities and differences of issues that they are facing and the reasons why that would be the case.

Yin (1989) suggests the use of multiple sources of evidence as one of the major strengths of case study method, compared to other research strategies such as experiments and surveys because it allows not only a broader range of issues to be addressed, but the development of converging lines of inquiry, as Yin states, through a process of corroboration or triangulation. This, Yin (1989) argues, provides multiple measures of the same phenomenon. Eisenhardt (1989) argues that triangulation through multiple data collection methods gives stronger substantiation of constructs and hypotheses. This research included *data-source triangulation* (multiple case comparisons from interviews, official statistics and published material), *theory triangulation* (assessing the evidence based on available theories), and *methodological triangulation* (addressing issues of bias and checking on data quality). Triangulation of findings has been of great benefit to this research because

it was able to provide cross reference with previous studies and academic support for the results identified.

## **4.5 Conclusion**

This chapter discussed the rationale for the decisions associated with the research design, the research instrument selection, the data collection procedure, and analytical techniques for the study. The research objective of building theory, identifying, and explaining factors associated with the internationalization process of the wine industry firms, forms the basis upon what the methodological decisions have been made.

The grounded theory comparative method has provided the basis for the research approach adopted to generate the theory. Provisionally established from initial review of the literature related to the domain of the enquiry, the conceptual framework has been refined during the analytic process of categorization and integration of the main constructs of the internationalization process of the Australian firms in the wine cluster.

The results of the investigation are presented in Chapter 5.

## **Chapter 5 Case Descriptions and Findings**

### **5.1 Introduction**

In this chapter, firms that have participated in this study will be introduced and findings will be presented within the case study of each firm. The firms' characteristics were used to set the context for the study while their individual identities were kept confidential as per research agreement with the informants. The chapter starts by providing the summary of the characteristics of the firms that have taken part in this research. It then continues by providing detailed descriptions of the eight firms, accompanied by findings related to each firm.

### **5.2 Firm Characteristics**

#### **5.2.1 Case Summary Details**

Eight case companies from the wine industry in the Yarra Valley Cluster participated in the field research for this study. The firms in the sample are homogeneous along the key dimensions of core-competence, which is they all produce wine and belong in the same cluster. Firms within the wine industry share the same language, facilitating the transfer, sharing information, and knowledge. In the following sections the description of case firms are presented.

Table 5.1 presents the features of the wineries.

**Table 5.1: The Wineries' Features**

<b>Name</b>	<b>Informants Position</b>	<b>Year of Establishment</b>	<b>Number of full time employees</b>	<b>Tonnes of grape crushed p/a</b>	<b>Hectares Under Vine</b>
Winery 1	Owner	1976	3	20	8
Winery 2	CEO	1986	7	1000	40
Winery 3	Owner	1990	2	150	3.25
Winery 4	Manager	2000	4	130	3
Winery 5	Owner	2000	1	11	3.5
Winery 6	Manager	1996	10	450	95
Winery 7	Owner	1968	10	75	10
Winery 8	Owner	1983	2	10	3.5

The majority of wineries from this sample are either run by the owner or run by the manager on the owners' behalf. The only winery that is different is Winery #2 that is run by a CEO. Winery #2 is not unique only in this respect; it also crushes the largest amount of grapes each year in comparison to the others within the sample.

The sample also contains wineries of different dates of establishments. Two wineries were established eight years ago in 2000 and two were established in the 1990's. The remaining four wineries were established in the 1980's (Winery #2); one in the 1970's is the oldest winery and dates back to 1968. Although Winery #4 and Winery #5 belong to a category of the more recently established wineries, their owners' have significant foreign winemaking experience, and this separates these wineries from the rest of the sample. The study has attempted to provide maximum variation through random selection in order to ensure that the sample used has the best chance of truly representing the entire group that is the focus of this study.

**Table 5.2: Sample case scale of operation, winery focus and experience characteristics**

	<u>Scale of the operation</u>	<u>Winery Focus</u>	<u>Winery's Experience</u>
<b>Winery 1</b>	<b>Smaller scale operations</b> – 20 tonnes of grapes crushed annually with 8 hectares under vine	Limited quantity of high quality <b>boutique wine</b> (no mass production)	<b>Well experienced</b> over 30 years of experience
<b>Winery 2</b>	<b>Larger scale operations</b> – 1,000 tonnes of grapes crushed each year and 40 hectares under vine	The focus is predominantly on <b>sparkling wine</b>	<b>Experience and long tradition</b> both locally and overseas
<b>Winery 3</b>	<b>Medium scale winery</b> – 150 tonnes of grapes crushed annually and 3.25 hectares under vine	Focus on growing the <b>best possible quality fruit and high quality wine (main competitor – cheaper wine)</b>	Modern <b>establishment</b> close to 20 years experience winemaking
<b>Winery 4</b>	<b>Medium scale family operated</b> – 130 tonnes crushed each year and 3 hectares in vine	Focus is on <b>high quality and style (resembles French wines)</b>	Recently established, but the owner has <b>significant international experience</b> in making wine; although not very experienced in the Australian market
<b>Winery 5</b>	<b>Small family operated vineyard</b> – 11 tonnes of grape crushed each year and 3.5 hectares under vine	Focus is on offering high quality wine; <b>produces wine from the fruit exclusively yielded on the property</b> ; a small <b>boutique wine producer</b> sells to <b>local markets only</b> ; not interested in expanding internationally	Winery 5 is <b>recently establishment</b> , although very experienced in grape processing and wine producing (passionate!)
<b>Winery 6</b>	<b>Large family business</b> – 450 tonnes of grape crushed each year with 95 hectares under vine	Focus is a <b>passion for winemaking</b>	<b>One hundred years</b> experience of family winemaking
<b>Winery 7</b>	<b>Medium scale family business</b> – 75 tonnes of grape is crushed annually and there are 10 hectares under vine	Focus is towards <b>local brand recognition</b> and domestic markets	<b>Forty years</b> of experienced winemaking in the Yarra Valley
<b>Winery 8</b>	<b>Small scale business</b> – 10 tonnes of grape are crushed each year and only 3.5 hectares are under vine	Focus is on passion for winemaking; <b>produces wine from the fruit grown on the estate</b>	<b>More than twenty years</b> experience winemaking

Within the sample selected for this study based on the size of the operation and quantity of crushed grape, there are three small wineries (#1, #5, and #8), with between 10-20 tonnes of grape crushed each year. Using the same criteria from the sample, there are three further wineries that can be classified as being of a medium size. Wineries #3, #4 and #7 all crush between 75 and 150 tonnes of grape each year. Wineries #2 and #6 for the purpose of this study have been classified as large, although winery #2 crushes more than double the amount of grape each year, but on the other hand, the winery #6 has more than double the number of hectares under vine

than winery #2 does. This clearly indicates that winery #2 is more dependant on purchasing fruit from other growers while winery #6 is able to produce most of its own fruit. Both wineries #2 and #6 are well positioned to minimize any possible negative impacts of drought or frost on their production because of climate change. It is interesting to note that within this sample there is quite a big gap between the three different sized groups. Perhaps if the sample size were larger there would not be such a big gap between the groups.

It does not come as a surprise that wineries #1, #5, and #8, are focused towards more boutique, high quality, limited quantity, wine production, due to their small operational size. Winery #5 tries to focus on exclusivity by producing wine from fruit being grown only from the estate. At the same time the rest of the wineries are focusing towards the development of their particular brand, whether it is through brand recognition regionally, or internationally. Winery #2 that is the largest operation in this sample is focusing towards the production of sparkling wine and utilizing its heritage from a French Champagne house that initially established this winery.

Most of the wineries within the sample have several years of experience within the winemaking industry. Only wineries #4 and #5 have been established for less than 10 years, whilst other wineries have been established for longer, or owners, or managers come from a background with a long history of winemaking. Two of the largest wineries (#2 and #6) have a very long tradition in winemaking. Winery #2 has been established by a French Champagne house, whilst winery #6 has more than 100 years of family tradition in winemaking. Therefore it does not come as a surprise that that these two wineries are the largest and most successful in this sample.

Brand awareness and recognition seems to be very important for all the wineries, although some of them are emphasizing different aspects with their brand. Wineries #2, #4, and #7, are focusing towards their French heritage and they are more focused in providing traditional French flavours. Similarly, winery #6 is emphasizing its

Italian heritage and traditional winemaking methods. Wineries #1, #3, #5, #8 focus on quality recognition.

**Table 5.3: Sample case brand importance, characteristics, sale and tourism connectivity**

	<b><u>Brand Importance and Characteristics</u></b>	<b><u>Sale</u></b>	<b><u>Tourism Connectivity</u></b>
<b>Winery 1</b>	Important; <b>different varieties of wine</b> ; not very focused	<b>Cellar door</b> , mailing list and to up-market <b>restaurants</b>	<b>A restaurant on site</b> and <b>venue hire</b> for social functions
<b>Winery 2</b>	Very important; <b>established by a prestigious French Champagne house</b> ; French flair	<b>75% for domestic market</b> balance in international sales by using group's resources and networks.	Attracts a large number of <b>domestic and international tourists</b>
<b>Winery 3</b>	Important, modern establishment	<b>Cellar door sales</b>	Does not offer a restaurant on site; <b>winery cellar open for tourists</b>
<b>Winery 4</b>	Very important; uses the family name; <b>French flair wines</b>	<b>Domestic sales</b> through <b>local distributors</b> and <b>onsite cellar door</b>	<b>Café and restaurant available</b> on site as well as <b>space for functions</b>
<b>Winery 5</b>	Focusing on local market with their local brand	<b>Domestic and local markets only</b> (reason – small amount of wine produced); <b>local niche</b> customer base	NONE
<b>Winery 6</b>	Distinctive <b>Italian flavour</b>	<b>Domestic and international markets</b> ; OPORTUNISTIC in the nature (even though without much experience in a particular market)	Offers a <b>restaurant and function venue</b>
<b>Winery 7</b>	<b>French flavour; best winery award</b> ; locally well known, but not outside the region	Wine sales facility through <b>cellar door</b> and other means	<b>Restaurant and accommodation</b> facilities and <b>private functions</b>
<b>Winery 8</b>	A strong reputation for its ability to <b>produce superior fruit</b> ; has won <b>numerous awards</b>	<b>Cellar door</b> or through <b>local eateries and independent wine outlets</b> ; a small percentage is exported to the UK and Fiji	<b>Cellar door sale</b>

A brand of wineries within the sample has been identified as being of high importance, when and at the same time these wineries are focusing towards different aspects of their brand. Wineries #2, #4, and #7, are emphasizing their French heritage and placing a significant importance on French flavours and tradition. Winery #6 is focused on its Italian heritage that is translated into their wine styles. Remaining wineries focus on their own individual reputations and the quality of their wine, as well as the numerous awards and recognition won from their wines.

Tourism connection seems to be quite important with most of the wineries, providing extra facilities such as accommodation, restaurants, function rooms, etc. The only winery that does not currently offer any tourist attraction is winery #5; this is the only winery that currently does not have an international presence. Tourist connection is important for most of the wineries because it offers domestic sales either through the cellar door, or through restaurant wine sales. For all of the wineries that have been investigated in this sample domestic sales still presents the bulk of sales. Although winery #2 is the largest in the sample, it is selling internationally around only 25% of its production.

All except for Winery #5 are attempting, or currently have some degree of presence in one or more of international marketplaces. Winery #2 can be classified as a large-scale operation when the rest are either small family run, or medium size operations. All the winery operators appear to be well experienced and with a strong focus towards development of stronger brands.

**Table 5.4: Wineries’ Presence in Foreign Markets**

<b>Name</b>	<b>Foreign Markets Present</b>
Winery 1	Canada
Winery 2	USA, UK, Europe, Singapore, Hong Kong
Winery 3	China
Winery 4	Dubai, UK, USA, Asia, Canada
Winery 5	None
Winery 6	UK, Italy
Winery 7	UK, Taiwan, Hong Kong
Winery 8	UK, Fiji

Currently Winery #5 is not involved in the international marketplace. An interesting pattern seems to emerge when observing markets where wineries are currently present or looking to expand. The majority of international markets, with the exception of Taiwan, Italy, and China, speak English, until recently had it as their dominant or the official language. It would look as if Australian winemakers are targeting some of the former British colonies. A possible reason apart from language would be similarities in the legal systems, and in some cases cultures as well, all of which is supposed to result in perceived easier expansion into those markets.

Wineries are acting on their perceived cultural similarities making the psychological distance between the two regions much closer than the actual physical distances.

The following section will further analyze each winery from a sample on its own. A background on each winery will be provided followed with some of the main responses identified during the interview process.

## **5.2.2 Within Case Reports**

### **Winery #1**

This winery was established by two Italian immigrants in 1976. Initially it was set up as a market garden. Soon after it was established, it discovered the property was very suitable for the growing of grape vines. The majority of the fruit plants have been replaced by grape vines that now dominate the property. Due to the increasing popularity, it became open to the public in the 1980's.

This Winery produces a wide range of national award winning wines. Concentrating on cellar door and mailing list sales, with some additional sales to restaurants, allows this winery to focus on producing premium quality wines hence it is able to charge a higher premium. Therefore, they do not feel the pressure to mass produce generic wines as some other wineries in the region. Their focus is strictly on a limited quantity of high quality boutique wine.

