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What Does Brand Management Mean for Wine Cooperatives?

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Abstract: Branding and brand management are becoming increasingly important. Similar to cooperatives in the agricultural sector in the European Union, the number of German wine cooperatives is steadily decreasing. One option for wine cooperatives to fulfil the purpose of promoting member businesses is to implement a differentiation strategy successfully. Due to the technical possibilities in viticulture and cellar management, wine producers can no longer differentiate themselves from competitors through wine quality alone. Accordingly, companies must use other forms of differentiation. The brand is one of the strongest forms of differentiation from competitors. Compared to the brands of other wine producers, the brands of (German) wine cooperatives are only weakly represented in food retail. This suggests wine cooperatives have special challenges in brand management. In particular, the internal structures in cooperatives often hinder long-term investments, which are necessary for the establishment of a brand. This paper aims to show which cooperative-specific characteristics might pose a challenge to cooperatives in terms of brand management. To this end, results from two exploratory studies are combined, since they complement each other, to provide the necessary explanatory content (surveys conducted in 2013 and 2019). The discussion and conclusion section indicates whether cooperative values can be used as a distinguishing feature following the differentiation strategy.

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Keywords: Agricultural cooperatives, brand management, cooperative values, Germany, qualitative study, wine industry.

Introduction

Branding and brands are becoming increasingly important. Consumers are exposed to brands on a daily basis. Branding refers to the process of creating a relationship and building an emotional connection between the customer and the company's product (Karnes, 2021). Brands are one of the strongest forms of differentiation from competitors. Brands are images in the consumers' minds that assume an identification and differentiation function and shape consumer choice behavior (Esch, 2018, p. 21). Thus, in the decision process during purchase, brands are intended to provide orientation and communicate specific values. For companies, brands offer the opportunity to differentiate themselves from competitors and thus gain pricing leeway. In other words, this helps the producers to

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move towards monopolistic competition. Therefore, brand management is becoming more critical for firms (Bastos & Levy, 2012; Beverland, 2004; Esch, 2018, pp. 1–23).

However, agribusiness firms have often been slow to develop brands, preferring instead to seek government protection, improve efficiency, or reduce buyer power through collective supply and marketing arrangements (Beverland, 2007). This has been achieved by forming enterprise forms such as cooperatives or producer associations. Many cooperatives have been late to recognise the need to invest in marketing (Beverland, 2005).

In general, a cooperative is defined as an "autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise" (International Co-operative Alliance, 2021). Besides the social dimension of cooperatives, there is also a strong business-driven aspect which highlights the importance of ensuring economic support for member businesses.

In this paper, we take the German wine industry as an example of an agribusiness, as it provides competitive market structures and wine cooperatives[1] play an important role. In Germany, grape production is still dominated by small grape growers. Around 36,900 grape growers are members of wine cooperatives (Deutscher Raiffeisenverband e.V., personal communication, June 9, 2020). The number of wine cooperatives in Germany decreased from about 264 in 2000 to 160 in 2018 (Richter & Hanf, 2021a). The decreasing tendency in the number of cooperatives is similar in the agricultural sector in the European Union (Ajates, 2020). The area under vines cultivated has decreased from more than one third of the German vineyard area (about 37,000 hectares in 1990/1991) to approximately a quarter (25,200 hectares in 2018) (Richter & Hanf, 2021b). The total German vineyard area, however, has remained constant during recent years at approximately 103,000 hectares (Deutsches Weininstitut, 2020; OIV, 2020). Accordingly, grapes from areas lost by cooperatives due to members leaving are now being processed by other market participants. The developments described above show that wine cooperatives seem to struggle with successfully developing strong brands that would generate greater revenue and higher (grape money) pay-outs for the members (grape producers).

According to their bylaws, wine cooperatives are self-help organisations for grape producers. The business principles of wine cooperatives can be defined "by the identity of users and owners, the democratic principle of voting, and the lack of entry barriers" (Hanf & Schweickert, 2007). Furthermore, the legally manifested business objective can be seen as another characteristic (Hanf & Schweickert, 2007). According to German cooperative law, the main objective is to improve the economic situation of their member businesses (GenG §1).

The high intensity of competition and low average prices (Deutsches Weininstitut, 2019) in the German wine market increase producers' efforts to differentiate themselves from competitors in order to gain greater pricing options or to increase sales volume. For most wine producers, it is difficult to differentiate by product quality characteristics such as the taste or flawless wine quality, as the technical possibilities and know-how in viticulture and cellar management ensure that consistent, flawless wine quality can also be produced in large quantities. Accordingly, companies are trying to use other forms of differentiation to set themselves apart from their competitors, for example, by using a unique site (origin of the grapes) or developing a brand.

