



# IST

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Innovation, Servicedienstleistungen und Technologie

Case Studies on

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**Casella Wines (Englische Version)**

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## **Casella Wines**

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## 1. Case Study

The USA is among those countries with the highest overall consumption of wine in the world. In this process, about 20 bn USD are generated in this highly competitive industry every year. The majority, just under 2/3 of the turnover, is allotted to local Californian winemakers. The remainder of the market of imported wines is divided between Italy, France and Spain as well as between wines from Australia, Chile or Argentina. Thus, the fact that the federal states of New York and Washington have begun to grow wine as well as the fact that the Californian wine growing areas further developed, contributed to an increase in the volume of wine produced. This also applies to the number of different wines. However, the per capita consumption in the USA has remained the same for years. As a result, the US only ranks on place 31 worldwide.<sup>1</sup>

Due to fierce competition, a steep consolidation took place in recent years. This is why, for example, 75% of the American wine production account for the 8 leading companies. The other 1,600 winegrowers share the remaining 20%. Due to the 8 companies' position of market dominance, wholesalers are forced to offer these providers the best and most shelf space. Furthermore, the 8 companies are able to invest a lot of money in advertising measures. At the same time, a consolidation in wholesale and retail is detected leading to an increased negotiating power of commercial enterprises towards wine producers. Weak and poorly managed companies are vehemently coming under pricing pressure or even disappear entirely from the market.<sup>2</sup>

In general, the American wine market can be characterized by the following features: Increasing pressure on prices, fierce competition, a large selection of wines, increasing bargaining power of wholesalers and retailers and stagnant demand. From a classical and strategic way of thinking, it can thus be concluded that the industry is unattractive.<sup>3</sup>

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<sup>1</sup> Cf. Kim, Mauborgne (2005), p. 21f.

<sup>2</sup> Cf. Kim, Mauborgne (2005), p. 22

<sup>3</sup> Cf. Kim, Mauborgne (2005), p. 22

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With its strategic innovation, Casella Wines<sup>4</sup>, an Australian winery, turned the industry upside down by giving up the old, traditional ways of thinking and by reinventing the industry.<sup>5</sup>

The traditional understanding of wine is based on the fact that a good wine is characterized by its complexity and sophistication in taste. Among other things, the factor tannin plays an important role. In addition, a wide range of wines – from Chardonnay to Merlot - was offered. The different types of wine are derived from a variety of grapes in order to meet the preferences of individual consumers. So far, an important role was attributed to the tradition and the prestige of the wine-growing estate which can look back on a long history. Furthermore, a good wine thus far had to have a certain age and a good shelf life. The wine is presented with extravagant, high quality labels which can – as a general rule - only be read by experts who are familiar with them.<sup>6</sup> As a result, established wine customers were mostly well educated and drank wine to relax and enjoy. The average consumer was unable to cope with the complexity of the wine. This is because he could not properly appreciate the wine and did not understand the special “wine jargon”.

Casella’s starting point was to produce a non-traditional wine that everyone can enjoy, that is light and pleasant to drink and easy to understand. To do this, the company checked for alternatives to wine such as beer, spirits or cocktails. The objective was to gain insights why this group of customers drinking this type of alcoholic beverages was three times as high as those of wine drinkers.<sup>7</sup>

The first feature that emerged in this process was that beer or cocktails are sweeter and much more pleasant to drink than wine. Therefore, the company decided to work with soft and exposed primary flavours and distinct fruit flavours, so that everyone who is not a wine expert could taste and understand the wine right away. Secondly, Casella eliminated or reduced the tannins as well as the complexity and aging of the wines which increased their simple sweetness. Wine experts criticize these aspects in particular because these

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<sup>4</sup> Cf. Casella Wines (2010a), for URL see bibliography

<sup>5</sup> Cf. Kim, Mauborgne (2005), p. 25f.

<sup>6</sup> Cf. Kim, Mauborgne (2005), p. 23f.

<sup>7</sup> Cf. Kim, Mauborgne (2005), p. 25f.

characteristics constitute a good wine and this is precisely where the winemaker's art reveals itself. The customers, however, don't care. This is also confirmed by the sales figures. Within two years, the beverage had become the fastest growing brand in the history of the Australian and U.S. wine industry and advanced to become the no. 1 imported wine in the U.S. In August 2003, Casella led the market of 0.75-liter-bottles of red wine even before Californian wines. Another characteristic that makes wine-drinking so complicated, namely the large number of different types of wine, has also been eliminated by Casella. They only offer two varieties: a Chardonnay (white wine) and a Shiraz (red wine). Moreover, the labels on the bottles were kept simple and understandable and banned any kind of professional jargon. A kangaroo in bright orange was chosen as a symbol to reflect the Australian origin.<sup>8</sup>

## **2. Task**

As a manufacturer of liquor spirits you are looking for new markets for your products. In this process, you have read the success story of Casella and want to take advantage of the formula for success, open up new markets and gain new customers.

### **2.1 Initiating a strategic innovation**

In order to understand how Casella came to strategic innovation, the first step is to explore the success story of Casella by means of the ways for the initiation of strategic innovation (who- what- how questions).

### **2.2 Value innovation**

In a second step, you are to consider how a strategic outline might look for the present liquor spirits market and which essential features characterise the line of business.

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<sup>8</sup> Cf. Casella Wines (2010b), for URL see bibliography

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In order to acquire new customers, please try to describe the current customer situation more precisely by using the concept of the “3 categories of non-customers”. You can then try to generate a unique utility curve for your company by means of the four action framework. This can be the basis for your strategic innovation.

### **3. Literature**

#### **3.1 References**

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#### **3.2 Further readings on the theoretical subjects**

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