
Original Article

Geographical indication as a market orientation strategy: An analysis of producers of high-quality wines in Southern Brazil

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ABSTRACT To meet the current and future demands of both domestic and foreign markets, organizations have to be market driven. The aim of this study is to assess the economic performance of wineries specialized in high-quality wines from the Vineyard Valley in the state of Rio Grande do Sul, Brazil, using geographical indication (GI) as a market orientation strategy. Wines with the ‘Vineyard Valley’ designation of origin, as market orientation, improved economic performance as a result of increased land values; increase of the planted area; improvement of technological standards; rise in tourist flow; acknowledgment through the ‘Vineyard Valley’ designation of origin; increase in consumption; product differentiation and value added; boost in exports; and internationalization. This way, by implementing GI, market-driven organizations can gain access to export markets, increase their export revenues and improve the

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quality of life of all agents in the agribusiness sector, resulting in greater satisfaction and helping obtain differentiated performance.

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INTRODUCTION

Demand for agricultural products in developing countries has sparked renewed interest. However, this boost in demand has not played down the importance of differentiation and segmentation of agrifood markets. Quite the contrary, fast-paced economic and urban development unleashes the growth potential of markets for differentiated and value-added products.

Brazil stands out as a producer and exporter of beef, chicken, sugar, coffee, soybean, corn and other commodities. It should also be highlighted that large Brazilian agribusiness firms have been adding value to their products and working their way into foreign markets with direct investments in sectors such as beverages, meat and sugar/alcohol.¹ In order to improve the competitive advantage of these firms, it is necessary that studies set out to examine market orientation as a tool for the creation of customer value added within the agribusiness sector be extended.

Market-driven firms should be able to quickly meet the current and future demands of the domestic and foreign markets and thus put their business ahead of their competitors. In addition, market orientation could be regarded as one of the major requirements for the establishment of superior value in potential markets, giving firms competitive edge.^{2,3,4}

Studies carried out by Kohli and Jaworski,⁵ Narver and Slater,⁶ Day,⁷ Deshpandé et al⁸ conceptualized and defined the measures of constructs related to market orientation and also corroborated

that when such strategy is adopted business performance is strengthened.

Hence, in an attempt to understand how market orientation works in the agribusiness sector, the *Structure-Conduct-Performance* (SCP) paradigm developed by Mason⁹ and Bain¹⁰ was used. This paradigm, pertaining to the Theory of Industrial Economics, seeks to explain how market forces influence the economic behavior and performance of firms.

The concept of market orientation, combined with the SCP paradigm, will be analyzed in the context of geographical indication (GI) in wineries from the state of Rio Grande do Sul, Southern Brazil, specialized in high-quality wines. As GI register is quite recent, its basic concepts will have to be broken down. As a market orientation strategy, GI represents a new opportunity that should be capitalized on, adding important competitive edge for wineries that produce high-quality and regional wines, which could also be extended to domestic and foreign markets.

Rio Grande do Sul is Brazil's largest grape-growing state, accounting for 92 per cent of the Brazilian wine production.¹¹ The mountain region of the state, known as the Vineyard Valley, is renowned for the production of high-quality wines, using cutting-edge technology. This region has been nationally and internationally acclaimed for high-quality winemaking. A piece of evidence that supports this is the creation of the 'Vineyard Valley' designation of origin in 2002, which encouraged other regional producers to follow suit, gaining competitiveness in

other markets, adding value to their products, differentiating their products and, most importantly, improving economic performance.

As export issues pose a challenge to high-quality wine producers and as domestic consumers have become more and more demanding, it is necessary to adopt innovative strategies so that firms can find their way into different markets. In this context, market orientation becomes a prerequisite for the success and profitability of many firms in their quest for competitiveness and international acclaim.

Given the importance and potential of the winemaking industry in the state of Rio Grande do Sul, it is paramount that studies be conducted to assess the economic performance of wineries specialized in high-quality wines. As a result, firms in the wine production chain will be able to increase their competitiveness and meet domestic and foreign market requirements. Therefore, this study will evaluate the economic performance of producers of high-quality wines from the Vineyard Valley, using GI as a market orientation strategy.

Note that market orientation, SCP and GI will be used as the ultimate goal of adding value to the products and for stakeholders as well. If the economic performance of firms were not affected by the adoption of market orientation practices, investments would hardly be made, and this shows the particular relevance the relationships between economic performance and market orientation have. The present study can contribute toward the development of academic knowledge in this field, bridging the gap between these three approaches.

