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Wine Management and Marketing

Opportunities for Companies and Challenges for the Industry

Edited by
Foued Cheriet, Carole Maurel
Paul Amadieu and Hervé Hannin

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Foreword

Why is there continued interest in the marketing and management of wine and of businesses in the wine sector?

Montpellier SupAgro and its partners have long been tasked with developing and promoting training and research facilities in the field of Viticulture and Wine. They have managed this by drawing on the exceptional potential of the University of Montpellier and its associated research units, and by mobilizing the most recent scientific and technical knowledge.

It was not until the 1970s and 1980s, however, that the first recruitments were made of teacher-researchers in “Management Sciences” allowed the scope to be extended, to include issues relating to *Management of Companies and Stakeholders in the Sector*. In France, these stakeholders are numerous, including diverse and often disjointed “operational” actors: winegrowers, cooperative cellars and commercial intermediaries (brokers, agents, traders). But there are also a host of “functional” actors, who have probably – since the disappearance of many farms over the past few decades – become more numerous than the above-mentioned, and largely in the public sector or the equivalent (chambers, committees, institutes, trade unions, etc.). In this environment, operational actors are reluctant to pay private companies for advice (whether it is agricultural, enological or managerial) because, surrounded by functional actors whom they do not pay directly, they wrongly forget that the administration, control and “recommendations” of the public authorities are not free of charge for the sector.

It is in this complicated context that a small “wine” research collective was created, at first informally at Montpellier, bringing together teacher-researchers in Management Sciences and a few economists, not systematically seeking to “theorize” to publish in high quality journals, but trying to promote applied and pragmatic research that may lead to a professional qualification. In other words, a group committed to the issues faced by the wine community and their real concerns. It was a challenge, given the passion of winegrowers and producers, or cooperatives and merchants, for improving their products, but their all too frequent lack of interest when it comes to better management or better sales.

There is obviously nothing to criticize in the efforts made by the sector to constantly improve the reliability and quality of its wines. However, perhaps with globalization, winegrowers and merchants have gradually realized that the “quality” of wine is no longer the central issue because today, knowledge of how to make “healthy” and “marketable” wines is everywhere! Competition has therefore shifted to other aspects: what counts, in a market that has already been global for several decades, is to sell your wine, at as high a price as possible while taking into account sustainable pricing. Having good products and attractive production units is no longer enough to earn a decent living from viticulture, particularly in Occitania, as the widespread grubbing-up at the end of the last millennium showed. As the editorial team put it with the first of the Bacchus books[1] (then with the book *La vigne et le vin*, published by La documentation Française (2010)), what will make the difference now is the ability of companies to understand markets and competition, to invest in brand or appellation marketing, to strengthen their financial structure, etc.; in short, to reassess and improve their strategy and management.

It is clear that things change when decision-makers place greater emphasis on the work and thinking that explores these marketing, organizational, managerial and financial dimensions of competitiveness in the wine sector. As researchers, we have observed, more often than in the past, careful attention being paid to the recommendations that we have sometimes allowed ourselves to make to those involved in the sector.

This research group around Montpellier SupAgro, undoubtedly thanks to its proximity to the field, has thus been able to obtain significant private and public funding; particularly from national or regional collective bodies, despite the reluctance of actors to invest in intangible investments in general and those devoted to “marketing” specifically. These investments feed into new work on market analysis and organization, corporate performance or strategy. They have thus ensured the sustainability of this collective of researchers, until now… where the “younger colleagues” have brilliantly taken up the torch and offer here a new reference book on good marketing–management practices in the sector. We wish them all the best; they deserve it for their talent and hard work.

The challenge of this research is of course to provide a little more rationality, through concrete results of surveys or applied research, in order to enrich the often-esoteric debates of the profession. Their ambition is to consider possible futures, without prejudice, and, essentially, to continue to get to know each other better in this field. This too, is the purpose of the work presented in this book.

Jean-Pierre COUDERC
Previously part of Groupe Vin, enjoying his peaceful retirement when his young colleagues asked him to take over the keyboard.

