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A Country-Level Analysis of Competitive Advantage in the Wine Industry

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INTRODUCTION

Globalization, by definition, is not a new phenomenon for the wine industry as regional wine producing and consuming countries have been trading for thousands of years. However, until the early 1990's the production and consumption of wine was relatively localized. Wine producers in distant countries were traditionally isolated from each other, and most of the world's wine drinkers consumed either local wines or imports from nearby producers, such as the United Kingdom's historical penchant for French wine. As winemakers had minimal cross-border interaction, they followed local traditions.

However, competitive positions and consumption patterns in Old and New World countries have changed radically and rapidly in recent years. For example, global wine exports as share of global production have increased from 15% to 25% percent over the 1990s (Anderson et al, 2001) and in 2004 topped 26%[1]. Decreasing tariffs, logistical cost reductions and the lowering of certain trade barriers have afforded wine producers the opportunity to sell their products outside of their own region. This new international access is reshaping how wines are produced and consumed alike, and those countries best able to adapt to this wider and more competitive playing field will gain significant national competitive advantage.

Moreover, there has been a significant increase in export orientation by both New and Old World producing countries. In 2001 five New World countries, Australia, Canada, Chile, New Zealand, and the US, joined forces to "diminish barriers by reducing regulatory burdens faced by winemakers" by signing the Mutual Acceptance Agreement on Oenological Practices (Wine Institute, 2004b). In response to increased competition from the New World, many Old World countries have expanded their target markets to Asian countries such as China and India (Business News Onlypunjab.com, 2005).

Finally, increased global trade in the past 20 years has resulted in shifts in wine consumption patterns. For example, although China ranks as only the 24th largest importer of US wine, "few countries can boast the long-term potential that this largely undeveloped market represents" (AgExporter, 2004). Moreover, Dewald (2003) reports an emerging pattern in Hong Kong from consuming Chinese tea and brandy to drinking red wine. Chinese and Indian consumers have shown increased demand for foreign wines (Wine Institute, 2004b). China's emerging middle class, enriched and open to purchasing non-traditional products, could provide significant new opportunities for wineries worldwide.

The purposes of this paper are to examine driving forces and key success factors related to the increasing globalization of the wine industry, and to analyze the competitive advantage positions of four Old and five New World wine producing countries. Each country will be profiled using key industry data and analyzed regarding their national capabilities to address five key success factors contributing to their competitive advantage positions.

1 Calculations derived from Wine Institute (2004a).

PROFILES OF SELECTED COUNTRIES

To better understand the major national players in the wine industry this section profiles several large wine producing countries based upon key trade data. The Old World countries, defined as those within Europe, have a long, uninterrupted history of wine production and consumption. The four largest European producers, France, Italy, Spain, and Germany, accounted for almost 55% of global production and 40% of consumption in 2004, the most recent year for which complete data are available (Table 1).

TABLE 1: Wine Production and Consumption by Country, 2004

		2004 Production		2004 Consumption		
		billion liters	% of world production	billion liters	% of world consumption	per capita consumption (liters/year)
Old	France	5.7	20%	3.4	14%	55.3
World	Italy	5.1	18%	2.8	12%	48.7
Countries	Spain	4.2	14%	1.4	6%	34.5
	Germany	1.0	3%	2.0	9%	24.6
	subtotal	*16.0*	*55%*	*9.6*	*40%*	
New	Unites States	2.4	8%	2.8	12%	9.4
World	Argentina	1.5	5%	1.1	5%	28.1
Countries	Australia	1.4	5%	0.4	2%	21.9
	South Africa	0.9	3%	0.4	2%	8.8
	Chile	0.6	2%	0.2	1%	14.3
	subtotal	*6.8*	*23%*	*2.2*	*21%*	
	world total	**29.0**		**23.7**		

Source: Adapted from Wine Institute (2004a).

New World countries are defined as those outside Europe. Five of the largest and most established New World producers are the United States, Argentina, Australia, South Africa, and Chile. These five countries comprised 23% of global production and 21% of consumption in 2004. Although accounting for a large majority (78%) of global wine production, these nine Old and New World countries profiled have an even larger share of the international export market, with Table 2 showing that they are all members of the 10 largest exporters and between themselves were responsible for 86% of total wine exports in 2004.

