



## **Bordeaux wines on the Japanese market: how the advantages of the traditional supply chain turn out to be an obstacle?**

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### ***Abstract***

*Since 1970s Japanese wine market has steadily grown and shown strong preference for fine Bordeaux wine. A new trend in the market is the emergence of organic wine. Over the last few years, natural - organic or bio – wines have developed a notable presence in the Japanese wine market. We focused on the analysis of these changes; our study has a double purpose: to develop the Bordeaux wine supply chain (SC) model for Japan and to identify the barriers and driving forces of the natural wine companies in the Bordeaux region, the SC challenges they face in Japan.*

*We employed content analysis and critical incidence approach in our study. Our study were grounded on a series of interviews with numerous actors of the Bordeaux wine and with several wine distributors in Japan.*

*A SC model, from the Bordeaux wine suppliers to Japanese wine consumers, is presented. Our findings show a marked heterogeneity of the Bordeaux natural wine production sector and considerable differences in SC solutions, which only partly depend on the core competencies of the actors. Sustainable quality issue is seen as a driving force on the side of wine producer and on the side of the Japanese market.*

*◦Practical implications: The multifaceted and fragmented SC system of Bordeaux wine scene with wine producers, wine merchants, wine brokers, retailers, wine associations, union and syndicates, growing e-commerce solution creates barriers to successful evolution of tradition SC practices; its complexity puts forward the issue of SC integrity.*

**Key words:** Wine supply chain, Distribution in Japan, Bordeaux wines, Organic and Natural wines.

## 1. INTRODUCTION

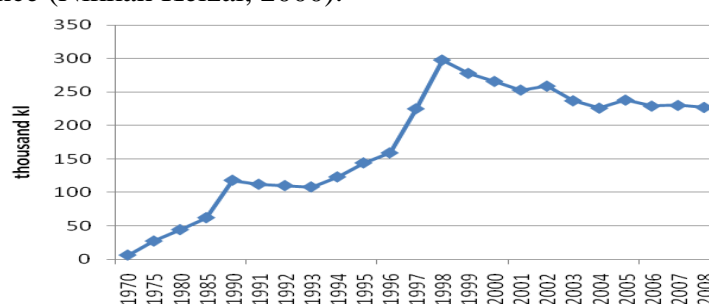
Japan is well known as a beer and sake culture; it is less known that Japan is ranked sixth in terms of volume and seventh with respect to value. 32% of Bordeaux wine is exported to all over the world, 44% of which goes to the countries outside EU (CIVB 2009)<sup>1</sup>. Every country has its own food and drink culture, and has an original changing SC system. French wine, led by Bordeaux, has been cultivating the new world market for long, Japanese market is one of those. A new trend in the Japanese market is the emergence of organic wines as the first decade of the 21<sup>st</sup> century has been marked by the acknowledgment of numerous environmental issues in the public eye. However, the response of Bordeaux wines on these changes reveals some puzzling contradictions. We explore core and distinctive competencies of Bordeaux wine sector participants to analyze marketing and distribution solutions applied (Bouzidine- Chameeva, 2006). Our study had a double purpose: to develop the Bordeaux wine SC model for Japan and identify the barriers and driving forces of the natural wine companies in the Bordeaux region, their SC challenges in Japan.

### 1.1. Evolution of Japanese wine market

Regular wine making began in Japan with the adoption of Western culture during the Meiji restoration, in the second half of the 19th century. Japan has around 23,000ha of vineyards cultivated by as many as 80,000 growers with small plots and produces around 250,000 tonnes of grapes per year, although only around 8% to 10% of the grapes are used for winemaking. However, it could be said that there was no wine market in Japan until 1990s.

In 1969, the French government (Ministry of Agriculture and Fisheries) established a liaison office in the French embassy in Tokyo. At that time, wine was drunk at hotels or the luxury French restaurants, but only on special occasions such as wedding receptions. SOPEXA Japan initially produced wine brochures, booklets, and organised seminars; to expand further, SOPEXA Japan tried to establish the professional vocation of a sommelier. Sommeliers are close to the consumers in the supply chain; the importance of their role in educating consumers became evident to SOPEXA.

