Attitudes to Small Business in the Wine Industry

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Abstract

The Australian wine industry is growing rapidly, and often contributes critical income and employment generation to regional Australia. Some attention has been paid to the size of the different organisations involved in wine production, but little research has been devoted to the structural impact that this has. This paper reports on the findings of a preliminary survey of wine producers, and attempts to relate attitudes and motivations to the issue of size.

Introduction

The last few years has seen a period of rapid expansion in the Australian wine industry. From 110 million litres at the end the second world war it rose to 394 million by the beginning of the last decade. It has more than doubled to an estimated 874 million by 1998-99 (Osmond and Anderson 1998). This growth is matched by a dramatic increase in wine exports – from 38 million litres in 1989-90 to 206 million in 1998-99 - worth $1 billion in export income. (Hodge 1999). This rapid development has a particular impact on regional Australia, where grapes are grown and most wine is made – offering much needed employment and income generation. South Australia, for instance, currently undergoing a general economic decline, produces almost 50% of all Australian Wine – offering jobs and income in non-metropolitan areas such as the Clare Valley and Coonawarra. (Winetitles 1999a).

How wine businesses are structured, and the motivations and intentions of those running them, are issues on which the future of the industry depends. The rapid rate of growth of wine businesses – an increase of 6.7% in 1998 over 1997 (Baldwin 1999 p97), and with reportedly one new winery being started every 84 hours by the end of 1999 – means that there are currently many wine businesses in the early stages of development, and there is no data on whether or not they have any comprehensive development plan, ideas about succession, or coherent approach to decision making and the relationship of ownership to direction. Traditional external measurements of success are seen in terms of industry-wide growth (note the statistics quoted above) or, for individual producers, in profit-margins and market share (Williams 1993) – whereas in fact other goals may be selected by winery owners as more important. The current concentration of production in a few producers, with the biggest twenty producers responsible for 98% of all wine produced (Winetitles 1999c), does not affect this judgment about the importance of the structure and goals of small wineries. The export reputation of the Australian wine industry depends in part on its 'boutique' producers with wines like Grosset Polish Hill Riesling and Moss Wood Cabernet sauvignon gaining international recognition, partly because of very small production. It is likely that the continuing strength of that reputation depends, in part, on the continuing viability of small scale producers. As the wine industry's own blueprint for the future suggests:

> "…the contribution of small producers to the industry's success has been out of all proportion to their size." (Winemakers Federation of Australia 1996)

This research seeks to begin to redress some of that imbalance. The survey on which it was based was constructed in two parts – a general short survey of all Australian wineries, to establish the nature and structure of the Australian wine industry, and a more detailed study, focussing on Victoria and Tasmania alone, which probed the motivations, intentions and attitudes of winery owners.

Methodology

The written questionnaire was posted to all wineries in Australia. Western Australia, New South Wales, South Australia. Queensland, the Australian Capital Territory and the Northern Territory received the one page summary version and Victoria and Tasmania received a longer version. The one page questionnaire deals with demographic and structural issues whilst the more detailed questionnaire included questions relating to attitudes to business (section 2), motivation (section 3), measures of success (section 4) and business life-cycle and future intentions.

The questionnaire was posted along with a reply paid envelope to 1108 wineries across Australia with 443 of these receiving the longer version in Victoria and Tasmania. 380 responses were received representing an overall response rate of 34%.

Descriptive statistics were calculated for all variables with frequencies run for all nominal data and means calculated for the scale items. Sections 2, 3 and 4 involved Likert scales using anchors of 1 and 7, with 7 representing strongly agree.

Factor analysis was performed on section 2 questions ("how you feel about your business") to reduce the number of variables and to allow cross-tabulation with demographic variables such as size of business.

The Structure of the Australian Wine Industry

Table 1 provides the turnover of all businesses who responded to the survey. It shows that the majority of wine production businesses (almost two thirds) have a turnover of less than $500,000. Only 5% have a turnover of greater than 5 million.

Table 1. Business turnover.

	No.	%
< $100,000	104	28.7
101,000-500,000	133	36.7
0.5m-1.0m	34	9.4
1m-5m	70	19.3
5m-20m	14	3.9
>20m	7	1.9

Tables 2-4 examine the structure of these businesses. The analysis of business type shows a wide spread of legal personality used – with partnership or proprietary company being the preferred option.

