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La sfida tra il vecchio e il nuovo mondo nel mercato globale del vino: Catch up graduale dei paesi emergenti e leadership duratura dei vecchi produttori

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Motivation

- The wine industry is an extremely interesting case from a catch up point of view because following a **path-creating strategy**, the **latecomers** (California, Australia but also South Africa, Chile and Argentina) have changed **how wine is produced, sold and consumed** and, in so doing, they have challenged the positions of incumbents (France, Italy, Spain), who, instead of disappearing, have reacted and creatively adapted to the new emerging path;
- It offers interesting implications:
 - about the **role played by emerging and developing countries vs. advanced countries**;
 - about the role of **innovation in “non high tech” sectors**, such as the agro-industry.

The standard catch up cycle (Abramovitz, 1986)

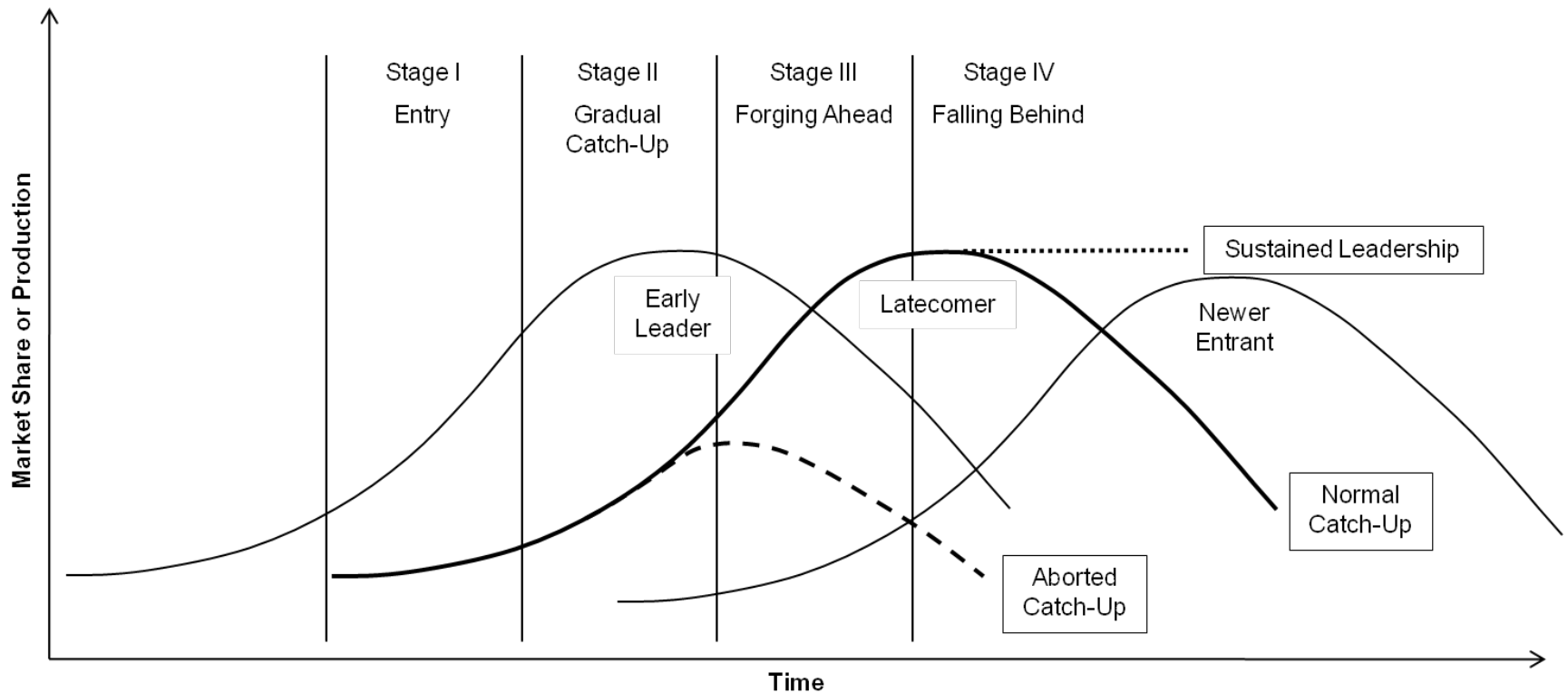
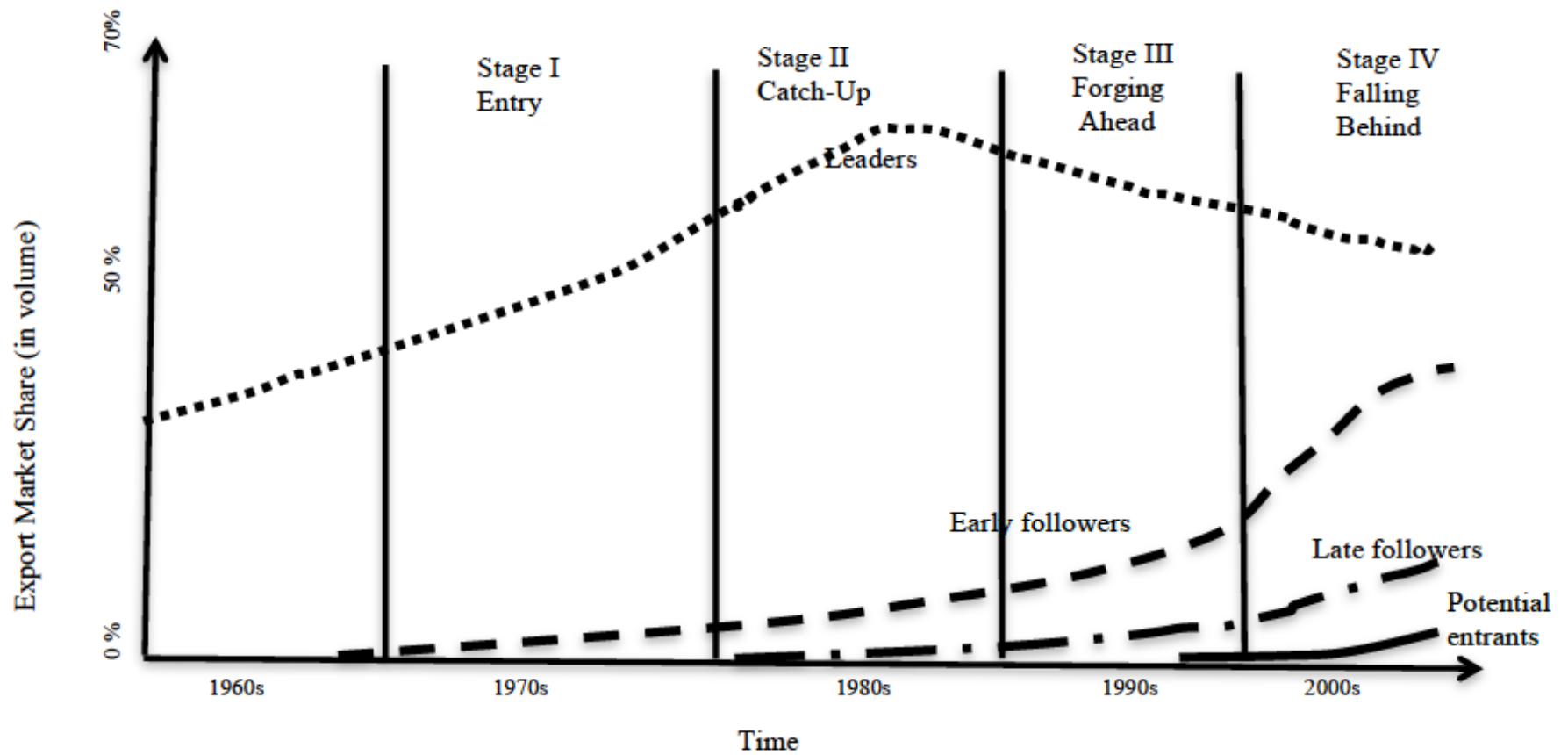
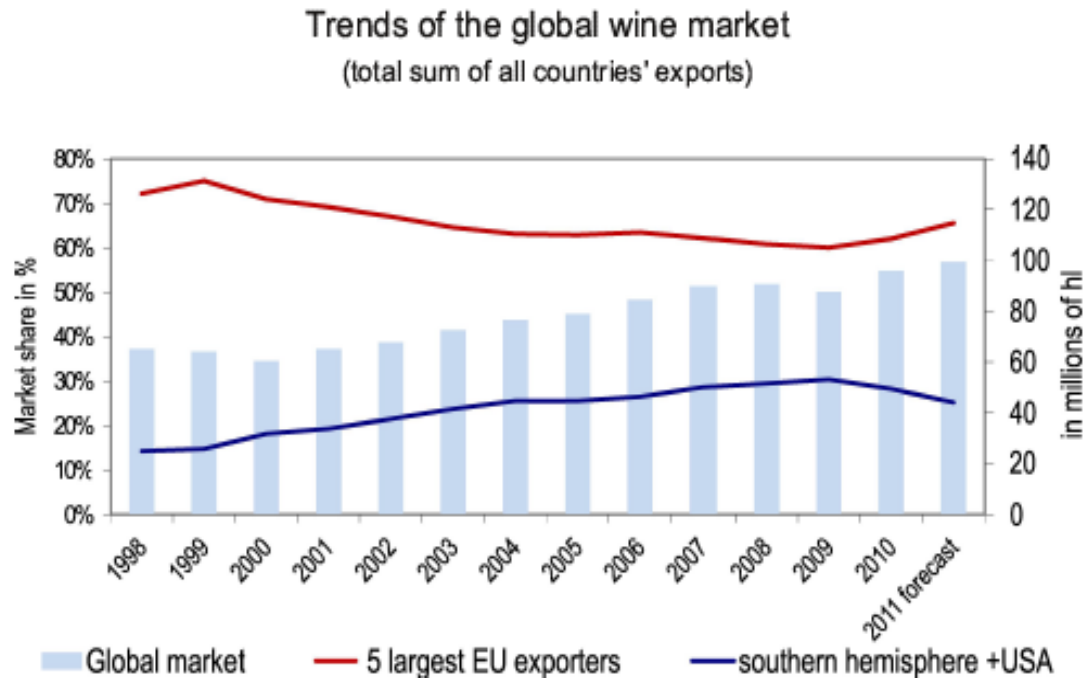


