

Wine Management and Marketing 2

*Responses of the Industry
to Crises and New Expectations*

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



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Wine Management and Marketing 2

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Foreword

This is the first time I have been asked to write the foreword to a collective book like this, and I would first like to warmly thank the coordinators of this publication for taking this risk, because I admit that at first, I was a bit puzzled as to how to go about it. In view of the contents of the book, a common thread seemed possible to me for this foreword: to consider the sectoral specificity of the vine and wine sector, in order to address the subjects covered in this book.

The wine sector has some unique characteristics, on different levels, which are briefly mentioned as follows; the main ones being: wine, a product of a perennial plant, contains alcohol, is miscible and storable and, despite the significance of the geographical indication, is increasingly substitutable by another wine. These specificities induce particular modalities of market operation.

Thus to begin with, the vine has some essential characteristics, the first of which seems to me to be the length of its productive cycle. Moreover, shortening the wine-growing time (supply) to best match the wine making process time (demand), which is experiencing faster and sometimes unpredictable changes, has, since antiquity, been an important axis of public intervention in viticulture. Grubbing-up and restructuring premiums for the vineyard mainly pursue this objective. For the record, the first grubbing-up regulation in history, intended certainly to free up agricultural land for food production as well as to reduce competition with transalpine wines, was the edict of Domitian, reported by the Roman historian Suetonius, born around 70 AD, which provided for the grubbing-up of half of the vineyards of Gaul.

This search for long-term adjustment is all the more difficult because the productive cycle of the vine is very long, and thus managing an area planted with vines, especially in an area with a well-known geographical indication, is more like managing a productive investment. Depreciation in this case is close to an

accounting fiction: no one knows the renewal value of a property on average 35 years later. Nevertheless, this characteristic leads to the search for an asset valuation that is currently “immobilized on the spot”. This is certainly not uncommon in this sector to the historical success of differentiation by geographical indication, and in particular PDO (Protected Designation of Origin). It also leads to the search for valorization, for example, of wine-growing landscapes via wine tourism.

A second set of characteristics of the sector that is interesting to consider is that relating to the major product from vine cultivation in our countryside, namely wine. It is of course a liquid product containing alcohol and is, therefore, miscible and quite easily storable, even if these characteristics are especially true in red wine, more than in rosé or white, where, except for high-end products, transfer of stocks in satisfactory quality conditions hardly exceeds one year. Thus, a cyclical surplus becomes a structural surplus, if it is not managed in one way or another, i.e. it is at least “transported” to the next rural area.

This risk of market imbalance as well as the alcohol content of wine, and by-products of winemaking, have made distillation the traditionally-preferred method of managing wine surpluses in the European Union until very recently. Moreover, this alcohol content has a second consequence: faced with societal expectations such as respect for both human health and nature protection (*One Health* approach), CSR (Corporate Social Responsibility) of companies in the sector should be rather oriented by the search for a reduction of inputs, especially pesticides, in the near future. It is quite difficult to imagine, despite wine dealcoholizing methods, a sector totally free of ethanol and its potential consequences on public health, especially in the event of excess consumption.

Finally, it can also be interesting to consider some of the characteristics of the wine market and how it works. This concerns the importance, for entry-level customers in particular, of the large and medium-sized retail channels of general food distribution, and therefore the expectations of these operators in terms of logistics, on the domestic market as well as for export, frequently via importers. Although this characteristic of sectoral distribution is not exceptional, despite a trend towards local purchases and, in some vineyards, fairly substantial property sales, the trends towards the massification of purchases and the substitutability of provenances in export markets are underpinned by a few important vectors:

– In my opinion, the first of these would be increasing urbanization: in December 2022, according to the World Bank, 56% of the world’s population, or 4.4 billion people, live in cities, and this trend is set to continue. Doubling of the current number of urban dwellers by 2050 could lead to almost seven out of ten people in the world living in urban areas.

– The second vector could be the likely approximation expected from bottling places to consumption places, to reduce the carbon footprint of bottle transport in particular.

– It should also be noted how the gradual generalization of differentiation by the GI, at least at the European level, would risk reducing its scope by bringing it closer to a standard, especially in view of the now fairly common reference to the “brand x grape variety” pair on the label.

