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# Catch Up in the Wine Industry: The Rise of the New World and the Revenge of the Old Guys

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*Port of Spain – 9th October 2014*

## **The global wine industry until the 1980s**

- As a result of centuries of tradition, until the end of 1980s, the main European producers - France, Italy, with Spain, Germany and Portugal - dominated the wine industry both as producers and consumers;
- Two events have originated big changes in the global industry:
  - the Judgement of Paris when a Californian wine won for the first time an international prize;
  - The UK licence reform allowing supermarkets to sell wine.

# A short story of catch up in the global wine industry

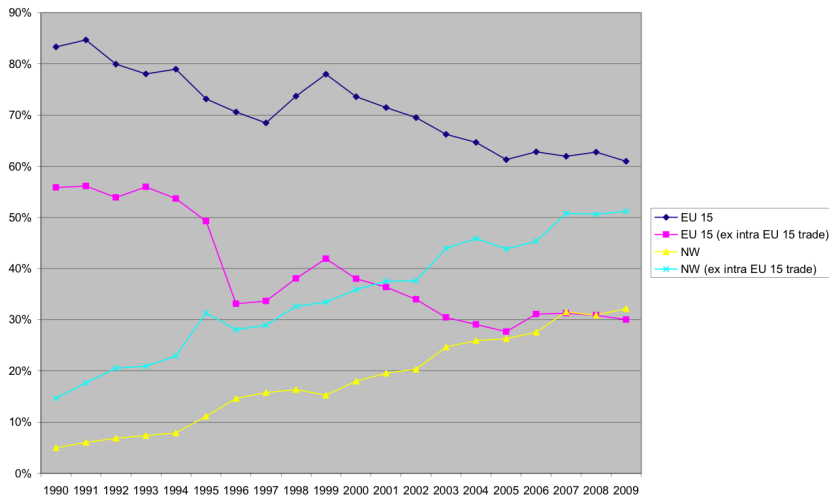
- **Stage # 1** – From 1995: The rise of NW leaders;
- **Stage # 2** - From 2005: The Old World regaining momentum and some dynamics among the NW;
- **Stage # 3 (?)** – From 2010: The new emerging Asian markets: a new stage of the catch up cycle?

## Stage # 1 - The window of opportunity in the market

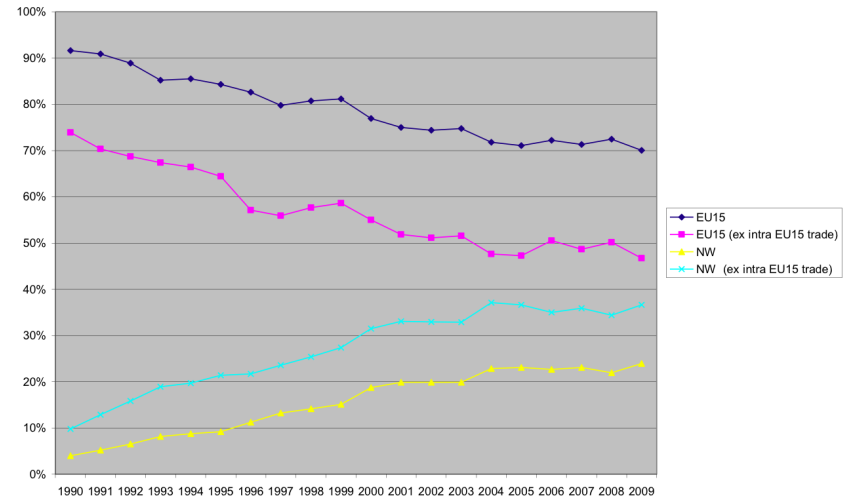
- Wine **from staple food** in traditional producing countries (OW) **to beverage for special occasions** also diffusing in new markets:
  - **Steady decline of domestic wine consumption in traditional producing countries** (i.e. France from 124 lt in 1961 to 39 lt in 2009; Italy from 108 to 43);
  - **Steady increase in demand from non-producing countries** (e.g. UK, Scandinavian countries, the Netherlands): consumers with no prior experience 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.

