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# A Strategic Approach to the Analysis of Global Wine Industry Positioning

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*Abstract*

*Purpose*
*The paper introduces a novel approach to analysing trade statistics to gain insights into the way the major wine producing countries have positioned themselves in the key markets of the U.K., the U.S. and China over the last two decades.*

*Design/methodology/approach*
*We have constructed a dataset for imports into these key markets from 'New World' countries (Australia, Argentina, Chile, and the U.S.) and 'Old World' countries (France, Italy, and Spain) for the period 1996-2012 in local currencies. We have analysed the data using Google motion charts to examine the dynamic interplay between Unit Value, Volume and Total Value over this period. This analysis has allowed us to reach conclusions regarding the competitive positioning adopted by the producing countries in terms of price and market share.*

*Findings*
*The findings suggest that France, and to a lesser extent Italy, are the only two countries that have consistently pursued positioning strategies that generate sustainable value. Other countries, particularly Australia, have been inconsistent in their positioning strategies and have failed to sustainably create value.*

*Practical implications*
*The dataset and Google motion charts will be made available to other researchers who may be interested in using it to address other questions.*

Keywords: International wine markets, competitive positioning, Google motion charts

## 1. INTRODUCTION

The purpose of this paper is to gain a deeper understanding of the way wine producing countries have positioned themselves in the major markets over the last two decades. We bring a competitive strategy perspective (Ghemawat & Rivkin, 2010) to the issue of competition in international wine markets and are concerned with how, over time, the major wine producing countries have traded off market share and price in an attempt to maximise value creation.

Our approach to the analysis of international competition in the wine industry is novel in several ways. From a competitive strategy perspective, the value, volume and, importantly, the unit value of imported wine is a function of an exporting country's competitive advantage in a particular market. For this reason, we collected data on *imports* into key markets of the U.K., U.S., and China, rather than exports, as is customary in wine industry research. The import data was for wine from the 'New World' countries (Australia, Argentina, Chile and the U.S.) and 'Old World' countries (France, Italy, and Spain). The data (volume and value of imports) were collected for the period 1996 to 2012[1]. Total Value and Unit Value were calculated in local currencies to avoid foreign exchange effects. We took a granular approach by breaking down the imports into separate wine categories to differentiate between bottled, sparkling and bulk wine.

The secondary methodological innovation is the method used to analyse the data. Rather than using conventional statistical techniques we have used 'motion charts' that enable us to examine the dynamic interplay between the competing countries in terms of Unit Value, Volume and Total Value.

The detailed findings are reported in the body of the paper. Our major conclusions are as follows:

- France and Italy have adopted different strategic positions in all three markets. France has positioned itself as the high price competitor and has been willing to sacrifice market share to secure and maintain this position. Italy, by contrast, has taken the lower price, high volume position and has defended this position from attacks by New World producers such as Australia.
- In the three markets we studied, France emerged as the clear winner. While its positioning has fluctuated over time, its price leadership has never been under serious challenge. Italy's position as the high volume, low(er) price player has not been as stable as France's positioning. Even in the U.S. market, where this position was most clearly evident, for a short time in the mid- to late-2000s Italy was challenged by Australia. Italy lost this positioning to Australia in the U.K. from 2000 until the very end of the decade, but Australia failed to consolidate as it took on both France and Italy. Australia sacrificed its position in bottled wine, but secured a strong position in bulk wine, yet overall it lost significant Total Value.
- In China, France has again taken the high price position and to date has been able to capture the largest market share. Australia has positioned itself as number two player behind France – and so far has been willing to sacrifice share to maintain high price (and build Total Value). To date, in the China market Australia has avoided the commoditisation trap it fell into in the U.K. and U.S. markets. It has been willing to sacrifice market share in order to maintain Unit Value, giving up share in the last few years to Spain.

The paper is structured as follows. First we discuss our method in more detail, we then present the findings from our analysis of the import trade statistics in the three key markets. Finally, we present general conclusions regarding the way the major competitors have positioned themselves in the three markets and draw out some general lessons.

## 2. METHOD – IMPORT TRADE STATISTICS DATA ANALYSIS

We collected data from databases on imports from 'New World' countries (Australia, Argentina, Chile, and the U.S.) and 'Old World' countries (France, Italy, and Spain). CN (Combined Nomenclature – European Commission), HTS (Harmonised Tariff Scheme) and USITC (United States International Trade Commission) codes were explored so as to understand the best way to capture the data to ensure consistency across the three countries. The data extracted were for the years 1996[2]-2012 from USITC (the U.S.), Eurostat (the U.K.) and UN Comtrade (China) using the 6-digit Harmonized Commodity Description and Coding System (HS) codes (220410, 220421, 220429 and 220430) as well as 4-digit HS code of 2204 (which is a summation of the four 6-digit HS codes).

