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*Original Citation:*

*Availability:*

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*International Food and Agribusiness Management Review*  
*Volume 17 Issue 4, 2014*

## **Innovativeness of Ceretto Aziende Vitivinicole: A First Investigation into a Wine Company**

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### **Abstract**

As the second greatest producer and largest exporter of wine, Italy has been impacted by the global economic crisis. This study investigates a long established and highly successful family owned and operated business in the wine sector and their ability to continuously innovate products, processes and target markets. This research is aimed at ascertaining whether effective firm management in the wine sector depends on the combination of internal and external innovation.

**Keywords:** innovation, wine sector, family businesses, internal and external innovation, product development

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## Introduction

The wine sector is highly deeply rooted in the Italian economic pattern, both in terms of the turnover produced by wine businesses and the plethora of high-quality wines that domestic and international markets appreciate. Italy is the second greatest producer of wine in the world and the first global exporter when it comes to volume (Giacosa et al. 2014).

The wine sector has a considerable number of family owned and operated businesses, a phenomenon that has gained growing importance both in Italy and abroad as a source of growth, development and socio-economic stability (Cappuyns et al. 2003; Pistrui 2002; Prencipe et al. 2008).

This research positions itself within this context, and investigates a family business in the wine sector and its capacity to innovate. In the present-economic crisis, which has affected wine consumption, conventional strategies of international outsourcing might not suffice for maintaining a competitive advantage and supporting wine consumption. In fact, wine businesses need to be able to innovate in terms of product, process and target markets.

This research is aimed at ascertaining whether the effective management of innovation by a representative family firm operating in the wine sector depends on the combination of internal and external innovation.

This research is based on qualitative methodology and focuses on one case study, i.e. Ceretto Aziende Vitivinicole, an Italian internationally successful business that produces a wide range of high-end wines. For decades, “Italian wine” was identified with the “Barolo brothers”, i.e. Bruno and Marcello Ceretto (Mariani 2007).

They are characterized by an innovative business approach that has been handed from generation to generation as a method to manage innovation both internally and externally.

The paper is structured as follows: 1) the introductory section describes the wine business and identifying characteristics. 2) The methods chosen for this research are discussed; and 3) followed with a review and analysis of the existing literature on innovation and family businesses. 4) Next, a case study analysis of the Ceretto family's winery is chosen as the focus of this research. 5) Finally, the conclusions, practical implications and limitations are presented.

## Methodology

In order to reach the goal of this research, the following hypothesis has been developed:

*HP: Family firms operating in the wine sector need to be able to find an effective combination of innovation and tradition, which are closely related elements although apparently clashing. When internal innovation takes place, it is indicative of adherence to traditional values. On the other hand, external innovation is mostly influenced by the innovation drive and is more significantly technical and scientific.*

The case study methodology was applied within the qualitative approach. Ceretto Aziende Vitivinicole, was deemed to be particularly representative for this study, because they are well established in international markets as a quality-oriented company and, they have managed innovation both internally and externally.

A methodology based on a single case study is reliable (Yin 1984 and 2003) if the case study chosen is “extreme, unique, revealing, and pioneering”. Ceretto Aziende Vitivinicole can be considered as such, since the company is an internationally successful firm that produces a wide range of high-end wines, with a 2012 turnover of €13.7m.

Although the data and information used in case studies may come from a variety of sources (Eisenhardt 1989), the tool of conducting an interview (Astrachan et al. 2002) was chosen to write this paper. The first interview was conducted with Bruno Ceretto, the President of Ceretto Aziende Vitivinicole in charge of innovation strategies, focused on family and company history, the role played by each family member in managing the company and the internal management of innovation. The second interview was conducted with Donato Lanati, an internationally well-known oenologist in charge of the external management of innovation for Ceretto Aziende Vitivinicole. The interview explored the activities undertaken by Enosis Meraviglia to manage innovation for Ceretto Aziende Vitivinicole.

