« Strategic operations in the Bordeaux-Aquitaine wine sector »

Jacques-Olivier Pesme, Marie-Claude Bélis-Bergouignan, Nathalie Corade

Institut des Sciences de la Vigne et du Vin.

The globalisation of the wine industry continues to intrigue observers. While the wine industry is still fragmented, it is highly international, thanks in part to the knowledge-sharing of the "flying wine-makers" (Anderson, 2004 ,p3). This globalisation process, which has brought significant benefits to New World countries, has caused much consternation among traditional producers: per capita wine consumption has halved, retail prices have dropped in spite of the reduction in vineyard size and New World wines have gained ground in the export markets which had previously soaked up the old world surplus production. (Anderson, 2004, p. 3). A tendency to focus on domestic markets resulted in a passive attitude towards exports. This attitude has proven to be very damaging, resulting in them being slow of the mark to identify the structural change in wine consumption which underpinned the rise, however innovative, of competition from the New World. Currently, the globalisation movement shows no sign of slowing down.

Among the various reports drawn up on the reasons for this crisis, the Berthomeau (2001) report questioned the inability of French producers, including some in Aquitaine (despite the reputation of Bordeaux's wines) to position themselves in globalised markets. Out of this came the idea of creating a new category of wines, alongside the traditional terroir-based wines of the AOC, specifically adapted to the challenges presented by globalisation and increased competition. This dual-viticultural vision was immediately challenged as being a purely marketing-driven solution and excessive. More subtle and targeted approaches were called for, such as segmenting problems by region and types of company involved (Senadn, 2005), and this paved the way for the formulation of recommendations in the national plan (Pomel, 2006).

Included in these unavoidable solutions are the creation of multinational groups and the response to large supermarkets groups, which are trying to reduce the number of their suppliers. The idea of building critical mass through consolidation is one that was put forward. Hereafter we intend to examine the nature of this consolidation process in more detail. Our study is based on the example of two key players in the Aquitaine wine sector, the co-operatives and the wine merchants. They are generally considered to be weak players as they are less symbolic than the châteaux, and therefore are studied less frequently. The Aquitaine vineyard area is a particularly illustrative example, as it is symptomatic of the current problems. Measured by both vineyard area and volume of wine produced¹ ¹ it is the largest wine area in France.

Contrary to popular belief, we will demonstrate that the concentration process has already begun, and that it is not just limited to matters of size, as it requires those involved to make profound changes to both their production and market strategies.

While the two players studied (the co-operatives and the merchants) represent two different segments of the supply chain (production and access to market), they both belong to a vineyard area which is characterized by the dominance of AOC still wines (99.8% of production in Aquitaine²,), primarily red and rosé (84.7% of Aquitaine's production under appellation). Hence the use of a common analytical grid is apposite, as it allows us to look beyond the apparent homogeneity, which is more marked than in other vineyard areas, and to highlight the specifics of the consolidation process among co-operatives and merchants.

To begin with, we will consider the advantages brought about by the concentration process (1). The second and third parts of this paper are devoted respectively to the co-operatives (2) and brokers (3), and will be based on a quantitative analysis of the consolidation process and a qualitative analysis of its size.

1. Revitalising the Aquitaine wine-making system through integration: a theoretical framework

Having defined the 'crisis' in Aquitaine's system, we will put forward the idea that the competitiveness target goes hand in hand with policies for strategic adjustment.

1.1 Crisis? What crisis in Aquitaines' system?

A disparaged and fragmented system

In our view, the notion of the Aquitaine system of wine-production relates to the wellestablished concept of "industrial cluster", which focuses on the economic and geographical interdependencies between the various players in the production chain. (Porter 2000). Together with this concept, but contrary to Porter's principal ideas regarding gaining competitive advantage through integration, our study concentrates on the following issues: it puts forward the idea that the integration process generates links between players within the system and other players (both within and without the system), which bring new resources and capabilities, and thus a sustainable competitive advantage. In order to do this, it focuses on both the economic and the geographical perspectives which make the system coherent. The two cases which are analysed in depth in this paper – co-operatives and merchants – provide firm evidence of the dual nature of the integration process: while the number of actors is reduced, their territorial anchoring (Boschma, 2005) is retained. From this point of view, the globalisation process appears to co-exist with the coherence of the wine-production system as a whole.

Firstly, when considering Aquitaine's wine-production system, one should remember something that is often overlooked: Aquitaine's wine-production system is not just solely about Bordeaux wines. Alongside the "Bordeaux model", which grew out of "continuous social reconstructions reinforced by "appellations controlees" in the first half of the 20th century", there are also other vineyards. While these vineyards may be less visible, they are certainly not peripheral (Marmandais, Irouléguy, Madiran, Tursan etc.). Their "profile is linked to the essential role played by co-operatives", and in some ways they are "forced into union in order to exist in the media" (Hinnewinkel, 2002). However, it should be noted that this geographical diversity, which is particularly apposite for co-operatives, is less so for

actors further down the supply-chain i.e. merchants, who are primarily based around the Gironde area. This explains why Part 3 will focus specifically on the Gironde example. Aquitaine's diversity is not just at a geographical and organisational level, but also at the commercial level.