Therefore, not being able to supply this type of circuit in sufficient volumes exposes it to being replaced by a competing offer, especially internationally. In such a context, a lack of wines is making it difficult to win back any markets not supplied in the previous year. This is all the more important since, in case of insufficient forecast availability, the “natural” lever to maintain its commercial capacity in volume is to increase the yield, for example, by cutting longer, or by playing on the management of the individual marketable volume.

However, this capacity seems to be shrinking as a result of the downward trend in wine-growing yields since the 2000s. This decline is particularly due to vine decline.

Thus, it is best not to allow a surplus to accumulate while simultaneously avoiding the risk of running out of products commercially, knowing, however, that wines that are marketed as part of the luxury economy generally escape this second constraint. Hence, the legitimate question on the ways and means to stay on this ridge line, knowing that training industry players and an adapted marketing are probably part of the panoply of levers to stay there.

But why preface this book with a focus on major wine-growing specificities? It seems to me that, through the articles it brings together, this book sheds a particularly interesting light on a question that could be summarized as follows: do the characteristics of the vine, those of wine and its market functioning justify an equally specific approach to training and marketing in a broad sense for this sector while it appears today at the crossroads between, on the one hand, general contextual vectors such as increasing global urbanization, the effects of climate change or the permanent evolutions of ICT (Information and Communication Technologies) and, on the other hand, disciplinary progress, for example, in neuroscience or in the social sciences in terms of interculturalism?

Patrick AIGRAIN
FranceAgriMer

Introduction

I.1. Wine management and marketing: a field of analysis and major questions

This second volume of *Wine Management and Marketing*, following the first volume published in 2021, proposes to present new studies on issues in the sector, on the competitiveness of companies, and on organizations in a competitive but highly regulated market context. Therefore, it approaches the wine industry in different dimensions, with plural approaches, authors specializing in different disciplines of the social sciences, economics and management, and different angles and objects of study, in order to try to shed light on its complexity. Thus, the subjects of the various chapters proposed concern organizations or companies, often specialized in the production or trade of wine; they may also concern the sector or industry as a whole. In all cases, the authors, who are researchers strongly committed to this sector, were then able to consider many industrial specificities that give the industry a special place within the agricultural and agri-food industries. The bias here is once again to multiply approaches beyond the frontiers of marketing *sensu stricto*, sometimes management sciences or economics, since they shed light on wine markets and the impact of certain actions on the general economy and the competitiveness of the sector.

Here, we will not discuss the specificities of the wine sector in detail, which is extensively presented and analyzed in the first volume in 2021. But it is clear that particular characteristics mentioned then, such as the regulation mode historically established in Europe and based on a single definition, the hypersegmentation of marketed products, and the late but intense globalization of markets over the last two

decades naturally contribute to inducing marketing and management issues specific to the sector. We could add that the French marketing sector, in particular, has a belated relationship with this discipline, which was imported from the United States in the second half of the 20th century. In any case, it seems useful to us to continue to address, from an always interdisciplinary perspective and within the social sciences, some of the major questions that drive the sector and that constitute the authors' research subjects.

As with the first volume, it is again a question of offering the work of researchers in an accessible and easily understandable version to nonspecialist readers, interested in the French wine sector. Thus, the authors, who are mostly teachers as well as researchers, have tried to use structured modes of presentation, as well as a pedagogical style and approach, but it is by no means a question here of courses or didactic presentations, let alone recipes supposed to guarantee success in company management. While the coordinators and the majority of the authors are still members of the Montpellier research cluster, structured around the Institut Agro Montpellier¹, INRAE and the University of Montpellier, some colleagues from other institutions, such as Montpellier Business School or other centers, particularly in Bordeaux, have been associated. It was important to us that beyond delivering research from our Montpellier units, this publication also illustrates some collaborations among the multiple partnerships existing between French research centers. The quality of these relationships, which does not exclude some competition as well as has real emulation, is indeed fundamental. We are delighted by the richness of these structural or more ephemeral research networks, which make it possible to focus our energy on the major challenges that the sector faces.

Approaches and results of recent work are presented in chapters of about 20 pages, on various themes in their disciplines and objects, and converge towards themes related to strategies and competitiveness of companies and the sector, faced with classic challenges (market adaptation, management, etc.) or those which have appeared more recently (climate change, Big Data, etc.).