The Winery is amongst the oldest plantings in the Yarra Valley, with some of the oldest vines being over 30 years old. Over the years, different varieties such as Semillon, Tokay, and Muscatel, have been planted, but were found quite unsuitable for the cooler climate in the Yarra Valley. Currently the Winery has around 10 acres of plantings this includes Cabernet Sauvignon, Cabernet Franc, Malbec, Shiraz, Merlot, Pinot Noir, Chardonnay, Verduzzo, and Traminer. The plan for the winery is to try grafting Traminer onto Sauvignon Blanc grapes and expanding their plantings of Shiraz.

The Winery has a boutique style operation with the main focus on small individual parcels of fruit. The grapes are hand harvested and crushed before being pressed by the winery's three-ton capacity airbag press. The juice is then allowed to settle before fermentation in stainless steel tanks, or sometimes even in fermented barrels. Red grapes are crushed and then fermented in open fermenters, with caps that are plunged several times a day to extract the colour and tannin from the skins. After the fermentation process, the wines are repressed through the airbag press, before allowing it to settle, and then left to age in oak barrels.

The Winery also has a contract winemaking arm of the business, that produces wine for several small wineries from around Victoria and it specializes in the production of premium wine from small fruit parcels. This operation has won number of awards including a Gold Medal at the Lilydale Wine Show, produced from only two tonnes of fruit. This commercial operation allows wine production for Individuals and Groups with the owner of the fruit having a direct hands-on experience whilst being mentored and guided by expert winemakers in the Winery.

In addition to the wine operation, the Winery also runs a restaurant on the site. The restaurant serves traditional European peasant cuisine, and is able to seat maximum of 100 people. It is not uncommon to have a restaurant in addition to the wine production, due to the Yarra Valley being a very popular tourist destination.

**Table 5.5: Winery #1 Features**

<b>Established</b>	1976
<b>Number of full time employees</b>	3
<b>Average Number of Tonnes Crushed p/a</b>	20
<b>Hectares Under Vine</b>	8

Table 5.5 shows the basic features of Winery #1. This is a reasonably small operation crushing around 20 tonnes of grapes per year even though it was established in 1976.

Only recently has the Winery decided to try to expand its international presence and enter into the foreign marketplace, and presently they decided they would try to expand into the Canadian market. They have approached an agent in that market to help them with the expansion and launch of their brand in that marketplace. When asked why they have decided to go to the Canadian market, it does not seem that there was too much thought given to this as the informant's main reasoning was because Canada has the **"...same language, culture etc."** (Winery #1, personal communication, 11th October 2007). Psychic distance between the Canadian and Australian markets seems to be of high importance for this Winery.

When asked about the group efforts in the region, in order to get a common marketing message across, and joint resources for their common benefit, the informant felt that it was currently quite disorganized, although there are a number of associations and bodies available with results that do not equal or exceed the cost of their involvement.

**"Regional Marketing bodies exist but it costs to participate, and because everybody pays, but not everybody gets the same results; for example I sell four crates of wine but my neighbour doesn't. My neighbour decided that it is not worth him to participate."** (Winery #1, personal communication, 11<sup>th</sup> October 2007).

He also elaborates that **"the associations are usually just to share knowledge and experience between members, and there is no real effort made to go jointly into foreign markets."** (Winery #1, personal communication, 11<sup>th</sup> October 2007). This opinion may be due to the small-scale operation of the winery, where sharing of promotional and distribution expenses is too costly.

In regards to clustering of the supporting service providers in the region, the informant also adds that because of the close proximity of the Yarra Valley to Metropolitan Melbourne most of the supporting businesses in the Yarra Valley are in Melbourne City. The main example is One Steel that produces the majority of stainless steel barrels and other steel and metal products used by the wineries. One Steel has its main operations scattered on the outskirts of the Melbourne Central

Business District, and it would sometimes send representatives to the Yarra Valley to develop more business, but does not have a constant presence in the Yarra Valley.

Natural disasters such as drought or frost can cause significant damage to the crop yield especially due to the lack of government support. According to the informant, this is another issue that arises because of close proximity to Metropolitan Melbourne. Some parts of the Yarra Valley are classified as the Metropolitan Melbourne, and therefore **“not eligible for the farmer’s drought or frost relief”** (Winery #1, personal communication, 11<sup>th</sup> October 2007) that is available to other farmers in other parts of the country.

### *Summary*

This winery has only recently entered into a foreign market. They do not get involved with other companies within the cluster in joint efforts, due to the unclear benefit distribution of costs and resources related to their joint efforts. This may be due to the lack of effort to explore the likely outcomes of joint market research and marketing within the cluster.

## **Winery #2**

This Winery has a much larger wine operation than Winery #1. It was established in 1986 by a prestigious French Champagne house. The location has been chosen because of its cool climate and ideal soil for growing classic sparkling wine grape varieties. The Winery upholds the tradition of producing “methode traditionnelle” sparkling wines and at the same time producing still wine varieties.

The property was originally established as a mixed farming property, but in the later half of the 19<sup>th</sup> century became known for its quality wines. The soil and east facing slopes in the centre of the Yarra Valley have made it ideal for the production of high quality wines. The area under vines is around 40 hectares and is predominantly planted with Chardonnay, Pinot Noir, Pinot Meunier, and Shiraz varieties. The

winery is only an hour away from the Melbourne Central Business District, and it annually it attracts around 100,000 visitors including approximately 15,000 international tourists.

**Table 5.6: Winery #2 Features**

<b>Established</b>	1986
<b>Number of full time employees</b>	7
<b>Average Number of Tonnes Crushed p/a</b>	1,000
<b>Hectares Under Vine</b>	40

Table 5.6 shows that Winery #2 is a larger operation with around 1,000 tonnes of grape crushed annually. Even the size of the hectares under vine is not the largest in this sample, as this winery purchases a lot of fruit from other growers, making it the largest wine producer within this sample.

Although this winery is a much larger operation than Winery #1, it is still a member of an even larger group of beverage companies, and this ultimately has an influence on the operational and decision making process, especially when it comes to expansion into the international marketplace. When asked about the process of entering the international marketplace the company informant said, **“that if the group has a presence in the market than we go there as well, if not then we don’t”** (Winery #2, personal communication, 14<sup>th</sup> November 2007). When the group’s distributors decided that they wanted to increase the range of Australian wines, this gave the winery an opportunity to expand its presence within that new market. Currently the group operates within the U.S.A, UK, Europe, along with Singapore and Hong Kong. As Informant 2 puts it: **“... we are separate companies, but we are all working for the same group so we do work with [other group members]”** (Winery #2, personal communication, 14<sup>th</sup> November 2007). In other words if the overall group decides that it is feasible to have some wine variety represented in their range then that wine will be taken onboard from within the group, and if it is no, than the members of the group do not enter markets of their own initiative.

The majority of the wine from the Winery is sold within Australia (75%). According to Informant #2, they only produce around “... **a thousand tons worth of fruit, so it is not big value. The larger companies would be exporting that every day**” (Winery #2, personal communication, 14<sup>th</sup> November 2007).

When asked about the involvement with the other winemakers in the region Informant #2 has said that they belong to a number of local associations like the Yarra Valley Wine Growers Association, Australian Wine and Brandy Corporation, and the Australian Wine Export Council. Informant #2 says that being part of these associations is

**“very important because they have offices all over the world and we, like other Yarra Valley producers, participate in their programmes because that promotes what Australia does, and of course promotes our wines because we’re there and involved”** (Winery #2, personal communication, 14<sup>th</sup> November 2007).

Climate change and its effects such as drought or frost are not of major concern to the Informant because as he says **”it is something that you live with.....also we have around 40 hectares under vine which is a fairly large size, and if frost hits only a small part of it may be affected. We also outsource a lot of our fruit from smaller producers”** (Winery #2, personal communication, 14<sup>th</sup> November 2007). Therefore, it would seem that the larger the area is under vines the less likely for it to have a significant negative affect on the fruit.

### ***Summary***

This winery has already had a presence in a number of foreign markets, primarily due to belonging to a large international organization that provides future direction, and involves significant distributorship network. For this reason, the winery is not particularly active within the Yarra Valley Wine Industry Cluster.

### **Winery #3**

Winery #3 is a small winery established in the 1990's at the bottom of the Great Dividing Range, the northern end of the Yarra Valley. This winery is a modern establishment producing around 10,000 cases of wine per year. The production is divided between the vineyard brand, which is exclusively created from estate-grown grapes and contract winemaking for other Victorian brands. Currently the Winery offers a cellar only wine range of Rieslings, with sparkling Riesling, dry table Riesling, and fortified "Double Picked Riesling," which are only available for purchase through the cellar. Unlike many other wineries from the Yarra Valley, the Winery does not offer a venue for hire or an onsite restaurant venue. However, the vineyard cellar is open on weekends and invites tourists to enjoy picnics overlooking their vineyard.

The Winery has a very small vineyard of only eight acres and that is one of the reasons they do whatever they can in order to grow the best possible quality fruit. In order to ensure the best quality, the Winery uses the Scott Henry Trellis System; this increases the canes from a single plant from two to four. This system has a number of benefits, and the wines produced from vines trellised in the Scott Henry System tend to show better colour, more fruit character on the nose, and the palate, as well as an overall better palate structure (Henry Estate Winery, 2008). The downside of the Scott Henry Trellis System is that the maintenance is slightly more expensive than the methods traditionally used.

The Winery has created its presence through distributors abroad in the markets of Singapore, Philippines, and China. However, because of the quantity produced the majority of their wines are also sold both locally and nationally. Distributors abroad carry a number of other wines that these vineyards wines are only part of the range.

**Table 5.7: Winery #3 Features**

<b>Established</b>	1990
<b>Number of full time employees</b>	2
<b>Average Number of Tonnes Crushed p/a</b>	150
<b>Hectares Under Vine</b>	3.25

Table 5.7 shows that although winery #3 has a little over three hectares under vine they are still crushing 150 tonnes of grape each year making them more a middle-sized operation.

The Winery has been trying to develop a mainland China marketplace over the past 10 years, but according to Informant 3, it has been going **“very slowly”** (Winery #3, personal communication, 31<sup>st</sup> November 2007). The reason for it going very slowly is primarily because it is a new marketplace and **“it is a difficult market, as there’s a lot of cheap wine around”**. Another problem encountered with this market is they have found it difficult **“identifying the right local distributors”**.

Being part of the local group is very important for this Winery. By being a member of the Yarra Valley Wine Growers Association, the Winery is able to be part of a promotional campaign that it would not have been able to do on its own. Also being part of the group **“we are able to try to influence the local government as well”** (Winery #3, personal communication, 31<sup>st</sup> November 2007) in order to lobby as a group for more desirable legislation changes.

The climatic influence has a significant affect on vineyard. Informant 3 says that the production this year **“has been cut down by two thirds from the frost, drought, smoke, and hail”** (Winery #3, personal communication, 31<sup>st</sup> November 2007). For the small vineyard that has limited area this can be highly discouraging as the majority of their fruit can very easily be damaged or destroyed, reducing the possible output and quality of the final wines.

### *Summary*

Although Winery #3 is a small-scale operation, they are currently represented in a number of international markets. Their goal is to establish their presence within the Chinese marketplace. The winery relies heavily on joint promotion campaigns organized by the cluster.

### **Winery #4**

Winery #4 was established in 2000 and has a special French flair to its Australian made wines, being found in Dubai, UK, U.S.A, Asia, Canada, etc. The family owns and operates the Winery and probably has an unmatched record in the Australian wine industry, being the ninth generation committed to winemaking. However, this is the first time that the family has run and operated a winery in Australia, and it is the first time in nine generations that the family name is used on the wine label.

Prior to arriving in Australia Informant #4 spent three vintage years with his brother in the Napa Valley, California. In 1976, Informant #4 arrived in Australia and became one of the pioneers in the renaissance of the Victorian wine industry. Informant #4 was looking for a suitable vineyard site when decided upon the Yarra Valley. The quality and style of wines made in the Yarra Valley reminded him of Bordeaux, France. This was the reason he chose to start his winery in the Yarra Valley.

The winery has a café and restaurant available on site, as well as function space available for hire, for up to 120 people. This provides an additional revenue stream for the winery.

**Table 5.8: Winery #4 Features**

<b>Established</b>	2000
<b>Number of full time employees</b>	4
<b>Average Number of Tonnes Crushed p/a</b>	130
<b>Hectares Under Vine</b>	3

Table 5.8 shows that Winery #4 is similar to Winery #3 and has a relatively small area under vine, but still crushes more than 100 tonnes of grape each year. One interesting feature of this vineyard is that it has been established more recently than Winery #3

The Winery predominantly uses agents when it comes to entering foreign markets. When asked about the decision making process for entering foreign markets Informant 4 said, **“I don’t understand marketing; unless you have got the right contacts you don’t get it”** (Winery #4, personal communication, 14<sup>th</sup> November 2007). Therefore, it would seem that having the right connections is more important than your wine knowledge.