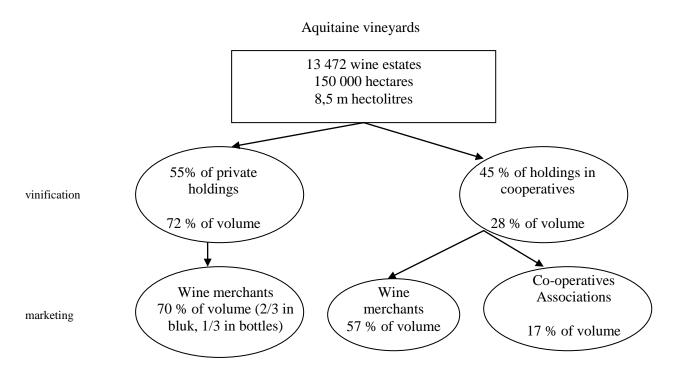
The prevailing logic of châteaux refers mostly to estates and very little to merchants themselves. However, one should not forget that merchants are responsible for most of the marketing for the smaller estates. Co-operatives are the exception, in that they do their own marketing under their AOC's brand. Indeed, with the exception of Mouton-Cadet, few Bordeaux merchants have succeeded in using their names to establish solid, reputable brands. However, this does not mean that the merchants remain passive when confronted by the growing power of the wine-making château and the aggressive advance of the New World wines. The difficulties that have been encountered serve to mask the dynamism of some wine merchants and, above all, the profound restructuring that the sector is undergoing.

A model which is not adapted to new markets...

The 'dictatorship' of the AOC system has frequently been denounced by its detractors, viewed as a system "whose primary objective is to protect producers' income independently of, or even at the expense of consumers" (Laporte, 2001). Thus it is blamed for the maladjustments within the market. This particular argument has two limitations. On the one hand, in spite of uneven rigour in its members' production practices, the AOC always provides the consumer with a certain minimum guarantee of quality (Giraud-Héraud et al., 2002). On the other hand, it has been suggested that it would be dangerous, within the context of globalisation, to formulate a short-term strategy imitating the New World wines, rather than trying to focus on differentiation. The issue of the AOC's domination could be viewed as an unnecessary and misleading debate, as it merely requires the AOC to have more clarity.

Indeed the emergence of branded wines on the world market could be considered as a disruptive influence (Christensen et al., 2002). ³Within a market that was dominated by wines that were viewed as more sophisticated and, occasionally, more expensive, New World producers firstly exploited new drinkers' preferences and then showed a desire to attract other drinkers (including regular and long-established drinkers) to more straightforward wines. This disruptive innovation marginalised traditional producers by pushing them into the upper segments of the market which is characterised by a decreasing market share. The decline felt by Old World wines (including those of Aquitaine) is currently represented in terms of "economic hardening" (Senand, 2005).

The strategic responses are constrained by two contradictory dangers: on the one hand placing too great an emphasis on imitating the New World competition, on the other hand adopting an extremely selective specialised strategy would neglect those domestic producers making low to mid-range products. Having highlighted these strategic constraints, one wonders what consolidation would bring to the industrial strategy of both co-operatives and merchants.



1.2 From competitiveness to strategic change

The issue of concentration in the wine sector has been examined using the Porter 'Source of Competitive Advantage' analytical grid. Concentration can be defined as the process by which the number of rival companies in an industry is reduced. With the exception of companies closing down, this process is linked to external growth strategies implemented through mergers and acquisitions. These strategies may be vertical (between companies at different stages of a sector), horizontal (between rival firms operating in similar markets), concentric (between firms with complementary trades) or conglomeral (between firms with distinct trades) (Meier & Schier, 2003, p.14-15). In theory merger/acquisition enables rapid access to new fields of activity, international development, exploitation of cost or complementary synergies, and an increase in the company's market power. The frequentlyquoted disadvantages of this strategy are: high capital requirements, problems in coordinating and controlling joint activities, re-organisation costs, cultural integration and issues-related to the working environment, and finally, the irreversible nature of the commitment. Joint growth (where two firms develop a subsidiary together) has some advantages compared with a strategy based on mergers or acquisitions. These advantages are: the partners retain their independence and while they may be joined together, the commitment is reversible. However, with this approach there may still be some problems regarding coordination and resolution of conflicts of interest. Based on Porter's strategic typologies, this interpretation enables one to analyse the strategies of wine multinationals in terms of constitution of a world oligopoly (Coelho and Rastoin, 2005). According to Porter, there is no middle way: the strategy is either to cut costs, i.e. competing head-on, or product differentiation in order to avoid head-on competition. It is conceivable that this approach does not entirely apply to the types of companies which we will be considering as the 'Porter approach', which is primarily based on exploiting market forces, suffers by ignoring companies' resources, namely, the specific abilities which are constantly renewed to help them adapt to their environment. The resourcebased view broadens the perspective beyond the standard responses such as that cutting back on transaction costs makes mergers inevitable, or the replication of ready-made marketing solutions. The diverse range of strategic adjustments can be seen in the multiplicity of intercompany alliances which show that there are many ways of exploring new paths. These alliances represent the entire range of intermediate situations from open 'market' competition to mergers and acquisitions.

There are two different logical strands:

The logic of traditional competition: this is formulated in terms of scale and dimension of the product range and prices, or the renewal of resources: it incorporates additional strategies such as mergers / acquisition, outsourcing, or pooling of financial resources (Douard & Heitz, 2003). These strategies to increase critical mass generally fail due to the fact that, even where there are some efficiency gains through reallocation of skills, the impact on the economies of scale is not clear and average costs do not react in a uniform way when a firm increases in size.

The logic of competition based on interconnection of resources: this approach tries to develop new knowledge and control the development of profitable market paths. As well as imitation (through benchmarking the strategies of successful companies), companies may also enter into what may be termed, strictly speaking, as alliances. Essentially, the primary objectives of these are to acquire, obtain or exchange resources in order to add value and to accelerate the company's ability to adapt to its environment.