Old World Wine Producing Countries

France. Traditionally known as the leader, France ranks as the largest producer and consumer of wine, accounting for 20% of world production and 14% of consumption (Table 1). Impressive as these figures are, France's wine consumption has been in decline as per-capita consumption has dropped from 60 liters to 55 between 1997 and 2004 (Wine Institute, 2004a) and is about half what it was a generation ago (Cholette, 2004). Their historic dominance of the export market has also been waning; at 1.43 billion liters, France is now the number three exporter behind Italy and Spain (Table 2). The French have been losing market share in countries such as the UK, where Australia is now the largest exporter (Cholette, 2004).

TABLE 2: Top 10 Wine Exporters in the World

		2000 Exports		2004 Exports		
2004 rank	Country	billion liters	% of world's exports	billion liters	% of world's exports	Growth in Volume, 2004 vs. 2000
1	Italy	1.76	28%	1.454	19%	-17%
2	Spain	0.89	14%	1.448	19%	63%
3	France	1.52	24%	1.43	19%	-6%
4	Australia	0.31	5%	0.65	9%	108%
5	Chile	0.27	4%	0.47	6%	73%
6	USA	0.28	4%	0.39	5%	40%
7	Portugal	0.19	3%	0.32	4%	68%
8	Germany	0.25	4%	0.27	4%	8%
9	South Africa	0.16	3%	0.26	3%	64%
10	Argentina	0.10	2%	0.16	2%	63%
total exports from 9 nations profiled		**5.54**		**6.54**		
worldwide exports		**6.27**		**7.60**		

Source: Adapted from Wine Institute (2004a).

In addition to competition from the New World, which intensified dramatically in the late 1990s, French wine makers also face external economic, social and political challenges. France lost market share in the United States due to informal boycotts in the wake of the Iraq war. The rise of the euro against other currencies, such as the 30% increase relative to the dollar in the last few years, has also put French wines at a comparative pricing disadvantage. Yet the consensus among experts is that the primary threat to the French export market is internal to the industry: the inability of the appellation system to appeal to what is becoming a global way of understanding wines (Business Report, 2004).

Italy. Italy is the second largest producer and consumer of wine (Table 1). Italy was the largest exporter of wine by volume in 2004, accounting for 19% of all the wine exported worldwide (Table 2), a decrease from years past. Italy has recently witnessed the internationalization of its wine industry, as many foreign-based companies acquired or formed joint ventures with Italian wineries, such as Gallo's Ecco Domani, and the partnership between Italian producer Frescobaldi and US-based Constellation. A few Italian wine companies are also investing abroad; Masa and Antorini have ventures in South America. While large companies exist, most of the country's production is fragmented into many small wineries. Italy is second to France in wine consumption but is likewise suffering a decline in per-capita consumption.

Spain. Spain is the third largest producer of wine in the world, accounting for 4.2 billion liters of wine in 2004 (Table 1). Most Spanish production is from smaller bodegas. Like the French and Italians, Spaniards have a strong tradition of wine consumption (Table 1) although per-capita consumption has also been decreasing slightly. As the domestic market consumes less than half of national production, Spain is a major exporter. Unlike other Old World wine producers, Spain has experienced dynamic growth in their export market in recent years, jumping to 2nd place by volume (Table 2). Spain's openness to foreign trade and investment has encouraged foreign producers' investment. For instance, Allied Domecq has recently acquired two large Spanish brands, Maques de Arienzo and Bodegas y Bebidas.

Germany. Germany produced 1 billion liters in 2004 (Table 1). German wine production is dominated (80%) primarily by inexpensive, sweet white wines, such as Riesling (Wickham et al, 2001). While Germany has always been a large wine producer, the nation is an even great consumer, purchasing 2 billion liters in 2004 (Table 1) and is thus a net importer. Per-capita consumption is relatively low for a European wine-producing country at 25 liters per year (Table 1), though unlike the previous countries profiled, per-capita consumption has recently been on the rise. At 0.27 billion liters, Germany accounted for 4% of the total world wine exports in 2004 (Table 2).