In the German still wine market (as of 2019), private labels of food retailers (Aldi 29.9%, Lidl 15.3%, and Edeka 4.9%), producer brands of the large wineries (e.g., Blanchet 0.6%, Rotkäppchen Qualitätswein 0.5%), and international wine brands (e.g., Grand Sud 0.9%, Gallo 0.7%) have larger market shares than other producers (Euromonitor, 2020). In the sparkling wine market, German brands of large sparkling wineries (e.g., Rotkäppchen 27.4%, Freixenet 5.4%, Söhnlein 5.1%, Mumm 4.7%, Henkell 3.7%) as well as foreign champagne brands (e.g., Moët & Chandon 13.4%) claim significant market shares (Euromonitor, 2020) Brands of smaller German wine producers and wine cooperatives do not have significant market shares (Euromonitor, 2020). This is astonishing, as wine cooperatives also produce large quantities and, depending on their size, also distribute nationwide via food retailers.

It is assumed that, in addition to general challenges to brand management, there are cooperative-specific challenges that make successful brand management by cooperative management even more difficult. For example, brand management requires long-term investments. In cooperatives, many members are involved in the decision-making process. Due to member heterogeneity (Höhler & Kühl, 2018) and cooperative-specific problems such as the horizon problem (see Cook, 1995), it might be challenging to take such long-term decisions.

This paper aims to identify cooperative-specific challenges to brand management and to investigate them by using an exploratory approach.

Section 2 gives an overview of the importance of brand management in the German wine industry (2.1) and cooperative-specific challenges in brand management (2.2). Section 3 details the design of the empirical study (3.1) and provides the results from two exploratory surveys from 2013 and 2019 which are combined with each other, as they complement each other in providing the necessary explanatory content. In the last section, the results are brought together and discussed. Particular interest is drawn to the discussion of cooperative values and the potential use in brand management for this enterprise form.

Importance of brand management and cooperative-specific challenges

Importance of brand management in the German wine industry

German wine production (depending on crop fluctuations based on, for example, frost or hail events) and the total amount of wine consumed in Germany have remained relatively stable for many years. In 2018 10.3 mhl were produced, in 2019 8.2 mhl and in 2020 8.4 mhl (OIV, 2020). 20.0 mhl were consumed in 2018 and 19.8 mhl in 2019 and 2020 (OIV, 2020). Germany is the world's second largest wine importer in terms of volume with 14.1 mhl in 2020 (variation of – 5.0% compared to 2019) (OIV, 2020). The imported quantity has always been between 14 and 16 mhl during the last ten years (OeMv, 2021). Thus, growth in the German wine market is only possible by displacing other suppliers (Dreßler, 2018). Especially in saturated markets with a high intensity of competition, firms are forced to pursue a clear competitive strategy in order to survive in the market in the long term. In general, firms can pursue the strategy of cost leadership, cost focus, differentiation, or differentiation focus (Porter, 2004). Cost leadership as a generic strategy can only be chosen by a few players in the German wine industry (Dressler, 2013).

Cost leadership is not feasible for cooperatives (with the exception of secondary cooperatives) in view of the current market situation and the given structures, as cooperatives have size disadvantages compared to wineries, for example. In addition, cooperatives are usually not able to react as quickly to changes in the market as wineries, which can buy wine flexibly on the market and thus react quickly in the event of a new grape variety trend, for example. Regional cost leadership is certainly possible for some small to medium-sized cooperatives (Richter & Hanf, 2020). In general, cooperatives strive to optimise processes and costs in the various areas of processing, marketing, and distribution in order to remain competitive (Gerke, 2020). For example, mergers occur, often of cooperatives in the same region that have also worked closely together in the past (Gerke, 2020). Cooperatives as well as other wine producers also try to reduce their costs through cooperating on distribution. Two well-known examples in the wine industry are Weinland Baden GmbH, a sales cooperation of six Baden cooperatives for the national market, and WeinAllianz GmbH, which is an association of 14 member companies from different wine-growing regions and of different types (cooperatives and wine estates) with the aim of reducing costs through a joint sales force. Another example is the cooperation between two wine cooperatives from the Ahr (DAGERNOVA Weinmanufaktur Ahr Winzer eG and the Winzergenossenschaft Mayschoß-Altenahr e.G.) and the REWE West Group, which exclusively distributes the wine of the "Ahr²" brand (Weinwirtschaft, 2019).

Alternatively, producers can choose the differentiation strategy. Here, a company tries to fulfill certain attributes based on the buying criteria of the target group in order to meet the needs of this target group (Porter, 2004). Thus, a higher price can be charged for the product. Differentiation can be based on the product itself (e.g., specific product quality attributes, brand ...), delivery system, service, marketing approach, or other factors (Porter, 2004).

Product quality in general consists of a bundle of different quality attributes. These can be divided into search, experience and credence attributes (Böcker & Hanf, 2000; Darby & Karni, 1973; Nelson, 1970). In Western markets with high quality demands and an overall high-quality level, there is often more than one firm which is able to fulfil the respective credence attribute. Thus, it will be difficult or even impossible to differentiate from competitors with attributes such as vegan or organic properties and achieve a competitive advantage.