MARKET ORIENTATION

The term 'market orientation' was coined in 1963, in the Harvard Business Review, with the publication of *No easy road to*

market orientation authored by Robert W. Lear, who expressed the then-existing concern with a market-driven approach.¹²

Two years later, in 1965, Hugh L. Moore and Gorham Hussey published two papers about market orientation in the agricultural sector in the *Journal of Farm Economics*.^{13,14} The authors analyzed the economic implications of market orientation, stressing the necessity for changes that could improve customer services: innovation and alternative resources. In the same vein, Norton E. Smith, in 1965, concluded that market orientation in farming activities adds value to the products, increases customer utility and maximizes producers' returns. This demonstrates some concern with market orientation, especially in different industrial and service sectors.

However, it was only after 1990 that several studies framed market orientation concepts, including the seminal works of Kohli and Jaworski,⁵ Narver and Slater,⁶ Deshpandé *et al*.⁸, and Day.⁷

Kohli and Jaworski⁵ address market orientation as a process of generation and dissemination of market intelligence and firm responsiveness. Market intelligence implies the analysis of factors that could affect consumer needs, and its generation corresponds to the quest for knowledge about the market and to its influence on customer behavior. After being generated, market intelligence must be disseminated to the whole organization, and changed into concrete actions, whose goal is to satisfy customer needs and expectations.

Narver and Slater⁶ assessed 371 executives from a US organization and concluded that market orientation, as organizational culture, is targeted at providing customers with value-added products and allowing the organization to achieve superior economic performance, by combining three behavioral components: customer orientation, competitor orientation and interfunctional coordination.

Table 1: Summary of the major market orientation concepts

<i>Authors</i>	<i>Year</i>	<i>Concept</i>
Kohli and Jaworski	1990	<ul style="list-style-type: none"> • Information construction and utilization; • Market intelligence
Narver and Slater	1990	<ul style="list-style-type: none"> • Organizational culture; • Generation of value-added products; • Profitability; • Continuous superior performance
Deshpandé <i>et al</i>	1993	<ul style="list-style-type: none"> • Satisfaction of customer needs as a priority; • Organizational culture is not contemplated
Day	1994	<ul style="list-style-type: none"> • Better capacity than one's competitors; • Ability to predict market trends; • Capacities that can be hardly imitated and developed by competitors

Source: Prepared by the authors based on Kohli and Jaworski⁵, Narver and Slater⁶, Deshpandé *et al*⁸, and Day.⁷

These components are in perfect harmony with decisions relative to long-term perspectives and firm profitability. Customer orientation is defined as the capacity to add value to consumers on a regular basis and to disseminate this information to the whole organization. Competitor orientation consists in getting to know the short-term weaknesses and strengths and the long-term competencies and strategies of current and potential competitors. Interfunctional coordination gathers all corporate efforts, other than those of the marketing department only, for the creation of a superior value for target customers. The authors also found significant differences between commodity- and non-commodity-producing companies.

Deshpandé *et al*⁸ assessed market orientation as a set of beliefs that keeps consumer interests in the forefront, and does not rule out other agents, such as shareholders and employees, among others. The authors approach market orientation from a cultural standpoint. Thus, they define market orientation as a group of activities related to the satisfaction of customer needs.

In Day's⁷ view, a firm should outperform its competitors so as to develop special capacities. A market-driven organization has better market-sensing capability and closer customer intimacy.

Table 1 summarizes the key points of market orientation, according to the referenced authors.

In market orientation studies, Pelham and Wilson¹⁵ acknowledge the multidimensional nature of economic performance and the importance of multiple measurements of these dimensions. Nevertheless, Jaworski and Kohli¹⁶ based their study on global performance, whereas Narver and Slater⁶ based it on profitability (return on assets), sales growth and success of new products.¹⁵

Narver and Slater⁶ looked further into profitability, sales growth and the success of new products as prerequisites for superior economic performance. These authors innovated by investigating these conditions at the market orientation level. According to them, market-driven organizations should focus equally on profit maximization, on sales growth and on the success of new products, given that these are the objectives of organizations that aim for competitive edge and differentiation in markets that are overwhelmed by competition. On the other hand, non-profit organizations should place their focus on long-term survival.

Other studies^{6,16-22} show a positive correlation between market orientation and economic performance.

For Micheels and Gow,²³ when a firm finds out about their customer needs, it turns this information into new products, and the firm performance increases revenues, as a result of price hikes and/or boost in sales. Irrespective of the product, commodity or non-commodity,

a rise in prices can be given to agents who take a proactive attitude, embracing a product whose attributes they look up to.

Understanding the relationship between market orientation and agribusiness will allow actions to be developed that optimize the image of products with regional features, sold in the domestic market, and then extend it to the foreign market, thus improving the economic performance of the firms. For that reason, the assessment of economic performance is based on the SCP model, according to which performance reflects the firms' competitive practices or behavioral patterns.

