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Wine Co-operatives and Territorial Anchoring

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17.1 Introduction

Since the beginning of the 2000s, the French wine sector has been facing a brutal crisis, in sharp contrast to the euphoria of the 1990s. The nature of its problems is twofold as the underlying fall in French domestic demand, whose fragility has been observed near unanimously, is coupled with a decline in external markets, this within a context of global market oversupply. Producers, unions or inter-branch organizations have reacted[1] and have begun to develop a response. Generally speaking it involves two strategic orientations focused on future penetration of external markets: total or partial reorganization of production models directed simultaneously toward rejuvenating supply and improving attractiveness via efforts on quality and marketing and incitement from regulatory and administrative bodies to increase groupings in production areas and institutional territories of reference, in other words the AOC (Appellation d'Origine Contrôlée).

[1] Reports from Berthomeau (2001), César (2002) and Pomel (2006).

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Table 17.1 Co-operative mergers (1968–2006)

	No. of mergers	No. of co-operatives involved	Names of co-operatives involved
1968	2	4	Bourg and Tauriac Vic Bilh and Madiran
1989	1	5	Labatut + Orthevielle + Pouillon + St-Cricq + Mugron
1990	1	2	Bergerac and Le Fleix
1992	1	2	Montravel and Sigoulès
1996	1	2	Gensac and Graves de Vayres
1998	2	4	Landerrouat and Duras Francs and Gardegan and Tourtirac
2000	1	2	Mugron and Geaune
2001	1	2	Gan and Bellocq
2002	2	6	Vertheuil and St-Estèphe Prignac, Queyrac, Begadan and Unimédoc
2004–2005	4	10	Cocumont and Beaupuy Carsac-de-Gurson and St Vivien Ordonnac and Unimédoc Anglade, Générac, St Gervais and Marcillac
2006	1	2	Landerrouat/Duras and Cazaugitat

Co-operatives are not exempt from these trends with the recent Pomel report (2006, p. 23) highlighting the need for mergers. These recommendations reflect a process which has long been observable. Indeed, in Aquitaine where the wine co-operative, an important element at the "heart of the wine sphere" (Doucet 2002), represents 45% of farms and 28% of volume produced; grouping processes (most of which are mergers) have already started and their number has increased over the last decade (Table 17.1). Thus, of the 17 mergers carried out since 1968, 9 have been completed since 2000: they have involved 22 co-operatives, reducing the total number from 77 in the 1990s to 64 in 2006.

As they have triggered a noticeable change in the co-operative system, these mergers are frequently analyzed as the destructive vector in their constitutive territorial attachment (Chiffoleau et al. 2005). Undeniably, wine co-operatives are deeply rooted in their territory due to both their locally based mutual governance and their products' characteristics. It is also undeniable that territorial attachment can represent a constraint on their global integration. We believe that this analysis is questionable because the opposition between territorial attachment and a globally oriented merger strategy is excessive. A priori, the logic behind merger processes involves loosening rather than transcending a co-operative's territorial constraints. This problem has influenced our analysis of merger processes in which Aquitaine wine co-operatives have been actively involved.[2]

We have therefore conducted a series of semi-directive interviews with managers of organizations who have participated in grouping operations, most of which being mergers carried out from the 1990s onward in the Gironde (33) and Dordogne (24) departments, in other words 7 of the 11 mergers completed between 1990 and 2006[3] as well as a grouping in the form of a commercial union.[4]

These thorough interviews, carried out with managers of merged organizations, were built around an analytical framework designed to collect the following information, notably as regards the loosening of the territorial constraint: the history of the merger and/or the grouping; the objectives governing its implementation; the view of the players concerning the ineluctability of merger processes in the Aquitaine wine-growing region; the methods used in these processes; the real effects, that is to say the results in economic, structural and even human terms and the interviewed players' evaluation of these real effects compared to those expected; the driving elements as well as those that hinder the success of these processes.

Based on the analysis of these answers, the present article aims to show that while playing on global dimensions linked to the need to adapt to market conditions, and despite the prevailing opinions of the subject, these mergers are neither motived by, nor respond to, the need to break free from a founding territorial attachment. With reference to the proximity economy, we will show that even if it generates obstacles to global adaptation, this need is not excluded from merger processes which do not omit territorial links. Indeed, these processes represent specific coordination mechanisms which, through new forms of expression, bring together spatial proximity with other forms of non-spatial proximity (Pecqueur and Zimmermann 2004).

[2] This work was carried out with the financial participation of the Aquitaine region within the framework of research projects attached to the Institut des Sciences de la Vigne et du Vin de Bordeaux.

[3] The studies, having been carried out in January 2006, with the latest merger to date, between the co-operatives of Landerrouat/Durasand of Cazaugitat, having taken place in March 2006, we did not study it as such but we were informed of the project by the Landerrouat Director, who explained the reasons for its creation and its future methods.

[4] Among the seven mergers studied, there is one which concerns two co-operatives initially belonging to the same commercial union and whose manager is also director of the commercial union. This particular case provided the opportunity, at the same time, to study the grouping that union toward co-operative constitutes.