Both interviews are qualitative, semi-structured (Potter & Wetherell 1987; Alvesson & Deetz 2000; Corbetta 2003) and were prepared with the participation of all authors. They were conducted by two of the authors, who used a set of questions previously developed by all authors. Each interview lasted about two hours. Each author analysed the results independently in order to avoid being influenced by any other author. All the authors then compared their own observations and outlined the main factors that contributed to reaching the conclusions stated in this paper. Finally, a model of innovation management in family businesses operating in the wine sector was provided.

## Literature

Existing literature has strongly focussed on the tendency for innovation in family businesses. The prevailing belief is that family firms are less attracted by innovation, i.e. they tend to be less creative, or more conservative, when developing products and processes (Donckels & Frohlich 1991; Morck & Yeung 2003). Traditionally family companies are less risk-adverse and tend to be less inclined to build external relationships that might foster innovation (Dunn 1996). It follows that they tend to invest in seeking a higher share of existing markets rather than in innovation (Bresciani et al. 2013). Some scholars have shown that family businesses limit their investment in diversifying to new areas, which influences innovation choices (Morris 1998): usually, family firms tend to invest in sectors that are an extension of the field of the founder family (e.g. the textile sector) and a development of family tradition (e.g. the food sector) (Donckels & Frohlich 1991). Some studies have criticised the innovation policy within family businesses, due to its being driven by tradition (Carney 2005).

Scholars have focussed on innovation as a way to compare the strategic marketing choices of family and non-family firms (Tanewski et al. 2003). This has shown that family businesses are

characterized by “familiness” (Habbershon & Williams 1999; Culasso et al. 2013), i.e. a set of unique, tacit and distinctive competencies (Teece 1982) that have a considerable impact on their competitive advantage. Human capital influences such “familiness” (Dunn 1995; Sirmon & Hitt 2003) when “warm, friendly and intimate” relationships exist among family members (Horton 1986) and when financial capital is invested in the medium- and long-run (Dreux 1990). Such “patient capital” is invested without predictable return and designed to lead to future creativity and innovation (Teece 1992). As family businesses have a long-term investment time horizon, innovative investments are suitable due to their capacity to generate return on investments (Culasso et al. 2013).

More recent studies have suggested that a combination of tradition and innovation might be necessary to achieve and maintain competitive advantage (Dublini et al. 2013; Re 2013). It has been shown that innovation works for family firms only when family members interact across generations. (Litz & Kleysen 2001). Without such interaction between generations, an innovative policy reduces the business’ competitiveness because it does not take advantage of the wide range of skills and insights of the mix of older and younger family members (Kellermanns et al. 2008).

Other studies have analysed the ways in which innovation might be managed (Chesbrough 2003; Schilling 2009):

- a) Internally, i.e. within the company by some members of the family or trusted managers and staff. Managing innovation depends on the role it plays: in particular, innovation might apply only to Research & Development or other functions, such as Manufacturing or Marketing;
- b) Externally, i.e. using external resources, typically experts in the firm’s sector, such as oenologists, universities or chemical analysis laboratories. External resources should always consider the peculiarities of a firm’s surroundings. When innovation is managed externally, it is crucial that the knowledge and results gained are fully assimilated into the firm in order for it to be successful (Cohen & Levinthal 1990);
- c) Innovation might be managed both internally and externally. When this combination is successful, the benefits of innovation peak, provided that the firm is able to put the external experts’ suggestions into practice (Pistrui 2002). An effective relationship between the internal and the external units engaged on innovation projects is then created. This holds true both in large companies and in small and medium businesses (Chesbrough & Crowther 2006; Enkel et al. 2009).

Experts in the technical and oenological fields and management scholars have only recently started to study innovation in the wine sector in general, and more specifically in competitive strategies adopted by wine sector companies (Rossi 2008; Vrontis & Viassone 2013). Product innovation has been driven by the need to cope with the decrease in worldwide wine consumption, especially considering the crucial role that wine has always played in the economy (Chaikind 2012). Furthermore, studies have emphasized the benefits of creating networks with other firms operating in the wine sector to encourage innovation (Bell & Giuliani 2007).



The study of the relationship between the family, the firm and its surroundings, which has been mentioned above, might be effectively applied to the wine sector. The geographical proximity of potential networking companies as well as their being rooted in their surroundings might have a positive impact on innovation processes (Giuliani 2007).