The Winery is a rather small operation producing only around 12,000 cases of its own wine, with only around 30% of this exported in small quantities to Dubai, UK and the U.S.A. However, because of its good reputation among the grape growers it uses the expertise of Informant #4 to assist other fruit growers in the Yarra Valley with the production of their own wines.

### ***Summary***

The Winery #4 has a strong international expansion focus, with minimal joint clustering efforts. Currently this winery is available in the traditional wine consuming markets such as UK, Canada, and U.S.A as well as expanding into the Asian markets.

## Winery #5

Winery #5 was established in 2000 and is a small family operated vineyard that produces high quality Merlot, Shiraz, and Sauvignon Blanc grapes. Informant #5 personally processes the grapes from this property to produce high quality wines.

The vineyard of Winery #5 extends across around 3.5 hectares of north facing slopes and comprising a mixture of clay and loam soils. The winery only produces wine from the fruit yield on the property itself, resulting in the relatively small amount of fruit crushed for wine production each year.

**Table 5.9: Winery #5 Features**

<b>Established</b>	2000
<b>Number of full time employees</b>	1
<b>Average Number of Tonnes Crushed p/a</b>	11
<b>Hectares Under Vine</b>	3.5

From Table 5.9 we can see that Winery #5 is quite a small operation with only one full time employee and a very small amount of grape being crushed each year. It could be classified as hobby winery.

The Winery is currently not involved in any foreign markets. According to Informant #5 **“we sell all of our wine locally and nationally and there is usually not much left over to sell elsewhere”** (Winery #5, personal communication, 6<sup>th</sup> December 2007). It would appear that they are not interested in expanding their production. The low production levels would only place the winery in the category of a small boutique wine producer, that would successfully only cater to a small local niche customer base.

The Winery is a member of Yarra Valley Wine Growers Association and this has two main benefits. First, it is able to exchange ideas with different wineries of the similar size from the region. Second, it is able to take part in the joint regional promotion efforts.

Because of its small production capacity, it is very sensitive to climatic effects that could be devastating to its crops. In order to minimize the possible damage caused by the drought it uses a drop system of irrigation and is very water efficient, this delivers the necessary moisture to the vines in order to survive and minimize the negative results. In order to minimise the negative effects of fungal diseases the Winery uses only minimal chemicals in order to ensure the highest possible quality of wine.

### *Summary*

This winery does not have any international experience, as they are currently active in the Australian domestic market only. It is a member of a Yarra Valley Wine Growers Association and helps them in promotional efforts.

### **Winery #6**

The Winery #6 was established by an Italian immigrant family, they arrived in Australia from southern Italy in the mid 1960's. The family brought with it one hundred years of family winemaking experience, and a burning desire to allow their children, and grandchildren, to experience the meaning of the good life they enjoyed growing up in southern Italy. After a few attempts at farming, they decided to establish their winery in 1996. Based on the banks of the Yarra River near Seville, this estate has a distinctive Italian flavour. The motto of the Winery is "*Good Food, Good Wine, and Good Company*" and is one of its core values. The family who established the Winery purchased 1200 acres in the mid 1990's and is still one of the largest privately held estates in the Yarra Valley.

Currently the property is being used as a mixed estate with fruit orchards, cattle grazing, and more than 90 hectares under vine. The main varieties grown on this estate include Pinot Noir, Chardonnay, Merlot, Shiraz, and Cabernet.

The estate also offers a restaurant and function venue that can be hired for weddings or similar occasions with distinctive Italian menu on offer. The venue is able to cater for up to 150 seated guests that provides additional source of revenue to this already very mixed estate.

**Table 5.10: Winery #6 Features**

<b>Established</b>	1996
<b>Number of full time employees</b>	10
<b>Average Number of Tonnes Crushed p/a</b>	450
<b>Hectares Under Vine</b>	95

As shown Table 5.10 Winery #6 has more than double the amount of hectares under wine than Winery 2 even although it is crushing less than half of the amount of fruit than Winery #2. This may mean that Winery #6 is not as reliant on external growers as Winery #2 may be.

Currently the winery is using agents to distribute their wines within the UK, Italy, and most recently the Chinese markets. When asked about the choice of the markets and how they went about selecting the most attractive the Informant 6 said that **“we already had agents present in UK and Italy and we also wanted to take a leap in to the growing Chinese market”** (Winery #6, personal communication, 14<sup>th</sup> January 2008). The winery has been leveraging off its connections from its mixed operations, especially from the fruit growing side of the business, to establish itself within some of the European countries such as the UK and Italy. The move to go into China has been opportunistic and somewhat less profitable, due to their limited understanding of how Chinese businesses operate. As Informant #6 puts it **“We see the potential in China but we are yet to make it work for us”** (Winery #6, personal communication, 14<sup>th</sup> January 2008).

**“We do belong to the Yarra Valley Wine Growers Association, but I am not sure how valuable it is to us, because we use our own networks to access markets”** (Winery #6, personal communication, 14<sup>th</sup> January 2008). Being part of the Yarra Valley Wine Growers Association has been of limited use for the Winery because

**“the group may want to go in the direction where we are already at, or where we may not want to go. It is better for smaller wineries, but not us”** (Winery #6, personal communication, 14<sup>th</sup> January 2008).

Climate change does affect Winery #6 but probably not to the same extent as it may to others in the region. In order to minimize the affects of drought it is utilizing the drip system for some younger vines, while the older and more established vines are able to survive without it. **“If there is a catastrophic drought or frost we are not going to be the only ones affected by it, but we are more likely to have some of our crop survive”** (Winery #6, personal communication, 14<sup>th</sup> January 2008) because of the geographic spread of the crops.

### *Summary*

The Winery #6 has activities in several international markets and currently is attempting to access the Chinese marketplace. Although the winery is a member of the cluster, they do not find it very useful in relation to their current focus; in fact, quite the opposite, they feel that the group direction is limiting to their own development.

### **Winery #7**

The vineyard of Winery #7 was planted in 1968 with classic French grape varieties including Chardonnay, Pinot Noir, Shiraz, and Cabernet Sauvignon. The first commercial vintage took place in 1973 and in subsequent expansions saw the addition of the restaurant in 1975. The wine sales facility opened to the public in 1978. The Winery is located in the picturesque Yarra Glenn around one hours drive from Melbourne.

Informant #7 took over the full time operation in 1982, and is responsible for the vineyard; his wife joined him in 1984, and developed the restaurant to as it is today.

The Winery offers restaurant and accommodation facilities as well as facilities for private functions and wedding as well as on site balloon rides across the valley. The Winery #7 has been recognized as the prime tourist destination in the valley. In addition, has been rewarded Victorian Tourism Award for “Best Winery” in 1996 as well as a Certificate of Merit for its restaurant.

**Table 5.11: Winery #7 Features**

<b>Established</b>	1968
<b>Number of full time employees</b>	10
<b>Average Number of Tonnes Crushed p/a</b>	75
<b>Hectares Under Vine</b>	10

Table 5.11 shows that although Winery #7 was established in the late 1960’s it is still a reasonably small operation with only 75 tonnes of grape being crushed annually.

**“We are well known within the Valley, but to many outside of Victoria we are still very much unknown”** (Winery #7, personal communication, 18<sup>th</sup> January 2008). The Winery is currently using distributors within the UK as well as within Taiwan and Hong Kong. When asked about the choice of market Informant 7 says that **“UK was the obvious choice because of the similar cultures and language, but Taiwan and a little bit in Hong Kong are to bring us closer to China”** (Winery #7, personal communication, 18<sup>th</sup> January 2008).

The Australian Wine and Brandy Corporation have helped the Winery identifying suitable agents in the foreign markets. Also being part of the Yarra Valley Wine Growers Association **“has helped us in promoting our own wines”** (Winery #7, personal communication, 18<sup>th</sup> January 2008) as well as the region’s tourism.

Climate change is seen by Informant #7 as a possible threat especially when it comes to frost damage, because “it can wipe out our fruit overnight, and there is nothing we can do about it”. One way of minimizing the affects of climate damage is through

diversification of their operation and providing a great tourist destination as well as a very attractive hire venue.

### ***Summary***

Winery #7 is currently present only in the UK market, with efforts being made to establish themselves in the Taiwanese and Hong Kong markets, with the aim of reaching the Chinese customers. The winery readily joins promotional efforts of the cluster and local associations as they find it very useful belonging to the cluster, particularly for identifying suitable agents in foreign markets.

### **Winery #8**

The vineyard of Winery #8 was initially planted in 1978 and the winery itself established in 1983, facing the sunny north-west slopes of Diamond Valley, a sub-region of the Yarra Valley. The 10 acre vineyard estate has gained a strong reputation for its ability to produce superior fruit. The estate produces high quality Sauvignon Blanc, Chardonnay, Pinot Noir, Merlot, and Cabernet varieties.

The Winery has won numerous awards for both its Chardonnay, in 1988, as well as more recently Chardonnay in 2000. All the wines are made from fruit grown on the estate and minimal use of chemicals ensure the fruit captures the essence of the soil and climate of the region.

The majority of the wine produced is sold either at the cellar door or through local restaurants and independent wine outlets. However, there is also a small percentage exported to the UK and Fiji.

**Table 5.12: Winery #8 Features**

<b>Established</b>	1983
<b>Number of full time employees</b>	2
<b>Average Number of Tonnes Crushed p/a</b>	10
<b>Hectares Under Vine</b>	3.5

Table 5.11 shows winery #8 is a very small operation with only 10 tonnes of grape being crushed each year making this the smallest in the sample.

When asked about the foreign markets Informant #8 said: **“We only send small quantities, maybe 2%, or 3% of our wines overseas”** (Winery #8, personal communication, 24<sup>th</sup> January 2008). There is no great push towards going overseas as feel that they are able to sell all their wine domestically, especially as they are able to earn better margins in the domestic markets, without too many other expenses associated with international sales.

Being part of different organizations within the region helps the Winery promote its produce and quality more widely. **“We are small and it gives us the opportunity to expose ourselves at a higher level”** (Winery #8, personal communication, 24<sup>th</sup> January 2008).

### *Summary*

The Winery #8 does not have any desires to expand internationally. Belonging to the cluster group allows them to be exposed in other regions within the domestic markets.

## **5.3 Conclusion**

This chapter discussed some of the findings identified from the interviews of eight wineries within the Yarra Valley. The Chapter started with a brief summary of the main characteristics of each of the wineries. A descriptive case study of each winery was presented giving some background on the winery and their activities. The wineries' characteristics and features have been used in order to set the background

for the discussion, and analysis of the interview findings will be addressed in the following chapter.

Wineries #2 and #6 are large operations with a much stronger international presence than some of the other wineries e.g. #1, #5, and #8, these are much smaller operations focusing predominantly on their local markets with limited international reach. Wineries #2 and #6 are well positioned to sustain most of the natural disasters caused by the climate change due to the large area under vine. The remaining wineries are subject to a much greater extent, frost, and drought damage. Winery #2 is the largest in the sample and belongs to an even larger group of companies this provides it with a much stronger international reach. Winery #2 on the other hand has limited influence on the international direction, and usually has to follow directives from the group as a whole.

Understanding of individual cases is important for further analysis of findings within this research. Full case details can be found in Appendix 4.

## **Chapter 6      Analysis of Findings and Discussion**

### **6.1 Introduction**

This chapter addresses the findings in relations to the research questions that have been highlighted in Chapter 1. The chapter will start by the brief recap of the three main research questions. The chapter is divided in three sections with each section discussing one research question in relationship to the findings of the Yarra Valley wineries. This is followed by further research recommendations and chapter conclusions.

### **6.2 Across Case Analysis**

This study utilized the case study analysis using qualitative methods. The data was generated by the interview process. Then, within-case and across-case comparisons were undertaken. The relationship between each main category and various sub-categories were then identified. Finally, categories and themes were integrated around the research questions:

1. Do the three main paths of internationalization identified in the literature explain the internationalization process of member firms in a cluster?
2. How do networks influence firms' internationalization process and competitiveness?
3. How does cooperation among cluster firms determine success and competitiveness of firms in a foreign market?

This led to the comparison of findings to the preliminary propositions offered in Chapter 2 of the research. The preliminary propositions are as follow:

**P1.** Cluster supports cluster members in international activities.

**P2.** Within the cluster, firms will choose to go international on their own if they feel the local market is saturated or that they may have lost competitiveness against other larger players in their domestic markets.

**P3.** Personal networks are of greater importance to the success of the internationalization process rather than those of the whole cluster group

**P: Firm's cluster membership is directly related to firm's internationalization process.**

This section describes the across case qualitative analysis and the internationalization process of participating in Yarra Valley Industry Cluster firms. Informant experience, expressed in their own terminology, provides the basis in understanding of the relationship between the internationalization process and belonging to the Yarra Valley Wine Industry Cluster.

Table 6.1 below present's summaries of the main themes in the research, namely the internationalization process, importance of networks, when going international, and functions of a cluster when going for international expansion. The main themes will be explained in more details in the sections that follow.