Table 2 – Business Type

	No.
Sole trader	45
Partnership	142
Family trust	44
Pty Ltd	104

Multiple response table – figures do not total to total number of respondents

Table 3 shows that – when asked to self-define whether or not they considered themselves a family business – respondents overwhelmingly categorised themselves as such. Smyrnios, Tanewski and Romano (1998) define family business as either a) 50% or more of the ownership is held by a single family, b) 50% or more of the ownership is held by multiple members of a number of families, c) a single family group is effectively controlling the business, or d) a significant proportion of the senior management is drawn from the same family. For the purpose of the research this will used as a working definition – and while this may not be strictly the definition used by the respondents to the survey almost certainly the overwhelming majority fall into one or other of these categories. Additionally, the response is in line with the assessment that nationally 83% of all businesses are family owned.

Table 3 – Family Business

	No.	%
Yes	295	84
No	55	16

Attitudes to the Wine Business

Respondents were asked about their reasons for going into business – with the results detailed in Table 5. Given the scaling of the questionnaire, any response above '4' is positive and anything less indicates disagreement. Lifestyle and personal development issues are clearly the most important for respondents. Financial reasons figure less prominently, which is probably a reflection of the wine industry's notoriously low rate of return - Williams (1993) suggested it was less than 4% in the early 1990s, against an average debt level of $72,000. Anecdotally one can suggest that many small wine production companies are formed either by qualified winemakers who choose to leave a large producer to establish their own operation, or by people outside the industry (classically doctors or lawyers) who view wine production as an attractive second (often part-time) job. Both groups are clearly likely to reveal lifestyle or personal development reasons rather than financial ambitions as their motivation.

Table 5 – Reasons for entering this business

	No	Mean	Std dev.
For personal challenge	115	5.78	1.01
For personal development	114	5.05	1.40
For a more flexible lifestyle	116	4.97	1.53
To use my experience and knowledge	115	4.84	1.70
To be my own boss	115	4.78	1.65
To achieve financial security	116	4.20	1.93
To balance work and family responsibilities	114	4.14	1.59

Because I saw a business opportunity/gap in the market	113	4.10	1.83
To gain personal recognition	116	3.88	1.57
To make a lot of money	116	3.25	1.59
Because of the lack of opportunity for advancement in my previous job	114	2.96	1.96

Whilst there is nothing which surprises in the data about reasons for entering the business, when owners were asked about how they measure success a paradox occurs. Table 6 gives the breakdown of responses, and the level of customer base is perceived to be the most significant determinant. Given that the customer base relates directly to the financial return of the business it is clear that economic success is an element in the measurement of success. It may also be that many owners, in referring to the increase in their customer base, are also responding to the personal contact with customers at the cellar door and at tastings, particularly where the feedback is positive – and therefore do not just see customer base in terms of growing market share.

This paradox is strengthened by the fact that success in financial terms is the third most important factor. It is even marginally ahead of personal freedom as a determinant of achievement. This is despite the fact that – as Table 5 shows - a flexible lifestyle and being one's own boss rated above financial security and far above making a lot of money as reasons for entering the business. Whilst lifestyle and personal development issues may have been the overt reasons for starting the business there is a hint of equivocation here. Possibly the dream of financial reward may have figured more than most are now prepared consciously to admit. The wine industry is capital intensive and functions on very low margins (King 1997). Wine is also an agricultural product and is therefore subject to the vagaries of weather and disease, making projections of income difficult. For these reasons as the business develops financial concerns may figure more prominently than the 'lifestyle' motivation would suggest.

Noticeably the only measurement of success to get a negative score (thus showing general disagreement) was that which determined achievement by the receipt of industry awards. Given the importance which garnering medals at wine shows has been as part of the marketing of wines (Dunphy and Lockshin 1998) this shows an unexpected antagonism to the system. It may well be that whilst producers use the wine show system for marketing purposes (with bottles on liquor store shelves regularly displaying the gold and silver medals won), they tend to be sceptical of it as a true method of assessing their achievements.

Table 6 – Measurements of Success

	No.	Mean	Std. Dev
By increases in my customer base	111	5.07	1.32
Mainly by my lifestyle	113	4.84	1.42
Mainly in financial terms	115	4.51	1.54
By my personal freedom	114	4.48	1.63
By industry awards	114	3.83	1.91

Respondents were then asked about their attitudes to being in business, with the results detailed in Table 7. These generally reflect the reasons given for entering the business in the first place. Challenge, personal satisfaction and flexibility rate highly – the need to make money is perceived to be the least important. However, also of note is the fact that respondents disagree with the suggestion that they were more money-oriented when they entered the business, and with the idea that financial success is less important as they become established. Clearly whilst financial rewards are their least important aim overall, general financial security is no less important as the business progresses, and the positive rating given to increased turnover reinforces this.