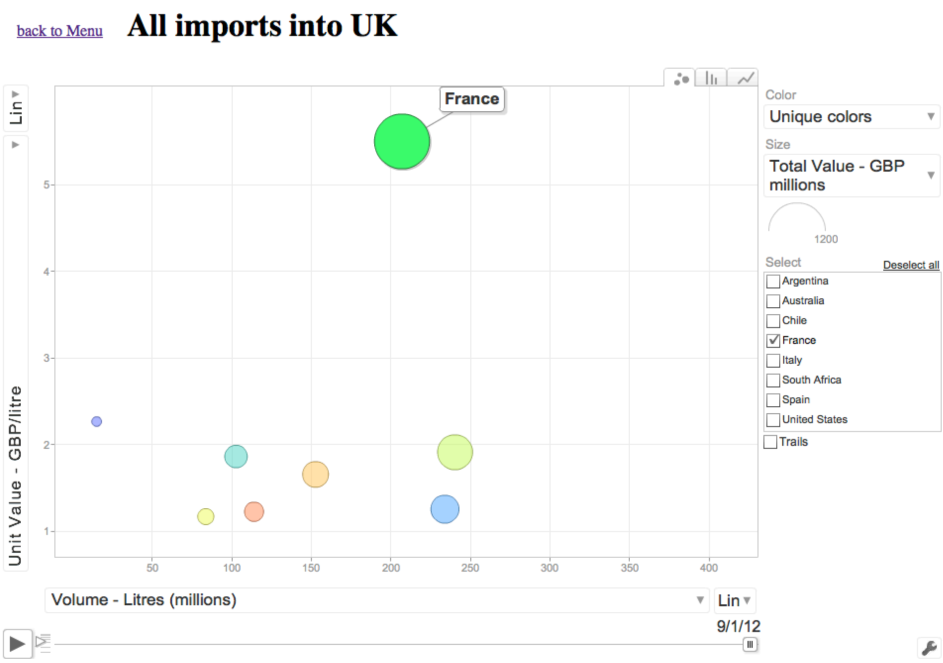
Data on Volume and Total Value was collected (and Unit Value could then be calculated) for:

- All wine HS code 2204
- Bottled wine HS 2204
- Bulk wine HS 220492 (>2 litres)[3]
- Sparkling wine HS 220410.

Eurostat provides their data in Euros and the UN Comtrade database provides the data in US dollars. The values were converted into the local currency using the Pacific Exchange Rate Service (http://fx.sauder.ubc.ca/data.html), a service designed by Prof. Werner Antweiler, the University of British Columbia Sauder School of Business.

The data was then transferred to Google motion charts, which were used to do the analysis (see Figure 1 for an example chart, in this case 'All wine' into the U.K. in 2012).

**Figure 1: Example of a Google Motion Chart**




The motion charts allow the dynamic interplay between Unit Value, Volume and Total Value to be observed over time. Changes in positioning – Unit Value (effectively price) and Volume (effectively market share) and impact on Total Value – can be readily observed.

The Google motion charts are available to other researchers at http://23inhouse.com/wine-data/charts.html. Our dataset will be freely available to interested researchers on request.

## 3. ANALYSIS

### 3.1 The U.K. market

In 1996 France was the clear market leader in terms of Volume (All Wine, HS code 2204), with little difference between all the players in terms of Unit Value, which was quite low. By 1999 France had surged ahead in terms of Volume, with Australia, while well back in fourth position in Volume, as the clear leader in terms of Unit Value. Australia's Total Value of about GBP200 million was just behind that of Italy. Australia was very successful at aggressively building volume in the UK market from 1996 until 2007, overtaking Italy in terms of volume in 1999. Australia maintained Unit Value during this period, so that in terms of Total Value it emerged as a clear number two to France.

After 2007 Australia lost its position as France drove Total Value through increasing Unit Value and sacrificing Volume. Italy adopted the high volume, low price position and pushed Australia into an even lower Unit Value position. By 2012 Italy had overtaken Australia in terms of Volume to secure much higher Total Value (GBP465 million versus GBP292 million).

Little happened in the U.K. bulk wine market (HS code 220429) until 2009 when Australia broke from the pack and drove Volume aggressively until by 2012 Total Value reached over GBP140 million.

France's overall strong position is in part explained by its dominance of the sparkling wine (HS code 220410) market, in terms of both Volume and Unit Value. Of France's 2012 Total Value of GBP1,140 million, sparkling wine accounts for over GBP350 million.

