# Characteristics of Business Models, Business Diversification and Price Segmentation Strategies of Wineries in the Wine Route of Baja California, Mexico

Jizhong Wu[1] & Sergio Cesaretti[1]

[1] School of Management, University of Shanghai for Science and Technology, Shanghai, China

Correspondence: Sergio Cesaretti, School of Management, University of Shanghai for Science and Technology, 516 Jungong Road, Shanghai, China.

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**Abstract**

This study examined the characteristics of business models used by wineries in Baja California, Mexico wine route. It also identified strategies being used regarding price segmentation and business diversification, and how business diversification relates to production performance. The results showed a limited presence in the supermarket channel, vineyard/land and wine-making facilities/machinery being considered as the most valuable resources, a growing tendency of companies having lodging facilities, a low differentiation in key activities performed, high differentiation regarding revenue generation structure, three revenue generation clusters containing the majority of the companies, companies with a diversification strategy outperformed those with single business strategies in regards to case production during a five year period, and the price segments from $251 to $600 Mexican pesos for 750ml bottles of wine being the most popular ones. This study used a non-random sampling technique to collect primary data in the form of surveys and face-to-face structured in-depth interviews. A total of 65 companies, accounting for approximately 55% of the total wine producers in the area, were interviewed during the data 1-month data collection period (July 2018). Out of these 65 companies, 50 provided complete useable data.

**Keywords:** business models, strategy, Guadalupe Valley, wineries

## 1. Introduction

Despite the growing market for wine consumption and wine experiences in Mexico, incumbents have started to fail. Today businesses compete in a hypercompetitive business environment characterized by an influx of companies with similar business models and without a strategy to differentiate themselves. (Morris, Schindehutte, & Allen, 2005) defines the business model as a representation of how an interrelated set of decisions regarding strategy, business architecture, and economics create a sustainable competitive advantage in specific markets. In an industry where the main product being offered can become a commodity, companies need to gain a competitive advantage through innovative business models and effective differentiation strategies.

Currently, wine production in Mexico is still much lower than the volume of wine imported. Approximately 65% of the wine consumed in Mexico comes from abroad; which today arouses concern about the future of this industry; in particular the risk of not taking advantage of the opportunities that exist. (Amo Flórez, 2018; Morales, 2017)

Previous studies have researched some characteristics of businesses in the area such as size, age, legal entity type, production type its economic value chain and commercialization methods (González Andrade, 2015; López & Sotelo, 2014; Lino Meraz Ruiz, Radillo, Rivera, & Baron, 2015) Their marketing strategy and practices have been examined a few times. (Covarrubias & Thach, 2015; Fernández, Ruiz, & Gómez, 2018; L M Ruiz & Lagarda, 2015). Meraz Ruíz (2014) analyzed their implementation of the following strategies as a source of competitive advantages: low-cost leadership; differentiation, and specialization. The importance of wine tourism as a source of development for the industry has also been a topic of interest of study. (Cornejo & Quintero, 2016; Fernández et al., 2018; Lino Meraz Ruiz, Martínez, & Radillo, 2012) Yet, there isn't much research specifically on their business models or strategic decisions. Therefore, there isn't much information available regarding their resource allocation, common key activities, revenue source clusters, distribution channel participation, business model patterns, or sources of competitive advantage. The main purpose of this study was to gain insights of the characteristics of business models used by companies in the area, to identify strategies being used regarding price segmentation and business diversification, and to find out how business diversification relates to production performance.

### *1.1 Business Models and Strategy*

Business models can be defined as a conceptual tool which includes several business elements and their relationships, with the purpose of expressing in a simplified manner the logic of how an organization creates, delivers, and captures value (Osterwalder, Pigneur, & Tucci, 2005; Osterwalder & Pigneur, 2010). It can also be described as model as a template or unit of analysis of how a firm conducts business, captures value from various sources, and delivers value to stakeholders by taking advantage of business opportunities (Amit & Zott, 2001; Zott & Amit, 2010). Demil and Lecocq (2010) define it as the link between different areas of a firm designed to produce a value proposition to customers." Similarly, Fielt (2013) describes it as a representation of the logic of how a company produces and captures value for the customer.