In 1995, a Japanese sommelier, Shinya Tasaki, a current president of International Sommelier Association (since 2010), won the world sommeliers' championship. The media promoted this success all over Japan, and that was a crucial point of growing interest towards wine among Japanese people. Wine consumption was at its peak in 1998 following a spate of publicity regarding the health benefits of red wine. The 'French paradox', occurred in Japan, and the consumption of red wine increased rapidly. In 1998, the wine sales reached 298 000 kL (Figure 1), with 242 000 kL of bottled wine imported, and 42.6% of the imported bottled wine was from France (Nikkan Keizai, 2000).



<sup>1</sup> [http://www.bordeaux.com/Data/media/DPCIVBBordeaux2010UK\\_4Economy.pdf](http://www.bordeaux.com/Data/media/DPCIVBBordeaux2010UK_4Economy.pdf)

Figure 1. Wine consumption trends in Japan. (Source: National Tax Agency Japan)

At the end of the 1990s, many Japanese people went to Bordeaux and Bourgogne to study wine production and tasting, received wine education, then went back to Japan, became sommeliers, wine importers or cavistes, opened wine bars<sup>1</sup>. Bordeaux wine was given the special and prestige position among Japanese with a concept of AOC, which brought results in high-priced wine import to Japan until 2008 (Figure 2). Bordeaux wine shipments increased strongly until the economic crisis in 2009.

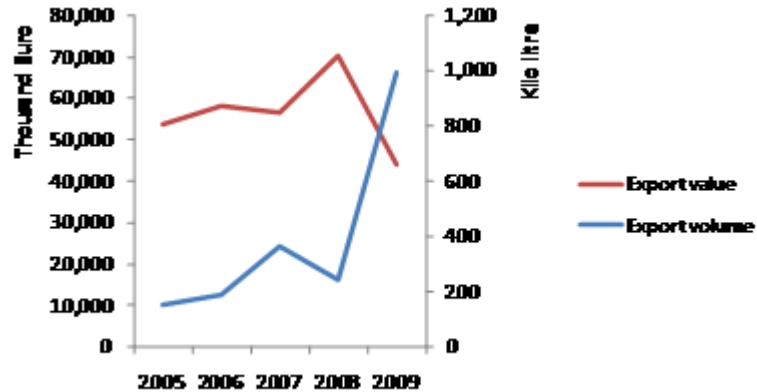


Figure 2. Bordeaux wine export to Japan (2005-2009) (Source: CIVB, 2010)

In the late 1990s, a few Japanese importers noticed the existence of natural wine and were generally surprised at the taste of these wines (Arai, 2005; Ohashi, 2004), and started to import it little by little.

The first signs of a "Natural Wine boom" in Japan appeared around 2005. The term 'SIZEN-HA Wine' is used in Japan instead of just 'organic' or 'nature' wines. This can be translated as natural wine or nature-oriented wine. (Hori, 2005). Over the last 5 years some cavistes have decided to specialize in natural wine.

The importers of these wines are not concerned with the AOC, or certification. Instead, they rely on different sources of information, such as cavistes, Parisian bistros in Paris, BIO salons, and personal networks, favoring direct transparent long-term relationships with natural wine producers. The key for the importers is the wine quality. They consider that to make good wine, winegrowers should cultivate good grapes in an organic way.

### 1.2 Bordeaux wine chain: specific characteristics

Bordeaux is the largest French AOC winegrowing area and the third largest wine-producing region in France. Traditionally the Bordeaux wine chain is fragmented, and includes various sectors, with each having its own constraints and strategies.

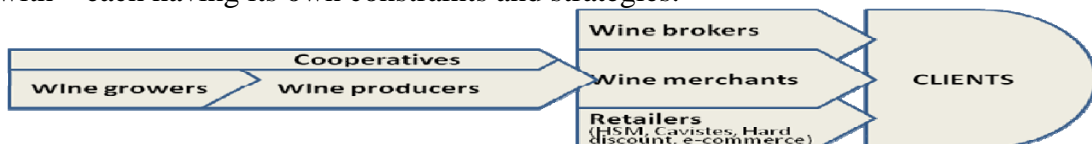


Figure 2. Principle actors of Bordeaux wine chain .

<sup>1</sup> Japan holds the largest number of sommeliers in the world; 13,409 sommeliers, and 10,435 wine advisers, who sell or import wine (Japan Sommelier Association website (<http://www.sommelier.jp>) accessed in the March 1,2010).