This research aims to fill gaps in the literature on managing innovation within family firms that operate in the wine sector, using a case study approach. This research will attempt to ascertain whether, in the wine sector, effective innovation management depends on combining internal and external innovation.

## **Case Study: Ceretto Aziende Vitivinicole**

### *History of the Company and the Ceretto Family*

Riccardo Ceretto founded his first winery in Santo Stefano Belbo in the late 19th Century. In the early 1930s, the Casa Vinicola Ceretto was established in Alba, where Bruno and Marcello, Riccardo's sons, started to help their father in the 1960s.

Today the company owns over 160 hectares (i.e. about 400 acres) of vineyards located in the best areas of both Langhe and Roero. Ceretto Aziende Vitivinicole is one of the best-known wineries in the world, with a 2012 turnover of €13.7m.

The company's performance improved in 2013. Revenues grew from €13.7m to €14.3m while the EBITDA was €408,253 (€18,549 Euro in 2012). Net earnings also improved - losses were €196,784 (€385,943 in 2012). The total assets were €34.5m (€32.9m in 2012) and the net equity was €17.6m (€15.8m Euro in 2012). The organisational structure was increased to 30 employees from 19 (2012).

Riccardo's sons still work in the company. Bruno represents the dynamic side of the family, he created the company's hugely successful sales and marketing structure. Marcello is the wine making expert who has made Ceretto wines famous all over the world.

Bruno's and Marcello's children started to work in the family business in 1999. Lisa, Marcello's daughter, has a Bachelor's degree in Economics and Business and supervises the management of finance and administration. Alessandro, Marcello's son, who studied at Istituto Tecnico Agrario Viticolo Enologico in Alba, has worked in some of the best winemaking regions in the world (i.e. Bordeaux, Australia, California, South Africa), and now supervises production. Federico, Bruno's son, supervises export sales. Roberta, Bruno's daughter, has a Bachelor's degree in Foreign Languages and Literature and supervises communication, PR and the organisation of cultural events. Both the second and the third generation are involved in managing the company.

Bruno and Marcello, who represent the traditional side of the company, both supervise the work of their children. In their case, tradition is closely related to the land where the family live and work, hence their culture is deeply rooted in such tradition.

The company has chosen to manage innovation both internally and externally.

### *The Internal Management of Innovation at Ceretto Aziende Vitivinicole*

During the interview, Bruno Ceretto said that internal Research & Development is not formalized a business function. This is typical in small family firms, where R&D is normally part of production. Moreover, R&D has not been bureaucratized: it is very lean and informal, and fosters wide-ranging creativity (Volontè 2003). However the absence of a specific and formalized R&D business function can become problematic in future. Two of the main problems of family businesses are maintaining expertise through generations and making it possible for external managers to become part of the innovation process. Without a dedicated business function it is more difficult to manage any process.

Creativity and innovation are encouraged throughout the whole production and supply chain. Ideas and suggestions put forward by the whole workforce, as well as by people who work closer to customers (such as salesmen, wine shop managers, restaurant owners) are taken seriously. As a result, new ideas are incorporated into products and/or the production processes.

Although at Ceretto the organisational chart is quite simple, innovation means creating a certain mind-set at all levels of the organisation, as well as involving both the creative and managerial sides of the company. The two sides are integrated - the managerial side is mainly represented by the family (i.e. Bruno and Marcello Ceretto and their children); the creative side involves a number of experts, whose work is supervised by the family, and it also includes the lower levels of the organisation (Bertini 1991a; Coda 1991).

Internal innovation is jointly managed by the two generations. Bruno and Marcello, who have been working in the company since the 1960s, represent the tradition and the past; their children represent the future. Tradition is reflected in individual expertise: Bruno Ceretto, experienced in sales and marketing, supervises the members of the third generation who work in such functions, and takes care of administrative budgets and budget control. Marcello Ceretto, together with Alessandro, supervises the technical and scientific aspects of production.