Thus, *geographical proximity*, which focuses classically on the spatial distance separating economic players, prevails, a priori, in the co-operative merger operations we have observed. But it is not necessarily an efficient support for coordination between these merged co-operatives. The groupings we have seen are based upon different forms of logic to those of *organized proximity*, which Rallet and Torre (2004) express in terms of proximity of similarity and proximity of belonging. First of all, proximity of similarity governs groupings between co-operatives.[5] Nevertheless, the latter have neither identical interests, despite possessing objectives which have become common ones, nor the same working rules. Proximity of belonging, a supplementary dimension to organized proximity, therefore has to take over in order to complete the merger process. With reference to the fact that interactions between the members of the same organization are facilitated by their recourse to the same rules, we can, via the creation of new co-operative rules in the merged structures, highlight the re-dimensioning of the territorial scale of co-operative action. The article therefore shows that if co-operative mergers represent ways to loosen them from territorial constraints (1), they trigger a re-dimensioning of the territorial scale of co-operative action (2).

17.2 The Merger: The Favored Way to Loosen Territorial Constraint

The merger, whether it be a merger-acquisition or a pure merger,[6] is the operation by which two or more companies bring their assets and liabilities together to create a new structure with the commitment of each party being irreversible, contrary to that which characterizes a simple strategic alliance. In Aquitaine, more than 60 years after their creation and following a path marked by the creation of commercial unions or alliances—frequently leading to a later merger—mergers are, to the detriment of alliances, the favored response of co-operatives to the shocks generated by the recent globalization of the wine market. These mergers can be interpreted as the co-operative's way to loosen its territorial attachment, which is seen as a constraint in the global context of the sector where organizations with less dependency on a territorial logic are shown to be efficient.

[5] The logic of similarity refers to the fact that the players share the same representation system, the same beliefs and the same knowledge, independently of their affiliation to a specific organization.

[6] In the last case, the two organizations disappear to rebuild a new one.

17.2.1 From Crisis Diagnosis to Spatial Lock-In

A priori, we can only be struck by the similarity of situation which led to the creation of wine co-operatives in Aquitaine in the 1930s and their mergers in recent years. The crisis is the common denominator of both movements. Thus, wine co-operatives were created to respond to a double problem: a technical problem since wine-making requires heavy investment (in winery equipment) and a capacity to innovate in the technological and oenological fields and a commercial problem because with the slowdown in sales opportunities and overproduction, concentrating the supply is a means to increase both their bargaining power and their ability to adapt and innovate (Hinnewinkle and Roudié 2001).

Moreover, the crisis, as an upheaval in market conditions and a danger to their existence, seems as accurate a description of the wine-making situation in the 1930s as in the 2000s. The need to unite seems to have been simply reactivated by the current context. This substantiates the idea put forward by Draperi (Draperi and Touzard 2003, p. 77) that "the market place is central to explaining changes in co-operatives". Subsequently nevertheless, the comparison made between these two movements suggests the existence of fundamental differences, with globalization leading toward market re-dimensioning strategies linked to the need for diversification and greater supply flexibility. Thus, a merger expresses less the need to lighten the costs uniting geographically close entities and more that of reaching a "critical" size in order to position one's product on a global market and break free from a territorial constraint which hinders competitive efficiency.

17.2.1.1 Responding to New Market Configurations

The current wine crisis originates in the redefinition of the rules governing competition. Formerly, the competitiveness of French wines, and notably those with an AOC, suffered little on world markets, but now it is being challenged by the success of wines coming from traditionally non-producing countries. These so-called New World countries or new producing countries (Australia, South Africa, United States, Chile, New Zealand) have doubled both their production between 1990 and 2000 and their exports between 1980 and 2000. During the same time period, traditional producer countries have only seen their exports rise by 20%. If, as regards world exports, Europe and countries such as France and Italy have confirmed their domination, this is nevertheless being eroded little by little by countries on the American continent and countries such as South Africa and Australia (Onivins 2002).[7]

As these new countries originally consumed small quantities of wine, they directed their strategies toward the world market from the outset. As a result, the latter, already highly segmented, underwent massive repositioning toward mid-market and upmarket segments, the traditional ones occupied by French production and in particular production in Aquitaine which is 98% based on AOC products. For the last 20 years, these New World countries have combined this market positioning with a downstream strategy which is deliberately directed toward the consumer and in particular toward the world consumer. This strategy is based upon differentiation via private commercial brands supported either by worldwide groups with diversified product ranges (Diageo, LVMH, etc.) or by national groups with an international dimension concentrating almost exclusively on wine (Gallo, Southcorp, Mondavi, etc.) (D'hauteville et al. 2004). The product is not defined according to *terroir* but by brand and grape variety. Henceforth, the vineyard structuring associated with these products is different to that found in AOC systems which is generally more fragmented, more piecemeal and less integrated (D'hauteville et al. 2005; Garcia-Parpet 2001). Effectively, brand promotion requires significantly higher financial resources.

The changes in supply resulting from the rise of these new producing countries is taking place in a context of stagnant world consumption due to the combined effect of a drop in consumption in the traditional producing countries (e.g., French consumption fell from 160 liters/year/person to 56 between 1960 and now) and an increase in other parts of the world. This double phenomenon has created innovation opportunities in the wine field as a response to consumers with little drinking experience (in the countries where consumption is increasing). Secondly, consumption habits have changed in the traditional countries with wine evolving from having a nutritional status to being a leisure product. These innovations have been bolstered by an absence of rules (outside those of the OIV[8]) managing production modes equivalent to those prevailing in the AOC system.

The study we have carried out confirms that the merger of wine cooperatives is perceived both by institutional actors as an ineluctable process

[7] "The market share in volume of New World countries in trade exchanges increased from 4% in 1990 to 14% in 1997 and 19% in 2001."