Concentration is recommended whenever companies must improve the functionality of their product vis-à-vis the consumer. With regard to wine, this does not apply since (according to the producers and consumers and due to the AOC system) the product's generic characteristics are well-defined. Therefore, it can be said that a product is better than average and consequently the adapted strategy should be of specialisation rather than economies of scale. Therefore to gain competitive advantage, wine companies should focus on responsiveness and customisation, and particularly on gaining a deeper understanding of customer needs. If the company does not have the knowledge or financial resources required, it must choose between the additive logic of mergers or acquisitions, which may bring benefits of scale and synergies, and other forms of alliance, which have the benefit of being reversible.

1.3- Research questions. Concentration process and territory foothold

Co-operatives and wine merchant: two different entities?

By their nature, wine co-operatives are organisations which have strong geographical roots resulting not only from their mode of mutual governance from a local base but also from the characteristics of their product. The mergers in which co-operatives are involved in are often interpreted as a means of knocking down existing geographical constraints which have hindered global activities. This leads to the question of the future of these regional connections. As one of the notable goals of these operations is to respond to global challenges generated by the current crisis, we need to understand whether the link to territory, the founding reason behind co-operatives, will withstand the anti-territorial trends. Indeed co-operatives have resorted to a wave of mergers to try to limit the constraining effects of this link to territory. This regional anchoring is turning into a restriction, which could emerge as an authentic spatial lock-in (Rallet et Torre, 2004). One will see that this spatial lock-in (Boschma, 2005) is often knowledge-based as access to new markets requires new skills and

aptitudes, and going beyond boundaries requires a transformation of the co-operative's organisation.

With this in mind, the co-operative mergers act as a way of at least partially unlocking territorial constraints. The analysis for the wine merchants is slightly different. If regional anchoring remains in place, in particular with the hold that the wine merchants have on '*la place de Bordeaux*', the quest of having a presence on the international stage can already be perceived as a partial success. One of the central questions regarding territorial anchoring can be put in terms of diversity. Does the regional wine merchant draw upon its extremely fragmented character? If the answer is yes, it is necessary to consider what is at stake by looking at the risks that lie behind the process of concentration. Finally, for these wine merchants as for the co-operatives, these consolidations / reconciliations can be seen as a way of enlarging the scale of their network of partners, particularly the consumer and distribution networks, but also supplier networks.

2. Wine cooperatives involved in a deep merging process

The system of wine production in Aquitaine is still fragmented, although the vineyards have been undergoing profound restructuring over the past 15 years. This re-structuring process has been particularly rapid among co-operatives, which have undergone the most noticeable changes.

2.1. A drawn-out process, recently accelerated

The 13,000 wine estates in Aquitaine can be divided into private 'cellars' and vineyards which join a wine co-operative. Thus the 65 co-operatives in Aquitaine account for approximately $45\%^4$ of wine-growing estates and vinify almost 27% of the volume of the harvest.

However, within Aquitaine the number of co-operatives varies by department. According to data from the last census, it could be said that in terms of volume and proportion of estates, the vineyards of the Gironde have the weakest co-operative structure. This can be partly explained by the structure of the vineyards themselves, since the departments with the fewest number of vineyards also have the smallest average vineyard size. In Gironde, the existence of prestige appellations can also serve to explain its relative weakness in terms of commitment to co-operatives compared with other departments.

As with other areas of the wine sector, the share of co-operatives has been changing for several years. The number of estates which belong to co-operatives has been in decline, but their average size has been growing, which explains to a large extent why the overall surface area of co-operatives has increased. The most remarkable change is to be seen in the co-operatives themselves. Firstly, the number of co-operatives in Aquitaine has dropped dramatically, particularly between 1990 and 2004. At the end of the 1980s there were approximately 80 co-operatives; by the end of the 1990s there were only 70; and now there are only 64.

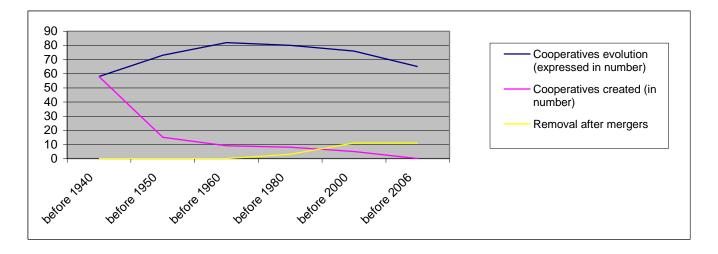
Table 2.1: Development of the number of members, cooperatives and cooperative surface areas from 1994 to 2005.

	1994	2005	
No. of members	9498	7695	
Surface area (ha)	37 654,89	38 902,83	
No. of cooperatives	77	65	
Subscribers per cooperative	124	116	
Ave. cooperative surface area	489,0	598,5	
Ave. Surface area by subscribers	3,96	5,05	
Surface area (ha)	37 654,89	38 902,83	

Source : data drawn from FCVA figures

Co-operatives emerged in Aquitaine during the 1930s, their variation and recent decline in numbers can mostly be attributed to successive mergers.





Source: FCVA data complemented by information from the work of P. Roudié, J.C. Hinnewinkel, (opus quoted in bibliography)

Beginning at the end of the 1960s, this process of merging accelerated between the mid 1990s and 2005. During this time there were 13 mergers involving 29 co-operatives and a co-operative union.