THEORETICAL MODEL: SCP

The economics literature presents a number of models that endeavor to explain firm behavior. One of the models that achieved prominence within the industrial organization is the SCP paradigm, proposed by Mason⁹ and Bain.¹⁰

Also known as SCP, this model's main advantage is that it includes the key elements that define competitive advantage assessment, examining, according to Ferguson and Ferguson,²⁴ causal relationships between market structure, firm behavior and economic performance.

For Scherer and Ross,²⁵ the model is built upon the principle that the performance of a firm mirrors its competitive practices or behavioral patterns that, in turn, rely on the market structure on which the firm is laid.

In its original version, the SCP model aimed to assess the profitability of oligopolistic markets in order to enforce antitrust policies. Such aspects eventually gave rise to other models. Using these basic premises, authors like Porter,²⁶ Scherer and Ross,²⁵ and McWilliams and Smart,²⁷ among others, recognized the importance of the model for the development of strategic management and assessment of firms' economic performance.

Market structure is determined by the number of buyers and sellers, by product differentiation, cost structure, vertical integration, diversification and existence or not of barriers to competitor entry. Firm conduct is concerned with price setting (in this case centered around the establishment of product and advertising strategies), investment programs, legal procedures (for example, patent rights) and R&D. Economic performance is characterized by the level of allocative and productive efficiency, by the technical process and also by employment and productivity levels.²⁸

McWilliams and Smart²⁷ compared the SCP model and the 'efficiency' paradigm, pointing out the lack of dynamism of analyses of the former. Tung, Lin and Wang²⁹ devised an SCP-based model to assess market share, publicity and profitability in the international tourist hotel sector.

With regard to agribusiness, some authors utilized the SCP model as a tool for the analysis and assessment of markets and of economic performance.^{30–33}

At the time at which the SCP was developed, there were limitations associated with the acceptance of the hypotheses, predominant in the economics theory, making the model more suitable to the current economic scenario, with the need to add new elements. Therefore, authors such as Scherer and Roos,²⁵ as well as Ferguson and Ferguson,²⁴ incorporate the flows between structure, conduct and performance environments into the traditional model, as they admit that the conduct of firms and their performance are simultaneously determined and that they can affect market structure.

This approach renders the model more comprehensive and more appropriate for the analysis of competitiveness and identification of elements, as far as market orientation is concerned. In fact, the SCP model is still a benchmark for the analysis of the competitiveness of firms and

industries, as it deals with key elements of the environment in which firms operate, and also because its framework allows for improvements, with the inclusion of recent advances of the economics theory.

The SCP paradigm should be reckoned the major market intervention strategy, despite the barrage of criticism it has received, for instance, on its static character and on the lack of a consolidated theory.

Thus, the SCP model used to assess market structure can help agribusiness firms, considering that the development of market orientation practices could have a positive impact on economic performance, as occurs with GI as competitive edge in more demanding markets.

GEOGRAPHICAL INDICATION

The concept of GI was formulated when producers, traders and consumers perceived that the quality of some products from certain regions was better owing to their geographical origin.³⁴ GI is a way to add value and credibility to a product or service, giving it a differentiated image in the market based on the characteristics of its place of origin.

In Europe, where names of origin were brought up for the first time in 1970, winemakers indicated the product by the name of the region where it was produced, taking into account that the characteristics of the wine were essentially dependent upon factors such as soil, climate and winemaking techniques. As an example, we have Bourgogne (Burgundy) and Bordeaux in France, where wines from these regions were classified according to their respective places of origin.³⁵

Moschini *et al*³⁶ underline that the concept of *Terroir* was formulated from the adoption of regulatory standards for these GIs, with which characteristics relative to soil, climate and human resources were associated. Nonetheless, the boost in the demand for these products and their higher prices facilitated the use of the geographical

name on products that did not have the same origin. Thus, little by little, specific rules were developed to regulate the production of products of a specific geographical location and to control the movement of goods, thereby ensuring their origin.

Among some products of notable quality, certified and identified by GIs, we have: Champagne, a sparkling wine from the namesake region in France; red wines from Bordeaux; Parma ham; Roquefort cheese; and Cuban cigars.³⁷

GI is linked to intellectual property rights and protected by several international agreements. The World Intellectual Property Organization and the World Trade Organization are in charge of ensuring abidance by several international agreements and conventions on GI.³⁸

The various agreements on intellectual property and GIs include: 1883 – Paris Convention; 1891 – Madrid Agreement; 1924–1992 – *Office Internationale de la Vigne et du Vin* – OIV; 1958 – Lisbon Agreement; 1970 – European Union Wine Regulations; 1992 – European Union Regulations on Other Products; 1992 – NAFTA; 1993 – Cartagena Agreement; 1994 – Agreement on Trade-Related Aspects of Intellectual Property Rights; and 1996 – MERCOSUR Agreement.^{39,40}

In Brazil, Federal Decree no. 1355, as of 30 December 1994, art. 22.1, defines GI as ‘indications that identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographic origin’.