Figure 1 Catch-up Cycles in the World Wine Industry



Stage # 1 – The rise of the early followers



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
5 largest EU exporters	72,2%	75,0%	70,9%	69,1%	67,0%	64,5%	63,1%	62,9%	63,4%	62,2%	60,8%	60,1%	62,0%	65,5%
Southern Hemisphere + USA	14,2%	14,7%	18,2%	19,3%	21,5%	23,7%	25,6%	25,6%	26,4%	28,6%	29,4%	30,3%	28,2%	25,2%
Global market (Mhl)	65,0	64,0	60,3	65,1	67,8	72,4	76,6	78,9	84,5	89,8	90,7	87,5	95,9	99,4

The window of opportunity: changes in the market

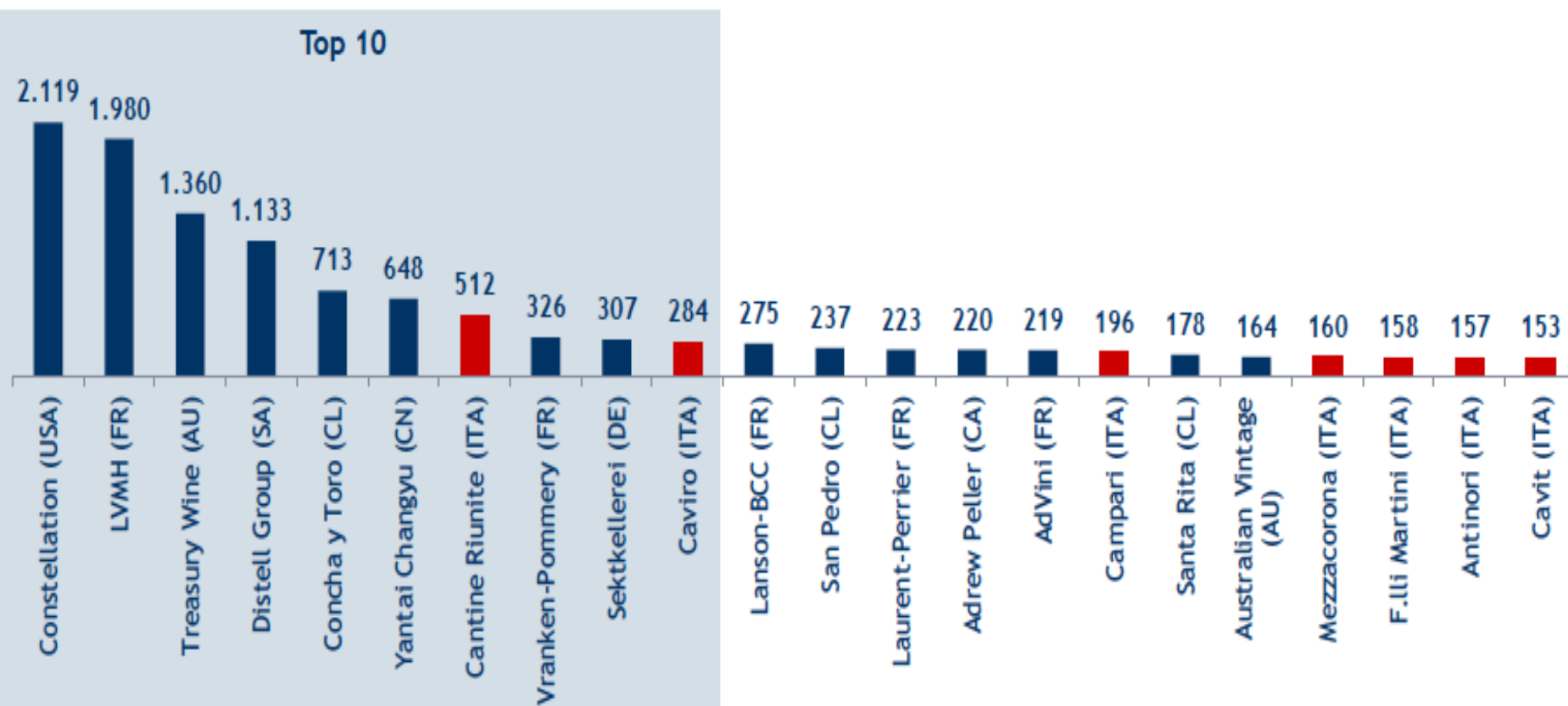
- Wine from staple food in traditional producing countries (OW) to beverage for special occasions also diffusing in new markets:
 - Steady decline of domestic wine consumption in traditional producing countries (i.e. France from 124 lt in 1961 to 39 lt in 2009; Italy from 108 to 43);
 - Steady increase in non-producing countries demand (e.g. UK, Scandinavian countries, the Netherlands): consumers with no prior experience in wine consumption and no knowledge and attachment to European appellations;
- Increased importance of supermarkets and large-scale distribution: supermarkets require large volumes of good quality, easy to drink, affordable international variety of wines such as Sauvignon, Cabernet, Chardonnay.

A new market-driven innovative approach to wine production

- NW countries have been rapid to adapt to the new market requirements in terms of quality consistency, large scale production, easy to drink wines based on:
 - ① **Modernization of production processes:** introduction of new techniques for mechanical pruning and harvesting suitable for adoption in large estates with large investments to improve viticulture and oenological techniques;
 - ② **Domestic scientific and technological capability** aligned with market objectives and adapted to the different domestic contexts (e.g. soil and climate characteristics);
 - ③ **Openness to foreign knowledge and technology** and **I-U linkages** (bridging researchers and flying wine makers);
 - ④ **Institutions** supporting the industry (market-oriented R&D institutions);
 - ⑤ **Industry consolidation:** national and transnational mergers, intensification of acquisitions and strategic alliances (Top wine companies in the world market: 1st USA, 2nd France, 3rd Australia, 4th SA, 5th China, 6th Chile).