New World Wine Producing Countries

United States. Started primarily by French and Italian immigrants in the late 1800's California's winemaking tradition is only a few generations old. A global reputation for fine wine is recent, when two Napa Valley wines won gold medals at a 1976 blind-tasting competition in Paris, an unexpected victory by everyone, even the winning winemakers (Lukacs, 2000). While over 2000 wineries exist, the top five wine companies have cornered two-thirds of the domestic wine market (Silverman et al, 2002). In addition to large wineries like Gallo, diversified conglomerates and wine groups account for a large fraction of US wine production and are able to leverage their size to enjoy both economies of scale and scope.

With 90% of production concentrated in California, the United States is the fourth largest producer of wine, with 2.4 billion liters in 2004 (Table 1). The US is the third largest consumer, at 2.8 billion liters in 2004. Table 1 shows the US per-capita consumption is less than 10 liters a year. Diverse consumer behavior patterns can explain the low consumption rate; only 10% of adults make 90% of all wine purchases (Himelstein, 2002). Research into American consumption patterns shows that of the remaining 90% who are not regular wine consumers, half are teetotalers and the other half prefer beer or spirits (Moulton et al, 2001). Converting more Americans to wine from other spirits has great potential. If 10% of beer purchases were substituted with the same volume of wine, the US wine market would double. Wine Institute (2004a) data shows that per-capita consumption has been steadily rising these past few years, and many project the United States will become the world's largest wine market by 2008.

TABLE 3: Total US Wine Exports 2003 and 2004

Importing country	Value (million $)		% change	Volume (million liters)		% change
	2003	2004		2003	2004	
United Kingdom	212.9	299.1	40.5	119.0	142.9	20.1
Canada	112.4	123.8	10.5	59.6	66.1	10.9
Netherlands	74.7	85.6	14.7	33.7	33.2	-1.6
Japan	60.7	82.1	35.3	37.3	71.3	88.3
Germany	19.3	26.8	38.9	19.3	27.7	43.4
Switzerland	14.4	14.0	-2.7	7.8	7.6	-1.9
Belgium	14.0	13.4	-3.7	8.3	11.7	41.6
Ireland	13.0	13.9	13.0	6.4	6.4	0.7
France	12.2	10.3	-15.5	8.6	8.9	4.3
Denmark	10.4	14.0	35.2	6.3	9.6	51.1
US Total Exports	**621.0**	**794.3**	**27.9**	**349.2**	**449.7**	**28.8**

Source: Adapted from Wine Institute's Key Facts, Wine Institute, 2004a.

Interestingly, US consumers have always shown strong inclination to purchase foreign wines. Not only has the US always been a net importer of wine, but the imports to exports (in value) ratio between 2000 and 2002 has significantly increased from 4:1 to 5:1 despite a declining dollar (Cholette et al, 2005). Many domestic producers worry that they will continue to lose market share both overseas and locally to foreign producers. Nevertheless, the United States has a strong export presence with the largest importers being UK, Canada, and the Netherlands (Table 3).

Argentina. Argentina has the oldest wine culture outside of Europe and ranks second among the New World countries in both production and consumption at 1.5 and 1.1 billion liters respectively in 2004 (Table 1). Argentineans consumed 28 liters per-capita in 2004, the highest rate outside Europe. Although impressive by Old World standards, Argentinean export growth has been less dynamic than that of many other New World producers. In 1990 Chile and Argentina exported almost equal volumes of wine. Over the following decade Chile's exports grew more than six fold to 309 million liters in 2001, whereas Argentina's exports merely doubled to 88 million liters (German Wine Institute, 2005). To catch up, Argentina developed its own version of the successful Australian "Strategy 2025" plan that established wine industry goals and have experienced recent success; Table 2 shows a 63% growth in exports from 2000 to 2004 .

Australia. Australia accounted for less than 1% of the world production prior to 1970 (German Wine Institute, 2005). By contrast, in 2004 Australia produced 1.4 billion liters of wine, 5% of global production (Table 1). Many reasons exist for Australia's success in the global market. The initial motivation to succeed in export markets stemmed from low domestic consumption rates. Per-capita consumption is only 22 liters/year, thus Australia's small population consumed only 0.4 billion liters in 2004 (Table 1). Developed by wine producers and government officials alike, "Strategy 2025" has been the force behind domestic and international expansion of the Australian wine industry through measures promoting exports and preventing high taxes (Winemakers' Federation of Australia, 2003). The plan envisions Australia becoming the most influential wine producer in the world by 2025. As to industry structure, Australian wine industry is highly concentrated with four companies accounting for over 75% of production, providing economies of scale in producing value-for-money wines, as well as promoting them (Geene et al, 1999).