[8] OIV: Organisation Internationale de la Vigne et du vin, in charge of defining international norms in order to protect producers and consumers.

(Pomel 2006), certainly in order to survive but, above all, to respond to the demands, defined as such, of the world wine market.

17.2.1.2 Territorial Attachment as a Spatial Lock-In Factor

The competition exerted by brand strategies on *terroir* strategies undermines the productive organizations supporting the latter. Henceforth, the close link with the territory induced both by the co-operative organization and the belonging to an AOC is criticized when it is considered as a limiting factor to the competitive efficiency of these organizations.

This means the near-exclusive affiliation of Aquitaine's production to AOC could limit its capacity to adapt to the changing consumer demands. Indeed, a *terroir* strategy (Rastouin and Vissac-Charles 1999) is distinct from brand differentiation initiatives by its reliance on the value it gives to a specific resource, that is to say a comparative advantage "naturally" attached to a given territory (production methods inherited from tradition, the intrinsic characteristics of a territory, know-how, etc.). By making exclusive reference to specific territorial resources, AOC wine production systems generate a specific asset (Colletis and Pecqueur 2004)[9]: the *terroir* becomes the basis of a market strategy.

For their part, brand strategies applied in the wine sector are based upon a generic asset: the grape variety, whose characteristic is not to be attached to a place or to a territory, while not being associated with a localized or localizable production method either. This is effectively an asset which is easily transferable.[10] On the contrary, strategies linked to the AOC base their effectiveness upon strong territorial attachment. Thus, for Benkala and Boutonnet (2004), "AOC strategies, by basing product positioning on a specific territorialized asset, thereby resist standardization and homogenization, even production relocation" (p. 1).

From an economic perspective, associating territorial attachment with AOC affiliation has many disadvantages. Firstly, it generates diversity and heterogeneity in the same time space and between different temporalities. An AOC product only possesses the characteristics attributed to it by the *terroir* at instant *t*, and in contrast to a grape variety or brand product, its room for

[9] According to Colletis and Pecqueur (2004, p. 4): "By asset we mean factors 'in activity', whilst by resources it is a question of factors to exploit, organise or still to be revealed."

[10] "A generic factor is independent of the 'spirit of the place' where it is produced" (Colletis and Pecqueur 2004, p. 4).

maneuver concerning these characteristics is rather limited as the AOC strictly defines production rules. Moreover, the AOC limits productive capacities since production quantity is limited through defined maximum yields per hectare and the demarcation of vine-planted surface areas. This hinders internal growth strategies based upon extending wine plantations.[11]

Secondly, the co-operative structure itself limits growth strategies. Territorial division which defines the territorial area on which the co-operative can draw its resources (surfaces) limits the extension capacity of the wine-growing area due to two phenomena: the non-elasticity of the surface area of a given territory and the competition between several co-operatives on the same territorial area. Indeed, in areas featuring a high level of wine-making activity, which is the case of the Gironde, for example, it is not unusual for the same space to be shared by several co-operatives. Moreover, they often have to face competition from private cellars or even great chateaux with well-established reputations. Added to this are the classical risks incurred by co-operatives, that of the departure of members tempted to go it alone as this decision is frequently seen as more rewarding and more closely associated with value.

Thus, the low or even inexistent capacity to increase yields, to increase the number of members and to develop production are all hindrances to the implementation of growth strategies. As regards the co-operatives we studied, before their merger, most experienced a significant loss of members (sometimes as high as 20%) in a context of near-stagnation of wine-growing surface area and production volume. The reduction in the number of members, the consequence of both the difficulties encountered and the attempt to overcome them by reducing the productive structure, revealed their inadequacies in the new demand context.

These co-operatives have therefore suffered the same classical fate as agricultural activities in general and *terroir* activities in particular, of detrimental links to the land and to a geographical origin. Henceforth, their territorial attachment has turned into a confinement close to genuine spatial lock-in (Rallet and Torre 2004). With Boschma (2005), we can note that this lock-in is not only cognitive, since access to new markets involves acquiring previously unknown skills and aptitudes, but also organizational ones since going beyond it implies a transformation of the co-operative organization. Nevertheless, it does not seem that this situation is irretrievable as mergers can potentially help to overcome it. The interviews carried out with the managers of merged organizations support the idea that in a first case, mergers are a means to release the spatial lock-in, at least partially. In particular, this is

[11] We know of current thinking (2006) concerning merger projects in the l'Entre-Deux-Mers region.

because they can increase the scale of the partnership networks, be they client and distribution networks or ones with suppliers.

17.2.2 Matching the Market, the Mergers' Primary Objective

If groupings are not a new phenomenon in the world of co-operatives, it seems nevertheless that the form (of a merger) these groupings have taken these last few years reflects a stronger will to break free from territorial constraint. Indeed, excepting the mergers carried out in 1968, explained in essence by the wish not to segment a wine-growing heritage, the wave of more recent mergers, completed since the 1990s, is a response to a different logic: that of the market's re-dimensioning.

17.2.2.1 From a Grouping to a Merger: From Connective Forms of Logic to Additive Ones

In Aquitaine, the grouping of wine co-operatives is recurrent. From the years 1950–1960 onward, they have been based upon commercial unions for the most part and packing unions for others. In this way, we have seen the creation of:

– In 1966, UNIMÉDOC, the commercial union of co-operatives from the Médoc area, today merged with these same co-operatives.
– In 1967, PRODIFFU, created in the form of a SICA (Société d'Intérêt Coopératif Agricole, French for collective interest agricultural society) and transformed into a co-operative union in 1984. It sells bottled wine made by five cellars which are its members.
– In 1974, UNIVITIS, created in the form of a SICA and transformed into a co-operative union ten years later, today grouping four co-operatives focused on selling bulk and bottled wine.
– In 2004, Bergerac Vins, the most recent organization, bringing together two co-operatives and a union selling bulk wine.