Top wine companies in the world market: 1st USA, 2nd France, 3rd Australia, 4th SA, 5th China, 6th Chile

Rank vendite 2012 dei top-20 seller mondiali, solo quotate estere in € mln. (in alto) e peso % del primo produttore sulla produzione nazionale (in basso)



Stage # 2- The new window of opportunity: the increasing attention to *terroir*

- The consumers are becoming more sophisticated and educated and seek for **differentiated products** that possess high intrinsic quality, but also specific intangible features, such as history and authenticity;
- The *terroir*, or the concept that a single plot of land is endowed with an exclusive combination of characteristics that produce wine of a unique quality and character assumes increasing importance in driving consumers' behaviour;
- This represents an advantage for incumbents, which have experienced a growth in the unit value of their exports, while the **NW**, apart from New Zealand and Argentina, hardly have any change;
- Italy and Spain have increased their sales in the **top market segment** (bottled and sparkling wines).

Stage # 2- The modernization of the incumbents

- In OW, idiosyncratic behaviours have been replaced by an increased attention to market requirements both in terms of quality and price;
- Innovation in grape production (e.g. precision viticulture methods to reduce the use of chemicals; infrared technologies to optimise canopy management procedures and give uniformity and consistency to grapes) and in cellars (e.g. steel tanks, electric grape sorter, cooler machines);
- More attention to marketing and branding;
- A market driven approach, coupled with a strong differentiation of brands and products, which claim their authenticity due to a centennial history of winemaking, have proved to be a successful strategy in OW producers.

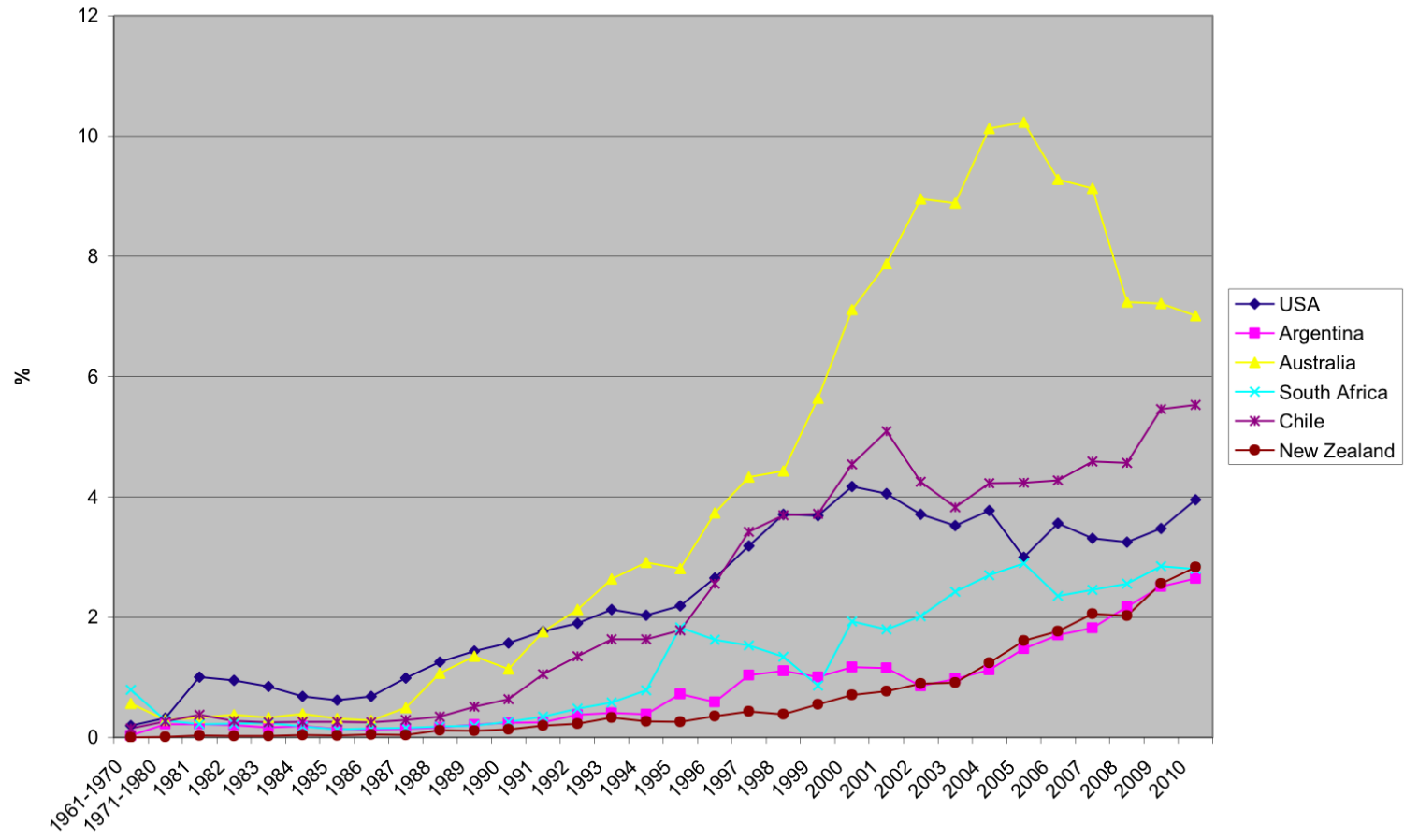
Stage # 2 – The changes in the EU regulatory environment: from ex post to ex ante interventions