Australian wines have also been successful at what has traditionally been an American forte – brand building. Top-selling brands like Jacob's Creek, Alice White, and Yellow Tail were developed mainly for international markets (Walker, 2003). Colorful labels, imaginative names and a decent value proposition helped to make Australians the fourth largest exporter in 2004, a more than doubling of export volume from 2000 (Table 2). The main export markets for Australia are the UK and US which means that Australia is the most threatening competitor to US wineries domestically, as well as in their export markets. Australian experts predict their 2006 exports will top 0.75 billion liters and grow to 1.3 billion liters by 2011 (Advertiser, 2006).

South Africa. In 2004, South Africa's production of 0.9 billion liters was more than double its domestic consumption (Table 1). While South Africa has been expanding into global markets, its wine industry has faced challenges in both production and domestic consumption, including regulatory and other procedural requirements emanating out of an ever-evolving new South African government and the overall uncertainties of national social, economic, and political stability. The South African wine industry is also

consolidating as seen by the proposed merger of the nation's Distillers Corporation with Stellenbosch Farmers Winery Ltd, which would form the largest alcoholic beverage corporation in South Africa (Murchie, 2001). Larger corporations and strong collaboration within the national industry have enabled aggressive and effective marketing efforts abroad; Table 2 shows South Africa experienced a 64% growth in exports from 2000 to 2004.

Chile. Chile has the benefit of an ideal climate for grape growing. With their return to democracy in 1990, the economic climate also improved. Large foreign investments enabled significant production expansion and export of quality wines that continues to this date (Foderaro, 2003). Among the New World countries, Chile has proved to be a top producer (0.6 billion liters) and exporter (.047 billion liters) of wine in the world (Tables 1 and 2). At 14 liters/year, Chilean per-capita consumption is lower than Argentina's but higher than that of the US (Table 1), though Chile's small population will necessarily limit domestic consumption growth.

Chile's export performance has been phenomenal, with 0.47 billion liters of wine exported in 2004 (Table 2), a ten-fold increase from 47 million liters in 1990 (German Wine Institute, 2005). The primary export markets for Chilean wines are the US (35%) followed by the UK (18%) and Canada (7%). Exported wines are produced by a handful of large companies, with few labels and consistent brands. With its ideal growing climate and low land and labor costs, Chile has been an attractive target for foreign investment (Hulot, 2003) and Gallo has just recently (2006) launched a Chilean brand in the UK market. Some of this investment will be used to fund expansion of production, and predictions show that by 2014 Chile may be able to produce 1.3 billion liters of wine, with exports of 1 billion (Richards, 2006).

DRIVING FORCES IN THE WINE INDUSTRY

The repercussions that wine producers are experiencing from globalization, especially wider and stronger competition, are further exacerbated by the following driving forces: 1) a worldwide over-supply of grapes and the incumbent pricing pressures 2) increased consolidation at the producer, distributors and retailing sectors, and 3) shifting consumer behavior patterns.

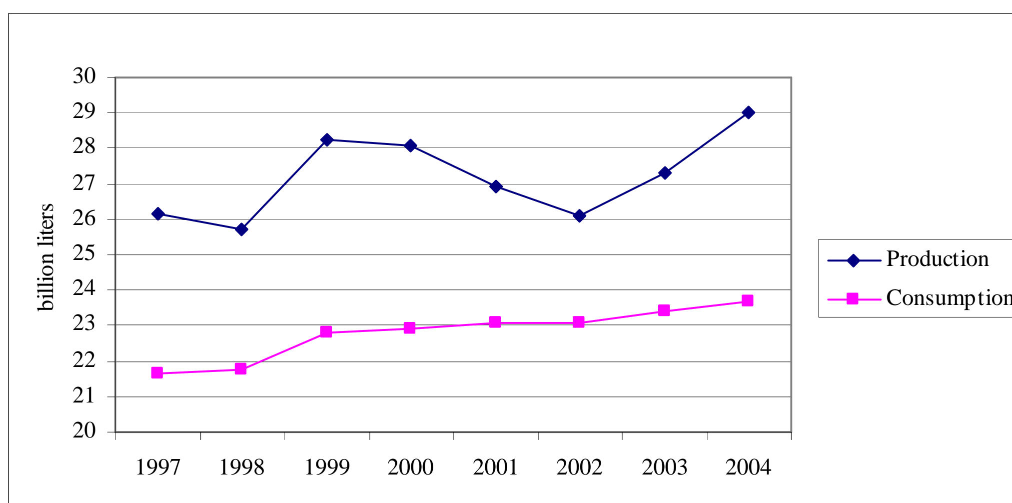
Worldwide Over Supply of Grapes and Incumbent Pricing Pressure