Along with these unions, other forms of commercial grouping have appeared. In 1959, for example, SOVICOP, an open joint stock company, was formed by the grouping of seven co-operatives (four in Dordogne and three in Gironde). Today it sells 250,000 hl of bulk or bottled wine, the different appellations produced by 24 co-operatives in Gironde, Dordogne and Lot-et-

Garonne, to *négociants,* large-scale retailers and specialized wine shops both in France and for export. Similarly, there is PRODUCTA, created in 1949 as a public limited company by three co-operatives. Other wine co-operative unions exist for packing: UNIDOR in the Bergerac area which was created in 1961 and l'Union Saint-Vincent in 1981 in the Entre-Deux-Mers region.

The development of commercial unions has led to a diversification of the commercial circuits used by co-operatives in Aquitaine (Couret 1999). In Gironde and in Dordogne, which geographically cover the co-operatives we have studied, French *négociants* represent 49.8% of sales outlets, of which 11.7% are for export, 17.8% for unions, 9% for individuals, 7.1% for large- and medium-scale retailing and 4% for wholesalers. This diversification alone does not respond to what is currently at stake: on one hand because it does not grant enough room for maneuver or bargaining power to the co-operatives regarding the networks on which they depend, especially with *négociants* and large retailers, and on the other hand because it does not provide access to the building of common mechanisms which would enable them to break free from spatial, cognitive and organizational lock-ins.

Thus the process in current use is very different because groupings, especially commercial ones, have been substituted by the most extreme form of alliance: a merger. This movement, for which we can anticipate an extension, therefore no longer involves a simple connective logic of interfirm relations but a real additive logic which is irreversible and which implies a heavy commitment from the partners (Douard and Heitz 2003) enabling them to make decisive steps forward in this direction. The interviews conducted with the co-operative managers who have carried out these restructuring processes help us appreciate the stakes and the perspectives.

17.2.2.2 Mergers: Between Defensive Strategies and Offensive Ones

The answers to the first three questions on our interview grid indicate that the groupings, and more precisely the mergers, are effectively perceived as means to eliminate the territorial constraint described above—at least partially. Indeed, thanks to the first question, we can identify the initial causes which led to the merger. By grouping these causes, linked to the history of the organizations concerned and of the objectives finally put forward at the time of the merger (question 2), we can show that today, mergers have become the favored route (question 3) to break free from territorial constraint, hindering co-operative development (Table 17.2).

Table 17.2 Mergers' initial causes and final objectives (number of answers to these items/number of co-operatives studied)

Merger cause	Merger type	Objectives
Difficulties to sell: 7/7 Difficulties linked to quality and technical problems: 4/7 Difficulties linked directly to volumes (insufficient size to sell well on markets): 2/7 Difficulties linked to the absence of reputation: 1/7	Defensive: due to the demand of structure(s) in difficulty, 4/7 Offensive: initiated by a structure anticipating difficulties to come, 1/7 Mixed: meeting between structures having difficulties and those anticipating future difficulties, 2/7	Save a co-operative: 5/7 Increase volumes to tackle large- and medium-scale retailers or penetrate the international market: 3/7 Develop the bottled-wine market: 3/7 Widen the range with the extension to new AOCs: 2/7 Rationalize the link between production site/product: 1/7 Decrease the number of competitors: 3/7 Reach a sufficient size to develop quality and integrate traceability: 2/7

The mergers we studied are mostly justified by the will to "save" an organization in difficulty or in need of support. The current context is an important lever in the decision to implement these mergers. Indeed, it forces the organizations to consider productive and commercial strategies with the potential to stand together in the face of current market conditions. Thus, it is always the emergence of a problem which leads to the thinking process and then to the triggering of the merger process, with the "crisis" making the idea of a merger more obvious and more immediate.

If the notion of crisis implies a difficult situation, be it experienced or anticipated, it is noticeable that all the cases we studied came under this logic. Even when the merger appears as more "natural", like in those cases between commercial unions and their affiliated co-operatives, it is the "crisis" which triggers the "enactment".

Henceforth, mergers or groupings appear as survival operations where "ill" organizations lead "healthy" ones to consider a merger. Indeed, we have only found one example of a co-operative seeking a merger partner before a co-operative in difficulty came to see it first. The result of this is a majority of merger-acquisitions, even if most of the production sites are preserved.

In all circumstances, the economic difficulties are defined as difficulties to sell: they are directly or indirectly related to problems of size and/or production volumes. Indeed the commercial problems are generally associated with difficulties to improve the quality of products, which translates either into items unsold or sold at very low prices or low bargaining power on the market linked to weak negotiable volumes, themselves leading to low valuation of the products. Mergers are therefore considered as a means to "bypass" the obstacle of size which was generated in part by territorial constraint.

Thus the examples studied show that mergers are carried out to rationalize the organization of the co-operative fabric rather than to go on the offensive. Notwithstanding, these mergers are an opportunity to define or redefine strategic choices, notably for the "acquiring" organizations. Thus, if the principal causes of mergers stem from a crisis situation, one that needs to be addressed or anticipated, little by little, during the merger process, they transform into more offensive strategic objectives.