Table 2.3:	Co-operative	mergers	since 19	968
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	No. of mergers	No. of co-operatives involved	Names of co-operatives involved
1968			Bourg and Tauriac
	2	4	Vic Bilh and Madiran
1989	1	5	Labatut + Orthevielle + Pouillon + St-Cricq + Mugron
1990	1	2	Bergerac and Le Fleix
1992	1	2	Montravel and Sigoulès

1996	1	2	Gensac and Graves de Vayres	
1998		4	Landerrouat and Duras	
	2		Francs and Gardegan and Tourtirac	
2000	1	2	Mugron and Geaune	
2001	1	2	Gan and Bellocq	
2002		6	Vertheuil and St-Estèphe	
	2		Prignac, Queyrac, Begadan and Unimedoc	
2004-		10	Cocumont and Beaupuy	
2005			Carsac de Gurson and St Vivien	
			Ordonnac and Unimedoc	
	4		Anglade, Générac, St Gervais and Marcillac	
2006	1	2	Landerrouat/Duras and Cazaugitat	
Total	17	41		

Source : diverse data⁵.

This consolidation of vineyards through mergers brought with it a process of concentration in volume, turnover, vineyard areas and subscribers.

In terms of volume, in 1994 only one co-operative made in excess of 100,000 hectolitres (hl) of wine, representing about 6% of the volume of co-operative wine production. However, today there are four co-operatives producing more than 100,000 hl, which constitutes nearly 25% of co-operative production. There has been little increase among those which produce more than 50,000 hl (12 in 1994 to 13 in 2005).

By contrast, their overall number has declined sharply, as there are now only 65^6 cooperatives. Their production volume is now only slightly higher than ten years ago (just over 2 million hl in 2005, compared with just under 2 million hl in 1994). Since average unit production has increased from 25,482 hl to 32,083 hl, we could add that the concentration process benefits those co-operatives which produce more than 80,000 hl: of which today there are six (four in 1994), and they account for one third of the overall production, compared with 20% ten years ago.

As for sales, there are currently 12 co-operatives with a turnover in excess of $\notin 10m$, representing 54% of the sector's revenue, compared with only three in 1994, representing 21.4% of overall revenue. By comparison, in 1994 the 11 co-operatives with turnover in excess of $\notin 6m$ only represented 44.3% of turnover. The 12 largest co-operatives in 1994 accounted for only 46% of total revenue.

In terms of members, in 1994 22 co-operatives were responsible for half of the wine estates. Today there are 14. The vineyard surface area is dominated by 18 co-operatives, which account for 72% of co-operative's territory. Ten years ago there were 30 co-operatives.

Bearing this in mind, it would seem that the Aquitaine co-operative sector has been undergoing a noticeable concentration process over the past few years.

2.2. From defensive to offensive strategies

Section 1.2 highlights the existence of two possible strategies in response to increased competition. The process of mergers that the wine co-operatives in Aquitaine are experiencing is primarily related to additive logic, which dominates the connective logics. At first sight the mergers which have taken place in the last few years are clearly driven by defensive reactions to critical situations. However, they can also be viewed in terms of strategies designed to accelerate adaptation to the new environment. Thus the additive logic, which somewhat dominated the old processes, appears to lose ground as the connective logic develops.

As noted above, the integration trajectory is not new. Aquitaine co-operatives have been creating alliances / unions since the 1950s. Most of these have been commercial, although some did have productive aims. The following were established:

1966: UNIMEDOC - a commercial union of Médoc co-operatives. Today these are fully merged.

- 1967: PRODIFFU originally formed as a "SICA" and transformed into a cooperative union in 1984, It markets and sells bottled wines produced by its five 'cellar' members: Gironde sur Dropt (la Girondaise), Mesterrieux (Coteaux d'Albret), Saint Radegonde (Les Veyriers), Landerrouat /Duras and Langoiran;
- 1974: UNIVITIS created as a "SICA" and transformed into a co-operative union 10 years later-, consists of: Lèves, Gensac-Vayres, Villefranche de Lonchat, Port-Sainte-Foy, and markets bottled and wines sold in bulk.
- 2004: BERGERAC VINS is the most recent structure. It brings together: Sigoulès, Saint Vivien, and the UNIVITIS union for the distribution of bulk sales

Other commercial structures have emerged alongside these unions. For example, in 1959 SOVICOP

SOVICOP brought together 7 cooperatives (4 in Dordogne and 3 in Gironde) in a public variable capital company. Today it markets 250,000 hl (bulk and AOCs) produced by 24 cooperatives in Gironde, Dordogne and Lot-et-Garonne and its activities range from large-scale distribution to craft-trading, both in France and abroad.

The same applies to PRODUCTA, which was founded in 1949 as a public company by 3 cooperatives: Monbazillac, Lamothe-Montravel and UDP Saint-Emilion. Other wine cooperatives were set up for packaging purposes. UNIDOR was created in 1961 in the Bergerac area and the Union Saint-Vincent, in 1981, in Entre-deux-Mers. Nevertheless, the process which has taken place recently is quite different as integration, and particularly commercial integration, is being replaced by the most extreme form of alliance: the merger.

In order to deepen our understanding of this new merger process (which seems far from complete in Aquitaine⁷) we interviewed the managers of co-operatives⁸ that have undergone this process. We also interviewed the UNIVITIS union which, while not strictly speaking a merged structure, presents many of the features of a highly-integrated structure⁹.

