



6th AWBR International Conference
9 – 10 June 2011
Bordeaux Management School – BEM – France

Argentinean wine performance on US market: An empirical study

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Abstract

◦*Purpose.* Argentine Malbec wine grew significantly in the United States market from the year 2000 onward to \$176 million in sales by 2010. How and why did an unknown varietal wine from a country with no significant market presence succeed: had it grown demand or replaced others? Additionally, the purpose was to identify critical success factors.

◦*Design/methodology/approach.* 498 sommeliers were surveyed online in July 2010, selected from restaurants which had been awarded 2009 Wine Spectator magazine Awards of Excellence in the top ten U.S. wine markets.

◦*Findings.* 40 % of restaurants reported Malbec raised their wine sales at least 10%. 67% reported Malbec had not replaced any wines on their list, while 22% said it had. Among those, Australia was the big loser (57%), followed by the United States (19%), Chile (12%) and France (12%). For varietals, Shiraz/Syrah was the biggest loser (40%) followed by Merlot (30%), Cabernet Sauvignon (10%), Pinot Noir (10%) and Zinfandel (10%). Critical success factors for sommeliers were price (38%), taste (29%) and easy name (12%). 38% of consumers were under 30 years old.

◦*Practical implications.* First research suggests Malbec did grow demand, particularly among younger Millennial consumers, with price and taste as the key success factors. Malbec replaced some sales of other New World red wines (Australia, U.S., Chile) and varietals (Shiraz and Merlot). This suggests young US consumers choose among New World wines as substitutes, and not as a replacement for the equivalent European wine (Cahors, Bordeaux). This needs to be confirmed with combinatory research.

Key words: Wine, US market, Malbec, consumer, restaurant trade

1. INTRODUCTION

The Malbec varietal is the signature success story of Argentine wine in the first decade of the 21st century. After decades of being known as the ‘sleeping giant’ of wine producers, with one fifth of world production of mostly cheap table wine consumed at home, suddenly Argentinean wines export performed. Considering recent changes within the framework of world wine activities restructuring and globalization, the Argentinean wineries have enhanced the internationalization of their activities. Two features appear here to be crucial when analyzing the internationalization of the wine industry: changes or redirection in the export markets of wine producing countries, and marketing strategies adopted by firms at the international level (R. Green et al., 2003). Early in the 21st century, Argentina started to take exports seriously. Within a few short years, its main export market became the United States like other wines from the rest of the world with different attributes and determinants from their country of origin (Brooks, 2003). Determinants for exporting performance (Egan, 2002), and determinants for competitiveness have been investigated for other national wine industries (Cerdeira, 2008). In the case of Argentina, the flagship wine was Malbec, a relatively unknown varietal. Within ten years, Malbec went from unknown in the United States to US \$176 million in sales, and still growing (US customs 2010).

Bibliographical research demonstrated that little research was conducted on consumer Malbec profile in the U.S. market, and to what extent the new wine consumer, the younger Millennial generation (Flatters, 2009), was the main driver of Malbec consumption.

Extensive empirical studies had been conducted on a variety of issues concerning export marketing activities, with particular focus on the problems or barriers that firms experience in their export (R.E. Morgan, 1997). Also, reasons or perceptions contributing to limitations of wine export have been investigated for the Greek wine sector (C. Karekalis et alii, 2003). In addition to such research, some comparative works have been conducted between different national wine industries (Cusmano, 2009) and export orientation. In the case of Argentina, one simple question was how and why did this unknown wine varietal succeed in a very competitive market. Little was known about the critical success factors behind Malbec’s growth. Had it grown by creating new demand among new wine consumers, or by taking away sales from other wines, such as French Bordeaux? If new demand could be shown, then Malbec was a candidate to exemplify the theory of a ‘blue ocean’ strategy.

Chan and Mauborgne introduced the blue ocean theory by looking at the US wine industry in the late 1990s, to explain the strategy behind the success of an Australian wine brand [yellow tail] (Chan and Mauborgne, 2005). They made the case that Casella Wines, makers of [yellow tail], unlocked uncontested market space that changed considerably the U.S. wine industry in a span of two years. One striking difference between the case of [yellow tail] and Argentine Malbec was that [yellow tail] involved one company with one brand. In the case of Argentine Malbec we were dealing with many wineries, which saw each other as competitors more than allies.