Products with unique quality, and whose natural characteristics are explored, such as geographical (soil, vegetation), meteorological (mesoclimate) and human (qualification, diligence, commitment and tacit knowledge used in cultivation and in cultural practices), which indicate where

they come from, are those that have a quality certification as to their origin, warranting strict control over their quality, called 'GI', qualified either under 'protection of geographical indication' (PGI) or 'protection of designation of origin'.

Industrial Property Right (IPR) no. 9279/96, as of 14 May 1996, regulates GIs in articles 176 through 183. According to art. no. 177 of the IPR, 'Indication of the source shall mean the geographic name of a country, city, region or locality in its territory, which has become known as the center of extraction, production or manufacture of a given product or of the provision of a given service'. In art. no. 178, denomination of origin shall be the geographical name of country, city, region or locality in its territory, used to designate a product or service of which the qualities or characteristics are exclusively or essentially due to the geographical environment, including natural and human factors.⁴¹

In Brazil, the National Institute of Industrial Property (INPI) is the federal authority in charge of GI registrations. In Brazilian agribusiness, organizations have perceived the necessity to add value to their products and to differentiate them in the market. This is corroborated by GI applications filed with the INPI (Table 2).

From 1998 to June 2011, the INPI received 56 applications (39 of them from Brazil) and recognized eight regions: the Vineyard Valley (RS) for wine; Pampa Gaúcho da Campanha Meridional (RS) for beef; Região do Cerrado Mineiro (MG) for coffee; Paraty (RJ) for craft *cachaça*; Vale do Submédio São Francisco (BA/PE) for mango and table grapes; Vale dos Sinos (RS) for finished leather; and Pinto Bandeira (RS) for red and white wines and sparkling wine. Even though Brazil has 26 applications for designation of origin, only 1 was recognized, on the northern coast of the state of RS for rice, in addition to four

Table 2: Registration applications for geographical indication at INPI

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 ^a
DO	2	3	0	1	2	1	0	1	0	1	0	3	5	5	1
PGI	0	0	1	1	0	3	0	4	1	1	4	1	6	8	0
Total	2	3	1	2	2	4	0	5	1	2	4	4	11	13	1

^aFrom January to June 2011.

Source: INPI.³⁹

international ones: *Vinhos Verdes* region for wines (Portugal); Cognac for wine distillate or wine spirits (France); San Daniele for fresh pork legs, uncooked smoked ham (Italy); and Franciacorta for wines, sparkling wines and beverages (Italy).

Although the topics addressed in this article are not recent, market orientation, the SCP paradigm and GI had not been confronted. Table 2 shows the importance of this study, as far as perception about the market, based on the number of GI applications in the past few years, is concerned.

METHOD

This is an exploratory qualitative study whose methodological characteristics include the use of references for the discussion of the proposed topics, as well as secondary data that allowed fulfilling the objective of assessing economic performance, based on GI, such as market orientation of wineries from the Vineyard Valley specialized in quality wines. These issues were assessed according to the market orientation and SCP paradigm approaches.

Market orientation, as in Jaworski and Kohli¹⁶ and in Narver and Slater,⁶ was used for the analysis. These authors based their studies on simple measurements of global performance and profitability (returns on assets), sales growth and success of new market-driven products. In addition, the SCP paradigm, which seeks to explain how market forces act on firm conduct and performance, was also used.

This indicates that market orientation and the SCP paradigm can be used as strategies, which appears to make sense when GI is used to determine market dynamics and to improve the economic performance of agribusiness firms. Market orientation, the SCP paradigm and GI seem to be appropriate for showing the advantages of having the Vineyard Valley GI certification for quality wines produced in the state of Rio Grande do Sul.

The references were initially searched at CAPES Website, and other sites such as Web of Science, Scopus, Science AAAS, EBSCO and Science Direct were used to find international publications on the topic, paying attention to how the topic has been currently dealt with by the international academic community, and what publications and authors are available for consultation and analysis. Books, journals, Websites and other publications related to the topic were also searched. After the selection of these materials, the following keywords were used: *market orientation AND agric**; *market orientation AND wine*; *market orientation AND structure, conduct performance*; *structure, conduct performance AND wine*; *market orientation AND geographical indication, wine*; *structure, conduct performance AND geographical indication, wine*.

Secondary data were retrieved from the Websites of Ibravin (Brazilian Wine Institute), Aprovale (Vineyard Valley Producers' Association) and Embrapa (Brazilian Agricultural Research Corporation – Grape & Wine Unit), in addition to telephone and e-mail contact with researchers Jaime Milan, Loiva Maria de Melo and Leocir Botega.

