



The Experience of Wisconsin's Wine Distribution Co-operatives



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ABSTRACT

An examination of how small-scale, artisanal wine producers in Wisconsin are using the co-operative business model to meet state liquor control mandates; compete with wine industry distributors; differentiate their varietal and generic wines from publicized industry products; and, promote state viticulture districts, family farm businesses, local food (or LOHAS – Lifestyle of Health and Sustainability) branded merchandize, Wisconsin Wine Trail opportunities and agri-tourism.

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1. Introduction

Co-operatives provide small scale producers with tools that can reduce the risk of market failure and nonmarket risks, improve marketing margins, and provide efficient organizational structures for lowering transaction costs (Crooks, Spatz, & Warman, 1997). Growing interest in local food has created demands for locally produced foods including artisan wines. Smaller farms' abilities to respond to these make their operators ideal prospects as an audience for new co-operatives. So why have co-operatives not gained a larger share of the US farming economy?

While co-operatives¹ could do much to enhance the productivity and sustainability through economies of scale, new co-operative development, for small farms, has not caught on. Yet an unusual co-op development that occurred in Wisconsin after State Act 85 created the Wisconsin Wine Co-operative Wholesaler Law, has pointed out a way for small farms to derive a significant benefit from participation in cooperatives that does not

dramatically intrude upon their farming practices. The law created a way for a class of small vintners and wineries to co-operatively secure and manage a wine brokerage license. Wisconsin's wine co-operatives offer members a shared service that they would not be able to access alone. This article looks at shared service cooperatives and the legal issues that led Wisconsin to create co-operative brokerage licenses. The research will address the following questions: (1) Can shared-services co-operatives provide a lower threshold for engaging artisan wineries in co-operatives? and (2) Is a shared-services co-operative an appropriate, effective and efficient approach to the regulatory constraints that US Alcohol, Tobacco and Firearms Bureau Regulations impose upon small scale vintners in Wisconsin?

Worldwide, agricultural co-operatives successfully allow small to mid-sized vintners to engage in broader markets while obtaining economies of scale through shared marketing and purchasing (Declerck & Viviani, 2012). Shared-services co-operatives have more often been associated with small independent businesses, municipalities or other likeminded businesses to serve a variety of needs – joint purchasing of services, equipment, advertising, and finance (United States Department of Agriculture, Cooperative Services, 1998). They are found in the public, private and nonprofit sectors (Bhuyan, 1996). This article examines shared-services co-operatives and how they are distinguished from agricultural co-operatives in the wine sector. The study reports on empirical research collected from key stakeholders involved in the development and operation of two shared-services

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¹ According to the International Co-operative Alliance "A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise" (International Cooperative Alliance, 2005–2011).

co-operatives in Wisconsin. This is a novel use of a shared-services co-operative. The decision to use a shared-services co-op rather than a production co-op model is the focus of this study.

This case research asks what we can learn from the use of a shared-services co-operative to meet the needs of small scale winemakers in a regulated market. While the role of the state is an important factor, the focus here is on the shared-service co-operative. The article starts by outlining what a shared-services co-operative is and how co-operatives are used in the wine sector worldwide. The regulatory market for wine distribution in the US is reviewed and then the case examples of two such co-ops are presented.

2. Shared-services co-operatives

Shared-services cooperatives can offer a variety of services or as with Wisconsin's co-operatives, provide only one. The model has broad applications from business to government and has been used for hospitals, pharmacies, school districts, cultural institutions, groceries, rural utilities and retail shops (Clamp & Alhamis, 2006). Shared service co-operatives can achieve impressive economies of scale for members, improve profit margins, and eliminate sole proprietors' needs to perform as "jacks of all trades." Shared-services co-operatives are able to meet a variety of institutional needs to address the cost of goods and services through collaboration.

In rural America, medical services are delivered through shared equipment and purchasing of supplies. Rural school districts create co-operatives to meet federal mandates for special education affordably (Crooks et al., 1997). Public libraries are organized into regional co-operatives. Small proprietary carpeting and flooring businesses compete with big box stores through Carpet One for shared purchasing, administrative services, and branding (Clamp & Alhamis, 2006). In Wisconsin, rural medical services benefit from the Rural Wisconsin Health Co-operative (RWHC) which provides shared-services, including legal, administrative services and contracts with major health insurance carriers (Zeuli, Freshwater, Markley, & Barkley, 2003).

