

Winzergenossenschaft Westhofen: A German Wine Cooperative Evaluates Strategic Positioning

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SUMMARY

Winzergenossenschaft Westhofen, a German wine-producing cooperative, evaluates market opportunities and strategic steps for future growth after periods of restructuring and investments. Having created a lean and efficient organization, the CEO intends to exploit direct sales channels as well as to foster exporting its products, specifically to the Americas. The case therefore provides the basis to analyze the industry, competition, and strategic positioning, to create an offer design considering customer expectations in a global context, and to evaluate managerial challenges in the light of specific organizational boundaries, such as cooperative organizations.

INTRODUCTION

The Winzergenossenschaft Westhofen (WGW) is a cooperative of about 200 vintners producing and marketing wine from about 340 hectares of vineyards. In Germany, cooperatives deliver one-third of the German wine production. The competitive environment in the German wine industry has resulted in massive restructuring of wine producers in general and cooperative organizations specifically, some of them dissolving and others merging. Despite ongoing concentration, the wine supply side in the German wine industry is still characterized as a fragmented, liberal, and dispersed market. Strategic positioning is therefore of paramount importance to sustainably perform in such a market environment.

WGW sells bulk as well as bottled wine. It is located in Germany's largest wine region, Rheinhessen, and its wine is regarded as quality products constantly awarded and recognized to be of good price value. The distribution portfolio is diverse, covering direct sales to end consumers, sales to retail, and restaurants, as well as exports on a stand-alone basis or via partnerships. WGW is part of an alliance of cooperatives from different regions pursuing jointly national and international marketing and sales for their wines.

In 2009, a new CEO entered the organization. Since then, WGW has extensively restructured with a focus on quality increase as well as productivity gains. A lean organization that creatively exploits market opportunities was realized. Next strategic steps are aiming to further expand direct sales opportunities and access foreign country markets, identified as attractive levers for profitable growth and a sustainable business model for the future.

WG WESTHOFEN EXPLORES STRATEGIC POSITIONING

Business as usual – a last walk through the facilities to close the doors and turn off the lights – all standard procedure of a final daily quality check. Dennis Balasus, CEO of Westhofen wine cooperative, extinguishes the lights in the production area, warehouse, and sales and administration facilities, a habit that became routine procedure during the course of realizing massive restructuring and

quality increase programs. Having taken the position as CEO in 2009, Dennis reflects on the managerial challenges that he faced in previous years but also on the ones ahead.

When taking the assignment, Mr. Balasus did not expect such a rich portfolio of managerial tasks to be tackled in such a short period. Intensified market competition, internal incidents at WGW, and difficult weather conditions with lower yields and therefore lower earnings impacted his time at WGW from the beginning on. Hence, with some pride having succeeded despite the challenges he turned off the computer showing him the latest information on sales and an e-mail stating positive outcome of a foreign country marketing activity.

Indeed, extensive restructuring and process optimization has resulted in a lean organization that is well positioned to compete in a tough German market. An ambitious and challenging change program was realized in which all processes and business model components – for example the payment scheme for the members, new sales approaches and additional channels, strategic partnerships, and the product range - were optimized. In addition to realizing change and restructuring, securing sales was accomplished with a lot of power and creativity: a joint venture for the annual sales of the bulk ware, a partnership with other cooperatives for bottled products, and offering slack capacity to outsiders for different steps of the value chain were milestones of fostering sales, efficiency, and profitability. WGW therefore today is totally different than when Dennis entered the organization. A solid organizational and financial basis supported by highly professional processes has been created for a prosperous future in a tough competitive market.

One example is the new grape reception that was finished just the day the harvesting began in 2012. Despite a major investment and a change in one crucial step of the process of delivering and pressing the wine grapes, everything worked at high professional standards and quality levels from the first moment when the press was started. Not surprisingly, most members of the cooperative are now convinced that this change and organizational transformation was needed.

Dennis now shifts focus from efficiency to growth. Sources to increase earnings and profitability that are currently in discussion include intensifying the direct sales to end consumers as well as additional export activities. Those two strategic levers seem highly attractive given the German market situation as well as the competences of WGW. Dennis feels that now is the appropriate time for further concentration on growth ambitions. But are those strategic ambitions in a fierce competitive market realistic? What are the risks of the steps? How should these ambitions be approached? And especially, which markets are best-suited for WGW's products and organization and will they increase the profitability of WGW and its members? These questions not only puzzle Dennis when reflecting on the future positioning of the WGW but also will be raised in the upcoming board and membership meetings. Some members might strive for a rest in the change activities or they might doubt that the steps will result in higher individual income. The story needs a convincing concept to sway the board to accept additional changes.

Context: The Wine Market in Germany

The German wine industry is characterized by changes on the demand as well as on the supply side. Germans drink more than twenty million hectoliters (hl) of wine per year, representing a market value exceeding eight billion euros a year. The average consumption of 25 liters per inhabitant is stable and although it is only about half of France - the benchmark with highest per capita consumption - Germany is an attractive market for wine. Today, Germany ranks as the number four country in

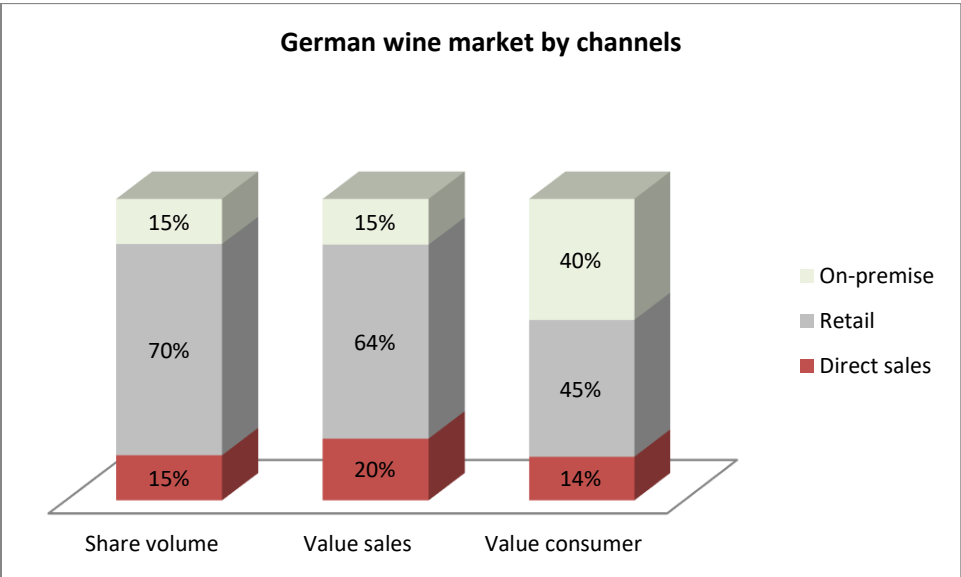
volume consumption in the world but it is the world champion in sparkling wine drinking and in wine imports. Indeed, with more than 16 million hl of wine imported, more than half of the wine consumed in Germany originates in foreign countries and furthermore Germany has developed into a hub for European wine sales, despite its rather small population (DWI, 2012; Rückrich, 2012).

