



## **Going ‘green’ to find ‘gold’ in wine: A case study of a sustainable New Zealand wine producer**

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### ***Abstract***

***Purpose:*** Sustainability has rapidly become a major part of the business lexicon, and increasingly the leading global brands have adopted sustainability as a key business driver. This study examines sustainable business practices in a small wine business.

◦***Design/methodology/approach:*** This study utilised a case study method to examine Huia Wines, a wine producer in Marlborough, New Zealand, which has adopted a sustainable business approach..

◦***Findings:*** Results suggest that engaging in a sustainable business model has resulted in a well-managed and profitable business for Huia Wines. They produce a high quality product which has appeal in key markets, they have excellent stakeholder relationships, and they have improved their business efficiencies and management systems.

◦***Practical implications:*** Small businesses, including wine producers, which engage in sustainable business practices can achieve substantial commercial benefits.

**Key words:** sustainability, wine industry, business planning, small business

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## 1. INTRODUCTION

In the 21<sup>st</sup> century sustainability has become a common part of the business lexicon, with international companies such as The Body Shop and Dilmah being well known for their sustainable business orientation. Even unlikely global giants like BP, Walmart and DuPont are making sustainability a focus of their ongoing strategies. Business consultants such as KPMG, Price-Waterhouse Coopers, Deloitte and Ernst & Young are providing advice to their clients on engaging in sustainability, so there is no doubt that the concept has become mainstream for global businesses. In New Zealand 99% of businesses have 49 employees or less (Ministry of Economic Development, 2010), so the question of whether sustainability is a viable business model for small to medium sized enterprises (SMEs) requires an answer.

In 2010 a case study of Huia Wines was conducted. Huia Wines is a small Marlborough wine producer which claims to operate sustainably. Huia Wines was founded by Mike and Claire Allan in 1990 when they purchased land in Marlborough with the goal of making wine. Their primary driver was to produce wine of outstanding quality, a goal which was tempered by a desire to have “as light a footprint on the land as possible” (Personal communication, August 19, 2010). The company markets its products through a number of intermediaries and around 90% of the wine produced is exported, primarily to European markets. Despite a strategic decision not to participate in wine competitions, the wine is highly regarded, fetches a premium price, and is primarily sold through upmarket boutique retailers and quality restaurants.

This paper examines the steps that Huia Wines have taken in order to achieve business sustainability and the impact that these have had on their commercial viability.

## 2. BUSINESS SUSTAINABILITY

Historically business has had profit as its sole focus. Friedman (1970, p.1) famously argued that the “social responsibility of a business is to increase its profits”. The profit motive thus became the dominant driver in business thinking for many years.

However, Freeman (1984) challenged this perspective with his Stakeholder Theory which suggested that the impact of a business on its stakeholders, both internal and external, is a factor that management must also consider. Elkington (1998) first coined the term ‘triple bottom line’ to indicate that sustainable businesses should have a focus on environmental, social and economic issues. Business sustainability is thus now seen as addressing the concerns of both internal and external stakeholders, the impact of business activities on the physical environment, and on the ability of the business to remain profitable (White, 2010). Sivakumar (2007) argued that a business is obliged to consider job security and workplace environment for employees, environmental responsibility and relationships with community, alongside economic viability.

## 3. METHOD

This study utilised a case study method to examine a single ‘sustainable’ business in some detail. Yin (2003) defined the case study method as an empirical enquiry that investigates a contemporary phenomenon and is useful for the relatively in-depth exploration of a single or small number of subjects. As the case study method permits a researcher to examine

corporate decision making processes (Chetty, 1996) it was considered more appropriate for this study than other qualitative research methods.

The researcher conducted a site visit to Huia Wines over several days in August 2010. During the visit interviews were held with the owners of Huia Wines and all seven staff members. The interviews were recorded and transcribed at a later date. The researcher immersed himself in the daily operations of the company, spending time alongside workers in the vineyard or winery, attending break times with staff, and thus was also able to make observations about the operational processes at Huia Wines. Follow up phone calls and email messages were used to add to or clarify the qualitative data obtained during the interview process.

## **4. RESULTS AND DISCUSSION**

This section documents the steps that Huia Wines have taken in order to become a sustainable business. These steps are examined in terms of the triple bottom line; environmental, social and economic sustainability.

