The situation of the wine industry

Business, Industries

France continues to be the top producer of wine worldwide (Dooley, 2007). Together with Italy and Spain, these three countries comprise the “ old world” and accounted for bulk of the world market. Their market share, however, was reduced with the emergence of rivals from the United States (US), Australia, New Zealand, Chile, Argentina, South Africa etc. referred to as the “ new world”. Hence, global wine war started to ferment as the “ new world” eats up the share of “ old world”. In 2001, the French government reported that the country's wine industry was facing a crisis as local sales of wine decreased, i.

e. Burgundy wine declined by 30% and Beaujolais by 17%; exports declined by 5. 4%; and price of grapes plunged by 40% (Business Week, September 3, 2001). International competition became intense in the 21st century as the New World countries invested heavily intechnologyimprovement and marketing of new brands of wine. The New World developed shorter production process, lowered cost of production, and produced cheaper wine products that cater to the changing tastes and habits of the consumers.

The New World wineries add oak chips to wine while being fermented in steel barrels. Aging wine in barrels is a more expensive process practiced by traditional wine producers. A series of mergers and takeovers among breweries and liquor companies also occurred in the New World creating multinational wine companies (Arnold, 2001). The preference of ordinary consumers shifted to light, fruity flavors of low-priced wine that are priced $15 and below (Business Week, 2001). Wine consumers become more educated and discerning.

Multinational wine companies in the New World concentrate on the middle market for wine while French producers cater to the ultra premium sector as price of wine ranged from $180 to $250 in 2001. Australia's wine production increased by 110% from 383 million liters in 1990 to 806 million liters in 2000 (Downer, 2001). Its exports increased by a hefty 832% from 38 million liters in 1990 to 354 million liters in 2000. The success of Australia in the fast growth of its wine industry is attributed to its corporate approach to the market (Carter, 2001).

Three large companies namely BRL Hardy, Southcorp and Foster's dominate Australia's wine industry to ensure consistent, reliable branded products. Large companies enjoy economies of scale and can afford to hire more salesmen. These companies adopt the following marketing strategies: a) Labeling – the wines are branded by grape variety rather than place of origin b) Use of simple Anglicized brand names c) Introduction of innovative products to prevent saturation of the market and open virgin segments such as wine as ahealthproduct d) Addressing the needs of other segments of the population such as the youth

e) Innovate uniform bottle size, glass packaging, cork and storage requirements f) Establishment of quality viticulture and oenologyeducationand training facilities The wine exports of the U. S. increased by 8. 6% to $951 million in 2007 as compared to its year-ago level due to signing of the U. S. -European Community Wine Trade Agreement in 2006 which created a more stable tradingenvironment. Exports to the EU accounted for almost half of total US exports despite protectionist tariffs, distribution restrictions and production subsidies.

Common marketing strategies of the New World include appropriation of large marketing budget to make sure that the products get to reach not only specialty liquor shops but also supermarkets; advertisements; use of gimmicks to entice customers; use of labels that are easy to read and remembered. The New World view wine consumption as marketing-driven. Their investments are technologically-defined and use mathematical models, computer software, perform precise calculations and laboratory testing.

The French are now learning from the techniques of the New World (The Associated Press, 2007). As a result, the country’s wine and spirit exports, particularly Champaigne and fine Bordeaux, increased by around 7% to $13. 8 billion in 2007. However, lower-quality wines are still struggling against their foreign counterparts. Also, the performance of the wine export in 2008 may not be as good as last year because of the recession in the US, the strengthening of the euro against the dollar which will lessen competitiveness of French wine and spirits exports.

French wine manufacturers are hit by decline in local wine consumption because of intensive campaign of the government against drunk-driving. The wine market has been suffering from chronic overproduction. The EU signed an agreement in December 2007 to implement a program of massive overhaul for the wine industry which will include a) closing some vineyards to avoid overproduction; b) modifying very intricate labeling; and c) adoption of marketing strategies to be able to reach customers.