In Germany, wine substitutes for other alcoholic beverages given an overall declining alcohol use but a stable wine consumption. Wine belongs to a modern style of living in developed countries with higher level of wealth and it is interpreted as more cultural alcohol consumption. German wine consumers are offered a great variety of local, regional, and international wines. Different sales channels compete for the consumers who enjoy wines for a diverse universe of occasions with different preferences and behaviors. They prefer international wines to German products, favor Italian wines, and red to white wines - with a 60:40 split. Italy, France, and Spain jointly deliver more than three-fourths of the imported wines to Germany. (DWI, 2012)

Offer Variety and Channel Diversity

German wine drinkers buy their wine either directly at the vintners and cooperatives or at different retailers – ranging from local, regional, or national supermarkets to discounters to special wine stores – or they consume in restaurants and on premise. Indirect sales for home consumption dominate the German wine market with about 70% in volume sold there. These channels, especially supermarkets and discount stores, increase their market share steadily and are seen as a reason for low prices of wines in Germany, given their average sales price of less than 3 euros per liter, alongside with the imported products also characterized by lower average prices. Direct sales of wine growers declined to 15%, a result of channel substitution. As average prices are higher for direct sales, the 15% share in volume constitutes more than 20% in value.

When calculating the wine prices from a consumer perspective, one needs to consider the price premium in restaurants and on-premise resulting in substantially higher prices for the consumer. Hence, with such a perspective the market value of wine in Germany results in annual sales of about 10 billion euros. In such a market view, 40% of the wine market value originates in on-premise sales.



Multichannel view on German market (sales and end customer expenses views)

Massive Changes on the Wine Production Side

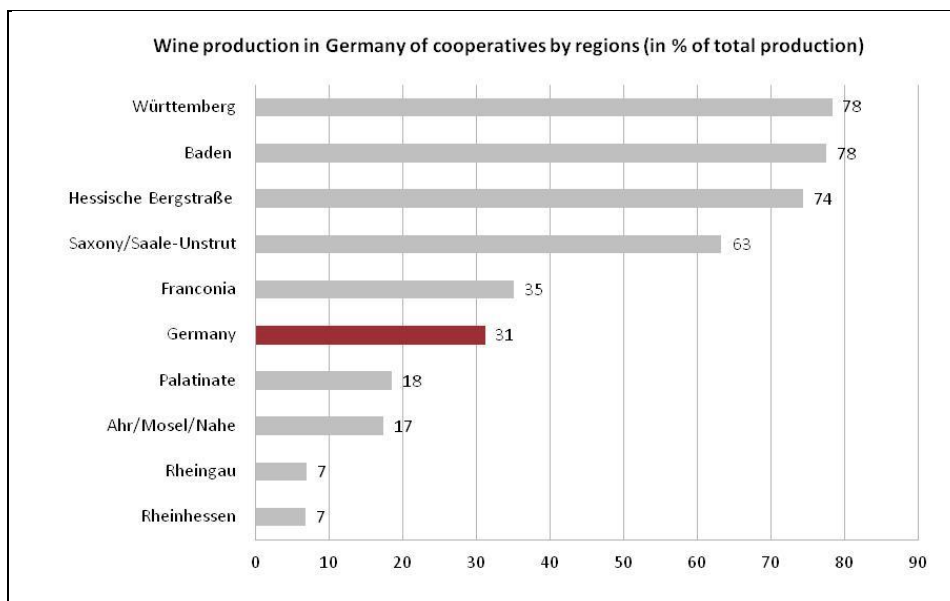
Not only the consumer side but also the production side is characterized by variety and change. Germany produces wine in 13 regions. The wine regions differ significantly in structural and product matters. Because vineyard surface and location is restricted, constant vineyards of about 100,000 hectares deliver 7 to 11 million hl, depending on the yearly vegetation and natural hazards. Of the production 64% is white and 36% is red wine. Nearly all German wine is rated quality wines. Riesling is grown at about 22% of the stocked vineyards and pinot noir at about 12%. Overall, more than 3.8 million hl of wine is exported. Key destinations for the wines are the United States of America, United Kingdom, and the Netherlands. Those three destinations make up for more than 1 million hl of exported wines.

With a loss of about 50% of its producers since the 1980s the structural changes in the German wine industry on the supply side are massive. Still, almost 50,000 wine growers are active with about 40% of them declaring wine as their main source of income. Wine in Germany is produced by independent small wineries, cooperatives and their members, and large wineries buying bulk wine from vintners or cooperatives. The market split is about one-third for each producer segment. German producers are generally characterized by extended value chain coverage along with the large wineries concentrating on production, marketing, and sales.

	1979	1999	2009
Total number of producers	89,471	68,603	48,009
More than 5 hectares	3,349	5,898	5,984
1 to 5 hectares	21,017	13,004	8,914
Less than 1 hectares	65,105	49,701	33,111

Overview supply side of German wine

The structure of wine production and supply depends on the wine region. Taking the penetration of cooperatives as an example, regions such as Rheingau or Rheinhessen produce less than 10% of the wine through cooperative ventures meanwhile in Baden or Württemberg almost 80% is produced and marketed cooperatively.



Penetration of cooperatives (in marketed wine per German wine region)

Overall, Germany is a challenging wine market because of the richness of products, low margins, and its complexity also due to regulatory requirements, framing production decisions as well as marketing ideas from a federal but also a European perspective with the intention to secure transparency, quality, and honesty in the interest of the consumers: just to mention few examples labeling is strictly defined as is treatment with sulfur or methods how to treat in case of acidity reduction or increase. But since the market is liberal and consumers are curious in regards to offers, products, and channels there are entrepreneurial opportunities for success. Despite a low average of profitability in the market, new players enter and the recognition for good products as well as entrepreneurs in wine business is high in the German society and therefore compensate for eventual financial restraints.