### **4.1. Environmental Sustainability**

As part of the process of adopting sustainable environmental practices, Huia Wines became a member of Sustainable Winegrowing New Zealand (SWNZ). New Zealand Winegrowers, the national industry association, promote sustainability through their SWNZ programme. Members of SWNZ use a scorecard approach which provides them with targets or benchmarks. One of the key aims of the SWNZ programme is to continually improve sustainability in New Zealand vineyards and wineries

Central to sustainability is minimising the consumption of resources, and this is a strong driver for Huia wines. The company have set a goal for the vineyard to be completely resource self-sufficient where appropriate and to offset external resource consumption by contributing resources back to the environment, such as surplus energy. This means Huia will ultimately operate as a closed system, although it has been identified that this may be a difficult goal to achieve with existing technology and equipment. At present the vineyard and cellar require substantial external energy input in the form of electricity and fuel for the machinery, but they are currently exploring ways to convert vineyard waste into biodiesel and the use of sustainable on-site energy sources such as wind and solar. These strategies entail substantial set up costs, which are a barrier for small businesses, despite the fact that in the long term the savings would be substantial. Despite this, Huia are committed to being not just energy self-sufficient, but a net contributor of electricity to the external community. Wastes are almost entirely returned for recycling or reuse and Huia are in a position where their non-reusable waste output is nominal.

Also important to environmental sustainability is the achievement of a zero net carbon output. As the topic of climate change has gained prominence on the world stage, outputs of so-called greenhouse gases have increasingly become a key factor influencing consumer purchasing decisions. It is especially important for businesses intending to sell into the European markets to consider the impact of their carbon footprint. One Canadian wine producer has even developed a carbon-negative wine (Ainsworth-Vincze, 2008). In New Zealand, the standard for identifying businesses that are carbon neutral is through carboNZero, a certification programme managed by state-owned Landcare Research. Huia Wines achieved carboNZero certification in 2006. Gaining carboNZero certification required

Huia to measure their carbon footprint, gain an understanding of their emission sources, commit to managing and reducing emissions, and to mitigate or offset unavoidable emissions. While this process is expensive for a small business, it is an important part of Huia's overall business strategy as it allows them to differentiate their product through promotion of their carbon-neutral status.

Huia Wines is also in the process of becoming certified organic by Biogro NZ, with some blocks of the vineyard and the production process already operating organically. The final stages of becoming completely organic will be achieved in 2012. Over the last two decades organic production methods have become increasingly common across a wide range of industries (Allen and Kovach, 2000; Perrini et al., 2009). This trend towards organically produced goods has been driven by consumer health concerns, nutrient superiority (Benbrook et al, 2008), improved flavour (Fillion and Arazi, 2002), and a desire to reduce the impact of human activity on the environment. Of specific relevance to this study, it is becoming apparent that demand for organic wine is growing (Crescimanno et al., 2002; Forbes et al., 2009). The organic industry has grown and technology has advanced, yet many of the solutions to the issues faced by organic producers are low-tech. For example, one of the biggest problems facing winegrowers is the control of vineyard weeds. The conventional approach is to spray chemical herbicides on weeds, but this is not an option available to an organic producer. Huia hire backpackers and casual labourers to cultivate weeds and in the off-season sheep are used to graze under the vines.

## **4.2. Social Sustainability**

A key group of stakeholders are company employees, and Huia has found that working for a sustainably-focussed business has been positive for their staff. The physical working environment is more pleasant as vineyard workers are not exposed to chemicals and toxins in the same way as their colleagues in conventionally operated vineyards. The management have made an effort to treat all staff as important stakeholders in the business, and involve them in the creation and evolution of the Huia brand and vision. This includes personal development, training and assistance with gaining qualifications and skills that will not only benefit Huia but are seen by the staff as an investment in them by their employer. The permanent Huia employees have longer employment tenure than is typical in the industry, resulting therefore in a higher residual skill level, good relationships with each other, and a loyalty and passion for what Huia is doing and what they stand for. Pratt and Pratt (2010) identified that when a business has a vision for greater good beyond the simply practical goals of running a successful business, staff tend to work harder, have greater company loyalty, and demonstrate more enjoyment in their work.

When Huia started, organic production and sustainability were very much in their infancy and carbon footprints were a foreign concept, so developing a business that was sustainable meant learning as they went along. This was aided by the evolution of an informal local community of environmentally conscious farmers across all types of agriculture, including orchards, market gardens and other vineyards. This community shared experiences, resources and assisted each other and is a phenomenon that has been described as a learning action network. Clarke and Roome (1999) argue that this community of like-minded and supportive businesses is unusual in the conventional business model but is common with businesses engaging in the sustainable business model.