**Table 6.1: Main Themes Emerging From the Interviews**

Winery 1	Winery 2	Winery 3	Winery 4	Winery 5	Winery 6	Winery 7	Winery 8
<p><b>Networking</b> – contract winemaking for small wineries</p>	<p><b>Networking</b> – use corporate networks to support their operations.</p>	<p><b>Networking</b> - contract winemaking for other Victorian brands</p>	<p><b>Networking</b> – only for local knowledge sharing</p>	<p><b>Networking</b> – only through group/association for the experience exchange</p>	<p><b>Networking</b> – use their own network to access markets</p>	<p><b>Networking</b> – local wine sharing knowledge</p>	<p><b>Networking</b> – with local distributors</p>
<p><b>Experience/knowledge sharing</b> – for individuals or groups (fruit owners)</p>	<p><b>Experience/knowledge sharing</b> – through being part of an association</p>	<p><b>Experience/knowledge sharing</b> – through Yarra Valley Wine Growers Association</p>	<p><b>Experience/knowledge sharing</b> –strong reputation among grape growers; uses expertise of the owner to assist other fruit growers in production of their own wines</p>	<p><b>Experience/knowledge sharing</b> – through belonging to a group/association</p>	<p><b>Experience/knowledge sharing</b> –association</p>	<p><b>Experience/knowledge sharing</b> – local group of wine makers</p>	<p><b>Experience sharing</b> – Strong reputation among local distributors</p>
<p><b>Presence in foreign markets</b> – recent decision (Canadian market)</p>	<p><b>Presence in foreign markets</b> – Using company networks to expand internationally. Present in U.S.A, UK, Europe, Singapore, Hong Kong</p>	<p><b>Presence in foreign markets</b> – even though of a small scale, the winery has a significant presence in foreign markets; tried to establish themselves in some other markets as well very important to the winery, (China)</p>	<p><b>Presence in foreign markets</b> – Strong expansion focus towards foreign markets; present in Dubai, UK, U.S.A, Asia, Canada</p>	<p><b>Presence in foreign markets</b> – None</p>	<p><b>Presence in foreign markets</b> –present in several countries; attempt to access the Chinese market</p>	<p><b>Presence in foreign markets</b> – UK (similar culture, language); Taiwan and Hong Kong currently building to get them closer to China market</p>	<p><b>Presence in foreign markets</b> – no desire to expand internationally</p>

Winery 1	Winery 2	Winery 3	Winery 4	Winery 5	Winery 6	Winery 7	Winery 8
<b>Vehicle to enter a foreign market</b> – an agent	<b>Vehicle to enter a foreign market</b> – distributor and the group, but not a whole cluster	<b>Vehicle to enter a foreign market</b> – distributor; the main problem is finding the right distributor	<b>Vehicle to enter a foreign market</b> – agents	<b>Vehicle to enter a foreign market</b> – NA	<b>Vehicle to enter a foreign market</b> – agent	<b>Vehicle to enter a foreign market</b> – distributor	<b>Vehicle to enter a foreign market</b> – an agent
<b>Reasons</b> – same language, culture (not much thought about any other option)	<b>Reasons</b> – easier; distributor has the market knowledge	<b>Reasons</b> – large market size	<b>Reasons</b> – neither have marketing knowledge or right connections in foreign markets	<b>Reasons</b> – NA	<b>Reasons</b> – familiarity with Italian and the UK markets;	<b>Reasons</b> – local knowledge	<b>Reasons</b> – no international focus
<b>The group/ cluster common marketing</b> – disorganized; no real effort made to go jointly into foreign markets	<b>The group/ cluster common marketing</b> – only really involved in company group efforts, not cluster efforts	<b>The group/ cluster common marketing</b> – Being part of the local group is very important; able to be part of a promotional campaign that it would not be able to do on its own (NOTE: they talk about the belonging to a group not to a cluster!)	<b>The group/ cluster common marketing</b> – minimal	<b>The group/ cluster common marketing</b> – a member of a group/association, but not a cluster; to take part in the regional promotional efforts	<b>The group/ cluster common marketing</b> – a member of a group but do not see it very valuable; their directions differ from the one of the group; feel like being dragged back by the group	<b>The group/ cluster common marketing</b> – finds belonging to a group very useful for promoting their wines and identifying suitable agents in the foreign markets	<b>The group/ cluster common marketing</b> – belonging to a group gives them opportunity to expose themselves to larger markets

Winery 1	Winery 2	Winery 3	Winery 4	Winery 5	Winery 6	Winery 7	Winery 8
<b>The group/cluster joint resources</b> – Too costly and not even distribution of benefits	<b>The group/cluster joint resources</b> - Prefers to work within its own company group	<b>The group/cluster joint resources</b> -Some	<b>The group/cluster joint resources</b> -Not emphasised	<b>The group/cluster joint resources</b> - NONE	<b>The group/cluster joint resources</b> - Minimal, mainly because directions are not aligned to them	<b>The group/cluster joint resources</b> - Joint regional promotion	<b>The group/cluster joint resources</b> - Minimal
<b>The role of group/cluster</b> – To share knowledge and experience	<b>The role of group/cluster</b> – The winery influences the decision-making process related to the expansion to foreign markets; the group influences the winery move to foreign markets	<b>The role of group/cluster</b> - Winemaking knowledge exchange	<b>The role of group/cluster</b> - Some knowledge exchange	<b>The role of group/cluster</b> – (group) to exchange ideas and to organize regional promotional actions.	<b>The role of group/cluster</b> - Some knowledge exchange	<b>The role of group/cluster</b> - Regional promotion	<b>The role of group/cluster</b> - Unclear on it
<b>Other relationships</b> - Developed relationship with other related industries	<b>Other relationships</b> – Extensively rely on the distributor; rely on different groups within the industry, but not on the cluster	<b>Other relationships</b> - Personal relationships are of high importance for expansion	<b>Other relationships</b> - Relies on distributors for market knowledge	<b>Other relationships</b> - Only local distributors	<b>Other relationships</b> - Personal networks	<b>Other relationships</b> - Australian Wine and Brandy Association and distribution agents	<b>Other relationships</b> - Distribution agents

## **6.3 Three Main Themes**

This section further analyzes and summarizes the findings by putting them into three main themes discussed in the research: First, the internationalization process of member firms in a cluster; second, the role of networks in the internationalization of member firms, and third, the effect of belonging to a cluster on success and competitiveness of firms in a foreign market. Then it links them to the extant literature to develop new theoretical explanations for the alternative paths of the internationalization process for firms belonging to the Yarra Valley Wine Industry cluster, which serves as a foundation for addressing the research propositions.

### **6.3.1 Internationalization Process**

Globalisation has been presenting new challenges to local industrial groups and systems and this results in requirements of new efforts for firms to be more creative when thinking of their markets. This is primary due to markets no longer being purely limited to a single physical location.

In some firms, the perceptions of the foreign markets were drawn from the relationships with, and by the input and suggestions of the distributors, agents, and partners, in a particular market (Wineries #1, 2, 3, 4, 6, 7, 8). Other firms appear distanced from their international environments by the management decisions for serving exclusively domestic/local markets (e.g. Winery #5). However, whether in close relationships in the foreign markets or distanced from them, all firms have a grasp of changing the market needs and see this change as an opportunity to grow their sales.

All firms sought to deploy their resources using a strategy process that is founded on some form of 'vision or focus'. In some firms, the vision is formally developed and communicated from the very beginning particularly related to overseas expansions, while in others it is held in the minds of proprietors and management teams. For example, it is

clearly evident that Wineries #2, #4, and #7, have the clear focus towards the number of international markets, whilst Wineries #1, #3, #6, and #8, it is almost as an afterthought of entering international markets, or there is only a limited focus towards it. Winery #5 does not have an existing focus towards international expansion.

Across the case firms, international strategy processes range from regularly planned procedures for strategy, to those that are irregular, informal, and prospective, allowing them to quickly respond to any opportunities. Winery #6 in Table 5.2 is identified as opportunistic because they would take chances to expend both domestically/locally, as well as internationally, even if they do not have all the information necessary to expand in that direction. The only winery that focuses entirely towards the domestic market is Winery #5 and the remaining wineries are using their domestic markets as a base, and slowly developing foreign markets using external agents or distributors.

Motivation to internationalize is somewhat similar to firms that are currently present internationally. They all have common things in mind and that is to “**expand brand’s reach**” (Winery #4), “**entering large markets**” (Winery #4), “**accessing customers within different international markets**” (Winery #1), entering into “**new market that has not been saturated yet**” (Winery #3), “**familiarity with Italian and UK markets**” (Winery #6), market “local knowledge” (Winery #7). Therefore, market size and future potential growth seems to be prevailing factors. It is interesting to note that Winery #7 seems to have a somewhat longer-term strategy/plan in place, since they are currently operating in Taiwan and Hong Kong in order “**to bring [them] closer to China**”. Winery #2 does not seem to have its own independent agenda when deciding which market it should increase its presence. Instead it follows the leadership of the corporate group, “**if the group has the presence in the market than we go there as well, if not than we don’t**” (Winery #2).

In all companies that are internationally active, implementation of strategy in international activities is integrated with the firm’s distributors/agents/partners suggestions. Commitment from agents and the firms’ relationships with them was

perceived as a critical success factor in the foreign process. Undeniably, for some firms the building and sustaining personal relationships and networks of relationships were a strategy in themselves. This has been identified as being of high importance to wineries that are actively competing within foreign markets due to the distinct lack of knowledge within the those markets wineries have to heavily rely on their networks that have access or the experience of those markets.

**Table 6.2: Foreign Market Presence**

<b>Name</b>	<b>Foreign Markets Present</b>
Winery 1	Canada
Winery 2	USA, UK, Europe, Singapore, Hong Kong
Winery 3	China
Winery 4	Dubai, UK, USA, Asia, Canada
Winery 5	None
Winery 6	UK, Italy
Winery 7	UK, Taiwan, Hong Kong
Winery 8	UK, Fiji

Culture and language play a significant factor when deciding which market winery to enter. Wineries #1, #2, #4, #6, #7, and #8, are all present within English speaking markets and amongst some of the countries that have former British colonies, this suggests that a majority of wineries prefer to enter markets where wine consumption and culture are similar to their own. This indicates that preferred markets are where culture and language are not considered to be barriers. Psychic distances appear to be more important rather than geographical distance. For example, the low psychic distance between Canadian and the Australian markets appears of particularly high importance for vineyards #1. Winery #3 is only internationally present in Chinese markets and this was due to “**market size**” (Winery #2) rather than anything else. Strong emphasis of wineries entering predominately English speaking markets does not come as a surprise. Within the English speaking market it would be much easier to expand rather than if the market was entirely foreign. There are several distinct advantages of following this path. Firstly and probably the most obvious, would be communication, is much more simplified and transferable across domestic and foreign markets. In other words, labelling and any other marketing material is much easier to transfer between these two markets with possibly minor adjustments. Now comparing that for example, transferring

between Australian and Chinese markets, where translation would have to be not only correct but also appropriate in cultural terms, makes English speaking markets a lot more attractive than non-English speaking. A lot more effort would need to be invested into the cultural sensitivity perspective. The second advantage entering English speaking markets would be some of them used to be, or currently still belong to the colonies of Great Britain. Past or present, belonging to Great Britain has shaped legal systems within those countries, making it somewhat easier to understand, and comply with any legal obligations or regulations.

Chinese market may have a large population, but it has only recently began to become feasible venture for the wine makers because only over the past few years increase in the disposable income has been significant enough to influence the purchase and wine consumption. In the more recent history Chinese market was more of a beer consuming market. French wine makers have been one of the foreign companies to enter Chinese market and create one of the first joint ventures in the 1980. However within the first two decades wine was mainly exported to other markets until 2000 when the economic growth has allowed for the greater domestic consumption (Thach, 2008). Current wine consumption in China is only 0.35 litres per capita (Thach, 2008) even though the population is of significant size only certain economic groups are able to afford wine. Chinese rich prefer very expensive wines which they would purchase in order to show off in front of their friend while on the other hand cheap locally produced wines are consumed by the majority of wine drinking population. Australian wines fall into middle range category which is too expensive for regular consumers and not exclusive enough for the Chinese rich. This is one of the main challenges facing Australian wine producers in developing Chinese market. Attempting to focus on this market based on its size alone could be demonstrating inexperience of some of these wineries especially when there is no evidence showing sophisticated marketing strategies that are focused towards appropriate market segments. On the other hand Australian wineries entering Chinese markets have general (unfocused) market approach.

All case firms, except Winery #5, were owned and/or managed by an person with some prior experience in with dealing with the international marketplaces, even if it meant agents were involved, to provide distribution support. This experience helped them to understand the risks and demands of internationalization and the importance of effective past experience. The necessary determination to succeed was also present. Their experience gave the firm the “international motivation” needed to accelerate the internationalization.

The literature on internationalization identifies three main types of firms in relation to the internationalization process, namely, ‘traditional’, ‘born global’ or ‘born again global’ as discussed in Chapter 2. ‘Traditional’ firms are slow to internationalize and would have already been present in domestic markets for many years before entering into any international markets. Wineries #1, #2, #3, #6, and #7, (Table 5.1 and 5.2) could fit into this category, since they have already been operating for a number of years, and it would appear they may be in the initial stages of internationalization, especially as none of them have a very strong presence internationally as yet.