Over the past 20 years, the number of winegrowers and wine producers in the area has decreased by more than half, falling from a total of slightly more than 20 000 in 1987 to almost 9 100 in 2008 (CIVB, 2008). Concurrently, the average size of estates has significantly increased, progressing from 5 hectares in 1987 to more than 13 ha in 2008, with almost 15 ha for AOC wine producers. Wine estates producing natural wines are usually of a relatively small size, rarely exceeding 30 ha. Currently, the process of horizontal integration might not be a positive sign for the development of natural wines. Organic wine farming and biodynamic winemaking by definition can not be industrialized; therefore it is easier to launch the conversion process in smaller vineyards .

42 wine cooperatives and 6 cooperative unions account for 43% of winegrowers. In total, they make up 22% of the areas and 23% of the total harvests. Cooperatives exist to preserve the small producers by providing them financial, administrative, and technical support. They also focus on improving the quality of wines by assisting the technical training of the winegrowers. CIVAM BIO 33 since 1991 or a more recent Interprofessional Commission on Bio Wines of Aquitaine (CIVBA), based on Bordeaux Bio Vignerons of Aquitaine union are the good examples of the heterogeneous reality of Bordeaux natural wines' chain (more information in Coop de France, 2007) .

More than 100 wine brokers and almost 400 wine trading firms or wine merchants (CIVB 2008) sell wines to customers. On average, bulk purchases or wines bottled at the estate by the wine merchant represent 53% of dispatches from cellars. The wine merchants' position in the Bordeaux wine chain is traditionally crucial. They deal with more than 70% of the total wine commerce and export Bordeaux wines to more than 160 countries (CIVB, 2008). Wine brokers represent the " En primeurs market" transactions; their major role is associated with sales activities for chosen vineyards and also commercializing wines under brand names.

Being at the end of the chain close to the final consumer, wine merchants ascertain the preferences of consumer more than a wine producer. Wine producers are separated in the chain from consumers and thus they lack complete knowledge of the consumer market. The presence of an intermediary in the Bordeaux wine chain confronts clients' desire. Natural wine clients prefer to know all the details of the wine production process and often wish to meet the winegrower. Natural wines have recently started to appear in wine merchants' offerings, and a small agency has recently been created to deal only with natural wines (Redsap - <http://www.redsap.fr/> ).

However this middle position of the wine merchants is not easy as they are squeezed by the major retailers (hyper- or super-markets) , and by the fact that they lack the financial resources to effectively manage customer relationships (Chandes and Estampe, 2003).The competition with other retailers such as e-commerce which have rapidly expanded over the last 3 years, has started to have an effect on the wine merchants' position.

The Bordeaux wine supply chain is complex; it is one in which the interorganisational relationships among actors have been cultivated over centuries and strong signs of historical traditions are maintained. The question of wine chain integration is one of the major problems for Bordeaux wine scene. The Bordeaux wine sector is on a collision course with changes in markets, consumption trends and new logistic channels. Modernity is challenging the traditional and prestigious core competency in Bordeaux wine.

## **2. RESEARCH METHODOLOGY**

To understand the difficulties of SC solutions of Bordeaux wine actors and Japanese wine distributors facing with, we employed content analysis and critical impact technique (e.g.

Pettitgrew et al, 2001). By analyzing a company's comparative advantages, and difficult periods in its past, the critical impact technique allows researchers to better identify internal constraints, strengths and weaknesses of a company. The link between cause and effect in this analysis enables the pinpointing of competencies; as a result, this methodology is widely used for analyzing critical company situations. The atypical extreme cases could reveal more information than numerous representative cases, clarify causes, consequences and lead to generalizing. For there is no statistical data of natural wine at present, we had to select the participant via the grapevine of the industry players. Our interview questions focused on the companies' market situation, distribution networks, and supply chain. We interviewed with managers of the companies; 11 winemakers and/or owners in a semi-structured format, five wine merchants and broker's agency, in parallel with three natural wine distributors in Japan. Our aim was to explore the interactions among the actors in the SC and to reveal any distinctive features of the interviewees' competencies in this chain. Each interview lasted one hour and a half on average.

### 3. BARRIERS AND DRIVING FORCES OF WINE SC PRACTICES

The wine sector has come to the idea of the importance of SC Management to a branch's overall performance. Wine producers become more aware of the link that centralizing a significant number of value-added operations, they can move to a SC integration and unification approach and finally lower their expenses on logistics (Chandes and Estampe, 2003). Two out of the four models suggested in the recent study on the logistics issues on wine SC performance describe well the case of Bordeaux natural wine exports (see Figure 3 and Figure 4). Their findings become even more important in SC management of natural wines.