- In the EU, the wine sector has been historically strongly regulated:
 - This has oriented experimentation and diversification to respect severe codes in winemaking and planting;
 - The system has helped to convey the idea to consumers that quality is tied to the geographical origin (high prices of appellation wines, in particular in the highest segments of the markets: e.g. *Brunello*);
- In 2008 with a major reform drawn by the idea that consumers have to decide what quality is, policy interventions have shifted from market interventions (to absorb excess production) towards ex ante proactive measures to support (hard and soft) investments to boost competitiveness.

Stage # 2 - The NW dynamics: the slow down of Australia and the surge of New Zealand (and Argentina)

- **Australia** is suffering because of:
 - Exchange rate appreciation;
 - Locked in a model of production based on centralised R&D, rather standardised and homogeneous wines and large firms;
- **New Zealand and Argentina** came to the fore as the fastest growing exporters and in some markets (i.e. USA) they have been able to challenging the position of some established OW and NW producers such as Spain and Chile:
 - The strategy of both countries has been to target the upper segment of the market;
 - New Zealand production is almost completely in the premium and super premium categories. New Zealand is ranked third in the category of top exporters of super-premium still wines with 7% of the world total market, ahead of Australia and Spain with only 3%.

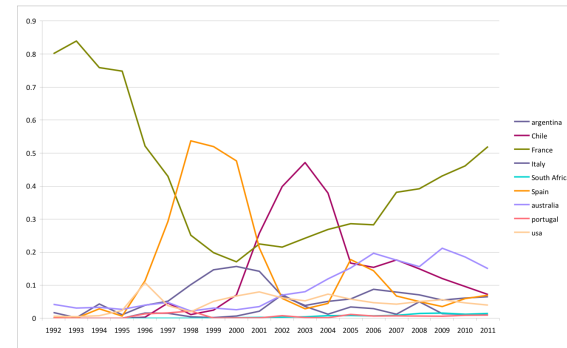
The dynamics of the catch up among NW exporters (export market shares US\$)



Stage #3 (?) - The new Asian potential entrants

- Asian markets are the new frontier for both OW and NW wine producers;
- China might become also a main competitor in wine production;
- Yantai Changyu Pioneer Wine has suddenly climbed up to the 5th position among the largest wine companies in the world;
- Several Chinese acquisitions of French *châteaux* as well as investments in US and Australian wine companies;
- **Will the global wine industry shift its barycentre towards the East?**

Figure 6 Exporting countries to the Chinese wine market (% share, value)