In the past couple of decades, several frameworks have been proposed to better understand business models. Certain similarities can be drawn between frameworks, even though most have different layouts, include different compositional elements and elements often have different names. For example, the most common elements in a business model are the firm's value offering, economic model, customer relationship, partners, resources and activities, and target markets (Morris et al., 2005). It is important to highlight that business model not only consist of their compositional elements, but also of the relationships that reflect the complex entities they describe (A Osterwalder et al., 2005).

One of the most popular and widely accepted business model frameworks is the Business Model Canvas by Osterwalder and Pigneur (2010); in this framework, the authors define nine building blocks of a business model: customers, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. This framework provides a visual tool defined as the "Business Model Canvas" representing the business model.

In today's rapidly changing business environment, the ability to shift direction and introduce business model innovations is an important success factor. Without a well-developed business model, businesses will fail to deliver and/or capture value (Teece, 2010). Previous successful organizations have lost their competitive advantage; some have even gone bankrupt since they failed to adapt their business model to the ever-changing business environment. (Gassmann, Frankenberger, & Csik, 2014)

In hypercompetitive markets, firms find it impossible to sustain a competitive advantage (D'Aveni, 1998). Hypercompetition isn't only about the intense rivalry, but a fast-changing business environment created by globalization, more and better substitute products, fragmented customer tastes, government regulation or deregulation, and new business models" (Thomas & D'Aveni, 2004). Good business models can be a greater source of lasting competitive advantage than new products and services since the latter can be replicated quickly; (Borzo, 2005; Casadesus-Masanell & Ricart, 2011)

Strategy and business models are closely related. (Teece, Pisano, & Shuen, 1997) note that the essence of strategic management is to understand how firms achieve and sustain competitive advantage. (Porter, 1996) considered that sustainable competitive advantage can be achieved by performing unique activities. Nonetheless, differentiation strategies shouldn't be pursued just for the sake of being different; but to better understand customers and to offer products that can meet their needs. (Grant & Jammine, 1988)

Competitive advantage can be obtained through business diversification. (Cho, 2013) Forming and managing the company's product lines is one of the most important strategic decisions. (Bergh, 2005) Diversification strategy defines which businesses to be in and which to avoid. (Grant & Jammine, 1988) Companies can grow by launching new businesses in markets where they have not previously competed. (Biggadike, 1979)

Wrigley (1970) provided an initial framework for describing and defining the diversification strategy. A few years later, Rumelt, (1974) developed a classification system to overcome several limitations in Wrigley's categories. The methodology used by Wrigley and Rumelt classifies companies according to the specialization ratio, which is defined as the percentage of the company's income attributable to its most important business unit; and the the relationship ratio, considered as the percentage of the company's income attributable to its largest group of businesses related in some way. It is important to acknowledge that, simple product line extensions that produce no change in administrative processes are not considered as diversification (Ramanujam & Varadarajan, 1989). Based on these ratios, some of the diversification strategies are the following:

- Single business: companies that generate 95% or more of their revenue from a single category.

- Dominant business: companies that generate between 70% and 95% of their revenue from a single category; but also have other businesses.
- Related constrained: companies that generate less than 70% of their revenue from a single category. Nonetheless, all businesses have a connection between their resources, activities, channels, or other business elements.

Competitive advantage can also be obtained through scale. Economies of scale refer to a reduction in the average cost of a product over the long run due to efficiency in production. They are hard to achieve in the manufacturing process, but once they are achieved they allow big wine produces to give a significant discount to wholesalers and still keep a reasonable profit margin. In contrast, small wineries have to rely mainly on direct-to-consumer sales or local distribution sales where profit margins are higher since they have higher production costs than large wineries (Zucca, 2010). According to Fickle et. al. (2005), economies of scale allow a 10,000 case winery to produce wine almost 20% cheaper than the average 2,000 case winery and 12% cheaper than the average 5,000 case winery.

*1.2 Mexico's Main Wine Region: Guadalupe Valley*

When one thinks of Mexico's alcohol industry, two beverages come to mind: tequila and beer. However, very little is known about Mexican wine, let alone wineries business operation and strategies; even though wine has been produced in the country since centuries ago.