Cooperatives as Important Players in the German Wine Industry

The idea of cooperatives in the form of mutual arrangement with integrated value chains and joint ownership dates back to the mid-nineteenth century. During that time the rural population in Germany had to deal with profitability challenges given low prices for their products but high costs, for example, rising interest rates. To counter the resulting poverty, local and regional communities of interests were formed in solidarity to share costs and jointly build market power. First cooperative banks and agricultural cooperatives were founded. Wilhelm Raiffeisen and Hermann Schulze Delitzsch are seen as the godfathers of the German cooperative movement. Cooperative principals are (Grosskopf, et al. 2009):

- Voluntary and open membership
- Democratic member control
- Economic participation by members
- Autonomy and independence
- Joint education and training on the basis of information exchange

The first viticultural cooperatives in Germany date back to 1852 and the oldest still existing wine cooperative, Mayschoß-Altenahr, was founded in 1868. It claims to be the oldest wine cooperative in the world.

A wine cooperative is therefore an organization in which regionally tied viticulturists join their forces and create a joint entity to market the products. Meanwhile the owning, planting, growing, and harvesting is mostly pursued by individuals on an entrepreneurial basis and membership in the cooperative, the wine production as well as sales and distribution are pursued in joint interest by the cooperative body. Cooperatives therefore exploit economies of scale for their owners and create market power, advantageous in the wine business with high fragmentation on the producer side and a concentrated distribution as an intermediary to the final customers. Furthermore, given the seasonality of the activities with an impact on investment needs and financing, such an organizational approach can enhance savings.

Today, about 200 cooperatives exist in Germany. Given the average joint output of about 3 billion liters of wine, cooperatives in sum produce about one-third of the German wine. The output consists of 87% bottled and 17% bulk wine. Bulk wine is sold to wineries for wine production or bottling to serve to national as well as international markets via distributors.

The landscape of wine cooperatives has changed massively. With a peak at around 1960 with more than 500 cooperatives and about 68,000 members, the 1980s saw the population begin to decrease to a current level of about 200 cooperatives with 49,000 members today. Because the planting

surface remains rather stable with more than 30,000 hectares, the reduction in members has led to an increased portion of business for the remaining members. (DRV, 2012)

	1900	1938	1980	2011
Number of cooperatives	113	493	342	188
Members in cooperatives	1,000	29,000	67,000	49,000
Hectares covered	Not stated	Not stated	34,935	32,002

Overview on cooperative landscape in Germany

Strategic Positioning of Cooperatives

Wine cooperatives in Germany tend to position themselves as generalists serving local, regional, and, depending on the size of the cooperative, also national or international markets. They are often positioned at the lower to mid end of the market and therefore target more basic or mass market segments. Given the size and distribution power of the cooperatives compared to smaller individual vintners they can serve retail channels with their requests for constant quality and a certain yearly quantity.

A strategic profiling can be derived by looking at size and therefore quantity of the cooperative versus extent of direct sales to consumers. The larger the cooperative, the more the retail channels dominate the client portfolio. Shelf place in retail is needed for sales of larger volumes of bottled wines but considering volatile yearly yields and the international competition it is also a challenge to fulfill the agreements every year.

Cooperative-specific challenges

Cooperatives face several specific challenges besides the market challenges which are induced by cooperative ownership. Individual members might feel restricted in their entrepreneurial ideas. Brand development is not easy because German consumers might connote a lower quality with cooperatives. Strategic positioning and decision making is more difficult because of the diverse portfolio of interests, ambitions, and perspectives of the members as is alignment of the members. Indeed, the decision making in cooperation might be more complex than in single-ownership entities. Often, local or regional interests of the communities are considered in addition to all other aspects.

Overall, cooperatives often have to fight a rather negative quality image. This might be the result of years of focus on quantity of production instead of quality. The profitability of members of cooperatives on average is lower than for independent vintners (Oberhofer, 2012).

Transformation of Winzergenossenschaft Westhofen

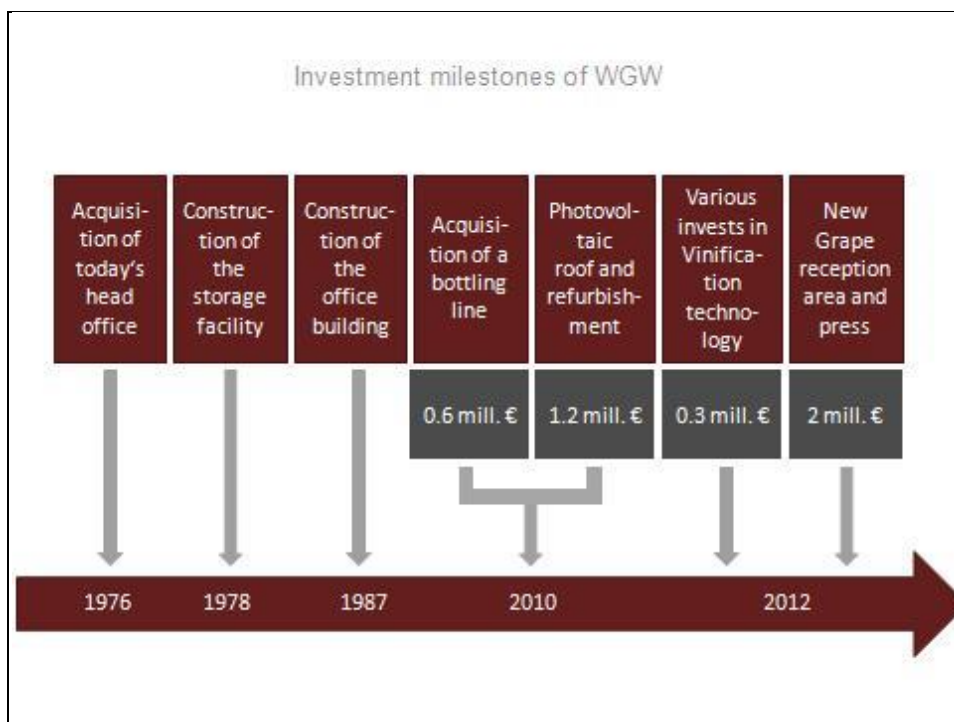
In the following, the cooperative WGW will be presented by looking at its historic development, describing its actual situation – especially the massive managerial transformation that was initiated after a change in the management of the cooperative – and by providing insights into current strategic decisions in regards to the future development to exploit market opportunities for growth and to increase attractiveness for customers and also for members of the alliance.

History of WGW

The cooperative “Winzergenossenschaft Westhofen eG” was established in 1920. Twenty-nine members agreed to found a joint entity and to deliver all their grapes to the newly created cooperative. At the time of creation the cooperative was located in two facilities in Westhofen, one for production and one for storage. In 1976, WGW bought a former furniture factory, today’s facility for receiving

and pressing the grapes. A bottle storage location (1978) and an office building (1987) followed. The original warehouse was used until 1993.