Given increased plantings and favorable weather conditions in the past few years, the oversupply of grapes has been a driving force. Since there is a several year lag between planting vines and increasing or shifting production to varietals that are more popular, it should not be surprising that the supply of wine grapes is often at variance with demand (Cholette, 2004). As shown in Figure 1, although worldwide wine consumption has been growing it is below world production every year for the past 8 years, and surpluses have ranged between 15% and 20% of total production.

To prevent prices from falling further due to this excess capacity, some wine producers have had to resort to drastic measures. France has introduced per-hectare caps on production introduced, and the EU is currently subsidizing distillation of wine into industrial alcohol. In California's Central Valley, 70,000 acres of vines were plowed under in the height of the domestic oversupply (Murphy, 2003). Yet the more some countries decrease their vineyard acreage, other countries like Chile and Australia are poised for even

greater expansion. Thus it would seem unwise to assume that decreasing a country's yields will not tide the rising *global* supply of wine.

Figure 1: Global Wine Consumption and Production, 1997- 2004



Source: Adapted from data from Wine Institute (2004a).

The second challenge caused by oversupply stems from price-cutting by rivals. Imported wines account for one out of every four bottles sold in the US, and domestic wine producers need ways to compete with the low price and high quality of imports in order to regain market share. Pricing pressures could decrease overall industry profitability if wineries engage in price wars. The more unpalatable alternative is to not compete and then lose market share to other domestic or international producers who offer quality wines at lower prices. Historically, in times of oversupply a country restricted its markets to imports. However, many countries signed trade agreements to keep markets open. For instance, Australia, Canada, New Zealand, and the US have agreed to accept differences in winemaking techniques and will be approving differences on labeling laws and tariff agreements to reduce trade barriers; oenological differences can no longer be used as an excuse for protectionism (Wine Institute, 2004b).

Consolidation of Wine Producers, Distributors, and Retailers

Through mergers and acquisitions, consolidation is occurring among wineries worldwide. When an industry starts to mature, firms enhance profits by consolidating to become bigger players, creating competitive advantages through economies of scale and in gaining negotiating power with distributors. Some industry experts predict that in the next five years the vast majority of wine sales will be dominated by ten or so borderless mega-consortiums (Gettler, 2003). Closely tied to these mergers and acquisitions is the increased rate international technology transfer; employees from big and small firms alike are spending more time abroad studying the other countries winemaking techniques (Williams, 1995).

In regard to distribution, the 20 largest wholesalers control 70% of US distribution (National Spirits & Wine, 2004 Annual Report). Large distributors enjoy economies of scale and are able to pass some of their lower costs to the retailers, increasing the total efficiency of the supply chain. However, distributor

consolidation has made it increasingly difficult for smaller producers to get their product onto the retailers' shelves. Wholesalers prefer to distribute only the top selling brands, in lieu of small or new labels, since their profits come from markups on products they are able to replenish quickly (Cholette, 2004). Distributors wish to avoid products that may sit on store shelves too long and prefer brands that are proven bestsellers. The recent US Supreme Court ruling that effectively relaxes some direct shipping prohibitions, offers some recourse to small wineries to reach US wine consumers (Wine Institute, 2005). It remains to be seen how small wineries can employ creative marketing and distribution strategies to enjoy the benefits of direct marketing when shipment involves small quantities and a nontrivial cost.

At the retail level, consolidation is occurring in both restaurants (on premise) and in supermarkets (off premise) sectors. Smaller brands have a harder time gaining placement on the shelves and on wine lists because the head office may choose a few brands to use in all of their locations. Supermarkets accounted for a 41% share of US retail wine sales in 2000, so consolidation of these chains is relevant to the industry (Wickham et al, 2001). The shift to mega-supermarkets is no longer solely an American phenomenon as the International Wine Investment Fund estimates 60% to 80% of global wine sales now occur through such supermarkets (Gettler, 2003). As a result, tens of thousands of international wine brands vie for space on the store shelves of these fewer, larger, and more powerful supermarkets.