In 2017 the value of wine imports was 250 million dollars, compared to 236 million in 2016 and 224 million in 2015. Therefore, wine imports have increased by 5.58% in volume and 5.85% in value in 2017, when compared with 2016 data. On the other hand, Mexican wine production represents only about 35% of the total wine consumption. Hence the increase in demand is satisfied mainly with an increase in imports. (Ortiz de Zárate Martínez, 2017) As a side note, Mexicans have a preference for red wine. Red wine accounts for more than half (61.40%) of the total volume of wine sold; while white and sparkling wine represents 13.96% and 12.46% of the total, respectively. (Amo Flórez, 2018)

Even though the average annual consumption of wine in Mexico is still much lower than consumption in countries such as Spain, Italy, or France, an increase in consumption during the previous years presents an optimistic view of the future. Mexico's National Wine Council is making efforts to promote Mexican wine; they want 50% of the wine consumed in the country to come from Mexican vineyards according to their 10-year plan (Fermín, 2017).

Guadalupe Valley is Mexico's main wine region. It is located in the northern Baja peninsula, near the city of Ensenada; approximately two hours south of San Diego, California. There are about 120 wineries (Fernández et al., 2018) in the area, which produce 80–95% of all of the Mexican wine (Covarrubias & Thach, 2015). However, this data quickly becomes outdated since a rapid development in the zone has brought many new companies, both in the wine producing and wine tourism industry.

Guadalupe Valley is an excellent cluster for business model analysis. Taking Brannon's (2011) work as an example, some benefits are gained by focusing on the wine industry. The first benefit is that the companies in the sample produce the same product, are in a well-defined area, and the same industry. By having a sample of businesses with similar characteristics, one can focus on analyzing the business model without polluting the results by focusing on product innovation, thereby having a clear understanding of performance drivers. The second benefit is that wine hasn't changed much over time; from a business model research standpoint this is a significant advantage since performance can be attributed almost exclusively to the business model rather than the product. Unlike high technology firms, where innovation is a constant and a necessity; mixing product and business model innovation can lead to wrong indicators in the causes of a firm's performance. Another benefit is that Mexico's wine industry is proliferating (Giles, 2016; Martin, 2018; Per & Karlsson, 2018) as a result, new business models have started to emerge due to increasing competition and a sudden influx of tourists requiring new services.

*1.3 Wineries Undifferentiated Business Models: A Missed Opportunity*

Currently, wine production in Mexico is still much lower than the volume of wine imported. Approximately 65% of the wine consumed in Mexico comes from abroad; which today arouses concern about the future of this industry; in particular the risk of not taking advantage of the opportunities that exist. (Amo Flórez, 2018; Morales, 2017)

Mexican wineries might be misallocating their efforts and resources trying to improve their product or operations, yet little attention is given to their business models. The majority of the companies in the sample might be using a similar business model; they either have an undifferentiated business model or one with some degree of differentiation in its products or services.

Those with an undifferentiated business model compete on price and availability and could be caught in "commodity trap" (Chesbrough, 2007). This is a dangerous situation since commoditization can "destroy entire markets, disrupt whole industries, and drive previously successful firms out of business." as stated by D'Aveni (2010). On the other hand, those with a business model with some degree of differentiation are vulnerable to ''one hit wonders'', they have a successful first product, but can't follow up this success. Moreover, this model can be quickly replicated by competitors (Chesbrough, 2007).

### *1.4 Research Questions*

Despite the known benefits of gaining a competitive advantage through business model design and innovation, little has been done to examine the business model structures, characteristics and patterns of businesses in the wine industry in the area. Therefore, the purpose of this research is to explore the characteristics of the business model used by these companies, to identify strategies being used regarding price segmentation and business diversification, and to gain insights of how business diversification relates to case production performance. The business model elements researched in this study are Key Resources, Key Activities, Channels, and Revenue Streams; based on the Business Model Canvas tool developed by Osterwalder and Pigneur (2010)

A better understanding of the business models being used in the area can help business owners, administrators, and future entrepreneurs make better decisions regarding business model design and innovation. Therefore, the following research questions regarding the companies' business models and strategy are aimed to be answered:

1. which resources are the most valued by the companies? Is brand considered one of their most valuable assets?
2. Which are the most common revenue streams? Which clusters can be found in the revenue source patterns? Has the recent tourism boom in the area influenced the businesses' revenue streams?
3. Since supermarket sales account for the highest volume of wine sales in the country, is this one of the most common channels?
4. Are their business models differentiated in the key activities element? How many key activities of the wine value chain are performed per company?
5. Which diversification strategy has experienced the best performance during the past five years?
6. Which is the most common price segment and how saturated is it?