Then, there is a renewed ambition to provide tools, reading grids, illustrations and reference case studies to the various actors in the sector, and without refraining from using them for managerial and operational recommendations.

¹ Montpellier SupAgro, created in 2007, became the Institut Agro Montpellier on January 1, 2021, one of three schools integrated into a single institution, the Institut Agro.

I.2. Why a second volume? Objectives, additions, new themes and new authors

There are many questions which are constantly renewed. The first volume had naturally been unable to answer all of the issues raised, as wide as the panorama presented at the time could have been. Some themes were not taken up, others were elaborated upon and some others were finally addressed. Thus, questions specific to the sector, ways of approaching climate change, the “coopetition” between organizations in the same region and the particular role of innovation in a sector, which has made tradition into the DNA of its institutions as much as its primary axis of communication, had been particularly analyzed in dedicated chapters.

Some themes, which were also discussed in 2021, are explored in greater depth, for instance, export strategies of cooperatives, consumption and markets open to export in Africa, or certain modes of communication, such as *storytelling*, and spaces closed or opened by the Évin law. Finally, we address new themes in this volume, with illustrations and appropriate application cases, which are in various fields of the social sciences: economics with environmental changes or the concept of “cluster” (with the Montpellier case), strategic marketing (the positioning common to certain associated terroirs), operational marketing (such as communication or wine tourism) or management, whether that of stocks or that of digital data.

In most cases, the reader will find food for thought to help them to better understand the industry’s current issues, which are often the result of critical situations. Thus, the organic wine market, which had nevertheless experienced a historic take-off in the last decade and which is now encountering new difficulties, is approached here from the original angle of “willingness to pay”, a valuable behavioral and experimental economy tool developed recently. Similarly, the indispensable but always difficult dialogue between research and professionals can be enriched by the approach provided by the “cluster” concept. How can we not make crises experienced today resonate against the background of product “deconsumption”, which has not been a basic necessity for a long time, with the difficult but happy initiatives of building strong collective positioning and images as in Beaujolais or in the volcanic Loire region?

The issue of wine estate acquisition is of particular interest, not only because of the emblematic “Petrus” case of which is discussed in particular, but also because of questions raised by the evaluation of price and the “emotional” value of such companies.

I.3. Recent context of the wine sector and “new” challenges

These motivations for a second book were encouraged by a particular context, generating a series of commercial as well as organizational and even institutional challenges for sectoral actors. Among these contextual elements, several are directly related to the characteristics of the sector and the product.

The wine sector is deemed to be fragmented between many players of different sizes and governance. Indeed, listed groups coexist with smaller structures, including small family SMEs. All of these actors belong to different families, are at different stages of the value chain and have varied governance: farms, anchored in a family for generations or on the contrary composed of financial investors, cooperatives and traders. Organizations are legion in the sector, depending on professions, wine types or producing regions. There is a frequent temptation to merge, concentrate or simply organize to better weigh in the competitive universe and try to better adapt to it.

Thus, Chapter 10 presents the process of finding a common positioning to promote wines of four vineyards of the Massif Central. This implementation is fraught with difficulties. Indeed, a collective project implies uniting different entities that must act together and these entities themselves have, within them, actors with different and sometimes contradictory visions of the project. Bringing these actors together proved to be a difficult challenge, but one that was able to succeed by force of will and participatory method.

Chapter 12 proposes another example of collective construction, resulting from the collaboration between a regional brand, Vins d’Alsace, and a Bacchic society, the Confrérie Saint-Étienne, showing the benefits that can be derived from this collaboration.

And to go even further in this collective dimension, Chapter 11 shows how an old but still very active cluster, the Montpellier Vine and Wine cluster, by bringing together many actors in the sector, including teacher-researchers, students, experts, policies, collective bodies, producers, etc., and making them interact, makes it possible to increase the competitiveness of companies and the sector as a whole.

As another illustration of collective strategies, Chapter 16 presents the particular situation of cooperatives and cooperative unions facing the same export problem. It shows that, overall, cooperatives and their unions export less than other companies in the sector. This phenomenon is more pronounced for cooperatives that appear less well adapted than cooperative unions to export their wines. Exporting requires a great deal of adaptability.

