Case study on new world value chain management

Business, Marketing

1. Explain the key components of the new world value chain. Provide a minimum of two key success factors for each component of the value chain.

The key components of the value chain in the wine industry are the input suppliers; the

wine grape producers, the wineries; the sales and distribution; and the consumers (Drew).

The input suppliers include those that provide advice, information, machinery, and

chemicals, as well as those involved in financing the business and in conducting research and development. Two success factors involved in this component are technology and finances. Technology enables wine producers to experiment on new ways to grow better quality grapes. It also enables them to ensure the consistency of the quality of grapes produced despite the changes in the environment such as the weather and the soil quality. Sufficient finances, on the other hand, enable wine producers to purchase the necessary equipment to reduce the need for manual labor, which would in turn lead to increased production. It also enables wine producers to purchase more land on which to grow more grapes, again leading to increased production.

New world wine companies usually take control of the entire value chain, which also serves true for their grape growers. One success factor in this value chain component is that wine producers grow their own grapes. This allows them to reduce costs and ensure the quality of the grapes they grow. Another success factor in this component is the availability of land. Whereas land is scarce in the old world, it is more abundant and cheaper in the new world, which allows wine grape producers to increase the number of grapes they grow.

Next in the value chain are the wineries, which are involved in the marketing, processing, and procurement of the wine products. One success factor in this value chain component is innovation where wine producers create new products that their consumers are bound to like. One example is the production of wine with fruity flavors. Another success factor in this area is branding. Building a brand builds the consumers' trust in the brand and also gives the wine product a certain image that would appeal to certain consumers.

With sales and distribution, two success factors are the wine producers' ability to sense changes in the market and their capability to save on costs (Bartlett). These factors are made possible because they have control over the whole sales and distribution process. They then have direct access to market information and are capable of capturing the intermediaries' markup, holding less inventory, and reducing the handling stages.

Finally, with market information accessible to them, wine producers are better able to cater to their consumers' needs and preferences. They are also able to gauge the prices that would appeal to their consumers and that would give their brand the image they want to project.

2. How did the new world break the rules of wine making? Please provide specific examples that relate to grape growing, wine making, marketing and distribution.

One of the ways in which the new world broke the rules of wine making was through experimentations with grape growing and the wine making technology (Bartlett). For example,

Australia implemented a controlled drip irrigation system, which was strictly forbidden in France. In addition, mechanical pruners and mechanical harvesters were used whereas the traditional way of growing grapes involved manual labor.

In the wine making process, new world wine producers broke the rules by using reverse osmosis to concentrate the juice, which ensured a richer-tasting and a deeper-colored wine. This was forbidden under the AOC rules. In addition, new world companies processed the aging and fermentation of wine in big computer controlled stainless steel tanks instead of using the traditional oak barrels. They just added oak chips to the wine to give it an oak flavor.

When it comes to marketing, new world wine companies broke the rules in the packaging. For example, Australian wine producers packaged their wines in a box instead of in a liter bottle. Screw caps were also used in place of the cork stoppers. In addition, new world wine producers also made wine products that appealed to unsophisticated palates, but which connoisseurs frowned at.

With distribution, new world wine producers broke the rules by taking control of the entire value chain. One example is that they deal directly with concentrated retailers, which increases their bargaining power. This is in contrast to the value chain of old world wine producers that involve multiple levels. In addition, new world wine producers use shipping rather than trucking services to deliver and distribute their products.

3. What were the competitive innovations and comparative advantages that drove old world wine production? Why didn't the French producers become much more effective exporters during the last quarter of the century? Would exporting assisted in offsetting the market share growth of the new world wine makers?

One of the advantages that drove old world wine production was the quality of their wines, which Generation Y consumers preferred. These consumers are well educated in the purchases they make and have a preference for imported wines. Another factor that gave them a competitive edge was that agricultural policies in EU underwent changes where the focus shifted from the reduction of oversupply to the subsidization of promotion and marketing. In addition, these companies targeted the premium segment of the market where they could sell their products at high prices.

However, since French producers refused to adapt new ways of producing wine and chose instead to stick to their traditional ways, they weren’t able to produce as much as their new world counterparts; hence, causing them to be ineffective at exporting. They also refused to create variations in their products, which limited their consumers to a certain niche. If they had been more effective at exporting then they would have offset the market share of the new world wine makers. If more effective exporting comes as a result of increased production then they would be able to lower their product’s prices and cater to more consumers.

Works Cited

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