Three phases of historic company development followed the starting phase. Decades of growth in members resulted in 139 members in 1955 and 290 members in 1996, respectively. In the 1980s, a phase of investment into facilities and equipment laid the foundation for more professional wine production. The third phase started with the new millennium with a focus on customers as well as new sales approaches for further company development.



WGW milestones of investments

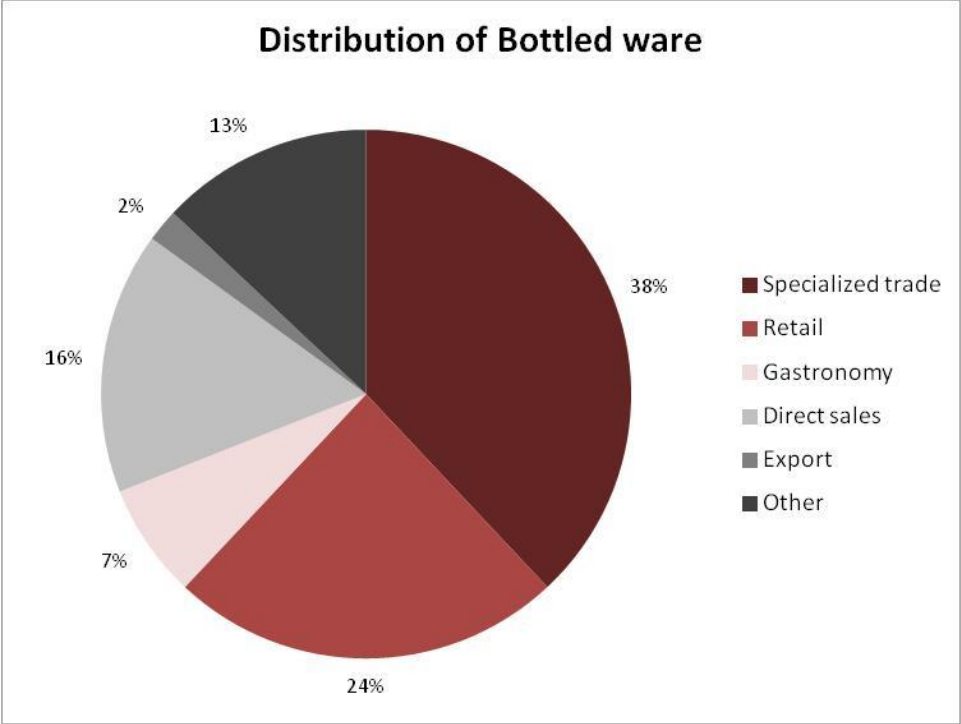
WGW is located in Rheinhessen, a region that has greatly increased its quality performance and perception by customers in the German wine market. Rheinhessen benefits from production cost advantages because the area misses the difficult-to-harvest steep hills of other wine-producing areas and the size of the plots allows exploitation of economies of scale.

Current Size and Output of the Cooperative

WGW counts about 200 members with 50% of them actively delivering their harvest. Only 5% of the delivering members market their own wines individually instead of only through the cooperative, although members are free to decide on capacity delivered. Having reduced their active members but still keeping an overall constant surface for production, the average size of the active members has increased over the years. The membership portfolio is heterogeneous with the larger ones cultivating more than 40 hectares, greatly more than the German or Rheinhessen average. One-third of the members deliver two-thirds of the vine. Membership within the cooperative can be cancelled any time with a two-year notice. WGW is convinced that the only way to sustain itself in the future is to be attractive to members and not by establishing lock-in strategies.

On 350 hectares the cooperative produces on average 3.7 million liters of wine. Thereof, about 65% is marketed as bulk ware disposed completely by the partner "Erzeugergemeinschaft Goldenes Rheinhessen" and 35% is sold as bottled wine. WGW covers direct and indirect sales of the bottled

ware, including to restaurants. It is also active in foreign countries, though to a smaller extent. The retail market is its dominating sales channel selling more than 60% of its bottled products.



Sales channels of WGW for bottled products

The capacity of WGW is not at its limit with its 8 million liter storage capacity of wine in tanks. Indeed, the strategic aim is also to increase wine production from its current level of about 4.4 million liters and of 400 hectares processed to 500 hectares in the future.

Change and Optimization – Transformation of WGW

WGW has restructured with a strong focus on quality increase as well as productivity gains, for example, massive reduction in head counts, ISO certification, forming an international cooperative distribution alliance, offering logistic services to optimize warehouse capacity, and so on.

Top Management Change as Starting Point

Before entering WGW Dennis Balasus gained entrepreneurial experience in watering systems and long-standing sales experience for a US company in the steel business. Covering the world for the sales job, Dennis traveled extensively through Eastern European and Asian countries. Indeed, his experience before joining the wine world left its marks with professional ideas on export activities and production processes know-how. As well, working for a US company resulted in a constant search for optimization opportunities.

Family relations built the basis for Dennis’s affinity for the wine industry and to WGW. In his wife’s family there are a number of long-standing members of WGW delivering their grapes to the cooperative. The offer to become part of the management board in WGW therefore provided the opportunity to transform the cooperative by exploiting his experience outside of the wine industry to the advantage of the members and therefore also to the profit of his own family’s wine activities. Dennis also perceived that job to allow changing his lifestyle and be closer to his family and friends paired with apparently sufficient challenges for his managerial ambitions.

Shortly after taking over the assignment a fraud case in the accounting and sales department was discovered by prosecutors. In the course of the investigations the former CEO, in that position for decades, had to resign and Dennis Balasus moved from the side chair to become the main driver of the cooperative. Being an experienced practitioner with a lot of business sense, Dennis quickly seized the need to massively reduce costs, to invest into new technologies, to exploit the just-started sales alliance, and to change the payment procedures and the handling of the members. He therefore initiated a vast portfolio of change activities.

Positioning and Prioritization

The strategic orientation of WGW is to produce good wine quality based on reliable processes to ensure constant quality delivery. The bread and butter business is to provide quality wine for the mass market. Producing premium wine is the free exercise. Therefore, costs need to be controlled with quality processes in place, and flexibility is of paramount importance to win retail clients against strong competition of larger providers, not fancy offers.

Dennis decided that the cooperative needed to reduce its head count to increase the productivity of the remaining personnel and use external HR in peak times to become much more cost efficient and diminish waste and slack in the processes. Hence, the staff was reduced to a minimum team and flexibility was increased. Delivery, for example, was to be realized by external providers. Headcount reduction in accounting, warehouse, order management, and other functions was also realized. Events and catering are now provided by external service providers. In the course of the HR portfolio changes, the average age of the team was significantly reduced.