The mergers and alliances which we studied are driven by two shared ideas:

• Firstly, the emergence of a problem generally pushes organisations towards the start of a merger process, since a crisis may render a merger more acceptable. Whether the crisis is unexpected or anticipated, co-operatives ultimately tend to reach this conclusion. Even in cases where a merger seemed natural (as with the mergers involving commercial unions and their co-operative members), it was the crisis that led to action. Quite often it was the "sick" structures which led healthy organisations to consider mergers. Indeed, we have found only one case where a co-operative was looking for a merger partner before a "sick" co-

operative contacted it. Where mergers mostly result in absorption, production sites can be maintained, which can help to facilitate fair negotiations between the merger partners. With reference to our empirical observations, it would seem that these mergers are representative of this initial wave which is more concerned with re-rationalising the organisational make-up of co-operatives than with launching offensive strategies upon the market.

• Secondly, that commercial stakes drive the merger process. In each of the cases studied, the merger or alliance was justified by a desire, always viewed as a necessity, to achieve a size that would be seen to be better from a commercial viewpoint. While they were often motivated by commercial needs, the mergers often turned out to be genuine opportunities to commit to more aggressive commercial strategies. There is less emphasis on achieving internal economies of scale in the strictest sense, rather than on achieving a critical size in order to implement actions which they would not have been able to do by themselves. Indeed, co-operative leaders are unanimous in their view that mergers alone do not generate economies of scale. Initially, mergers result in the development of new functions and actions which incur additional costs and redeployment of human resources.

The key words characterising the mergers seen in Aquitaine are: volume growth, diversification and broadening of product range, bottle development, and quality improvement. The Christensen et al. (2002) analysis states that the ideal strategy for a wine company, particularly one that wants to advance ahead of its competition, is to achieve a capacity to adapt to market conditions rather than simply looking for economies of scale. This would seem to apply for the co-operative mergers which have taken place in Aquitaine. Achieving a critical size is viewed as a means to increase one's bargaining power with large-scale distributors. In this perspective, merging may sometimes be preferable to commercial union or another form of commercial alliance, since these do not prevent co-operatives from competing with their own partners.

While the Aquitaine wine growing area may seem fragmented, it is undergoing substantial restructuring, which is only just beginning, at both ends of the value chain.

2.3- Co-operative mergers: a means of reaffirming a territorial foothold

Co-operatives favour mergers as it allows them the room to manoeuvre that territorial constraint limits. However, in spite of the fact that they are motivated by the desire to break free from territorial constraints; their underlying logic links them to their territory. Thus it is more a question of re-sizing a co-operatives territorial scale. The re-affirmation of the link to territory shows itself initially in the complementary nature of geographical proximity and by the choice of merger partner. It is also shown through the effort expended by the resulting unified co-operative in maintaining and re-building itself as a territorial entity.

Indeed, if on one hand geographic proximity intervenes a priori in the choice of merger partner, which would serve to maintain this territorial anchoring, it proves that, on the other

hand the factors behind the mergers show that organised proximity is a complementary, essential, determinant. On reading the reasons listed by directors for the choice of merger partners, it would appear that the concept of organised proximity (Rallet, Torre, 2004) is more important than geographic proximity. The merger process thus for the most part can be explained by the proximity of similarity starting the moment the merger is envisaged, but continuing during the merger process through relevant training schemes that are put in place to enable the business's success. Indeed, the merger plan would only seem conceivable if cultural and cognitive differences were weak. This lends support to the idea that through mergers, going-beyond the spatial lock-in is accompanied by going-beyond cognitive barriers/bolts.

Finally, merger processes are not explained exclusively in terms of geographical proximity and similarity, because the success of a merger relies on going even deeper, beyond the preliminary training. The proximity of belonging is thus an invitation to analyse the manner in which mergers favour the emergence of a new territorialised co-operative entity: mergers call for the rules and local regulations to be re-defined, since groups that have historically been distinct are brought into proximity and re-organised to belong to the new entity.

Associating groups which are often geographically close and strongly resemble each other, but retain their company's culture, can initiate redeployment of organisational resources. Merged co-operatives must aim for organisational homogenisation, or risk not achieving the merger's performance objectives. In each case, mergers result in the need to build a collective adhesion/unity around the new entity in order to establish its new territorial base.

3. Wine merchants at the crossroads: moving towards a new organisational model?

The Bordeaux model's peculiarity has always exerted a significant influence on its marketing methods. It should be noted that this model has often been one of the most effective forms of defence against the cyclical effects of international demand. The wines of Aquitaine and export markets have always shared a common destiny, but the parallel does not stop there. Although the wine world is still extremely fragmented, there has been considerable consolidation over the last few years. Admittedly, the world's two leading wine companies, both of which are American, each only hold circa 2.5% market share. The leading ten companies in the sector accounted for 13% of market share at the end of 2004. In comparison with a similar industry, the four leading brewery companies have more than 40% global market share.

Some companies have undergone upstream and downstream integration over a period of many years, and questions remain regarding their exploitation of synergies. In addition, the concept of concentration in distribution is still quite new. Furthermore, it is not surprising that, at the heart of a very traditional French sector, sensitivities often collide. However the integration movement has now started. Looking at the data for the Aquitaine region raises useful questions for analysis. New commercial approaches are required in order to respond to globalisation.

3.1. New organisational model to achieve an international standing

The world wine market has been undergoing a process of transformation for several years. The dynamics of this re-structuring focuses on the trade's core, through the synergic development of sub-segments, which progressively encourage the constitution of an oligopolistic market (Coelho and Rastoin 2001, 2005).

