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Winning strategies in the wine industry

Growth opportunities in a competitive market



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Introduction

Increasing competition requires new models

The wine industry is facing one of its greatest challenges in recent times. This challenge has been brought about by a structural and long-term oversupply that has caused falling prices and margins all round the globe. In addition, the market pressure is translating into shifts in competitiveness; some countries and companies are losing ground, whereas others are achieving remarkable growth. Yet even in markets characterised by oversupply companies can realise profitable growth if they can offer innovative concepts that stand out from the crowd and can catch the eye or taste buds of the consumer.

New World concept reaches top of its life cycle?

The growth and subsequent success of New World wine companies was based on new, more accessible styles of wine, as well as the development of consistent brands, in particular in the (popular) premium quality segment. These products met the needs of the major retailers and the consumers in export markets, allowing New World suppliers to increase global market share at the expense of traditional European Union (EU) wine companies. Nevertheless, some of these markets are now showing signs of saturation. In 2005, Australian export volumes to the United Kingdom (UK) increased by just a meagre 1.6%, while average price cuts of 4.4% were sustained, thus resulting in a drop in export value of 2.9%. The very successful approach of the 1990s seems to have reached its peak and further growth of market share should be based on new concepts. We will discuss the changes in competitiveness of the different countries in a separate report later this year.

Growth opportunities with innovators

Research in the United States (U.S.) has shown that new brands can offer incredible growth opportunities. Notwithstanding that the U.S. consumer has the highest brand awareness and loyalty in the global wine industry, many traditional wine brands appear to have their limitations in terms of growth. We consider the wine industry as part of the pleasure and lifestyle industry for consumers, who are constantly on the lookout for new, but safe, adventures. Innovation is therefore key, in particular in the (popular) premium segment.

Winning strategies: no clear-cut answer...

This report will show that there is no such thing as a one-size-fits-all model for the wine industry. The wines, the distribution and consumer demand are much too complex for that. Moreover, the various quality segments and their related price points have different requirements and offer different opportunities and limitations.

... but innovative examples offer food for thought

Some wine companies have embarked on strategies that allow for successful growth. This report analyses trends in the different quality segments, as well as some examples of companies and concepts that have made a difference in these segments. The cases discuss companies – based on public information only – all of which have the objective of strengthening distribution power; most deal with

innovation, a few act as consolidators. The winning strategy of these companies has led to higher margins and/or higher volumes, often replacing the wines of competitors. Marketing is still young in this old industry, but is gradually making inroads!

Sourcing strategies: grape supply

In addition to the market-driven cases discussed in this report, wine companies execute other strategies, allowing them to outperform in a crowded market. Important strategies are related to sourcing; owning own vineyards or buying grapes or bulk wine. In Australia and the U.S. in particular, wine companies follow the cycle of the wine market and adjust their supply contracts accordingly. They need to be short in grape supply when prices are falling and long when prices increase. When prices for grapes are falling, wine companies tend to reduce their long-term contracts, and then become short in supply, as they may well be able to buy grapes or bulk wine on the spot market at much lower prices. Wine companies which are long (i.e. they have a long-term commitment with fixed prices) when prices are falling experience margin squeeze and a loss of competitiveness.

Special attention for U.S., UK and Germany

The report pays special attention to the U.S., the UK and Germany, as these are the major import markets for wine, where the international competition is clearly visible. Moreover, these markets show clear differences and a strategy which seems to work in the U.S. is likely to fail in Germany. Understanding of these markets is, therefore, a prerequisite.

This study has been published in line with Rabobank's long-term commitment to the international food and agribusiness. It is one of a series of publications undertaken by the global department of Food & Agribusiness Research and Advisory.