Dennis introduced a new payment system for the members. Not only did the basis of payments change but also the pay-out system. WGW switched from a complicated to a transparent system because nowadays the bulk wine prices lay the foundation for payments to the members. Liquidity is provided by installments within one year and members can decide whether to leave their share on individual accounts with paid interests. As a result, members receive payments earlier with more transparency. By paying the price of bulk ware on the open market they reflect volume and quality effects for that specific year and therefore the risk for the cooperative is reduced.

The warehouse capacity was increased by more efficient sales processes and logistics optimization. Freed-up capacity is now rented, for example, to a joint venture called "Weinallianz" increasing the income of WGW. Of the 2,000 square meters, currently one-quarter is rented out. Wine production is also opened to individual vintners on an as-needed basis. Interested wineries can use the capacity for needed wine production and logistics processes. Because of the low costs after all the optimizations and ISO certification processes this offer represents an attractive opportunity for the vintners as they can profit from scale effects. Not surprisingly, WGW's wine laboratory, which performs at very high standards, is used 80% by external customers.

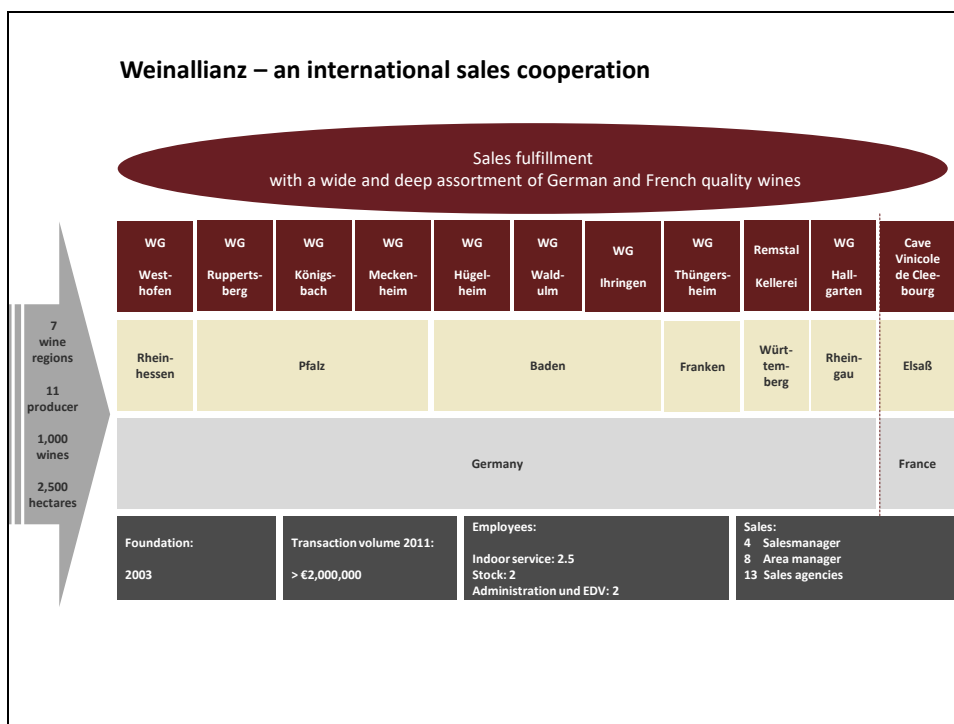
The roof of the warehouse was replaced and covered with solar energy panels. Besides the needed roof refurbishment for the wine processing this investment of about 1.2 million euros generates constant additional income by selling electricity into the public net and increases the sustainability of WGW.

Creative Production Optimization and Bulk Sales Securization

A partnership with the “Erzeugergemeinschaft (EG) Rheinhessen” was another milestone in the managerial transformation. Since 2010, bulk wine sales are completely realized by the EG, an alliance of 240 vintners with more than 2,000 hectares, and therefore one of the most important bulk wine producers in the region. WGW benefits from reduced costs and synergies because EG Rheinhessen offers a market power for lucrative price negotiations and vast experience. In addition, a fixed demand is ensured so that sales are guaranteed for WGW. The cooperative venture, settled formally in 2011, intensifies the collaboration on grape processing, must, and wine, and also in sales. A first step was the agreement that the vintners located in the south of Rheinhessen could deliver their grapes to WGW - located closer to their vineyards - instead of delivering to the more distant EG. Quick processing of the grapes increases the quality. The process is supported by modern technology to guarantee efficient processes: microchip-based identification is used when delivering the grapes at whatever location.

Leverage on Marketing and Sales – The Model of Weinallianz

In addition to a secured marketing of the bulk ware, the other focal point of managerial change on the sales side was the active push of the “Weinallianz”, a joint venture of selected cooperatives used as a powerful vehicle to serve customers with a broader product range. It therefore increases buying efficiency for the channel partners because the offered portfolio exceeds one brand or one supplier. Today, eleven cooperatives form the alliance jointly marketing their bottled products via their own sales organization.



Overview of the joint venture “Weinallianz”

The members profit from better usage of the sales forces capacity as well as better service to their customers. Export activities of individual members can be exploited by the partners and the experienced sales team offers a broader product range with an extended geographical scope – national and international. Furthermore, the alliance develops brand recognition and quality efforts of the

individual members and also the joint Weinallianz brand. With the addition of the “French Cave Vinicole de Cleerbourg”, the alliance is now international, increasing the attractiveness of the portfolio and earmarking a milestone in international cooperation.

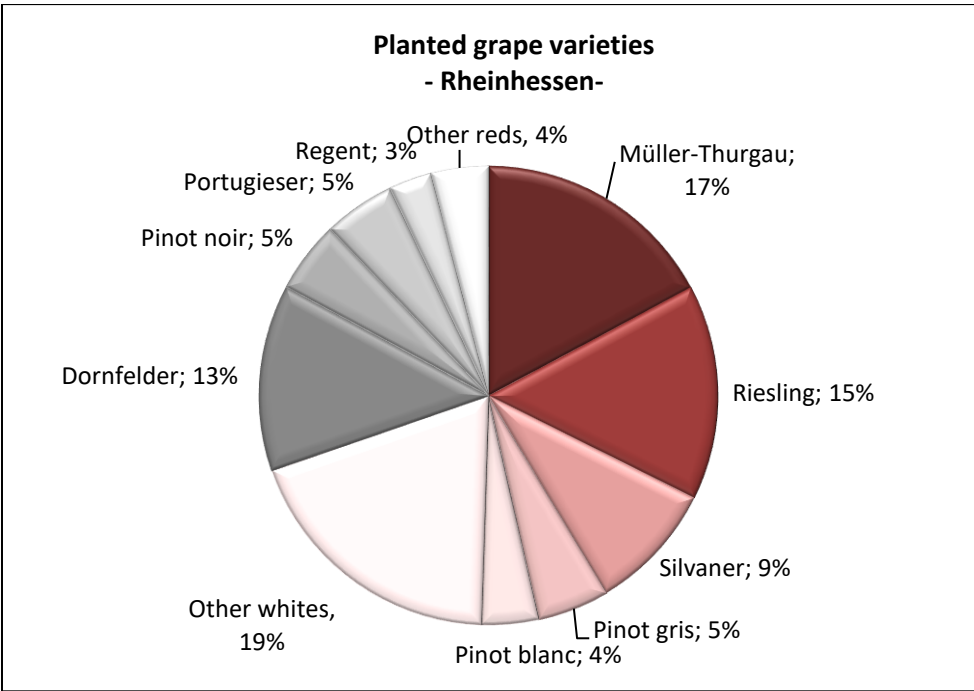
Entrepreneurial Excellence – Using Existing Platforms and Organizational Entities