Alliance and mergers help to re-define a wine market which remains, in some respects rather traditional. For example, Constellation Brands' acquisition of Mondavi propelled the American firm into a dominant position on the global stage, ahead of its Californian competitor E & J. Gallo. This followed the announcement of a joint venture between E & J. Gallo. and McWilliams, the Australian company, for the marketing of their wines on the Australian market. In Australia, Foster's acquisition of Southcorp has resulted in a domestic market which is dominated by three firms which account for 80% market share.

Are these examples extreme, or should we consider that there is potentially a comparable situation in Bordeaux? Castel has never had a reputation for successful management of its brand portfolio, particularly for export. Pernod Ricard left the French wine market 15 years ago when they sold SVF to Castel...and then went on to acquire Orlando Wyndham Wines.

Firstly, it should be noted that French wines are not that far behind the others. In 2004 Castel, the French leader bought its principal competitor's (William Pitters) branded wine operations. This enabled them to double their sales promotion resources for large-scale distribution. This French operation, between two Bordelais companies provided the company leadership with some comfort on the domestic market. Was this an isolated case? One year later, on a completely different scale, Pernod Ricard acquired Allied Domecq. This acquisition put them up among the leading global players in the wine market. Was there a subsequent diluting of the French sector? When classifying the main companies in the global wine market by volumes, we noted that two of the top five ranked companies were French, with Pernod Ricard and Castel in third and fourth places respectively. The remaining three positions were occupied by large American companies. In addition to these two examples, could we also add LVMH? The company does not appear in the classification based on volumes marketed; however, measured by value ($\notin 2.6$ billion in 2005) they should surely appear.

		Volume (hl)	Market Share
Constellation Brands Inc.	USA	7 000 000	2.6
E&J Gallo Winery	USA	6 000 000	2.4
Pernod Ricard	France	4 000 000	1.5
Groupe Castel	France	4 000 000	1.4
Foster's Group Ltd	Australia	4 000 000	1.4
The Wine Group Inc.	USA	3 000 000	1.2
J. Garcia Carrion SA	Spain	2 000 000	0.8
Félix Solis SA	Spain	2 000 000	0.6
Bacardi & Co Ltd	Bermuda	1 000 000	0.5
Vina Concha y Toro SA	Chile	1 000 000	0.5

Source : Euromonitor International, data 2003 and 2004

The table illustrates a contracting global reality. The two leaders stand apart but are not so far ahead of the pack that alliances among some of the chasing pack could not create a new global leader It is also interesting to note that the Old and New Worlds are equally represented among the top 10. The global landscape is extremely fragmented. However, over the last few years there have been a lot of financial transactions, with 2005 witnessing transactions of nearly \$22 billion (Julia, Coelho, & Couderc, 2006).

The same is true for the Aquitaine region. After a certain slowing down of consolidation at the end of the 1990s, the 21st century witnessed it being renewed among wine merchants. Table 2 shows the main consolidation activity of Bordeaux wine merchants. Although the majority are takeovers, there are several mergers which indicate that alliances are just as feasible.

Year	"Agressor" companies	Companies taken over	
1991	A. Quancard	Renaud Lejeune-Chain	
1992	Sichel	Coste	
	Taittinger	Samazeuilh	
	GVG	Rivoyre & Diprovin	
	Castel	SVF	
	Crus & Domaines de France	SVF (fine wine branch)	
1993	La Martiniquaise	Bardinet	
	Benoît & Valérie Calvet SAS	Patrice Calvet	
1994	Les Caves de Landiras (Gpe Gd Chais de France)	Eschenauer	
	Grands Chais de France	Fines Specialités	
	Grands Chais de France	Diproval	
	GVG	SDVF	
	Moueix Export	Philippe Delestree Sarl	
1995	Dulong	Huet (merger)	
	Prodis	Johanès Boubée	
1996	GVG	SBVM vins effervescents	
1997	Val d'Orbieu	Cordier	
1998	Sovex	AVF	
2000	Adet Parrot	MergerAdet Seward et Parrot	
	Cordier, Mestrezat & Domaines	Mestrezat & Domaines	
	Duclot	Maison Jean Descaves	
2001	Freixenet	Yvon Mau	
	Ballande	Bernard & Meneret	
	Ballande	Sovex	
	CPDV	Corcage	
2002	Marie Brizard	Les Chais Beaucairois	
	Merger Antoine Moueix &	Antoine Moueix & fils	
	Lebegue	J. Lebegue & Cie	
	Sovex Woltner	Woltner	
2003	Mitsui	SED	
	Castel	Aurélien Grenouilleau	
	Castel	Vins Malesan, William Pitters	
		Regroupement André Quancard,	

Table 3.2: Main consolidation involving Bordeaux wine merchant (1991-2004)

	Oenoalliance	Promocom, Vinyrama
2004	Grands Chais de France	Crus & Domaines de France
	Yvon Mau	Grand Cru diffusion

Source : UNM adapted

3.2. Concentration effects in the wine industry: the case of the Bordeaux wine merchants

The Gironde region's wine market seems to be particularly fragmented. There are 783 registered companies (code NAF 513J), of which 600 are wholesalers and thus should not be considered purely as wine merchants. The table below shows the geographic situation of companies in the Gironde area whose principal activity is wine marketing. It also shows the number of employees. Almost 90% of registered firms are extremely small companies, in 70% of cases employing only one or two people. Thus the sector has to be viewed as being very fragmented considering the large number of wine-broking companies: all the more so if we judge by the particularly simplified composition of the companies, either in terms of workforce or legal structure. Indeed 80% of companies studied are 'natural person' companies (individual ownership firm, EURL, SARL private companies) and slightly fewer than 20% are capital companies (SA and SAS).