‘Born Global’ firms are the ones that have internationalized fairly quickly from the time of their formation until they are present in the foreign markets (Bell et al, 2003; Dimitratos and Plakoyiannaki, 2000; Chetty and Campbell-Hunt, 2004). Usually they form with the immediate intention of internationalizing. The only winery that would belong into this category is Winery #4 as it was formed in 2000 and it already has a presence in six international markets (Table 5.3). During the course of this research, no winery was discovered that could possibly fall into the ‘born again global’ category.

There are two companies that may fall into an early ‘traditional’ category. Winery #5 is yet to take initial steps in expanding internationally, and Winery #8 has some degree of presence internationally, but it is almost an afterthought with only 2%-3% of the total production being exported to foreign markets. Therefore, these two wineries would have to be classified in early ‘traditional’ category since they are yet to take initial steps towards internationalization.

Companies that belong to bigger organisations such as Winery #2 have been able to utilise existing networks in order to distribute their products internationally, while smaller companies have only been utilising individual agents sometimes on a one-off basis. Although it may be difficult to access networks that larger organisations may have access to, some of the smaller wineries may need to consider putting their efforts together in a joint venture when entering foreign markets. Currently there is a distinctive lack of joint effort of wineries joining to create synergies in foreign markets. The lack of effort could be blamed on the lack of leadership. From this sample of wineries only Winery #2 would be in position to take leadership and create direction for internationalisation of the region, due to its size, existing network, and current presence, in multiple international marketplaces. It would almost appear that belonging to the Yarra Valley Wine Industry Association is something most of the wineries belong to by default, purely based on their geographical location and due to that there appears to be a lack of initiative for anyone taking responsibility in leading the group.

### **6.3.2 Networks in the Process of Internationalization**

Networks and connections are of high importance for the firms in the sample in order to expand their operations (i.e. exception is Winery #5). Networks are considered as both personal, as well as business, connections that facilitate information flow, and enables firms to achieve greater influence outside their individual operations as suggested by Coviello and Munro (1995).

Networks can act as an alternative for wineries to establish a presence in any given international market by utilizing local agents or distributors. This can enable each winery to focus on its production while transferring some of the market development responsibilities onto someone else. This strategy seems to be favoured by the majority of firms interviewed for this research.

Companies belonging to bigger organisations are able to utilise existing networks in order to distribute their products internationally, while smaller companies have only been utilising individual agents sometimes on a one-off basis. The findings of the research confirm Coviello and Munro's (1995) suggestion that relationships would commence or cease depending on a larger network partners. This was especially prominent with Winery #2.

Unlike the suggestion by Coviello and Munro (1995) that smaller organizations are more dependent on their relationships within networks, the findings in this research is indicating otherwise. For example, Winery #2, which is the largest winery in the sample, is heavily dependent on its existing corporate network to such extent that international expansion relies on directions provided by their network. On the other hand, smaller wineries in the sample tend to be less ambitious when it comes to international expansion. They are more inclined to serve the domestic market with only a minor portion of their products sold abroad through agents and distributors indirectly (i.e. Winery #5) or directly selling their wine to tourists at their own venue (i.e. Winery #1 and #3).

Coviello and Munro's (1995) findings that have indicated that a quick growth of small size high tech firms in foreign markets, was due to firms linking them to established networks, and are not confirmed in this research. This was most likely due to the characteristics and nature of this specific cluster.

There is a distinctive absence of using the cluster as a tool to expand its international reach by using the networks of some of the members. This research shows that the members of the cluster do not share any of their strategic knowledge that could enable the group as a whole to be more competitive. The main knowledge being shared within the cluster has been the winemaking techniques and process. In fact, this is identified as the main reason why wineries would participate at some of the regional winemakers meetings.

This research has identified that networks in general play an important role when it comes to internationalisation. However, there is very limited support for the networks coming out from the actual Yarra Valley Wine Industry Cluster. The main networks being utilised by the firm are personal networks that reach outside of the cluster itself. There is no evidence of companies using networks within the cluster in order to access international markets. It would even seem that some firms would rather keep their own networks confidential; in order to limit competition in foreign markets they are trying to develop. Most noticeable of this is Winery #2 that is using its own existing corporate network to distribute its products to large numbers of international markets. Winery #2 is able to use this because it belongs to a larger corporate entity that expands across several wine growing areas in both Australia and New Zealand.

Usually the connections between firms should create collective efficiency that can generate stronger feelings of common identity, the creation of the synergy and better resource utilisation. This could enable the cluster firms to compete at a much higher level than if each firm was doing it on its own. However, this was not the case within the Yarra Valley Wine Industry Cluster, probably due to the lack of common policy in the future direction.

All case wineries that are currently operating in foreign markets are utilizing their agent's networks in order to supply products for these markets. It does look as if decision-making, and how products are presented overseas, are left entirely to agents and distributors with minimal input from the actual winery. **“Not directly involved in the foreign markets, we leave that to our agents and distributors”** (Winery #4) and **“we use our agent's connections to send some of our wine overseas”** (Winery #8) seem to be recurring themes when it comes to taking responsibilities in the international marketplace. Only Winery #2 is using a somewhat different approach that is by utilizing its main organization's networks in order to enter foreign markets. Again, with Winery #2 there is a distinctive loss of control of how the brand is represented in foreign markets.

Cluster networks appear to be focused towards joint regional promotion, and sharing knowledge on a day-to-day basis, however, there appears very little evidence of joint efforts for international expansion. Winery #6 even believes that regional networks may not be very useful either because they **“may want to go in the direction where we are already at, or where we may not want to go. It is better for smaller wineries, but not for us”**. On the other hand Winery #2 does see regional networks as a useful place to let their agenda be known and to enable it to lobby for some of its interests through **”local promotions to political issues to all sorts of other issues... greater power over region.”** Winery #2 does seem like the strongest candidate to take this kind of leading role throughout the Yarra Valley but it is currently rather self-indulged. If they were to take a leading role, it would be beneficial to some of the smaller producers who may not have as much lobbying power as Winery #2 may have.

There seems to be a distinctive lack of joint direction within the regional networks/cluster when it comes to accessing international markets. Networks are usually seen as a place to share knowledge but not a place to gain direction. **“We usually go on our own”** (Winery #6) it seems to be common theme among wineries in this sample. The only individual response comes from Winery #2 that takes direction from its higher corporate group that is not regionally bound. This may be due to the lack of formal leadership and possibly even trust within cluster members. The Yarra Valley cluster seems to be very much domestically focussed.

All apart from Winery #5 have some form of tourist facilities in order to attract an increasing number of tourists into the region by tourist agencies, based in metropolitan Melbourne. Wineries are utilizing networks and relationships with a number of agencies that are bringing increasing numbers of tourists to each winery’s front door. Facilities being on offer range from cellar door sales, function rooms, and onsite accommodation. Winery #7 even offers hot air balloon rides across the Yarra Valley for the more adventurous tourists. It seems tourism is becoming a dominating industry within the Yarra Valley, and wine production is a side product, to add to the repertoire of breathtaking scenery, excellent restaurants, and other tourist activities available in the region.

Unless something is done, it may well end up being a tourist destination with wines produced elsewhere or perhaps one of the major wineries producing it with other locations merely providing hospitality services. The benefit of the Yarra Valley as a tourist destination is its close proximity to Melbourne, as it is only an hour's drive away. This makes it ideal for day trips or a weekend getaway for many Melbournians and visiting overseas tourists.

Larger wineries are able to utilize their existing networks in order to expand their brand's reach and recognition, while smaller wineries are still struggling with trying to make ends meet and cover their basic requirements in running their own productions. Smaller wineries are finding it difficult to expand internationally, because they do not have the necessary networks and channels in place to succeed. There seems to be many duplicated efforts among the small wine makers that do not have enough resources or wine volume to be successful internationally. One approach to improving success rate would be to actively cooperate in grape growing, winemaking, and international distribution, under a single brand. This would bring many of the resources together that were insufficient on their own, in order to maximize the chances of success in international markets. One of the possible drawbacks would be the lack of motivation for some members to participate in a project of this type. More likely, larger producers among the smaller wineries would be the ones that would have the most to lose, as they are the most advanced in regards to brand recognition. In order to overcome this, a trial project could be introduced where growers can decide how many tonnes of fruit they would like to contribute to this joint venture, where the best growing, winemaking, and marketing skills, can be brought together in order to create a Yarra Valley Wine Brand range of wines. A system could be devised that can measure contribution of each participant in order to share profits. This has been brought up as one of the concerns expressed by wineries, since there is no clear way of measuring contribution versus benefits ratio, for each participant. Initially it can be run on a project basis to test trial the concept and once it has gone through a test phase can be run on a continuous basis and this is where a true brand will start to emerge and become recognized by the wider audience internationally.

### **6.3.3 Cluster Cooperation and Internationalization**

Competition through local concentration can lead only to marginal economic gains based on economies of scale, while on the other hand clustering is said to generate interactive synergy, which is supposed to generate greater outputs at much lower costs than mere location concentration of firms (Ewen, 2007). The location of similar firms within the same geographical area is only one factor when it comes to the creation of a cluster. The more important aspects are actual structure and coordination of firms, in order to fulfil different aspects of a cluster, and to ensure that cluster is creating an appropriate synergy for the overall cluster.

Purely being located within the same area is not sufficient for a cluster to be effective. This is where some of the artificially created clusters have failed, when it comes to the creation of a natural order of leadership, which may be more evident with some of the older spontaneously created clusters. In other words, the main difference that would be evidence between natural, spontaneous, and local government, and similar policy driven clusters, is that natural clusters have sorted their own directions and leadership, in something that may be viewed as an evolutionary process. While government policy driven clusters are something that may be viewed as 'a fish out of water' unless there is a strong old cluster already in its place, that may need some policy adjustments in order for it to progress in the desired direction.

### *Yarra Valley Wine Industry Cluster and Internationalization*

This research found that unlike the suggestion of Brooks and Rooson (1982) excess capacity or unique product (Johnston and Czinkota, 1982) has not been the main internal motivator for the wineries to enter international markets. On the other hand wineries seem to be acting reactively to current local market saturation, and especially some of the larger wineries are attempting to maximize their profits Czinkota and Ronkainen, 2001) through international expansions.

The majority of wineries are still focusing on the local market, most likely due to the lack of information about foreign markets; perhaps this is where more proactive cluster involvement would be of benefit to smaller and medium wineries. Even though firms are usually driven by profit maximization once a firm identifies it may be able to earn more by expanding its operations internationally (Czinkota and Ronkainen, 2001), lack of the unique or exclusive information (Koch, 2001), and lack of the cluster involvement, seems to prevail in the Yarra Valley Cluster.

One of the few proactive motivators for international expansion might be that local markets may not be of sufficient size to support companies to attain economies of scale (Koch, 2001). That is why the wineries seem left only with one option to engage in the internationalization process. The other motivator to engage in foreign markets might be changing market conditions in the future, such as increasing market competition (Czinkota and Ronkainen, 2001). Because of its inability to compete successfully in the local market a firm may decide to engage in the internationalization and achieve greater economies of scale (Czinkota and Ronkainen, 2001). Considering the current market situation this is highly unlikely to occur at present within the Yarra Valley. The majority of wineries do not rely on the group/cluster either for foreign market information, or for promotional activities, because as one of the participants has emphasized:

**“Regional Marketing bodies exist but it costs to participate and because everybody pays, but not everybody gets the same results, for example I sell**

**four crates of wine while my neighbour does not. My neighbour decided that it is not worth him to participate.”** (Winery #1, personal communication, 11<sup>th</sup> October 2007).

Being part of the cluster seems to fall under geographical circumstances with wineries belonging to one wine producing region or another. When attempting to go international, or going through joint efforts, wineries are rarely initiating anything based on their regional origins within Australia. Most commonly joint promotions fall under the so-called Australian banner where different regions are undistinguished from each other.

One of the possible reasons for this is, in order for the region to be identified globally as a significant contributor to international wine production, it would need to distinguish itself in either terms of volume produced, or dollar value of exported wine. Australia, although being significant international wine producers, is still producing reasonably small volumes of wine from each wine growing region respectfully. Another reason for not taking part in the joint internationalization effort might be a significant lack of clear leadership and common policy.

Based on the findings, there is little indication that clustering is providing any significant benefit to the Yarra Valley Wine Industry Cluster. Most of the benefits derived from being part of this cluster appear to be related to “**knowledge exchange**” (Winery #1), production strategies, “**joint regional promotion**” (Winery #7) and perhaps to a lesser degree creation of a united front with the intention of lobbying local and regional governments (Winery #2). When it comes to entering foreign markets, there is very little joint effort among cluster firms. The majority of firms attempting to create their presence use their own individual networks, rather than rely on a cluster to provide them with better solutions.

Each winery entering international markets is doing this on their own. There was no evidence of joint effort being used among cluster members. The only winery that enters foreign markets as part of a larger group is Winery #2. Winery #2 enters international markets together with other companies from the same corporate group. Currently it is not

doing so with any winery from the same cluster, but instead it is doing so with wineries that is from other parts of Australia and New Zealand. They would rather attempt to go on their own, rather than trying to utilize any specialized knowledge or resources the cluster may be able to provide.