## 2. Method and Materials

Given the private nature of the data required for this research, very few meaningful and up-to-date secondary data was available. For this reason, primary data in the form of surveys and face-to-face structured in-depth interviews had to be collected.

### *2.1 Questionnaire*

The questionnaire was pretested with the advice of a few small winery owners and academics in May 2018. Some adjustments were made to increase clarity. Additionally, to ease the data collection process, it was decided not to use open-ended questions. The final questionnaire used for face-to-face structured interviews included 22 close-ended questions grouped into three sections. The first section included questions to collect winery descriptive information, such as date of establishment; the amount of permanent and temporary employees; and the number of vineyard hectares owned by the company. The second group of questions analyzed general business model information; specifically, sales distribution by area; regional/national supermarket channel availability; wine supply source; revenue model; production process involvement; resource valuation; and retail price points for 750ml bottles of wine. The third section included questions to analyze the growth of the company in different business areas during the past five years, 2013 to 2018. Interviewees were asked about the company annual production case; the number of customers visiting the tasting room per week during high season; occupancy rate; and the number of events held per year. They were also asked about the about the company's plan for the next five years; this question included the answers: grow significantly; grow slightly; stay the same; sell or pass the company to a family member, and close the company.

### *2.2 Sampling Procedure and Participant Characteristics*

This study used a non-random sampling technique. Care was taken to ensure that the 65 wineries were representative of all the wineries across the region regardless of their size, age, price categories or business models. All interviews were carried out at the winery. In the interest of getting the most accurate information, only the owners of the company, administrative staff, or any other employee suggested by them were interviewed face-to-face. Most wineries in the sample are located within Baja California's Wine Route, according to a brochure provided by Baja California Secretariat of Tourism. The Wine Route is situated in the Municipality of Ensenada, Baja California, Mexico; it runs along a section of highway 3 that goes from Tecate to El Sauzal. This wine route encompasses several valleys, including the famous Guadalupe Valley.

*2.3 Sample Size*

According to an interview with Gabriel Diaz, director of the Museum of the Vine and Wine, in 2017 the museum had 120 wine producers on record (Fernández et al., 2018). A total of 65 companies, accounting for approximately 55% of the total wine producers in the area, were interviewed during the data 1-month data collection period (July 2018). Out of these 65 companies, 50 provided complete useable data and 15 provided incomplete data.

*2.4 Data Processing*

The data was analyzed with SPSS Statistics, Version 20. A descriptive analysis was conducted to examine and summarize data in a meaningful way and present it an easy-to-interpret manner. To further analyze some of the data, a K-means cluster analysis was performed on the wineries´revenue sources, specifying seven clusters based on the variables' z-score ranking.

**3. Results**

The results are shown as follows: company characteristics are shown first, followed by information corresponding to the business model and its elements, and lastly the information regarding business differentiation and pricing strategy.

*3.1 Size*

In Mexico, enterprises can be classified in different size groups categories according to the number of people employed and their annual revenue. In this study, for simplicity, all companies were considered as belonging to the commercial sector. In this sector, enterprises can be categorized as micro enterprises (fewer than 10 employees), small enterprises (10 to 30 employees), medium-sized enterprises (31 to 100 employees), and large enterprises (more than 100 employees). (De La Federación, 2009)

Of the total sample, 58% of the businesses are micro-enterprises, 26% small enterprises, 12% medium-sized enterprises, and 4% large enterprises.