In the bottled wine market (HS code 220421) in 1997 Australia was fourth in Volume, but had Unit Value slightly ahead of France, who rapidly built volume to 1999 when it retreated to rebuild Unit Value. By 2004 Australia had built Volume without conceding too much in terms of Unit Value and was now neck-and-neck with France. Australia's Total Value was now a remarkable GBP420 million – about the same as that of France. Italy, the third most important competitor in the market, then used low Unit Value to push for Volume, and then retreated just as rapidly.

By 2009 France had conceded Volume but clearly emerged as the Unit Value leader and, in the process, had increased Total Value to GBP550 million. By 2012 Australia had clung to Unit Value but at the expense of Volume – it was now well behind France, Italy, Spain and Chile in both Volume and Total Value in the UK bottled wine market. Australia's Total Value was just GBP140 million compared with a peak of GBP420 million in 2004.

Clearly, Australia's leadership in the bulk wine market with Total Value of GBP140 million did not compensate the loss in Total Value experienced in the bottled wine market. In the U.K. market, Australian wine had come to stand for cheap wine, and a huge amount of Total Value was lost in the process.

### 3.2 The U.S. market

At the beginning of the 5$^{th}$ boom-bust wine industry cycle (Osmond and Anderson, 1998), which started in 1987, Australia was poorly positioned in the U.S. market. France and Italy were the market leaders with France adopting the high Unit Value position with somewhat lower Volume than Italy, who was positioned as the high Volume, low Unit Value player.

In 1997 France and Italy were the major players with France in the high Unit Value low Volume position and Italy with the lower Unit Value, higher Volume position – although these positions were not as differentiated as they were from 2000 on. By the early 2000s Australia had emerged as a threat to Italy's position, and by 2005 the two were in a neck-and-neck race with Australia just behind Italy in terms of both Unit Value and Volume.

By 2002, while France and Italy's position had been consolidated, Australia had emerged as a strong third competitor, with Volume approaching France and Unit Value slightly higher than Italy. By 2005 France's position as the low Volume, high Unit Value competitor was secured – with Total Value in excess of USD1 billion. Australia was nudging Italy in the high Volume, low Unit Value position and in the process had grown its Total Value significantly to USD3/4 billion.

In 2007 Australia faltered and its position was reversed as the Australian dollar reached a decade-long high, losing Volume as Unit Value marginally increased. For the next two years Australia pushed for Volume using low Unit Price, overtaking Italy as the Volume leader by the end of 2009. Volume leadership came at the price of Total Value which by 2009 was USD100 million less than it had been four years earlier. From 2010 Australia's Volume slipped back with no increase in Unit Value, while Italy consolidated its high Volume, low Unit Value and Total Value leadership at USD1.5 billion.

By disaggregating the market into segments, it is obvious that Australia had a very strong position in bottled wine until 2005, and the overall positioning pattern is much like the total wine market.

We observe that it was in 2005 that Australia made its push into the bulk wine market, from which it retreated in 2007 and 2008, before once again driving for Volume until 2010, by when it had secured a leadership position in terms of Volume (and Total Value – at just USD62 million). In terms of Total Value, winning in bulk wine was at the expense of hundreds of millions in Total Value overall – as was the case in the U.K. market.

### 3.3 The China market

In the early 2000s, first Spain and then Chile pushed Volume at low Unit Value, and then withdrew[4]. By 2006 France had emerged as a clear Unit Value leader, at a time when Australia began to sacrifice Unit Value in a drive for Volume. During 2007 Chile again made a strong drive for Volume at low Unit Price, and Australia reduced Volume as it rapidly re-established its second position to France in terms of Unit Value.

During 2008 and 2009 both France and Australia moved in concert as they gave up Unit Value in a push for Volume. In 2010 France surged forward in terms of both Volume and Unit Value to establish a pre-eminent potion in terms of Unit Value. Australia gave up Volume but gained Unit Value to become a clear follower in terms of Total Value (more than twice that of any other competitor). Spain was a clear follower in terms of Volume, with Total Value about that of Chile and Italy who had lower Volumes but higher Unit Values.

## 4. CONCLUSIONS REGARDING STRATEGIC POSITIONING

We have focused our analysis on the leading wine exporters France, Italy and Australia. Our analysis shows that France and Italy have adopted distinctly different strategic positions. France has positioned itself as the high price competitor and has been willing to sacrifice market share to secure and maintain this position. Italy, by contrast, has taken the lower price, high volume position and has defended attacks from New World producers such as Australia.

In the three markets we studied, France emerged as the clear winner. While its positioning has fluctuated over time, its price leadership has never been under serious challenge. Sparkling wine has played an important role in this overall positioning, along with France's minor involvement in bulk wine. France was the leading importer of bulk wine into the U.K. in 1996 with a Total

Value GBP22 million, but by 2012 was the fifth largest importer with Total Value of GBP16 million (versus GBP 141 million for Australia).

Italy’s position as the high volume, low(er) price player has not been as stable as France’s positioning. Even in the U.S. market, where this position was most clearly evident, for a short time in the mid- to late-2000s Italy came under pressure from Australia. This position was driven by bottled wine – Italy was the leading importer of bulk wine into the U.S. for a short period in the late 1990s, but it withdrew from this market and focused on bottled wine where its lower Unit Value, high Volume position made it the leader in terms of Total Value from 2001 onwards. In the U.K. Italy lost this positioning to Australia from 2000 until the very end of the decade when Australia failed to consolidate its position as it attempted to take on both France and Italy. As a result, Australia sacrificed its position in bottled wine in the U.K., but secured a strong position in bulk wine, overall losing significant Total Value.

In China, until the turn of the century Spain was the leading importer and was then for a short while displaced by Chile. As the China wine market developed, France emerged in the mid-2000s to take the high Unit Value position and then went on to capture the largest market share. By 2012 France’s Total Value at CNY4,816 million was greater than all the other producers combined. Australia has positioned itself as number two player behind France – and so far has been willing to sacrifice share to maintain high price (and build Total Value). To date, in the China market Australia has avoided the commoditisation trap it fell into in the U.K. and U.S. markets. It has been willing to sacrifice market share in order to maintain Unit Value, giving up share in the last few years to Spain.

We contend that using price to drive volume resulted in Australian wine being ‘commoditized’ in the U.K. and U.S. markets, i.e., willingness to pay being continuously eroded until Australia stood for ‘cheap wine’ in these markets (Lewis and Zalan, 2014). The decline in the Unit Value for Australian wine can be directly attributed to the ‘commoditisation doom loop’ that was created as the large Australian wine companies struggled to continue to increase market share in selected key markets. Investment in large-scale production resulted in cost advantages, but required huge volumes of wine to be sold through the only available channel, the mass retailers. As the Australian wine producers kept lowering their prices to increase market share, and under increasing pressure from the mass retailers on whom they were dependent, price became the dominant component of the value proposition. This ‘commoditisation’ of Australian wine resulted in a progressive erosion of consumer willingness to pay and with it, declining consumer surplus. With reducing willingness to pay, prices had to be further lowered to maintain consumer surplus and sales volume, resulting in a continuing margin squeeze. In response, the wine producers sought ways to further reduce costs[5]. and this had the result of lowering wine quality (Smart, 2010) further damaging consumers’ perception of Australian wine and further eroding consumers’ willingness to pay. This is a classic commoditisation trap (D’Aveni, 2010) with failing willingness to pay, prices and margins.

It is important to recognise an industry-wide commoditisation dynamic when willingness to pay declines because price is used as the primary competitive weapon. Even though Producer A may not be using price as the basis of competition, if Producer B is, the commoditisation effect may flow on to Producer A because of a halo effect around Australian wine. The halo effect is likely to be exacerbated by generic country branding like ‘Australian wine’.

We speculate that the French wine producers may have also created feedback loops, but in the opposite direction; namely, using high price cues as signals of value to push willingness to pay upwards. Given that the average consumer cannot make independent judgements based entirely on the intrinsic quality of wine, and even wine experts disagree on wine quality (e.g., Weil, 2001; 2005; Ashton, 2012), willingness to pay is driven by ‘objective’ characteristics, including price.

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## Endnotes

[1] We anticipate 2013 data will be available by the time of the conference. We expect some positioning changes may be observed, particularly in China where the wine market is developing very rapidly and is subject to changes in government policy.

[2] Although earlier data are available, a major amendment of HS codes took place in 1996 and as a result some codes were re-coded at the 8 and the 10-digit level. It was decided that extracting the data from 1996 onwards would provide the most reliable data.

[3] A minor issue is that we were unable to get data on bulk wine that was bottled in-market.

[4] A note of caution is in order: these early data may be highly unreliable, compared with later China data, which may be simply unreliable.

[5] One way to reduce costs is to use acid and other additives as well as water. Although the latter practice is illegal in Australia, it does occur (private communication with winemakers). See also Jancis Robinson, “Adding water to wine, Tasting Notes & Wine Reviews, December 31, 2002.