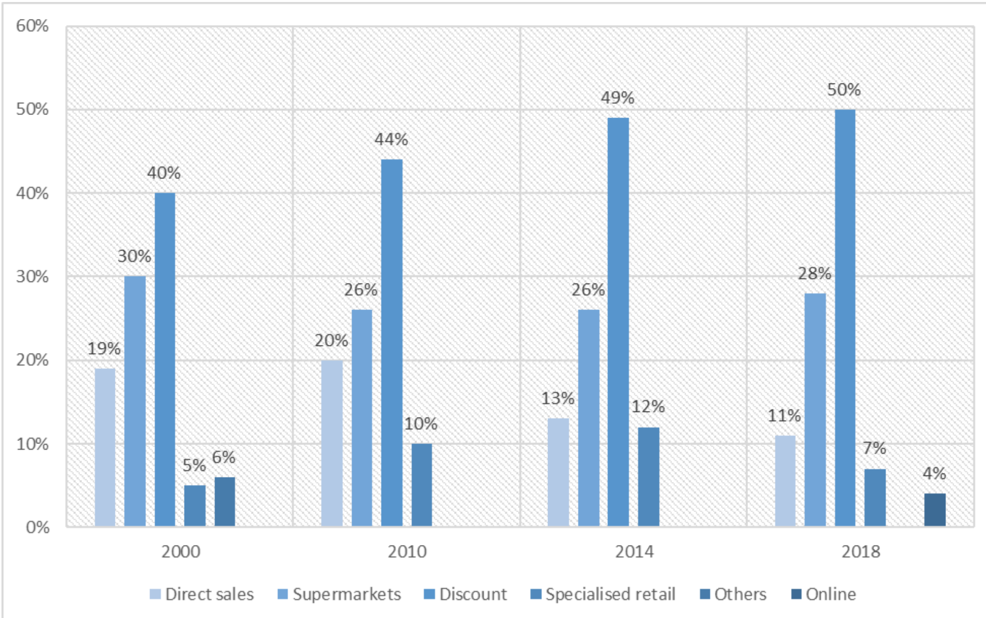
In the branding and retailing literature, there are authors using the term “points of parity” (Anderson et al., 2006; Keller & Brexendorf, 2016; Keller et al., 2002; Rintamäki et al., 2007), which correspond to some kind of “minimum requirements” that have to be fulfilled to be perceived by the consumer. In general, associations that consumers perceive, can be divided into “points of difference” and “points of parity”. Whereas “points of difference” represent attributes or benefits that consumers associate with a specific brand in a positive way, and which they believe they cannot find to the same extent in competitive brands, “points of parity” correspond to associations that are not necessarily unique to the specific brand but can also be found in competitive brands (Keller & Brexendorf, 2016). It is further mentioned that a frame of reference (e.g., other brands in the same category) has to be chosen in order to determine which points fall into which category. Once the frame of reference has been chosen, they suggest practitioners go through the points of parity that must be fulfilled in order to ensure consumers perceive the product as a “legitimate and credible player” within that frame of reference (Keller & Brexendorf, 2016).In this context, it becomes clear that wine producers can no longer differentiate by product quality characteristics such as flawless wine quality or taste. The technical possibilities in viticulture and cellar management make it possible to produce consistent and flawless wine quality even in large quantities.

In the wine industry, unique sites and terroir are often seen as a way to differentiate. On 27 January 2021, the 10th amendment to the wine law came into force. The amended law provides the framework for a stronger focus on the origin of German wines. The new regulations are binding as of the 2026 vintage. The pertinent change in the wine law is: The closer the origin, the higher the quality claim. Many cooperatives have previously linked large vineyard areas with a brand character. Therefore, grape producers with larger vineyards or cooperatives view the narrowing to wines from specific sites critically (Süddeutsche Zeitung, 2019). The change shows that neither a flawless wine quality nor sites can be used by cooperatives for differentiation. Thus, successful differentiation can only be achieved through the establishment of brands. Brands are gaining importance in the wine industry (Beverland, 2004; Euromonitor, 2020).

Existing brand concepts in the wine industry are tailored to different contexts, drinking occasions, life situations, and moods to appeal to the respective target groups. In general, brand concepts are divided into retail and producer brands (Ortner & Hanf, 2020). Both are used in the German wine market.

The importance of the different distribution channels for wine in Germany has changed tremendously over the last 20 years (Richter et al., 2021). The food retailer (discounters and supermarkets) has gained importance over this period (Deutsches Weininstitut, 2016; DWI, 2019; Hanf & Schweickert, 2003). Whereas the share of wines sold via supermarkets remained about the same, discounters gained in importance, rising from 40% to 50% of total sales in the same period of time (Richter et al., 2021). The direct marketing sales channel has lost importance in favour of the discounter sales channel. The share of wines sold via direct sales declined from 19% in 2000 to approximately 11% in 2018 (Richter et al., 2021) (see Figure 1). Private label wines of Aldi and Lidl account for 29.9 % and 15.3 %, respectively, in terms of company share of German wine sales by volume (Euromonitor, 2020).