*3.2 Hectares of Vineyard per Company*

In 2017, the median was of 5 hectares of vineyard per company. Businesses in the first quartile have less than 1.37 hectares. In contrast, those in the third quartile have more than 17.25 hectares; also 10% of the companies in the sample have more than 50 hectares of vineyard each. Since outliers are present, the mean isn't the best measurement of central tendency, since a single outlier can drag the mean up or down in a significant way. For this reason, when analyzing how many hectares of vineyard each winery had, the median was considered as the most appropriate measure. The mean hectares of vineyard owned per winery is of 19.36. However, since there are several outliers in the data, a 5% trimmed mean was considered as a more accurate number. In this case, the 5% trimmed mean results in 11.51 hectares of vineyard per company.

*3.3 Date*

In 2006, the Regional Development Program for the Wine Region in Baja California was published. Some of the goals for this plan were to strengthen local productive capacity; support diversification, training, and productivity in organizations; strengthen regional infrastructure, and to promote and attract national and foreign investment. Also, in 2006 and 2009, several proposals were made to modernize and expand the highways and rural roads in the area. Better roads in the now famous "Wine route" of Baja California made the area more accessible to tourists, brought back attention to the region's wine industry, established the roots of the upcoming ecotourism industry, and a new wave of optimism.

Of the companies analyzed in this study, 38% were established before 2006, and 62% were established after 2006.

*3.4 Resources*

According to the data, the two most valuable assets are vineyard/land and wine-making facilities/machinery. 38% of the companies of the companies consider land/vineyard as their most valuable asset and 22% of them as their second most valuable one; only 10% of the companies don't have a vineyard. Similarly, 26% of the wineries consider their wine-making facilities/machinery as their most valuable asset and 38% as their second most valuable one. The most common resource allocation model is land/vineyard as the most valuable asset followed by wine-making facilities/machinery.

Only a few companies (14%), consider their tasting room facilities as their most important asset. On the other hand, approximately half of the companies consider it as either their third or fourth most valuable asset. Regarding accommodation facilities, one-quarter of the companies consider as its most or second most valuable asset, yet one-third of the companies don't have accommodation facilities.

The brand isn't considered as a top asset. 80% of the companies consider brand as either their third, fourth or least valuable asset. The majority of the companies that consider brand as their most or second most valuable asset were established after 2008. Also, 90% of them are expecting to grow in the next five years. These companies had a positive correlation with sales outside of the region.

### *3.5 Key Activities*

There isn't much differentiation in the key activities' component of the business model. 70% of the companies perform all the activities in the wine production process, from harvesting the grapes to bottling the finished product. One-quarter of the companies in the sample outsource one or two activities, the most common ones being harvesting the grapes, and bottling and labeling. Only one winery has a business model based on key activities differentiation; it outsources most of its activities.

### *3.6 Distribution in Supermarket Channel*

According to the data, 82% of the companies don't sell their product in the supermarket. On the other hand, 16% of the companies sell in both national and regional supermarket, and only 2% sell only in regional supermarkets without access to the national supermarket channel.

Even though it seems that supermarkets have a wide variety of wines, much of that "variety" comes from a few large wine companies like Casa Madero, L.A. Cetto, Bodegas Santo Tomás, and Monte Xanic. These large wine companies have a wide portfolio ranging from good-quality wine at very affordable prices to premium wine at high prices. Nonetheless, supermarkets wine shelves aren't limited to the large producers, it's also possible to find high-quality wine from medium-sized wineries.

Wine producers face trade-offs when selling to supermarkets; if they want to sell high quantities of wine, they must sell its products in supermarkets. In essence, wine producers need supermarkets, not the other way around. For this reason, supermarkets have strong buyer power enabling them to set the terms for suppliers' negotiations with wine producers. Also, when supermarkets require discounts and marketing expenses, these are generally passed on to the producers.

### *3.7 Revenue Sources*

Unlike in key activities, there is a big difference in the main revenue sources of each winery. As expected, the most common revenue sources were those related to the wine-selling business: 92% of the companies receive revenue through sales in the tasting room, 70% of them through direct sales, and 54% of them through wholesale and intermediaries. Even though the data shows that 66% of the companies in the sample have accommodation facilities, only 42% of the companies receive revenues from this revenue source since some of them were in the process of building lodging facilities to start welcoming guests soon after the data was collected. On the other hand, location rental and production contracts are not very common; only 18% and 14%, respectively, of the companies, have these revenue sources. The least common revenue sources were grape and juice sale; sales of other products and services; and online sales. It is important to note that these figures don't represent the amount of revenue received through each revenue source, but which ones are the most common ones.