Note

1 Three reference books: "*Bacchus*" 2005, 2006 and 2008 published by Dunod.

Introduction
Specificities and Challenges

I.1. Characteristics of the French wine sector: framework data and challenges

I.1.1. *Why this book?*

Wine is a particular product in many respects; the particularities attached to it – some of which are more intrinsic, others more constructed – shed light on the basis of certain constraints or opportunities that have emerged in the management of wines on the markets, which are themselves rapidly developing. This sectoral specificity deserves to be considered in all its dimensions and questioned in its historical roots.

A cultural product, of pleasure and even more leisure than food, a product whose traditional character has long masked the capacity for innovation, a product that is highly regulated and frequently supported by public policies, a product that has often attached its value to an image, sometimes a mythology, an anchor in often specific regions, and a product which has experienced an original form of globalization that is both overdue and rapidly growing. We could continue to list equally original characteristics of wine within the world of beverages and agri-food, to the point that it has remained an "agricultural" product from the point of view of European regulations.

Such original characteristics undoubtedly stem from a particular market dynamic, the behavior of actors and organizational patterns that must be understood if we want to consider favorable prospects, and support them in a context of rapid change and new challenges[1].

I.1.2. *Wine in France: key figures and global trends*[2]

In France, wine is an integral part of the country's agricultural, food and cultural history and identity. The accumulated know-how and image of French products have made France one of the most emblematic "wine countries". In 2018, France had about 786,000 hectares of vines, with a production of approximately 46.4 million hectoliters (Mhl)[3]. Thus, France is the second largest producer in the world by volume, behind Italy. French production represents 16.5% of world production. In terms of surface area, one out of every 10 hectares of vines in the world is located in France.

France mainly produces still wines (3/4), in red (55%), white (26%) and rosé (19%) varieties. The wine sector is the top agricultural sector in terms of the value created. It employs nearly 558,000 people, including 142,000 winegrowers – of whom approximately 84,000 are members of one of the 690 French cooperative cellars – 300,000 direct jobs, 38,000 merchants, 3,000 sommeliers, 10,000 wine merchants and 15,000 employees in the wine departments of the supermarket distribution sector (France Agrimer 2018). Nearly 18 Mhl are produced on 330,000 hectares in France, as part of the cooperative system (cooperatives, SICA[4] and Unions) (Coop de France 2018).

In terms of consumption, two-thirds of national production is consumed in France. 85% of French households (23 million households) consume wine at home (Kantar World Panel 2017). However, this is a downward trend, with a current average of 43 liters/person/year, compared to 120 liters in the 1960s. 16% of French people are regular consumers (once or twice a week) whilst 55% are occasional consumers (France Agrimer 2015). In terms of distribution channels, 5 out of 10 bottles are bought in supermarkets, 3 in cafés, hotels and restaurants, and the remaining two are either sold directly or through a wine merchant. Almost all coffee shops and restaurants in France (96%) offer wines by the glass (nine items on average for an average price of 4 euros per glass).

Wine in France is also a patchwork of terroirs (grape varieties, soils, microclimates, cultural practices), appellations and winegrowing landscapes. Nearly 10 million wine tourists (42% of whom are from abroad) visit the 10,000 French wine tourism cellars or the 31 museums dedicated to wine in France. 67 wine tourism destinations have been awarded the “Vignobles et Découvertes” label (Atout France 2016).

I.1.3. *France, a major player in the international wine trade*

Internationally, France is a large winegrowing country, which is part of a small group of countries, characterized by both high production volumes/values and international trade; some countries are characterized more by high levels of consumption and low production (e.g. England or Germany); others are in the opposite situation: high production and low domestic consumption (e.g. Chile). The group of countries with high production and consumption includes the other major traditional players (Italy, Spain) as opposed to two other groups (the new winegrowing countries: Australia, Argentina, Chile, South Africa, etc.), and the emerging winegrowing countries such as China, Japan and Turkey.

The French model, characteristic of traditional winegrowing countries, differs from that of the new countries in several respects: strong territorial anchoring and connection to the terroir[5], numerous appellations and wide ranges of products and prices, low share of "marketed" wines or major brands. In short, this model is traditionally based on a form of marketing, sometimes (incorrectly) referred to as "product marketing", while the more aggressive model at work in the "new" countries would focus on anticipating demand and continuously adapting products.