Figure 1: Sales channels for wine in Germany in 2000, 2010, 2014 and 2018



German cooperatives market their wines mainly via discounters and supermarkets (see Hanf & Schweickert, 2014) and through speciality retail chains or via export. The on-trade channel and direct marketing are often important for cooperatives, especially for smaller cooperatives.

The German still wine market is mainly dominated by private labels of food retailers (Aldi, Lidl, and Edeka), producer brands of the large wineries, and international wine brands (Euromonitor, 2020). In the sparkling wine market, German brands of large sparkling wine cellars, as well as foreign champagne brands, claim market shares for themselves (Euromonitor, 2020) An examination of brand shares in total sales in the German wine market shows that producer brands of German wine producers (except for brands of large wineries) do not have significant market shares (Euromonitor, 2020).

An examination of the sales of selected branded wines in German food retail in 2017 shows a similar weighting of the players behind the respective brands (Engelhard, 2018). In addition to the domestic and foreign brands of large wineries, German cooperative brands are also listed (e.g., wines of secondary cooperatives from Baden and Württemberg or brands of German cooperatives such as Moselland eG or Deutsches Weinor eG) (Engelhard, 2018). In the ranking of the top 20 wine brands in German food retail (from 200 sqm excluding Aldi; based on data from the IRI retail panel), brands from international producers are also included alongside brands from German wine and sparkling wine producers (Engelhard, 2018). Wines from German cooperatives are ranked 9th (Rebsortenweine WZG; 4.18 million bottles), 17th (Moselland Akzente; 2.89 million bottles), 18th (Süss & Fruchtig WZG; 2.60 million bottles), and 19th (Deutsches Weintor Exklusiv Trocken; 2.55 million bottles) (Engelhard, 2018). With regard to the cultivation of about a quarter of the total German vineyard area (Deutscher Raiffeisenverband e.V., personal communication, June 9, 2020), it becomes clear that the importance of wine cooperatives in the German wine market is not reflected in terms of brand shares in food retail.

Exclusive brands and private labels are increasingly used in food retail (Engelhard, 2018; Ortner & Hanf, 2020). In the case of an exclusive brand, a producer owns the right to the brand, but produces it exclusively for certain retailers and is only allowed to distribute it via these retailers. Retailers increasingly rely on private labels to avoid price comparisons with competitors (Engelhard, 2018). The wine quality of wines from a private label must be comparable to the wine quality of wines from producer brands in order to be accepted by customers. The following examples show that wine estates have been increasingly entering cooperation with food retailers, developing brands and successfully placing them on the market for several years. These producers benefit from their good reputation as high-end producers. Due to the need to ensure specific quantities and qualities, wine estates are increasingly working with wine cooperatives directly or with other grape suppliers, some of which are leaving the cooperatives. This can lead to competition in terms of acreage for individual cooperatives.

One example of an exclusive brand is Aldi's "Fritz Keller" line. Aldi set up an agreement with the winemaker Fritz Keller from the Franz Keller/Schwarzer Adler wine estate in Baden, who works together with partners such as cooperatives to produce wine that is marketed exclusively through Aldi (Frankfurter Allgemeine Zeitung, 2010). Another example of an exclusive brand is the "Van Volxem & Friends" Lidl project (launched in April 2020) (Wrann, 2020). Here, a renowned winery offered discount wines in collaboration with Lidl. The features of the wines differed significantly from the rest of the wine estate's wines, which are sold through speciality retailers and restaurants. Other wine estates, such as winemakers Friedrich Wilhelm Becker and Andreas Spreitzer, were already working with Lidl (Wrann, 2020). The direct cooperation of food retail with wine producers is also visible in the example of the Robert Weil wine estate. In 2017, the Robert Weil wine estate signed an exclusive contract with Edeka for Germany-wide distribution of the Robert Weil Junior brand (Edeka, 2020; Weinwirtschaft, 2017). The Leitz winery, which has been working with the discounter Aldi Süd since 2017, has grown significantly in recent years, expanding its vineyard area from 2.5 to 110 hectares (Bock, 2019; Rucht, 2019).

Changes in the sales channels for wine as a product are increasing the importance of branded products (Ortner & Hanf, 2020). For example, there has been an increase in independent retailers (Edeka-Verbund, 2019; Rewe Group, 2019). Independent retailers are entrepreneurs who independently manage stores as cooperative members of the Rewe Group and Edeka, which both are retail cooperatives with their own stores and stores led directly by cooperative members (so-called independent retailers). Independent retailers are interested in brand concepts. By customising the assortment and prices, these retailers can respond much more closely to the needs and wishes of their customers at their respective locations and thus increase sales. In terms of the overall concept, such retailers have a similar concept to the concept of speciality retail, as tasting options and advice are often offered in addition to high-quality furnishings and in-store concepts (Bitsch et al., 2020). Since these locations receive their products via direct deliveries and can sell larger quantities, this represents an attractive sales channel for wine estates.