### *3.8 Revenue Streams K-means Cluster Analysis*

A K-means cluster analysis was performed specifying seven clusters based on the variables' z-score ranking. The variables used in this cluster analysis were the wineries' revenue sources. More specifically, sales in the tasting room; direct sales; indirect sales (to distributors and retailers); grape and grape juice sales; sales of other products (souvenirs, balsamic oil, olive oil, etc.); contract production services; revenue from lodging and restaurant; venue rental; and sales other services (memberships, tours, classes). All variables were standardized using the z-score data standardization method. The cluster centroids of the final seven clusters are provided in Table 5. The final cluster centers reflect the characteristics of the typical case for each cluster. An analysis of variance (Anova) was conducted to support the reliability and validity of these clusters; results showed significant differences between six of the seven cluster centers ($p < 0.001$). The results are displayed in Table 1.

Table 1. Final cluster centroids of the k-means analysis

| Variable | Cluster 1 (n=7) | 2 (n=1) | 3 (n=11) | 4 (n=12) | 5 (n=16) | 6 (n=2) | 7 (n=1) |
|---|---|---|---|---|---|---|---|
| Sales in the tasting room | -0.675 | 0.717 | -0.282 | 1.339 | -0.397 | -1.045 | -0.527 |
| Direct sales | 2.056 | -0.788 | -0.626 | -0.175 | -0.154 | -0.788 | -0.589 |
| Indirect sales | -0.536 | -0.809 | -0.722 | -0.491 | 1.277 | -0.713 | -0.618 |
| Grape and grape juice | -0.218 | -0.218 | -0.166 | -0.218 | -0.200 | 4.812 | -0.218 |
| Other products | 0.038 | 6.534 | -0.202 | -0.062 | -0.202 | -0.202 | -0.202 |
| Contract production services | 0.051 | -0.269 | -0.269 | -0.175 | -0.129 | 0.291 | 6.446 |
| Lodging and restaurant | -0.573 | 0.421 | 1.719 | -0.426 | -0.516 | -0.649 | -0.649 |
| Venue rental | -0.195 | -0.434 | -0.282 | 0.956 | -0.329 | -0.434 | -0.434 |
| Other services | -0.172 | -0.172 | -0.172 | -0.172 | -0.065 | -0.172 | 6.721 |

The main characteristics of the clusters are the following: cluster 1 includes seven wineries; they are characterized by generating a significant proportion of their total revenue from direct sales. In this cluster, revenue from sales in the tasting room and through the lodging and restaurant are relatively low compared to the other revenue sources. This cluster was labeled as “Direct Sales”. Cluster 2 consists of one winery; it is characterized by generating a high percentage of its revenue through the sale of other products such as souvenirs, olive oils, olives, etc.; revenue generated in the tasting room through the lodging and restaurant source is relatively high. This cluster was labeled as “Other Products + Tasting Room + Lodging & Restaurant”. Cluster 3 includes 11 wineries; they exhibit high revenue generated through the lodging and restaurant source, and low direct sales and indirect sales. This cluster was labeled as “Lodging & Restaurant”. Cluster 4 consists of 12 companies; they are characterized by above-average sales in the tasting room and through venue rental. In this cluster, revenue from indirect sales and through the lodging and restaurant source is below their other revenue sources. This cluster was labeled as “Tasting Room +Venue Rental”. Cluster 5 consists of 16 companies; in this cluster, the most outstanding characteristic is that most of the revenue comes indirect sales; revenue coming from sales in the tasting room and through lodging and restaurant is relatively low. This cluster was labeled as “Indirect Sales”. Cluster 6 includes two companies; a very high percentage of their overall revenue is generated through the sale of grape and grape juice; contract production services are also above average compared to all their other revenue sources. This cluster was labeled as “Grape and Grape Juice”. Cluster 7 includes one company, it generates a large part of its revenue through from two revenue sources: other services (memberships, tours, classes, etc.) and contract production services. This cluster was labeled as “Other Services + Contract Production.”