Shifting Consumer Behavior Patterns

Ultimately, what drives the wine industry is the consumer. The Old World producers have had the advantage of tradition behind them in their home markets. Over the centuries wine has become an integral part of many European cultures and is considered standard accompaniment at lunch and dinner. However, there is little room for expansion in their home markets and most of these countries are experiencing declining per-capita wine consumption (Table 4), as social campaigns against alcoholism and drunk driving have increased.

TABLE 4: Shifts in Per Capita Consumption over Recent Years

	Per-Capita Consumption (l/yr)			growth
	1997	2001	2004	2004 vs. 1997
France	59.7	57.2	55.3	-7%
Italy	54.2	52.9	48.7	-10%
Spain	36.1	34.6	34.5	-4%
Germany	23.5	24.2	24.6	5%
Unites States	8.0	8.8	9.4	18%
Argentina	24.6	32.6	28.1	14%
Australia	19.0	20.5	21.9	15%
South Africa	9.1	9.2	8.8	-3%
Chile	15.9	14.7	14.3	-10%

Source: Adapted from data from Wine Institute (2004a).

Per-capita wine consumption in most of the New World countries substantially lags that of Europe, but is comparatively more on the rise (Table 4). Pushing affordable wine on to the shelves of world markets will not necessarily increase global consumption by itself. Consumers have to pull the bottles off the shelves in consistent purchases. For instance, US per-capita consumption has been increasing modestly, but

in order to increase further wine must be marketed in a way that will promote everyday drinking among a greater percentage of the population in a socially responsible manner.

Currently 80% of US wine consumers consider themselves “uninvolved” or uneducated about wine, intimidated by “wine geek speak” on the back of wine labels, and have trouble remembering which wines they bought and liked. (Stallcup, 2005). Researchers watching consumer behavior have noticed shoppers appear to be confused during the wine selection process. Customers have expressed that they want to easily and consistently identify the wines they will enjoy without having to solicit personal assistance in the store. Many inexperienced wine drinkers feel confused about all the wine choices, especially the intricacies of foreign appellations. Producers need to design and label wines that consumers can better understand. Another design feature that may make wine more approachable to the consumer is using twist top closures instead of corks. Recently, an Australian packaging designer company, which invented a synthetic substitute for cork won the prestigious gold medal for the "Technical Innovation Award" at the Australian Packaging Awards. Once again, Australian producers proved more adept in simplifying wine packaging for of consumer (Zork, 2005).

KEY SUCCESS FACTORS AND NATIONAL COMPETITIVE ADVAVANTAGE

Globalization and other driving forces will continue to exert significant influence on the wine industry. Some countries are better positioned to gain from globalization than others. Figure 2 presents a matrix of the nine countries profiled with respect to how they stack up five key success factors that contribute to global competitiveness in the marketplace. The factors analyzed include 1) existing domestic market position, 2) domestic market growth potential, 3) economies of scale and/or underlying cost structure benefits, 4) adaptability to industry changes, and 5) potential to attract foreign investment.

FIGURE 2: Competitive Advantage Position by Nation

	Exiting Domestic Market Position	**Domestic Market Growth Potential**	**Economies of Scale/ Cost Structure Benefits**	**Adaptability to Industry Change**	**Potential to Attract Foreign Investment**	**Overall Competitive Advantage**
New World Countries						
United States	Strong	Strong	Moderate	Strong	Strong	**Strong**
Australia	Weak	Weak	Strong	Strong	Strong	**Strong**
Chile	Weak	Weak	Strong	Strong	Strong	**Strong**
Argentina	Moderate	Moderate	Moderate	Strong	Moderate	**Moderate**
South Africa	Weak	Weak	Moderate	Strong	Moderate	**Moderate**
Old World Countries						
Italy	Strong	Weak	Weak	Moderate	Moderate	**Moderate**
Spain	Moderate	Weak	Weak	Moderate	Moderate	**Moderate**
France	Strong	Weak	Weak	Weak	Moderate	**Weak**
Germany	Strong	Moderate	Weak	Weak	Weak	**Weak**