All in all, brands are gaining importance in the German wine market. Wine estates, in particular, have been working increasingly with food retailers for several years and must therefore ensure certain quantities and qualities. Private labels also continue to be an important part of the assortment of specialist retailers and food retailers. Wine cooperatives often provide wine for the retailer’s private labels. However, the importance of wine cooperatives in the German wine market is not reflected in terms of brand shares in food retail.

Cooperative-specific challenges in brand management

The general challenges for brand management are manifold. These include countering the interchangeability of the brand, the penetration of private labels, digitisation and the resulting increase in transparency, and the duration required for successful implementation (Burmann et al., 2018, p. 4).

In addition to the general ones, there are cooperative-specific challenges in brand governance that arise from the distribution of property rights, the number of holders of property rights, the horizon problem, the free-rider problem, and the heterogeneity of members (Proschwitz & Hanf, 2015).

Cooperatives can be distinguished from other forms of enterprises by their governance. This can create different challenges that have implications for brand management. These include problems arising from the distribution of property rights (Dilger, 2005; Fulton, 1995). In this context, it is important to distinguish between the *allocation of property rights* and the *number of holders of property rights*.

In particular, problems arise in the case of cooperatives due to *the allocation of property rights*, since substantial investments must initially be made over several years (Fulton, 1995). Why should the members of a wine cooperative be committed to increasing the value of the firm through strategic investments if they do not benefit from these investments (Frick, 2004)? In wine cooperatives, cooperative shares do not earn interest, i.e., upon exiting the cooperative, members cannot sell their shares because there is no market for them but can only return them at par value. Insufficient specification of property rights consequently leads to a focus by grape producers on a short-term pay-out price for the grapes delivered to the wine cooperative, as well as to insufficient incentive design for strategic investments, so that these are not supported by the cooperative shareholders (Dilger, 2005).

In addition to the allocation of property rights, the *number of holders of property rights* also plays a role. The larger the number of control rights holders, the more "diluted" are the property rights themselves (Frick, 2004; Picot, 1984). In an owner-operated wine estate, there is only one person (or a few people) who is in charge and would benefit from an increase in enterprise value. A cooperative, however, has many voting members who are also shareholders. The structure of property rights of wine cooperative members can therefore be said to be highly diluted (Fulton, 1995).

The horizon problem arises from the non-tradability of cooperative shares and leads to an interest in short-term goals (Cook, 1995). The horizon problem occurs when a member's residual claim on net income from an asset is shorter than the productive life of that asset (Cook, 1995). The horizon problem is mainly caused by existing age differences among members (Capitello & Agnoli, 2009; Hanf & Schweickert, 2014). For branding, a long-term approach is needed. Investments often show results only years after they were made. Transferred to the wine cooperative setting, this means that problems in brand management can occur if the grape producers (members of the cooperative) do not have successors, as long-term investments (such as in brand building) are more likely to no longer be made here. There is a high likelihood that older members, in particular, will no longer participate in the success of investment decisions during their remaining membership period (Dilger, 2005). This may lead to a strong member focus on maximising short-term pay-out prices for the grapes delivered to the wine cooperative. In particular, cooperatives with a high proportion of members in the final phase of membership can therefore hardly be expected to provide an impetus for strategic investments (Schramm & Taube, 2004). Especially in German wine cooperatives, members often have a high average age (often 50+ or 60+ years)[2].

In this context, the free-rider problem may arise in cooperatives (Cook, 1995). The free-rider problem refers to the situation in which a person receives the benefit of a good but does not pay for it. Since the Cooperative Act requires that all members be treated equally regardless of the length of their membership in the cooperative, in the context of branding it can be assumed that, for example, newly joining members will benefit from an investment in branding even if they have not contributed financially to the investment. Accordingly, new members receive the same pay-out price for their grapes as long-time members. The problem here is that long-time members have given up returns in the course of brand investment, and so they should be granted a higher pay-out price (Frick, 2004). Since this is not possible in cooperatives, this also leads to an orientation towards maximising pay-out prices in the short term, as it is the only way to recoup the investments made. The pro-rata pay-out of any corporate profits generated to members, a basic provision in the Cooperatives Act, is made at the end of each fiscal year (Pennerstorfer & Weiss, 2013). Accordingly, the free-rider problem causes an orientation towards short-term success, especially in cooperatives, and inhibits efforts to pursue long-term investment strategies for brand building. When short-term success is the focus of management or member interest, branding quickly degenerates into "tagging" and the brand's impact fizzles out (Burmann et al., 2005).

