

## Tbilisi 2022 Abstract Submission

### Title

The Prosecco dilemma: to growth or not to growth? The emergence of dominant business models in the Prosecco wine industry

I want to submit an abstract for:  
Conference Presentation

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### Keywords

Industry analysis, Prosecco, performance analysis, business model

### Research Question

How dominant business models emerged in the fast growing Prosecco market and what are the impacts on the future industry evolution?

### Methods

Quantitative analysis of a sample of Prosecco firms with different business models on a time interval of 10 yrs, multivariate regression and variance analysis.

### Results

Emergence of a dominant business model, with negative effect on long term industry development. Relevance of value chain coordination activities.

### Abstract

The Prosecco has become one of the most successful wines with a strong presence on the international market and a total production of 627 million bottles in 2021 up from 140 million bottles produced in 2011, for a total estimated turnover of 2,65 billion Euros in 2021. The spreading of the product is due to a very aggressive price policy combined with a continuous growth of production capacity, but above all it has been driven by the birth and growth of bottling companies that buy bulk wine from wine producers, who are only rarely integrated upstream in agricultural production, bottle it and distribute, focusing on commercial development. Farmers, producing grapes, play the role of “passive” suppliers of raw material and are subject to price fluctuations generated by demand, they have a very limited role in the production and commercial process, and finally in the development of the entire Prosecco wine business.

The growth of turnover of bottlers companies, mainly obtained by increasing volumes more than by increasing unit value, pushes bottlers to further increase production volumes which, in order to be introduced in the market, are offered with strong price promotions that, sometimes, fall below cost. Large companies, which focus on increasing volumes, are pushed to aggregate with other companies, further increasing their size in order to obtain economies of scale in production and distribution. Large bottling companies are acting on suppliers, thanks to their strong bargaining power, to recover margins. The significant risk is that the concentration of volumes on a few players can lead companies to further price reductions further depressing profitability, pushing companies to exit the market or favoring the entry into crisis.

The objective of the paper is to analyze how accelerated growth processes within the wine sector influence the emergence of business models based on volumes and stimulate processes of specialization of the supply chain with companies that specialize on sales and companies that specialize on production. The paper analyzes the characteristics of the business models and the evolution of the performances of a sample of 49 Prosecco producers (producers and bottlers) over a period from 2011 to 2020. The total turnover of the sample is of about 2.4 billion Euros and its largely representative of the entire Prosecco business.

The analysis shows that the specialization of the supply chain is optimal to support a process of rapid growth of the sector, achieving a significant presence on main distribution channels and main geographical markets. However the effects on profitability and sustainability of business models of competing companies are quite controversial. The companies that specialize downstream (the bottlers) suffer strong fluctuations in profitability, which has been progressively reduced, and have a very weak financial structure, due to the heavy short-term debt to acquire bulk wine. Those firms tend to react to profitability reduction through aggregation to exploit scale economies, furthermore the Prosecco bottlers have strong intangibles (goodwill and brand) and are very attractive for financial investors that provide them with fresh financial resources. Bulk wine producers have implemented strong investments in order to increase production capacity however they have suffered a structural reduction in profitability which does not allow them to repay the investments made; the long term risk is that producing companies will be progressively forced to reduce future investments. Bulk wine producers are not attractive for financial investors and banks because of low profitability, absence of brand and low scalability of their business models.

The managerial implications are quite interesting and concern the planning of investments and the definition of commercial policies. Overinvestment in production capacity (transformation of grapes into sparkling wines using industrial plants with high level of automation) led companies to reduce supply price to bottlers to transform more quantities that are pushed into the market with strong commercial promotion based on price discount. However the most relevant implications concern the opportunity to govern the supply chain through structures such as producers consortia (“consorzi” for the Italian law), the governance of the supply chain would allow a proper planning of investments in production facilities (bottling) and a better control of the debt level.

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