#### **6.4 Preliminary Propositions and Conceptual Model Revisited**

The purpose of this study was to understand the role of clusters and its influence on the internationalization process. The focus of this research was on the firms in the wine industry cluster with the particular interest on the Yarra Valley Wine Industry. The finding of the study led to the revised preliminary propositions. This section compares the findings to the preliminary propositions and conceptual model offered in Chapter 2 of the research. The preliminary propositions are as follow:

**P1.** Cluster supports cluster members in international activities.

**P2.** Within the cluster, firms will chose to go internationally on their own, if they feel local market has been saturated or that they may have lost competitiveness against other larger players in the domestic markets.

**P3.** Personal networks are of greater importance to the success of the internationalization process rather than those of the whole cluster group.

To summarize this research has analyzed the following central proposition:

**P: Firm's cluster membership is directly related to firm's internationalization process.**

### 6.4.1 Proposition 1 Revisited

The conceptual model and proposition P1 in Chapter 2 suggest, “Cluster supports cluster members in international activities”. In practice, this research found that P1 is not supported. This may be a result of the main internal motivator of wineries due to neither the excess capacity nor unique products. The wineries seem to be acting reactively to current local market saturation and because of that, especially some of the larger wineries are attempting to maximize profits through international activities.

The majority of wineries are still very much focused on the local market; this most likely is due to a lack of information relating to foreign market opportunities, which are normally expected to be provided by a cluster. This is where cluster support would be of great benefit to local wineries. Currently wineries that are accessing foreign markets do so on their individual international attempts without any cluster support. The lack of the cluster involvement seems to prevail in the Yarra Valley Cluster. A majority of the wineries do not rely on the group/cluster either for foreign market information or for promotional activities, because of the unclear cost, versus the benefits of such joint activities. This is an important factor since the majority of the wineries are of small to medium size, with limited human and/or financial resources. The lack of the joint international effort might be due to a significant lack of clear leadership and common policy.

This research indicates that only geographical location and physical proximity of the wineries to each other forms this cluster, making it only a geographical cluster in terms of the real role of the cluster offered by theory (see Chapter 2 for more details). In order to be the *economically driven cluster*, it would need strong common policy and strong leadership either taken by the vision of one of the larger wineries or by government support and direction.

It would almost seem that belonging to the Yarra Valley Wine Industry Association is something that most of the wineries belong to by default purely based on their geographical location, there seems to be lack of initiative from anyone to take responsibility leading the group.

Therefore, Proposition 1 is not confirmed because there was a significant lack of joint effort among cluster members to achieve something together in the international marketplaces.

### **6.4.2 Proposition 2 Revisited**

Entering international markets has been driven by the need to enter markets that have “**not been saturated**” (Winery #3) to the same degree as a local market has. Also entering markets that have a potential for growth (Winery #1, #2, #3, #6, #7) and expansion of local brand (Winery #4) to new customers has been a common theme among the wineries. China has been a preferred market because of the size and growth potential for Wineries #6 and #7. Apart from entering large markets with growth potential such as China, entering English speaking countries and regions has been high on the agenda for most of the wineries. This is due to a similar culture, language, and similarities in the way business is conducted.

The proposition P2 is supported by the research findings indicating that some of the wineries try to expand internationally because of local market saturation and lack of a competitive edge against other players in the domestic market. Motivation for entering foreign markets has mainly been focused on expansion of a winery’s brand, accessing larger and unsaturated markets, or expanding into markets that are somewhat more similar to local Australian markets, in terms of wine consumption, culture, and/or language. Only a few of the wineries are willing to expand into some non-traditional wine consuming markets such as China and the Middle East. Some managers limit their activities and concentrate only on the key traditional market and consider other markets to be risky. Psychic distance appears to be more important to the majority of managers

rather than geographical proximity. In addition, it is more likely that wineries first are going to enter markets that have a greater degree of similarities to their current market, following an easier path of internationalization.

### **6.4.3 Proposition 3 Revisited**

Proposition three is confirmed since there is no significant evidence found to demonstrate that this is not the case.

Commitment from agents and company relationships with them was perceived as a critical success factor in the internationalization process. For some firms building personal relationships and networks have been in essence their business strategy. The reliance on personal networks may over-ride the cluster's recommendation or suggestions for future markets, even though there is no evidence of such activities.

Wineries that are part of bigger organizations/groups have been able to utilize their existing networks in order to distribute their products internationally, while smaller wineries on the other hand have been utilizing individual agents, and sometimes even on one-off basis. There is a distinctive lack of joint effort among wineries. This is especially evident among the smaller wineries which are the most likely to benefit from the joint effort and combining of all the networks and resources together.

During this research there was no evidence found to indicate that clustering, as a group, is contributing in any significant way in creating or facilitating networks that can be used to simplify or aid in any way access to international markets. The cluster has mostly been utilized as a discussion forum in regards to local winemaking techniques, some local promotion or to lobby local government. Every winery that has been accessing international markets has been utilizing personal networks or networks of agents that are acting on their behalf in the international marketplace. Using agents to access foreign

markets means that wineries have given up some control when it comes to promotion and presentation of their products to potential foreign clients.

## **6.5 Conclusion**

This chapter presented the results of the empirical research conducted for the study. The aim of the analysis was to examine the meanings and implications of the results and compare a proposed conceptual model with the field results.

The preliminary research model (Chapter 2) was used to structure the study. It facilitated the research process and provided a foundation for the research findings in the context of the Australian wine industry cluster by linking it to the international business literature.

The chapter described the cross case analysis undertaken in the research study and the understanding that it has generated in the internationalization process among the participating firms. From the individual experience of the case firms, the following conclusions have been reached.

This research has showed that apart from geographical location of each of the wine makers, being part of a cluster has no significant impact or benefit for a winery that may decide to enter foreign markets. Usually wineries are looking towards foreign markets in order to expand their brand reach and also possibly enter markets that have a growth potential and have not been saturated as much as their current local market. When entering foreign markets personal networks are mostly utilized and there is no evidence that wineries from the same cluster are gathering together in order to maximize their chances of entering foreign markets. In fact apart from belonging to cluster by default just by being in the same geographical proximity there was no significant evidence found that would indicate that cluster is helping any winery in foreign market entry strategies. Instead, each winery is utilizing its own individual resources and networks in order to succeed internationally.

## **Chapter 7      Conclusions**

### **7.1 Introduction**

This chapter will provide an overview of the research undertaken. Further, it will briefly explain findings followed by the implications for internationalization and cluster theory and practice. Lastly, research limitations and recommendations will be presented.

This research has been conducted in order to investigate the ways in which winemakers from the Yarra Valley Wine Region have approached the process of internationalization and whether being part of an industry cluster has made any significant contribution towards facilitating the internationalization process.

Australia is internationally well known for its quality wines with traditions of wine making dating back in the 19<sup>th</sup> century. Australian current production levels place it as the fifth largest wine producer and fourth largest wine exporter in the world (AWBC, 2005) right after France, Italy, and Spain. For the period of 2005-06 European Union has been the highest regional destination for Australian wine accounting for more than half of its total export volume for that period (ABS, 2006).

This research has focused on the internationalization process of one regional cluster within Victoria. The Yarra Valley region is bordered on the towns of Emerald and Cockatoo to the south. The Plenty River is on its western border and the Yarra River, which starts to the east, flows through its centre ending in Melbourne City. It is the oldest wine growing region in Victoria. Its altitude is ideal for cool climate growing conditions making it very successful at growing Burgundian vine varieties of Chardonnay and Pinot Noir since its early beginnings in 1837.

In the late 1800s an economic downturn together with the change in customer preference towards fortified wines (AWBC, 2005) led to the regions decline (Wine Diva, 2007). In the 1920's, the last winery was closed (Wine Diva, 2007). In the 1960's the second wave of production began as the demand for table wines increased. The most recent, third wave came in 1980's, but it was not until the 1990s that the area under vine exceeded the high point of the 19<sup>th</sup> century in the Yarra Valley (AWBC, 2005). There are more than 80 different wineries in the Yarra Valley that made it ideal for this research project because of the sheer variety of wineries at different sizes and sophistication.

Because of the increasing evidence of climate change as well as increasing global competition this research has addressed the problem of *necessity of Australian wineries to join together in order to achieve greater competitiveness in collaboration when entering foreign markets*. This has resulted in formulation of the research objectives:

- a) The first objective was to review and analyze to what extent cluster influences the process of internationalization of firms within the cluster, and achieving competitiveness in the international market.
- b) The second objective was to develop and present a conceptual model that seeks to describe the underlying determinants and relationship between firms in the cluster, and how being a member of a cluster influences the internationalization process and competitiveness of companies.
- c) The third objective is to provide empirical validation for the purpose of confirming and refining the model, based on the empirical results in the wine industry cluster. This will include a detailed study of Yarra Valley Wine industry cluster.

Being an exploratory study, this research has identified the following research questions:

1. Do the three main paths of internationalization identified in the research literature explain the internationalization process of member firms in a cluster?
2. How do networks affect firms' in the internationalization process and competitiveness?
3. How does the cooperation among cluster firms determine success and competitiveness of firms in a foreign market?

## **7.2 Study Summary**

*Chapter 1* has presented a brief background on the Australian wine industry and the challenges that it is facing with the increasing threat in local and global competition. Further, it has set the background for the formulation of research objectives followed by research questions that were used to create main themes for primary and secondary research.

*Chapter 2* presented an overview of the literature and related theories for this study. Relevant theories have been critically reviewed in regards to the three main research questions. This chapter discussed theories in regards to the cluster formation, internationalization process, and the importance of networking during internationalization. Preliminary propositions and conceptual model have been introduced.

*Chapter 3* goes over the wine history starting from its beginnings in the Neolithic Period (8,500-4,000 B.C.) until modern day. It then discusses the wine history of Australia and its beginnings, with the arrival of immigrants from the Mediterranean region in the 18<sup>th</sup> until the present day. The focus of the chapter is the Yarra Valley Wine Industry Cluster, which provides a background for the research.

*Chapter 4* addresses the methodology that was used in collecting and analysis of data for this study. This study was based around qualitative exploratory

research using grounded theory. Qualitative research has been used because it has been deemed as the most suitable method for the exploratory study that was necessary to uncover the underlying motivations of wineries when attempting to internationalize. The grounded theory was used because it is considered as the most developed theory for building a theoretical explanation. Grounded theory starts as an area of study and other relevant elements for that area, rather than starting with a theory. Grounded theory has allowed for relevant theory and information to emerge through the process of study, rather than attempting to prove or disprove a starting theory. The general frame for the grounded theory has provided a method in order to guide this investigation.

*Chapter 5* presented case and brief findings and a discussion of each individual winery that has taken part in this cluster study, there were eight wineries in the research process. Each winery has been presented in a case study format with both secondary and primary information presented in order to get a better understanding of each participant in regards to their current situation and possible motivations in relationship to the research questions.

*Chapter 6* discussed findings in more detail in relationship to the three main research questions. This has presented the interpretation of data and compared it to the conceptual model and preliminary propositions. The analysis across cases synthesized the findings to convey a better understanding of the relationship between clusters and the internationalization process. The revised preliminary propositions across the companies involved are seen as a better representation of the reality and understanding of the internationalization process for cluster groups.

### **7.3 Findings**

The findings of this study have identified a link between internationalization and personal networks. On the other hand, there was a very weak relationship between the Yarra Valley Wine Industry Cluster and internationalization of its members. The following findings have been identified:

*Internationalization process:* Some of the wineries would receive their perceptions of the foreign markets from their relationships with, as well as, by the input and suggestions of the distributors, agents, and partners in a particular market. At the same time, other wineries appear distanced from their international environments by management decisions to serve exclusively domestic/local markets. However, whether in close relationships with foreign markets or distanced from them, all wineries have identified the market needs and see internationalization as an opportunity to grow their sales and market share. None of the wineries started with the intention of going global immediately after its initialization. Most of the wineries have been classified as *traditional* in regards to the internationalization process. This was due to a strong focus towards local markets and limited international exposures.

*Network in the Process of Internationalization:* Personal networks have played a significant role in regards to the internationalization process of wineries from the Yarra Valley. Networks have provided access to knowledge and distribution channels within foreign markets. These networks are based on personal relationships between the wine producers, agents, and distributors, which act on their behalf in a foreign market.

*Cluster Cooperation and Internationalization:* Apart from providing a discussion forum in regards to improving the techniques in wine making and lobbying local government, cluster cooperation plays a very limited role in assisting wineries to enter foreign markets. Accessing foreign markets has been left to the individual actions of each winery.

In summary, most of the participants that have been present in international markets have done so in on their own accord, rather than relying on the group or cluster to assist them in international expansion. Similarly, there was a pattern of entering English-speaking markets first and then expanding into markets with greater growth potential. In the expansion, personal networks

either directly or through an agent have been of great benefit in order to maximize the opportunities for success. There was no evidence found that says that being part of a Yarra Valley Wine Industry cluster has had any significant benefits when wineries have been entering foreign markets. The cluster benefited mostly when it came to dealing with local issues rather than international.

In regards to the internationalization process, it has been found that wineries currently in the international marketplace have done so in order to expand their markets, and brands, and to find markets that have not been saturated to the same degree as the local market. At the same time for some of the smaller wineries, entering foreign markets was almost an afterthought. Initial markets chosen have been markets that would have some degree of similarity with Australia, either culturally or in most cases belonging to English speaking groups. Furthermore, wineries have decided to expand into markets that they have a potential to grow, in this case by endeavouring to break into Chinese-speaking markets (China, Taiwan and Hong Kong).