Innovation policies at Ceretto Aziende Vitivinicole are structured as a) products and b) processes (Bertini 1991b).

### *Product Innovation*

During the interview, Bruno Ceretto said that product innovation is related to both tangible and intangible attributes (Giunta 1993; Pellicelli 2005; Bruce & Hines 2007; Giacosa 2011):

**Tangible elements:** innovation means not only extending the product range, i.e. offering customers a wider choice (Farneti 2007), but also developing new features for an existing product, i.e. improving the product. Although their brand is well established worldwide, the

Cerettos think that there is always room for improvement and that innovating is a never-ending process. Even the best wine might be improved in its organoleptic features. Moreover, they aim to balance extensive research into product quality with a consideration for “wine” in the broadest sense of the word for its tangible and intangible attributes.

**Intangible elements:** the Cerettos have been emphasizing the intangible attributes of wine for years. Such elements might be combined with tangible attributes in order to increase their benefits, for example to make the product more appealing or increase customer loyalty. At Ceretto Aziende Vitivinicole, sales policies have been influenced by choices designed to promote the corporate image worldwide. In turn, the corporate image has had a positive effect on the intangible elements. Choices that have contributed to promoting the brand include:

- a) Packaging—designing tailor-made labels. The Cerettos were the first family firm in Piedmont (one of the most famous Italian wine making regions) to invest in the image of their products, having their labels and bottles designed by famous designers. According to Bruno Ceretto, in this way “people who drink a wine can also look at a photograph of the vineyards where the grapes come from. Vineyards are part of history, and the names of these hills do not change over time. This makes us even more reliable. People can then look for that vineyard, visit it, touch its leaves. Any day, any time”;
- b) Organizing a number of national and international events to promote “wine-culture”. For example, the *Premio Langhe Ceretto*, an international committee that selects works of fiction related to culture from a sociologic and enogastronomic point of view;
- c) Designing iconic buildings that have become landmarks in the area, such as the Chapel decorated by Sol LeWitt and David Tremlett, the Glass Cube, the Berry. These are built in colours and materials that can be seen from all over the surrounding area.

In conclusion, product innovation is successfully managed within the company, because it is implemented in ways that combine extensive research into product quality with a focus on the consumer’s perception of the product and the business.

### *Process Innovation*

At Ceretto Aziende Vitivinicole process innovation is defined as follows:

1. **Production:** this function aims to improve the tangible attributes of wine and to create a product whose organoleptic characteristics stay perfect over time, especially when considering that some of the wines undergo an ageing process. Extensive research into new production techniques also means a constant improvement in the quality of products. The quality of the raw material (grapes) used is crucial, as a good wine inevitably comes from “good berries”. All production facilities are fully equipped with state-of-the-art automated technology (Staudt 1989). Such facilities are instrumental not only in putting research, experimentation, creativity, challenge and vision of future targets into effect (Bastia 2001), but also in leading to better performance in terms of efficiency, effectiveness and quality;

2. **Sales:** the company has focussed on sales in Italy and abroad for years. The Cerettos were able to enter the international markets well before their competitors thanks to an effective corporate image policy, which has been very appealing to foreign consumers. The family has also used several distribution channels, both traditional and modern. For example Doyouwine.com, a website developed by Federico and Alessandro Ceretto dedicated to selling wine online. The site generates business while meeting the needs of two categories of consumers, i.e. connoisseurs (who look for specific wines and vintages) and amateurs (who are not experts);
3. **Administration:** product competitiveness is achieved not only in relation to competitors, but also within the company itself. Each wine is allocated its own cellar space and staff. Each product has its own profit and loss statement and should always be profitable. When a new products does not meet profit expectations, production is discontinued. For example, if Blangé had not been successful, the Cerettos would not have financed that project with the profits from Barolo.

In conclusion, process innovation is successfully managed within the company, because it is implemented through effective choices made in production, sales and administration. All actions are supported by a production structure equipped with cutting-edge technology and modern sales policies.

#### *The External Management of Innovation*

Ceretto Aziende Vitivinicole also manage innovation externally. Like other firms operating in the wine sector, they have used expertise offered by Enosis Meraviglia in new products, quality control, health and safety.