In agribusiness cooperatives, member heterogeneity is present in many cases and is often associated with negative effects on cooperative performance (Höhler & Kühl, 2018). Member heterogeneity can be divided into three different dimensions (Höhler & Kühl, 2018): (1) heterogeneity in member economies (e.g., size, distance), (2) member-specific heterogeneity (in terms of sociodemographic data, but also differences in time membership, risk tolerance, contract with the cooperative, degree of active participation and co-creation in the cooperative, and underlying motivation to become/be a cooperative member), and (3) product-specific heterogeneity (e.g., differences in product type or delivered product quality). The various dimensions of heterogeneity are thought to have implications for members' preferences and interests, which may negatively affect cooperative performance due to their influence in the overall organisation of the cooperative and distribution of income and disposition rights (Höhler & Kühl, 2018).

In wine cooperatives in particular, there are additional differences in the individual member economies, depending on whether viticulture is practised as a main or part-time occupation. There are a large number of part-time winegrowers in German wine cooperatives, especially in certain wine-growing regions such as Baden and Württemberg (Hanf & Schweickert, 2014). Depending on the form of gainful employment, different goals are pursued with viticulture. Part-time grape producers usually have other sources of income besides viticulture. Therefore, it can be assumed that part-time grape producers are not willing to change the grape varieties grown or existing production processes or to support cost-intensive investments that serve the long-term brand building. The interest in higher short-term pay-out prices prevails among part-time grape producers (Hanf & Schweickert, 2007). The fact that these problems, which are specific to cooperatives, also exist in Germany was shown, among others, by Proschwitz and Hanf (2015) and Richter and Hanf (2021b).

Empirical study

Design of the empirical study

An explorative approach was chosen to examine the challenges to brand management specific to cooperatives empirically. In both exploratory surveys, the method used was expert interviews, which according to Mayer (2012) is a particular form of the guided interview. For this paper, the results of two studies were combined, both of which took place in Germany. In the first study from 2013 (April-June), managing directors and board chairmen of nine wine cooperatives of different sizes and from different wine-growing regions were interviewed. The focus was set on wine cooperatives with their own vinification facilities, that process the grapes of their members, produce wine and market the wine. The decisive factor for the choice of these interview partners was their management function, as these individuals are the ones responsible for strategic decisions taken in the cooperative. The main topics included in the interview guideline for this survey were the concept of the brand, brand management and investment issues.

In the follow-up study from 2019 (July-September), 15 interviews were conducted with managing directors and board chairmen of wine cooperatives from various German wine-growing regions. These interviews focused on the competitive environment of German wine cooperatives, brand management, decision-making structures in cooperatives, and challenges related to investments.

Both exploratory surveys were based on semi-structured interviews that were conducted via phone. The interview guideline for the survey of 2013 differed to the one from 2019. The participants were informed prior to the interview that the data would only be used anonymously. This was intended to help allow the interview partners to answer the questions as openly and unconstrainedly as possible. The interviews were recorded and transcribed.

For the evaluation of the interviews, a qualitative content analysis according to Mayring (2010) was conducted. The analysis was based on inductive category formation. In the following section, the statements of the interview partners are indicated accordingly. I1-I9 corresponds to the interview partners from 2013. P01-P15 corresponds to the interview partners from 2019.

Results

Competitive environment for wine cooperatives in the German wine market and need for brand management

An intensity of competition and high price pressure on the German wine market was highlighted by 12 out of 15 managing directors (survey 2019). For example, person P07 said "Overall, of course, many producers from all over the world are pushing into the German market, which of course does not make it easy, i.e., the competition is very tough, and the pressure on the price, of course, too." Person P01 stated, "The wine market is slightly stagnant and very competitive." It was also mentioned by other interview partners that the high quantity of wine imports (14 to 16 mhl wine each year) contributes to the high competition in the German wine market. These statements illustrate the competitive intensity which emphasises the need for brand management as a tool for product differentiation.

Brand understanding among wine cooperatives

The term brand was presented differently by the interview partners. Basically, brands are understood in the sense that they serve as an orientation tool for consumers and brand loyalty plays a role in the purchase decision (P09). Here, "the image and the charisma of the brand" play an important role (P02). As the results from 2019 show, brands are divided into regional and national brands. Cooperatives often use so-called "brands of origin" (P01). Such brands are associated with a high distribution reach, liquidity, high communication pressure and advertising effort (P01). According to P01 there are brands of origin as well as concept brands rather than brands that lead to an emotional connection between the product and the consumer or to the establishment of consumer loyalty. Examples of concept brands are brands of large wineries or wine estates that can market their products throughout Germany via food retailers (as described earlier in Section 2.1). Concept brands are introduced to the market through a certain reach, which leads to consumers recognising the product when they see it on the shelf. Brands of competitors can provide orientation for brand development (P07). Here, however, one has to weigh up which trend one wants to "go with". One respondent also mentioned the use of different brand concepts to market the wines in different distribution channels (P07). One interview partner stated that the cooperative has a separate homepage for each brand to ensure a clear separation between the individual brands (P14).

