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Abstract

Purpose – The purpose of this paper is to be a teaching case about organic wine in Argentina, in a sustainable perspective, showing the advantages that this country has related to others in terms of organic and biodynamic production of wine. It shows also the potential of this kind of production, and its limitations, using for that the case of Bodega Colomé, owned by Donald Hess, a global wine producer.

Design/methodology/approach – This paper uses case study methodology; this is an adequate approach, as Argentina has some specific characteristics (geography, labor and other conditions) that makes it unique. The information about Bodega Colomé was obtained from secondary data such as academic articles, specialized magazine articles, web sites about wine production, and an interview conducted with the General Manager of Bodega Colomé, Caspar Eugster, in July, 2009.

Findings – Organic and biodynamic wine production are discussed as an alternative to the traditional production in developing countries, specifically in Argentina, where a series of factors – geographic characteristics (altitude), lands and technology used in a sustainability logic, labor conditions, tradition, history, brand and nature characteristics – allow a competitive advantage to develop. Donald Hess, president of Bodega Colomé, bets in the direction of investment maintenance in organic wines, given the favorable conditions cited, adding brand value, but this kind of production is impossible for less expensive wines as producing wines organically is labor intensive.

Research limitations/implications – The main limitation of this case is its uniqueness and its findings cannot be applied to the universe of companies in Argentina, the country studied; but it encourages future research and more investigation about the subject. The main implication of this case is the possibility of generating some discussion about the theme: do the wine producers of developing countries, such as Argentina, Chile and Brazil produce organic wine (added into the company's sustainability actions) for export, or should they dedicate themselves to the production of traditional wines for internal market?

Practical implications – This case study is relevant for groups of students or professionals interested in discussing the strategies of wine production and marketing. The case may also be used by policy formulators of the winegrowing industry.

Originality/value – The organic and biodynamic production of wine is a recent subject and there are few studies about this theme. Mainly, the role of Latin American players is not very clear and this paper contributes to the discussion about the opportunity of organic and biodynamic wine production as a possible source of competitive advantage to Latin American wine producers in the global market.

Keywords Argentina, Winemaking, Viticulture, Production methods

Paper type Case study

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Donald Hess and Caspar Eugster were walking back from the opening of the James Turrel Museum on a brisk fall evening in 2009 talking about the future of Colomé, a winery that Mr Hess had bought in 2001. He had opened this museum close to his winery as a means of promoting it and pursuing his personal interest in art. When they reached Colomé Estancia, the five-star hotel Donald Hess had built to accompany his winery, Mr Hess began wondering out loud what his next step should be. He told Eugster, the general manager of the winery, that he was thinking about converting Amalaya into an organic wine. At that time, it was the only wine in the Colomé's portfolio that was neither organic nor produced with grapes from their own vineyards. Eugster reminded Hess that they were also thinking about investing in expanding their Altura Maxima vineyard. He told Eugster that they did not have enough funds to undertake both operations.

As Hess was about to reply, his cell phone rang. It was the general manager of his winery in South Africa. He conveyed to Mr Hess that he had just gotten back from a lunch with an owner of a vineyard. This person was looking to sell it for roughly 2 million US dollars. This amount included the price of the land as well as the cost of converting it to an organic vineyard. The cost of building a suitable winery in which to process the grapes made at this vineyard would cost another million US dollars. His general manager contended that the price was fair and that the conversion toward organic farming would be relatively easy because the owner had never used fertilizers or herbicides on the land. Mr Hess informed his general manager in South Africa that he would have to think about. After he finished his call, Hess looked Eugster straight in the eye and told him about this opportunity. His face grew serious as he admitted that there would not be enough money to invest in South Africa and one of the two options they were considering for Colomé. Moreover, he informed Eugster that the owner of the winery in South Africa had only given him one week to respond.

The history of Colomé

Bodega Colomé was the oldest winery in Argentina. It was established in the province of Salta in 1831, 23 years later, the owners of this winery began importing Malbec and Cabernet Sauvignon grapes from France. Over the years this winery was sold several times finally landing in the hands of Donald Hess in 2001. The Hess Family Estates, the company that currently owned Colomé and was managed by Donald Hess, began in Berne, Switzerland as a brewery in 1844. This company had been managed by members of the same family for four generations. After taking control of the company after his father's death, Donald Hess first moved the company into the bottled water business before expanding its holdings in the hospitality industry. He bought his first winery, Mount Veeder, in 1978 in the Napa Valley. He went on to buy the Artezin and Sequana estates in Northern California, the Barossa chateau in Australia and the Glen Carlou winery in South Africa before purchasing Colomé

On a trip to Argentina in 1986 Donald Hess drank a wine made at the Colomé winery and immediately fell in love with it. On subsequent trips to Argentina he organized his purchase of this winery. On his first trip to visit the Colomé winery he quickly realized that the province of Salta was the ideal place to realize his goal of producing organic wines. He also recognized the inherent marketing power of exporting wines from Salta, as it was widely known for its pristine natural surroundings that remain practically untouched by humans; see Figure 1 for the location of Colomé.