Table 2. Significance testing of differences between cluster centers for the k-means seven-cluster solution (Anova)

| | Cluster Mean Square | df | Error Mean Square | df | F | Sig. |
|---|---|---|---|---|---|---|
| Sales in the tasting room | 5.178 | 6 | 0.417 | 43 | 12.418 | 0 |
| Direct sales | 6.142 | 6 | 0.283 | 43 | 21.74 | 0 |
| Indirect sales | 6.466 | 6 | 0.237 | 43 | 27.246 | 0 |
| Grape and grape juice | 8.042 | 6 | 0.017 | 43 | 461.288 | 0 |
| Other products | 7.328 | 6 | 0.117 | 43 | 62.649 | 0 |
| Contract production services | 7.207 | 6 | 0.134 | 43 | 53.844 | 0 |
| Lodging and restaurant | 7.11 | 6 | 0.147 | 43 | 48.236 | 0 |
| Venue rental | 2.433 | 6 | 0.8 | 43 | 3.041 | 0.01 |
| Other services | 7.703 | 6 | 0.065 | 43 | 118.967 | 0 |

$p < .001$.

Three clusters include 78% of all the companies in the sample. These clusters (Indirect Sales; Tasting Room and Venue Rental; Lodging and Restaurant) represented the most common and replicated revenue source patterns. Cluster 3 (Lodging and Restaurant) is the third most popular cluster; it includes 11 wineries accounting for 22% of the total number of cases. In the other hand, there are three clusters including only four companies in total. These businesses have unique revenue source patterns which may be a competitive advantage or a sign of their inability to shift to more profitable and popular revenue source patterns.

3.9 *Price Segmentation*

Figure 1 illustrates the retail price points for 750ml bottles of wine for sale by the wineries and the percentage of businesses selling wine under each price point. Wineries' price segmentation was included in this study since a business' pricing strategy can shape its business model.

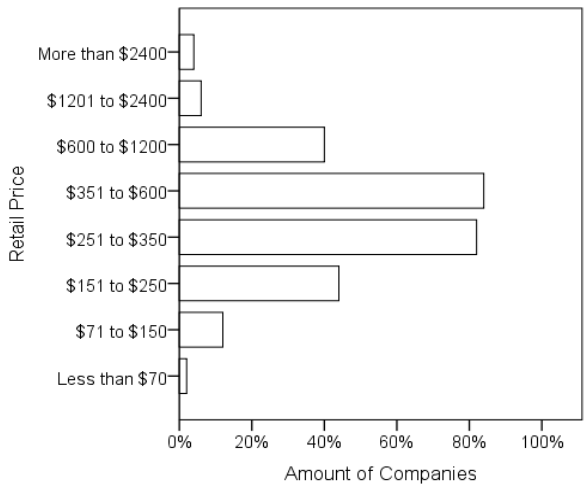


Figure 1. Price segmentation for 750ml wine bottles

A normal distribution can be observed in the price points. Overall, "$251 to $350" and "$351 to $600" are the most popular price segments followed by those adjacent to them, "$150 to $250" and "$600 to $1,200". The other four price points, the cheapest and the most expensive ones, are not very common.

The most popular price point is "$351 to $600", 84% of the companies have wine for sale at this price point; followed closely by "$251 to $350" with 82%. The "$151 to $250" and "$351 to $600" price segments are approximately half as popular as the two previous ones, comprised of 44% and 40%, respectively. The cheapest price point, "Less than $70", is the least common one with only 2% of the wineries doing wine for this price. Similarly, the most expensive price segments, "$1201 to $2,400" and "More than $2,400" account for 6% and 4% of the total, respectively.

Every company has a different price segmentation strategy; some companies focus on a few price points, while others try to cover the whole market. Table 3 illustrates the number of price segments covered per company according to the percentage of the total number of companies in the sample.

Table 3. Amount of companies per price segment

| | Number of Price Segments | | | | | |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| Amount of companies | 8% | 34% | 40% | 14% | 2% | 2% |

Approximately 75% of the companies cover either two or three price points. Selling wine across three different price points is the most common occurrence, accounting for 40% of the total; followed by two price segments with 34%. Few companies, 8% of the total, are focused on one single price segment, and even a smaller percentage has wine for sale under five or six different price segments.

