

New world challenges
old and global wine
wars economics
essay



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In the mid 1850's the producers in the wine industry welcomed increasing regulations, policies and classifications because it was a way to differentiate their product from competitors. However, it turned out to be a barrier for them a few decades later when producers from new regions, hereafter the New World, started to produce wine using some breakthrough technologies and innovations. Unconstrained by all the regulations and the traditions that was part of the Old World context, countries like Australia and the United States of America began to produce wine that was quickly acclaimed by the critics. At that time, New World producers started to gain some market shares over the traditionalists and their own population also started to make wine a part of their culture. Indeed, global demand and consumption shifted from countries like France and Italy to Argentina, Chile and Australia with a drop of 25 per cent in worldwide consumption from 1976 to 1990.[1] These were all due to the radical changes in consumer tastes and preferences. The reasons are namely the change in younger generation's different drinking preferences, consumer's growing demand for higher-quality wines, an emphasis on light foods resulted in an increase in demand for white wines and the publication of a medical report identifying red-wine consumption as a healthy choice.

Apart from the shift in demand, the availability of land and the structure of the value chain provided the New World countries a huge advantage. In fact, while the average vineyard in the Old World regions was less than one hectare, it was an astonishing 158 hectares for their counterparts. Moreover, the Old World wine process was divided into several phases of production like grape growing, wine making, distribution and marketing, whereas the

emerging producers controlled the full value chain, extracting margins at every level and controlling quality throughout the chain.

Problem Situation

Given the facts mentioned earlier, the main problem could be defined quite simply; the Old World wine industry has not been proactive and has waited too long to take the necessary steps to stay the leaders. Like the report on the French industry released in 2001 said, “ the French wine industry has lived too long on its past good name” and it is now in a situation, as well as the other Old World producers, where it “ has to adopt some of the technical and marketing advances that had allowed the Australians and Americans to succeed”. Still, the answer does not lie only on what strategic direction the Old World should take, but also on how to align the different stakeholders’ interests with the chosen direction.

Solutions

Status quo

One obvious solution for the traditional producers would be to not take any big actions in any direction, opting for status quo. By continuing to lose market share and to be less cost effective than the emerging producers, they would of course hope that the demand shifts by itself and that the Old World producers become once again the leaders and the best wine producers in the world. This, however, is very unlikely since the New World would not simply become less attractive to the customers without any apparent reason and it would neither solve the problem for the Old World wine producers.[2]

The single advantage of this decision is the savings that the Old World does by not requiring an outlay of capital. This is still outweighed by many negative aspects like decreasing market share, higher production costs and maybe bankruptcy for some traditional producers.

Accord less importance to tradition and use many technologies like the New World

As a second alternative, the Old World could abandon some of the heavy regulations and policies and focus more on the R&D that helped the New World to expand. By implement a new strategy of including oak chips in the wine containers instead of using oak barrels, they could greatly reduce their production costs -which are now from 30 per cent to 100 per cent higher- and be in the same price range as the New World wine makers. However, it would not solve the problem entirely since a good part of the difference in production costs are basically the cost of the grape itself that is highly correlated to the land cost. Part of the problem is that vineyard prices in France for instance are about 25% higher for the basic grapes and more than 300% more for ultra premium than the vineyards in Australia and the United States.[3]For these reasons, it would be hard to compete on prices even if the Old World uses most of the innovation and technology from the emerging producers since the land costs account for a big part of the cost of grapes. And as is proven in history, land costs are unlikely to decrease by much in the future.

Use the tradition as an advantage and focus on the high end of the market

The Old World countries need to re-evaluate their strengths and weaknesses in order to better adjust their regulations. Numerous strategies are available and proven to be successful in this field. Some examples are the Balance Scorecard, the PESTLE (Political, Economical, Societal, Technological, Legislative and Environmental) and SWOT (Strengths, Weaknesses, Opportunities and Threats) analyses where the micro and the macro environment of an organization is analyzed and speculated upon. The lessening of regulations should be implemented selectively and those of the small companies, which can emphasize their superior status in the wine market successfully, should remain. Since they have the longest and most prominent reputation in the art of wine making, it is important to maintain this advantage. In addition to this, new marketing strategies should be implemented to promote their market status as leaders.

Moreover, by focusing on the premium and super premium wines, the cost advantage of the New World would be less significant since the loyal high end appreciates the value of traditional wine making process and is not too much concerned about prices compared to basic table wines; they would be reluctant to change retailers.

Decision

Our team suggests that the Old World should use our third solution since we believe it has the most potential to solve the situation. By focusing on the higher end of the market, Old World producers would put most of their effort on promoting their unique savoir-faire in making high quality wines that are

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crafted like a piece of art. After all, the history and culture of wine came from these regions and they ought to consider that as an asset rather than a threat.