In any case, in domestic or foreign markets, the need for a clear positioning remains a prerequisite for any collective communication or distribution strategy or policy to be implemented. This is made clear in Chapter 9, which explores the case of the launch of Beaujolais rosé to respond to new consumption habits and to cope with the reduction in red wine consumption.

Wine is a product frequently rooted in the terroir, the quality of which is difficult to assess without tasting it, and is often with a weak and difficult to discern differentiation. All of this forces producers to implement strategies to distinguish themselves from the competition and meet the expectations of French and foreign consumers. It also benefits from a strong social image (tradition, conviviality, luxury product for certain categories) and is subject to high regulation in France and abroad, whether in terms of production (appellation system), marketing (e.g. state monopolies in certain countries of the world) or communication. All of these characteristics encourage companies in the sector to be flexible and to develop general strategies, particularly in marketing, while integrating these sometimes restrictive specificities, as in the case of labeling with regard to regulations. It is then that different options, proposals and communication techniques can be implemented, in compliance with legal and specific rules like the Évin law, and also by adapting to consumers' expectations and cultures. Thus, Chapter 6 explores the use of mental imagery (or "imaging instruction") for the communication of wine businesses in compliance with regulations. When a company wishes to communicate internationally, it may face particular regulations as well as different cultures. In this context, Chapter 8 considers how to adapt communication according to the countries where it is carried out. A "semiotic translation" of advertisements is recommended according to the countries where they are broadcast. In a more traditional dimension, Chapter 5 shows how storytelling and the narration of authenticity can build an identity and legitimacy for new-winemakers. This allows them to create emotion-based connections with their customers, prospects and the wider environment.

The objective is still the ability to meet market expectations, a market of consumers who are often not very knowledgeable, yet who determine profits made by companies in the sector by their choices, behaviors and purchases. Thus, for many years, we have observed a set of changes, both in the domestic and global market. The decline in consumption on French soil makes it essential to be present on international markets, and exporters sometimes have to be bold to develop in "emerging" markets, as is the case in Africa, a market that presents interesting growth opportunities. To address it, wine companies must communicate in an intercultural approach, as shown in Chapter 13, which proposes a reflection on marketing orientations to be adopted towards African consumers. Conquering this market also requires the development of relationships of trust with local importers. Chapter 15 shows how good social interaction between actors can build this relationship of trust by adopting a transdisciplinary stance.

But, more generally, how can we ensure that the products put on the market can satisfy consumers? Chapter 7 presents a study that measures the value of organic wines based on consumer's willingness to pay. If they are willing to pay more for an organic wine for the same quality, producers' efforts to meet market expectations are truly rewarded.

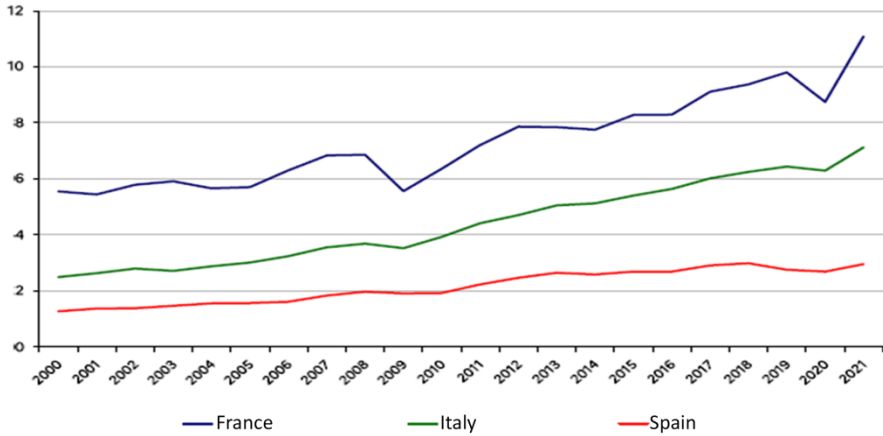
It then appears possible to better understand consumers, and other tools could well contribute to this in the coming years. Thus, Chapter 2 presents opportunities offered by digital transformation and Big Data to improve marketing policy and customer relations. Indeed, these digital technologies have experienced a particular boom in recent years, and undoubtedly further strengthened with the health crisis. Still very little exploited, they present great development opportunities for companies in the sector generating real challenges and opportunities for actors in the sector (e-commerce development, reflection on the integration of Big Data into the strategy of companies including SMEs, etc.).