These results complement the results from 2013: Here, the recognisability of the brand (I5) and the necessary production volumes for branded products (I2) were mentioned as well. The term brand was also occasionally associated with emotions (I4) and mentioned as an orientation tool for consumers that offers reliability and creates trust (I6). The presented dimensions of brand understanding show that there are no uniform, but rather individual considerations that partly overlap.

Challenges of brand management in wine cooperatives

Based on the literature it could be derived that a tendency towards ***high average age*** and ***ambiguity in succession*** can influence brand management. More than two-thirds of the 2019 interviewees confirmed that the average age of cooperative members tends to be high, with members being 50+ or 60+ years old on average (e.g., P13). In addition, generational succession is a challenge for many cooperatives (P02, P06, P10, P11, P12). The reason given was that doing other jobs is often more attractive to the younger generation than working in the vineyard (P10, P11). According to person P11, succession depends, among other things, on the form of employment. In the case of full-time grape producers, there is sometimes succession, but in the case of part-time producers there is not so much stability, because other jobs are more attractive. It is the task of cooperative members to make their own profession attractive for young people (P02). The results from the 2019 survey show that the high average age, as well as the unregulated succession, contribute to the horizon problem, as the older members will probably no longer be able to share in the success of the investment decisions. Through these issues, the time dimension necessary for brand management becomes visible.

The results from 2013 and 2019 were consistent with regard to ***decision-making***. Depending on the size of the investment and/or the importance of the decision for the strategic direction of the cooperative, the decision is made in different committees of the wine cooperative. However, the distribution of competencies between management, board of directors, supervisory board and general assembly differs in wine cooperatives. In some cases, the executive board/managing director has a strong responsibility for brand development and management, and the executive board and/or supervisory board are only involved in budget issues (I5, I6). Furthermore, there are also wine cooperatives where the supervisory board is also more involved in the decision-making processes (I3, I7, I8). The general assembly has a say in decisions above certain investment levels (these are defined in the statutes) or in fundamental decisions (e.g., new construction, demolition or sale of buildings). The results of both surveys show that the individual budget limits differ from cooperative to cooperative, often depending on their size. In general, it can be said that operational branding decisions are made by the executive board or managing director, in some cases in consultation with the board. However, budget limits are set for the most part, which determine the extent to which the individual bodies are integrated into the decision-making process.

Decisions to invest in intangible goods are handled differently in the wine cooperatives depending on the individual bodies' budget limits and decision-making competencies. In general, respondents from 2013 and 2019 stated that tangible investments are often easier to implement than investments in intangible goods (I2, I7, I8, I9, P04, P06-P13, P15). Members (grape producers) often find it easier to relate to investments in tangible assets (for example, if equipment for the cooperative wine cellar is needed such as tanks, a new bottling line etc.). However, it became clear in the 2019 results that there are differences among individual members in their attitudes towards intangible investments depending on other occupational activities, the size of the member economy and the understanding of the importance of marketing-related aspects (P13). It is essential to make members understand "that investments will always pay off in the long run" (P05). Members' understanding of investments in intangibles facilitates investment decisions and processes. In summary, members' attitudes and understanding of tangible investments tend to favour tangible investments.

The ***continuity of brand management*** was examined in the complementary study in 2013. It is dependent on the decision-making processes already described in a wine cooperative. The results from the 2013 survey show that the consistency of the brand presence can be threatened by a change of office in the management and board (I4, I8). This is particularly due to the fact that different office holders also bring different ideas with them and want to implement them. A change of office also includes a change of board if the board is significantly involved in brand management (I4). The board should therefore last longer than three years (I3). In order to ensure continuity, a rotating election of board members is sometimes applied, i.e., only a part of the board is newly elected at upcoming elections (I7). Thus, in cooperatives, the continuity of brand management can be influenced by the board and its terms of office, whereby it should be mentioned that re-election is possible in principle. Since the boards are staffed with members, wrong decisions regarding brand management can also occur if the basic understanding of brand policy is missing (I7, I9). To avoid this problem, it is also possible to outsource the processes of brand building and brand management as far as possible (e.g., a marketing agency) (I5).

In conclusion, the understanding of brands among the respondents has not developed much at the different survey times. The following challenges in brand management could be identified: a tendency towards a high average age of the members and the often unregulated succession, the graduated decision-making under the participation of different committees, the tendency towards investments in kind, and the threat to the continuity of brand management. These challenges can lead to the absence or delay of long-term investments, especially in intangible assets.