Equally, the merger (or the grouping) is always justified by the will, experienced as a necessity, to reach a size considered more satisfactory to be "better" from a commercial point of view. In fact, it ends up being seen as a genuine opportunity to commit to more offensive commercial strategies. It is therefore less a question of achieving internal economies of scale in the strict sense than reaching a "critical" size enabling the acquiring companies to embark upon actions which they would never have been able to perform alone.

On this point, the co-operatives' managers are unanimous: a merger does not generate economies of scale per se. On the contrary, it first of all feeds into the development of new functions and new actions, and even when redeployments of activities are put into place, this implies extra costs. However, after a while, the learning effects can lead to co-operatives benefitting from economies of scale. A priori, these propositions are confirmed in the cases we analyzed by the improvement of merged co-operatives' performances in terms of volumes and turnover. The recovery in productive performances, whether it be attributable to the mergers we studied or also the result of processes put in place before the merger, still leaves strong disparities between merged co-operatives, either in terms of member numbers (an order of 1–5), areas cultivated (of 1–13), in crop volumes (1–11) or turnover (1–18).[12]

Increase in volumes and rationalization of the co-operative organization, in particular regarding the link between production site and product, enabling diversification, eventual broadening of the product range, development of sales in bottles and development of quality are therefore the key words of the mergers we observed in Aquitaine. Thus, according to Christensen et al.

[12] The qualitative approach carried out here does not allow us to go beyond the highlighting of stylized effects that a later quantitative approach should lend support to.

(2002), *in fine*, merger strategies in Aquitaine are less about the search for economies of scale and to a greater extent concern the will to adapt to market conditions which are sometimes volatile and within which New World producers have triggered genuine ground-changing innovation.[13]

For this reason, reaching a "critical" size is considered as a means to grow by uniting the co-operatives' bargaining power against large retailers whom they now wish to deal with directly. These strategies to increase size very often involve the association of a large organization with one (or many) much smaller ones. Increase in size is therefore not exclusive of composition effects. The merger seemingly grants leadership to the largest organization, probably considered as the best placed to energize the others without incurring the risk of power struggles which are too symmetrical and therefore destabilizing for the merged structure.

The elimination of competitors and the anticipation of an improvement in the competitive position are also arguments put forward in favor of a merger, with the expected beneficial results being seen ex post in reality. De facto, a merger is preferred to an alliance or a commercial union because by eliminating structures, it is reputed to reduce the level of competition between co-operatives, which, a priori, according to merger managers, a simple commercial union cannot achieve. From this point of view, competition on the wine market and competition for control of resources are linked. Indeed, a merger is a means to reach these objectives by building upon a tighter control of the vineyard, tipping the balance on whether to merge or not in its favor. Obviously, it cannot guarantee there will be no competition at all as co-operatives must still compete with independent organizations. However, it does minimize competition between co-operatives which is not the case of a commercial union since the latter brings together entities which remain autonomous. Thus, accessing a broader market or at least being better armed to compete in a more aggressive market is seen as the major stakes for mergers.

Moreover, as major problems in co-operatives stem from their size which is considered too small, a merger is the means to preserve sufficiently high

[13] A groundbreaking innovation puts a product onto the market which can be seen as intrinsically "less good" than certain products dominating the market at present. Therefore, for this reason, it cannot be sold to the usual consumers. But it is simpler and more approachable and therefore establishes itself in a part of the market which, up to then, did not reveal demand. Subsequently, the product improves to overlap the preoccupations of the more demanding segments of the market and by doing so, helps to remodel the whole market, thereby triggering an upheaval in it.

volumes in order to have the resources to carry out a number of actions without which it would now be difficult to be well positioned on the market and, at a minimum, maintain the bargaining power to sell products at a reasonable price. A merger is also associated with a search for resources to fight back against new, aggressive, commercial strategies. Indeed, co-operatives often do not possess the financial resources to invest in quality, commercial communication and promotion. By merging, they can be more efficient in this field than by a simple gathering of means through a strategic alliance.

A merger is therefore considered as a way to compensate for the obstacle of spatial lock-in. As it is irreversible compared to the connective logic of the commercial-alliance type, by gathering agents with potentially different interests under a single structure, it minimizes, a priori*,* problems of opportunism induced by a simple alliance. Nevertheless, certain risks remain as mergers between co-operatives or, otherwise, lead to "organizational upheavals" (Samuel 2003).

Thus, in a first approach, we can bear witness to the role of territorial constraint in the decision to merge. As it limits the growth and development potential of co-operatives' activities in a context where size effects are crucial, the territorial link forces organizations to go beyond an alliance logic and seek a merger. This explains the unanimity of merged organizations' managers we interviewed regarding this ineluctability of the processes. Two of the managers, even if they represent co-operatives positioned on very different products, went as far as to say that mergers represent "the future in the wine-co-operative world". A more refined analysis shows that this loosening does not rhyme with a disappearance of the territorial constraint: in reality, it is more a question of a re-dimensioning of the territorial scale of a co-operative's action.

17.3 Dimensioning the Territorial Scale of the Co-operative Action

Mergers are co-operatives' favored way to recover room for maneuver hindered by territorial constraint. However, in spite of the fact that they are justified by the will to break free of this constraint, the underlying logic reaffirms their attachment to the territory. The re-dimensioning of the territorial scale of the co-operative action is seen first of all in the complementarity of geographical and organized proximities during the choice of the right partner to merge with. This re-dimensioning is then seen in the efforts engaged by the merged co-operative to maintain and rebuild itself as a territorialized unit.