Source: Comtrade

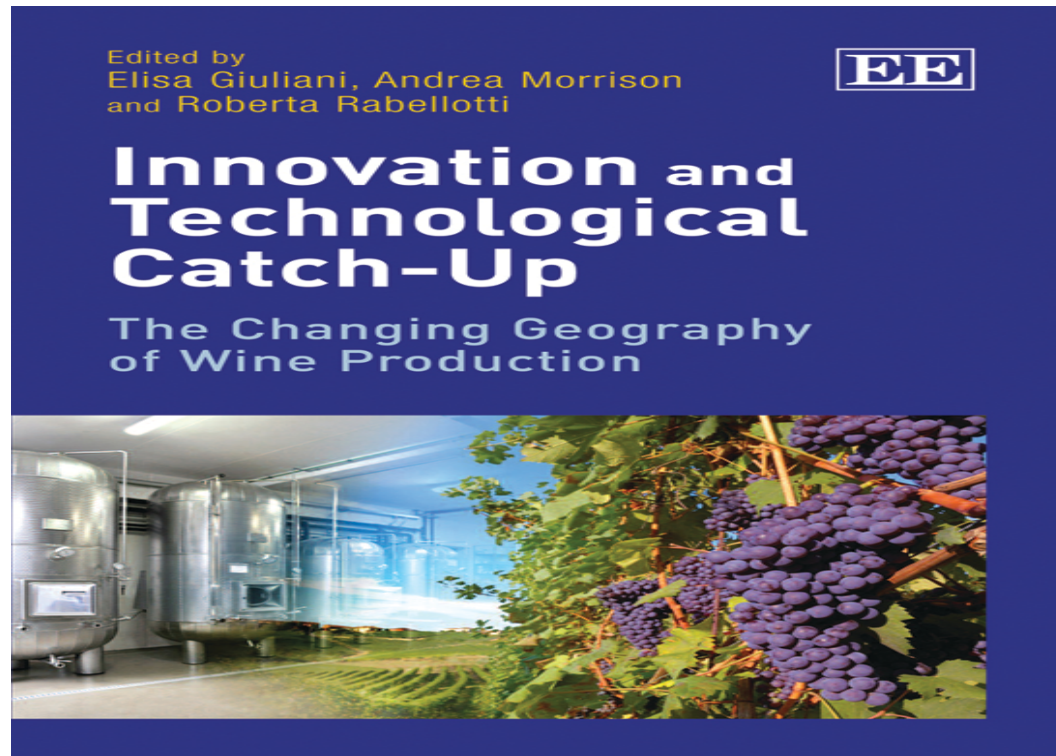
Why is catch up different in the wine industry (and in the agro industry in general)?

- Agriculture reacts more slowly to changes than manufacture due to **geographical, socio-cultural and institutional factors**:
 - **Geographical factors** such as climate, land, soil are fixed or can hardly change in short term (unless a major crisis occurs). **A new vineyard takes 20 years to become productive**;
 - **Socio-cultural factors** such as history, culture, family traditions, diet habits also change slowly. In European countries wine production is strongly rooted in ancient local traditions;
 - **Institutional factors**: wine production (and in general agriculture) has been heavily subsidized in the EU. Since the inception of the European Common Market in 1957, top wine producing countries such as France, Italy and Spain have taken advantage of subsidies and incentives to domestic producers as well as of internal market protection.

What may EXPO 2015 learn from the wine catch up cycle?

- ① The wine catch up story is well representative of the undergoing process of *de-commodification in primary commodities*: from standardized staples into high-quality, diversified, *cultural commodities*, characterized by raising barriers of entry, high knowledge intensity and technological dynamism, increasing value added content and high export price per unit;
- ② Developing countries catch up with the incumbents via a *path-creating strategy* based on *innovation in products and processes* and on the *adoption of a conducive institutional set up* rather than on cost advantages;
- ③ A *reevaluation of terroir*, intended as the sum of the effects that the local environment has on the production of some products;
- ④ The adoption of the concept of *terroir* to many different agricultural products such as coffee, chocolate, tomatoes, tea, etc.;
- ⑤ The diffusion of more sustainable techniques in agro production (e.g. precision viticulture);
- ⑥ A general diffused consciousness that *culture, territory, agriculture and sustainable development can induce economic growth*.

THANK YOU



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