When entering foreign markets personal networks have been of great importance for wineries, this was due to personal networks providing access to valuable information and distribution channels in the desired marketplaces. A most common way to access international markets has been through agents or distributors.

The Yarra Valley Wine Industry cluster has played a minor if any role, when it came to internationalization of the cluster members. Clustering has been identified as a place where wineries can possibly exchange knowledge, and techniques, in regards to wine production, or come together in a joint effort to sort out local issues, however, the cluster does not provide assistance to individual wineries entering international marketplaces.

## **7.4 Implications of the Research**

Using the case of the Yarra Valley Wine Industry cluster, this research has identified that members of this cluster have not received any benefits from being in a cluster relating to international expansion. Wineries that have taken part in this study used personal networks in order to access the necessary information and channels for entering foreign marketplaces. There was a distinctive lack of active support and organization from the cluster with regard to international expansion.

This lack of the support is due to lack in leadership and joint direction among cluster members. This is where local government could either appoint a cluster leader responsible for the direction of the cluster, or organize more formal meetings with members, to facilitate future direction discussion forums relating to their. This is necessary if the cluster is to facilitate a more functional and directional role for the local industry.

Government and or other regional bodies should launch programmes that promote small networks of wineries to foster inter-winery cooperation. These firms would be able to leverage their reputation by using a common “brand” identity. This is similar to the Marlborough wine cluster in New Zealand; by working collectively, they are able to create a strong reputation for the Marlborough wines. This is in contrast to firms working separately that would attempt to distinguish them from other possible ways and thus risk losing the benefits of a strong industry in an area.

## **7.5 Limitations and Recommendations for Further Research**

One of the limitations of this study is that it has used a sample size of eight, which limits the amount of factors that have been accounted within the

research. Furthermore, this study is limited, as it has researched one industry, wine, and only one regional cluster.

Further studies could be conducted using different methodologies and larger sample sizes that may discover further findings not detected during this research. A new study should be conducted to would take into account the influence of clustering internationally across different regional clusters and across different industries. This is to identify which role in regards to internationalization if any, is played by the clustering of different industries and regions.

## **7.6 Conclusion**

This research has shown that clusters may not be an appropriate way to organize members of the same group in order to facilitate international expansion. The research discovered that the Yarra Valley Wine Industry Cluster has been appropriate when it came to exchanging of wine making techniques, and also in order to lobby local government. When it came to entering foreign markets, anything the wineries may have had in common collapsed. This has led wineries to work on developing their own personal networks for foreign expansion. Whenever something came along, outside of the geographical borders of a cluster, any connection that cluster members had with each other would vanish, due to a clear lack of common direction and trust amongst them.

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## APPENDIX 1

### QUESTIONNAIRE AND INTERVIEW GUIDE

## **Internationalization of Yarra Valley Wine Industry Cluster**

### **1. International Experience**

1. Please tell me how your company first came to be involved in international business.

*Prompt* – When was that?

2. Please tell me about your company's experience of operating in an international environment (not country-specific).

*Prompt* – The number of countries in which a firm has been operating abroad, and the length of operations.

3. What criteria do you use when selecting a market for your international activities?

4. What do you regard as being the key requirements for success in doing business from Australia?

5. What do you see as being the main obstacles or difficulties for your company in operating in foreign market?

6. How do you identify potential foreign market growth opportunities?

*Prompt* – Business contacts, foreign customers, own sales force, links with foreign partners.....

7. What factors led your company into deciding to enter foreign market?

8. What was the first step taken by your company in the initial stages of doing business abroad?

*Prompt* – When was this?

9. What did the process then involve, from gaining market entry, to the stage you are at now in conducting business abroad?

10. What were the most important market-related factors that you had to consider in this process? (Such as: large unsatisfied market, educated cheap labor, resources, stepping stone to further market expansions...)

*Prompt* – Have these changed over the time of your involvement?

11. How would you describe the strategy your company has been using in the foreign markets?

*Prompt* – Seek specific example: subsidiaries, wholly owned enterprises, agents, representatives, cooperative agreements with foreign firms, joint ventures.

12. Do you engage in your foreign market directly or indirectly?

*Prompt1* – If indirectly, how do you engage in your foreign market?

*Prompt2* – What are the activities that you undertake in regards to success in your foreign market?

13. What would you consider to be the major obstacle for growth of your products abroad?

*Prompt*- Capital, unfamiliarity of foreign market, uncommitted or unqualified partner.....

14. What part, if any, do you think cultural differences play in conducting business in a foreign market?

*Prompt* - These might include, for example, language and communication, business practices, business protocols, etc).

## **2.) Networks and Internationalization**

15. Which organizations and/or associations do you belong to?

*Prompt* – Chamber of Commerce, local wine association etc.

16. What are the major advantages that you see of belonging to those organizations/associations?

*Prompt* – Access to networks, know how exchange etc

17. What do you see as a role of your local government body in supporting your business both domestically and overseas?

18. Do you get involved with local Universities and other research and education organizations?

*Prompt* - If so, what degree of involvement and activities do you get involved in?

19. Have you approached foreign market independently or as part of a group?

*Prompt* - Why? Explain reasoning behind it.

20. How important are your business networks for your international operations?

*Prompt* – Do you know your own market personally or are you using services of others to enter foreign markets?

21. Who takes the leading role during international market expansion?

*Prompt* – Company does it on its own, or we act as a part of a larger network that provides us with greater flexibility and capital.

22. How does your strategy change based on the information accessible through business networks?

*Prompt* – Your strategy is highly susceptible to changes based on information changes through out the business networks or you keep following your strategy even when others seem to be moving away from it.

23. How is your network partner constraining your growth?

24. How is your network partner encouraging your growth?

25. What is your network partner bringing in the partnership that is allowing you to expand your growth?

*Prompt* – Technology, knowledge, contacts, marketing.....

### **3. Global competitiveness and a cluster**

26. Are you aware that you belong to Yarra Valley Wine Cluster?

*Prompt* – Is it encouraged to cooperate among cluster members, if so, by whom?

27. What are the advantages of belonging to this cluster, if any?

*Prompt* – Specific examples like business networks, information sharing cooperation to enter markets.

28. How do you feel belonging to this cluster has encouraged/discouraged your performance both domestically and abroad?

*Prompt* – Why do you feel that way?

29. How often would you meet with other cluster members to exchange ideas and experiences?

*Prompt* – Is there such thing as formal meetings or does it mostly relay on personal initiatives engage in information and skill exchange? Regular meetings, correspondence?

30. How has it benefited you to be member of a group/cluster instead of operating on your own in the foreign markets?

*Prompt* – Reduced risk, provided greater know how, access to capital, provided with experienced distribution networks.....

31. Who takes initiative, if anyone to create co-operation among members?

32. Does initiative usually come from the cluster, or simultaneously from cooperation with some of the firms from the cluster?

*Prompt* - How does this work? What kind of cooperation ... initiatives...

33. Is your local government encouraging cluster members cooperation or has it been left to cluster members to decide their own direction?

*Prompt* – Why do you think that is the case?

34. What do you feel as the major obstacle for your growth potential domestically and abroad?

*Prompt* – Lack of capital, inexperience in foreign environment etc.

35. What do you think should be done in order to regain competitiveness in the global marketplace?

36. What are the strategies if any being used to overcome the over supply of wine that market is experiencing at the moment?

*Prompt* – What do you think should be done about it by government and by yourself?

#### **4. Environmental Issues**

37. How is climate change affecting your vineyard?

*Prompt* – Droughts, out of season storms, extreme weather.....

38. In the light of global warming how sustainable do you think current wine industry is in Australia?

*Prompt* – Why?

*Prompt* – Is it perhaps a time for change of focus?

39. What do you think you can do to minimize the affects of it on your crops and wine production?

*Prompt* – Relocate vineyard etc.

40. What do you think should government be doing about affects of climate change on wine industry?

## **COMPANY PROFILE**

41. Your position and title.

42. The number of employees in your company.

43. The type of operational activities of your company.

44. Your company's total expenditures in R&D and total sales/foreign sale. Level of the firm's investment in R&D. {R&D Expenditures : Sales}: Number of Employees

45. The products/services your company exports to foreign markets.

46. The structure in your company through which international operations are organized that?

APPENDIX 2

CORRESPONDENCE

# *Application for Ethical Approval*

## *Outline of Research Project*



THE UNIVERSITY OF  
**WAIKATO**  
*Te Whare Wānanga o Waikato*

### *Waikato Management School*

Te Raupapa

*Template:*

*Use clear and simple language. Avoid technical terms wherever possible.  
Please allow **up to two weeks** for your application to be reviewed by the WMS  
Ethics Committee*

*See How to fill out the form for guidance.*

#### 1. IDENTIFY THE PROJECT.

---

**1.1** Internationalization of Yarra Valley Wine Industry Cluster

**1.2** Researcher(s) name and contact information

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### **1.3 Supervisor's name and contact information**

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Co-Chair, Department of Strategy & Human Resource Management  
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### **1.4 Anticipated date to begin data collection**

Anticipated date of data collection is 27<sup>th</sup> August 2007

## **2. DESCRIBE THE RESEARCH.**

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### **2.1 Project outline**

The purpose of this research is to shed new light on the nature of the cluster development activities carried out in relations to the internationalization process and competitiveness of its members in a world arena. The focus of the research is the Australian wine industry cluster in the Yarra Valley region. This research attempts to identify the most influential factors that affect the internationalization process and achieving competitiveness of firms in Australian Yarra Valley Wine industry cluster.

This research has three main objectives:

- a) The first objective is to review and analyze to what extent cluster influences the process of internationalization of firms within cluster, and achieving competitiveness in the international market.
- b) The second objective is to develop and present a conceptual model that seeks to describe the underlying determinants and relationship between firms in cluster, and how being a member of cluster influences the internationalization process and competitiveness of firms.
- c) The third objective is to provide empirical validation for the purpose of confirming and refining the model, based on the empirical results in wine industry cluster. This will include a detailed study of Yarra Valley Wine industry cluster.

To reach the objective of this research, the following research questions are formulated:

1. Do the three main paths of internationalization identified in the extent literature explain the internationalization process of member firms in the cluster?
2. How do networks within cluster impact firms' internationalization process and competitiveness?
3. How does the cooperation among cluster firms determine success and competitiveness of firms in a foreign market?

## **2.2 Method.**

This paper will be a conceptual study, using qualitative information. Along with using secondary economic data, this study will utilize semi-structured interview method by conducting interviews with the executives from Yarra Valley Wine industry firms.

### **2.3 Describe plans to give participants information about the research goals.**

Participant firms will be contacted and invited to participate in the study. Informants will participate in an informed consent process prior to their interviews.

### **2.4 Identify the expected outputs of this research ( e.g., reports, publications, presentations).**

The main planned outcome of this research is the dissertation. However, the findings of this study may provide potentially helpful information about factors affecting past evolution of cluster generation and internationalization process. This could inform and possibly improve future cluster development processes. Knowing the factors that were central considerations in the cluster internationalization development process could improve the sustainability of cluster creation. Subsequently, understanding the significance of particular factors could be useful in assisting in development of new successful clusters in Australia. This would be of great significance to policy makers, business practitioners and scholars, because choosing the means of cluster growth and development is vital not only to regional but also to country advancement.

### **2.5 Identify who is likely to see or hear reports or presentations on this research.**

The only people who will see the dissertation are Chief Supervisor and a nominated examiner from another New Zealand University. However, conference papers or journal articles may also be generated from this material.

### **2.6 Identify the physical location(s) for the research, the group or community to which your potential participants belong, and any private data or documents you will seek to access. Describe how you have access to the site, participants and data/documents. Identify how you obtain(ed) permission from relevant**

**authorities/gatekeepers if appropriate and any conditions associated with access.**

Research will be conducted over the phone once consent has been received from the participating parties.

### **3. OBTAIN PARTICIPANTS' INFORMED CONSENT, WITHOUT COERCION.**

---

#### **3.1 Describe how you will select participants (e.g., special criteria or characteristics) and how many will be involved.**

For the purpose of this research one specific wine industry cluster will be analysed: The selected cluster is geographic cluster of Yarra Valley. The selected cluster has to be a formal cluster recognized by the Wine and Brandy Corporation as well as the Statistics Bureau of Australia as a significant region with a history of wine production and exporting. The above cluster meets the mentioned criteria. Further, in order to identify firms to be interviewed, they have to meet the following criteria:

- a) Has to be involved in the wine making or wine processing related activity, for example package manufacturer or logistic provider for the industry,
- b) Would need to be locally operated (this is to avoid interviewing firms that do not have any real contact with government or local institutes in regards to cluster operations).
- c) Would need to be minimum 50 percent Australian owned
- d) Must have exported or are in the process of exporting to an international market
- e) Must be a winery from the Yarra Valley geographic cluster

The wineries that meet this criteria can be found on the <http://www.wineyarravalley.com/www/338/1001785/displayarticle/1001873.html> website which lists wine makers in this region. For the purpose of this research eight winemakers will be chosen at random from that list.