Table 7 – Attitudes towards the business

	No.	Mean	Std. Deviation
Having pride in the job is more important than making a lot of money	119	5.56	1.02
personal satisfaction is more important than making a lot of money	118	5.53	1.15
Having a flexible lifestyle is more important than making a lot of money	118	5.42	1.33
Being my own boss is more important than making a lot of	118	5.30	1.32

money			
I am as ambitious now as when I first started the business	117	5.14	1.61
I would like to spend more time with family but I often have to put the business first	118	5.04	1.64
I feel I am running a successful business	118	5.03	1.31
Being able to give people a job gives me great personal satisfaction	116	4.69	1.79
I measure the success of my business by increases in turnover	118	4.58	1.60
The importance of financial success has diminished as the business has become established	119	3.40	1.53
When I first started the business I was more money oriented than I am now.	118	3.32	1.67
Making money is the most important aspect of owning my own business	117	3.17	1.48

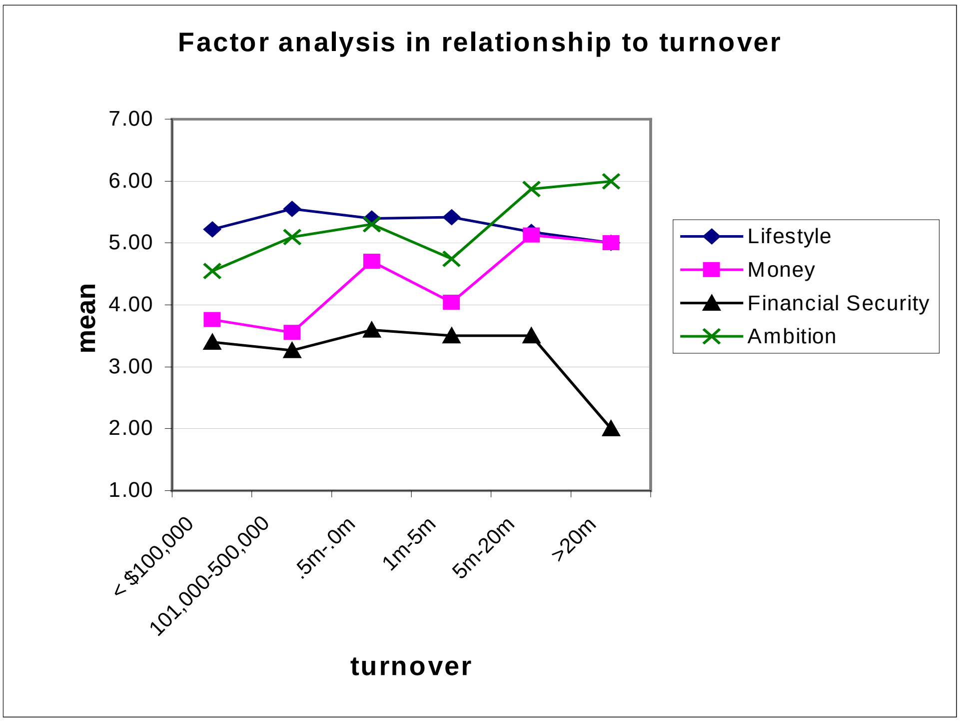
A factor analysis was performed on the attitude variables to determine the key factors relating to this issue. Four clear factors emerged from these variables relating to lifestyle, money, financial security and ambition. (see appendix 1 for details of the factor analysis).

Of note is the fact that an unfulfilled wish to spend more time with the family is grouped with making money and increasing turnover. This suggests that there were dilemmas for some of the respondents not just generally about work and family (which is commonplace) but specifically between family and the desire for financial gain.

The factors were then analysed in relationship to business size, as measured by turnover. (Figure 1). Broadly this suggests that money and ambition become more important as the size of the business increases, whilst lifestyle factors marginally decline in importance. The result for financial security (where respondents had to comment on the suggestion that it was of decreasing importance) show a marked disagreement as turnover peaked. This is probably skewed by the small sample obtained at the top range of business size –but it is useful to note that throughout this factor has a negative weighting. Therefore at all levels of business size respondents tend to see financial security maintaining a continuing level of importance. It is necessary to distinguish the attitude that desires continuing financial security with money orientation – where making money is perceived to be the paramount goal of the business.

One caveat to this discussion is whether or not the responses are *post hoc ergo facto* – that is because a company has a small turnover, therefore the respondents determine that the attitudes contained in the ambition-orientation factor need not apply to them, and so discount their importance

Figure 1 – Relationship of attitudinal factors to business size



Business Development

Respondents were asked how long they had been in business, (see Table 9) and also to assess which stage of the business lifecycle they considered their business to have achieved on a linear scale from 1-10 (See Figure 2). The mean age of the businesses was comparatively old, with over 81% having existed for six years or more, and a mean period of ownership of more than 14 years. Set against the high levels of growth in new wine businesses (Baldwin 1997) this suggests a strong level of continuity and operational success in the industry. There was also a sense that the businesses were well established, with almost 75% stating that they were at the growth phase, and a further 20% that they were in the survival phase. (There was a mean of 6.51 – suggesting that generally businesses considered they were leaving the survival phase and entering a period of growth.)