Discussion and conclusion

Brands are an important orientation aid for wine consumers and play an important role in the marketing of wine as a tool for differentiation. However, the position and presence of the brands of German wine cooperatives in the German wine market (see Section 2.1) has shown that hardly any German wine cooperative brands exist. A small number of the cooperatives implement brand management successfully. The majority of cooperatives have difficulties in brand management. Successful brand management is a challenge for them as it requires market orientation and target group-specific brand development, a sufficient budget for investment in brand management, a long-term time horizon, and continuity. Based on theory, five problem areas specific to cooperatives were identified: the distribution of property rights, the number of holders of property rights, the horizon problem, the free-rider problem, and member heterogeneity.

The problem areas are reflected in the results of the empirical studies conducted in 2013 and 2019. Here, it became clear that cooperatives face branding challenges that are particularly caused and/or amplified by the principles and structures of cooperatives. Thus, the following challenges were identified: tendency of high average age and unregulated succession (horizon problem), graduated decision-making with the participation of different bodies (property rights, heterogeneity of members), tendency to invest in kind (property rights, heterogeneity of members) and threat to the continuity of brand management (property rights).

It is therefore necessary for cooperatives to identify opportunities to regulate succession and to convince the younger generation to work as grape producers as a main or part-time business and to participate in the committees (board of directors, supervisory board). Overall, work must be done to increase cooperative members' brand awareness and their understanding of the need to invest in intangible assets. Information, training and education are key principles that can help to increase brand awareness and brand understanding. This can also be fostered through discussion sessions at member meetings or young winemaker projects. The problems specific to cooperatives cannot be completely prevented, but they can be limited by certain measures. The clear allocation of decision-making authority and the avoidance of changes in managing directors or board members (e.g., continuity through rotating election of the board), which can cause major disturbances in brand management, can contribute to successful brand management.

Cooperatives that have difficulties in branding can also form alliances with buyers (retailers) to establish premium retail brands. Existing examples (e.g., “Ahr^2” wine as mentioned earlier) of premium private labels show that collaborations between wine producers (including wine cooperatives) and retailers offer another way to distribute wine exclusively. Here, cooperatives have the clear advantage over other producers that they can produce homogeneous wines in different quantities for cooperation with downstream companies.

In addition to the possibilities mentioned so far, cooperatives can also associate cooperative values more strongly with the brands of their products and product worlds to appeal to consumers on an emotional level. Breuning and Doluschitz (2019) have shown that social values such as democracy, solidarity, transparency or sustainability can be found in cooperatives (Breuning & Doluschitz, 2019; Zukunftsinstitut, 2020). These values can also be found in German wine cooperatives. In principle, these societal values can be well combined with the cooperative idea and cooperative principles. There is potential for cooperatives to differentiate themselves through these societal values that match cooperative values (Breuning & Doluschitz, 2019). To achieve this, however, these values must be revitalised at the internal and external level of the cooperatives. In concrete terms, this means strengthening member loyalty and internal communication between members, management and committees. Furthermore, the values can be used externally for the stable positioning of the cooperative as a community enterprise and in external communication to achieve competitive advantages in the market (Ringle, 2013). To use this in the context of brand management, the corresponding values through which the members also feel represented in the cooperative can be collected and prioritised. Subsequently, these shared values can be brought to the fore and integrated into the brand identity. Due to a large number of members, cooperatives can use their members as so-called value ambassadors ("brand ambassadors"). This offers an opportunity to externalise the social values found in the wine cooperatives and bind consumers more emotionally to the cooperative.

The importance of wine cooperatives in the German wine market is not reflected in terms of brand shares in food retail. This study contributes to the existing literature as it investigates the challenges of brand management in wine cooperatives, allowing it to derive implications for wine cooperatives. Such implications include fostering the brand awareness and understanding among members but also using societal values that match with the cooperative values in the context of emotional marketing and branding to establish an emotional connection to consumers.

The qualitative research approach can be understood as a limitation of the study. Since only limited knowledge on the topic under investigation is available so far, an explorative approach was deliberately chosen and accordingly, two qualitative, non-representative studies were conducted in 2013 and 2019, the results of which complement each other. To cover a broad spectrum of perspectives, managing directors and executive boards of wine cooperatives of different sizes and regions were selected. In the context of further research, a quantitative approach can be used to verify the results elaborated. A cross-sectoral paper that examines the branding challenges of cooperatives in other sectors and compares them with the results of this paper can show to what extent the elaborated results are transferable to other sectors.

Our study focused on wine cooperatives (producer cooperatives). However, it would also be interesting to take a closer look at retail cooperatives, such as the UK Wine Society in the United Kingdom or the REWE or Edeka group in Germany. This would help to understand whether retail cooperatives also face branding challenges.

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Notes

[1] Wine cooperatives consist of members (grape producers) and different committees (general assembly, board, supervisory board, management). In Germany, there are wine cooperatives with and without their own vinification facilities. This means that some only have the function of bunding the grapes, whereas others bundle and process grapes into wine. Grape processing cooperatives often market the wine on their own via different distribution channels.

[2] This was revealed in many conversations held between the authors and the management of wine cooperatives in different German wine growing regions.