To reinforce this image and compensate for the underdeveloped electrical grid, Donald Hess built waterwheels to harness electrical power from local waterfalls. These waterwheels now produced 70 percent of the electricity needed at his facilities.

From the beginning Hess emphasized his desire to make this winery an environmentally sustainable operation. He believed that a winery was a living organism

Figure 1.
Location of Colomé

that had to be fed and nurtured. This organism included the people, animals and the soil. He decided only to produce organic or biodynamic grapes at his Colomé estate, as he believed this was the most appropriate way of respecting the soil and ensuring its sustainability. Hess originally paid one million US dollars for Colomé. From 2002 until 2008 he had invested another US$21 million to build a winery and develop the vineyards on the roughly 40,000 ha property. By 2009 Colomé had 140 ha of land planted with grapes. This land consisted of the following vineyards: Colomé (75 ha), El Arenal (30 ha), La Brava (10 ha) and Altura Maxima (25 ha). Four of the hectares of the Colomé vineyard were originally planted over 150 years ago. Of the remaining 71 ha, the vast majority was planted between 2007 and 2009. Of these four vineyards, only Colomé was certified organic and biodynamic. Altura Maxima was in the process of receiving such certification while the Arenal vineyard was making the transition to an organic and biodynamic operation. La Brava was neither organic nor biodynamic but sheep manure was used as fertilizer in this vineyard.

Altura Maxima was the newest of Hess's vineyards and the highest vineyard in the world, located at 3002 meters above sea level. He planted his first grapes in this vineyard in 2007. From a marketing standpoint it would add an additional dimension to the story of Colomé as this winery would be the oldest winery in Argentina and the highest in the world. Hess wanted to produce a wine from this vineyard that would be of the same quality as their icon wine, Colomé Reserva. Producing grapes at such an altitude had distinct health advantages. Ultraviolet radiation at this altitude was greater, making the skin of the grapes thicker to protect it from these rays. It was claimed that this thicker skin added more tannin and polyphenols to grapes. Both of these elements were said to help clean the arteries and thereby reduce the potential risks of heart attacks and strokes; it was contended that below 1,500 m all grapes had the same polythenols.

In 2009 Hess was making four different wines in Argentina. His icon wine, Colomé Reserva, was made of 80 percent Mablec and 20 percent Cabernet Sauvignon. The grapes for this wine came exclusively from the Colomé vineyard. It sold for US$90. The Malbec Estate wine made by Hess cost US$25. It was made of 85 percent Malbec, 8 percent Tannat and 7 percent Cabernet Sauvignon. It used only grapes from the vineyards owned by Hess at Colomé. The Torrontés wine made by Colomé sold for US$14 and was made of grapes from the vineyards at Colomé as well as from a vineyard that Hess owned in Cafayate, a wine growing region within a three hours drive of Colomé. Amalaya was Hess's best selling wine. It accounted for roughly 50 percent of Colomé's sales in 2008 and cost US$14. This wine was a blend of 55 percent Malbec, 25 percent Cabernet Sauvignon, 10 percent Syrah, 5 percent Bonarda and 5 percent Tannant. Half of the grapes for this wine came from the Arenal and Colome vineyards owned by Hess and the other half were bought from independent grape producers in Cafayate. These independent wineries were not organic producers. Nevertheless, some of them were traditional grape producers that had never used herbicides or pesticides because they had access to relatively inexpensive labor.

Hess's venture into the wine business in Argentina was a rapid success. In 2008 Colomé Estate was ranked the 38th best wine in the world by the Wine Spectator, beating all of its Argentine competitors. In 2007 this winery had sales of US$1,423,000. The total of 70 percent of the wines sold in that year were exported. This winery produced roughly 490,000 l of wine a year and had the capacity to ferment 1,000,000 bottles. Moreover the winery had a storage capacity for 80,000 cases of wine with 12 bottles per case.