# Stage # 1 – The rise of the NW

## Exports in volume



## Exports in value



## Stage # 1 – The new market-driven wines

- NW countries have been rapid to adapt to the new market requirements in terms of quality consistency, large scale production, easy to drink wines through a strategy based on:
  - ① Modernization of production processes;
  - ② Increasing importance of science;
  - ③ Openness to foreign knowledge and technology (the flying wine makers);
  - ④ Industry consolidation (national and transnational mergers, acquisitions).

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

- 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;
- OW countries have experienced a growth in the unit value of their exports, while the **NW**, apart from New Zealand and Argentina, hardly had 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 mix for OW producers.



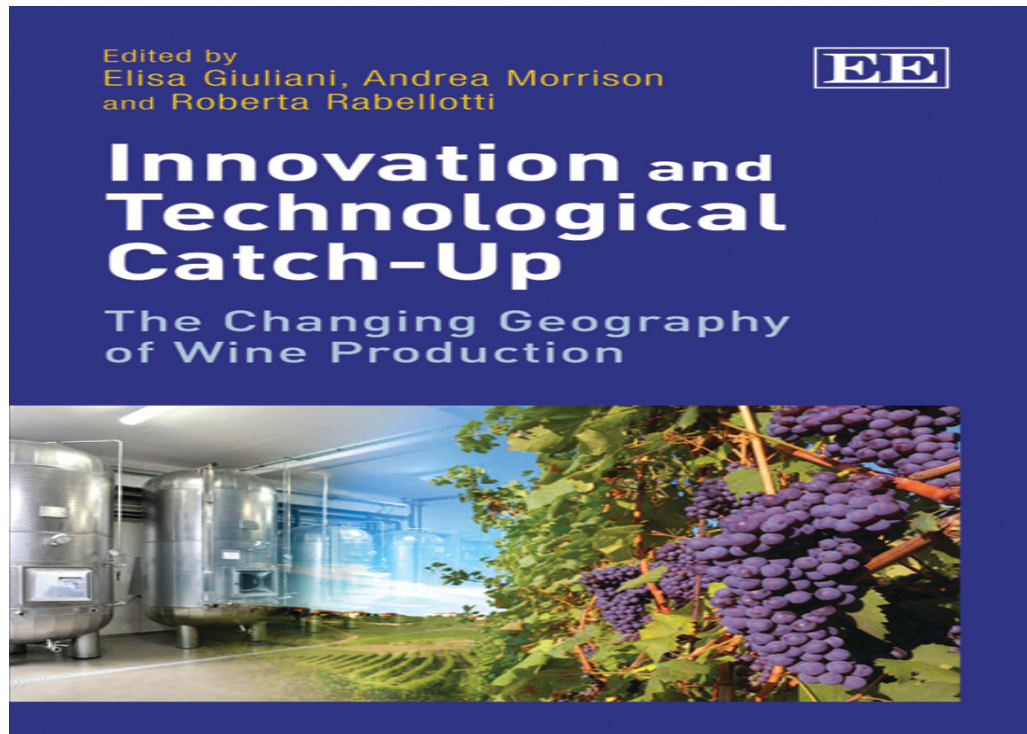
## Stage #3 (?) - The new emerging Asian markets

- 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 5<sup>th</sup> 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?**

## The wine catch up cycle: summing up

- The catch up process is **slow** and **incomplete**:
  - ① Latecomers are catching up with the leaders 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 costs;
  - ② The **incumbents** have initially lost some market shares but instead of disappearing, they **have been able to retain their leadership** by adapting to the new path created;
  - ③ Recently there are **new latecomers** entering into the global market.

# THANK YOU



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## 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 of the wine (high prices of appellation wines, in particular in the highest segments of the markets: e.g. *Champagne*, whose price is much higher than other sparkling wines, even those from very close vineyards);
- In 2008 with a major reform drawn by the idea that consumers have to decide what quality is, policy interventions have shifted from ex post interventions (to absorb excess production) towards ex ante incentives to investments (hard and soft) promotion and marketing.