In value terms, France is the world's largest exporter of wine, ahead of Italy and Spain, with 29% of the total value. Wine is thus a strategic product for French exports. Wines and spirits represent the second largest surplus in France's trade balance (behind aeronautics and ahead of cosmetics) and the largest in the French agri-food industry. In 2018, France exported nearly 14.9 Mhl for nearly 8.9 billion euros (the equivalent of more than 100 Airbus aircraft). However, this observation masks major disparities between champagne, *grand cru* and other cognacs that are highly valued on the export market, and less well-known wines whose prices remain modest on the international market (approximately €3 per liter on average).

French exports are mainly (almost 60%) destined for European countries, led by Germany and the United Kingdom. Nevertheless, the main destination for French wines remains the USA (16% of the total value exported, mainly in bottles). China is the fourth most common destination (7% of the value) with a recovery in export volumes since 2013. Even in decline, the French domestic market represents the main outlet for French production (60% of the volume). In 2018, 3.5 billion French bottles (out of the 4.8 billion produced) were consumed in France. With nearly 27 Mhl, France has long dominated the ranking of countries, in terms of wine consumption (domestic market). Since 2011, with a downward trend in the volume of wine consumed in France, the USA has been in first place, with 31 Mhl. Finally, France also imports wine, particularly in bulk from Europe (Spain). In 2018, French imports reached nearly 7.5 Mhl. Most of them are Spanish wines (73%), in bulk, intended for blends, resold and often re-exported as wines without GIs[6], branded wines, base wines for sparkling wines or the production of brandies.

I.1.4. *French specificities: organization of the sector and regulatory framework*

More than an agricultural product, wine is an ancestral tradition, a mythological product and an ambassador for France's gastronomic excellence abroad. Viticulture takes place in 66 of France's 96 departments (excluding the French overseas departments and territories). While vines represent only 3% of agricultural land, wines and spirits represent 15% of the value of French agricultural production (12.5 billion euros in 2018). Big name appellations/products or grape varieties are associated with French wines (Bordeaux, Burgundy, Champagne, Cognac). The French wine sector involves many institutions and organizations (Smith *et al.* 2007). 15,000 jobs are recorded in research, inter-professional organizations, trade unions, chambers of agriculture, etc.

Two specificities of the sector in France can be mentioned:

– First, the classification of French wines follows the system of appellations. There are 368 registered designations of origin (protected under the European Union, AOC/AOP) and 74 protected geographical indications (PGIs) (INAO, 2016). Almost half (47%) the volume of production is composed of AOC, 28% of PGI and only 8% are without geographical indications (GIs). These appellations refer to distinct terroirs that make up the specific characteristics of French winegrowing regions.

These appellations also refer to strict specifications in terms of quality, grape variety and cultivation practices, controlled by the *Institut National de l'Origine et de la Qualité* (INAO).

– The second specificity is related to regulatory aspects. Since 1991, wine communication, promotion and distribution have been controlled under the *loi Évin*, which aims to prevent alcohol consumption among young people. Thus, the media, content of messages and promotional strategies follow strict rules (no television advertising, no direct encouragement to consume, etc.). Amended several times, this law remains a rather restrictive legal framework, according to wine companies of other countries who wish to market their products in France.

I.1.5. *What are the prospects for French wines in the world?*

In terms of volume, between 2000 and 2016, France's share of the international market fell from 25% to 14% (while Spain's increased from 15% to 24% during the same period). In terms of value, the decrease of market share was less significant (from 40% to 30%, while Italy managed to stabilize at approximately 20%).

A recent analysis of the competitiveness factors of the wine sectors of about 10 countries (France Agrimer 2016) puts France in the top three (with Italy and Chile). The analysis highlights as assets the range's breadth, which makes it possible to reach different consumer segments. Further, a strong reputation and an already strong presence in the major consumer countries, based on a diversified offer (via appellations) and market dominance in the premium sector.