Some "natural" wineries sell their grapes or must to the wine merchants or the cooperatives at a low price. They make a decision to bottle their wine and to sell it by themselves..

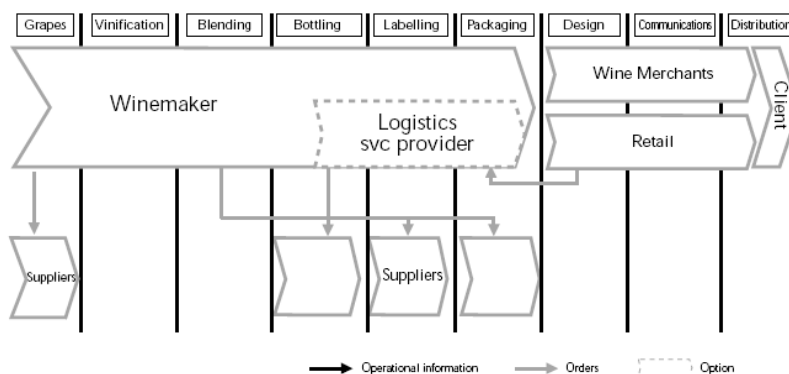


Figure 3. Grand Crus SC model ( adapted from Chandes and Estampe, 2003).

Small 'natural' wineries in France exporting abroad, entrust one nation's trade to one importer. As a general rule, wine export from a given country to Japan is conducted by only one importer. This gives the exporters the exclusive right to sell. However, in the case of small wineries it is frequently a verbal promise based on a human relationship and trust.

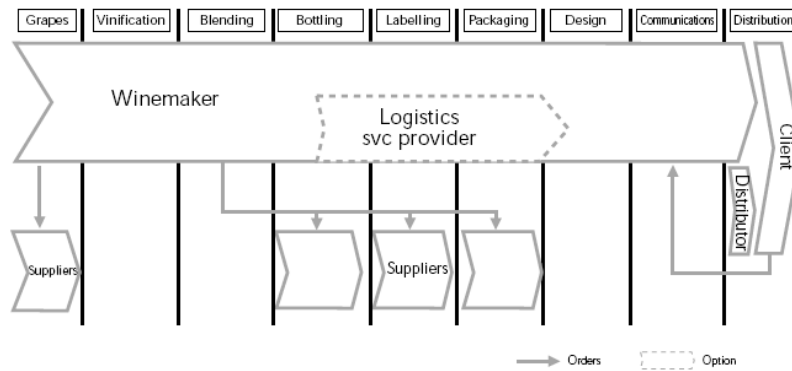


Figure 4. Wines marketed directly by the producer (adapted from Chandès and Estampe, 2003)

To succeed in the Japanese market, the small ‘natural’ wineries need to build deep trustful human relationship with the Japanese importers sharing the same values and philosophy. Quality and quantity of wine might vary from year to year, this is particularly true for natural wines. With close links in the supply chain, the importers understand what happens in the vineyard they deal with. If there is no close relationship between a winery and an importer, the Japanese importer might switch to another supplier (Ohashi, 2004).

Wine industry in the Bordeaux region has developed from being based on a merchant-indirect SC system. Merchants control the quality, stock, physical distribution (logistics) abroad, and sales promotion. They have their own brands and bear the risk of the whole selling processes. Under these circumstances the producers do not have to care about selling, and can concentrate on producing. Previously, it was difficult to access the small regions as the importers needed to set up the SC system by themselves to maximize a container load.

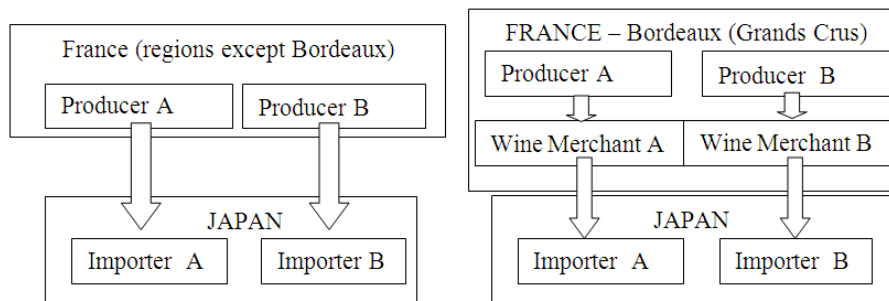


Figure 6. A comparison of the Japanese SC for Bordeaux and other wine regions in France.