In this study, quality wine is that which is made exclusively of *Vitis vinifera* varieties, usually of European origin.

As this was a qualitative study, the following categories were used *a priori*:

Category 1 – Tourist flow in the Vineyard Valley: This is important as a larger tourist flow increases the sales at wineries, makes the region known in other towns/cities, states and countries, boosts the income of the local population, and allows for the development of the region.

Category 2 – The number of companies affiliated with Aprovale in the past few years: This demonstrates how the Vineyard Valley GI enhances competition in terms of quality, value added, brand recognition and revenues.

Category 3 – The wine export volume in Brazil: The state of Rio Grande do Sul accounts for 92 per cent of the national production and contains market information whose analysis allows estimating the economic performance of the winemaking industry in Brazil. The export volume shows the interest of other markets in the wine produced in the state. In this category, wines were classified according to the Common Nomenclature (CN) available from the Brazilian Foreign Trade Information Analysis System (Alice-Web), from the Foreign Trade Secretariat (SECEX) and from the Brazilian Ministry of Development, Industry and Foreign Trade (MDIC). Therefore, CN 2204.2100 designates ‘other wines, grape musts with fermentation prevented or arrested by the addition of alcohol, in containers holding 2L or less’ and CN 2204.2900 refers to ‘other wines, grape musts with fermentation prevented by the addition of alcohol, in containers holding 2L or more’.

The analysis carried out in this study is based on a three-pronged approach: the problem that drives the study, the indicative signs found in theory and the elements observed in other research studies. Furthermore, the analysis aims to point out gaps that could be filled by future studies.

THE VINEYARD VALLEY AND GI

The ‘Vineyard Valley’ is a small region colonized by Italian immigrants from Trento and Veneto regions around 1875. The valley is located in the Southern Brazilian geographical macroregion, on the Northeastern Slopes of Rio Grande do Sul, known as the ‘Mountain Region’, bordered by the towns of Bento Gonçalves, Garibaldi and Monte Belo do Sul, totaling 81 km². The Vineyard Valley District was established on 17 August 1990, and belongs to Bento Gonçalves, and is made up of the following rural communities: Leopoldina, Graciema and Zamith.⁴²

The Vineyard Valley, with an average altitude between 450 and 650 meters, is characterized by grape growing amidst the slopes of the Mountain Region valleys. The climate is temperate, with harsh winters and sunny summers, as seen in most of the European grape-growing regions, endowing grapes and wines with typical regional features. As vineyards are not irrigated, vines rely on rain for their growth.⁴²

The Vineyard Valley accounts for approximately 90 per cent of the wine production in the state of Rio Grande do Sul and is characterized by a large amount of wineries. Thirty-one wineries are affiliated with Aprovale, and of these 19 are small (up to 50 000 l/year), 8 are middle-sized (between 50 001 and 500 000 l/year) and 4 are large (over 500 001 l/year). Aprovale also has 41 non-wine-producing affiliated businesses, including hotels and inns, restaurants, cafés, tourist agencies, handicraft and antique shops, cheese factories, and jelly, sweets and cookie industries.⁴²

Acknowledged by the INPI, the Vineyard Valley was the first GI in Brazil, recognized on 22 November 2002, when GI registration no. 200002 was signed. This GI approves of the Vineyard Valley PGI for red, white and sparkling wines produced in the Mountain Region of the state. This designation was acknowledged in Europe in 2007, and therefore any wines or sparkling wines with such GI are allowed free entry into European Union member countries.

The products with the Vineyard Valley control seal must be manufactured in compliance with the Vineyard Valley GI, which includes 12 innovations to the traditional winemaking process in Brazil. These innovations, concerned with the production, control and marketing of quality wines, are, namely: (i) demarcated geographical area of production; (ii) group of certified cultivars, all of the *Vitis vinifera* L. species; (iii) maximum productivity per

hectare; (iv) source of raw materials; (v) restricted group of certified wine products; (vi) manufacture, aging and bottling of products in the demarcated area of production; (vii) viticultural and enological production control; (viii) identity and chemical quality standards of the products; (ix) organoleptic identity standards of the products; (x) self-control regulating body; (xi) distinctive sign for the consumer according to specific labeling rules; and (xii) compliance with the acknowledged GIs.

In addition to innovations, the products are submitted to quality control by a group of experts, made up of technicians from Embrapa – Grape & Wine Unit, in Bento Gonçalves, and from Aprovale. The seals have a control number and are applied to the bottles, connecting them to the capsule and thus distinguishing them from others.