Since Malbec was a relatively new varietal to the U.S. market, it was important to understand how much a grape varietal could be a driver of consumer behavior, or act as a proxy for a ‘brand’. Lockshin (Lockshin, 2008) argued that among New World wines grape variety is a major factor in wine choice, with varieties on Australian labels acting like brands to the consumer.

The question of price and its impact on consumer purchasing behavior was definitely a strong issue with a first approach concerning Argentinean wine on the US market (San Martin, 2008). Some authors (Bolzmann, 2003) argued price was the key selection criteria used by consumers to select a wine, but clarified that consumers used country of origin, region of origin, grape variety and style as product cues, as a proxy for brands. Stein (2008) recognized the critical role of a favorable exchange rate in the success of Argentine wine in the United States, yet observing that Malbec became the driving force for international success based on two key factors: the varietal gave Argentina a unique identity in the world, and secondly, its appealing taste profile won the support of highly influential wine specialists. Stein cited Robert Parker of *The Wine Advocate*, as critical, when he declared in 2004 that Argentine Malbec had ‘achieved startling heights of quality’, as well as his prediction for the next decade that Malbec would rise into ‘the pantheon of noble wines’. According to the author, this validation was a turning point for Malbec’s success. Stein’s study chronicled the success of Malbec seen from Argentina from the perspective of producers, as well as how Argentina sought to market Malbec through wine fairs, public relations, advertising as well as selling it as an image of the country.

2. DESIGN/METHODOLOGY/APPROACH

The challenge was to identify how to answer the question in a valid and measurable way. In a country with 300 million people across diverse regional markets, resources ruled out a large consumer survey. At the same time, the American three tier system of distribution, divided among all fifty states, made it challenging for importers and distributors to have direct experience of consumer behavior. Essentially, importers and distributors were not able to give first-hand data on consumers.

However, one distinct population did have direct experience of consumer trends: sommeliers in restaurants observe wine consumption first hand, and have sales data and wine lists to provide measurable information: they know when Malbec was introduced to their lists, how many they sell, at what price. They have reliable opinions on why Malbec was succeeding with their customers. They had first-hand observation of who the Malbec consumer was: both gender and age (Thach, 2010).

The focus was to conduct a survey of sommeliers across the United States, with a representative and credible sample to gauge changes in Malbec consumption, and assess critical success factors. The sommelier sample was chosen from the restaurants selected for their wine lists as meriting an Award of Excellence by Wine Spectator magazine in their 2009¹ list. To qualify, Wine Spectator stated restaurants must have at least 100 wines to choose from, correctly identify each wine by vintage and appellation, with a wide range and selection designed to appeal to knowledgeable wine lovers². In total, 3743 restaurants qualified in 2009 for the three levels of Award winners in the United States.

From these 3,743 restaurants, the research focus was narrowed to ten key markets for wine consumption in the United States: Boston, Chicago, Las Vegas, Los Angeles, Miami, New York, New Orleans, Philadelphia, San Francisco and Washington D.C. A 17 question survey was emailed to 498 sommeliers between July 19 -31, 2010.

63 completed online surveys: a response rate of 12.65%.

3. FINDINGS

¹ Wine Spectator, 31 August 2009

² Wine Spectator Award guidelines http://www.winespectator.com/group/show?id=about_the_awards

The survey responses confirmed Malbec had established a strong foothold in the US restaurant sector.

