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D2: Wine Business

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in Wines

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Introduction

In this Unit, wine business will be examined via the factors that affect the price of a bottle of wine (Chapters 1 and 2), the types of business engaged in wine production (Chapter 3), reaching the end consumer within various types of market (Chapters 5–7) and marketing wine (Chapters 8–14). This introduction also deals briefly with costs, income and profit for wine businesses. This guide is not intended to create wine business professionals, but to give an introduction to wine business.

If business is defined as any activity or enterprise entered into for profit, then wine business is the activity of making and selling wine for profit. Profit is the amount of money or surplus remaining after total costs are deducted from total income, also called revenue. Loss is where costs are greater than total income.

The profit a company makes is calculated by deducting its costs from its sales. The costs include:

- the total costs of production, sales and marketing, transport and any taxes and duties payable;
- the costs of any promotions or of any incentives given to sell the wine.

The result of deducting costs from sales is called the net profit, sometimes called the bottom line as it is the last row of figures on a balance sheet. The profit margin is the percentage of sales that has turned into profit. For example, if a wine company has made 10 cents profit of every dollar worth of sales, its profit margin is 10 per cent.

Statistics are used to a limited extent in this book. Where they appear, every effort has been made to ensure that they are as accurate as possible. Nevertheless, any statistics relating to the business of wine should be viewed with caution. It usually takes at least three years for such statistics to be verified as accurate and, during that time, statistical agencies will update their information to compensate for any earlier inaccuracies. Thus, statistics need to be treated as indicating trends rather than being absolutely correct.

In the examination, you will not be expected to quote any actual statistics but you should be able to discuss any trends that they show.

In this guide, two wines will be used to illustrate the differences at many points in the production of the wines and at various points in the supply chain. The wines are a high-volume, inexpensive branded Chardonnay and a low-volume, super-premium Cabernet Sauvignon.

The options for these two wines illustrate the most likely choices to be made. In practice there will a wide range of approaches and the choices made will reflect the context of the place of production and the markets targeted for the products. The options set out here are only intended to illustrate the business principles in this study guide and are not the only possible options. In the examination, it is more important that you show an understanding of the principles by giving clear, logical arguments than that you remember the exact content of these tables.

List of Abbreviations

abv	alcohol by volume
AOC	*Appellation d'origine contrôlée*
AVAs	American Viticultural Areas
BAC	blood alcohol concentration
BOGOF	buy one, get one free
CIM	Chartered Institute of Marketing
DOC	*Denominazione di Origine Controllata*
DOCG	*Denominazione di Origine Controllata e Garantita*
EU	European Union
GIs	Geographical Indications
HoReCa	HOtels, REstaurants and CAfès/CAtering
OIV	International Organisation of Vine and Wine
LCBO	Liquor Control Board of Ontario
M&A	mergers and acquisitions
NV	non-vintage
PDO	Protected Denomination of Origin
PESTEL	political, economic, sociological, technological, environmental, legal
PGI	Protected Geographical Indication
PR	public relations
SWOT	strengths, weaknesses, opportunities, threats
VAT	Value Added Tax (European)
VDP	*Verband Deutscher Prädikatsweingüter*

1 Factors that Affect the Price of a Bottle of Wine – Supply and Demand

There are many factors that influence the price a consumer is asked to pay for a bottle of wine. The costs of growing the grapes, producing the wine and getting it to the end consumer have a considerable impact on the price at which producers and retailers would like to sell the wine, and these are considered in the next chapter. However, the price of wine, as with any other product or service, is also determined by the concept of supply and demand. Supply is the amount of a good or a service available for sale. Demand is the willingness of consumers or businesses to buy a good or a service. In this context, supply and demand is the amount of wine that is available to buy compared to the amount that people or businesses want to buy. The concept of supply and demand is spelled out in more detail in this chapter.

In a perfect world, supply and demand for wine would be in balance. Producers would be able to sell all the wine they make at a price that covers the cost of production, pays a dividend to any shareholders (or other sources of finance), finances future investment and still leaves a profit for the producer. In turn, consumers would be able to buy all the wine they want, of a style they enjoy and at a price they are willing to pay.

However, supply and demand are seldom in balance. As an agricultural product, wine production levels are subject to factors such as the weather. For example, in 2013, uncommonly high spring and summer rainfall in the usually arid Castilla-La Mancha increased the volume of wine produced in Spain to 45.3 million hectolitres.[1] In contrast, in 2017 spring frosts in much of Europe produced the lowest global volume production for 50 years. In comparison, Spain's production in this year was 32.5 million hectolitres.[2]

In very broad terms, when supply of a particular product exceeds demand, prices tend to fall because consumers have a greater choice of cheaper alternatives. Producers may therefore need to lower their prices (so reducing their profits) to remain competitive.

Conversely, when demand exceeds supply, prices are likely to increase. While consumers may be willing to pay higher prices for some wines (generally if they perceive that there are no alternatives available), for other wines consumers may not be willing to pay more and may simply switch to another wine or a different drink category altogether.

The demand for wine in general, or the demand for wine of a particular country, region, grape variety, style or price, is affected by a variety of social, economic, legislative and political factors. Although discussed separately below, these are all connected and cannot be considered in isolation.

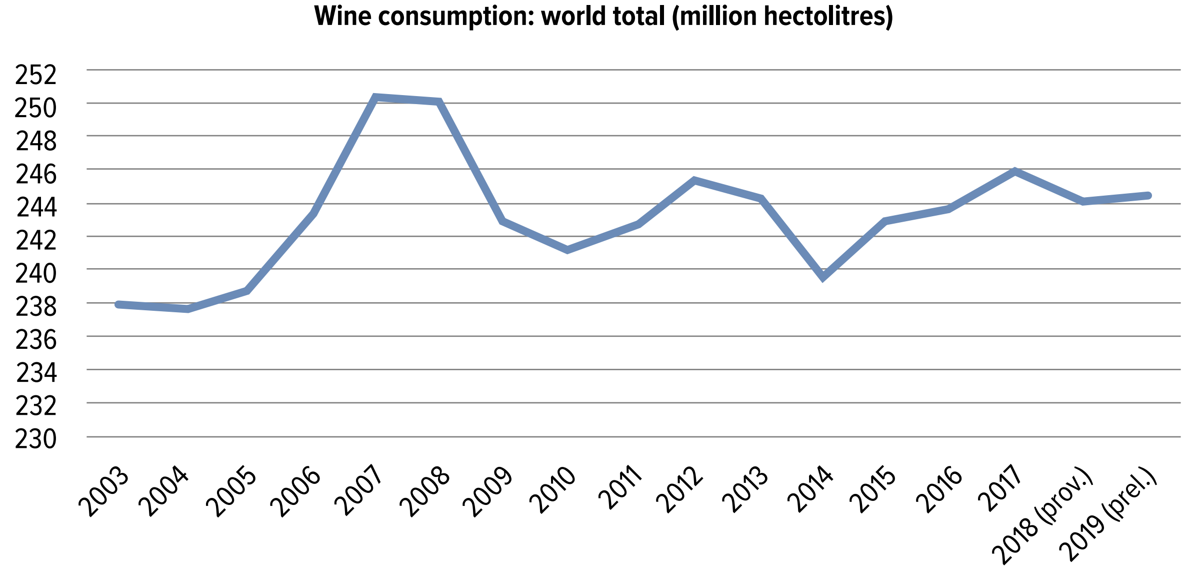
1.1. Factors that Influence the Demand for Wine

SOCIAL FACTORS

Demand will be affected by changes in the habits and preferences of wine drinkers. These can be broken down into a number of categories:

Changes in Consumption Habits

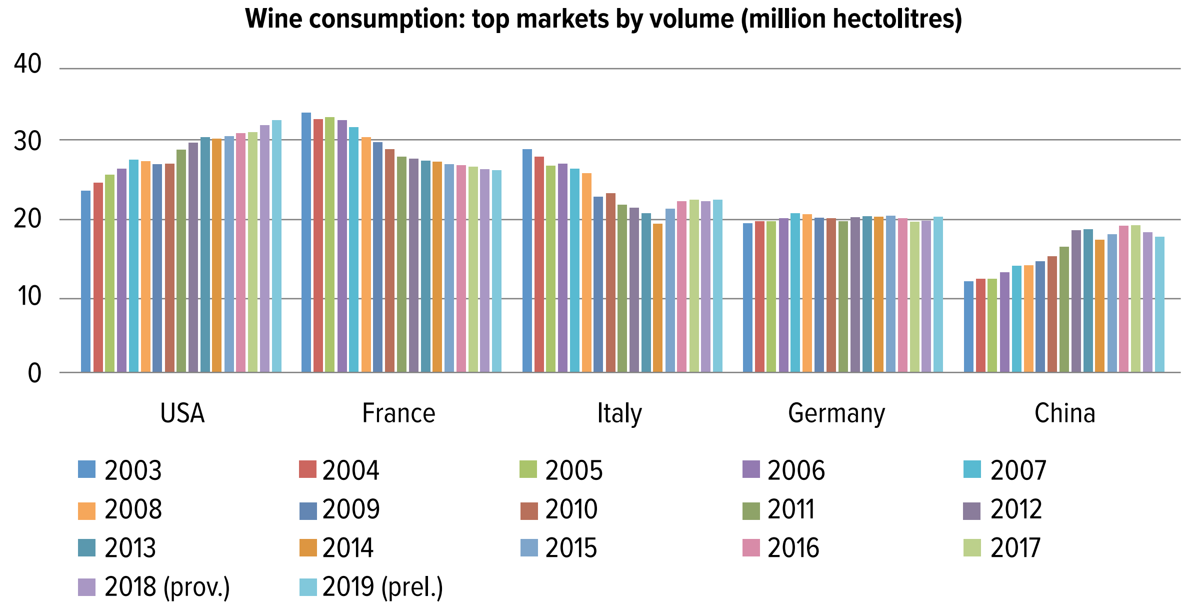
The chart below illustrates how global wine consumption habits have changed since 2003.



(Source: OIV)[3]

Global wine consumption increased rapidly in the first part of the 2000s. However, it began to fall back again after the global financial crisis of 2008 as many consumers reduced their spending on non-essential products. Although, wine consumption has not regained the volume levels seen before the financial crisis, the popularity of certain categories, such as rosé and sparkling wine, has increased significantly in the last decade. For example, sparkling wine consumption increased by an average of 3 per cent annually between 2002 and 2018.[4]

The change in wine consumption habits has varied between markets. The chart below shows the changes in the top five countries for wine consumption from 2003 to 2019: the USA, France, Italy, Germany and China.



(Source: OIV)[5]

As can be seen, wine consumption is falling or static in the 'traditional' wine-drinking countries. There have been significant drops in France and Italy (although consumption has started to rise again in Italy).

In contrast, consumption has been increasing in countries where wine drinking has not historically been a major part of the culture.

In 2011, the USA overtook France and Italy to become the country with the largest wine consumption worldwide. In the last 20–30 years, wine drinking has increasingly become part of mainstream culture in the USA, helped by the increasing globalisation of the food and drinks industry (growth of multi-national corporations, increased ability of companies to export products across national borders, consumers more able and willing to embrace new tastes) as well as both increases and improvements in wine production in the domestic market.

Wine consumption has also increased significantly in China over the last two decades. China has a growing middle class and one way this group can show their improved wealth and status is by moving from local drinks (with the possible exception of top quality products) to wine. While China has domestic wine production, many middle-class people aspire to drink imported wines. At first they chose primarily French wines, but now they are increasingly looking elsewhere, for example Australia and Chile, whose wines benefit from a bilateral trade agreement. Consumption figures appear to have declined slightly in China over the last two years, perhaps signalling the end of a period of rapid growth. However, lower estimated wine production figures in 2019 will have played a part in the estimated consumption figure for 2019, and, hence, these figures need to be treated with a degree of caution.[6]

Where wine consumption is falling, there are several possible reasons:

Younger people drinking less wine – In many countries, younger people (legal drinking age to mid-thirties) are drinking less wine. This may be partly because they regard wine as old-fashioned – something their parents or grandparents drank – and have turned to other alcoholic drinks (for example, gin is very fashionable among younger drinkers in Spain). In countries such as the UK, younger people are also spending less time in bars, preferring to contact their friends via social media.

Health concerns – Another reason given for reduced wine consumption, particularly among younger drinkers, is increasing awareness of the negative health effects of alcohol. Health-related government campaigns or policies can also have a significant impact; for example, the *Loi Evin* in France (see Factors that Influence the Demand for Wine – Legislative and Political Factors) is thought to have contributed to a significant drop in wine consumption there.

Changes in lifestyle – Busy, modern lifestyles mean that there is often less time for longer meals at which wine was traditionally drunk. Also, in many countries where there was a tradition of drinking wine at lunchtime, consuming alcohol during the working day is being increasingly forbidden by employers or no longer regarded as socially acceptable.

Reduced availability of cheap wine – In many traditional wine-producing countries, there were large volumes of inexpensive wine produced, sold and consumed locally. In those countries, various steps have been taken to reduce over-production (such as vine pull schemes, see Area under Vine in Factors that Influence the Supply of Wine – Production) resulting in smaller volumes of these wines being available. Instead of buying more expensive wine, some consumers have simply switched to other, cheaper alcoholic or non-alcoholic drinks.

Changing Consumer Preferences

Consumers' wine preferences change over time. In recent years, for example, rosé has become extremely popular, especially in the USA. Similarly, Prosecco sales in markets such as the UK and USA have increased significantly. If supply does not increase to meet demand, prices will rise; however, the increase in the area covered by Prosecco *Denominazione di Origine Controllata* (DOC) (see Factors that Influence the Supply of Wine – Legislation) has increased supply and limited price rises.

Due to the health issues referred to above, there is also increased demand for lower-alcohol wines. Conversely, drinkers are turning away from fortified wines – 15–22% alcohol by volume (abv). Another style of wine that has gone out of fashion is medium-sweet German wines, such as Liebfraumilch. These were popular in the USA and the UK in the 1950s, 1960s and 1970s. However, as drinkers turned to drier styles of wine, these brands have virtually disappeared. Some, such as Blue Nun, have had to reinvent themselves to survive (see Chapter 9 for more details on the lifecycle of products).

Changes in Reputation

As the reputation of a region, producer or even an individual wine grows, demand will increase and producers may be able to justify higher prices. Good reviews from leading wine publications and critics (such as Wine Spectator in the USA or Jancis Robinson in the UK) are particularly valuable to producers and can encourage them to increase their prices for subsequent vintages. In some markets, online influencers and key opinion leaders can also have an impact on the reputation and desirability of a particular brand or style of wine, as can the presence of certain wines in popular culture; for example, films, television series, music lyrics or celebrity lifestyle news. The influence of peer opinions and behaviour should also not be underestimated.

A loss of reputation can have the opposite effect, although it usually takes several years to have an impact, if any, on prices.

Changes in Spending Patterns

Another factor is how much consumers, even the more affluent ones, are willing to spend on wine. In some countries, such as Germany and the UK, many consumers are unwilling to pay more than the lowest price possible for the style of wine they want to buy. These are known as 'price-sensitive markets'. In contrast, in other markets, such as the USA, many consumers are willing to pay above the minimum price in order to buy a wine that they perceive to be of better quality than the cheapest option on offer.

Competition is often fierce in price-sensitive markets, as producers are competing within a reduced price range. This results in lower prices for consumers, but makes these markets unprofitable for some producers, who may simply choose not to sell to them.

In price-sensitive markets, producers are often reluctant to pass on increases in production costs to consumers for fear of losing sales to competitors. Some producers hope to avoid that problem by building up 'brand loyalty' for their product as part of their marketing campaigns.

Spending patterns can change; however, this is usually a slow process. In recent years, there has been a trend for 'premiumisation' in the USA and even in price-sensitive markets such as the UK. This means that consumers are increasingly willing to pay more for individual bottles of wine, often because they are buying less wine by volume.

ECONOMIC FACTORS

How much money consumers have to spend on wine and how much they are willing to pay will be affected by the wider economic situation, both at a national and global level.

Strength of the Economy

Sales of wine will change with the level of consumer disposable income (i.e. the amount of money a person has after paying taxes). When disposable income falls, as in a recession, wine consumers are likely to trade down to cheaper wines or switch to other, less expensive alcoholic drinks (e.g. beer or cider). For example, during the recession following the 2008 financial crash, demand for Champagne shrank while that for other, cheaper sparkling wines grew.

When an economy is growing, such as has been seen in China, disposable income increases and consumers are often willing to buy more expensive wine. As explained above, the emerging middle class in China has driven the increase in wine sales and the demand for aspirational wines, such as those from Bordeaux and Burgundy, has increased.

