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Research Report:
Firm Resiliency Post-Economic Shock: A Case Study of Rural Wineries during the COVID-19 Pandemic

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Abstract

The COVID-19 pandemic adversely affected the wine industry in California due to mandated tasting room closures between March and May 2020, followed by restrictions on capacity through October 2020. Hence, this study examines the resiliency of wineries in minor California wine regions, including the challenges faced during the pandemic, strategies used to sustain their business, and the organizational factors that contributed to success. Results indicate that these wineries are small family-owned firms, which gives them the ability to controls costs and make decisions rapidly, remain customer centered, and quickly adjust to the regulatory environment during the pandemic.

Keywords: winery, rural tourism, resiliency, economic shock

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Introduction

On March 11, 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic, its director-general stating, "This is not just a public health crisis, it is a crisis that will touch every sector" (Ducharme, 2020, np). In rural areas, the tourism industry was especially impacted due to closures and travel restrictions (Cho, Lee, and Winters, 2021). In California, for example, food, drink, and other tourism providers were fully closed from mid-March to mid-May 2020. Once open, restaurants, wineries, breweries, etc., could not seat visitors indoors until October 2020. Shelter-in-place and lockdown orders in major counties in the San Francisco Bay region brought nonessential travel, including tourism to nearby California wine regions, to a halt. Thus, this study examines the resiliency of wineries in minor California wine regions during the COVID-19 pandemic and is, essentially, a case study on firm organizational factors that enhance resiliency after economic shocks.

Literature Review

The COVID-19 pandemic created an economic shock, defined as an unexpected change in the economy. Previous literature on firm-level resiliency post-economic shock provides a framework to explore the resilience of wineries in minor California wine regions. Firm or enterprise resilience is defined as the ability of an operation to return to its original state or to a new, improved state, after experiencing a disruption and, thus, avoid failure or prevent a shift to an undesirable condition (Carvalho, Duarte, and Machado, 2011).

The literature on resiliency in tourism is sparse, but there are many studies on resiliency in small businesses and family-owned firms from which to draw. For example, the elements that make an organization resilient to a crisis are the presence of social capital, training and education, adaptability, knowledge, creativity, receptiveness, and flexibility (Ahmed et al., 2004). Slocum and Kline (2014) declare that resilience should be viewed as a positive adaptive response to adversity, where actors can draw on natural, human, cultural, social, financial, built, and political capital to negotiate change. A few common factors emerge from the literature and provide a template for the organizational factors that lead to firm resiliency after an economic shock.

A short management span, specifically a small number of employees that a particular supervisor leads, is one. Sabatino (2016) finds that resilient enterprises employ a simplified structure, with an average of 8 to 10 people between top management and frontline personnel. Additionally, smaller firms often have structures that enable more effective financial management (Mzid, Kahachlouf, and Soparnot, 2019).

In times of crisis, it is no surprise that firms need to rapidly pivot their operations. Sabatino (2016) finds that enterprises that make decisions rapidly are more resilient. Firms that follow simple rules and make quick decisions are more competitive in the long term (Davis, Eisenhardt, and Bingham, 2009). Both Thomas et al. (2015) and Engeset (2020) point out that small noncomplex firms are often able to make decisions more rapidly. This allows those likely to detect changes early to possess the authority to respond quickly and proactively.

Literature on business organization states that the most resilient enterprises are those that focus on core competences (Prahalad and Hamel, 1990; Thomas, Shaw, and Page, 2011; Sabatino, 2016) and goes as far as to say that firms should make "adaptive capacity" a core competency. Adaptive capacity is built from a firm's risk intelligence, flexibility, and readiness for change. As elements of adaptive capacity include creativity and flexibility, additional discussion follows.

The resiliency of a firm is determined by its ability to react to shocks with creativity and flexibility (Peterson, 2000). Khan, Christopher, and Creazza (2012) claim that firms need to become more impervious to disruptions and to quickly return to the previous or improved state after a disturbance. Resilient organizations encourage continuous experimentation and innovation, not just in product and service design, but in business processes and strategies (Seville, Van Opstal, and Vargo, 2015). Hence, "resilient organizations make knowledge sharing and knowledge management available on an ongoing basis" (Seville, Van Opstal, and Vargo, 2015, p. 9).