Place	No. of	%	No. of staff	No. of	%
	companies			companies	
Bassin d'Arcachon	11	1%	Fewer than 2 employees	546	70%
Haute Gironde	39	5%	From 3 to 9 employees	147	19%
Sud Gironde	69	9%	From 10 to 49 employees	68	9%
Entre Deux Mers	44	6%	More than 50 employees	22	3%
Médoc	60	8%	Total	783	100%
Bordeaux et Agglomération	302	39%			
Libournais	258	33%			
Total	783	100%			

Table 3.3: Operating companies in 2006 and their location in Gironde

Source : CCIB - 2006

Unsurprisingly most companies are situated in the Bordeaux and Libourne region. Other traditionally productive districts also have a few, mostly small, wine-traders, which are often the commercial entity of a wine-producing estate. Even the Arcachon area, which is better known for other products, has 11 wine-marketing companies. This relative geographical scattering across the 'département' combined with the number of staff, and dual systems between two professional syndicates promoting the specificities of towns only a few kilometres apart (Bordeaux and Libourne), gives the downstream part of the business a particularly divided aspect.

However, other data adds nuances to this fragmented landscape. First of all, one can observe that the level of integration between players in the downstream part of the sector is far greater

than what has been seen among the cooperatives. Admittedly it is not very clear but the trend has appeared to accelerate since 2000.

The 'Union des Maisons de Négoce de Bordeaux' comprises the main wine merchants of Bordeaux. Not all wine merchants belong to this professional organisation but the most important ones are members (if measured in terms of volume combined with anteriority). This union provides a range of services and support to help the management in their activities. The members of the 'Union' represent more than 90% of the Bordeaux district in terms of volume. Insofar as companies cease to be members whether they suspend their activities on account of merger/amalgamation, alliance or closure¹⁰, the change in member numbers reveal interesting information concerning the progressive integration in the field.

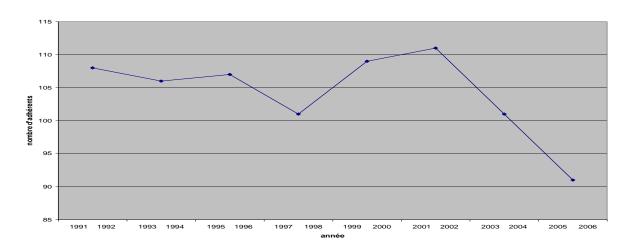


Table 3.4: Membership of UMN Bordeaux (1991-2006)

Source : UMN Bordeaux

In the trading year 2005-2006 there were 91 members. This was the first time the Union's membership had dropped below one hundred. On account of integration, the number of companies with an income which requires a subscription has fallen. This is the case for the biggest companies. However other factors also point to a contraction in the number of operators. The evolution of company creation under the code NAF 513J provides a good example. Between 1990 and 1994 in the Gironde (excluding the Libourne district) 165 companies were established and during the same period 103 filed for bankruptcy. This was a difference of 62 for a period when the business climate was not particularly profitable. It compares with a positive difference of only 19 companies for the period 2000 to 2004 (159 launches, 140 closures). Correspondingly, although according to non-digitised data, there were 78 creations and 4 bankruptcies for 1980 to 1984.

What is more significant is the concentration demonstrated by the volume of business carried out by a small number of companies. 30 firms market more than 90% of wine (expressed in terms of value), with a combined turnover of \notin 3 billion¹¹. Thus almost all of Bordeaux's trade is dealt with by 30 companies, which represent less than 3% of the officially recorded wine merchants. This impression is reinforced when one looks at the larger merchants more closely. The five leaders in turnover conduct nearly 60% of Bordeaux business. This rises to 70% when we expand to the top 10 leaders. Fragmented in this way, the downstream of the sector looks a lot less disjointed where several players have attained leadership status through company strategies often based on different competitive advantages but founded on a similar philosophy: the crucial importance given to product-market accordance. From an economic

point of view the success of these companies is unquestionable. In addition they have all been either offensive or defensive¹² players in integration operations.

Finally, regarding the upstream of the sector discussed previously, there is a dominant feeling of it being a sector in metamorphosis. Although still quite high, the number of players is falling, and concomitantly the role of several companies appears to be strengthened insofar as what has been observed elsewhere (Tanguy & Saulpic, 2002). For Tanguy and Saulpic the leadership can be explained equally well by the dynamic approach to the market that these entrepreneurs have taken, as by the structure of a sector where, at an international level, any particular alliance between two or more of the chasing pack could give rise to one of the largest companies. Beyond the current discussions and activities carried out over the past few years, it is sensible to look at the economic pertinence of large-scale integration. None of the big companies question the essential interest for the competitiveness of the sector. In a sector where margins are tight, the only logic for progressive consolidation is to create progressively a group with leading positions.

3.3 Towards a new regional competitive model?

Apart from the Castel group previously cited, some businesses in Bordeaux have gained leading positions mainly based on competitive advantage due to a very good understanding of the market conditions. The critical size question has historically never been considered as a key success factor. Nowadays, the evolution seems to show the opposite. The question remains whether the regional wine industry has been wrong to follow a strategy of concentration. On one hand there is already a regional example. Castel's success is also built upon dynamic acquisition operations implemented over decades. With regards to existing potential and not taking into account local context, unquestionably Aquitaine and its vineyards could lay claim to a status as new world-level competitors. However to some observers this seems debatable. Sector territorial specificity is highly reliant on the extreme reactivity of its components, mainly due to their limited size (Davenport, 2005). Then the question becomes: is economic common sense based on maintaining an extremely decentralised sector where individual interests prevail or is it on its operational structure even if it means diluting its specificities?