A USDA study of shared-services co-operatives found that the goal of these co-ops is to capture savings through lower administrative costs – not to turn a profit on their investment (Crooks et al., 1997, p. iii). Dunn identified three core co-op principles that had bearing on farmers' decisions about how to organize and use co-operatives.

1. *The User–Owner Principle*: those who own and finance the co-operative are those who use the co-operative.
2. *The User–Control Principle*: those who control the co-operative are those who use the co-operative.
3. *The User–Benefits Principle*: the co-operative's sole purpose is to provide and distribute benefits to its users on the basis of their use (Dunn, 1988).

These principles are what set co-operatives apart from all other businesses (Crooks et al., 1997; Dunn, 1988). Shared-services co-operatives like agricultural co-ops, are owned and controlled by their members and provide benefits to their members as users, not investors (Bhuyan, 1996). Agricultural co-ops are producer co-ops and often are multipurpose. They are created to address failures of the market – in purchasing and marketing. Agricultural co-operatives emphasize their role as producers, whereas shared-services co-ops are usually found in nonagricultural activities. The goal of shared-services co-operatives is to meet an unmet need. Members pay a joining fee and any assessments that may arise; participate in governance and the co-op's operation. The co-op has

an elected board of members which hires professional staff to handle the operation (Crooks et al., 1997, pp. 1–2).

Valentinov and Iliopoulos summarize three scholarly approaches to how co-operatives are viewed – as a form of vertical integration; or a firm separate from member farms; or a coalition. Examples supporting each view abound in agriculture. Shared-services co-ops may be established to respond to a shortage of materials or services. They most often are best understood as coalitions or a firm separate from the member farms (Valentinov & Iliopoulos, 2013, p. 112).

Often in rural communities, it may be difficult to support costs for a needed service but through sharing with other members, the co-op can provide resources required for professional or technical assistance or a locally based full time professional. Small proprietary businesses can compete with discount houses and big box stores when they can jointly purchase goods through a co-operative. When efforts to implement government policies are difficult and costly for smaller rural communities, some find solutions through co-operatives to share in delivery of mandated services such as special education and program service obligations (Crooks et al., 1997, pp. 2–3). The Wisconsin wine co-operatives differ inasmuch as they were created by Wisconsin state law as the *only* affordable means for small scale vintners to engage in off farm marketing of their products. The co-operatives that were formed were not proposed by the wine producer members nor suggested by them. In fact, the compulsion for small scale wineries to distribute through a cooperative was proposed by the state after a study it commissioned to investigate how to provide an easy and efficient way for small scale wineries to meet new and restrictive alcoholic beverage distribution standards.

3. The cooperative business model and the wine industry

There have been many successful co-operatives formed by grape growers and winemakers in wine producing regions of the world. Small farm hold producers have found that participating in a co-operative can help maximize production, assure the quality of varietal wines, and provide reliable market channels (Chloupková, 2002). Despite these benefits, US grape growers and vintners have not shown enthusiasm for the model. In part this is because their wine industry is dominated by large family or corporate interests that have little use for cooperative membership, governance or patronage practices. Their resistance may in part be due to their iconoclastic natures as many US wine making entrepreneurs see their enterprises as artisan production centers with unique, personal standards. US winemakers sometimes collaborate on campaigns to promote regional wines, but rarely work on a co-operative basis to purchase services, merchandize their products or participate in the production of a regionally branded blend like Italy's Cantina Sociale's *Riunite Lambrusca* which became the number one imported wine in the US from 1976 till 2000 (Max, 2012).²

Americans know that cooperatives have expanded markets for Chilean and South African wines and have helped preserve wine production centers throughout Europe (Chloupková, 2002). In some cases co-operatives operate as de facto industry guardians setting standards for production and distribution that permit co-operative members dominant places among their nation's winemakers. This was the case for South Africa's Koöperatieve Wijnbouwers Vereniging van ZuidAfrika (KWV) which imposed standards and grades for growers for a fifty-year period that ended

² At its peak, US sales reached 11.5 million cases a year and drove the growth of wine consumption to new levels that have settled at the 3 gal per capita rate being drunk each year by US wine consumers today (<http://business.time.com/2012/08/03/riuniteoniceversion20/#ixzz2j7lpj7s>).

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