Customer centric is an organizational strategy in which a firm's actions in marketing, product development, and operations are built according to customer priorities (Ross, 2009). Sabatino (2016) states that the most resilient enterprises are those that focus on customer needs in times of crisis or major change. Other studies conducted on the complexity of customer needs, customer centricity, innovativeness, service differentiation, and business performance confirm the authors' findings (Gebauer, Gustafsson, and Witell, 2011).

Methods

Qualitative data were collected through structured in-person interviews conducted with five wineries in minor California wine regions, specifically the Russian River Valley and Nevada County in the Sierra Foothills. The interview questions were derived from the literature on business resiliency (Ahmed et al., 2004; Slocum and Kline, 2014; Seville, Van Opstal, and Vargo, 2015) as previously discussed. Special attention was paid to pre-COVID operations, adaptations during COVID regulatory changes, and reflections on business processes by the interviewees. All interviews were recorded and transcribed. The data were combined and hand coded into topics. These topics were then pooled to develop themes, defined as common plots or ideas running through the data (Richards and Morse, 2007).

Results

The four primary themes that emerged from the data include lifestyle business, market differentiation, direct marketing, and the effects of COVID-19.

The wineries in this study can be defined as small by the Small Business Act (1958). Wine production ranges from 1,000 bottles to 2,500 bottles annually, and the wineries employ no more than 10 people. The largest vineyard is 65 acres, but the remainder have 12 acres or less in production (see Table 1). Moreover, these wineries are operated as lifestyle businesses. Lifestyle businesses can be defined as entrepreneurial activities begun for noneconomic reasons, often accepting few, if any, profits (Ateljevic and Doorne, 2000) in favor of maintaining a personally satisfying way of life. As Winery 1 states, "I actually moved here specifically to do what I'm doing. I wanted to raise my family in a rural farming environment. Making money really isn't the attraction." Winery 4 adds, "It's about lifestyle and craft. You're not going to be rich with this." These wineries take pride in their trade and value the quality of life small-scale wineries offer them.

Table 1. Study Winery Characteristics

Winery Name	**Year Established**	**Acreage Planted**	**Production (Cases)**	**Employees (Full-time Equivalent)**	**Varieties Produced**	**In-town Tasting Room**
Winery 1	2000	9.5	1,800	2.5	Sauvignon Blanc, Negroamaro, Sangiovese, Primitivo, Teroldego, Barbera, Aglianico, Dolcetto, Nebbiolo	No
Winery 2	2004	3.5	1,000	4	Rkatsiteli, Pinot Blanc, Pinot Grigio, Melon de Bourgogne, Semillon, Chenin Blanc, Orange Muscat, Sangiovese, Peverella, Forastera, Barbera, Dolcetto, Sangiovese, Carmine, Refosco	Yes
Winery 3	1995	12	2,500	2	Sauvignon Blanc, Zinfandel, Cabernet Sauvignon, Barbera, Chardonnay, Cabernet Franc, Petite Syrah, Riesling, Fumé Blanc	Yes
Winery 4	2003	10	2,200	1	Grenache, Petite Syrah, Primitivo, Syrah, Varázs, Vizir, Zinfandel, Sauvignon Blanc	Yes
Winery 5	2001	64	12,500	10 (not including vineyard staff)	Pinot Noir, Chardonnay, Shiraz (Syrah), Sauvignon Blanc, Rose	Yes

About half the participants in this study started as hobbyists, realizing later that wine-making can be an expensive endeavor. For example, Winery 2 states, "I had been interested in drinking wine and decided to grow a small experimental venue. We lived there for 13 years, strictly as amateurs." Others had a strong background in business and took a more strategic approach to their operations. Winery 4 acknowledges, "This is a business; it's set up as a business to make money."

One primary intention of lifestyle businesses is to keep them small and manageable (Howkins, 2002), often relying on family contributions in the overall business strategy. Winery 3 employs their son, who is a "second-level sommelier and certified wine judge." Spousal partnerships were common, with distinct divisions of labor, such as wine-making, financial management, or tasting room operations. There were generally only two levels of employment—the family manager and the employees. Winery 3 states further, “If you have a lot of employees, then that’s going to cost you, that’s one of the biggest expenses. So, we do a lot of it ourselves.”