### **3.2 Describe how you will invite them to participate.**

Each selected participant will be invited to take part in the research through an invitation letter which is to outline the objectives of the research together with research questions.

### **3.3 Show how you provide prospective participants with all information relevant to their decision to participate. Attach your information sheet, cover letter, or introduction script. See document on informed consent for recommended content. Information should include, but is not limited to:**

- **what you will ask them to do;**
- **how to refuse to answer any particular question, or withdraw any information they have provided at any time before completion of data collection;**
- **how and when to ask any further questions about the study or get more information.**
- **the form in which the findings will be disseminated and how participants can access a summary of the findings from the study when it is concluded.**

Each selected participant will be sent introduction letter which is to outline project objectives and necessity for their consent in order for this proceed. Upon receiving introductory letter researcher will give them a call to confirm their participation and to arrange time for the phone interview.

**3.4 Describe how you get their consent. (Attach a consent form if you use one.)**

Upon receiving introductory letter researcher will give them a call to confirm their participation and to arrange time for the phone interview.

**3.5 Explain incentives and/or compulsion for participants to be involved in this study, including monetary payment, prizes, goods, services, or favours, either directly or indirectly.**

Each participant would have motivation to participate in this study because results and findings would have a potential to directly influence their organizations. Each participant will also be provided with the copy of the final report.

**4. MINIMISE DECEPTION.**

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**4.1 If your research involves deception – this includes incomplete information to participants -- explain the rationale. Describe how and when you will provide full information or reveal the complete truth about the research including reasons for the deception.**

This research will not take any deceptive steps for the purpose of the project.

**5. RESPECT PRIVACY AND CONFIDENTIALITY**

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**5.1 Explain how any publications and/or reports will have the participants' consent.**

Prior to finalizing the report participants will be asked to look through the draft report and point out things that they may disagree to disclose or may feel would look misleading to what they have originally intended.

**5.2 Explain how you will protect participants' identities (or why you will not).**

In order to protect privacy of participants all of the names will be replaced in the initial data analysis. Participants will be provided with the copy of the transcript allowing them to remove any unwanted information before data can be included for data analysis.

**5.3 Describe who will have access to the information/data collected from participants. Explain how you will protect or secure confidential information.**

Information collected will be coded in a way that only the principal investigator would know the true source of the information. All transcripts will have names and sensitive information that may disclose identity of source removed making it impossible to identify participants.

**6. MINIMISE RISK TO PARTICIPANTS.**

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**'Risk' includes physical injury, economic injury (i.e. insurability, credibility), social risk (i.e. working relationships), psychological risk, pain, stress, emotional distress, fatigue, embarrassment, and cultural dissonance and exploitation.**

**6.1 Where participants risk change from participating in this research compared to their daily lives, identify that risk and explain how your procedures minimize the consequences.**

Risks will be avoided, by removing participant's names and any source of information that might be used to identify participants.

**6.2 Describe any way you are associated with participants that might influence the ethical appropriateness of you conducting this research – either favourably (e.g., same language or culture) or unfavourably (e.g., dependent relationships such as employer/employee, supervisor/worker, lecturer/student). As appropriate, describe the steps you will take to protect the participants.**

There are no factors that might influence ethical appropriateness of conducting this research.

**6.3 Describe any possible conflicts of interest and explain how you will protect participants' interests and maintain your objectivity.**

Transcripts of interviews will be forwarded to participants to inspect and to make sure that there is no misleading or sensitive information in it which participants may feel should not be disclosed.

## **7. EXERCISE SOCIAL AND CULTURAL SENSITIVITY.**

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**7.1 Identify any areas in your research that are potentially sensitive, especially from participants' perspectives. Explain what you do to ensure your research procedures are sensitive (unlikely to be insensitive). Demonstrate familiarity with the culture as appropriate.**

Any financial information that may be disclosed by participants may be sensitive to disclose. In order to remove this sensitivity we would remove any participant's names and any information that may be used to identify participants

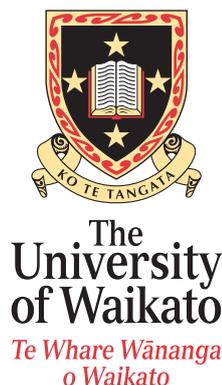
**7.2 If the participants as a group differ from the researcher in ways relevant to the research, describe your procedures to ensure the research is culturally safe and non offensive for the participants.**

Participants as a group do not differ culturally from the researcher.

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## **Research Information Sheet**

### Overview

For the purpose of completion of a Dissertation for the degree of a Master in International Management at the Waikato Management School, I am asking Yarra Valley region wine producers to participate in this research project. The project requires the Yarra Valley region wine producers to participate in a semi structured interview that is to analyze current and past business environments within the wine industry of the region.

### Who's responsible?

My name is Milan Sedoglavich You can phone me on 04 1580 2157 or email me at [sedoglavic@yahoo.com](mailto:sedoglavic@yahoo.com).

### What's the research study about?

The purpose of this research is to shed new light on the nature of the cluster development activities carried out in relations to the internationalization process and competitiveness of its members in the world arena. The focus of the research is the Australian wine industry cluster in the Yarra Valley. This research attempts to identify the most influential factors that affect the internationalization process and achieving competitiveness of firms in Australian Yarra Valley Wine industry cluster.

### What will you have to do and how long will it take?

I will want to conduct a phone interview with you. This should take no longer than 45 minutes in most cases (and considerably less in some). I offer to do this in two parts if necessary. We can stop the interview whenever it suits you and continue at your convenience.

### What will happen to the information collected?

The interview responses will be used by researcher to write a descriptive analysis of the issue identified in from the interview. Only the researcher in the project will be privy to the questionnaires, notes, tapes and the paper written. Afterwards, questionnaires and notes will be destroyed and tapes erased. I will keep a copy of the paper on file but will treat it with the strictest confidentiality.

No participants will be named in research reports unless explicit consent has been given, and every effort will be made to disguise their identity.

Declaration to participants

If you take part in the study, you have the right to:

- Refuse to answer any particular question, and to withdraw from the study at any time.
- Ask any further questions about the study that occurs to you during your participation.
- Be given access to a summary of the findings from the study when it is concluded.

# Consent Form for Participants

## Waikato Management School

Te Raupapa



THE UNIVERSITY OF  
**WAIKATO**  
*Te Whare Wānanga o Waikato*

### *Internationalization of Yarra Valley Wine Industry Cluster*

#### **Consent Form for Participants**

I have read the **Information Sheet for Participants** for this study and have had the details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I also understand that I am free to withdraw from the study at any time, or to decline to answer any particular questions in the study. I agree to provide information to the researchers under the conditions of confidentiality set out on the **Information Sheet**. I understand that information collected will be recorded for the use of analysis of industry trends and will be kept in strict confidentiality as per **Information Sheet**. I also understand that any transcripts and recordings will be destroyed after analysis.

I agree to participate in this study under the conditions set out in the **Information Sheet** form.

Signed: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Researcher:

Supervisor:

Milan Sedoglavich

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Mr Managing Director  
Potential Participant  
Company  
Private Bag  
Victoria

12 February 2009

Dear Mr Managing Director

My name is Milan Sedoglavich and I am a Masters Student at The Waikato Management School. I am doing my Masters Dissertation in the Department of Strategy and Human Resource Management under the supervision of Associate Professor Michele Akoorie. It is in this connection that I am writing to you.

For my dissertation, I am investigating the issues for Australian wine companies in relationship with the Yarra Valley Wine Cluster and the internationalisation process to foreign markets. In particular, I am interested in the perceptions and experiences of companies currently operating within Yarra Valley wine region, for the purpose of developing a framework for future managerial decision making. I have chosen this field because of my strong interest in the internationalisation of SMEs and difficulties and opportunities that they encounter along the way.

The investigation focuses on small- and mid-sized wine producing companies with current or future goals aimed at internationalisation, and I would like to include your company in this study. For this part of the research, I am conducting interviews with key senior staff from a small group of selected companies. These discussions usually take under an hour and I would like to hear about your international experiences generally, as well as your perceptions of Yarra Valley Wine Cluster. **I am interested in your views whether or not your company is currently involved with, or has any future intentions to internationalise.**

I would prefer to tape the interview but this will only be done with your consent. The tape can be turned off at any time or you can withdraw information. All information provided in interviews is confidential and neither the name of your company nor those of company representatives will be disclosed. A transcript of the interview will be sent so that you verify the interview material and/or amend if appropriate. A copy of the written results of the research will be presented to each company who takes part in the study. As your views and perspectives are of great value, I hope you will give favourable consideration to participation in this research.

I have included further information about the research, so that you can see the type of specific information I am seeking. I will telephone you within the next few

days to answer any queries you may have about the project and to establish your willingness to participate.

Yours sincerely,

Milan Sedoglavich  
*Masters Student*  
*Waikato Management School*

## APPENDIX 3

### INTERVIEW TIME-FRAME

### Appendix 3 – Interview Time-Frame

Winery #1	11 <sup>th</sup> October 2007
Winery #2	26 <sup>th</sup> October 2007
Winery #3	31 <sup>st</sup> November 2007
Winery #4	14 <sup>th</sup> November 2007
Winery #5	6 <sup>th</sup> December 2007
Winery #6	14 <sup>th</sup> January 2008
Winery #7	18 <sup>th</sup> January 2008
Winery #8	24 <sup>th</sup> January 2008

## APPENDIX 4

### SAMPLE CASE CHARACTERISTICS

## Appendix 4 – Sample Case Characteristics

Winery 1	Winery 2	Winery 3	Winery 4	Winery 5	Winery 6	Winery 7	Winery 8
<b>Smaller scale operations</b> – 20 tonnes of grapes crushed annually and only 8 hectares under vine	<b>Larger scale operations</b> – 1000 tonnes of grape crushed each year and 40 hectares under vine	<b>Medium scale winery</b> – 150 tonnes of grapes crushed annually and 3.25 hectares under vine	<b>Medium scale family operated</b> – 130 tonnes crushed each year and 3 hectares under vine	<b>Small family operated vineyard</b> – 11 tonnes of grape crushed each year and 3.5 hectares under vine	<b>Large family business</b> – 450 tonnes of grape crushed each year and 95 hectares under vine	<b>Medium scale family business</b> – 75 tonnes of grape is crushed annually and there are 10 hectares under	<b>Small scale business</b> – 10 tonnes of grape are crushed each year and only 3.5 hectares are under vine
<b>Focus</b> - limited quantity of high quality of boutique wine (no mass production)	<b>Focus</b> – predominantly sparkling wine	<b>Focus</b> – on growing highest possible quality fruit and high quality wine (main competitor – cheap wine)	<b>Focus</b> – high quality and style (resembles the French wines)	<b>Focus</b> – offer high quality wine; produces wine from the fruit exclusively yield on the property; a small boutique wine producer sell to local markets only; not interested in expending	<b>Focus</b> – passion for wine making	<b>Focus</b> – local brand recognition	<b>Focus</b> – passion for wine making; produces wine from the fruit grown on the estate
<b>Brand recognition</b> – important; different varieties of wine; not very focused	<b>Brand recognition</b> – very important; established by a prestigious French Champagne house; French flair	<b>Brand recognition</b> – important	<b>Brand recognition</b> – very important; use the family name; French flair wines	<b>Brand recognition</b> – local market focus only	<b>Brand recognition</b> – Distinctive Italian flavour	<b>Brand recognition</b> – French flavour; Best winery award; locally well known, but not outside the region	<b>Brand recognition</b> – a strong reputation for its ability to produce superior fruit; has won numerous awards
<b>Experience</b> - well experienced	<b>Experience</b> – experience and long tradition	<b>Experience</b> – modern recent establishment	<b>Experience</b> – recent establishment but the owner’s significant foreign experience in making wine; with a long tradition in wine making; not	<b>Experience</b> – recent establishment although very experienced in grape processing and wine producing (passionate about	<b>Experience</b> - a hundred years of family wine making experience	<b>Experience</b> – Forty years of wine making in Yarra Valley	<b>Experience</b> – more than twenty years of winemaking

			very experienced in Australian market	this!)			
<b>Sale</b> – cellar door, mailing list and to exquisite restaurants	<b>Sale</b> – 75% for the domestic market	<b>Sale</b> – cellar door sales	<b>Sale</b> – domestic sales only through local distributors and onsite cellar door	<b>Sale</b> – domestic and local markets only (reason – small amount of wine produced); local niche customer base	<b>Sale</b> – domestic and international markets; OPORTUNISTIC in the nature (even though without much experience in a particular market)	<b>Sale</b> – the wine sales facility	<b>Sale</b> – the cellar door or through local eateries and independent wine outlets; a small percentage that is exported to UK and Fiji
<b>Tourism connectivity</b> – a restaurant on site and a venue for hire for different social functions	<b>Tourism connectivity</b> – attracts large number of domestic and international tourists	<b>Tourism connectivity</b> – does not offer a restaurant on site; the winery cellar open for tourists	<b>Tourism connectivity</b> - a café and restaurant available on site as well as function space	<b>Tourism connectivity</b> - NONE	<b>Tourism connectivity</b> – offers a restaurant and function venue	<b>Tourism connectivity</b> – restaurant and accommodation facilities and facilities for private functions	<b>Tourism connectivity</b> cellar door sale