17.3.1 Complementarity of Geographical and Organized Proximities in the Choice of the Merger Partner

On one hand, a priori, geographical proximity intervenes in the choice of the partner chosen to enter a merger with and this helps to maintain the territorial attachment. On the other hand, the mechanisms used to prepare the merger show that organized proximity is an essential complementary determinant in the decision to commit.

17.3.1.1 A Priori, Geographical Proximity Underlies the Choice of the Partner

All cases of the mergers we studied are characterized by a unification of geographically close partners. This particularity stems from the fact that the co-operatives in difficulty who initiate the search for a partner first turn to the nearest co-operative except if there are historical enmities. Two reasons explain this phenomenon. First, geographical proximity is a core element to relations which are sometimes economic, like belonging to the same co-operative union or the exchange of know-how (e.g., the same wine technician working in both co-operatives), but also these relations are informal, linked to a family of neighborly relations between members and, sometimes, between managers. These relations, preexisting the merger, make it "natural" to seek a partner nearby.

Second is the more "economic" reason: geographical proximity reduces potential costs generated by the existence of several delivery and production sites and simplifies relations, notably between members and managers. A merger must minimize extra costs and even deliver economies of scale. Thus, at the outset, the nearest co-operative appears to be the "natural" merger partner de facto. Nevertheless, geographical proximity in the strict sense is not a sufficient condition to unite since many mergers will not take place between "the closest" organizations.

Admittedly, in the Aquitaine vineyards with a low co-operative density (Landes, Pyrénées-Atlantiques), geographical proximity prevails as the factor to choose a partner. In these cases, geographical proximity is the determining element in the merger. In other cases, especially in Gironde and in Dordogne, geographical proximity has played an important role but not a sufficiently important one to explain the mergers. Other factors have come into play in their completion.

Ultimately, we cannot deny that geographical proximity plays an important role since the mergers carried out in recent years fulfill this condition. Nevertheless, distance alone cannot adequately explain these mergers.

17.3.1.2 Proximity of Similarity at the Heart of the Commitment to a Merger Process

The reasons given by the managers to explain the choice of a given merger partner are in reference to the dimensions of organized proximity. The commitment to the merger process is mostly determined by the existence of proximity of similarity between the potential partners. A priori, it comes into play from the moment the merger is envisaged but also during the merger process itself via respective learning phases put in place to guarantee the success of the operation (Table 17.3).

Firstly, in the Aquitaine co-operative context as in the co-operative world in general, mergers take place between co-operatives. They have in common their way of working which characterizes their status: de facto, belonging to the co-operative *milieu* itself constitutes an element of proximity. Thus, at least for the moment, they do not consider merging with non-co-operative organizations. Moreover, with the exception of a merger between a wine co-operative and a co-operative supplying cereal farms, the only mergers completed have been between wine co-operatives.

This last statement is less trivial than it may seem if we consider the heterogeneity of the organizations sharing the co-operative status, whether they

Table 17.3 The determinants of a commitment to merger

The initial partner envisaged becomes the final partner	Geographical proximity influences the choice of partner	The final determinant
Yes: 6/7	Yes = 4/6	Co-operative members of the same commercial union
		Proximity of products: co-operatives making the same AOC
	No = 2/6	Better personal relations than with the nearest co-operative
		Co-operatives members of the same commercial union
No: 1/7	No	Initial partner chosen according to geographical proximity but merger not completed, choice of partner made because of long-standing relations

belong to the same sector or not. In this respect, the exception described above is instructive. Despite a common co-operative culture, the organizations, beyond the fact that they belong to different sectors, had neither the same structures nor the same internal working procedures, which certainly caused difficulties. Thus the merger triggered a cultural transformation since it implied moving from a "family way of working to one whose management methods are inappropriate to the way small wine co-operatives operate".

A contrario, belonging to the same sector strengthens the similarities but does not guarantee that the union between wine co-operatives "goes without saying". The numerous merger projects between wine co-operatives which never saw the light of day attest to this. Thus, belonging to the co-operative world, and moreover to the wine co-operative world, most probably facilitates mergers but it still remains that proximity of similarity does not suffice in predicting with certainty whether the merger will go ahead or not.

A priori, proximity of similarity is a necessary condition to begin the merger process. Nevertheless, the cases we studied show that it does not become a sufficient condition, once the risks of "unnatural" partnerships have been minimized. Indeed, the merger project only appears possible or worth consideration when the "cultural" gaps are narrow, which confirms the idea that across a merger, breaking free from spatial lock-in goes together with a loosening of cognitive obstacles too.

Consequently, many mergers are the result of a series of meetings enabling the parties to know each other better and a number of test appointments to "feel" whether there is affinity with the intended partner. It is the reason why mergers are not completed with the geographically closest potential partner as the geographical proximity does not compensate for cultural or organizational distance. Thus, we have frequently been told that "knowing one another", and for that, often "learning to know one another", is a vital pre-requisite for a merger approach. In the same way, "very different ways of working" are enough to break the desire to become partners and move to the final step: a merger.

Henceforth, procedures which lead to most of the mergers we studied are relatively heavy. With the exception of two cases (Table 17.4), the mergers were preceded by audits and the setting up of commissions to analyze the ways of working and the company's results. Each of these procedures brings together all the members of each organization, co-operative members and employees, which results in making the grouping mechanisms slower and more complex.