The first factor is the existence of a strong domestic market, defined as where a large volume (2 billion

or more liters/year) of wine is purchased and where consumers readily select domestic wines. Countries purchasing less than 0.5 billion per year are defined as having a weak domestic market. The second factor is the potential for growth within the domestic market, as producers may have local knowledge and other national advantages such as distribution. In order for this factor to be considered "strong", the nation must possess both a large population and increasing per-capita of wine, as shown in Table 4. Countries with decreasing per-capita consumption are labeled as "weak" in this category. The third factor, economies of scale and cost structure benefits addresses the advantages of company size and the low cost of factors of production in certain nations. Countries where larger firms dominate the production have the advantages of scale and scope as well as improved power in promoting and pushing their wines to consumers and retailers. Additionally countries with scarce or high priced land and labor incur higher costs of production. Fourth, industry adaptability to change summarizes the willingness and ability of producers to experiment with cost saving production methods or to pioneer new marketing techniques. It also addresses if producers are free from excessive regulations and blind adherence to long-standing traditions. Finally, countries that are politically stable and have industry-friendly climates or other natural comparative advantages that will attract foreign investment in wine production, which makes these countries stronger global competitors (Collins, 2004).

Old World producers were the first to define tastes and quality standards and they have traditionally been supported by a strong local consumer base. The New World has had to work hard to build their wine industry, both in infrastructure and reputation. Large-scale wine production is relatively recent, and many of the New World producers recently faced difficulties such as currency collapse, prohibition, and international sanctions. Per-capita consumption also lags that of the Old World countries. Yet New World producers have recently been successful in producing consistent quality wine and in capturing global market share. The Old World countries are gradually losing market share as New World producers increase the scale and quality of production as well their branding expertise (Wickham et al, 2001).

Figure 2 presents how each country stacks up on each key success factor and rates its overall competitive advantage. The countries fall into three groups with respect to their comparative competitive advantage position. The group with the strongest competitive position includes United States, Australia, and Chile. Australia and Chile both have small populations that provide for a tiny domestic market with little potential for growth. However they are very well positioned to produce and export wine with their adaptive, large-scale producers and their great lure for foreign investments, providing them with a position of a strong competitive advantage. With respect to production, cost structures suggest Australia and Chile may be better positioned that the US. However, economies of scale and economies of scope in marketing offer an advantage to the US because it is a populous and affluent nation. While the US wine market is already significantly larger than Australia and Chile, it has even more potential to expand. With all other key success factors strongly favorable, the US also possesses significant competitive advantages.

The group of countries with moderate competitive advantages includes Italy, Spain, Argentina and South Africa. Lingering economic concerns and disadvantages of scale prevent Argentina from being ranked as competitively as neighboring Chile. Likewise, South Africa has strong marketing economies of scale and moderate production economies of scale, but currently domestic unrest has diminished its attraction for foreign investment and ability to expand its home market. Spain and Italy are hampered by decreasing consumption rates and small economies of scale in production, but they have shown promise in their ability to adapt to an increasingly internationalized marketplace and to attract foreign investment.

These are the two Old World countries profiled that show a moderate overall comparative advantage.

The countries with the weakest competitive advantage positions in the global wine industry are two traditional strongholds of wine production in the Old World: France and Germany. While they have large domestic markets, there is little opportunity for further growth. The concentration of production into small wineries, scarce land and labor, complex labeling practices and inability to leverage new production, and marketing techniques does not bode well for effective competition in a global market place. Nor does either country hold much potential for attracting foreign investment, save for some traditionally undervalued areas of France, like Languedoc.

In conclusion, it is clear that the New World countries are currently positioned better to capitalize on the opportunities created through industry globalization and other current driving forces. Italy and Spain emerge as the best positioned Old World nations. Not surprisingly, Australia recently ousted France to become the largest wine supplier to the UK despite being thousands of miles away and producing only a third as much wine as France (Beveragedaily.com, 2005). This competitive advantage scenario should be a wake-up call to wine producing countries. Indeed, some Old World countries have begun efforts to better adapt to industry-wide improvements in production and marketing practices (Business News Onlypunjab.com, 2005). However, it is clear that many nations need to increase support that will encourage production and marketing innovations to improve their competitive advantage position to help local wineries succeed in the changing and increasingly competitive wine marketplace.

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