Table 9 – The length of time in business

	No.	%
1-5 years	65	18
6-10 years	80	22
11-20	129	37
> 20 years	74	21

This sense of business stability contrasts strongly with the reported dramatic expansion in grape-growing in Australia over the last four years – by early 1999 there were 78,709 hectares of vine planted and producing grapes – and 19,730 (an increase of 25%) planted and not yet bearing fruit (Winetitles 1999b). Additionally there are now a number of investments schemes geared to planting vineyards (Travers 1999). The likely reason for this contrast between apparent stability and actual growth is that historically anyone entering the wine industry established a winery as well as vineyards; currently they are as likely to put money into a vineyard investment scheme, and thus not show up as a traditional wine business - for the grapes may well be sold rather than turned into a wine with the investors' own label. This dilution in small-scale entrepreneurship in the industry must also have an impact in due course in the way the industry operates.

Figure 2

Below is a scale of different stages that may occur within the lifetime of a business.

Please circle the number which best represents the stage you believe your business is at.

STARTUP SURVIVAL GROWTH MATURITY

1 2 3 4 5 6 7 8 9 10

Respondents were also asked about their future intentions, and the results are set out in Table 10. Crucially almost all of the respondents had some plans for their business. Broadly these can be split between the few (about 13%) who were content to remain as they were – and the rest, who want to expand. A small number (perhaps 16-20%) wanted to sell the business in the near future, but most planned to keep it and sell on their retirement, and/or (for 45%) pass it on to their children.

Table 10 - Future intentions

	No.	%
No plans	2	1.74
Continue at same rate	13	11.30
Employ more staff	25	21.74
Invest in technology	27	23.48
Capital investment	40	34.78
Increase turnover	67	58.26
Build and sell	19	16.52
Sell in 12 months	5	4.35
Sell in 5 years	10	8.70
Maintain for children	52	45.22
Maintain until retirement	53	46.09
Decrease business	5	4.35
Become a public company	2	1.74
Other	1	0.87

(Multiple response table)

Conclusions

This research is limited to quantitative questions regarding structures, motivations and attitudes. Further detailed investigation through structure interviews would reveal background information that may more completely explain some of the concepts explored here. Nevertheless some conclusions can be reached.

The role of small business is as critical to the burgeoning wine industry as to any other sector in Australia. Whilst the large companies dominate production the small companies occupy shelf space and critical analysis disproportionately to their size.

There are overall four groups of reasons for entering the wine production industry, but as it is perceived to be a 'lifestyle' occupation it is therefore no surprise that lifestyle and personal development issues dominate the reasons for entering the business, and continuing attitudes to the business. Nevertheless it is also apparent that money remains an important factors for entrepreneurs.

The wine industry seems to be comparatively mature as an industry, with businesses tending to place themselves beyond survival on the business lifecycle, and entering a growth phase. However, that conclusion is belied by the fact that the recent expansion of operations in the wine industry have been in the area of grape growing rather than wine production *per se*. Most intend to keep their business until retirement, and almost half of all operators intend to pass the business on to their children.

More research - particularly of a qualitative nature - would develop the themes and ideas broached in this study, and further give relevance to the research to an industry which is excellent on looking outwards to its customers and markets - but sometimes fails to examine critically its structure and organisation.

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Appendix 1: Results of the Factor Analysis on Attitudes towards the business

Rotated Component Matrix

	Factor 1 LIFESTYLE ORIENTATION	Factor 2 MONEY ORIENTATION	Factor 3 FINANCIAL SECURITY	Factor 4 AMBITION
Having a flexible lifestyle is more important than making a lot of money	0.7912			
Being my own boss is more important than making a lot of money	0.7283			
personal satisfaction more important than making a lot of money	0.7228			
Having pride in the job is more important than making a lot of money	0.5114			
I feel I am running a successful business	0.5091			
I measure the success of my business by increases in turnover		0.7773		
Making money is the most important aspect of owning my own business		0.7449		
I would like to spend more time with family but I often have to put the business first		0.4827		
The importance of financial success has diminished as the business has become established			0.8199	
When I first started the business I was more money oriented than I am now.			0.803815	
Being able to give people a job gives me great personal satisfaction				0.800036
I am as ambitious now as when I first started				0.750800

the business				

(Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation.)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy. = 617

Bartlett's Test of Sphericity - Approx. Chi-Square = 241.209, df = 0 66, Sig. = 0 000