- The results confirmed Malbec was everywhere. 94% of restaurants featured Malbec on their wine lists. It was a recent phenomenon, with 58% adding their first Malbec to their list since 2005. The number of Malbec choices was predominantly between 1 and 5 for 69% of the restaurants.
- The price range revealed none offered a bottle below \$20, with the highest at over \$300. Malbec sold at all price levels, but mostly in the \$30 -\$100 a bottle range.
- Overall, responses confirmed Malbec had raised wine sales. 40% of restaurants reported Malbec was responsible for raising wine sales by at least 10%.
- Two thirds (67%) reported Malbec did not replace any wines on their list, while 22% said it had. Among that 22%, sommeliers were asked to explain which countries and varietals had been replaced by Malbec. For countries, Australia was the big loser (57%), followed by the United States (19%), Chile (12%) and France (12%). For varietals, Shiraz/Syrah was the biggest loser (40%) followed by Merlot (30%), Cabernet Sauvignon (10%), Pinot Noir (10%) and Zinfandel (10%).
- Critical success factors for sommeliers were price (38%), taste (29%) and easy name (12%), with respondents dismissing the importance of Argentine origin.
- Their assessment of consumers was that gender had no appreciable impact, but age was a critical factor: 38% of consumers were under 30 years old, 29% were between 30 and 50 years old, 30% judged all ages drank it equally, with a mere 4% responding Malbec consumers were among the over 50s generation.

4. PRACTICAL IMPLICATIONS

Malbec grew wine sales by at least 10% among more than 40% of the restaurants surveyed. Part of this growth was at the expense of other New World Wines: specifically 8.8% at the expense of Australian Shiraz, and 6.6% of New World Merlot. This led to one surprising indication which needs to be confirmed through combinatory study. Although Malbec was a Bordeaux grape (E. Penaud, 1958), it was not perceived by consumers as a substitute for Bordeaux or even Cahors, which was the same grape. Argentine Malbec, with its fruit-forward approachable wine style, was consumed as a substitute for other New World reds.

For marketing managers, this held to possible implications: the direct competition for U.S. wine consumers could be within styles, rather than the traditional paradigm of New World wines competing against Old World wines. Equally, for European winemakers, it is an interesting input. This finding held a path for further research: whether U.S. consumers tend to select wines within established taste styles, deciding between, say Argentine Malbec or Australian Shiraz, or alternatively, between a Bordeaux or a Rhone, rather than between a Malbec and a Bordeaux, or between a Shiraz and a Rhone. This finding needs to be tested: whether consumers choose style first, and then select their wine among the countries offering their wine style of choice, as some research has already observed the link between country and promotion in the wine sector (Chaney, 2002).

In the United States Malbec appeared to be a Millennial generation wine of choice, with sales growing as this generation of 70 million reaches U.S. legal drinking age at 21. According to first research indication, marketing efforts need to target them, and reach them through their

preferred social media networks. However, it will be important to monitor whether Malbec is a passing fad among this generation, or will remain popular.

For Malbec producers, importers and distributors in the United States this is also a useful indication: to succeed, Argentine Malbec must continue to overdeliver quality for the price. The two key success factors identified by sommeliers were competitive pricing and delivering taste/quality.

For French winemakers, one of the lessons is that Argentine Malbec does not appear to be a threat. In fact, it may be an opportunity. Cahors may be right to seize the opportunity of Malbec's popularity to reintroduce itself to the U.S. market as a 'Malbec de Légend'.³

Further research among consumers would establish if the same success factors and demographic profile apply to the off-trade consumer, buying at retail locations.

Further research also needs to test how consumers differentiate between New World and Old World styles, specifically whether the main competition is within New World style wines and within Old World style wines, rather than the traditional paradigm of New World versus Old World.

5. RESEARCH LIMITATIONS

The response rate for online surveys varies enormously (Marcussen, 2001). In the case of an unknown surveyor, the standard case response rate would be 2.2%, with the best case rate for a survey drawn from a list at 14.4%. The response rate for this research was 63 completed questionnaires out of 498, yielding a 12.65% response rate.

Wine consumption is divided among 'on trade' (restaurants, bars and hotels) and 'off-trade': wines purchased by consumers at retail stores, to be consumed 'off' the premises. This survey was restricted to restaurant consumption, and to those with wine lists meriting Wine Spectator Awards of Excellence. By definition, this sample would have a wider Malbec selection, at higher prices, than the average steakhouse or restaurant chain.

Although sommeliers are interesting and relevant opinion leaders for wine consumption (Thach, 2010), the sampling provides an exclusive point of view from an informed and a very specific segment of the market. The first results would need to be submitted and adjusted with other market segments and populations.

³ <http://www.thevineroute.com/southwest/black-is-back-cahors-malbec/>

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