Natural wine requires a different type of SC system, which must be a ‘face -to -face’ direct interorganizational network. Natural wine makers worship the nature. Natural wine making requires more labor, the crop is unstable depending on the weather, and is threatened by insects causing damage to crops, the taste of natural wine varies greatly from vintage to vintage. The producers need to let consumers understand their hardship and philosophy (Olsen et al., 2006).

In Japan natural wine importers play an important role in transmitting this information to the consumer. Natural wine importers bring producers to Japan, hold tasting events in Tokyo and other cities, providing an opportunity to meet with and talk to the consumer. The consumers became fans, and that makes the SC function better.

Several wine management and wine consultancy companies have been established in Japan to facilitate interactions along the SC of natural wines – Oeno Connexion and BMO created in 1997 and 1998 respectively are the examples of this trend.

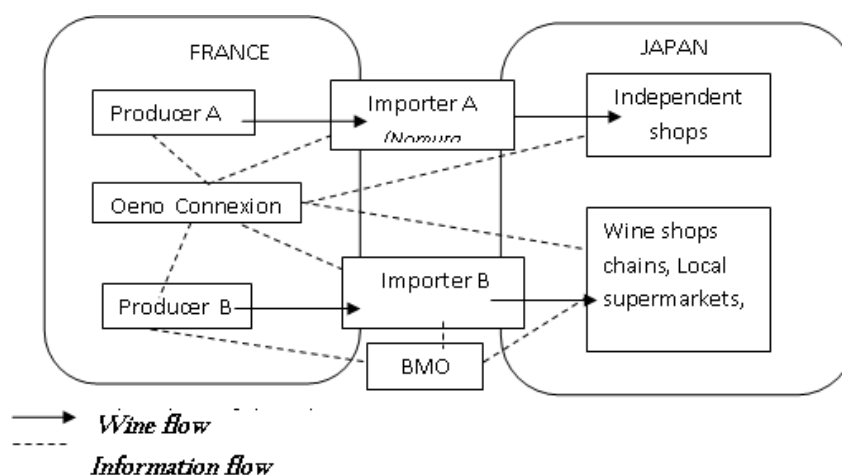


Figure 7. An example of the information/product flow chart of Japanese SC actors.

Bordeaux natural wines are also facing marketing difficulties in Japan as the wine producer is separated from the final consumer. The image of Bordeaux wines on the Japanese market that is directly associated with luxury, complexity and magnificence is in discord with the image of simplicity for natural wines. Educational efforts are essential, with direct links between wine producers, importers and consumers appear in changing this situation and adapting the image of Bordeaux natural wines. A thorough, clear understanding of the client at the end of the distribution chain could become a core strength for small wineries. Decision-making based on learning about the importer would facilitate and improve the distribution channels. This would require a closer collaboration along the supply chain.

#### 4 CONCLUSIONS AND PROSPECTS FOR FUTURE STUDIES

We have presented an analysis of the Bordeaux wines SC focusing on the Japanese market basing on several case studies performed in Bordeaux region and in Japan. Sustainable quality issues are seen as a driving force on the side of wine producer and the Japanese market. It has been shown that wine quality appears to be the key factor (and therefore, a core competence) in the stable success of a winery. In fact, all decisive themes focus on reinforcing the question of managing stable wine quality as a key to attaining stability of winery development (Bouzdine-Chameeva, 2006). In noting the varied and sometimes complex relationships within the SC of a wine producer, research has confirmed that maintaining high quality remains the driving force for Bordeaux natural wine producers.

Our findings confirm that there are several barriers working against Bordeaux wines to enlarge their presence in the Japanese market. The multifaceted and fragmented SC system of the Bordeaux wine region with respect to wine producers, merchants, brokers, retailers, wine associations, union and syndicates, growing e-commerce solutions creates barriers to the successful evolution of tradition SC practices; its complexity puts forward the issue of SC integrity.

Direct links between producers and importers/consumers in Japan are seen as a strong driving force for the development of the SC for Bordeaux wines, and in particular, natural wines in Japan. The findings confirm that successful penetration into the Japanese market bears a strong relation with the active construction of distinctive SC links for a winery. A thorough, clear understanding of the client at the end of the SC becomes a core strength for small wineries and the concept of decision-making based on learning about the structure of the SC management for the importer will facilitate and improve SC solutions. A more profound analysis of the boundaries and organizational forms appears necessary.

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