Considering the range of concentration methods adopted, it would seem that mergers and acquisitions dominate. Motives differ according to the different players involved, but all share the conclusion of adapting the production tool and/or marketing to new demands. The main argument is commercial which, in conjunction with financial ones, stimulates the opportunities for taking over property or marketing assets with initial 'short term' reasoning. While it may be normal to see this among wine merchants whose commercial activity is by definition that of a business, the willingness on the part of co-operatives appears to be very novel. However, there are still differences between their respective approaches. On closer inspection, the activities in wine-trading suggest more offensive and individual aims. Cooperatives, at first glance, appear to favour more defensive and integrated approaches.

Conclusion

Despite its image as an arc sector driven by its traditional professional uses, the structure of Aquitaine's wine sector is gradually heading towards contraction. This was one of the first

observations of this study. Even if the sector continues to involve a plethora of players, a process of integration is fairly visible.

Our study finishes with an operational analysis from the point of view of the groups involved. If the upstream and the downstream of the sector is reorganising itself – in strategic terms – it is because they understand perfectly that commercial investment is one of the keys to the future development of the sector. How far will this reasoning go between the two parts of the sector? Will upstream-downstream integration, as operated by some wine merchants and chateaux, find in this its most accomplished form?

Although at face value it seems seductive, it is a good idea to give careful consideration to exactly what form concentration should take. Often and paradoxically, even if the vision is long-term, short-term actions prevail. This occurs despite strong commitment because questions of mutual adjustment are not fully resolved. Companies may choose to confront the reciprocal learning required to combine resources at a later date. Currently, successful examples do exist. However there have been failures. Only those who are still around in 20 years will have a future.

Furthermore it is good to ask questions about the nature of desirable alliances as the Aquitaine wine sector develops. Perhaps the reasoning for traditional competition, identified in terms of scale and which appears to be steadily gaining dominance, could be challenged by a more coordinated alternative where the value creation is shared more evenly. This type of operation, which is a more modern form of strategic alliance, is often more complex as it is less 'brutal' in its approach. Faced with these issues, even if re-organisation of the sector seems inevitable, it should take into account the sector's individual structure which, it must be remembered, has demonstrated its robustness over decades.

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Footnotes

⁵ Information is based on combining data from a document released by the FCVA with the work of Jean Claude Hinnewinkel and Philippe Roudié (2001) « une empreinte dans le vignoble » LPDA publications, and consultation of cooperative web sites.

⁶ The merger of Landerrouat/Duras with the small Cazaugitat cooperative in May 2006 has not been taken into account.

⁷ We are aware of new merger projects (2006) being considered in Aquitaine.

⁹ The director of UNIVITIS is the director of subscribing cooperatives and cooperative employees are on the UNIVITIS pay roll.

¹⁰ It must be noted that there are relatively frequent cases of companies disappearing and then re-appearing the same year under a different status.

¹¹ Data UMN Bordeaux

¹² The commonly used term 'defensive' hardly suits the firms encountered. The sales of certain activities such as the brand "Malesan" to Groupe Castel for example, were actively carried out when the brand was in good health, in order to consolidate the emergence of a strong brand for the acquiring party.

¹ Agreste census data, 2000.

 $^{^{2}}$ There is only one appellation for sparkling wines in the region (Crémant de Bordeaux). In 2000 this represented, 15 500 hl, or 0.2% of AOC wines produced in the Gironde area et 0.19% of AOC production <u>AquitaineGironde</u> (source :Viniflhor).

³ Disruptive innovation consists of launching a product on to the market that may be seen to be intrinsically 'inferior' to many of the current market leaders. Consequently it cannot be sold to usual consumers. However it is simpler and more affordable and takes root in hitherto unexploited areas of the market. Then the product improves in order to join the others. In doing so it plays an important role in re-shaping the market it has disturbed totally

⁴ One notes that the wine census data differs from the information issued by the Federation of Anquitaine wine cooperatives (FCVA) concerning the number of holdings using cooperatives to make wine (6 057 for the census, and around 8 000 for the FCVA). This is due to the nature of the data. The FCVA includes all holdings which have grapevine winegrapes and which make wine in cooperatives. In Aquitaine there were more than 18,000 holdings with grapevine wine grapes in 2000.

⁸ We interviewed the following: the directors of the Sigoulès cooperative in the Dordogne which merged in 1992 with the Lamothe-Montravel cooperative: the directors of the Saint Vivien cooperative in the Dordogne which merged with the Carsac de Gurson cooperative in 2004: the directors of the Landerrouat cooperative in Gironde which merged with the Duras cooperative of Lot et Garonne in 1998: the former director and current director of UNIMEDOC cooperative (this began as a cooperative commercial union which later merged with the Prignac, Queyrac and Begadan cooperatives (2002) and with the Ordonnac cooperative (2004/05). These are all Médoc establishments): the ex-director of Marcillac cooperative (Hauts de Gironde) which merged with Anglade, Générac and Saint Gervais in 2004; and finally the director of the cooperative Union UNIVITIS which was recently joined by the Port Sainte Foy cooperative.