Dennis inherited further residuals and platforms that he used to increase professional activities. The “Weinkontor” initially served as joint sales organization with another cooperative and when the partner merged into a larger entity the platform was left inactive. This platform was reactivated. Activities that exceed the core business of WGW of transforming incoming grapes into wine and selling them on the market are now pursued via that entity. As a result, the business income on solar energy, laboratory services, bottling for externals, and other activities are realized from Weinkontor platform. It increases transparency, flexibility, and allows for adequate cost allocation. It is also an attractive vehicle given taxation complexity in the German wine business.

It has to be considered that management in cooperatives is regulated to reflect the interest of the members. The executive board of WGW comprises four part-time members and Dennis Balasus as a full-time member, represents the cooperative externally, and is responsible for management decisions. The supervisory board is composed of four different members elected by the general assembly who control the executive board and report to the assembly. This committee is the highest decision-making body of the cooperative. Each vintner who is a member of WGW offers one vote. During their annual meeting they approve, for example, the annual financial statements and the allocation decisions.

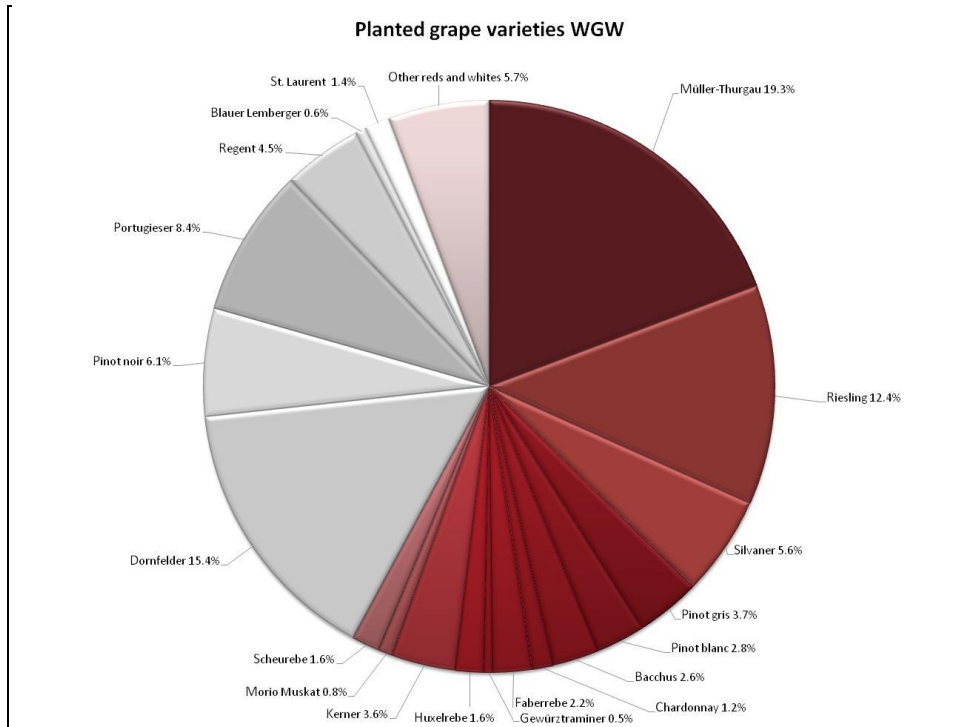
Product Overview

Looking at the grape varieties, WGW is oriented toward Germany’s plantation mix of 64% white and 36% red and Rheinhessen’s split of 69% to 31% because the members grow 61% white and 39% red vines.



Grape varieties in Rheinhessen

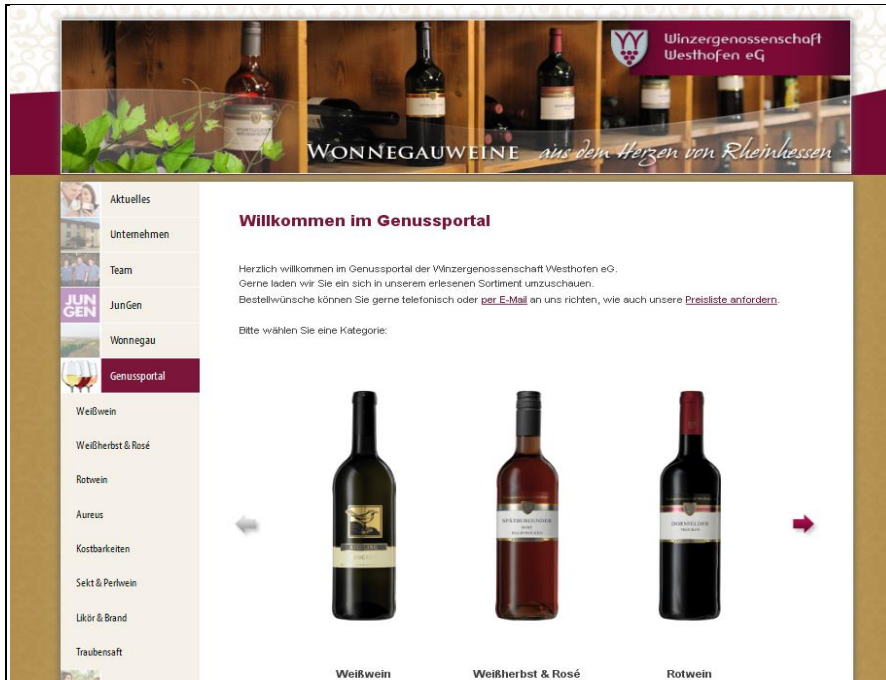
Müller-Thurgau and Dornfelder are Rheinhessen's as well as WGW's common grape varieties, followed by Riesling and Silvaner for white and Spätburgunder and Portugieser for red wines. Furthermore, the cooperative matures rare grapes such as Faberrebe or Blauer Lemberger. The average price range for the bottled products is about 3 euros for white and 3.50 euros for the red wines.



Grape varieties at WGW

The assortment is divided in two main product lines: Wonnegau wines and Premium -“Aureus”- wines. The price list of the Wonnegau wines entails 70 wine products, 20 types of sparkling wines, 7 liqueurs and spirits, and 3 grape juices. Ten white wines are offered in liter bottles with a price range of 2.90 euros to 4.15 euros and 25 white wines are offered in 0.75 liter bottles going up to 4.60 euros (14 quality, 2 Kabinett, and 9 Spätlese wines). Fans of rosé wines can choose among 9 products, ranging from 3 euros to 4 euros. Six red wines in a liter bottle and ten red wine products filled in a 0.75 liter bottle constitute the red choices, beginning at 3.60 euros for a cuvee in a liter bottle and ending at 7.90 euros for a merlot. Thirteen noble sweet wines build the top of the quality pyramid in price from 5 euros up to almost 30 euros a bottle.

The wide product range is continued in multifaceted product designs - starting with transparent bottles, emblems, and screw caps, ending with dark bottle colors, birds on the label, and traditional cork. The portfolio evolved from customers' decisions on their preferred vineyards, grape varieties, and flavor but also considered packaging on the basis of habitual preferences and customers' individual historic buying behavior.



Screen shot of the regular web page/wine shop of WGG

In contrast, the premium-line Aureus delivers a quite homogenous picture. Five white wines, three red wines, and two cuvees in an elegant décor constitute the offering. An antique gold coin is used on the label as eye-catcher to represent quality and significance. A rating program in the vineyard with additional payment for the vintners guarantees extraordinary grape quality. Handpicking, a gentle maturation, and permanent quality controls result in high end products.



Screen shot of the Aureus web page

For the enthusiasts of premium wines Aureus has its own web page. In Germany, the product line is offered from 5.60 to 8.40 euros. Aureus wines are expected to build the basis for future export:

internationally comprehensible, attractive figurehead, and a price level that allows satisfying margins and still ends up in a reasonable range of customer pricing.

Export Activities

WGW accesses foreign markets either directly or via the cooperative venture Weinallianz. In its direct export activities WGW covers Japan, Belgium, the Netherlands, and Poland. Poland serves as an example that some activities are a result of serendipity rather than of strategic programs. Based on a request from a Polish entrepreneur to actively sell WGW products on the Polish market, WGW delivers and states active sales for that destination.

China as well as other interesting markets are generally served by the Weinallianz and its sales staff. This approach secures a larger product portfolio and is therefore interesting for importers. An efficient logistic system enables sending products from all members of the alliance with shipping centralized out of the warehouse in Westhofen.

Currently, of the whole production capacity of WGW only a minor output is sold by bottled products to foreign countries. Benchmarks in the German cooperative landscape show a significant gap of export activities.

Overall Transformation and Rejuvenation – Providing Perspectives

The business transformation has resulted in significant business improvements. The managerial drive to consequently exploit all opportunities for efficiency and profitability increase by investing in technology and processes resulted in benchmark production costs. Furthermore, attractive payments to the members are possible because of low costs as well as a stabilized income situation. Given the difficult market environment with other cooperatives merging or failing a solid foundation for success in the future seems to be provided.

The changes in staff with a reduction of a third of the workforce led to the creation of a young and ambitious team of 12 employees. An entrepreneurial paradigm characterizes Dennis Balasus, his business approach, and his leadership for the team. One pillar of the team is Tobias Wagner, the production manager. He started in 2010 directly from university and was quickly given responsibility for the production process, despite that Tobias's background was not from grape but from cherry wine. Another example of entrepreneurship is that the team members are provided a playground for creativity and managerial autonomy but maintain a strong backing and support from Dennis when needed.

How to Compete Successfully on a Sustainable Basis in the Future

The next step of optimization is to more strongly exploit direct market sales and export opportunities. Dennis Balasus is evaluating strategic steps to make use of market opportunities abroad. He wants to commit personally to this goal because of his experiences in exports. The premium quality product line Aureus is regarded to be attractive for foreign destinations. In addition to the marketing activities with the joint venture, first steps for new markets will be tried out on a stand-alone basis in Westhofen. In case of success, the Weinallianz will follow, which will then provide opportunities for all members.

Indeed, on the basis of insights garnered from international wine fairs and also from exchanging thoughts and ideas with other professionals in the wine business, Dennis Balasus identified two potential target markets for short-term market entry: Brazil and Mexico.

Brazil as a Possible Target

Brazil represents the largest economy in Latin America with a population of more than 190 million inhabitants. Brazil's wine market accounts for about 3.7 billion USD and 350 million liters volume. The market is growing at a rate of 4% by value and slightly less in volume. Still wine accounts for about two-thirds of the market. Fortified wines and sparkling wines, including Champagne, make up a high proportion of the market. The distribution systems for wine are well developed. Most of the wine is sold via specialist retail (37%) and on trade (31%). Supermarkets sell only one-fifth of the wine. (MarketLine, 2012a)

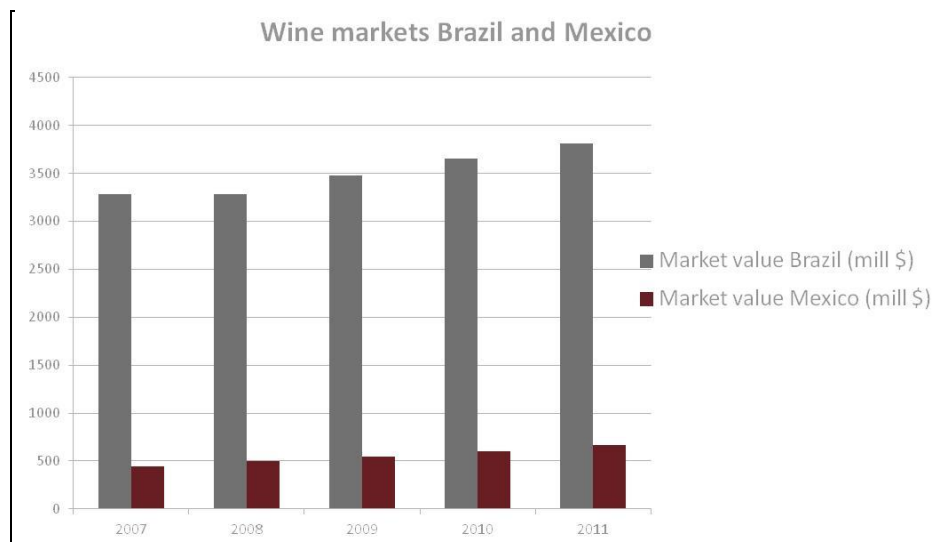
Brazil has a significant wine production of its own that is under international competitive pressure. For this reason, the country's government is considering raising import tariffs. The bureaucratic hurdles to ship wine to Brazil are rather high. Nevertheless, German wines are already established in the market and there is a certain interest in light dry white wines, which Germany certainly can deliver nicely.