Around these actors is a dense institutional ecosystem involved in the regulation, financing and visibility of companies in the sector (inter-professional organizations, INAO, appellation unions, federation of wine and spirits exporters, FranceAgriMer, financial institutions offering dedicated centers, etc.) that influences the heart of the Business Model of these companies, offering them particular levers to adapt to market and societal demand. Thus, Chapter 1, focusing on the central issue of inventories from a survey of professionals in the sector, presents how inventories characterized by their large volume in viticulture can become a strategic and financial tool at the service of objectives pursued by a company.

Dedicated to another management issue, more heritage-related, that of the sometimes astronomical valuation of prestigious estates, Chapter 3 shows, through a concrete case, that viticulture attracts capital beyond the purely financial logic because of an emotional value accepted and even desired by investors. This phenomenon does not only affect the most prestigious estates. It also concerns those who are part of a long-term sustainable development strategy, by producing wines whose quality is praised by the market and by adopting practices recognized as virtuous. These companies are therefore not in a short-term financial logic. They have a lower financial constraint. They can then have capital at a lower cost than in other sectors, at an equivalent risk. The emotional value attributed to companies in the sector thus makes it easier for them to have the necessary financing for innovations and adaptations expected by the market and society. Well-invested, this capital can allow, for example, to engage in international development strategies, as explained in Chapter 4, which analyzes the international position of French viticulture and evokes proposals that would promote French leadership. It may be appropriate to build strong brands to compete on the international market using opportunities offered by new technologies and "protean" innovation.

Evolution of Italian, Spanish, and French wine exports by value between 2000 and 2021

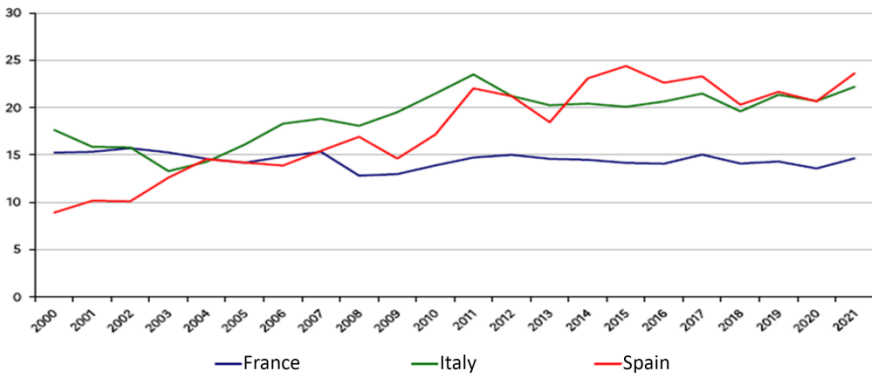
In billions of euros



Source: Customs data according to Trade Data Monitor

Evolution of Italian, Spanish, and French wine exports by volume between 2000 and 2021

In billion hectoliters



Source: Customs data according to Trade Data Monitor and OIV

Figure I.1A. Evolution of world wine exports by country and by production areas (source: data from FranceAgriMer 2021/Vins). For a color version of this figure, see www.iste.co.uk/cheriet/wine2.zip