However, the analysis reveals some weaknesses, particularly in comparison with Italy, which has been able to revitalize its sector and better adapt to the requirements of international markets: a restrictive regulatory framework, higher production costs, fragmentation of the sector and the absence of incentivizing trade agreements in some emerging markets. These elements make it possible to foresee at least two promising prospects for the French wine sector: a revitalization of its offer through reinforcement of competitive advantages (premium wines, breadth of range, images and reputation, adaptation to certain specificities of emerging markets) and efforts to restructure the sector (relaxation of the regulatory framework for the promotion of French wines, better organization of actors).

Summary of the characteristics of the French wine sector

Five important points should be remembered: (1) France is a major player on the world wine scene: the second largest consumer market, largest exporter by value, the second largest world producer. (2) Wine is an “iconic” product in France: leading the agricultural sector, second-ranked for export, jobs and value created. (3) France, like other European countries, has retained certain aspects that set it apart from other countries new on the world market: strong governance upstream of the sector, pre-eminence of geographical indications (GIs) to be promoted by product marketing, terroirs and a wide range of products and prices/vs governance downstream of the sector, customer-oriented adaptation marketing (positioning segmentation) and trade-marketing. (4) Two specific French features: a system of appellations that enhances the value of terroirs but is sometimes considered complex and archaic; a restrictive regulatory framework in terms of communication. (5) France’s strong international competitiveness (image, reputation and diversified offer) and the prospects for revitalizing the sector (adaptation of actors and restructuring of products on offer).

I.2. Contribution to wine marketing and management adapted to a particular and changing sector

I.2.1. *Wine: a specific agri-food product?*

On examination, wine may not really show a single distinctive specificity but rather an original combination of characteristics (Sebillotte *et al.*, 2003). Moreover, while some of the particularities of wine may seem natural or immanent, others appear to be the result of human constructions and cultural or political consensus that have increased its specificity. Here, we give a somewhat impressionistic overview of the components, whose assembly constitutes a certain specificity of wine.

First of all, we may observe some original biological characteristics. The grape is the fruit of the grapevine, i.e. the fruit of the *Vitis vinifera* species (the most widespread) or any other species or hybrid of the genus *Vitis*. The grapevine, which is a vine, a perennial woody plant with a long lifecycle, is commonly cultivated for 30 or 40 years, and some are more than 100 years old. Thus, given the costs of grubbing-up, replanting and time-to-production, the process of adaptating to market developments can generally only be carried out with a relatively high level of inertia. We also understand that the vine is ubiquitous and can spread to many territories in the world, where it generally establishes itself for a long time.

Although it comes from the processing of an agricultural product – grapes – wine also remains an agricultural product in itself rather than an agri-food product, according to French and European regulations, i.e. the extension of the natural processing of the fruit. This is probably not independent of the original “non-climactic” character[7] of the grape (insensitive to ethylene), which makes the harvest the end of maturity and the beginning of fermentation. A certain unity of time and place around the harvest has thus historically characterized winemaking, unlike other agri-food processes that have easily and quickly freed themselves from it.

I.2.2. *A binding definition that is widely shared internationally*

Many of the specificities of wine derive from the definition given to it more than a century ago. After a few faltering steps with the *loi Griffe* in 1889, which recalled – but was not really implemented – what authentic wine owed to grapes alone; it was in 1907 that wine was truly legally defined in France as a fermented drink in which all elements must come from grapes, including water and especially flavors. The main objective, urgent in the face of the social crisis, caused by excessive overproduction, harmful to the winegrowing South, was to prohibit any illegal production likely to artificially increase production and risk causing wine prices to fall. Thus, in addition to the historical tax framework for the trade and transport of wine as a beverage containing alcohol, a strict definition was added, specifying the raw material (grapes) and the process (fermentation); these elements therefore became the focus of attention for a nascent fraud enforcement service (created in 1905).

Such a definition, more attentive to the raw material and the process than to its final composition, is not insignificant because on the one hand, it implicitly limits certain possibilities for technical progress and, on the other hand, it opens up a wide variety of end-product qualities without really pre-defining objective indicators of this quality.

This may also explain the formalization of the title of enologist a few decades later (in 1955), in charge of measuring some of the physico-chemical indicators of its final composition, but, above all, to manage and monitor the process of a product which is easily qualified as "living". More generally, technical training of professionals in the sector gave rise to specific sectors: viticulture, which has asserted its autonomy within horticultural and