In August 2010, Aprovale filed for designation of origin (DO) with INPI in order to attach value to the wines produced in the region, firmly establishing itself as a differential manufacturer of quality wines and sparkling wines. The DO recommends

the manufacture of high value-added products that can achieve the highest possible *Terroir* quality, offered by the region, allowing for international competitiveness.

Ever since 2002, after GI registration, the Vineyard Valley has lured a horde of tourists. In 8 years, tourist flow has risen 304 per cent in the region (Table 3).

As shown in Table 3, the region received 45 000 visitors in 2001, and this number soared to 182 229 in 2009. This region is a pioneer in wine tourism, with January and February being the most hectic months due to the grape harvest.⁴² Aprovale estimated that over 200 000 people visited the region in 2010, which means an increase of about 22 per cent within 8 years after GI registration.

In terms of local production, the number of wineries affiliated with Aprovale and of other supporting businesses also increased after GI registration, and the amount of certified samples was higher than ever before, corroborating the acceptance of GI-designated products (Figure 1).

Table 3: Tourist flow in the Vineyard Valley

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of tourists	45 000	60 000	82 000	102 000	115 000	105 617	120 962	153 779	182 229	202 000 ^a

^aEstimate.

Source: Aprovale.⁴²

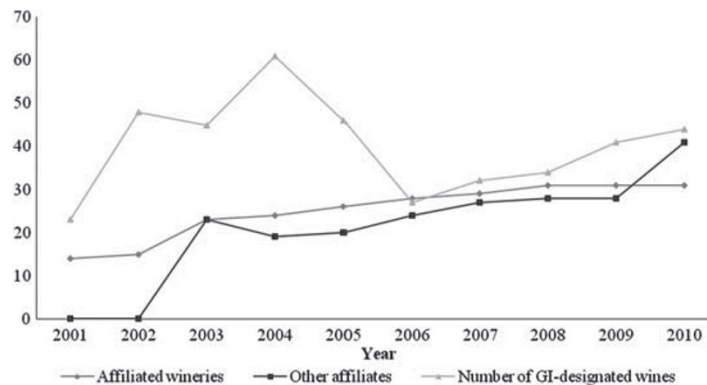


Figure 1: Number of wineries and other supporting businesses affiliated with Aprovale and the amount of GI-designated wines.

According to Figure 1, in 2002, the year in which GI was acknowledged, the number of affiliated wineries corresponded to 15, and there were no other affiliated businesses. Forty-eight wines were eventually certified with the Vineyard Valley designation. After 8 years, the number of wineries went up to 31, a 106 per cent increase compared with 2002, and the number of supporting businesses (hotels, inns, restaurants, handicraft shops, cheese factories, antique shops) rose to 41, confirming the importance of GI for the region. All in all, 31 wines have been awarded the GI designation since 2006.

Brazilian consumers have shown preference for quality wines, but not for national brands, as shown by Brazilian import rates and by the domestic market sales.⁴³

The marketing of quality wines (made from wine grapes) in the Brazilian market has dropped year after year and has increased steadily in the foreign market, with a reduction in 2010, as depicted in Figure 2.

Note that the annual sales of quality wine in the domestic market have fallen, with some stabilization after 2008, which is to be confirmed in upcoming years. However, in the foreign market, the sales volume was small and exports stagnated between 2000 and 2004. From 2004 onwards, exports began to grow, but

they dropped in 2010, possibly because of the economic crisis in importing countries. Between 2004 and 2009, exports increased by more than 456 per cent, and the major countries that imported these products were the United States, Germany and Colombia.

With respect to the export price per kg of wine, it varied during the analyzed period, but it increased considerably from 2007 onward. The highest price in the past years was that of 2010 (US\$3.06).

With regard to the wines designated with the Vineyard Valley GI, their marketing stabilized, not following the price movements observed in the marketing of Brazilian wines (Figure 3).

Despite the slump in sales in the domestic market and the increase in exports, the marketing of products with the Vineyard Valley GI remained unchanged, confirming the efficiency of GI registration as a market orientation strategy.

The results of this study indicate that the Vineyard Valley GI, as a market orientation strategy, has become a differential for wineries and other businesses affiliated with Aprovale, revealing a significant economic performance, contrary to what had been observed before GI certification.

In the market structure of the Vineyard Valley, economic performance²⁸ is characterized by the number of affiliated wineries, which has doubled in the past

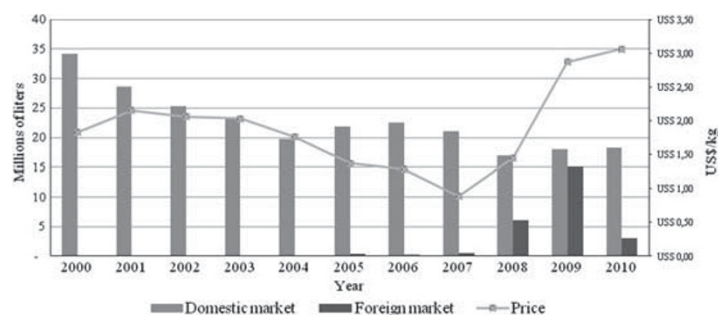


Figure 2: Marketing of quality wines in the state of Rio Grande do Sul – Domestic and foreign markets and average export price.
Source: Uvibra⁴⁴ and Mdic/Secex.⁴⁵

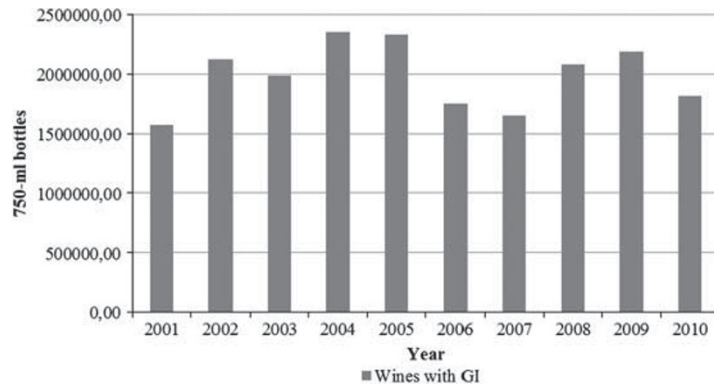


Figure 3: Number of 750-ml bottles sold with the Vineyard Valley GI.
 Source: Aprovale.⁴²

8 years. This means that producers want their products to be of quality and value added, resulting in the opening of new markets.

Aprovale⁴² underscores that GI brought about a wide range of economic impacts, such as the appreciation of land in rural properties between 200 and 500 per cent, value added to quality wines averaging 20 per cent, increase in areas planted with wine grapes and improvement in technological standards.

The improvement in the economic performance²⁸ of wineries after GI registration is also evidenced by the increase in the tourist flow in the Vineyard Valley by more than 304 per cent since 2001. The tourist flow in the region pushed up the revenues of wineries, which are open to visitation, winetasting and showcasing of their products, causing sales to grow and showing how market-oriented wineries have been.^{6,15}

The recent application for a DO by the Vineyard Valley indicates the large interest wineries have in product differentiation in markets that have become increasingly competitive. With DO, products will be provided with certification and traceability, maintaining the quality and uniqueness of the producing region, which will eventually become a reference among wine-producing countries.

According to Ibravin,¹¹ based on data provided by the MDIC, 27 per cent of the wines sold in 2010 were imported ones. From January to December 2010, 75.3 million liters of foreign wine were imported from 30 countries, compared with 59.2 million liters in 2009, imported from 32 countries. The largest amount of wine ever imported by Brazil was documented in 2010, breaking the earlier record of 60.8 million liters in 2007. Since 2004, when 39 million liters of foreign wine were imported by Brazil, exports have nearly doubled, reaching 93 per cent.

The reasons that contribute to this scenario are: the downturn of the European consumer market, which makes Brazil a destination where producers can dump their stocks; illicit import of wine to Brazil, smuggled chiefly from Argentina and Chile (accounting for 65 per cent of the wines sold in Brazil) and exempt from import taxes; and the anticipation of purchases by importers, in order to avoid expenditures with the control seal.⁴⁴

The control seal, implemented by Normative Instruction no. 1065 on 19 April 2010, allows adjusting the rules relating to the Special Register and the Control Seal by which producers, bottlers, cooperatives, wholesalers and wine importers must abide. The seal warrants

stricter control over smuggling, reduces informal employment and stimulates the competitiveness of Brazilian wine in the domestic and foreign markets.¹¹ Therefore, this seal heightens the expectations of the wine sector, especially with regard to sales growth in the domestic market, eventually leading to superior economic performance.

On the other hand, the supply of imported wine to Brazil does not necessarily mean that the consumption of foreign wines has risen. Data from Ibravin¹¹ collected from specialized stores and supermarkets indicate that the stocks of imported wine are large enough to supply virtually all the demand throughout 2011.

It should also be remarked that the Brazilian market has growth potential, as *per capita* consumption is equivalent to 21/year, ranking in the bottommost positions in the world, when compared with consumption of countries such as Chile and Argentina, where *per capita* consumption exceeds 251 of wine/year.⁴⁴

Unlike imports, the export of Brazilian wine has expanded year after year. After 2004, the constant growth in exports has been the result of the creation of the *Wines from Brazil* label, putting together 17 Brazilian wineries in a cooperative-like environment, working in close partnership in a program for the export of quality wines and, mainly, of the recognition of the Vineyard Valley GI certification by the European Union in 2007.