One strategic competency is the ability to reject or adapt to more traditional distribution strategies, such as working with wholesalers and/or restaurants and employing local harvesting events, side stepping expensive and unreliable contractors. Winery 1 explains, “The best way to not get paid for all your work is to sell wine to a restaurant,” and Winery 3 emphasizes, “We've had somebody try to wholesale for us, but there wasn’t enough profit.” Some wineries used to sell in local grocery chains, but now only one winery sells to restaurants.

Customer relationships form the backbone of the wineries’ business model, as well as support the creativity and flexibility needed to maintain a craft business mindset (Ross, 2009). Because up to 70% of their business is derived from customers located within 100 miles, customers often join volunteer work parties, attend local events, and buy wine through wine clubs and internet sales. For example, Winery 1 “throws a big harvest party and we do a big banquet spread. We’ll get 50 or 60 volunteers to come out.”

Customer-centric business models allow for agility in marketing, merchandising, and operations (Ross, 2009). Winery 3 states, “Thankfully, we have a really nice wine club that keeps us going.” All the wineries offer events, as explained by Winery 2. “My wife has a relationship with some of the local artists and sometimes we'll have an event that is devoted to displaying this person’s art.” By maintaining tight relationships with customers, the wineries are better able to adapt to changing consumer needs, retain higher profits, and remain flexible as output varies (Thomas, Shaw, and Page, 2011).

The primary mode for sales is through tasting rooms, which allow for intimate relationships to form and for continuous feedback from consumers. They also provide a visitor experience, which builds customer loyalty (Yoon and Uysal, 2005). Winery 1 reiterates, “Many of the wineries in this region are too remote, or they’re on private roads. That’s why everyone has a tasting room in town.” Winery 4 claims, “We knew we needed to get away from the winery because we just didn’t get enough traffic. The tasting room is my distribution outlet and that's very important.” Winery 3 claims that 80% of their sales are from their tasting room.

Wine owners often remain in contact with visitors through wine clubs and social media, which, in turn, supports customer loyalty and long-term relationships, resulting in increased social capital. California and Nevada’s liberal liquor laws allow for the direct shipment of wine to households, enhancing existing e-commerce practices. Social media is used to announce new wine releases, upcoming events, discount sales, and general happenings at the wineries. It appears the goal is to provide easy access to wine while maintaining personal connections.

The primary shock from COVID-19 was complete closure resulting from mandated lockdowns. The secondary shock was the long-tern cessation of in-person gatherings, including tasting rooms.

Twelve months after the start of the COVID-19 pandemic, all the wineries reported similar revenue streams to the pre-COVID year. For example, Winery 1 reported revenues up 7% from the previous year, and Winery 2 states, "We're probably 40% or 50% down from the number of people that pass through the store, (but) we have maintained 70% of our sales." Winery 4 sums up the general attitude: "I am only down about 20% (in revenue), but I'm open 65% less hours per week, so it's convenient for me."

However, the wineries have had to face changing regulations. Wineries were classified as essential businesses in California during the lockdown, meaning they could remain open to produce, bottle, and sell wine, but could not do tastings. Winery 1 explains, "We were allowed to stay open to sell wine out the door, but we weren't able to do the things that we need to be able to do to grow the business." Moreover, COVID-19 policy changed frequently and without much planning or communication. Winery 3 describes the chaos: "I think this is the seventh or eighth different rendition of business openings."

Conclusions

This study shows that business models established in advance of an economic shock can have lasting impacts on the sustainability of organizations throughout a global catastrophe, such as the COVID-19 pandemic. While wine production does not appear to have been heavily impacted, the loss of tourism, specifically through restrictions on tasting rooms and small-scale events, has had an impact. This research shows that the rural wineries in this study thus far have been able to pivot operations and maintain profitability and customer loyalty, primarily due to their business model.

Obvious limitations to this study include the small sample size and the regional proximity of the wineries. Additionally, the wineries were all in California, thus this study has limited geographic scope. The cultural aspects of resiliency and the length and nature of the COVID-19 restrictions may differ in other areas, which may impact results.

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