That being said, the Old World producers also have to lessen some of its regulations, the “ Appellation d’Origine Contrôlée” being the first one that comes to mind. Simply put, this law regulates the production and the provenance of the wine produced in the French territories. For instance, it prohibits the use of inexpensive oak chips instead of conserving the wine in oak barrels that are quite expensive and does not allow any manipulations to achieve a more compelling taste. For these reasons, our team suggests the “ Appellation d’Origine Contrôlée” should be abandoned for the standard wine markets, allowing them to be more competitive on prices with the New World. However, it should keep the Appellation for the premium wines since it guarantees the quality of the product and gives a distinctive appeal to it.

Expected ramifications from competitors

It’s expected that the New World will continue to largely position in the premium and super-premium segments since these markets are estimated to be the greatest potential for growth while the low-end market is expected little or no growth. With its cost advantages, and in pursuit of market leaders, it may put more promotion by emphasizing its wine in “ high quality, but at a lower price”. In order to compete with the New World in high-ended wine market, the Old World countries should focus on product differentiation. Considering the Old World’s distinctive experience and reputation in wine production, introducing a strong and responsive marketing plan is essential

to remind the market of their superior quality and attract high status consumers. To do this, we have several policies:

World Expo

The government should play a leading role in point out the status of Old World in the global market. They can organize various exhibitions in different places of the world to re-introduce and give information about the different stages in wine producing. The coming world expo in Shanghai, for example, is a golden opportunity to show this and attract customers.

Special offer for wine trade tour to Old World

The wine association in Old World can invite trade distributor and retailers to their countries to strengthen their understanding about the wine market's operation. Through these tours, a better connection and cooperation efficiency can be achieved after the changes in the Old World and it can reestablish its connections in world wine market. With its unique selling point of its traditions and with improved techniques, the Old World can attract more interest and increase its export.

Create a perfect information platform

The Old World can open different quarters abroad, which would serve as a platform between them and the exquisite consumers. Here, distributors and customers can get access to updated information, information about new products or make orders. Other services that would be introduced are: frequent wine tasting seminars and a website and an online system where all information can be stored in a more systematic way. The purpose of these

strategies is to lessen Old World disadvantage and strengthen their advantage.

Control

As is necessary in all strategic planning processes, there must be continuous and repetitious evaluations of capabilities and limitations, environment analyses, formulation of the goals and finally, the key element, implementation. The first step is thus the creation of a clear vision and interim targets to get better control of the own business, an mutual agreement and understanding of the organization culture, more competitive and most importantly, more focused. In this comprehensive restructuring, however, the competition must not be forgot. Since we believe that the New World will also focus more on the premium segments in the future, the Old World and the leaders, as is shown in Table 1 (in Appendix A), will achieve its goal when it has attained a secure and major market share within the segments; retailing to the customers with most advanced taste and knowledge in the art of wine.

Appendix A

Tables and Charts

Table 1

Table 2

Price for Grapes

US\$ per metric ton

Basic

Premium

Super Premium

Ultra Premium

Australia

\$75 to \$100

\$200 to \$600

\$800 to \$2000

\$2000 to \$3000

France

\$100 to \$125

\$200 to \$700

\$1100 to \$2500

\$3000 to \$7000

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US

\$75 to \$150

\$200 to \$600

\$1100 to \$2000

\$2500 to \$4500

Metric tons per acre

8 to 20

5 to 7

3 to 5

2 to 3

Cases per metric ton

85

70

62

55

Cases per acre

\$680 to \$1700

\$350 to \$490

\$200 to \$310

\$110 to \$165

Land prices (US\$ per acre)

Australia

\$8,000.00

\$15,000.00

\$22,000.00

\$30,000.00

France

\$10,000.00

\$22,000.00

\$55,000.00

\$100,000.00

US

\$12,000.00

\$20,000.00

\$50,000.00

\$75,000.00

Table 3

Matrix depicting our decision process

Old World adopted a new solution by emphasizing their initial advantage and focus on high-ended products.

Old World countries.

Focus on high-ended wine market.

Focus on low-ended wine market.

New world countries

Focus on high-ended wine market

The Old World has been famous for producing prestige wine. Therefore when both old and New World countries focus on high-ended market, Old World will win gradually.

Low profit margin and higher production cost compare with New World. The quality of Old World's wine should deserve a higher price. Therefore it is not rational to focus on low-ended market that Old World can only earn little.

Focus on low-ended wine market

Both sides can gain the market share in their desired market. Both can be benefited. The keen competition can be alleviated.

When both of them compete in this low-ended wine market. New world countries possess the comparative advantage of natural endowment possession. They are more favorable to engage in mass production. Therefore it is not rational for Old World countries to compete with New World countries in this aspect.