Fluctuations in Currency Exchange

Changes in exchange rates can significantly affect the demand for imported wines, particularly in price-sensitive markets.

If a wine-exporting country's currency gains value compared to that of the importing country, a producer has two options (assuming the producer is quoting in their own currency): keep the price stable and therefore risk losing sales as the product represents less value for money in the importing market, or decrease the price of the wine and lose profit.

In contrast, if the exporting country's currency loses value against that of an importing country, a producer can either keep the price stable, which should boost sales as the product represents better value for money in the importing market, or increase the price and improve profits for future investment. The downside to a weak currency, however, is that it costs producers more to import equipment and supplies, such as barrels, corks and yeast, which may offset any additional profits. Nevertheless, the recent boom in Argentinian wines can be traced back to the early 21st century when a weak peso meant the wines were very competitively priced on the global market.

The ways in which the various businesses engaged in the wine industry can reduce the impact of exchange rates fluctuations will be covered in The Impact of Fluctuations in Currency on the Cost of Wine.

Changes to the Market

Markets are constantly changing: new companies and products are always entering, while others disappear. If a product disappears from a particular market, supply decreases. This will create opportunities for the competition, which could increase their sales: on a very simple level, for example, if a supermarket has run out of Echo Falls White Zinfandel, demand for Blossom Hill White Zinfandel may increase (or vice versa). If supply is limited, it may also be possible to raise prices.

However, the introduction of a new lower-priced or better-value wine may cause a fall in demand for other similar products and may force producers to lower their prices to remain competitive or look to alternative markets.

LEGISLATIVE AND POLITICAL FACTORS

Supply and demand of wine can also be affected by legislative and political factors. Government policy on alcohol consumption may change over time and laws may be passed at either a national or local level to implement that policy. These factors vary from country to country and those working in the wine industry should always be aware of those that are relevant to the markets with which they are dealing.

Laws Prohibiting or Limiting the Sale of Alcohol

The sale of alcohol is completely prohibited in a number of countries. Other countries permit sales, but these are tightly-controlled: for example, through state-owned monopolies in countries such as Sweden, Norway and Canada, or, in the USA, the three-tier system. Any such controls inevitably limit the supply of wine and usually increase prices.

Even in countries where alcohol is freely available, there is usually a minimum legal drinking age and sales of alcohol are generally limited to particular hours of the day.

Government Policies to Reduce Alcohol Consumption

Excessive consumption of alcohol is a concern in many countries. Illness and injuries caused by regular or heavy drinking are placing an increasing strain on health services, and drunkenness is seen as a significant factor in criminal behaviour.

For this reason, a number of countries have implemented laws intended to encourage their citizens to drink less. For example, in France, the *Loi Evin*, introduced in 1991, has greatly restricted the advertising of alcoholic drinks and is considered a significant factor in the reduction in wine consumption in France.

The Scottish government is the first to introduce ‘minimum unit pricing’ to reduce the availability of cheap alcohol. The minimum price of an alcoholic drink is GBP 0.50 per unit, meaning that a 75 cL bottle of white wine with 12% abv (i.e. 9 units as defined in the UK) must cost at least GBP 4.50, whereas bottles were previously available for as little as GBP 3.00.

Most countries also impose a limit on the amount of alcohol that can be consumed before a person drives a motor vehicle. The blood alcohol concentration (BAC) limit varies between different countries, but tends to move in a downward direction as countries try and reduce death and injury caused by drunk drivers. For example, both New Zealand and Scotland have recently reduced the maximum BAC from 80 mg/100 mL to 50 mg/100 mL. However, this is still higher than some countries: the maximum BAC in Norway and Sweden, for example, is 20 mg/100 mL. Again, the imposition and tightening of drink-driving laws have been shown to reduce alcohol consumption.

Taxation

Another aspect of government policy is the imposition of taxes and duty on alcoholic drinks. On the one hand, higher prices may reduce consumption; on the other hand, tax and duty on alcoholic drinks is a major revenue generator for many governments.

Sales tax – known as value added tax (VAT) in the European Union (EU) – applies to alcoholic drinks in the same way as other products and is paid at the point of sale. However, many countries also impose specific excise duties or taxes on alcohol that are payable at the point of manufacture.

Because the level of duty usually varies between different categories of drink, it can influence demand. For example, in the Republic of Ireland the large difference between the excise duty on still (EUR 3.19/bottle) and sparkling wines (EUR 6.37/bottle) has greatly reduced the demand for sparkling wine.

While governments tend to increase duty over time, sometimes they reduce it to make certain categories more competitive. In 2008, the government of Hong Kong (a Special Administrative Region of China) abolished excise duty on wine altogether with the aim of becoming the 'wine trading hub' of East Asia. The result has been a massive increase in auction sales of fine wine through Hong Kong (see further Wine Investment in Wine Investment Companies).

International Trade

As the chart below shows, exports have come to play a very important part in the global wine industry and the value of wine exports has more than doubled during the last 15 years.

(Source: OIV)[7]

However, trading relations between countries can fluctuate over time, affecting demand for products traded between those countries.

Many countries impose customs duties (also known as trade tariffs) on imported goods. In some cases this is simply a form of revenue generation but, in many instances, it is the basis of a protectionism policy intended to encourage the sale of domestic rather than imported goods.

The EU is a free-trade area allowing member states to import and export goods between themselves tariff-free. Tariffs are still payable on goods imported from most non-members (e.g. Australia), making them relatively more expensive. Some non-member states (such as South Africa and Chile) have entered into trade agreements with the EU, as a result of which they enjoy tariff-free or reduced-tariff trade, giving wines from those countries a competitive edge over those from Australia.

Since the UK has now left the EU, it may be able to negotiate free-trade arrangements with other countries, such as Australia, which could make Australian wine comparatively cheaper than EU wine. This could change the wine-buying habits of the British public.

In Argentina in the early 2010s, trade restrictions were imposed that not only affected wine imports but also severely limited imports of winery equipment, such as barrels, cork and yeast. This significantly increased wine production costs. As part of the same policy, the government also imposed restrictions on foreign ownership of land, significantly slowing down the foreign investment that had played an important role in its rapid growth.

Another current example is the US/China trade war in which China has imposed tariffs on US wine (and other products) in response to US tariffs on Chinese products.

An extreme form of protection is when a country bans imports from or exports to a particular country (an embargo). This can be for political or economic reasons. For example, wine imports into Russia have fallen considerably due to various trade embargos imposed for political reasons on Russia and by Russia.

In many cases, trade wars can result in negative feelings among consumers and therefore, even when restrictions are lifted, consumers may continue not to buy these products out of a matter of principle.

Wine Laws

Another legal factor is the increasing global creation of Geographical Indications (GIs), such as Protected Denominations of Origin (PDOs) and Protected Geographical Indications (PGIs). As these can have a significant impact on the level of supply of wine, these are considered in further detail in Factors that Influence the Supply of Wine – Legislation.

Many consumers are drawn to wines from a particular GI, either because they have enjoyed wines from there in the past or because of its strong reputation. The creation of a GI may therefore increase recognition and demand for wines from that region and allow producers to increase the price of their wines.

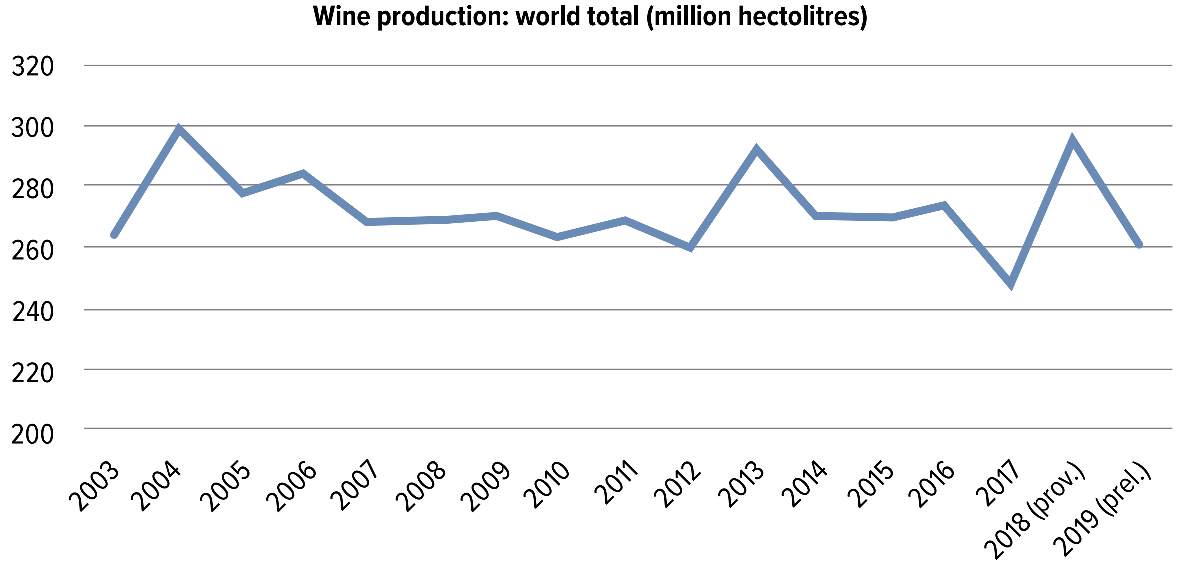
In Europe, PDO rules can be very strict, limiting producers to certain grape varieties, methods of production, maturation periods and so on. In contrast, producers outside the EU are rarely subject to such limitations, leaving them free to react more quickly to changes in wine consumers' preferences and maintain demand for their wine, in a way that producers governed by PDO rule cannot.

Legal changes often come about relatively slowly, giving producers the time to adapt. However, sometimes sudden changes in legislation can have particularly significant effects. For example, in China in 2012, the new leader, Xi Jinping, wanted to stop the practice of 'lavish gifting', the tradition of showing respect to business colleagues, customers or suppliers by giving gifts paid for by government money – the more expensive the better. These gifts often included super-premium priced wines, especially Bordeaux *Premier Cru Classé* and *Grand Cru* Burgundy. An Anti-Extravagance campaign was launched explicitly to prohibit the gifting to or consumption by government officials of luxury wines and spirits. As a result, demand for those wines dropped almost immediately. Meanwhile, there has been an increase in the sales of less expensive wines as the growing middle class wants to buy wine for enjoyment and to show status rather than for lavish gifting.

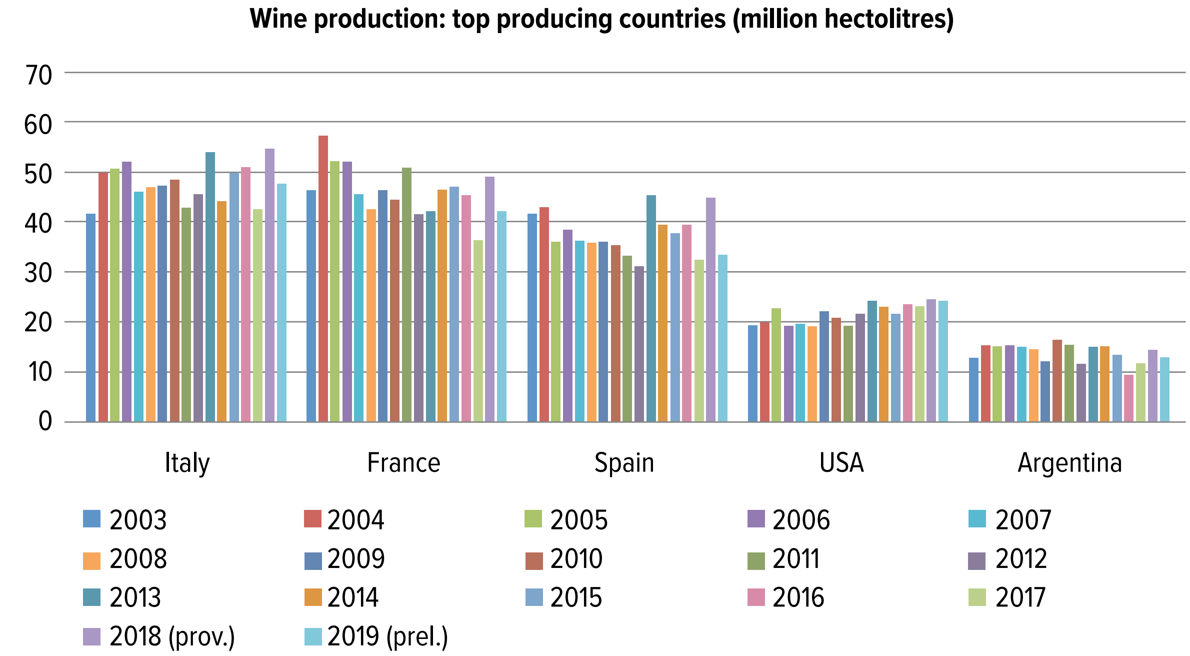
1.2. Factors that Influence the Supply of Wine

PRODUCTION

The amount of wine produced will clearly have a strong impact on the level of supply. The charts below demonstrate the dramatic fluctuations that can occur from year to year.



(Source: OIV)[8]

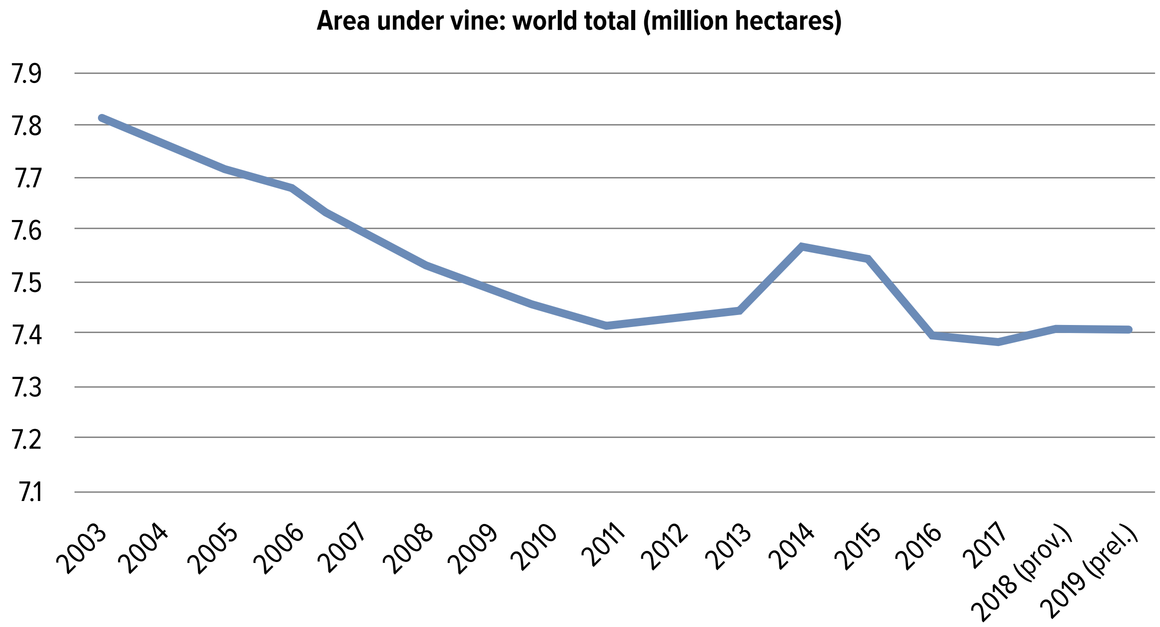


(Source: OIV)[9]

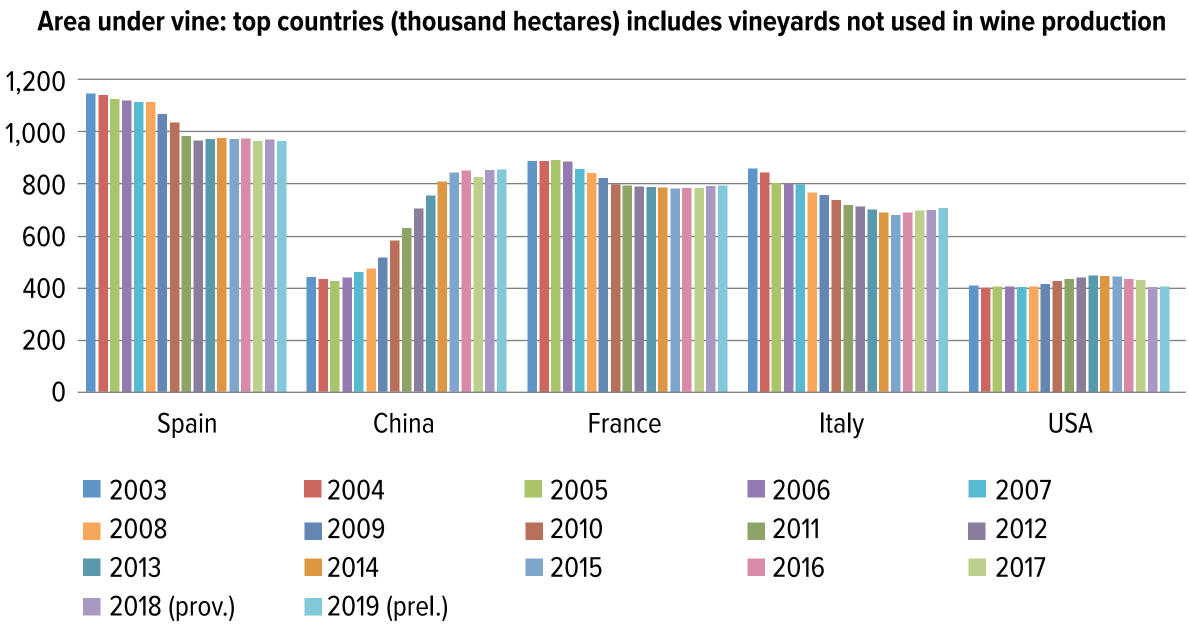
Area under Vine

One factor that can influence wine production volumes is size of vineyard plantings. Generally speaking, the greater the area under vine, the greater the volume of wine that can be produced.