Enosis Meraviglia is located in the Monferrato region and offers not only scientific expertise, but also assistance in the actual winemaking process. Laboratories, tasting rooms, winemaking facilities, virtual facilities and university lecture rooms cover an area of 2,500 square metres (about 27,000 square feet). It is an “amazing forge”, where experts in food sciences, biologists and technicians select and analyse vines and wines.

“Blangé”, one of the most successful wines produced by Ceretto Aziende Vitivinicole (800,000 bottles a year), was created thanks to the collaboration of Ceretto Aziende Vitivinicole and Enosis Meraviglia.

The Cerettos decided to work with Donato Lanati because the latter shares the family’s philosophy, which is based on combining natural processes and scientific research. Together, they have been concentrating on tradition and innovation, past and present. Environmental-friendliness and scientific expertise are crucial for Donato Lanati. In Donato Lanati’s own words, “a successful market has to be consumer-oriented. People who buy wine today want to be reassured about health and safety, about the origin of the product. Those who seek quality wines also wonder about how environment- and tradition-friendly the producer is”.

Donato Lanati said that the crucial element of the collaboration with Ceretto Aziende Vitivinicole is understanding the client’s objective, assessing its feasibility and providing the

expertise needed to achieve it. The organoleptic characteristics of each wine are analysed by the oenologists at Ceretto Aziende Vitivinicole and the team of Enosis Meraviglia simultaneously, then results are compared. Enosis Meraviglia then provides Ceretto Aziende Vitivinicole with all the information they need to transfer the flavour in their grapes into each bottle.

The choice to manage innovation both internally and externally turned out to be crucial for the success of Ceretto Aziende Vitivinicole. Donato Lanati's expertise has made a major contribution not only to the high quality of Ceretto wines, but also to implementing the family's distinctive production and marketing philosophy.

## **Conclusions, Implications and Limitations**

Both Bruno Ceretto and Donato Lanati confirmed that their internal and external innovation policies are designed to produce high quality products, as Ceretto Aziende Vitivinicole is positioned at the top end of the market. Top-quality products enable the company to increase its visibility, attract consumers' attention, and fight off competitors. Having considered the segment's spending power, the company has chosen to target customers who will be influenced by the technical and aesthetical features of the product. Such segments are usually less significantly affected by declining consumption, thus offering the company some growth opportunities.

Innovation policies make it possible for the company to operate competitively in a given context, thanks to new, better or adapted products and processes. However, highly innovative ideas should always be supported by passion and tradition. Tradition retains value and meaning in modern society as long as it is successfully paired with innovation.

The roles of the Cerettos, who manage innovation within the company, and of Enosis Meraviglia, which contributes to innovation as an external expert, do not conflict. Since internal innovation is product-oriented, the family concentrates on quality (from grapes to wine) and image, ranging from advertising campaigns to sales strategies and packaging. At the same time, Enosis Meraviglia focusses on product innovation in a more technical sense, i.e. on the outstanding organoleptic quality of the wine.

Although the company is highly innovative, innovation and tradition do not conflict at Ceretto Aziende Vitivinicole. The two principles, only apparently opposing, are deeply rooted in the wine sector. In a successful competitive family business, innovation and tradition should coexist.

Finally, the combination of tradition and innovation has been crucial for the success of their company. If the Cerettos ignored tradition in favor of innovation, they would lose the values with which consumers identify them. If they ignored innovation in favor of tradition, they would hold onto traditional values without benefiting from innovation. In a difficult economic, political and social context, successful companies are able to cope with change quickly and decisively, combining tradition and innovation is crucial to maintain a competitive advantage. One of the limitations of the company is the informal way in which the innovation process is managed. Although it works for now, in the future it may limit the company growth as it will make it difficult to involve external managers in that business function.

The implications of this research are related to the findings, showing that innovation is crucial along the production and supply chain. This work aims to provide information about the managing innovation that might be useful to owners and managers of family firms operating in the wine sector who want to improve their business performance. A single case study may be considered a limitation; a comparison with other family firms in wine sector would improve our findings.

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