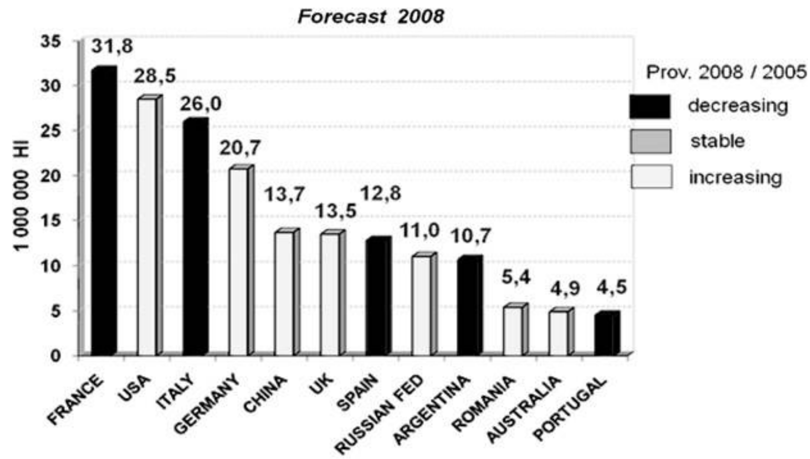
On that brisk Fall night, Hess was wondering how he could build on his success. He knew that any vineyard he would plant, whether in South Africa or Argentina would take three to four years before it could yield grapes suitable for making wine. If he began a new vineyard and made it organic or biodynamic from the very beginning, it would yield grapes that could be certified as organic or biodynamic after these three or four initial years. He knew that he would have to base his decision on how the tastes of consumers would evolve after the economic crisis of 2008. Would consumers turn to look for more expensive wines after this crisis was over?

The global wine industry: changing tastes and exports

The nature of the wine industry changed with the Revolution of 1976 in Paris when a Cabernet Sauvignon and a Chardonnay from the USA were judged to be better than their French competitors at a famous annual blind tasting. Shortly thereafter France began to lose its dominance in the production of high quality wines as producers in the "New World," namely the USA, Australia, Chile, New Zealand, South Africa and Argentina, emerged to compete directly with the French in the production of quality wines. This revolution in France was the culmination of an on-going change in the tastes and composition of wine consumers. In the 1970s consumers of less expensive table wines started to move toward drinking beer while traditional consumers of harder alcohols moved toward fine wines. In the USA people started incorporating wines into their daily routines rather than drinking them only on special occasions. These consumers also started searching for wines made beyond the traditional wine growing regions of Western Europe (Noble, 2007).

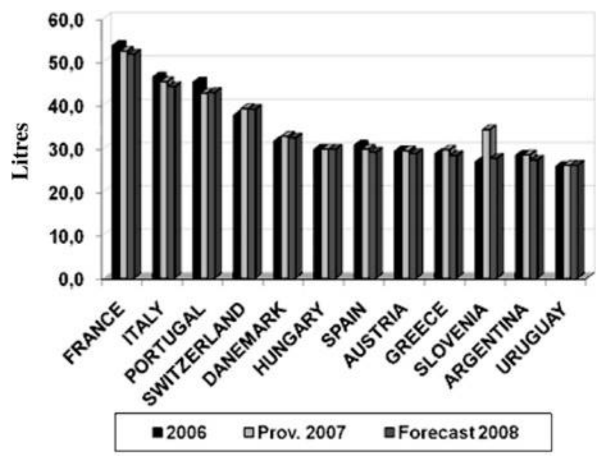
The shifting nature of drinking patterns in the USA and elsewhere caused the wine industry to become more international even though European countries remained its top consumers. In 2004, Germany, Italy, Spain and France, the key "Old World" producers, accounted for 40 percent of all wines consumed while the main "New World" producers, namely the USA, Argentina, South Africa and Chile accounted for 21 percent of wine consumption (Castaldi *et al.*, 2006). Nevertheless, the intake of wine in France, Spain and Italy has been declining while it has been increasing in the USA, China and Australia (see Figure 2).

France, Italy and Portugal still remained the largest per capital consumers of wine despite the fact that consumption in these countries was declining (see Figure 3).



Source: OIV (2009)

Figure 2.
Consumption of wine in the 12 leading countries



Notes: Calculation taken from FAO 2006 Demographics Data Base

Source: OIV (2009)

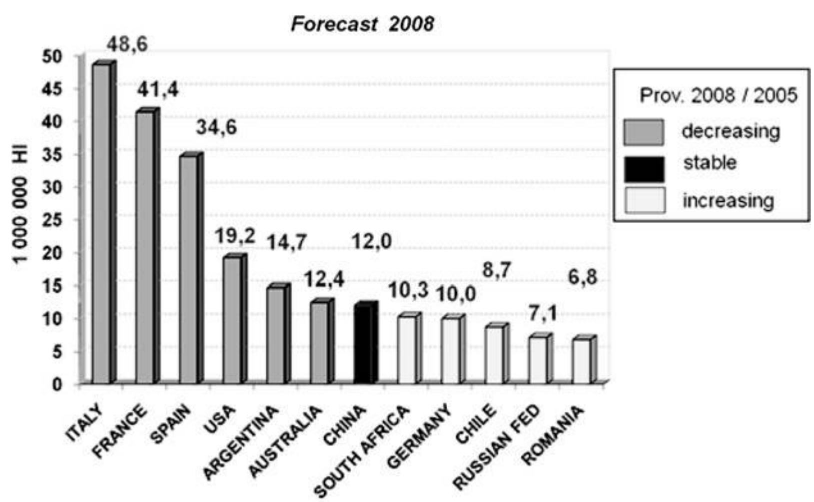
Figure 3.
Per capita wine consumption

The consumption statistics did not distinguish between high and low quality wines. Basic table wines still accounted for roughly 50 percent of all wines purchased. These wines sold for less than US$5 a bottle. Premium wines, namely those that were bought for between US$5 and US$7 a bottle, accounted for 35 percent of this market. The remaining 16 percent of wines fell into the following categories: Super premium wines selling for between US$7 and US$14 (10 percent), ultra premium wines going for between US$14 and US$50 (5 percent) and icon wines being bought for more than US$50 (1 percent) (Diaz Hermelo and Lopez, 2007).

New consumers of wine that sought to buy more than just a table wine were often confused by the vast selection of available wines. Traditional categories such as Bordeaux and Chianti did not help such consumers to choose a wine as they were not sure how such wines should taste. Instead, they looked for a specific varietal such as Cabernet Sauvignon, as they had better knowledge about the taste of such wines. The appearance of Malbec wines from Argentina demonstrated how a new varietal could emerge and come to be associated with a particular country (Stein, 2008). Country of origin also played a role in helping consumers to choose the wines they drank. They tended to buy wines from countries from which they had purchased in the past or which were recommended to them. Thus, the price/quality ratio of a winery's product influenced whether consumers will buy another wine made by a different winery in the same country.

In the battle for consumers, New World producers were slowly taking away market share from traditional producers in the Old World. Before 1976 the latter had dominated the production of fine wines and the former concentrated on making table wines for their domestic markets. In 2004 the four largest Old World players, namely France, Italy, Spain and Germany accounted for 55 percent of worldwide production, while the main New World producers, namely the USA, Argentina, South Africa and Chile, accounted for 23 percent of the production of wines in the world (Castaldi *et al.*, 2006). It was predicted that by 2008 Italy would become the largest producer followed by France and then Spain. These predictions also held that the USA would be the fourth largest maker of wines followed by Argentina and Australia, respectively. A decline in overall production of this product was forecasted for all of these countries. Although South Africa came in seventh place, it was predicted that the quantity of wine produced in this country would grow (see Figure 4).

Nevertheless, the decline in wine production in some of these countries could have been caused by wineries converting some of their vineyards from the production of traditional table wines to finer wines made in the style of the New World. Vineyards used to produce fine wines in this style actually produced less volume in terms of the grape must used to make wine, as the grapes contained in this must had to be smaller. They were grown in this way so as to concentrate the flavor of the grape. Hence, countries that were making a growing quantity of finer wines could actually have seen the volume of wines they produced decline as the actual areas planted with vineyards grew. Although Argentina, Chile and Australia were increasing the number of hectares planted with grapes (Figure 5), only Argentina and Australia would appear to have



Source: OIV (2009)

Figure 4.
Production of wine in terms of volume for the 12 leading countries

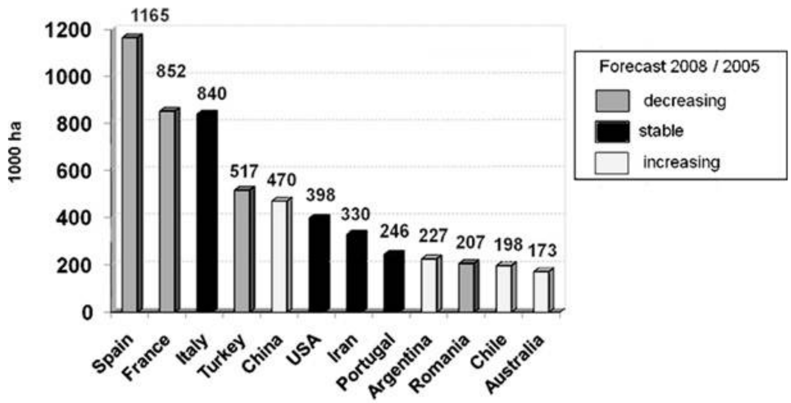


Figure 5.
Hectares of vineyards for the 12 leading countries

Source: OIV (2009)

been making the conversion to finer wines as the volume each of these countries produced was actually declining. South Africa, on the other hand, would appear to have been focused on the production of lower quality table wines as they ranked eighth in the volume of wines they produced but they did not appear in the top 12 countries in terms of planted areas. They would seem to have been getting the most must possible out of every planted hectare.

Out of the top ten exporters in 2008, it was forecasted that only France and Chile would remain stable in the quantity of wine they were exporting. Exports from all of the other eight countries were expected to increase. Italy was the leader in exports followed by Spain and then France. This forecast would seem to have lead to the conclusion that the wine industry would increasingly come to be more dominated by fewer countries. Argentina and South Africa were each expected to account for 4.1 percent of total exports (see Figure 6).

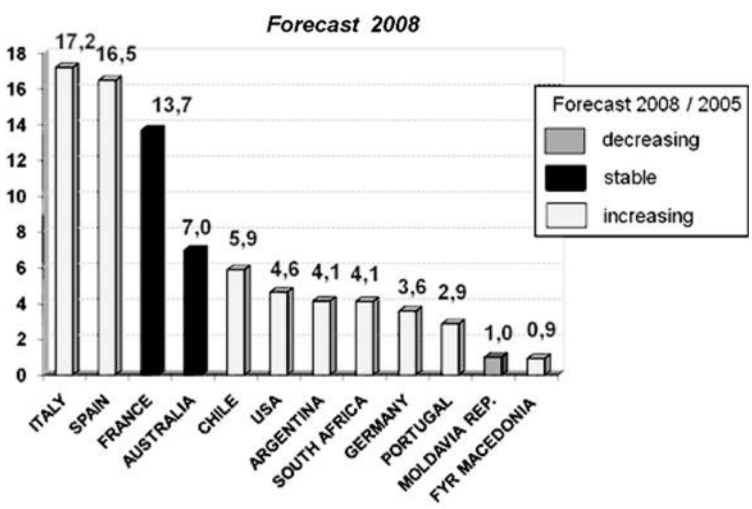


Figure 6.
Wine exports of the 12 leading countries in percentages of total exports

Source: OIV (2009)

An overview of the Argentine wine sector

The Argentine wine industry had traditionally been focused on providing the domestic market largely with inexpensive table wines made according to New-World standards. The extensive regulation of this industry combined with high levels of inflation and economic instability inhibited wineries from adapting these production techniques until the economy was stabilized and the peso was pegged to the dollar at a ratio of one to one in the early 1990s. Traditionally, the wine industry in Argentina was sustained by a robust domestic demand. In 1981, Argentines consumed 67.6 l per capita. This figure would steadily decline to 33.7 l in 2007. As domestic consumption was declining, many wine producers took advantage of the relatively elevated exchange rate in the 1990s to upgrade their vineyards and production techniques and embrace New World wines targeted largely for export (Artopoulos *et al.*, 2007).

Although the consumption of fine wines in Argentina actually grew from 6.5 l per capita in 1981 to 10.2 l in 2003, this increase was not enough to sustain production in this sector. Wineries would have to export. The real growth in this sector began after the devaluation of the Argentine peso in 2002. With one dollar becoming equal to three pesos, wineries could start realizing substantive returns on the investments that they had made in the 1990s (Artopoulos *et al.*, 2007). The percentage of exports from this sector consisting of grape must, grape juice and bulk wine dropped from 71 percent in 1991 to 38 percent in 2005 as the sector began to focus on the export of fine wines. At the same time, exports grew from US$20 million in 1991 to US$299 million in 2005.

From 2002 until 2008 exports from the wine industry in Argentina rose by 1,349 percent in terms of volume and 1,451 percent in monetary terms making Argentina the seventh largest exporter in the world. By 2008 it was the fifth largest producer of wine and had 1,332 wineries that produced 13,769 hl. At the same time, domestic consumption continued to decline. Although Argentina ranked eighth in the world in terms of consumption in terms, per capita consumption had declined to 28 l per person by 2008 (Wines of Argentina, 2009a, b). As demonstrated in Table I, the USA was the largest exporter of wines in Argentina followed by Canada and the UK.

The total exports of Colomé reached nearly US$1 million in 2007 and grow by 38 percent in 2008. The number of countries to which it exported grew from 12 to 28 over this same period, despite the fact that the USA represented 33 percent of all the

Country	Percentage of total FOB
USA	34.3
Canada	12.9
UK	7.6
Brazil	7.0
The Netherlands	5.9
Mexico	2.2
Russia	0.9
Nordic countries	6.5
Others in Europe	4.5
Latin American countries	4.0
Asian countries	3.6
Others	10.4

Source: Wines of Argentina (2009a, b)

Table I. Primary markets for Argentina wines in 2009 in terms of FOB winery's foreign sales in 2008. One of the new countries to which it began to export was Japan.

Organic and biodynamic production methods in vineyards

A group of wine producers in California were the first New World producers to apply organic farming techniques to their vineyards in the 1960s. In addition to avoiding the use of chemicals in cleaning any surfaces that come in contact with grapes, organic wineries were prohibited from using pesticides, herbicides or chemical fertilizers in their vineyards. Consequently, organic farmers had to rely on natural means for controlling for bugs and weeds. They also generally relied on manure as a form of naturally fertilizing their lands. Although pesticides had not been shown to harm the health of wine drinkers nor proven to have had any effect on the taste of a wine, it was often claimed that organic wines had a purer taste (Vieira *et al.*, 2009). Hess believed that this was one of the reasons wineries could potentially charge more for organic wines.

To convert a vineyard that had previously used herbicides, pesticides or fertilizers to organic production, growers had to operate it in an organic manner for three years before the grapes grown in the vineyard could be certified as organic. The owners of the vineyard also had to prove that none of these prohibited products were being used near the production area for this three-year period. This transition period presented significant difficulties for the owners of these vineyards, as they had to bear the costs of tending their crops in an organic manner without being able to realize the benefit of being able to use their grapes for organic wines (Duram, 2006). Any field used for producing organic crops had to be certified by the appropriate agency of the country in which it was located. This could prove a costly and time-consuming process (Duram, 2006). Nevertheless, over the long run soil that was not used in an organic manner became increasingly costly to maintain, as over the years larger quantities of chemicals had to be added to the soil. It grew increasingly dependent on such chemicals (Malizia, 2009). The depletion of soil in this manner was the reason why Hess believes that over the long run organic farming proved more profitable than traditional techniques as it enabled the owner of the vineyard to use the same plot of land over longer periods of time without having to make increasing investments in it or having to buy new land that had not been depleted by the continual application of fertilizers. Caspar Eugster claimed that many non-organic vineyards had to be abandoned after 20 years, as the soil could no longer support grape vines.

The biodynamic method of agricultural production was established by Rudolf Steiner's (1861-1925) as a means of putting agricultural production in synch with the biological cycles of nature. It shared many of the aspects of organic framing but differentiated itself from the latter by focusing on the farm as a self-contained organism. Consequently, biodynamic farms relied on their own plants and animals for generating the manure and compost needed to act as fertilizers. Composts were fortified with Yarrow blossoms, Chamomile blossoms, stinging nettle, oak bark, dandelion flowers and valerian flowers (Jon *et al.*, 2006). This mixture was put in a cow horn and buried on the farm throughout the winter before being used to fertilize a farm. Traditionally, goats were used to control for weeds and pests were controlled by catching a quantity of the relevant pest, crushing it, adding water and storing it in a refrigerator for a few days before it was diluted and sprayed over a crop. Biodynamic farmers preferred to plant their crops in accordance with the cycle of the moon (Mason, 2004). The biodynamic operations at Colomé were certified by a German organization that collected a fee of US27 cent for bottle of biodynamic wine sold by Colomé. This is one of the reasons why it was difficult for a winery to make their medium or lower end wines biodynamic.

Organic wines: a segment for future growth?

The consumption of organically grown products grew substantially in the first decade of the twenty-first century. In 2009 the organic food market made up 2 percent of the overall world food market. The market for organic goods grew between 20 and 35 percent from 2008 until 2009. This market was being driven by high-end consumers in developed countries who were willing to pay on average 20 percent more for organic products. Sales of foods made in this way in the USA went from US$3.6 billion in 1997 to US$21.1 billion in 2008 (Dimitri and Oberholtzer, 2009). Many producers of agricultural goods were beginning to develop specific strategies for taping into this growing market (Vieira *et al.*, 2009).

By the end of 2006 there were 95,000 ha of organic vineyards in the world. This figure represented roughly 2.3 percent of all vineyards under cultivation. In Europe 2.5 percent of all vineyards, or 85,000 ha are operated organically. Outside Europe, the USA and Chile were the countries with the largest percentage of organic vineyards (Willer and Kilcher, 2010). In Argentina there were roughly 3,000 ha of land planted with organic grapes used to make organic wines (PROARGEX, 2009); regretfully data were not available for South Africa. Exports of organic wines from Argentina grew substantially in later part of the first decade of the twenty-first century. Exact statistics about this product sold abroad from Argentina were difficult to obtain, as it was included in the tariff category for traditional foods. Nevertheless, it was estimated that exports of organic wine amounted to roughly US$1.6 million in 2008. In 2009 agreements for exporting organic wines from Argentina at one business round alone reached US$2 million (PROARGEX, 2009). It was estimated that the quantity of this product sold abroad grew by 40 percent from 2008 to 2009 (Malizia, 2009). During this period there were 35 certified organic wineries and seven in the process of receiving certification (Malizia, 2009). Although the main importers of Argentine organic wines were the European Union, Canada and the USA, China and Japan were growing in importance (Malizia, 2009).

Although the costs of producing an organic wine was substantively higher than those of producing a non-organic one, the price of former was not significantly higher than that of the latter (Malizia, 2009). Sometimes the former were actually less expensive than the latter. In the USA wines that did not have an organic label were priced roughly 13 percent above similar wines with such a label. However, such wines naturally tasted better because they customarily absorbed natural chemicals in the soil that were blocked by herbicides, pesticides and/or fertilizers (Magali *et al.*. n.d.). The relatively high costs associated with producing organic wines was the main reason why Donald Hess believed that it was impossible for any winery to produce such a wine that could be sold for less than three dollars. Nevertheless, he contended that in the future any customer paying between US$20 and US$30 a bottle would demand that the grapes used be grown organically. Two of the main reasons why Hess chose to produce organic wines in Argentina were the relatively low cost of labor and the wide array of suitable land that had not been planted using fertilizers or other chemicals. The latter point was critical because such land could quickly and inexpensively be transformed into organic production while the former point was important because organic ways of growing grapes were labor intensive. Hess believed these two points placed significantly limitations on the ability of organic wine producers to make profits in places like Napa Valley where wages were relatively high and untouched land was hard to come by.

Perspectives for the future in Colomé

Caspar Eugster responded to Hess's question about the possibility of investing in the South African winery by reminding him that they had recently made a substantial investment in Altura Maxima. Eugster said that they could scrap their plans to continue to expand this vineyard and dedicate funds to making Amalaya an organic wine made in their own vineyards. This would require a substantive investment equal to the project for South Africa. Hess pointed out to Eugster that originally they had planned to produce the same amount of wine for Altura Maxima as they produced for Colome Reserva. After all, the plan was to have two equal icon wines, one from the oldest vineyard in Argentina and one from the highest vineyard in the world. They had recently planted 21 ha of grapes in Altura maxima. They would have to plant 54 more hectares to make this vineyard the same size a Colomé.

Eugster responded by saying that they could expand the production of Altura Maxima at a later date. He emphasized that the low costs of labor and the large tracts of land suitable to the production of grapes for wine in their immediate area made Argentina the perfect place to produce a lower-priced organic wine. Eugster also mentioned that existing vineyards in their area only occasionally applied herbicide and rarely used pesticides, making it relatively easy to convert these lands to the production of organic wine. Hess began to think that perhaps Eugster was right. In the economic crisis that began in 2008 wine consumers that had preferred high-end wines were seeking less expensive wines even while not wanting to sacrifice quality. This was considered one of the reasons why the exports of Argentine wine increased by 17 percent in the first half of 2009. Hess's wineries in this same period in Australia were having economic difficulties because they did not produce wines that were attractive to these consumers, while the exports of wines from Colomé were expanding rapidly.

Nevertheless, Hess remembered that this situation could change. He told Eugster that making Amalaya an organic wine could potentially jeopardize its sales. As it stood at that time, Amalaya had the perfect price point and because of this it was flying off the shelves. If they made this wine organic, they would have to raise its price by perhaps as much as 50 percent. Hess thought that by making Amalaya organic, it could potentially undermine its sales. Nevertheless, he reminded Eugster that his winery in Argentina was committed to promoting the production of organic wine. This was the original reason why he established this winery in Argentina. Eugster responded to Hess by noting that any investment in a new vineyard was a long-term venture. By it produced a return, the financial crisis would have passed and consumers would have changed their consumption patterns and began looking for higher priced wines. Furthermore, such consumers would be willing to pay a premium for organic wines.

Hess informed Eugster that he knew that any investment in the wine business took time to produce a significant profit. He also indicated to Eugster that he had been willing to wait 25 years to recoup his original outlay for Colomé. He also told him that it was necessary to take into consideration the fact that in the past the Argentine government had required him to deposit 30 percent of any investment he made in this country in an escrow account for one year. He also called Eugster's attention to the fact that logistics were also a problem in Colomé. They were located in a remote place with poor infrastructure. When the local river rose too high, they actually had to put their trucks on boats to get them across it.

Hess also expressed another concern to Eugster. He reminded him of their social commitment to the local community. Employees of Colomé came from the local village that had 400 residents. Hess's policy was to employ at least one person from each of these families so as to ensure that his operations helped everyone in the community. His employees were more than willing to work whenever there was a need. It was not uncommon for Hess's employees to work Saturdays and Sundays loading a container when a shipment had to go out. They were happy to help out when needed. Hess had established the Foundation for a better life in Colomé as a means of improving the education of local children so that they would not have to stay in their local town. If their local vineyards continued to grow and too many of these children eventually left Colomé, his winery could actually face a labor crisis. He wanted to pursue a triple bottom line but he thought one of these bottom lines could eventually interfere with the other. They would have to strike the right balance.

Evaluating Hess's options

As the sun was going down, Donald Hess and Caspar Eugster sat down at a table in the courtyard of Colomé Estancia. After taking his seat, Hess decided to review the options they were facing. He told Eugster that they could invest in the winery in South Africa and maintain the status quo at Colomé (option 1), forget the South African project and focus on either advance with the Altura Maxima project (option 2) or go forward with making Amalaya an organic wine that could be made at their existing premises (option 3). No matter what decision they made Hess was convinced that they should continue to export 70 percent of their production from Colomé. Eugster reminded Hess that his winery wanted to continue its commitment to the local village that supplied workers to Colomé. Hess agreed but he was unsure what would be the best way to continue this commitment. Eugster also pointed out to Hess that South African wineries had not yet proven capable of producing really high quality wines. Hess concurred but responded that he thought it would be possible to make organic wines in that country.

Hess remarked that regretfully he would not be able to finance both the expansion of Colomé and the new investment in South Africa. He had 3 million dollars to invest and any one of these three projects would cost roughly that amount and potentially yield similar results. Money and possible returns were not the issues. Nevertheless, he was concerned that the conversion of Amalaya into an organic wine produced at the facilities of Colomé would ruin his cash cow. Upon hearing Hess's remark Eugster told him that this was his cash cow now but as the market improved consumers would look increasingly to higher quality wines. Given that vineyards take at least three years before they produce grapes suitable for wines, an investment now could pay off exactly at the time when the market was really rebounding. Upon hearing this comment from Eugster, Hess expressed his doubts whether they could ever establish such a solid brand in South Africa. Argentina had a reputation for its natural surroundings and they had invested a lot of money in drawing on these attributes. Hess also wondered aloud whether they might have been overlooking other possible options.

Teaching note

This case can be used for wine business or general strategy courses. It can be used to explain the production of organic wine as a source of competitive advantage in a resource based view perspective. It could also be used for marketing classes that deal with brands or any course that addresses the topic of sustainable development. It could be used in undergraduate or MBA courses that focus on one of these topics. The case could prove particularly useful for executive education courses that deal with the wine business as it enables participants in such courses to evaluate the problem of shifting toward the production of organic wine from a variety of different perspectives.

Sources consulted

The information in this case about Bodega Colomé was obtained from secondary data listed in the footnotes and an interview conducted with the general manager, Caspar Eugster, in July, 2009. None of the authors of this case has any commercial relationship with this winery or any of its employees.

Learning objectives

The goal of this case is to stimulate students to appreciate the varied challenges associated with the production of organic wines and the potential strategy and marketing implications that the production of such wines can have for a winery. After discussing this case students will gain a thorough understanding of the potential costs and benefits of pursuing a triple bottom line. The students will also come to appreciate how the development of a brand influences the type of products a firm produces. Students will also learn the potential disadvantage of focusing on ultra premium and icon wines while also gaining an understanding of how having an organic vineyard influences the tastes of wine. It also will provide them the ability to evaluate where organic wines should be made in the world.

Preparation

The preparation for this case would depend on the course for which it is used. If it is used for a standard strategy course, it could draw on the classical texts of the industry- and/or resource based approaches. If it is used for a course that includes a section on sustainable development, it is recommended that the instructor assigns the following two readings:

(1) Ambec, S. and Lanoie, P. (2008), "Does it pay to be green? A systematic overview", *Perspectives*, Vol. 22, No. 4, pp. 45-62.
(2) Hart, S. and Milstein, M. (2003), "Creating sustainable value", *Academy of Management Executive*, Vol. 17 No. 2, pp. 56-67.

Potential discussion questions

- Which of the three alternatives could help the firm better pursue its triple bottom line?
- Given the fact that only 6 percent of wines sold globally cost more than US$14 a bottle, which strategy would seem to make the most sense?
- Does Argentina have a unique competitive advantage for producing organic wines?
- What other alternative strategy would be possible in this context?
- To what extent are organic wines merely a marketing mechanism for selling non-organic wines?
- Will the organic trend continue in the future? How would a proper evaluation of the future of organic wines influence the strategy chosen by Hess?

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Stein, S. (2008), "Our saviors may not speak Spanish: changing markets and strategies in Argentina's wine revolution", available at: www.wine-economics.org/workingpapers/AAWE_WP21.pdf

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