Mexico as a Possible Target

Mexico is a fast-growing economy and has a population of about 113 million people. Mexico's wine market is about 600 million USD and 60 million liters. The market is growing at a double-digit level value and volume wise with high potential for further growth. Still wine accounts for almost 90% of the market. Wine is mostly distributed via supermarkets (38%) at comparatively low prices. Specialist retail (25%) and on trade (25%) sell about one-half of the volume. (MarketLine, 2012b)

The Mexican consumer has a preference for full-bodied tannic red wines. Still, wine is in tough competition with beer and liquors (i.e., Tequila). The country attracts many international tourists, which could be an interesting way to market German premium wines.

Indeed, both markets with their projected volume growth seem to be interesting for WGW:



Wine markets of Brazil and Mexico (MarketLine, 2012 a/b)

Increasing Direct Sales

Direct sales to end consumers are highly attractive for wine producers. Direct customers pay higher prices and their negotiation power is limited, therefore, almost no rebates or discounts are to be deducted from the price list. Additionally, it is a cost-efficient sales channel. German consumers enjoy

direct buying as part of their wine experience. About 15% of the wine in Germany is bought directly from the producers. Because of higher prices the value share is about 20%. Looking at German products, about 40% of volume and half of the value of the German wine is sold directly.

Although an attractive strategic option, increasing direct sales is not an easy road. Competitors also aim for direct access to the customers by building fancy new sales rooms, offering packages, creating attractive events, and increasing their CRM activities (Dressler, 2012). The success of Rheinhessen is also due to young and dynamic, well-educated winemakers creatively exploiting market opportunities, especially in direct sales. WGW's sales room and tasting facility were built in the 1980s. Westhofen is no destination for wine tourism and the building of the cooperative is not located conveniently. WGW offers open house days two times a year attracting a remarkable number of clients. In order to increase penetration and to win new customers leapfrog approaches and creativity are vital.

Reflection, State of Mind, and Outlook

Indeed, walking through the facility at the end of the day, Dennis looks back with some pride on the achievements of the transformation in a competitive market. He knows that he has accomplished some major strategic switches and operational success. He is happy that this year's harvest was processed without problems despite new technology implemented just days before the first grape delivery. The open day for the public and clients resulted in very positive feedback underlining the impression that Dennis has made gains in interacting with his members, friends, and colleagues.

Overall, Dennis does not regret his decision having taken this job opportunity although it turned out to be much more "sailing rough seas" than expected. His young and loyal team as well as the professionalized processes in the cooperative are a great foundation for next adventures. He feels that the cooperative is on the right track and the next transformation phase can be started. In his words "the real work starts right now!" Financially solid with attractiveness for customers and members, WGW can approach new dimensions and perspectives in the business. Dennis also feels ready for personal involvement in the next adventure. He has a preference for one of the considered markets and will soon contact promising partners for his preferred option.

Two interrelated challenges – a solid strategic storyline for the growth ambitions and winning his board colleagues and the members lie ahead of him. Therefore, three questions need to be answered: What are the challenges and a possible roadway for stakeholder management in the case of WGW – consider ownership issues, organizational design, and strategic analysis tools? Which market is best suited for the export ambitions – analyze consumer preferences, sales channels, access to the market, market risks, fit of WGW products or German wines, and strategy for implementation? How could the strategy to enhance direct sales look like – on the basis of competitor analysis, changing customer needs and behaviour, investment restrictions, strategic positioning, and strategic evolution - creative ideas need to be developed and challenged.

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FINANCIAL STATEMENTS

AKTIVA

	01.09.10 until 31.08.11	01.09.09 until 31.08.10	01.09.08 until 31.08.09	01.09.07 until 31.08.08	01.09.06 until 31.08.07
	Euro	Euro	Euro	Euro	Euro
A. Anlagevermögen	3,064,697.73	2,742,726.00	2,259,368.00	2,356,344.25	2,414,537.80
I. Immaterielle Vermögensgegenstände	8,993.00	11,512.00	2,453.00	3,485.00	7,285.00
II. Sachanlagen	3,030,504.73	2,706,014.00	2,231,715.00	2,327,659.25	2,382,052.80
III. Finanzanlagen	25,200.00	25,200.00	25,200.00	25,200.00	25,200.00
B. Umlaufvermögen	3,667,543.35	10,173,684.15	4,986,848.59	5,257,417.40	5,484,676.01
I. Vorräte	984,117.57	1,389,705.71	1,267,041.83	1,040,219.21	1,185,465.19
II. Forderungen und sonstige Vermögensgegenstände	1,116,504.95	1,056,227.63	947,340.81	1,133,942.61	687,144.33
III. Kassenbestand, Bundesbankguthaben, Guthaben bei Kreditinstituten und Schecks	1,566,920.83	7,727,750.81	2,772,465.95	3,083,255.58	3,612,066.49
C. Rechnungsabgrenzungsposten	0	0	1,331.97	7,886.31	0
Summe der Aktivseite	6,732,241.08	6,916,410.15	7,247,548.56	7,621,647.96	7,899,213.81

PASSIVA

	01.09.10 until 31.08.11	01.09.09 until 31.08.10	01.09.08 until 31.08.09	01.09.07 until 31.08.08	01.09.06 until 31.08.07
	Euro	Euro	Euro	Euro	Euro
A. Eigenkapital	1,741,327.22	1,740,028.43	1,755,006.53	1,906,467.02	1,995,719.12
I. Geschäftsguthaben	927,915.38	929,021.98	945,413.74	918,047.94	907,497.42
II. Kapitalrücklage	2,736.54	2,736.54	2,736.54	2,736.54	2,736.54
III. Ergebnisrücklagen	809,472.60	807,563.09	1,085,485.16	1,085,485.16	1,019,396.63
IV. Bilanzgewinn/Bilanzverlust	1202.7	706.82	0	0	0
B. Sonderposten mit Rücklageanteil	209,776.55	0	1,345,560.71	0	0
C. Rückstellungen	816,886.68	976,715.86	4,146,981.32	1,499,664.30	1,388,130.90
D. Verbindlichkeiten	3,964,250.63	4,199,665.86	4,146,981.32	4,215,516.64	4,515,363.79
Summe der Passivseite	6,732,241.08	6,916,410.15	7,247,548.56	7,621,647.96	7,899,213.81