*3.10 Diversification Strategy*

Table 4 illustrates case production growth during the years 2013 to 2017 according to three different levels of diversification (dominant business; single business; and related business) as proposed by Rumelt (1974) and Wrigley (1970).

Table 4. Diversification strategy and case production from 2013 to 2017

| Year | Dominant business | | Single business | | Related business | |
|---|---|---|---|---|---|---|
| | CP | YOYG | CP | YOYG | CP | YOYG |
| 2013 | 1878 | - | 3001 | - | 789 | - |
| 2014 | 2520 | 34% | 3152 | 5% | 983 | 25% |
| 2015 | 2925 | 16% | 3422 | 9% | 1439 | 46% |
| 2016 | 3754 | 28% | 3681 | 8% | 1606 | 12% |
| 2017 | 4524 | 21% | 4112 | 12% | 2050 | 28% |
| | Dominant business | | Single business | | Related business | |
| AAGR | 25% | | 8% | | 28% | |
| 5 Yr. Growth | 141% | | 37% | | 121% | |

CP: Annual Case Production; YOYG: Year Over Year Growth; AAGR: Average Annual Growth Rate

Overall, businesses with a dominant and related business diversification strategy experienced higher growth during this period than those with a single business diversification strategy. Dominant business and related (constrained) business were the two categories that experienced the highest growth from 2013 and 2017; they had a change of 141% and 121% respectively. These two categories had an average annual growth rate of 25% and 28%, respectively. In contrast, the single business category only grew by 37% during this same period, with an average annual growth rate of 8%.

As a side note, one company in the sample stands out as an exception, since it has three different unrelated businesses: wine and extra virgin olive oil production; production of chocolates and sweets; and production of preserved food. However, only the wine-related business was taken into consideration in this study.

## 4. Discussion

Even though the industry has experienced astonishing growth during the past years, businesses in the area still face many threats such as an oversupply of cheap imported wine, a limited availability of high quality grapes, soaring land price, climate change, Guadalupe Valley’s water crisis, Mexico’s changing political and economic climate and safety concerns for tourists visiting the region.

It is nonetheless important to keep in mind that competition is one of the biggest threats to all the businesses in the area. The market has been growing steadily for the past years, as well as the number of firms in the industry. As more companies start competing with better-thought businesses models, incumbents will gradually fade away. It essential for every company that wants to survive and thrive, to consider business model innovation and design as part of their strategy.

Most companies in the sample are micro-enterprises, with a median of 5 hectares of vineyard per company; also most of them were established after 2006. Regarding their resource structure, the two most valuable assets are vineyard/land and wine-making facilities/machinery. Few companies in the sample consider brand as one of their top assets. The majority of the companies don’t have wine for sale in the supermarket channel. There isn’t much differentiation in the key activities’ element of the business model since most of them perform all the activities in the wine production process. On the other hand, their revenue generation structure is quite differentiated; the most common revenue generations patterns are: (a) indirect Sales; (b) tasting room and venue rental; (c) lodging and restaurant. Many companies have built lodging facilities or are planning to build shortly. Regarding business diversification and pricing strategies, businesses with a dominant business and related business diversification strategy experienced higher growth during the 2013 to 2017 period; and “$251 to $350” and “$351 to $600” were the most popular price segments for 750ml wine bottles.

Interesting topics for future research are resource allocation change over time, an analysis of the excess or idle wine-machinery equipment available in the region, an in-depth study of the importance of brand to businesses in the industry, research on the wineries’ main value propositions and identification of clusters. Some limitations of this research work should be noted. First, not all interviewees had exact answers to questions requiring numerical data. Second, even though all interviewees were directly involved in the company’s management, the interviews would have been more fruitful if more business owners were interviewed since they are the ones that decide the company’s strategy and changes in the business model. Third, due to the confidential nature of the data being provided, there is no way to verify that the answers to the survey are an accurate representation of their company. Fourth, few “virtual wineries” made it into the sample since most of them don't have an office, tasting room, or warehouse in the wine route area.

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