Although the price per kg of wine in Brazilian exports has fluctuated, in 2010, it reached its highest level in 8 years (\$3.06). This year, the price remained high compared with previous years, revealing that Brazilian wine has commanded a good market and recognition abroad.

The boost in wine exports and the initiatives launched by Brazilian wineries, using market orientation strategies (for example, the Vineyard Valley GI), promote the internationalization of the

sector, allowing for product differentiation and value added in a demanding and competitive market as the one for quality wine.

GI as a market orientation strategy improves and stabilizes the demand for the product, as it builds consumer confidence and lets consumers know, by the GI label, that they will have a quality product with regional characteristics, also allowing them to tell products apart perfectly, including low-priced ones.

The result obtained from the Vineyard Valley GI, from the internationalization of this sector with the boost in exports and from the price realized in the foreign market indicates a higher economic performance for the winemaking industry of Rio Grande do Sul, especially of that region.

Thus, based on the market orientation approach, on the SCP paradigm and on GI, it was possible to investigate the influence of the structure, conduct and performance elements on the behavior of structuring, organization and dynamics of transformation in the winemaking sector. Even though the SCP paradigm was developed from a perspective that is specific to the conduct and performance of individual companies, the theoretical discussion heretofore explores the possibility of identifying and applying the elements of the SCP model in the context of companies involved in strategy and organization processes in the agribusiness sector.

Figure 4 depicts an analytical structure that concomitantly shows the elements of the SCP model and how they influence or determine the behavior and the possibilities of companies by means of GI as market orientation strategy, as occurs with the wineries awarded with the Vineyard Valley certification.

Figure 4 illustrates the market structure, constituted mainly of quality wine producers, affiliated with Aprovale.



Figure 4: Analytical structure explored.

The conduct of the wineries is based on 12 innovations proposed in order to obtain the Vineyard Valley GI, given that, without these innovations, the wines cannot be certified. Orientation, both in domestic and foreign markets, is based on profitability, sales growth and success of new products.

The 12 innovations had a positive impact on the companies affiliated with Aprovale, bringing gains in technology, marketing and, principally, in the acknowledgment of the brand by consumers.

The performance derived from the GI generated revenues for the region's whole viticultural and vinicultural supply chain, including supporting businesses such as hotels and handicraft shops.

Therefore, the 'Vineyard Valley' GI can be understood as a functional market orientation strategy, in which economic performance is determined by increased land values; increase of the area planted with wine grapes; improvement of technological standards; rise in tourist flow; acknowledgment through the 'Vineyard Valley' DO application; increase in consumption; product differentiation and value added; boost in exports; and internationalization.

FINAL REMARKS

Economic performance was analyzed based on the results obtained, taking into consideration GI as market orientation

strategy for wineries that produce quality wines in the Vineyard Valley region, in the state of Rio Grande do Sul. The study demonstrates that businesses that utilize GI as a market orientation strategy can set up paths for the markets, raise export revenues and improve stakeholders' involvement in the viticultural and vinicultural production chain.

Hence, it is paramount to any industry, whether or not it operates in the agribusiness sector, to use market orientation strategies and prove that they actually deliver a higher performance, as occurs with GIs.

The development of the Vineyard Valley's community as a result of the larger tourist flow is another factor that enhances economic performance and invigorates the regional economy. All businesses affiliated with Aprovale, be they wineries or not, benefit from the appreciation of the region, yielding satisfactory financial results and promoting local development.

As far as quality wine trade in Brazil is concerned, consumers tend to give imported products higher value. In this respect, producers and professional associations, together with public authorities, should devise strategies that encourage Brazilians to acknowledge the value of products from their regions, as they employ state-of-the-art technology and have better quality than some other

products, in addition to value added, compared with other imported goods.

We suggest that further research be conducted on market orientation in other GI-designated agribusiness sectors to assess market structure, conduct and economic performance before and after GI implementation. We also suggest checking the costs that need to be covered to maintain a GI in order to determine the net contribution of GI to profits, as the costs associated with the implementation of a GI, as a market-driven strategy, can outweigh the benefits of such orientation.

It should be highlighted that in the winemaking scenario of the Vineyard Valley, characterized by competitiveness and the relentless quest for new markets, it is necessary to have accurate information about target customers, competitors and suppliers. By getting to know the preferences, needs and demands of the consumer market, the opportunity to offer a product of higher quality increases, resulting in greater satisfaction and helping obtain differentiated performance.

A limitation of this study was the difficulty in measuring and obtaining data, allowing for only a qualitative analysis of economic performance before and after the implementation of the Vineyard Valley GI certification.

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