Volume market shares in world wine exports between 2000 and 2021

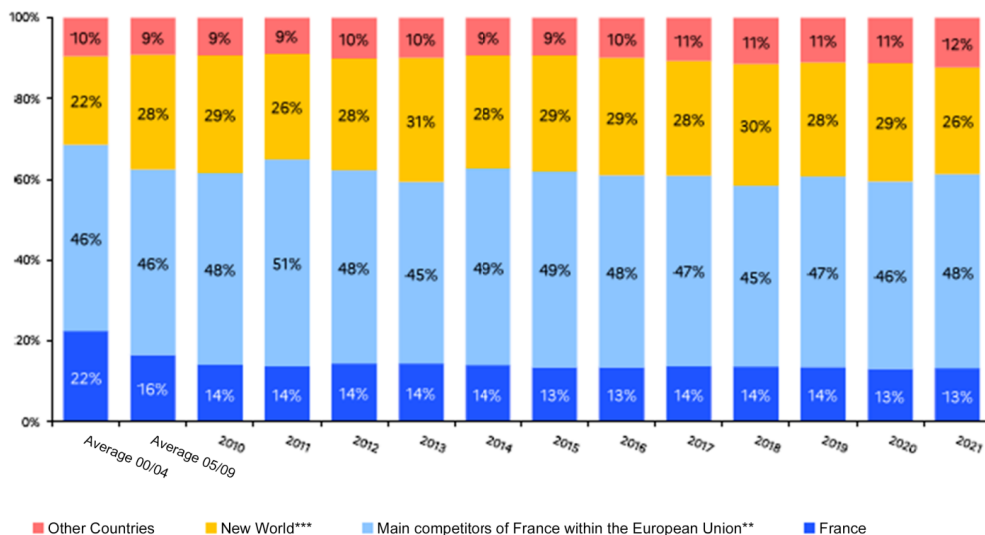


Figure I.1B. Evolution of world wine exports by country and by production areas (source: data from FranceAgriMer 2021/Vins) (continued). For a color version of this figure, see www.iste.co.uk/cheriet/wine2.zip

France has historically been one of the leaders, even if its place is regularly challenged by traditional producer countries Italy and Spain (see Figure I.1) as well as by other producer countries offering an offer of increasing quality from year to year. Consumer habits are changing (see Figure I.2), whether on the domestic market or on international markets, with more occasional consumption, a stronger experiential dimension, a decline in French consumption in volume, and increasingly demanding foreign consumers. Consumers' concerns and expectations are also evolving towards a "healthier diet", in line with environmental and societal issues, in addition to the more traditional issues of quality and price. Thus, part of the demand is waiting for a more environmentally friendly production, which has notably contributed to the rise of organic wine (see Chapter 7) following a curve that is now reaching limits by meeting new competition.



Figure I.2. Changes in consumption habits (source: 2002 Sowine/ Dynata barometer data²). For a color version of this figure, see www.iste.co.uk/cheriet/wine2.zip

Finally, the wine sector, like all other sectors of activity, must deal with changes and shocks affecting society as a whole, some of which affect companies in the wine sector more strongly, in particular climate issues, as well as Trump taxes and Brexit

² See: <https://sowine.com/blog/resultats-barometre-sowine-dynata-2022>.

a few years ago, linked to two key destinations for French wines abroad. More globally and systemically, the world regularly faces economic and financial crises, and more recently the Covid-19 health crisis, which has shaken the whole world and which has required companies to be resilient, to adapt and even reinvent themselves, as shown in Chapter 14 on export professions. It presents how professionals in the sector, faced with a crisis, have been able to demonstrate their ability to adapt. Through a survey, Chapter 14 explores how export managers maintained their business during the Covid-19 health crisis and showed flexibility. This study also focuses on management in the post-Covid-19 phase, and in particular on how to sustain the tools developed to deal with lockdowns. This sustainability can then be achieved by combining existing skills to develop others.

I.4. Sixteen chapters on new strategic and marketing trends

Thus, in order to shed light on all of these issues and to allow companies and institutional investors to benefit from keys to reading the current context and the issues it generates, this book proposes a set of 16 chapters, grouped into four main thematic and disciplinary sections.

The first four chapters address themes that are relevant to strategies that echo the major cyclical trends that impact the sector. Thus, it will discuss the strategic role of wine inventories (Chapter 1), digital transformation and Big Data in SMEs in the sector (Chapter 2), and wine land valuation issues (Chapter 3) as well as the international strategies of wine companies in response to trends and changes in their international environment (Chapter 4).

The second part is devoted to the marketing component, through four chapters focusing on current trends related to the context in which the sector evolves: storytelling (Chapter 5) as a vector of differentiation, two chapters on wine communication and advertising with regard to the evolution of regulations (Chapters 6 and 8) and a fourth focusing on the “organic” attribute and its link with quality and perceived value (Chapter 7).

The third part focuses on collective strategies and terroir dimensions through four chapters. It will be a question of terroir and collective image (Chapter 9), collective positioning with the emergence of a collective brand (Chapter 10), synergy between a brand and a Bacchic society on the same wine region (Chapter 12), and the presentation of a cluster promoting synergies between sectoral actors and the academic world in another wine region (Chapter 11).