### 4.3. Economic Sustainability

There are a number of factors in the sustainable business model that influence the financial implications of running a business. Chemical intervention has significant costs, and identifying methods to control pests and fertilise grapevines that fit within the sustainability ethos are usually cheaper in the long term. In addition, energy costs are diminished as the use of fossil fuels and electricity consumption are minimized, something that will become increasingly important as energy costs continue to rise. The biggest financial advantage for a sustainable wine business is the increased probability of being able to command a premium price and to have a unique selling point in a crowded market. However, offsetting these gains are higher wage costs due to the need for manual weeding, fencing that is required to keep sheep in, and the initial costs of purchasing and installing equipment to produce energy through alternative means such as solar and bio-waste. In addition, there are significant compliance costs attached to being certified as carbon neutral, organic and sustainable. Whilst adoption of these formal Environmental Management Systems was a voluntary choice, being able to claim to be carbon neutral, organic and sustainable is an essential component of marketing the Huia brand. The compliance requirements add extra work to the business, requiring staff and management to record data and complete reports that other wine manufacturers are not obliged to do. However, the costs in time and money are considered worthwhile and Huia has no intention of ceasing their compliance.

Critical to business sustainability is operating profitably, and using high-input and organic production methods has resulted in a high quality product that has significant market appeal. Post-materialist values, as described by Inglehart (1981), include the range of green issues that are becoming increasingly prominent, especially in Europe. The more sophisticated and affluent European consumer is looking for products that reflect his or her values and concerns, and sustainability has thus become an important criterion in selecting products and services. As Europe is a major market for Huia, this has meant that its products have become especially attractive due to their organic nature and the company's commitment to sustainable and carbon neutral production. Claire Allan remarked that "European consumers are much more concerned about the impact of the goods they purchase on the environment than are New Zealanders, Australians or Americans. They actively seek out organic products and are very aware of carbon emissions. It is essential for our success in these markets that we continue along this path" (Personal communications, August 18, 2010). This positive relationship between environmentally friendly wines and consumer demand is supported by prior research (e.g. Forbes et al., 2009; Mueller and Remaud, 2010).

Following a sustainable business model requires much more careful management of the business. In particular, the requirement to measure carbon costs has given Huia a very good idea of the complete and true costs of producing and selling their wine. This detailed knowledge allows the management team to make better informed decisions, and these decisions aid in the general financial management of the business.

## 5. CONCLUSIONS

Sustainable business models have a focus on the triple bottom line: environmental sustainability, social sustainability and economic sustainability. This case study provides a clear example of a winery which is operating successfully in the global wine market with a focus on all aspects of the sustainable business model. Huia's specific focus on

environmentally and socially sustainable practices has resulted in economic benefits for the company, and thus has an effect on their ongoing financial viability.

While sustainable business methods are not a direct cause of business success, and ultimately Huia's success comes from good management by the owners and management staff, their decision to follow a sustainable path is a major influence. Sustainable business methods require the operator to have a holistic, long term perspective and their business has to be considered as an integral part of a larger external environment and ecosystem. Being sustainably-focused requires detailed planning and consideration of all aspects of the business. Perhaps not surprisingly, prior research has reported that business success is linked to having a documented business model and strategic plans (Teece, 2009). This need for a complete and system-oriented view of their business means the management team at Huia have a close understanding of all facets of their business, including external factors. From a viticultural perspective it means they monitor the factors that influence the grape growing closely, and thus are in a better position to respond to environmental factors, often before they become a significant problem. Most importantly, this close and detailed understanding of every aspect of the wine production process has been a major factor in their ability to consistently produce wines of exceptional quality. These high quality wines have significant market appeal, especially in the valuable European markets where there is a trend amongst more sophisticated wine consumers to deliberately choose 'sustainable' wines over other wines.

Despite a global wine glut which is resulting in many once-profitable wine businesses struggling, Huia Wines are succeeding. This study reveals a consistent theme: Huia's success is heavily influenced by their engagement in sustainable business practices. While there are some increased costs, these are mitigated by cost reductions in other areas and through improved operating efficiencies. In addition, the business model they engage in produces significantly more effective and comprehensive business intelligence and planning than is typical for SMEs. Huia Wines is a well managed company with excellent operational systems, productive stakeholder relationships, skilled and loyal staff, and high quality outputs. All of these factors are substantially influenced by Huia's decision to follow the sustainable path, and this case study provides a strong argument for sustainability as a sound business model for smaller businesses.

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