The 'area under vine' data in the following charts comes from the International Organisation of Vine and Wine (OIV), which does not separate vineyards producing wine grapes from other fruit, such as table grapes. It is estimated that, globally, 90 per cent of vineyards are used for wine production. However, this does vary by country. The majority of China's vineyards are devoted to table grapes, and so, although it has the second largest vineyard plantings, its wine production is comparatively small (depending on year, China is the 7th–10th largest producer).



(Source: OIV)[10]



(Source: OIV)[11]

Several factors have resulted in the gradual reduction in vineyard land, particularly in the EU:

Vine pull schemes – By the mid-1980s, EU wine production was much greater than demand, creating a surplus that came to be known as the 'wine lake'. National governments and then the EU itself paid growers to pull up poor quality vines, especially in southern France, Italy and Spain, with the result that, for example, in the 1980s several hundred thousand hectares of European vines were pulled up. Vine pull schemes have also been used in other countries, such as Australia, New Zealand and Argentina.

EU restrictions on planting new vineyards – The EU scheme was part of a broader policy to reduce wine production, which also included limits on the planting of new vineyards. However, since 2016 member states have been able to authorise planting of up to an annual growth of 1 per cent of the vineyard area already planted. As can be seen on the graph, plantings in France and Italy have started to rise again.

Conversion of vineyard land to other uses – In many parts of the world, wine grapes are a low value agricultural crop and growers may want to switch to higher value products: for example, some growers in Elgin (South Africa) are removing their vineyards and replacing them with apples, which give a greater financial return than grapes. The fall in vineyard area in the USA has been part of a strategy to combat over-supply; a proportion of vineyards have been converted to grow almonds and pistachios. In some regions, vineyard land is being bought up for property development, often for tourists, as in Madeira, but also for business, as in Santa Clara Valley (or Silicon Valley), California.

Abandonment of rural areas – There has also been a trend for younger people to leave rural areas and go to live and work in urban areas. This is reducing the available workforce for vineyard work and in some cases leaving family-run estates with no-one to take them over. Generally speaking, rural economies are suffering from a lack of labour and investment, and it is not uncommon to see vineyards that are difficult to work abandoned, even in prestigious wine regions.

Human Factors

A decline in vineyard area need not result in reduced production: for example, average production in Spain has increased despite the area under vine decreasing. Average yields in Spanish vineyards have traditionally been (and still are overall) much lower than, for example, in France or Italy because of the very dry climate in many of Spain's wine-producing regions and also the use of traditional low-density planting systems. The relaxation of laws banning irrigation of vineyards in Spain, which means that areas that were previously not able to support vines are now viable, and the increased use of more modern, higher density planting have increased production in certain areas, which has offset the reduction in the area under vine.

Throughout the wine world, as explained in D1: Wine Production, modern techniques (such as better site selection, clonal selection, improved canopy management, pest and disease control and machine harvesting) have made it possible to produce a greater amount of healthy grapes. This, coupled with modern winemaking technology, has a resulted in a greater volume of higher-quality wines that can be produced at a retail price which consumers are willing to pay.

Natural Factors

Variation in weather conditions from year to year can also have a significant impact on the volume of wine produced. While good weather can lead to higher than average harvests and wine production, bad weather will have the opposite effect.

Europe is particularly susceptible to vintage variation and, because over half the world's vineyard area is located there, bad vintages will have a major impact on global wine production. For example, in 2017 a combination of devastating spring frosts, hailstorms and severe heat waves resulted in a 14 per cent fall in production in Europe compared to 2016.[12]

In some regions, longer-term climate change is threatening wine production. Serious droughts have recently affected South Africa (e.g. from 2015–19). The same has been witnessed in California, where low rainfall has reduced the level of water in the state's main underground reserves to almost nil. In a further example, the Chilean government estimates that 95 per cent of the country's vineyard area will have shortages of irrigation water by 2050.

As examined in detail in the *Wine Production* study guide, these natural factors will influence the yield that can be produced. Reduced yields will generally lead to lower production and, due to the shortage in supply, higher prices, which consumers are not always willing to pay, especially if the adverse conditions also result in a drop in quality.

LEGISLATION

The main legislative influence on the supply of wine is the increasing number of GIs around the wine world. All of these define where grapes for wines with specific geographical names can be grown.

Outside the EU, that is as far as it goes. Systems such as American Viticultural Areas (AVAs) in the USA, Wines of Origin in South Africa or the GIs of Australia have none of the strict rules about production found in the PDO systems of Europe. The *Appellation d'origine contrôlée* (AOC) of France and Italy's DOC and *Denominazione di Origine Controllata e Garantita* (DOCG) dictate what grapes can be grown in that area, the maximum yields and what winemaking and maturation techniques may be used. Such restrictions can further limit the volume of wine produced.

One aim of GIs, especially the European PDO system, is to define the style of wine produced in a particular region. Another aim is to bring supply and demand more into line and so reduce the risk of downward price pressure. For example, if a retailer's market research showed that a large number of that retailer's customers wanted to buy a Sauvignon Blanc at an inexpensive price, the retailer would be able to select Sauvignon Blanc wines from around the world and switch country of origin from one year to the next to gain the cheapest price. Alternatively, if market research showed that a large number of consumers wanted to buy Marlborough Sauvignon Blanc, the retailer is constrained to buy from a small area (in global terms) in New Zealand. In the latter example the producer has more control over the price. The retailer cannot source the wine from anywhere else.

However, where demand for a particular wine is rising, there is often pressure to extend the permitted production area, as has been the case, for example, for Prosecco DOC. Subject to limitations on the planting of new vines, this allows new vineyards to be planted and for production to be increased. However, this often involves extending the GI to less suitable sites and a dilution in overall quality.

In Europe, PDOs have a governing body that helps to set and enforce the rules (as well as other roles such as marketing, see Marketing Options). Some, for example the Comité Champagne and the Sherry *Consejo Regulador*, actively limit the amount of wine that may be released in any one year, ensuring the market is not oversupplied and maintaining price levels.

The strict PDO rules led to complaints from some European winemakers that they were not able to compete with their counterparts in less heavily-regulated regions. For this reason, in the 1970s the French introduced the *vin de pays* system, which formed the basis of what became the European PGI system to offer greater freedom. These still require 85 per cent of grapes to come from a particular geographical area, but they permit a wider range of varieties and do not impose rules on viticulture and winemaking. In some areas, such as the South of France, PGI wines are extremely important, and production (but, importantly, also quality) has increased considerably since this system was introduced.

1.3. Challenges of Over-supply and Under-supply

CHALLENGES IF THERE IS AN OVER-SUPPLY OF WINE

Global wine production has consistently exceeded global wine consumption. The level of over-supply has been reduced in recent years thanks to growth in wine consumption in the USA and China and the limitations on production discussed in the previous sections.

When there is more wine available to sell than consumers wish to buy, prices tend to fall as consumers can easily find a cheaper alternative. Over-supply makes it harder for producers to sell their stock and, in some cases, means that they may end up with unsold wine in tanks. In order to get some income from the wine and free up winery equipment for the next harvest, producers may be forced to sell the excess wine at a much lower cost than they would like, sometimes below production cost.

Other, more proactive, producers will try to find new markets and outlets for their wines. However, it takes time for producers to develop contacts and so this may only be an option for those who already have a presence in a particular market or have a distributor who can find new customers for them. Another option for producers with larger volumes of wine would be to bottle the wine under a different label and offer it to a supermarket, deep discounter, bar or restaurant as a private label wine (for more details see Supermarkets or Branding).

If a producer is forced to sell their wine at a lower than usual price, or if a retailer orders too much wine and then has to lower the price to sell it, this can devalue the 'brand image' of the wine (how consumers perceive the brand) and create lasting damage to the brand (see Price for details on pricing tactics).

CHALLENGES IF THERE IS AN UNDER-SUPPLY OF WINE

A global lack of supply of wine is unusual, although it can happen: for example, following the bad harvests across Europe in 2017. However, under-supply is more common in the case of particular wines.

The obvious problem for the producer is not having enough wine to sell, disappointing clients (and ultimately consumers) and leading to strained business relationships. If the producer has a contract with a large retailer, the retailer may impose a financial penalty or cancel the contract if the required volume of wine is not available.

In most businesses, an excess of demand compared to supply would result in an increased price for the product. In some parts of the wine business that does happen (e.g. Bordeaux *Premier Cru Classé* and *Grand Cru* Burgundy) but, in most cases, producers prefer to issue wines to their main distributors on allocation.

If wine buyers for retail outlets and their customers consider that the origin of a wine is not important, cheaper alternatives from other grape varieties and/or countries may be found. That is especially true in price-sensitive markets.

The wine production business is much more fragmented than for spirits, beers or soft drinks. The market consists of many small and medium-sized companies and a few large companies, all of which compete with each other. The few large companies (e.g. Accolade Wines, Treasury Wine Estates, E & J Gallo) will often have wines at different price points, styles and regions of origin. This means that, if there is an under-supply of a particular wine, they will be able to offer an alternative from within their portfolio. They will also sell to different markets, meaning that if price increases from under-supply cause sales to drop in one country, they can sell wine into less price-sensitive markets instead.

EXAMPLE OF EXTERNAL FACTORS THAT AFFECT THE PRICE OF WINE

External factors can affect the price of wine. This example considers the possible effects on two example wines of the global over-supply of wine and the strength of the economy. These examples are both drawn from economic factors, whereas social and legislative factors could also impinge on the sales of these wines.

Global over-supply of wine	
High-volume, inexpensive branded Chardonnay	**Low-volume, super-premium Cabernet Sauvignon**
Over-supply can lead to low prices, competition from cheaper alternatives and the threat of being left with unsold wine in tanks as the next harvest approaches. This can force a producer to sell at a lower price than asked for initially, and may be below production cost.	Little impact on super-premium sector as volumes are very small.

Strength of the economy, globally and in envisaged markets	
Threat of recession and/or slowed economic growth results in a threat to sales.	Threat of recession and/or slowed economic growth may have little impact on super-premium sector as volumes are very small and buyers of wine in this price band are less likely to be at risk during a recession.

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2 Factors that Affect the Price of a Bottle of Wine – Costs through the Supply Chain

The supply chain is the network of organisations and activities involved from the creation of a product through to its distribution and sale to the final consumer. In an ideal world, a wine would sell for a retail price that covers the costs of all stages of the supply chain, from the vineyard to the retailer, and earn all the businesses involved a reasonable profit. There are many factors that influence what the recommended retail price would be; the relative importance of each of those factors will vary from one wine to another.

In the wine industry, grape growing forms the first stage of the supply chain. This is the case whether a wine business grows its own grapes or buys them from a grape grower. The cost of growing the grapes can be broken down into capital costs and operating costs. Capital is the money invested in a business to generate income. Capital costs are the money spent by a business in acquiring, improving or maintaining long-term assets such as land, buildings and equipment. Operating costs are the day-to-day costs relating to producing and packaging wine. (The various techniques and concepts referred to this section are discussed in greater detail in D1: Wine Production.)

2.1. Grape Growing Costs

VINEYARD ESTABLISHMENT

Often, the first costs for a prospective wine producer relate to buying or renting the land where the vineyard will be planted (unless they own it already). The price of land varies, even within the same region: in California, land in Napa Valley is around 10 times more expensive than in Central Valley,[1] whereas in Bordeaux, land prices in the best parts of the prestigious Médoc AOCs can reach 100 times those in the generic Bordeaux AOC.[2]

In part, prices reflect the land's potential to produce high-quality fruit (the growing environment discussed in D1: Wine Production) and the name of the appellation within which the vineyard is situated. In the Californian example above, the high land prices in Napa Valley arise from its reputation for producing high-quality grapes from which premium and super-premium wines can be made, whereas Central Valley is more usually associated with the production of inexpensive wines.

Scarcity of land can also increase the price. Land in prestigious regions such as Champagne rarely comes on the market and so, when it does, it will be sold to the highest bidder. Similarly, because GIs limit the area of land that can produce wine under that appellation, in small GIs, there is only a limited amount of land available.

Once the land has been purchased, there are considerable costs that will need to be incurred before the vineyard can become operational. These will depend on the nature of the site, but common examples include:

- surveying the land to check its suitability for viticulture and deciding which grapes are most suitable – this may include satellite imaging and taking soil samples;
- site clearance – for example removing vegetation, large rocks etc.;

Land is expensive in Napa, especially in prestigious sites such as the To Kalon vineyard.

- building access roads into the vineyard and between vineyard plots;
- buying and planting vines;
- buying stakes and wires etc. for establishing and maintaining trellising;
- if the site is badly drained, installation of deep drainage channels and pipework;
- in dry areas, establishing an irrigation system – for example drilling boreholes, building reservoirs, laying pipes to bring water into the vineyard, installing pumps to bring up underground water, installing a system of delivering water to the vines;
- protection against weather hazards – for example windbreaks, protective mesh (if the area is prone to the risk of hail), frost protection;
- protection from animal pests – for example high fences, electric fences, netting;
- buying machinery and equipment – for example tractors, spraying equipment, harvesting machines – and building garages or sheds to store them in. Some producers cannot justify the cost of buying expensive machinery and equipment that they only use for a short period of time each year. Instead, they will pay to hire it just when they need it.

Costs such as these incurred in establishing a business are known as capital costs. The capital costs needed to establish a vineyard can be very high, and the situation is not helped by the fact that vines take at least three years from planting to come into production. While some people have sufficient personal or company wealth to fund the establishment of their vineyard, many prospective producers need to find a way to fund these capital costs. Loans are one way of raising the money; however, the interest and capital repayments will have to be factored into the long-term business plan. Another way is to get funding from investors; however, they will expect a share in any profits and hence a return on investment (i.e. the profit from business activity compared with the amount invested). Some may wish to get involved in managing the business.

In some countries, governments are trying to encourage the establishment of vineyards (either specifically or as part of a wider agricultural policy) and offer subsidies to prospective producers to help with the capital costs. These can either take the form of tax incentives or lump-sum contributions.

VINEYARD MANAGEMENT

Once the vineyard has been established, there are costs involved in running it and making sure that it produces the desired amount and quality of fruit. These costs start as soon as the vines are planted and before they become productive. The main vineyard management costs are:

Labour – The amount of labour required varies greatly according to the size, topography and other factors in the vineyard. For example, considerably more labour per hectare is required in the steep vineyards of the Mosel where mechanisation is impossible than in the flat vineyards of, for example, California's Central Valley. Also, organic and biodynamic vineyards are more labour intensive than conventionally farmed ones due to the additional procedures that need to be carried out.

There is a balance to be found between labour costs and the capital costs of machinery. Where labour costs are low (e.g. Chile) there is less incentive to invest in capital-intensive equipment, but where they are high or labour is difficult to find (e.g. Coonawarra) investment in machinery becomes a better option.

The type of labour required in a vineyard varies through the year. At harvest time, if hand harvesting, the producer will hire a team of pickers – they can be relatively unskilled as the harvesting procedure can be quickly taught. Such labour is relatively cheap, but if there is a shortage they can choose to work for the highest offer. For the rest of the year, a smaller staff of more expensive, skilled workers will be needed, often under the supervision of a vineyard manager. If machinery is used in the vineyard, the amount of staff may be reduced, but these staff must be trained to use the machinery effectively.

Machinery and fuel – These are the costs of maintaining the machinery and the fuel required.

Supplies – These would include materials for repairs to trellising, and pruning shears and gloves for workers.

Vineyard treatments – Conventionally farmed vineyards use large amounts of agro-chemicals such as herbicides, fungicides and insecticides. Agro-chemical use can be reduced by using the principles of integrated pest management. However, regularly updated weather information is needed to give warning of conditions that could encourage fungal disease: if the vineyard is too small to justify the cost of its own weather station, it will need to pay for access to a government-run station.

Organic and biodynamic growers still need to use small quantities of the more traditional treatments (such as sulfur or Bordeaux mixture) and so incur costs.

Water – If a vineyard is irrigated, it may be necessary to pay the authorities for the right to extract water from a river or buy it from elsewhere. In dry years, when the price of irrigation water rises, the increased cost of irrigation can make grape growing unprofitable.

Electricity – Certain systems in the vineyard require electricity for example irrigation systems, bird scarers and some frost protection equipment.

Insurance and depreciation – In addition, to the costs above, there may be additional costs to cover insurance for the vineyard (against risks such as fire or flood) and for the depreciation of the replaceable assets in them. For accounting purposes, businesses would normally include a sum for depreciation, the reduction in the value of assets over time based on their useful life. In the vineyard this could include an amount for replacing a tractor or trellising systems. In the winery, presses and other equipment will need to be replaced in time.

2.2. Winemaking Costs

The cost of winemaking can also be broken down into the capital costs of establishing the winery and the operating costs of managing it and producing, maturing and packaging the wine.

WINERY ESTABLISHMENT

There are numerous capital costs for establishing the winery. The land on which the winery will be built may need to be purchased. There are then the costs of building the winery and fitting it out with equipment such as presses, tanks, pipes and pumps, refrigeration equipment, maturation vessels and a bottling line (unless the wine is going to be sold in bulk or a mobile bottling line hired).

Again, the funding for this could come from the owner, a bank or investors.

WINEMAKING COSTS

There is a variety of operating costs involved in making wine:

Grape growing costs (see above) or the cost of bought-in fruit – If a winery is buying in grapes, rather than growing any or all of its own, the price of the fruit will be a significant cost. This can vary considerably according to the quality of the grapes, the grape variety and the vintage. If a winery has to meet a low price-point, it could blend cheaper varieties (e.g. Airén, Ugni Blanc, Colombard or Semillon) with a more expensive variety (e.g. Chardonnay) to reduce the production costs.

Labour – An estate is likely to employ a small number of mainly skilled staff full-time. Some casual labour may be required around harvest time to help with manual tasks in the winery, such as unloading crates and moving equipment.

Machinery and equipment running costs – For example, fuel, electricity and maintenance.

Winery materials – For example, sugar for enrichment, de-acidification agents, acid for acidification, cultured yeasts, carbon dioxide or other inert gasses, fining and filtering agents.

Water – Wineries use large volumes of water for cleaning. In areas where water is expensive or scarce, some wineries have found it cost-effective to invest in water treatment plants so that they can re-use as much water as possible.

Electricity – Significant amounts of electricity are needed for refrigeration, ventilation, presses, pumps and lighting. Because of this, some estates generate some or all of their own electricity (e.g. using solar panels).

Maturation – If the wine is to be matured at the estate, the winery will need to include storage space. The vessels used can also be costly. New oak barrels from the top barrel producers can be very expensive and form a substantial cost if purchased on an annual basis. It can be much cheaper to buy second-hand barrels, although, of course, these will give little or no flavour characteristics to the wine. Another alternative is to use oak chips or staves; however, while they are less expensive than oak barrels, they still add cost, if far less than new oak barrels. Wineries also need to employ labour to monitor the maturation process.

Skilled labour and maturation in barrels both add costs to the wine production.

Another long-term, but less obvious, cost of maturation is the loss of cashflow: there can be a large amount of money tied up in maturing stock. Although much barrel-matured wine will be released one to two years after harvest, the stipulated ageing period for some wines is much longer. For example, Brunello di Montalcino can only be released from the January five years after harvest.

Packaging – If the winery bottles its own wine, it will need to buy materials such as bottles, closures, labels, cartons and pallets. Heavy or unusual bottles and more elaborate labels (embossed, textured paper) will often be more expensive than standard options.

A bottling line will be required to bottle the wine. Estates may invest in their own, but these are very expensive and may not be cost- effective if they are only used once a year. They may therefore prefer to hire a bottling line, and the labour to operate it, when needed. Another alternative is to send the wine to another estate and pay to use their equipment.

As well as the labour required to bottle and package the wine, the estate may also employ someone to design their labels (and sometimes even their bottles) for them.

Depreciation – as with the vineyard, the company may budget for the replacement costs of equipment in the winery. In the worked example below, the cost of water, electricity and winery-related depreciation has been considered together under the heading of 'cellar overheads'.

The costs outlined above are those involved with the production of the wine. However, a winery will have several other costs that will impact the price of the wine and the company's profitability. Some of these (transportation, taxes and duties, sales and marketing) are outlined in the following sections. The exact costs for the winery will depend on the wine's route to market (for more details see Chapter 4). Regardless of route to market, the winery is likely to have non-production related costs in the form of labour, buildings and utilities that are not directly involved in production.

In addition, for the winery to be profitable, the price of the wine will also include a margin for the producer.

EXAMPLE OF THE EFFECTS OF THE SCALE OF PRODUCTION

The Chardonnay is an example of a high-volume, inexpensive wine that will be sold with a small margin in order to keep the price to the final consumer low. To produce wine at the necessary scale there will need to be initial investment in expensive equipment such as a centrifuge and/or a cross-flow filter. The idea is that the cost of the equipment can be recouped because of the high volume of wine being processed. In other words, there are economies of scale, with the cost of the initial investment being spread across a very large production. The investment is aimed also to maximise the efficiency of production. As a result, the final price of the wine to the end user is low so that the wine can be competitive in its market.

By contrast, the Cabernet Sauvignon example is a low-volume, high-margin wine. Here investment in equipment and storage will have to be recouped by the much higher price of the wine. Because there are only a small number of bottles to be sold, the price and the margin per bottle will have to be sufficiently high to provide a reasonable profit at each point in the supply chain. In other words there is minimal economy of scale and therefore the final price to the end user will be high.

Profit margin in relation to volume of wine sold	
High-volume, inexpensive branded Chardonnay	**Low-volume super-premium Cabernet Sauvignon**
Tiny margin per unit sold, but aiming for high-volume sales.	Significant margin per unit sold, but only have a small number of units to sell.

Example of Costs of Grape Growing

The table overleaf is a worked example of the very large differences of cost that can be incurred in growing grapes. An extreme example is given so that the differences are clear. The example is based on vineyard areas of vastly different volume production. The high-volume Chardonnay costs are based on growing 6,400 tonnes of grapes, while the low-volume Cabernet Sauvignon costs are based on growing only 65 tonnes of grapes. As a result of this difference, the costs for some types of equipment (e.g. tractors and mechanical harvesters) for the high-volume wine are spread very thinly as large volumes of wine will be produced.

Any example given will include some costs that are only relevant in a particular country or region. In this case the example is taken from the USA, where real estate or property tax is an annual tax payable on property, including vineyards. The amount of tax to be paid is based on the assessed value of the land.

The example costs given here are for growing the grapes to produce one nine-litre case of each of the two wines. The examples assume that the vineyards have already been established, so these are vineyard management costs plus depreciation costs. The numbers given in the tables are not required for exam purposes.

Costs of grape growing per 9 L case of wine (USD)		
	High-volume, inexpensive branded Chardonnay	**Low-volume, super-premium Cabernet Sauvignon**
Labour	$10.68	$215.38
Supplies	$0.47	$3.59
Vineyard treatments	$1.56	$3.33
Machinery and fuel	$3.19	$9.74
Water and electricity	$0.12	$3.08
Real estate tax	$0.23	$28.97
Insurance	$0.09	$0.51
Depreciation	$2.47	$22.31
TOTAL	$18.81	$286.91

The figures in this example show that the most significant difference, by far, is the additional labour costs of the work done to grow the fruit for a super-premium wine. This is due to a number of likely factors:

- more interventions in the vineyard – pruning by hand, growing cover crops, leaf removal, disbudding, shoot removal and positioning, leaf removal, crop thinning;
- more manual work, which is much more time-consuming and labour intensive;
- a much smaller vineyard and lower yields per unit of vineyard area, and thus no benefit from economies of scale when any work is done.

All these factors mean that each activity is much more costly in relation to the amount of wine that is made and can be sold.

The next biggest item is the real estate tax, reflecting the extremely high value of the land for the super-premium wine in contrast to the value of the land for the inexpensive wine. The other very significant difference is the amount allowed for depreciation. This reflects much higher replacement costs for the more expensive wine for items such as drainage systems, irrigation and frost protection systems, and trellising.

Example of Total Winemaking Costs

The next table illustrates the very large differences of costs in the winemaking phase of production between the two example wines. Here the total cost of production is given, including the cost of the grapes.

Total winemaking costs per 9 L case of wine (USD)		
	High-volume, inexpensive branded Chardonnay	Low-volume super-premium Cabernet Sauvignon
Grape growing costs (see above) or the cost of bought-in fruit	$18.81	$286.91
Labour and cellar overheads (including water, electricity and winery depreciation)	$4.78	$39.00
Winery materials	$0.20	$3.00
Maturation – oak	$0.10	$60.00
Packaging – glass and closure	$2.80	$7.50
Packaging – labels, case packaging	$0.90	$5.60
TOTAL COST	$27.59	$402.02

In these examples, in both cases the grape growing costs are roughly 70 per cent of the total production cost, despite the very significant difference between the total production cost of the two wines.

With respect to winemaking costs, the most significant added costs for the super-premium wine are for oak. In the example of the inexpensive Chardonnay, the costs are very low as oak dust or chips will be used and the wine can be held in stainless steel containers that will be reused many times. By contrast, expensive high-quality barrels, with a high proportion of new barrels, will be used for the super-premium Cabernet Sauvignon. Barrels will be replaced when they are three or four years old.

The cellar overheads for the latter are also much higher because the wine will be matured in the cellar for a much longer period; for example, for 18 months rather than two to three months. Equally, the Cabernet Sauvignon barrels will take up more space, as the wine is matured in the individual barrels, and thus a larger cellar space will be required. By contrast, the Chardonnay will be matured in bulk for a short time, requiring much less cellar space.

Smaller, but still important, items also contribute to the difference between the costs of winemaking for the two wines. Much higher quality materials will be used for glass, closures, labels and case packaging for the super-premium wine. In addition, one-off costs for the super-premium wine (for example for designing a label) will be much higher. This is because higher standards will be expected of a super-premium product and because the cost will have to be recouped from a much smaller number of bottles that are to be sold. At many points in the production of the two example wines, there will be substantial economies of scale for the high-volume wine in comparison with the low-volume wine; for example, through buying materials in bulk.

These tables only set out the direct, production-related costs of the wine to be sold. To see the full cost, the following would need to be added:

- the sales and marketing costs;
- the cost of transport to the next point in the supply chain;
- any taxes and duties to be paid;
- the overheads of running the company as a business – for example, the operating costs and the depreciation costs of any building that is not used for production.

2.3. Transportation Costs

Once the wine has been bottled, unless the estate will be selling it directly to consumers at the cellar door, it needs to be sent to the intended market.

TRANSPORTATION OF WINE IN BOTTLE

The most common way to transport wine is in bottle. These bottles are packaged in boxes, which are in turn loaded into crates and pallets.

The job of moving goods around the world is carried out by freight forwarders. While it is possible to send wine using general multinational logistics companies, the wine industry tends to prefer those which specialise in the transportation of wine (such as JF Hillebrand). Although they charge more, these companies have considerable expertise in transporting what is a very fragile product. Bottles can be easily broken and the wine inside can spoil if subjected to hot temperatures, direct sunlight and excessive vibrations. Some specialist freight forwarders take steps to limit the risk of loss or damage, such as using highly-specialised (and consequently very expensive) temperature-controlled shipping containers.

There are four ways of transporting wine around the world. These are listed below in order from the most to the least expensive; however, this is only a rough guide because transportation costs vary greatly over different routes.

Air – The cost of air freight is heavily dependent on weight, due to the additional fuel required. Bottles of wine are very heavy in relation to their size and value, so very expensive to transport by air. This method is therefore only used in special circumstances, such as sending bottles to a competition or samples to a trade/consumer fair, for very high value wines or where deadlines are important – such as Beaujolais Nouveau for the Japanese market.

Road – Most wines will travel short distances by road freight at the beginning and end of their journeys. For short journeys (e.g. Epernay to Brussels), road freight is very efficient as it takes the wine directly from the winery to the point of delivery. However, for long distances (e.g. Mendoza to New York), it is excessively expensive. If a journey involves crossing a small body of water, such as the English Channel or the Irish Sea, the truck can drive directly on to and off a ferry. This is the quickest and therefore cheapest way of moving goods through a port, but the costs of the overall journey may outweigh this benefit.

Rail – The cost of rail freight will vary according to the length of the journey and how goods are loaded onto the train. If individual pallets need to be loaded and unloaded from the train, the cost would probably be too high. However, that cost can be reduced by containerisation; that is, the goods are loaded into a standard container which is lifted onto the back of a truck and then onto the rail wagon. This could be cheaper than transporting the goods all the way by road, but freight rates vary considerably depending on the route.

Sea (also known as 'deep-sea') – This is usually by far the cheapest method (in cost per kilometre/mile) for transporting wine over long distances: for example from the USA, South America or Australasia to Europe. Containerisation is essential for deep-sea shipment. The downside to this method is that it is slow (for example, the journey time from Australia to the UK is typically 40 days), so companies that import wines must factor in that time when ordering goods, especially for peak trading periods.

Standard freight containers allow for most effective use of space on a cargo ship.

BULK TRANSPORTATION

Bulk transportation is nothing new. In the past, wine was often shipped around the world in barrels. However, in the past two decades, there has been a large increase in bulk transportation of wine. Bulk exports from New World countries accounted for 23 per cent by volume of exports in 2001 and had grown to 43 per cent by 2010.[3] In 2018, for world wine exports as a whole, 34 per cent by volume was exported in bulk. Spain (55 per cent), USA, South Africa, Australia and Chile all exported more than 40 per cent of their wine exports as bulk wine.[4]

Bulk wine is transported in either plastic flexitanks (more common) within a standard steel shipping container or non-flexible ISO tanks.

One key advantage of bulk transportation is that the wine in tank is much lighter than in bottle. It is also much more efficient: a standard shipping container can hold around 9,000–10,000 litres of bottled wine, whereas the largest flexitanks can carry up to 24,000 litres of wine in bulk and ISO tanks can hold up to 26,000 litres of wine in bulk. This means that over double the amount of wine can be carried in the same size of container. As this significantly reduces the amount of fuel required to transport the same amount of wine, bulk transportation is much cheaper and more environmentally-friendly than transporting the wine in bottle.

One disadvantage of these tanks is that they are only suitable for moving large volumes of the same wine. Therefore, while it is an attractive option for supermarkets and major brands who can sell large volumes of wine, it is not suitable for smaller-production wines.

At first, bulk transportation was favoured for cheaper wines and this continues to be the case. While 34 per cent of the world's wine by volume was transported in bulk in 2019, this only accounted for 8 per cent by value.[5] However, there is now increasing interest in transporting more expensive wines in bulk too.

INSURANCE

As with all goods, it is essential that wine is correctly insured throughout its journey, in case it is lost, damaged or spoiled. Modern transport is very safe and reliable, but accidents do happen: in 2013, the container ship *MOL Comfort* broke and sank off Mumbai. Among the cargo were two containers of wine from New Zealand's St Clair winery destined for Sweden.

The party taking out the insurance should be the one that assumes the risk for loss or damage. Normally, this will be the party who is sending the goods: for example, the winery will be responsible for ensuring the wine makes it safely to the company importing the wine, and this company will then be responsible for getting the wine safely to retailers. Using a specialist freight forwarder should reduce the risk, and many offer insurance as part of their service (usually at extra cost).

2.4. Importation Costs

On top of transportation costs, there are additional costs that will payable if a wine is to be imported to another country. Customs duties and taxes have already been discussed in Factors that Influence the Demand for Wine – Legislative and Political Factors. Different countries also have different labelling laws with which the imported wine will need to comply: for example, in the EU the abv of a wine must be shown to the nearest whole or half unit, whereas USA law permits a 1.5 per cent variance, meaning American wines may need to be relabelled if going to the EU. USA law also requires bottles to display a health warning, which will need to be added to wines entering the country. Producers dealing with a number of different countries may therefore have to order a number of different labels for specific markets (unless they are able to satisfy the different stipulations of their markets in one label). This will be more expensive than if they were dealing with a single market (such as the USA or the EU), in which case they could simply order a larger number of a single label.

It would take producers a significant amount of time to learn about all these different requirements and comply with them, which is why many producers employ distributors (see

Appoint a Distributor) to deal with foreign markets. This also has the advantage that the importer has knowledge of their market and an established list of potential clients.

However, distributors will charge a fee, which will add to the cost of the wine. This is called the 'margin'. The margin is usually quoted as a percentage and is calculated as the fee (operating costs and profit) divided by the revenue (multiplied by 100 for a percentage figure). For example, if a distributor added a fee of EUR 1.00 to every bottle of wine that cost them EUR 10.00 to purchase, the percentage margin would be (1 ÷ 11) x 100 = 9.09 per cent.

The margin will vary from distributor to distributor and from country to country, but can range from 5–25 per cent. As a general rule, those selling to the hospitality sector tend to have higher costs and a larger staff than those specialising in the retail sector and will therefore expect higher margins. Retailers buying from distributors may also need to pay delivery costs.

Distributors' margins can be avoided if retailers buy directly from producers. However, many find that having a reliable distributor to deal with logistics on their behalf is worth paying for.

2.5. Sales Costs

Costs are also incurred at the retail end of the supply chain (here meaning both the retail and hospitality sectors, unless otherwise stated). The retailers' main costs are as follows:

Property costs – Retail premises of any sort are expensive. In most countries, retailers can choose between buying a property or leasing it for a period of time. Buying the property will incur significant capital costs, although the retailer may be able to fund the purchase through a property loan or mortgage. Taking a lease will be cheaper initially, but the retailer will have to pay rent and other expenses during the term of the lease and, when the lease comes to an end, they may have to move out.

Retail premises, especially bars and restaurants, tend to be in prime locations, which are the most expensive to buy or lease.

Whether the retailer buys or takes a lease of their premises, they will need to spend money decorating and furnishing it to suit their business image. Once the shop, bar or restaurant is open, there will be additional running costs. Some, such as maintenance, security, water, energy and insurance, are fairly universal, others vary from country to country, such as commercial property taxes and waste disposal.

Property costs will be lower for online-only retailers as they only need to buy or lease warehousing space, which is often located in areas away from city centres where property prices are much cheaper (for more on this model see Online Retailing).

Labour – Staff costs vary according to the type of retail outlet. Some countries require staff to be paid a legal minimum wage. Other countries are more flexible, but in all cases the higher the level of skill and expertise a member of staff has, the higher the level of wage that person will expect to receive. Training staff to bring them up to the required level of skill and expertise can also be a significant business cost.

In supermarkets, labour costs are relatively low as highly skilled staff are not required on the shop floor. However, specialist wine retailers will employ highly knowledgeable staff who can engage with customers and advise them on the range of wines available (see further Specialist Wine Retailers).

Bars and restaurants have much higher labour costs than shops because additional staff are required to wait on tables, clean and wash up. Wages will reflect the level of knowledge and expertise required of staff. In 'non-destination' restaurants (see Restaurants), staff will not necessarily need to know much about wine and will therefore not be paid as much as more skilled and knowledgeable staff in 'casual dining' establishments. In a 'fine dining' restaurant, staff will be expected to be highly knowledgeable about wine; there will also be a head sommelier who selects the wines for the wine list and must be able to offer diners detailed advice about which wines to select – these positions are very prestigious and can command impressively high salaries.

Equipment and materials – The requirements vary considerably between different types of retail outlet. For example, a specialist wine retailer will need, at the very minimum, a till system, a fridge (if chilled wine is to be sold), shelving, display cabinets, materials to enhance displays and cleaning equipment.

A restaurant will need much more, including kitchen and bar equipment, tableware and glasses. Bars and restaurants are also increasingly investing in expensive wine preservation systems to prevent wine available by the glass from oxidising once it has been opened. However, in restaurants and bars that serve food, the profits made on food may also help cover costs.

In fine dining restaurants, staff need to be skilled and knowledgeable, and salaries should reflect this expertise.

Storage costs – Individual bars, restaurants and shops will usually store their wine on the premises. They may invest in expensive wine fridges to keep the wines at a constant cellar temperature. In some cases, a lack of storage space means they have to keep the wine in external storage until it is needed, incurring additional costs for the storage space and transporting the wine to and from it.

Larger chains, especially of supermarkets and shops, have centralised warehouses where the wine is stored (often in a cheaper, easily accessible, out-of-town location) and then distributed to branches as and when needed. Again, this incurs additional costs.

Warehousing is often in out-of-town areas where land is cheaper.

Delivery costs – Delivery of wine to the end consumer is one of the most expensive elements of the supply chain. Wine is relatively heavy and therefore costs more to deliver than other goods of a similar size. It is also extremely fragile and, as discussed above, there is always the risk that bottles will get broken or the wine become spoiled in transit.

The end consumer will usually be expected to pay a fee for delivery. However, many retailers feel that their customers would not be willing to pay the full delivery cost. The actual cost to the retailer will also vary depending on distance. Retailers therefore often charge fixed delivery fees, knowing that in some cases it may cost them more to deliver the wine. Some charge more for delivering wine on a specific day or at a specific time requested by the consumer.

Some retailers also offer free delivery for orders over a certain amount, even though there is still a cost to them to deliver the wine. This is a way of giving the consumer a discount without reducing the price of the wine.

Margin at the point of sale – To be financially viable, retailers need to make a profit from selling the wine. The amount of margin varies between countries and types of retailers. Specialist wine retailers usually look for a margin of 30–50 per cent.

In many bars and restaurants, the margin is much higher, sometimes as much as 66.6 per cent (i.e. the wine is sold for three times what the bar/restaurant bought it for). This is in part to cover the higher operation costs (see above). Margins are usually higher on wines available by the glass, as there is the risk that, once opened, the wine may spoil and need to be poured away before the bottle has been emptied.

2.6. Marketing Costs

Marketing is covered in more detail later in this guide. However, there are certain costs associated with marketing that can add to the price of a bottle of wine:

Labour – Larger producers and brand owners will employ their own in-house marketing teams. However, smaller producers will not be able to afford these and so, if they want to run a marketing campaign, they will have to pay an external marketing company to do this for them.

A producer may be a member of an industry association (such as a *consorzio* in Italy or the *Verband Deutscher Prädikatsweingüter* (VDP) in Germany) or a generic trade body (such as Wines of Australia or Wines of South Africa). One of the roles of these organisations is to market their members' wines collectively. They are funded by a levy paid by members, usually on the value of their sales: this will also need to be reflected in the final cost of the wine.

Design and production of bottles and labels – Again, this could either be done in-house or by an external agency.

Marketing campaign – Producers may want to pay for advertising and promotional materials. If they want to send sample bottles to tastings or competitions, they will have to provide them free-of-charge from stock that could otherwise be sold. Also, as explained further in Promotion, price promotions are an important part of wine marketing, especially in larger retailers. However, it is usually the producer that bears the cost of these.

Many small producers are successful despite spending very little on marketing. However, larger producers and brands can have large marketing budgets and run expensive marketing campaigns, which may play a part in the price charged for their wines.

2.7. The Impact of Legislation on The Cost of Wine

As has already been seen, the cost of wine can be affected by various types of legislation including taxes, duties, trade barriers, subsidies, minimum pricing and labelling laws.

Producers cannot choose whether or not they comply with these laws, but in certain circumstances they can decide how to do so. For example, in the UK, excise duty is payable on wine entering the country unless it is stored in what is known as a 'bonded warehouse'. Importing companies (e.g. some distributors) who wish to hold on to stock therefore have a choice to either pay the duty as soon as the wine arrives in the UK and then store it in their own facility or store the wine in a bonded warehouse and only release it when someone wants to buy it (who will then cover the cost of taking the wine out of bond, including the duty payable). While hiring space in a bonded warehouse costs money, it means the importer does not need to pay duty out of their own funds, which can help their cashflow situation.

Legal factors may also impact on a producer's decision whether or not to enter a particular market. If import duty is too high in a particular country, they may decide that they cannot sell their wine at a competitive price there and simply choose to focus on other markets. For example, there are relatively few mid-priced USA wines on sale in the EU as, due to trade tariffs, they cannot compete on price with wines from countries such as Chile and South Africa, which have trade agreements with the EU.

Similarly, onerous labelling laws may put off new entrants to a particular market.

Wine being stored in a bonded warehouse

2.8. The Impact of Fluctuations in Currency on the Cost of Wine

When wine is being imported and exported between countries with different currencies, the constant fluctuation of the exchange rate between those two currencies can affect the price of the wine considerably.

The box below illustrates how a change in exchange rates can have a significant impact on the cost of a bottle of wine.

Impact of fluctuations in currency on cost prices
A bottle of wine at AUD 2.00 per bottle ex cellar is:
With a theoretical conversion rate of AUD 1.50/EUR 1.00 = EUR 1.33
With a theoretical conversion rate of AUD 1.40/EUR 1.00 = EUR 1.43
With a theoretical conversion rate of AUD 1.37/EUR 1.00 = EUR 1.46

Consider the situation if a buyer in the Eurozone orders wine from Australia (at AUD 2.00 per bottle ex cellar) when the exchange rate is AUD 1.50/EUR 1.00 but, by the time of delivery, the exchange rate has changed to AUD 1.37/EUR 1.00. If the buyer pays for the wine when ordering, they will save EUR 0.13 per bottle. However, if the buyer agrees to pay on delivery, they will end up paying an extra EUR 0.13 per bottle. These small differences can become significant if the order is for a large number of bottles and can affect profits that the producer or the buyer might earn.

There are several methods that those in the wine industry can use to mitigate the effect of exchange rate fluctuations:

Options – Options is one of the key strategies used in currency hedging. One possibility is for the company importing the wine to take an option/reserve on a certain amount of wine at an agreed price. This means that the producer must set aside the agreed volume of wine and, at an agreed time, the importer may decide whether or not they want to take it. This decision could be based on the exchange rate (although, as said, some options fix the purchase price in advance), but it can also be influenced by market conditions at the time. Because the producer runs the risk that the importer will not take the wine, leaving them with unsold stock, the producer may want to charge a higher price than under a normal contract. However, usually, it is the larger importers who have the negotiating power to demand such arrangements. It is also possible to take an option on a certain amount of currency at an agreed price, rather than stock.

Fixing the price in the currency of the importer at the date of ordering – Producers may not agree to this, or may charge a premium as it shifts the currency risk to them. They welcome the certainty of knowing how much they will receive for the wine, so prices are usually in the currency of the producer. However, many importers prefer to fix the price in their currency so that they have the certainty of knowing how much they are paying and can work out their retail price based on that figure. As the example above shows, if the buyer chooses not to fix the price of a wine when ordering, subsequent changes in the exchange rate could mean they end up paying more, or less, for the wine than if they paid on delivery.

Buying currency to cover specific orders – This requires a proactive stance and only larger companies are likely to have the in-house skills necessary to manage currency or currencies in this way. In currency management, purchasing currency to cover wine purchase contracts is an important business activity and is not considered speculation!

Entering a contract to fix the exchange rate – This is another common strategy for hedging currency. Some importers that conduct a lot of business in a particular currency will enter into a formal contract with a bank or other supplier of foreign currency to purchase a given amount of currency at an agreed exchange rate on a specified date. The importer is legally committed to purchasing the currency. While the exchange rate may go up or down, again the importer has the certainty of a fixed exchange rate and can budget accordingly.

Trading in USD/EUR – Many producers in countries with unstable currencies prefer to trade in more stable currencies such as the US dollar or euro. This is also attractive to importers, who have greater certainty about the price of the wine. As the producer may buy vineyard and winery materials in dollars or euros, it reduces the number of times they have to exchange currency, leaving them less exposed to the fluctuations in their domestic currency.

Opening a foreign currency account in a local bank – If a buyer opens a foreign currency account in a local bank, payment for goods can be made direct to the seller in the seller's own currency. At some point, though, foreign currency will still need to be bought, and keeping a substantial sum of foreign currency in a current account may not be the most efficient use of those funds. A foreign currency bank account may make more sense in the case of a manufacturer who buys component parts in Italy and Spain, produces the final product in the UK and sells it in Germany. All the transactions would be in euros. This is not really suitable where goods are bought in one currency and sold in another.

Opening an account in an overseas bank – Opening an account in an overseas bank has all the disadvantages of opening a foreign currency account in a local bank, but with an added cause for caution. Banking regulations differ greatly in different countries and care must be taken to ensure that all the rules are thoroughly understood.

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3 Types of Business Engaged in the Production of Wine

The next few chapters consider how a bottle of wine gets from the producer to the consumer (sometimes called the ‘route to market’). The first stage in the supply chain involves the various types of businesses engaged in the production of wine. The types of business are described below, but it should be noted that today many businesses act in a number of categories. For example, a company may choose to make wines both from estate-grown and bought-in fruit.

3.1. Estates

An estate producer produces wine from its own vineyards (vineyards that are wholly owned or leased). One of the key advantages to estate production is that the estate retains control over the entire process, from growing the grapes to producing and bottling the wine. They can therefore choose the style of wine made and ensure quality control at every stage. However, as noted, a business may have a range of estate wines made from their own vineyards and a range of merchant (in French *négociant*) wines, made from bought-in grapes.

Another advantage is that all of the profit from the production of the wine belongs to the estate. Estates that also market and sell their wines directly, without using intermediaries, additionally take the full profit from the sale of the wine (see Selling Directly to Retailers).

A number of Bordeaux château are estate producers, exclusively using their own grapes.

There are also marketing benefits for estate wines. Consumers looking for 'authenticity' are often drawn to wines that are estate-bottled (although the terms used for this vary from country to country and are not always legally controlled). As the estate knows which part of the vineyard the grapes came from to make a particular wine, and exactly how it was produced, they are able to include this in their marketing materials. This enables them to tell the 'story' of the wine, which is seen as an important marketing tool (see The Story of Wine in Branding).

The main disadvantage to estate production is the cost of managing the vineyard and equipping and running the winery. Some estates simply cannot afford all the equipment they require and so may need to hire it. This is particularly the case for equipment only required once a year, such as harvesting machines and bottling lines. Although hiring equipment reduces the capital required to run the estate, it eats into profits.

Another risk to estate producers is that if there is a difficult vintage, perhaps because a significant percentage of the crop has been destroyed by frost or hail, it may only be possible to produce a small volume of wine. In order to still make a profit, the estate may need to sell the wine at a higher price, which consumers may not be willing to pay. Even if they are, the estate may not necessarily recover the costs of producing that vintage.

Larger estates tend to be more financially viable than smaller ones. They can benefit from economies of scale in various areas of their business, including the production process, administration and compliance, and marketing. For example, within production, greater volumes of wine can be made more cheaply because the same equipment can be re-used to produce different wines.

3.2. Growers

Some growers choose not to produce their own wine, concentrating solely on growing grapes that they then sell to a winemaker or merchant.

This option is particularly attractive to owners of small vineyards who cannot justify the cost of buying or hiring expensive winery equipment and do not want to have to market and sell their wine. It also generates better cash-flow because payment is due when the grapes are sold rather than when the wine is made or sold.

Growers can focus all their efforts on producing the best possible grapes, and this approach can be the source of some very high-quality fruit that is prized by winemakers. A number of growers have made a very successful business from growing popular grape varieties in prestigious wine regions: for example, Andy Beckstoffer and Beckstoffer Vineyards, who grow Cabernet Sauvignon on prime sites in Napa Valley and elsewhere in California.

However, growers are particularly at risk from vintage variation and from fluctuations in supply and demand, both of which will significantly affect the price they can achieve for their grapes. In a bad year, they will have less fruit to sell – although a general shortage of grapes will push up the price of healthy fruit – or, in a worst-case scenario, nothing to sell at all. When supply exceeds demand, due to a bumper vintage or too much competition, growers will have to reduce their prices and may not be able to sell all their grapes. In either case, this will result in reduced profits or a loss.

Growers have two options for selling their grapes, each with its advantages and disadvantages. Some growers enter into a contract with a particular producer or merchant. The contract may be for one vintage only or for multiple vintages (sometimes they can be for many years). This gives the grower some certainty that they will be able to sell their grapes at a given price, although many contracts specify that if the grapes do not meet the required quality standard or specification (e.g. minimum potential alcohol) they will be rejected or a lower price will be payable.

A longer-term contract gives a grower greater security, and many such contracts lead to a strong working relationship between the parties. In some cases, the producers or merchants may actively work with growers to produce the best quality fruit for that brand.

The other option open to growers is to sell the grapes on the spot market. This is where grapes that are not subject to contract are bought and sold following harvest. This approach can offer higher risks but also greater rewards. If there is a shortage of grapes from a particular harvest, spot sellers should achieve a higher price for their grapes than they could have expected under a contract, but if there is a glut of grapes the spot price is likely to be less than the contract price.

3.3. Grower-Producers

Some growers also produce wine from their grapes, but then sell it to a merchant to mature and bottle. This approach is still fairly common in Burgundy today. The grower-producer will lose control over the style of the finished wine as the merchant will choose the length and type of maturation. The merchant may also blend together the wines from different producers.

The advantage to the grower-producer is that they do not need to incur the costs of maturation (e.g. barrels and cellar space) or of marketing the wine. Many grower-producers have limited marketing expertise and so may be happy to leave marketing and sales to the more experienced merchants. The disadvantage is that the grower-producer will make a smaller profit than if they were to sell the finished wine.

3.4. Merchants

The traditional role of the *négociant* was to buy immature wine, mature it and sell it under the merchant's name. In many cases, they would blend the wines of different producers prior to bottling.

The chief risk to merchants was that they had little control over the grape growing or winemaking process. For this reason, many now produce their own wine from grapes or juice and provide technical support to their suppliers to ensure that the grapes, juice or wine they buy are of the required quality.

The key advantage of being a merchant is that, although they may employ viticulturalists to advise their suppliers, they do not have the expense of buying and managing vineyards. This is particularly beneficial in regions such as Burgundy or Champagne where vineyard land is seldom sold and, when it is, the price of the land is very high. In Burgundy in particular, this has led to the rise of the so-called *micro-négociants* who specialise in small-production wines, usually from individual vineyards, that can achieve super-premium prices. Many work closely with particular growers to be assured of the best quality fruit.

For premium and super-premium wines, such as their Côte Rôties, Guigal use grapes from their own vineyards.

The fact that merchants can buy from different growers or producers provides some protection and flexibility in bad vintages. However, in such circumstances, they may be forced to turn to the spot market to source grapes, and pay higher prices. Also, in regions such as Burgundy or Napa Valley where grape prices have risen considerably in recent years, it has generally become much more expensive for merchants to purchase grapes. To protect against price fluctuations, however, most merchants now have long-term contracts with their suppliers, to whom they often provide technical support and advice.

Some merchants produce large quantities of wine and can therefore supply private label wines for supermarkets, deep discounters and chain bars/restaurants (see Supermarkets).

Merchants operate differently from region to region. For example, *négociants* in Burgundy are much more involved in the production of wine than their counterparts in Bordeaux, who tend to deal more in wine that has already been made (whether in bulk or already bottled). For the merchants' role in *en primeur* sales, see the box 'En Primeur' below.

EN PRIMEUR

En primeur (also known as 'wine futures') is a method of selling wine before it has been bottled. Purchasers buy the wine while it is still in barrel and it remains in the producer's cellar until it is ready for bottling. The purchaser only receives the wine once it has been bottled, usually a few years later.

This type of purchasing has long been associated with merchants who bought up wine in advance to mature and bottle themselves.

The modern *en primeur* system is most closely associated with Bordeaux, where it dates back to the period following the Second World War when the *châteaux* were struggling to survive financially. The long maturation time required for top Bordeaux wines meant that these *châteaux* have large sums of money tied up in their cellars. By selling the wine while it is still in barrel, they can generate cash-flow earlier than if they waited to sell once bottled: the *en primeur* price covers all the production costs up to and including bottling. In Bordeaux, merchants are still involved in this process; however, their role is now more as a wholesaler, buying a proportion of a château's stock and selling and distributing that to a range of distributors and retailers.

For purchasers, the attraction of *en primeur* is that it should be cheaper or easier to buy the wine at this stage. In theory, the price will go up once the wine has been matured and bottled. However, as wine prices may go down as well as up, this is not guaranteed. On the other hand, because wines sold *en primeur* tend to be produced only in limited quantities, this may be the only opportunity to buy them. As a result, *en primeur* sales have become an important part of the growing fine wine trade. For more detailed information on *en primeur* in Bordeaux, see D3: Wines of the World.

The success of *en primeur* sales in Bordeaux encouraged other regions to create their own system. Wines sold *en primeur* tend to be those that benefit from a period of maturation in barrel (usually 18 months or more) and those that are prized by investors, such as Burgundy, Rhône, so called 'Super Tuscans' and Vintage Port.

3.5. Grower-merchants

There are also grower-merchants who own vineyards and produce wine from those vineyards alongside wines made from bought-in grapes, juice or wine. Often, the vineyards owned by the merchant are used for premium wines, while grapes from other growers are used for inexpensive or mid-priced wines. This allows merchants to produce a range of wines at all price points, which they can sell to a range of outlets.

E. Guigal is a famous grower-merchant in the Rhône Valley. As well as producing some of the Rhône's most expensive wines, such as their single-vineyard wines from the Côte-Rôtie, they also produce wines from villages such as Crozes-Hermitage and Gigondas, and generic Côtes du Rhône from bought-in grapes.

Some grower-merchants prefer to differentiate between wines from the different parts of the range. While E. Guigal does not, Domaine Dujac in Burgundy, for example, produces wines from their own grapes under the Domaine Dujac name and uses Dujac Père et Fils for wines made from grapes from other growers.

3.6. Co-operatives

Co-operatives are owned by a group of growers, and produce and sell wines made from grapes grown by their members. The benefit for the members is that they can pool their financial resources, meaning they can afford more expensive winemaking equipment and expertise that they could not afford if they were working individually. Many co-operatives also give their members access to expert viticultural and winemaking services and advice as well as marketing, packaging and sales services.

Growers delivering grapes to a co-operative in Saint-Émilion.

La Chablisienne, in Chablis, is an example of a quality-focused co-operative.

Marketing the members' wines collectively can be more efficient and effective than members working on their own. Some of the more dynamic co-operatives have created and marketed successful wine brands (examples include Plaimont in south-west France or Badischer Winzerkeller in southern Germany).

As co-operatives can make large volumes of entry-level wine, another option is to make own-label wines. Examples include La Chablisienne in Chablis and Mont Tauch in Fitou.

Co-operatives are owned by their members. They have different management structures, but all work on the principle of democratic control: management must consult members before major decisions are made. Therefore, one downside to co-operatives is that the decision-making process can be slow and cumbersome, and the agreed course of action may not always be to the liking of individual members.

Members are usually paid a share of the co-operative's annual profit, but the method of calculating that varies. The more traditional co-operatives, which consider their role simply to make wine on behalf of their members and then wait for someone to come and buy it, will pay on volume. This model is still important in countries such as Spain and Italy, where vineyard sizes are small and it is not economic for growers to produce and market their own wine; however, some are not quality-focused and may struggle to survive.

Now many co-operatives are quality-focused and pay growers based on the quality of the fruit. They do not pay all their profits back to members, instead investing in the latest technology, research and effective marketing and labelling. These are some of the most dynamic wine-producing businesses, producing very good quality wine that can be excellent value.

Co-operatives range in size from small facilities serving a single town or a village to huge operations that rank among the largest wine companies in the world. Larger companies may compete and benefit from economies of scale – the reduction of production cost due to making and selling goods in large quantities. For example, they may be able to reduce cost by bulk buying materials required. Many co-operatives have merged to become companies that operate on a regional or national scale.

3.7. Custom Crush Facilities

These are a variant of the co-operative model found mainly in North America, particularly in California. The difference is that growers do not own the facility, but rather pay each time they require its services. Depending on their size, custom crush facilities make anything from super-premium, small-batch wines to inexpensive, large-production wines.

These facilities have been established specifically to make wine for growers who do not have their own winemaking equipment. The facility is owned by a company that charges growers who wish to use their services. As a result, the company can make quick decisions and does not have to get the agreement of members, in contrast to a co-operative. The finished wine is returned to the grower, who can then market it however they like and take the sales profit.

The advantage to the grower is that they do not need to invest in expensive equipment and can focus their attention on grape growing and marketing. They can also benefit from the expertise of the professional winemakers. For this reason, custom crush facilities have been successful in wine regions with a number of small-volume wine producers (many of whom are new to wine production).

However, given that the grower is handing over production of their wine to a third party, it is vital that they have a good working relationship so that the growers' requirements are clearly understood and met by the facility's winemaker. Otherwise, the grower will have paid to have a style of wine produced that the grower did not want.

3.8. Virtual Winemakers/Wineries

This is a term used, mainly in North America, for winemakers who do not own vineyard land or winemaking facilities. Virtual winemakers/wineries buy in grapes or juice and may rent facilities in another winery or employ the services of a custom crush facility. They vary in scale from individual virtual winemakers who produce small batches of super-premium, high-quality wines to organisations that create larger-volume brands.

3.9. Conglomerates

While the spirit and beer industries are dominated by a small number of major companies, the wine industry is mainly made up of much smaller businesses.

Nevertheless, there are still some very large companies (conglomerates), some of which have interests across various alcoholic products, not just wine. Considering wine production only, the largest of these businesses is California-based E & J Gallo, owner of well-known brands such as Gallo Family Vineyards, Barefoot and Carlo Rossi (see Leading Wine Brands). However, they still account for a very small percentage of total wine production.[1]

Conglomerates often own many smaller businesses across the various stages of the supply chain, from production (e.g. estate wineries, merchants) to distribution (e.g. distributors). They can also afford to set up regional offices in markets that are important to them to market and sell their wines in that country or region. All of this gives the conglomerates greater control at all stages of the route to market and reduces the need to pay intermediaries. Their size and influence also mean that they have significant negotiating power and can strike a hard bargain when buying grapes, juice and wine from suppliers and when selling to retailers.

There is an increasing trend for major companies from outside the wine industry to buy into the sector. A number of prestigious wine brands have been bought by companies specialising in luxury goods: for example Moët Hennessy-Louis Vuitton, whose wine brands include Champagne houses Moët & Chandon, Veuve Clicquot and Krug, and Cloudy Bay in New Zealand. A number of insurance companies have also been investing in vineyards as part of their portfolio: AXA, for instance, owns a number of top estates in Bordeaux and Burgundy, as well as the Port house Quinta do Noval.

COMPANY PORTRAITS – EXAMPLES

These portraits are intended to illustrate some of the differences between large, medium-sized and small companies.[2] They are given as examples. The details about the individual companies will not be examined.

Large Company: E & J Gallo, California, USA[3]

This company was founded by brothers Ernest and Julio Gallo in 1933 in Modesto, California, where it continues to have its headquarters. It remains family owned and has 6,500 global employees. Until late 2020, it owned 15 wineries in California and Washington. It also had around 10,000 hectares of vineyards across the state of California and was estimated to be responsible for 40 per cent of the production of Californian wine in 2018.[4] In addition, the company buys from grape growers around the state. It also has its own glass business, Gallo Glass, producing 2.5 million bottles a day.

Gallo has a large number of inexpensive and mid-priced brands (including Barefoot Cellars and Gallo Family Vineyards) alongside premium and super-premium wines (e.g. Louis M. Martini). It has distribution rights for well-regarded wines into the USA (e.g. the Italian brand, Allegrini). It has its own staff in major markets while also working with local distribution companies, for example in China.[5] It markets its products in 90 countries.

In December 2020, it completed the purchase of 30 wine brands, including five additional wineries, from Constellation Brands Inc. With this acquisition, it is estimated that it accounts for about 22 per cent of the USA wine market by volume.[6]

Medium-Sized Company: Michele Chiarlo, Piemonte, Italy[7]

This producer of mainly Barbera, Moscato and Nebbiolo wines was founded in 1956, Michele Chiarlo having previously worked for the local wine co-operative. The business was built up in the company's home base in Monferrato with a focus on Barbera and Moscato. In the 1980s, it took the opportunity to buy vineyards in Barolo (in famous sub-zones Cerequio and Cannubi), before vineyard prices rose steeply. Today the company sources its fruit from around 110 hectares in total. Of these, 70 hectares are owned and the rest are owned by growers who produce fruit for Chiarlo. The growers work to instructions from Chiarlo and are closely supervised and supported with technical advice on matters such as organic fertilisers, protection against pests and diseases and determining picking dates.

In business terms, Chiarlo has pursued a dual path. It sells large volumes of mid-priced wines, especially Moscato d'Asti and Barbera d'Asti. At the same time, it has a range of single-vineyard, premium and super-premium wines, for which it has repeatedly received critical acclaim. These include the two Barolo vineyards named above, La

Court, Nizza DOCG, and Cipressi, Nizza DOCG. It exports 75 per cent of its wine, its top three markets being USA, Canada and Switzerland. It is one of the three wineries from Piemonte in the *Istituto Grandi Marchi*, a body of 19 highly-regarded Italian wine companies that promotes their wines together in Italy and in export markets.

Small Company: Felton Road, Central Otago, New Zealand[8]
Founded in 1991, Felton Road makes wine exclusively from the fruit of its own vineyards. The grapes are grown in four vineyards, totalling 32 hectares, that are certified organic and biodynamic. Fermentation is with ambient yeast, and fining or filtering is avoided. The principal wines are made from the single varieties Pinot Noir, Chardonnay and Riesling. They are sold either as blends of the four vineyards (named Bannockburn, the name of the subzone of Central Otago), as single vineyard wines (e.g. Calvert) or as single block wines (e.g. Block 3). Much of the wine, especially the single block wines, is sold on allocation to loyal mailing list customers around the world with the rest being sold via in-market distributors. Felton Road exports 75 per cent of its production to around 40 countries, with Australia, the UK and Hong Kong as its top markets. The wines are sold at premium and super-premium prices. Felton Road belongs to The Family of Twelve, a private association of 12 wineries that aims to exchange ideas and practical knowledge and to promote their wines collectively.

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Different Options for getting the Wine to the Point of Sale 4

In a free market, once a wine has been produced and bottled, the producer, merchant or co-operative (from now on, these are referred to collectively as 'producers') has to get it to the end consumer. While some engage in 'direct to consumer' sales, the additional work, costs and risks of this method mean that many choose to sell their wine through an intermediary.

Markets for alcoholic beverages are seldom, if ever, totally 'free'. Governments put controls on the sale and distribution of alcoholic drinks for tax-raising purposes: tax revenues on alcoholic beverages can generate large amounts of income for governments. Also, governments control the distribution and sale to minimise the harmful effects of alcohol abuse, by, for example, limiting the hours when alcohol may be sold and imposing a minimum legal drinking age.

For the purpose of this book, a 'free market' is one in which producers are relatively free to choose whether to sell directly to a consumer or retailer or through an intermediary. If the relationship with the intermediary or retailer is not working, the producer can cancel the contract (subject to any outstanding legal obligations) and find another route to market. For more on two other types of market, see Chapter 7.

Wine sales are usually split into two broad sectors: retail and hospitality. These are often referred to respectively as 'off-premises' and 'on-premises' sales (particularly in the USA) and 'off-trade' and 'on-trade' (especially in the UK). The term 'HoReCa' is used in some markets for hospitality – an abbreviation of HOtels, REstaurants and CAfès/CAtering. For simplicity, the two categories (i.e. the total of retail and hospitality) will be referred to collectively as 'retailers' from now on.

Producers must decide whether to target the retail sector, the hospitality sector or both; both sectors have a number of sub-sectors that are suitable for different types of wine. They also need to decide which of the following methods to use to reach the end consumer; in reality, a producer may be well advised to choose a combination of approaches to spread their risk in the event that one does not work out.

4.1. Selling Directly to Retailers

In a free market, producers can sell directly to retailers. The obvious advantage to both producers and retailers is that they do not have to pay any intermediary's costs and margins, maximising their profits.

Producers are free to decide which retailers stock their wines. As a result, they can usually have the final say over how they are marketed, so retaining control over their brand image. However, this may not be possible with larger retailers such as supermarkets or large chains of bars and restaurants who may dictate how the wines are promoted.

The main disadvantage is the increased administrative burden for producers who have to do the work of getting the wine to the retailer. This will take up time they could be spending in the vineyard or winery or force them to hire additional staff. Such administrative tasks include arranging collection, transportation and delivery of the wine. If the wine is being exported, the

Trade tastings can be an effective way for producers to meet and show their wines to wine buyers.

producer will also have to ensure that any import duties and taxes are paid and that the wine, its packaging and its labelling comply with the relevant laws in the country where the wine is to be sold. The administrative burden could be reduced if either the producer or retailer uses a competent freight forwarder, but this adds to costs.

In addition, depending on the arrangements between the producer and retailer, the producer may have to take on the full financial risk of wine being lost or damaged in transit. Again, this risk may be reduced by using a freight forwarder.

If the producer is exporting the wine to a foreign market, it will take time to build up relationships with retailers and to understand that market, its consumer preferences and legislation. To do this properly will involve numerous time-consuming and costly visits to the country in question. However, attending trade fairs or tastings in foreign markets can offer an excellent opportunity for producers to meet many potential clients at the same time.

If the producer only wants to sell to a small number of companies – for example, if they are looking to sell high-volume wines to supermarkets or large chains of shops, bars or restaurants – the administrative burden may not be too great. Some retailers may want to take control over some of these tasks (but at a cost). However, if the producer wants to target smaller retailers, they will probably not have the time or resources to approach all potential retailers. This being the case, the producer may prefer to appoint a distributor to act on their behalf.

While most producers sell their wine once it has been bottled and, if appropriate, matured, some sell their wines to retailers *en primeur*. The global trade in bulk transportation has enabled high-volume producers to sell directly to retailers, such as supermarkets. In turn this has enabled these retailers to meet and retain competitive price points.

4.2. Appoint a Distributor

A distributor buys wine from a range of producers and sells it to a range of retailers (including HoReCa). They are generally located in the same country as the retailers to which they sell, which may or may not be the same country as the producer. The distributor may or may not hold stock of the products in their portfolio, and may or may not have exclusive rights to import and/or distribute certain products in their market. There are a number of terms used for these businesses, including importer, agent and wholesaler, which, depending on market, may have slightly different meanings.

There are a number of benefits of using a distributor. For producers looking to enter a new market, they can take advantage of a distributor's knowledge of that market, including key players, consumer preferences and current trends. The distributor will be able to introduce the producer to its contacts, saving the producer from having to go out and find potential customers themselves. The distributor will also be aware of different retailers' requirements and preferences, meaning they can focus on the most appropriate targets for a particular wine.

Distributors can help producers with the administrative burden too. The distributor will have a contract with a logistics company that can take care of collection, transportation and delivery of the wine. They will usually also absorb the risk of lost or damaged wine. If the wine is being imported, the distributor will have the experience and staff to deal with legal compliance issues, such as duty payments and labelling requirements. Having a local distributor can be particularly helpful where there is a language barrier.

Of course, all this comes at a price. The distributor will charge a fee to achieve its desired margin, which will reduce the producer's profits. Margins vary from company to company and from country to country, but those selling to the hospitality sector tend to have higher costs and a larger staff than those specialising in the retail sector and may therefore have higher margins.

Distributors will also have greater resources to promote a wine than the producer and will usually take over the marketing. While producers may still be expected to attend trade fairs and other events, this should not take up as much time as if the producer was selling directly. However, this means producers can lose control over how their wine is marketed and where it eventually ends up on sale. The strategy chosen by the distributor may not therefore reflect the producers' brand image and it is therefore vital that both parties agree a clear marketing and sales plan from the outset and keep it under regular review.

Being part of a larger portfolio can increase exposure of individual producers' wines: for example, many distributors organise portfolio tastings attended by a wide range of potential customers. Retailers' wine buyers often prefer buying through distributors, as they find it easier to do business with one point of contact than many separate producers. This means producers can get their wines in front of retailers, which they could not have achieved on their own.

The downside to being one of many clients, however, is that distributors cannot give undivided attention to any one producer, and the overall marketing strategy may not be the ideal one for an individual wine. Also, because they have a portfolio of wines, they may drop those that are not selling in sufficient quantities.

Larger distributors may also prefer to deal with larger producers. However, there are also smaller distributors who specialise in particular wines from particular countries or regions; this can be especially beneficial to smaller producers from those countries or regions looking to enter a new market.

Producers therefore need to spend time finding the right distributor for their wines; where the producer has a range of wines, it may be that they appoint separate distributors for different wines. Clearly, this process costs money and takes the winemaker out of the winery; however, choosing the wrong partner can be even more costly. Trade fairs and tastings offer a good opportunity for producers to meet a number of distributors, and getting recommendations from other wineries can help.

4.3. Establish a Joint Venture

Particularly in price-sensitive markets such as the UK, companies in the wine industry are increasingly looking to save costs. In recent years, several joint ventures have been established between companies at different stages in the supply chain. This gives the parties greater control over those different stages and potentially greater profitability, as costs are shared and intermediary costs avoided.

For a joint venture to be successful the companies need to be of comparable size, otherwise the effect is more of a takeover. The contractual arrangements also need to be carefully agreed and documented (often through lawyers) to ensure each party knows their responsibilities and obligations. If the joint venture does not work, the contractual terms will probably make it harder to leave the joint venture than, for example, a distributor arrangement.

Joint ventures are nothing new. For example, Mentzendorff is a long-established UK wine distributor whose major shareholders are Champagne Bollinger and the Fladgate Partnership (Port). Importantly, these two businesses are not direct competitors and other companies represented by Mentzendorff have been chosen carefully to ensure that they do not overlap.

Another increasingly common type of joint venture has seen producers joining forces with distributors or large retailers to create new wine brands. For example, in 2007 UK distributor Buckingham Schenk and winemakers Hervé and Diane Joyaux Fabre created the Argentinian wine brand Viñalba, which is now sold in multiple countries worldwide.

MERGERS AND ACQUISITIONS IN THE WINE INDUSTRY

A merger occurs when two businesses join together to create a business with greater resources and capabilities that should be more competitive than the individual businesses were on their own. In theory, at least, the two companies should form an equal partnership; however, in reality this is rarely the case.

An acquisition (also known as a takeover) occurs when one company (usually a much larger one) buys another company (usually a smaller one), which then becomes a subsidiary of the purchasing company. The reason for a takeover is usually to acquire capabilities (such as skills, resources, market share or prime vineyard locations) that the purchasing company believes it lacks, creating a more competitive business. However, some failing companies are taken over in an effort to save them from going out of business.

There have been several acquisitions in the wine industry recently as companies try to reduce costs and keep down prices through economies of scale and simplification of the supply chain. Some recent acquisitions have seen several of the 10 largest wine-producing companies listed in Conglomerates get even bigger; for example, E & J Gallo has purchased a number of producers. Others outside the top 10, such as Jackson Family Wines, are using acquisitions as a means of growing their business so that they can compete in more sectors of their chosen markets.

Despite the loss of control over their business, there are many attractions for a smaller producer who is approached by one of these big companies. The acquisition will usually result in increased investment in the business being bought. Also, because of the large distribution networks enjoyed by the conglomerates, it can open up new routes to market.

Mergers and acquisitions (M&As) have not been limited to the production side of the business. There have recently been a number of high-profile examples among distribution companies, as they too look to consolidate and reduce costs: for example, Conviviality with Matthew Clark / Bibendum PLB in the UK.

However, Conviviality is an example of how acquisitions do not always work out. In 2016, Conviviality, which already owned a major national distribution company and several retail chains, acquired Bibendum PLB (itself a merged company with number of distribution and retail businesses), creating by far the UK's largest wine distributor. However, in early 2018, it was announced that the new company was in serious financial difficulty. Within days, the company had been put into administration and the various subsidiaries sold off to new owners, C & C Group and Bestway, to allow them to continue trading.[1]

M&A activity is not limited to companies within the wine or alcoholic drinks trade. Private equity firms, often with a diverse range of business interests, such as Carlyle, Bain, Blackstone, 3i and CVC, have been behind some of the biggest acquisitions in recent years. For example, in 2018 the USA private equity firm Carlyle Group bought Accolade Wines.[2] This acquisition came at a time when a trade war between the USA and China meant that tariffs were placed on USA wines entering China, whereas Australian wines (which make up a significant part of the Accolade brand portfolio) benefitted from a free trade agreement.

4.4. Use a Broker

The term 'broker' is used in a number of different contexts in the wine industry. In some markets, it is simply another word for a distributor (see Appoint a Distributor). However, in the true sense, a broker is different from a distributor. Whereas a distributor is paid by the producer to sell wine on its behalf, brokers are independent intermediaries who represent neither party. Brokers do not enter into any deals; they merely make them happen. As they have very low overheads – a small office, a mobile phone and a laptop computer – they charge smaller fees than distributors (usually 2 per cent of the contract price, but it can range from 1 to 5 per cent in different parts of the world).

For producers, the benefit of using a broker is that they have intimate knowledge of a particular, often specialised, market. Brokers have different specialities, some concentrating on sales of bulk wine, others on sales of small-production wine.

Brokers can bring together a buyer (e.g. a supermarket or merchant) and a seller (e.g. a co-operative or grower), saving the parties the time and effort of seeking each other out. They know what wine producers have available to sell, and what prices they are willing to sell at. They also know what style and volume of wine buyers are looking for and what price they are prepared to pay.

In Bordeaux, brokers (or *courtiers*) have legal status and play an important role, acting as intermediaries between the *châteaux* and *nègociants*. Where bulk wine is concerned, it is the broker's responsibility to ensure the correct vat or vats of wine are actually delivered. Brokers also play a key role in the fine wine trade, facilitating the deal between those who wish to buy and/or sell rare bottles of wine (see Wine Investment in Wine Investment Companies).

4.5. Selling Directly to Consumers

An increasing number of producers sell their wine directly to the end consumer rather than using an intermediary. This allows them to take the full profit from the sale of the wine and also retain control of how the wine is marketed. However, the potential benefit has to be offset against the additional administrative, logistical and staffing costs the producer will incur – these have already been discussed in Selling Directly to Retailers.

Direct sales are a particularly important option in wine-producing countries. There are four main options:

- cellar door sales
- events
- wine clubs
- online.

CELLAR DOOR SALES

An increasing number of producers have set up facilities on their estate or at the winery to sell wine to visitors. Whatever form these facilities take, they are collectively referred to as 'the cellar door'. While in some cases, visitors quite literally pick up their wine from the cellar door, many producers have invested a lot of money in attractive shops and other wine tourism facilities. For more specifically on wine tourism and what it entails, see Wine Tourism in Promotion.

Cellar door customers range from locals who have come specifically to buy wine toLe tourists (whether or not wine tourists) who are visiting the region. The attraction for these customers is the experience provided by the cellar door, with the chance to see where the wine is made, take part in a tasting of the wines before purchasing and learn about the story behind the wine. Some cellar doors take the experience further and provide tours for small groups, a tasting of exclusive cellar door or reserve wines, and sometimes food and wine pairings, all usually at an additional cost. For foreign tourists, the wines may not be available in their home country or may be more expensive there (due to import and intermediary costs). For example, producers in Alsace do an excellent trade with tourists visiting from nearby Belgium, Luxembourg or Germany.

Investment in attractive cellar door facilities can bring consumers to visit the winery.

The benefit of cellar door sales for producers, as well as earning larger profits on their wine, is that they can engage directly with consumers. Many have a tasting room where visitors can try their wines and learn how it is made. Tastings have been shown to be an important part of wine marketing. Many people are nervous about buying wine without knowing whether they will like it or not; allowing them to try before they buy is a useful tool to increase sales (see Consumer Tastings in Promotion).

Cellar door sales also help build up brand awareness and loyalty, which is particularly valuable for new wineries. It can be a way of promoting brand values, and the ability to forge a more personal connection often means that people who buy wine from the cellar door are more likely to buy wine from that producer in the future. People who have visited a cellar door are also more likely to recommend the producer to their friends and family. This so-called 'word-of-mouth marketing' has become increasingly significant and, importantly for producers, is free.

Such direct engagement with consumers is also an excellent way to trial new products and to get direct feedback from potential consumers, reducing the need for expensive market research.

Nevertheless, some producers decide not to offer cellar door sales. This can be for many reasons, including the lack of a suitable location, the fear that the cellar will take too much time to run or require additional staff, or a focus on other routes to market.

To overcome issues with location and access, some producers have opened a 'cellar door' in a nearby town so that people do not need to visit the estate – these are especially common in the USA, for example in Sonoma and Napa Valleys. To be financially viable, these 'cellar doors' may need to be located some distance away in the nearest large city: for example, some wineries in the isolated Columbia Valley in Washington State, USA, have opened cellar doors in Seattle, over 240 kilometres (150 miles) away.

EVENTS

Another way to engage consumers directly is at events where consumers can try and buy wines, such as tasting fairs or wine and food festivals. The importance of these from a marketing perspective will be considered further in Events and Festivals in Promotion.

Because these events tend to take place in towns and cities and often have other attractions, such as live music, they attract a larger number and wider range of people, including many who would not otherwise be willing or able to travel out of town to visit wineries.

The downside to these events, however, is that the producer will have to pay to exhibit their wine, will incur travel expenses and may have to employ additional staff to run the stand. Unlike at their own cellar door, they will also be competing with other producers for the visitors' attention.

Events are also increasing in certain wine regions and at individual wineries to create a 'destination' effect. Lodi AVA in California and Denbies Wine Estate in the UK are good examples of a wine region and individual winery who are doing this.

WINE CLUBS

A number of producers have set up wine clubs that offer members (usually for a small annual fee) the opportunity to purchase wine at reduced prices for delivery to their home. Members usually enjoy other benefits, such as access to wines not normally available to the general public, free tours and invitations to exclusive tastings. For members, the benefit of these clubs is easy access to wines they enjoy.

Wine clubs are popular in many New World wine-producing countries, such as the USA and Australia, as part of the wine tourism offering: consumers are usually encouraged to join these clubs while tasting wine at the cellar door. Many producers sell a large proportion of their stock in this way, reducing the need to find other outlets for their wine.

Wine clubs are also useful for marketing purposes. They enable producers to continue to stay in contact with members (through newsletters, websites, blogs, etc.), who they hope will continue to buy their wine and introduce it to friends and family.

Running a wine club, however, does involve additional work. As well as producing newsletters and so forth, the producer has to send out details of what wines are available – this is usually done every three, six or twelve months. They then have to process orders and ship the wine. Although the members may pay the delivery costs, the producer may take on the risk of bottles getting lost or broken in transit; finding a reliable freight forwarder is therefore essential. In the USA, the administration involved in dealing with the three-tier system can be very onerous. Legislation is evolving, but not all states in the USA allow direct to consumer sales and deliveries of wine from producer wineries.

Wine clubs are operated by all types of estate winery. In the case of some prestigious producers (e.g. Screaming Eagle in Napa Valley), their wine clubs may be the only way to buy their top wines and are therefore more like exclusive members' clubs, often with very long waiting lists of aspiring members.

ONLINE

As explained in Online Retailing, the value of online wine sales has increased greatly in recent years as many consumers have welcomed the opportunity to buy wine from the comfort of their own home. Many producers have embraced this trend and now sell wine online in addition to their other routes to market.

Although there is the added cost of delivery, which may be paid by the consumer or met by the producer, because there are no intermediary costs it still may be cheaper for consumers to buy online than from a retail outlet, and producers can earn a larger profit.

The additional issue for producers who decide to sell online is that they need to set up and maintain a reliable and up-to-date website. Although there are packages available online for creating a basic website, the producer may want to hire an expert to design theirs, so that it stands out from the crowd. (For more on the issues involved in setting up and maintaining a website, see Online Retailing.)

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5 Reaching the End Consumer within a Free Market – Retail Sector

When deciding whether to sell directly or via an intermediary, producers need to decide whether they want their wine to be sold in the retail sector, the hospitality sector or both.

In this study guide, the terms retail and retailer are used in two different senses:

- **Retail/retailer** – selling wine to the end user for consumption, whether in the retail sector or in the hospitality sector, as opposed to selling wine to another part of the wine trade (importer, distributor, wholesaler).
- **Retail sector** – selling wine in shops or on the internet to the end user, in contrast to the hospitality sector. The wine is sold to the end user for consumption, with the exception of wine sold to investors, which may be being bought to be re-sold at a later date.

There are many different types of operators within each sector, each of which suits different types of wines.

In many markets, the volume of wine sales to consumers to take away and drink at home is much higher than those in bars and restaurants. For example, in the UK, retail sector sales account for around 80 per cent of wine sales by volume.[1]

5.1. Supermarkets

In many countries, supermarkets (and hypermarkets) are the most important retail outlets for groceries and household goods, allowing consumers to buy everything they need under one roof. Examples include the US Walmart, the South African Woolworths, the French Carrefour or the British Tesco, all of which have outlets in many countries outside the one in which they were first based. (For companies such as Aldi and Lidl, which specialise in selling goods at lower prices, see Deep Discounters.)

In many markets, such as the USA, UK and France, supermarkets have the largest market share when it comes to wine sales. They are therefore an attractive option for producers wanting to sell large volumes of wine.

Supermarkets generally stock wines from well-known and popular regions and/or grape varieties. They will be made in a style that appeals to a wide range of customers, many of whom have little wine knowledge. In wine-producing countries, the range will often be dominated by local wines.

Supermarkets often sell a range of well-known brands, such as Jacob's Creek, Barefoot and Oyster Bay. These brands help to attract consumers to buy wine at the supermarket. However, because these big brand wines are widely available in a number of retailers, consumers can compare the prices across the retailership and buy wherever they are cheapest. As a result, these brands do not promote customer loyalty to particular supermarkets.

Therefore, in order that consumers cannot easily compare prices, supermarkets like to stock wines bottled under labels exclusive to them (even if they are wines available elsewhere under different labels). These are often termed private label wines. These may be wine brands that are exclusive to the particular supermarket – the supermarket may have created the name and the brand although the supermarket's name does not appear prominently on the labels. This is an approach favoured by Walmart and Costco in the USA and Marks & Spencer in the UK. Alternatively, some supermarkets have an own-brand range of wines (that clearly display the supermarket's name and branding on the label), such as Sainsbury's Taste the Difference in the UK. In either case, if these brands are popular, they can promote customer loyalty to that supermarket and, for this reason, they have become extremely important in recent years in many markets.

Private label wines need to be available in large volumes and therefore usually come from larger producers. For such producers, supermarkets offer an attractive opportunity to sell large volumes of wine and enjoy high levels of market exposure, sometimes in more than one country. In many cases, supermarkets buy directly from producers, meaning there are no intermediary costs. Many supermarkets also employ winemakers who work closely with producers to supervise production and ensure quality control – such expertise may help producers to improve the quality of other wines that they sell elsewhere.

However, producers face a number of risks. Supermarkets need to ensure that they offer a sufficiently varied product range: there is no point in having lots of similar wines competing at the same price. Therefore, because there are often more producers wanting to sell to a supermarket than the supermarket needs (i.e. an excess of supply over demand), supermarket wine buyers have enormous negotiating power, especially when it comes to price. As a consequence, producers typically do not receive as much for their wine as if they were to sell it through other channels.

In addition, producers are usually expected to pay substantial fees to have their wine stocked by the supermarket and for any additional promotion, such as desirable product placement in the shops or coverage in the supermarket's magazine. When supermarkets offer price promotions (see Promotion), they usually expect producers to pay for any reduction in profits due to the reduced retail price.

The contracts between supermarkets and producers usually have very strict requirements regarding quality control, time and manner of delivery, packaging and labelling. If these are not met, the supermarket can often simply refuse to take the wine. Also, as supermarket placement is competitive, if a wine does not achieve the expected sales volumes and profit margins, it may be delisted. All of these issues could have serious financial repercussions for producers. In the worst case scenario, they are left with a large volume of wine that they cannot sell.

Finally, there are some premium supermarket chains, such as Whole Foods in North America and the UK, that buy wines from artisan producers under the producer's label. These wines are bought in smaller quantities on the understanding that when the wine sells out, there is no more available. The range of wines in these supermarkets will appeal more to consumers with a strong interest in wine, and may offer a useful route into a new market for these artisan producers. (Whole Foods has been bought by Amazon and it is unclear if this practice will continue under the new ownership.)

5.2. Deep Discounters

A deep discounter shares many of the features of a supermarket but sells at lower prices. Examples include the German-based companies Aldi and Lidl, and the Danish-based Netto. In the USA, Trader Joe's can be considered a deep discounter, subject to the three-tier system. Deep discounters have been an important part of the retail sector in Germany for many years, but have recently been making significant advances in other countries, such as the USA and the UK. The deep discounters' business model is to offer permanently low prices. They rarely, if ever, have any form of time-limited price promotion. This model is now being adopted by many traditional supermarkets.

Deep discounters can charge these low prices by keeping their costs down, which they achieve in a number of ways:

- They take a lower profit margin than traditional supermarkets, relying instead on the volume of sales for their profits.
- The shops are often basic: goods may be stacked on pallets rather than shelves. They also tend to be away from prime retail locations, meaning lower rents.
- The product range is limited – a more streamlined product range is cheaper to maintain. Deep discounters do not usually sell multiple brands of one type of product. Most products, including wines, are private label; for example, Charles Shaw's 'Two Buck Chuck' was originally produced for Trader Joe's. This presents opportunities for producers to work with the deep discounters to develop such brands.
- They rarely stock major brands, as these tend to be more expensive (because of the marketing budget). They often work with less well-known producers with lower overheads, buying up whatever stocks may be available on the understanding that when the wine sells out, there is no more available. This may be appealing to producers who have a surplus of wine to sell.
- They often buy directly from producers, cutting out any intermediary costs. While they strike just as hard a bargain as the supermarkets, they tend not to charge their suppliers for stocking their products. As producers also do not have to cover the costs of any price promotions, this means greater profits than if they sold their wine on discount through a traditional supermarket.

Sometimes, deep discounters will buy a small amount of a more expensive wine, which they usually stock in their shops in more affluent areas or ahead of times of increased spending such as Christmas. This has started to attract consumers with a stronger interest in wine to their shops. While there, many of these customers have also tried the less expensive wines in the range and, finding they like them, gone back to buy more. As a result, these retailers are now increasing their share of the wine market too. For example, according to Wine Intelligence, in 2012, 23 per cent of British wine drinkers had bought wine from a discounter; in 2018, this had risen to 37 per cent.[2]

5.3. Convenience Retailers

The convenience sector is another that is growing in importance. In contrast to supermarkets and deep discounters, which are usually located either in town centres or out-of-town shopping areas, convenience shops are found closer to where people live and are open for longer, sometimes 24 hours (although local laws may not permit the sale of alcoholic drinks for that entire time).

Convenience retailers may be independently owned (e.g. in India, where independently owned shops are a major part of the retail market) or part of a franchise group such as Spar, which has franchisees in 34 countries. In some countries, the major supermarket chains are moving into the convenience sector too.

Convenience shops stock brands popular with their local customers. Therefore, in the case of wine, the range is usually similar to but smaller than those of the supermarkets. This may be dominated by major brands; however, some convenience groups (e.g. 7-Eleven or Spar) have their own exclusive brands.

Convenience shops tend to be, but are not always, more expensive than supermarkets. This is partly because the premises are smaller, making rents proportionately higher. They also tend to be premises that were designed for other purposes, making them less efficient. Also, convenience retailers usually employ a higher proportion of staff relative to their size than supermarkets. Finally, where there is a franchise arrangement, the operator has to pay a fee to the franchise owner. However, consumers are often willing to pay a little extra for the convenience of a local shop to save them having to go further to a supermarket.

5.4. Specialist Wine Retailers

As the name suggests, these retailers specialise in wine, sometimes combined with premium spirits and beers. Some also sell products such as cheese and delicatessen foods, usually from artisan producers. Some specialise in wine and foods from particular countries.

While there are some larger chains (e.g. Oddbins in the UK or O'Brien's in the Republic of Ireland), most are independently owned or part of a small chain.

Some specialise in particular styles of wine, such as organic, biodynamic and natural wines (e.g. *Les Caves de Pyrène* in the UK and *La Cave des Papilles* in Paris). There are also a number of well-known specialist retailers, such as Berry Bros & Rudd and Hedonism in the UK or Millesima in Bordeaux, which specialise in premium and super-premium wines from prestigious producers – these retailers also often engage in *en primeur* offerings (see Merchants for details on *en primeur*). They can be known as fine wine retailers.

Few specialist wine retailers have the purchasing power of the larger retailers. Therefore, while they may stock a few major brands (particularly of sparkling and fortified wines), they tend to focus on wines from smaller producers, including those from less well known wine regions and less common grape varieties. These retailers are therefore a very attractive retail option for such producers.

Another attraction for producers is that the average price of wine sold at specialist retailers is higher than at supermarkets and deep discounters. This is because the specialists cater for consumers who are more interested in wine, and are willing to spend more per bottle, than the general population (often referred to as 'high involvement' consumers – see Segmentation for more detail). For producers, this means that they are likely to make a better margin selling their wines through a specialist, although they usually have to pay a distributor to sell and distribute the wine, given the number of potential outlets.

Specialist wine retailers often have a large range of wines.

High involvement consumers are willing to spend more at specialist retailers because they appreciate the broader range of wines on offer and the more personal service they enjoy, as compared to other retail options. Wine specialists employ knowledgeable and well-trained staff who can 'hand sell' the wines – in other words, tell customers the story of the wine, provide information about the lesser-known regions or variety and suggest food pairings. The staff can build up a relationship with their regular customers, learning about their likes and dislikes, suggesting new wines they might like or letting them know when their favourite wine is on offer.

In return, the customer will trust the staff to guide them to a wine that they will enjoy, and will be willing to buy an unknown wine on the basis of the staff member's recommendation. Specialist retailers further enhance their customer service by holding special events such as tastings (often attended by the winemaker) and running wine education classes.

5.5. Hybrids

An increasing number of specialist wine retailers also have a bar area where customers can drink wine they buy in the shop (at a higher price than if they were taking it away). These so-called 'hybrids' usually sell food, mainly cheese and delicatessen items, although some offer tapas and more substantial dishes.

The benefit for retailers of this model is that consumers can try wines before they decide to buy, encouraging consumers, especially those with less wine knowledge, to purchase wines they might not otherwise have bought. As well as selling wine by the bottle, hybrids usually offer a regularly-changing selection of wines by the glass. This is also a good way to showcase new wines and wines from less well-known regions or grape varieties.

The downside for the retailer is that they may need to stay open later into the evening and require additional staff to serve customers. There is also additional bureaucracy involved in opening premises in which people eat and drink than there is for a simple shop.

5.6. Online Retailing

In many countries there has been significant growth in online retailing for all consumer goods, and wine is no exception. The significance of this route to market varies by country; 20 per cent of total wine sales in China are routed through online channels, compared to 2 per cent in the USA.[3]

Many retailers, from supermarkets to specialist wine retailers, offer online retailing in parallel with sales through their shops. In this context, these are often referred to as 'bricks-and-mortar' retailers. Particularly for specialist wine retailers, this enables them to connect with customers who do not live within easy reach of their shops.

However, there is an increasing number of online-only, or predominantly online, retailers. These include Laithwaite's in the UK, Wine9.com and Pinjiu.com in China and a number of wine clubs set up by newspapers, such as the New York Times Wine Club and the Sunday Times Wine Club. Wine may also be sold by online-only retailers that sell a wide range of products, with wine only a part of the offering, such as Amazon.com (multiple markets), Tmall and JD.com/Jingdong (China).

Many of these businesses require customers to order a certain amount of wine each year (this model was used in particular by the newspaper wine clubs). This may be wines of the customer's choice or restricted to cases put together by the retailer. Most online retailers, however, now allow consumers to order what they want when they want from the comfort of their home, although some require a minimum number of bottles per order.

The advantage for online-only retailers is that there is no need for expensive retail shops. Although stock has to be stored in warehouses, these are located in areas where the costs of leasing/buying buildings are lower than in town centres. The reduced overheads mean that these retailers can stock wines that would not justify space in a retail shop. Therefore, they can stock a larger and more varied range of wines than a 'bricks-and-mortar' shops.

This provides similar opportunities for smaller, niche producers as with specialist wine retailers; however, online retailers have a much larger customer base as they are not limited to consumers living within easy reach of a physical shop.

Online retailers still need some staff to deal with customer queries, take orders and dispatch orders. Some, including Laithwaite's, offer their customers a wine adviser, who can get to know the customer and give them recommendations in a way similar to the staff in a specialist wine retailer.

A significant disadvantage for online retailers is the expense of delivery. Wine is a heavy, bulky, fragile product, and delivery costs are therefore proportionately higher than for, say, books, clothes or even groceries. Retailers may not always pass on the full cost of delivery to customers; however, they will retain the risk of wine being lost or damaged in transit. Increasingly, consumers are expecting quicker delivery deadlines, with the online retailing giant Amazon.com being able to promise customers in major cities a delivery of chilled wine within as little as one hour of ordering.

Where retailers, including supermarkets, have physical shops, customers can often 'click and collect'; that is, order online but collect the wine from the shop. For the retailer, this means that the wine ordered online can be delivered to the shop with that branch's usual delivery, so saving significantly on costs.

Possibly the most important issue for online retailers, however, is ensuring that they have an easy-to-use, reliable website that makes it easy for customers to browse their wine selections and place orders. Studies have shown that consumers are quickly put off using websites that are slow and difficult to navigate.

Ideally, the website will also be distinctive and convey the retailer's brand image. For this reason, many retailers who are serious about online sales spend a lot of money having a suitable website designed for them. They will also need ongoing technical support in case the website crashes – an online retailer loses potential sales whenever its website is not working.

Online retailers need to make sure the content of the website is well presented and helpful to consumers. Because the consumer might be buying wines they have not tried, a detailed description of the wine is important (there is usually no chance to read the back label of the bottle or speak to a retail assistant). Many online retailers provide additional information, such as food and wine pairing suggestions, scores from wine critics or medals from wine competitions. Some websites offer suggestions of other wines that a customer might enjoy, based on what they are currently looking at or have bought before, while many allow customers to leave their own reviews of a particular wine (for the issues surrounding this, see Social Media in Promotion).

Finally, the content must also be kept up-to-date, with new wines being added as they become available and out-of-stock wines being removed.

In some markets, such as China, mobile apps are much more widely used for purchasing wines than websites. Apps work in a similar way to websites but are tailored for use on a mobile phone rather than a desktop or laptop computer. In the same way as websites, these must be quick, easy to use and provide a high level of service. Some of these apps (such as WeChat and Pinduoduo) are used to sell a wide range of products, while others (such as Bottles XO) specialise in wine.

5.7. Global Travel Retail

Global travel retail shops are located in places where customers are travelling from one country to another. While most are found at airports, there are some at sea ports, international railway stations and onboard ships. At airports, the advantage to a retailer is that a passenger has time, after check-in and before boarding a flight, to view a shop's products at leisure. Another option is to have a shop in the arrivals area between the point where a passenger arrives and the point the passenger passes through border controls. The advantage to customers is that they do not have to carry and stow extra hand luggage on their flight.

There has been a change in the way that consumers have viewed global travel retail. The sector was known as 'duty free' (and in some places this term is still used) because national taxes (duty) were not chargeable on goods sold for personal use in another country. Consumers therefore looked for low prices, especially when travelling from countries with high rates of taxes on goods such as alcoholic drinks, tobacco and perfume. More recently, with the introduction of free-trade zones such as the EU, 'duty free' has become less important and customers in these shops are now looking for high-quality and high-priced goods that they cannot find in their home market. Wine retailers have seen the advantages of global travel retail for selling a range of wines, including super-premium wines.

On the negative side, selling through global travel retail is expensive. The cost of retail space is high and retailers pass a percentage of that cost on to their suppliers, resulting in lower profit margins compared to other routes to market. That could weaken the global travel sector if suppliers choose to leave it.

5.8. Wine Investment Companies

There are many companies that specialise in sourcing and selling wine for investment. Investment-grade wines are the most sought-after and expensive wines in the world, such as Bordeaux *Premier Cru Classés*, Burgundy *Grands Crus* and the top Napa Valley wines. One of the reasons for their extremely high prices is their rarity value.

A number of specialist wine retailers are allowed a small allocation of some of these wines each year, which they either buy directly from the producer or via a merchant. They then offer these wines to customers who have bought them before or expressed an interest. There are also companies that only deal in investment-grade wine.

There are other companies who effectively act as brokers. Their customers tell them what wines they are looking for and these companies try and put them in touch with potential sellers. If a deal is done, the brokers will charge a commission.

WINE INVESTMENT

Wine investment has become an increasingly important part of the wine trade in recent decades, starting with the growth in Bordeaux *en primeur* sales and driven on more recently by the rapid growth in Chinese wine consumption. Wine has also been shown to be a safer investment than, for example, stocks and shares in times of financial uncertainty. Nevertheless, there is an element of risk: as has been seen in Bordeaux, the price of even the most prestigious wines can fall.

In this context, people often talk about 'fine wine'; however, there is no agreed definition of this term. Until 2010, the secondary market was completely dominated by trade in wines from Bordeaux. Since then, interest has broadened to include Burgundy, Piemonte and Tuscany, California and Champagne. Some countries are mainly represented by one or two individual wines, such as Penfolds Grange and Hill of Grace (Henschke) from Australia.

They are wines for which there is a secondary market (i.e. it is possible to sell the wine on to other investors), although some fine wine purchasers buy the wines purely to lay down and drink themselves.

Investors buy these wines *en primeur*, either directly from the producer or through a retailer, or buy them on release. In California, many members of the most exclusive wine clubs (e.g. Screaming Eagle or Harlan) buy these wines as investments.

There are several businesses that engage in the wine investment trade. Some retailers, such as Cult Wines (offices in London, Hong Kong, