

# Changes observed in the companys strategy business essay

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International Behaviors OfCoopers Creek

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**To: Coopers Creek Board of Directors**

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**Subject:**

**Introduction**

In 1981 Andrew and Cynthia Hendry first established the Coopers Creek winery with the aim of producing the highest quality wines. From 1990 - 2004, Coopers Creek and New Zealand wine industry experienced significant environment, industry and organization change resulting in shifting network arrangements to meet both national and international demand. This strategy helps Andrew Hendry, to consciously manage growth of the company to retain the benefits of small size. The case enables students to study the international growth of a medium-sized New Zealand winery - Coopers Creek. The case highlights the international strategies employed by Coopers Creek since its inception and the way in which it has made use of networks of relationships over its life cycle. This is set against the background of a small, rapidly internationalizing economy within a global market environment and the effect upon the New Zealand wine industry. It is within this scenario <https://assignbuster.com/changes-observed-in-the-companys-strategy-business-essay/>

that students are encouraged to consider the future options for Coopers Creek. The case is divided in two main sections. Section 1 describes the formation and growth of both Coopers Creek wine industry. The changing ownership structure of the winery and investments in land and plantings are highlighted, as well as discussing the merits of crushing grapes in-house versus under contract. This leads on to a focus on the changing nature of the local network of West Auckland wineries as a result of the industry entering the early maturity phase of the life cycle. This is clearly demonstrated in the discussion on developments in the New Zealand wine industry, where both industry concentration and the emergence of small niche players can be observed. This coincided with wineries and Andrew Hendry in particular, playing a diminishing strategic role in the New Zealand Wine Institute, resulting in feelings of disenfranchisement. The more corporate approach saw the Wine Institute drive quality at all stages of the value chain, emphasized by the merger with the Grape Growers Council to form Winegrowers of New Zealand (WGNZ), and a strong export focus, primarily in the UK. Section 2 details developments in Coopers Creek's domestic and export markets. The domestic market has become increasingly competitive, as would be expected given the industry developments noted in Section 1, but the collaboration with local wineries persists. The export strategy of Coopers Creek also highlights how collaborative network relationships have been influential. Although Coopers Creek is committed to servicing relationships in the UK market, it is clear that much energy and focus is now being placed in the development of the US market, pivotal to which has been the strong relationship developed with a brand manager to increase market

coverage and reduce servicing costs. Interestingly, while supermarket sales have disappeared for Coopers Creek in the UK market, due to an increasing focus on price, Andrew is actively negotiating to supply a number of US supermarkets. This indicates that the developing focus on the on-premise segment since 2000 has not been at the expense of supermarket sales by the company. The Canadian market is highlighted as a particular success, given Andrew's unique relationship with the Ontario Liquor Control Board from a New Zealand perspective, and demonstrates the developing branding focus of Coopers Creek. The case concludes with questions concerning the future development of Coopers Creek. Specifically, it points to whether the collaborative efforts that have served the company so well in the past will continue to be relevant in the context of the changing New Zealand and world wine industries.

History of Coopers Creek & New Zealand Wine Industry

New Zealand economic growth remains strong in international markets, but also acts in accordance with the limit of the variable size of grapes and currency fluctuations. Coopers Creek's annual production was in the range of 900,000 liter, around 96,000 cases, and the production at Coopers Creek was set up to produce in 25-30 tones batches. In 1982 Coopers Creek became one of New Zealand's more successful medium sized wineries by following a strategy of resource leveraging via networks of co-operative relationships with other New Zealand wine makers in the domestic and export markets. However, with increasing globalization of the wine industry, the changing nature of export markets, the early maturity of the New Zealand industry and the constrained supply facing New Zealand wine makers, Andrew Hendry was faced with the decision of how to position a

smaller company for the future. He had to decide whether the network-based strategies that served the company so well continued to be appropriate under conditions of industry concentration, increasing competition and emerging globalization.

### **Executive Summary:**

Coopers Creek is a leading Wine manufacturing company in New Zealand which was founded by Andrew and Cynthia in 1980. The growth of the company in over three decades is very high and launched their products in strong international markets. Coopers Creek offers many varieties of grape wines and continues to produce new varieties. The main driving force of Coopers Creek is affordable and crafting wines that are attractive. The best part of Coopers Creek Winery is that, they divided the wines in to three categories. They are " Wine by Range", " Wine by Variety" and " Wine by Region". Coopers Creek was the third largest out of six West Auckland wineries in New Zealand. The company had capacity to produce the wine occasionally and could produce 25-30 tonne batches a day. The annual production of Coopers Creek was in the range of 900, 000 liters, around 96, 000 cases. Andrew Hendry's Coopers Creek established in the market and gained success. The following is the approach to the formulation of Whittington's strategy.

### **Factors for initial growth:**

The financial stake of the growers in the Coopers Creek is the main key for success and survival of the company. The unique resource is the blending of the grape varieties, which is the critical skill on which the company's

reputation is based. Andrew Hendry observed the competitiveness in the domestic market in New Zealand is increasing with over 400 New Zealand producers and cheaper imports from Australia. Coopers Creek employed three sales representatives; one for concentrating on restaurant sales and the other two focusing on retail sales in Auckland and local country areas. The relationships with other companies grew very rapidly and thus helping in representing Coopers Creek in the country's largest supermarket chain consisting of Woolworths and Food town. Andrew Hendry initiated the joint advertising and promotion relationships with a group of local West Auckland wineries. The coopers Creek's strategic networks can be explained as vertical and horizontal linkages. The vertical relationship with grape suppliers helped in the early development of the Coopers Creek as the quality and quantity was genuine. This was an effective strategy until 1996 as the supply of demand for grapes was stopped. In the Competitor based or the horizontal linkage, the company's growth is totally because of the local network, where this specific network helped Coopers Creek to act bigger and to plan.

### **Changes observed in the company's strategy:**

Between 1990 and 2004, Coopers Creek and the New Zealand wine industry experienced significant environment, industry and organization change resulting in shifting network arrangements to meet domestic and international demand. Andrew Hendry occupied trust and reputation with his partners which helped him in long term relationship based approach. His role with the Wine Institute has resulted in two-way information sharing which is beneficial. The developments in the international markets, Coopers Creek had eliminated the costly intermediaries. There was on-shore collaboration

with the UK supermarket Tesco, where there was direct input to the development of wine styles to ensure a match with customer tastes in the UK. He decided to enter the market without considering the size of the market which he is entering. This helped to share the marketing and promotion costs. But, the product he was shipping under Tesco has its own brand name, but not Coopers Creek. This did not help in the development of the brand in the market.

### **New company strategy:**

Andrew Hendry employed a US brand manager to work for the future development of Coopers Creek in the international market. The main reason for appointing a US brand manager is to concentrate more on US marketing and for cost reduction in Coopers Creek's operations. This helps in building the company's brands in the market, keeping the wine affordable. As Coopers Creek relationship with Tesco did not work well, the cost is focused in the US market. In 2000, Coopers Creek changed to a larger distributor serving 2, 000 restaurants in Manhattan. It became one of the top three distributors in New York. Andrew Hendry considered an on-premise focus critical because, in the retail sector, Australian and New Zealand wines were marketed together and Australian wines were cheaper due to the ability to achieve scale economies. By cutting down the intermediary, the company was able to lower the costs to the restaurants by 35 per cent, making its wine affordable and competitive. In 2003, Coopers Creek supplied a special label Marlborough Sauvignon Blanc to Trader Joe's 26 stores on the East Coast, which is their own label.

### **The future of the company:**

The case analysis explains the impact of concentration and competition increase on collaboration in the New Zealand wine industry. If the company can generate more orders from overseas and if there are enough grape supplies, then the winery has spare capacity to boost up operations. For this, additional resources and investment is necessary. No doubt, the company's nature would change if it wants a self-generated growth and competences. Developing the company to sell would appear to be within the capability of Coopers Creek. However, this idea becomes a critical point if Coopers Creek is sold to a well-established marketing and distribution structures which is already well established.

### **The Resources and capabilities to Coopers Creek's performance:**

The best and important resource of Coopers Creek and New Zealand wine industry has experienced significant environment, the change in the industry and organization resulting network arrangements in shifting to meet the domestic and international demand. New Zealand wineries achieved strong growth in continuing international markets but operated under the constraints related with uncertain grape volume and exchange rate fluctuations. Coopers Creek also maintained its independent status while most of the greater and mid-sized New Zealand wineries were sold to prenominal liquor companies. All the other medium-sized wineries, and quite a few have sold, but the most interesting thing happened is Andrew Hendry, the owner and managing director of Coopers Creek was seeking to set Coopers Creek for the future. (From the case study)(a) Unique resourcesIn



the early days of the company, Andrew Hendry's relationship with growers offered the company some advantages within the industry. The growers' financial stake in Coopers Creek meant that they had an incentive to ensure the survival and success of the company. The audit of the company's resources reveals that Andrew Hendry and the wine styles of Coopers Creek are the only resources that could be classified as unique. Indeed, it might be claimed by all wineries that their wine styles represent a unique resource because the choosing and blending of the grape varieties is a critical skill on which their reputation is based. However, export markets could not be expected to exhibit the same brand loyalty as the domestic market because of the lack of local knowledge and insight. Export markets were expected to be more price sensitive and, therefore, those resources which contributed to cost reduction may have been the more critical in these particular markets. In terms of Coopers Creek, it is hard to identify particular resources that directly contributed to cost reduction beyond the resource sharing aspects of the networks in which the company was involved. Although Andrew Hendry had initially invested in land and plant, these had been operating below capacity and, therefore, contributing to increased fixed costs. However, more recent company developments concerned with contract crushing and cutting out intermediaries in markets can be positioned against this initial observation.

(b) Competences in specific networks

The strategic networks of Coopers Creek can be analyzed in terms of vertical and horizontal linkages. Coopers Creek's historical vertical relationship with grape suppliers ensured both quantity and quality of supplies in the early development of the company. This proved an effective

strategy since, typically, the demand for grapes outstripped supply until 1996. Therefore, the ability to negotiate access at a reasonable cost represented a critical competence. Interestingly, the majority of the networks in which Coopers Creek was involved were horizontal or competitor-based. The most fluid of them was the local network in which a community or neighborly perspective was dominant. Indeed, this network was most closely related to what might be termed a ' cooperative', and this is not inconsistent with traditional agricultural/horticultural industries in general. It should be stressed that the individual wineries did not subsume their identities to the collective. It is hard to gauge what competences this specific network afforded Coopers Creek other than the ability to ' act bigger' than actual size, and some planning and resource flexibility. The arrangement made sound operational sense even though the participants clearly maintained a focus on competition at the level of the individual winery label. As with the shareholding arrangements with the grape growers, Andrew Hendry was instrumental in the development of the local network. Although this network has undergone significant change during the period covered by the case study, it persists at the time of writing.(c) Managing linkages to gain leverageCoopers Creek was able to leverage critical resources through the employment of network-based strategies. The reputation of any winery rests on the quantity and quality of the grape supply. Quantity has proved to be an issue within the New Zealand wine industry, with climate and natural disasters contributing to a prevailing undersupply situation. Thus, the cyclical nature of access to grapes made managing the supply critical. The emphasis on grape quality was promoted

by the New Zealand wine industry to encourage participants to focus on the value added nature of international offerings. This strategy is in line with the nation's policy of moving away from commodity based products in international markets. Clearly, then, Coopers Creek was able to leverage critical supplies at the crucial establishment phase of the winery by encouraging growers to accept a stake in the profitability of the company. Although the relationship with grape growers became more commercial over time, Coopers Creek was able to balance supplies of different grape varieties by negotiating and sharing with wineries in the local network. The management of linkages in the local network also enabled Coopers Creek to achieve greater efficiencies per dollar spent on advertising and promotion. Indeed, all the participating wineries avoided what might be termed wasteful duplication of effort and spending, not only in terms of advertising and promotion, but also in terms of production machinery and processing capacity. It should be noted that these shared efforts were not permanent; the supply and production collaboration occurred on a seasonal basis, and the promotional collaboration related to local holidays and trade tastings. Nevertheless, they had become part of the culture of the network and could be relied upon for planning purposes.

(d) Core competence inimitability

Andrew Hendry represented a unique resource of the Coopers Creek winery, and he actively managed the company's involvement in each individual network. He instigated the local network and his community involvement enabled him to become known to other winery owners, and also helped to enhance his reputation. Both are essential in building the trust on which collaborative networks are based. The combination of Andrew

Hendry's personal style, approach and business philosophy was probably the only inimitable, but not inconsiderable, competence of the company during its initial growth and development. (Heather & Maureen 2005) Recommendations for future: Future: Despite of entering early maturity, Coopers Creek and New Zealand wine industry remained constrained by issues of supply. The new grape planting land cost and more previously marginal land became grow on to economic. As long as the New Zealand's distinctive and competitive advantages were not compromised overseas investors were welcomed by the industry. The strong reliance on scarce resources in an annual basis of the New Zealand industry, self-funded, relationship-based approach to growth achieved good fit for the nature. Recommendations: I think Coopers creek must have building relationship with local industry showing signs of concentration, and with other domestic producers. Globally the nature of the wine industry has to begin seeking collaborative arrangements with overseas producers. Coopers creek has to remain independently, to retain the benefits of small size and to achieve exceptional return in changing environment. The important way of Coopers Creek internally to improve the quality of their existing products in order to beat their competitors. In my opinion the Research and Development in the new inventions area of production facilities must be invested to achieve the benefits. " The R&D intensity of firms is positively related to their economic performance."(Faculty of Economics and Business Administration, 1996: 10) Additionally the training of and development of technical skills and knowledge of their employees should be considered to keep them up to date and to give them the feeling of being taken care at

their workplace. To maintain a good relationship with the customers Coopers Creek must adopt innovative ideas by giving incentives to their employees and constant contact with their customers can detect the failures can be rectified for the future deliveries.

## **Macro-environmental Analysis**

### **Porter's Five Force Model**

Coopers Creek must assess the importance to its success of each of the following five forces: threat of new entrants, competitive rivalry among existing firms, threat of substitute products or services, bargaining power of customers, bargaining power of suppliers. Coopers Creek will gain awareness of some of the most significant forces that shape the company's strategy to survive and thrive. Being in a specialized industry, it is not easy for another player to just come in wanting a portion of the pie. The wine institute requires specialized skill sets, special knowledge and extensive experience to stay competitive. It also needs very high investment especially for equipment used for processing of wine. This indirectly induces high entry cost which is work as a barrier of for new entrants. There is also the expected retaliation faced by new entrants from existing players. Coopers Creek together with other existing players may collaborate to deter competitors from coming in. for example, Coopers Creek may start dropping its price and the other existing players may follow suit leading to a price war. On the whole, the force of threat of entry is low here. (Jon 2009)(VectorStudy 2012)' Threat of New EntrantsCompetitive rivalry among existing firms is evident in this industry. Larger companies are acquiring smaller wine producers to monopolize the market resulting in dynamic competition

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amongst these companies. As the wine industry is at its mature stage, companies start to take market share from competitors to survive. As there are too many wine producers, adding on to the high power of buyers, companies may decide to go for price wars due to high fixed costs to gain market share. This industry has high entry and exit barriers due to the extensive capital investment and knowledge and skill set needed. In addition one must have sustainable resource, as it takes several years for wine to mature. This means that industry players do not have many choices. Again this induces competition amongst them and price wars and low margins situations are likely to happen. Threat of substitutes This industry faces stiff competition from not only other wineries but also from other alcoholic drinks such as beer, spirit and pre-blended mixed drinks and carbonated drinks. Product-for-product substitution is also possible should customers of Coopers Creek decide to try out other brands or types of wine. For the health conscious, bottled water, energy drinks and natural fruit juices also provide competition. Possibility of generic substitution is also there where as customers may prefer to spend on purchasing cigarettes rather than drinking wine. Thus, there is a high force of threat of substitutes in this industry. Power of customers Power of customers is considered high for this business, as the product does not tie down customers. They are free to go for any wine without having to pay for any switching costs. Customers in the case of the supermarkets chains command certain buyer power. As they constitute a large proportion of customers in this industry. Power of suppliers Power of suppliers force is neither high nor low in this case. The main drawback faced is the limited supply of the unique strain of grapes required. Wine producers

like Coopers have suppressed the power of suppliers, by integrating backward in the supply chain by owning their own vineyards and growing their own grapes or through long-term contracts. As such, players in this industry need not worry about the costs of switching suppliers due to low concentration of suppliers.' (Jon 2009)

**PESTEL**

**Political factors'** Government regulation has always played a major role in the wine industry. There are increasing concerns that there will be new barriers and trade impediments to trade in the wine industry. One such example is the trade disagreement between US and European Union in the level of farm subsidies that the US alleged that the EU farmers receive. The same allegations may also be similarly levied on the European vineyards. In the Wine Institute report of International Trade Barriers to U. S. Wine 2006. European wine producers were noted to have received certain subsidies. Economic factors

The rising number of middle class worldwide has led to an increasing appreciation of wine and demand for wine. In developing economies of China and India, his class of consumer is expected to increase significantly over the next decade. With the continued increase of economic growth rates for both countries, these consumers can now afford to consume wine is expected to grow significantly as well.

**Socio-cultural factors**The increased spending power, sophistication of the middle class in many countries with increased tendency of copying the west has helped to increase the demand for wine consumption. This growing group of earners from various countries is often well traveled and highly educated consumers with needs and want for the better things in life. The number of middle class across Asia is expected to grow by 1 billion in the next 8 years. With the shift in demographics in the

developing countries, there will be more wine drinkers in the future.

Technological factors Innovation and technological factors continue to drive improvement in production yields and better storage of wine. The Australian wine industry today has transformed itself from a small cottage industry to one of the largest exporter of wines internationally, even to the extent for eclipsing some of the older Old-World countries. The great leap forward for Australia can be attributed to the Australian wine producers clustering to innovate and improve existing processes

Environmental factors Within the food and beverage industry, the wine industry is markedly different from the other products due to the fact that food and beverage products are limited by market, while the wine industry is limited by resource (land and grapes). Reason being wine is grown in moderate climates and on certain types of soil. Sudden climatic changes may adversely affect production yields or may even destroy crops all together. The significant changes expected in the environment from global warming, rising sea levels, rising carbon emissions and increasing acidity in the waters will all add to contribute to the adverse condition for which growers will find themselves in these conditions together with a scarcity of good arable land may act to constrain or even reduce the industry supply. on the positive side, in one of the rare articles published in Newsweek on the positive effects of global warming, the author highlights that fast melting of Artic glaciers and increase in global temperatures may lead to opening of new vineyards in many parts of the world with weather conditions similar to the France's Champagne region.

Legal factors External environmental legal factors have acted in line with other environmental factors change. For example, the advent of the internet e-commerce has



resulted in changes in legislation for wine sales which crosses state lines in the United States. In addition, the origin of the grapes used to make wines also became a contentious issue for many wine-producing countries. The origin of these grapes and the proportion of local grapes used became an issue for branding and labeling of wines, as governed by new local legislation controlling wine labeling.' (Jon 2009)

## **Conclusion**

Like many other industries, the New Zealand wine industry is a dynamic one. It is a fact; however the consumption of alcohol as a whole has fallen. Therefore, we can conclude that the changes facing the industry may not necessarily be beneficial for it. Competing for market share in such a mature environment is without doubt and extremely delicate and difficult affair. However, one such company that is attempting to do so is Coopers Creek. On a whole the management of Coopers Creek has steered the company in the correct direction. However, more emphasis might be needed in terms of differentiating itself from the other New Zealand brands. It would have to build on its brand equity, and continue leverage its founder Andrew Hendry's contact network. Succession planning would also have to be included in future strategic plans.