



# What makes Napa Napa? The roots of success in the wine industry

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## Abstract

California is world-renowned for the ability to produce world class quality wine. At the center of this achievement is the development of Napa as a premier wine producing region. We examine the sources of Napa's success by testing factors from leading industrial location theories against statistical and qualitative evidence. Using an unusual database of county-wide data on the wine industry to compare Napa's success with other wine-producing regions of California, we can control for different historical factors and economic conditions that temper most comparative wine studies. Many regions in California can produce world class wine, but none enjoy the same level of returns as Napa. Path dependency and distance to markets are poor explanations for the relative success of wine regions. We find that while *terroir*, or natural comparative advantage, has some evidence behind it, social capital and entrepreneurship behind technological leadership are central to Napa's competitive advantage. © 2014 UniCeSV, University of Florence. Production and hosting by Elsevier B.V. Open access under [CC BY-NC-ND license](https://creativecommons.org/licenses/by-nc-nd/4.0/).

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## 1. Introduction

The continual struggle for development on the local, regional, and national levels is one of the foremost concerns of any policy-maker. With development comes jobs, incomes, tax revenues, and citizen satisfaction. However, the mystery of what if anything the public sector can do to promote regional development remains unsolved. The question is especially pertinent as new competitors, from Australia to Argentina, have entered the global market for wine (Hira, forthcoming). This begs the question of what role public policy can play in promoting the local wine industry. In this article, we look closely at perhaps the most successful of the New World entrants, Napa Valley in California. Though universally recognized as a top wine producing region, there have been mainly

descriptive and anecdotal explanations of Napa's success (Deutschman, 2003). This article examines the main perspectives behind industrial location theories for answers. It suggests that entrepreneurship and social capital explanations are as important as the mainstream wine industry explanation of *terroir*, in explaining Napa's, and by implication other wine clusters', success.

Porter's (1990) book *Competitive Advantage of Nations* re-introduced the term clusters to economic development specialists. In 2001 (p. 7) he defined clusters as "geographically close groups of interconnected companies and associated institutions in a particular field linked by common technologies and skills." The popularity of the term rests upon our everyday observances of agglomeration in the production of some goods, such as the fashion industry in Milan and IT in Silicon Valley. The same notions are omnipresent in the wine industry, where regional appellations are a primary branding instrument.

Cluster theory is still in an early stage, and there is no consensus around a precise set of causal concepts. Firms may be clustering initially for reasons related to the location of raw materials or demand markets. Once the clustering takes off, then other firms and skilled workers are attracted. If so, that would

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suggest that policy cannot play a role in creating clusters, only in promoting them once they are created by private companies. This is in line with the general notion that clusters can evolve through life cycles of death as well as birth (Feser, 2008, p. 198). However, most studies of clusters up to now have been static snapshots (Ter Wal and Boschma, 2009, p. 740).

The idea that locational advantage can be created through promoting clusters goes against the obvious fact that firms are driven by profit maximization, and so are unlikely to share valuable information with competitors (Turner, 2010, pp. 687–688). Yet, Bathelt et al. (2004, pp. 34–35, 48) point out that there are different layers of knowledge, from firm-specific to local tacit (“buzz”) to global, which are transmitted through pipelines (globally-connected firms). Thus, we can appreciate the need for sharing at a higher level of abstraction, which would then be translated to and adapted for the specific firm’s niche specialization. This idea would fit in with the need for highly specialised and flexible knowledge in the wine industry, and support the idea of knowledge as a collective or social good, supported by public institutions (Hira, 2013).

Nonetheless, if we think about specialised knowledge as a basis of cluster origins, it is hard to see how this could be maintained given that it is unlikely that knowledge will stay within a geographic region. Therefore, the most intuitive reason for wine industry location is *terroir*, that is the advantage of the natural characteristics within a wine region. *Terroir* is one of the central concepts of the wine industry, suggesting the particular qualities of wine depend on the climate, soil, weather, etc. and therefore creating a comparative advantage reflected in the geographically-based appellation system. The premise of this system is that only wines from Bordeaux can acquire the taste supposedly unique to that region. Given the differential performance of various wine clusters within California and an unusual availability of county level of data, we test out geographic *terroir*-based against knowledge-based sources behind cluster success.

## 2. The mystery of cluster location

There is no consensus around the boundaries of clusters, since production networks sometimes viewed as clusters can be global in reach (Boschma and Kloosterman, 2005, p. 2). A similar point is made about firms, in which personnel and backwards and forwards linkages are constantly in flux (Dicken and Malmberg, 2001, p. 351). Moreover, mapping out where the relevance of various supplier, buyer, and transportation/retail chains begins and ends seems a subjective exercise. Furthermore, the traditional measures of cluster networks, such as density and thickness of ties, have not been empirically related to the causal supposition that greater density must lead to improved outcomes (Taylor, 2005, p. 78).

In the wine industry, the problem of definition of boundaries is less daunting, as wine is generally optimally grown in an enclosed valley. Yang et al. (2012) find that wineries located more closely together in Washington State and California exhibit both higher wine scores and higher prices. Thus, it lends itself towards self-identification, which can later become regulated for

reputational purposes, such as Napa Valley. Once the reputation for making fine wine (whether appropriate for all wineries or not) is established, we can see the multiplier effects of more tourists, new entrants, and knowledge depth and diffusion taking place. Yet physical properties do not a high quality cluster make in the wine industry. According to wine experts and ratings scales, the Central and Northern Coast and the Lodi region of California are as “fully capable of producing world class wine” as Napa (Rannekleiv, 2008). If we know that Santa Barbara Chardonnays, Lodi Zinfandels, and Sonoma Pinots are considered world class, why do not they share the same reputation (and price premium) as Napa? One place to start to answer this question is the common notion of path dependency, that is Napa simply came first and thus enjoys timing advantages. If that is the case, then there is little policy can do to create clusters. Policy can only come in later to support an existing cluster.

Boschma and Lambooy (1999) suggest an evolutionary approach where an industry may start by chance, but through agency, the local environment is re-shaped towards its needs. The combination of the more conducive environment including the presence of raw materials or markets and the presence of active agents “locks in” the industry to a certain area. Thereafter, a region can start to adopt a certain identity around a cluster, which in turn will attract more resources from both the public and private sectors (Romanelli and Khessina, 2005, pp. 355–356). The first explanation for cluster origins is historical accident, with propitious conditions creating momentum (path dependency) for the cluster.

As Menzel et al. (2010, pp. 3, 10) point out, what may seem to be an historical accident, when compared to other similar situations, while controlling for the context, can reveal a potential causal set of variables. For the moment, we simply do not know what those variables are. As they go on to state, “the question still remains how and why certain events trigger the emergence of a cluster in one region but not in another... Why a particular path is chosen and which processes influence if, how and why a new cluster adheres to establish development paths are questions still requiring further analysis.”

For the wine industry, location is often explained by the broad category of *terroir*. *Terroir* in the wine industry refers to the combination of climatic, soil, and other growing conditions that supposedly give each location a unique stamp in terms of wine production. Appellation regulations aim to protect certain labels (e.g. champagne, burgundy) for wine produced from grapes in certain regions. Comparative geographic advantage is the foremost possible reason for cluster location since it is the foundation of economic thought about sources of competitiveness and the supposed source of high quality and differentiated wine.

By contrast, Graves and Waldman (1991) suggest that as technology improves, such as the development of air conditioning, people are drawn towards “amenities,” such as nice climates and scenic surroundings. This helps to explain the historical movement of manufacturing to the South of the US. A parallel thread was later picked up to great effect by Florida (2002a,b), who celebrated the “creative class” such as designers and IT workers who seek out the nicest places to work, since they can

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