In our case, when the approach procedures did not take place, the reciprocal ignorance of the partners, and the absence of transparency which resulted

Table 17.4 Similarity, learning processes and success conditions for merger

Processes prior to merger	Success/ failure	A posteriori analysis of the difficulties encountered	A posteriori analysis of the conditions for success
Audits, commissions, organized working groups: 5/7	Success: 4	Difficulty to make those who are doing well—or who think they are—understand the benefits. Difficulty to convince the other party that no site will close. Fear of being put far from the center of decisions	Prior existence of common ways of working (e.g., commercial union). Do not join a structure which is too "ill". Do not pass a limit, in terms of volumes, beyond which the structure becomes too complex to manage. Generates strong communication tools
	Failure: 1	Problems financing the project. Departures of co-operators	Do not make alliances with partners too distant in their way of working
No audits, simple situation analysis: 2/7	Failure: 1	Poor reciprocal knowledge. Discovery once the merger was made of differences in working methods and of problems. Departures of co-operators	Carry out an audit. Get to know one another. Establish transparency regarding decisions and strategy. Have the same ways of doing things and of thinking about the product
	Success: 1	None	Approval from members necessary. Generate strong communication tools

from this, was analyzed a posteriori by the current managers as the essential reason for the failure to merge. For examples we studied, even when the organizations know each other well, analysis and thinking procedures were put in place to finalize the merger. Even when the thinking took place after the action, and where, we were told, "you must not think too much as you risk taking no action", several meetings were set up.

Common "ways of doing things", close working methods (such as work times and salary systems) and similar viewpoints on the product therefore appear as minimum guarantees to establishing confidence between the potential partners, activating learning processes with the goal of building the merger process.

These journeys are often described as being chaotic: between those which begin with the idea of a simple grouping and end up with a merger; those which begin with the idea of a partnership with the co-operative which seems the most natural fit, because the closest geographically, and which conclude with co-operatives that were not considered at the outset; those which develop from a heavy process and those which are completed without too much thought; and those which are carried out with a precise idea and others which are done a little by a non-choice; the journeys leading to a merger are diverse.

If the choice of partners appears guided by a combination of forms of geographical and similarity proximity, mergers are also the opportunity to rebuild a territorialized co-operative entity structured around the proximity of belonging.

17.3.2 The Merger, the Opportunity to Rebuild a Territorialized Co-operative Entity

The success of a merger requires going beyond prior learning, even if this is thorough. The proximity of belonging therefore comes into play to analyze the manner in which mergers favor the emergence of a new territorialized co-operative entity: they bring about a redefinition of the rules and the local compromises since from this belonging to a new entity, they reorganize the proximity between actors who were historically distinct.

17.3.2.1 Rendering the Co-operative Organization Viable Through a Rebuilding of Rules

By associating organizations which are often geographically near to each other and which are frequently similar, but nevertheless with specific company cultures, a merger provokes a redeployment of organizational resources. Merged co-operatives have to (and will have to) go as far as an organizational homogenization in order to meet the performance objectives assigned to the merger.

Resource redeployment involves rules which, at least in the short term, will ensure stability for the new structure: salary rules, quality management and so on (Table 17.5).

In the examples we studied, several scenarios are ongoing: adopting the rules of one of the partners, taking rules from each of the structures, redefining "as if starting from scratch"[14] rules which for some will be new and for others not. For some, that translates into a redefining of working methods: new salary rules, new quality framework, setting up a profit-sharing scheme for members, an incentive policy to take part in trade events, redefining employees' social status, creating an internal newsletter run by the employees

[14] Term borrowed by a person interviewed.

Table 17.5 Observable organizational changes post-merger

Production sites	Specialization of sites by function: 5/7 Specialization in terms of production: 1/7 Site closures: 2/7
Salary rules	Establishment of a new quality framework: 2/7 Establishment of a new rule via conciliation between the different preexisting ones: 2/7 Extension of a specific working rule from one co-operative to the partners: 2/7
Quality	Quality and traceability development: 3/7
Employees	Social status harmonization: 1 Redirecting employees' positions (movement from administrative to commercial): 2
Supervisory board	Imbalance in favor of the most important co-operators (% of volumes): 1/7
Miscellaneous	Member involvement in the commercial activity via payment for participation in trade events. Establishment of sales-based profit-sharing schemes. Establishment of a company social committee (Christmas party, internal newsletter, etc.)

and so on. For others, it was a question of taking what was good from each co-operative according to the principle that "not all is good in an organisation doing well and not everything is to be discarded from one doing badly".[15]

The solution, if it does not always seem easy to put in place, resides nevertheless in conciliating differentiated forms of company culture, with varying degrees of success and conflict. Moreover, this has led certain authors to say that "mergers form 'tests' which reveal sustainability criteria, because it is necessary to rebuild a collective project and the rules associated with it" (Chiffoleau et al. 2005).

In all cases, mergers translate into a necessity to rebuild around a new entity, securing a specific common adherence in order to establish a new territorial attachment.

17.3.2.2 Mergers Lead to a Rebuilding of Co-operative Territorial Legitimacy

Mergers between co-operatives translate into an extension of their territorial area. To a certain extent, this new spatial scale forces participants to redefine their territorial legitimacy. If this redefinition leads to a rethinking of certain co-operative governance rules, it does not put the co-operative pact into question.

[15] Expression borrowed by a person interviewed.

Firstly, in the co-operative framework, the changes inherent to a merger take place in a collective decision-making and action-taking context where respect for all the members' representativeness is expressed. Most probably, the latter is skewed by the influence of the key or dominant players, knowing that a leadership role is generally well accepted since it is seen as being dynamic. Respect for this principle implies (re) structuring the supervisory board which must be done in a way that is not seen as unfair, knowing that mergers, as highlighted in the first part, are carried out between organizations with different human and economic weights. In some of the cases we studied, the supervisory boards were at first seen as very unequal as regards the representative weight of each co-operative in the new structure. Most of the time, the flexibility granted during the formation of the supervisory boards led to compromises which in turn ensured the merger was adhered to.

Secondly, the reconfiguration involves structural reorganizations with an underlying issue of the future of the production sites. Their preservation may be questioned, notably when one of the co-operatives is in an unmanageable technical situation and/or their functional role in the new organization is put into doubt. Because of the size effects it seeks, a merger is often accompanied by the development of new functions (commercial or service functions) alongside those of the traditional wine co-operative. Henceforth, questions concerning the sharing and distribution of these functions must be tackled. In the context of a merger, there is a great risk that certain production sites will take "power" over the others, not so much in terms of the preservation or disappearance of sites as in the concentration of functions. Indeed, we can suppose that distances can be an obstacle to the closure of sites as they will engender extra costs in transport, for example, or in capital assets which are inherent to the lack of appreciation of the investments undertaken. However, this argument is modulated according to the spatial distances separating the two partners and according to the type of strategy favored by the new structure. For the moment, the mergers carried out have only led to a small number of closed production sites in Aquitaine.

On the other hand, a merger can translate into a concentration of strategic functions in one site or in just a few. This question is fundamental to the place of each co-operative in the merged organization and to the distribution of functions between each site. Thus, in the cases we studied, we find particularly strong attention given to the distribution of functions over the sites. Some mergers have led to a specialization of sites, whether it be by product (each site specializing in the production of a particular AOC wine) or by function (a site specializing in production while another focuses on sales and administration).

Other mergers have not modified their initial structural organization. Still others in longer-established mergers have ended up abandoning production sites.

Thirdly and finally, reconfiguring resources involves relationships with members. What happens to these members in the new organization? Ruffio et al. (2001) identify two types of organization. A first type is based upon a plan where the member is seen as means to achieve a certain level of economic efficiency, provoking a change in the nature of the link with the member. On the contrary, a second type builds on a strengthening of the co-operative's interface role between the co-operator and the market. "In this model, the co-operative … is at the centre of a network built on a double organisation, relational (with the member) and economic, whose relations with the territory are different. The first level maintains the local level while the second operates in a larger territorial context (regional or inter-regional)."

While it is difficult to classify the mergers observed into one of the two models, especially because the groupings are recent, the second form seems to prevail. However it is established in different ways. For some, the distribution of functions or at least the internal reorganization of the structure is done with the will not to lose links with the co-operators. In others, the reorganization induced by the merger was not seen by the co-operators as a way to cement relations between them and the structure and this led to co-operators leaving. For still others, the question of the link with the co-operator was not addressed in this way, either because the structure that was built did not fundamentally change the link with the co-operator or because the link was considered above all in terms of a capacity to pay the members better and that henceforth, the efficiency of the structure (whose effectiveness cannot be predicted in advance) is the essential condition in the preservation of the link. Henceforth, the departure of members following a merger does not seem to result from a deliberate choice on the organization's part and therefore do not fall under logic of exclusion.

17.4 Conclusion

Thus, contrary to an image which is too widespread, mergers of wine co-operatives are far from signing a death warrant to co-operative territorial attachment. If this attachment turns out to be a constraint, it nevertheless remains a significant and positive element in co-operative strategy. Admittedly, this significance can be altered according to the vineyards studied. Thus, when the co-operative has a near monopoly of the AOC, which is the case of a few co-operatives in Aquitaine, the strategy of loosening the ties can lead to their elimination, all the more so as it is easier to carry out in the absence of "close", competitors in all the senses of the term. A contrario, mergers with companies which are better equipped from a commercial point of view but further away in terms of organized proximity can, once a learning process has been successfully completed, lead to a strengthening of the territorial attachment.

All these elements lead us to qualify the restrictive dimension of the attachment, with our analysis showing that via mergers, co-operatives rebuild their links to the *terroir* through an effective expression of the co-operative interest with those of their members. The analysis of the merger processes in terms of geographical and organized proximity allows us to appreciate the permissive character of geographical and similarity proximities insofar as the proximity of belonging alone can release the spatial, cognitive and organizational lock-ins which threaten the sustainability of the co-operative structure. This confirms the idea that, to a certain extent, the proximity of belonging dominates the other forms of proximity with which it combines in the merger process.

The "right merger", enabling co-operatives to increase their influence and position themselves in a better way cannot, for all that, free co-operatives from ongoing issues of territory (maintaining small-sized farms or balancing power with *négociants*) and trade (competitive positioning of the whole sector in Aquitaine). If merging with close players solves certain problems, the question of the limit of these strategies remains. Will the predictable strengthening of the globalization movement in the wine sector force co-operatives to envisage alliances with players further away if their strategies move closer and closer toward the world market? Therefore, in a context of increased concentration in the wine sector, the question regarding the direction of change for these co-operative organizations remains open.

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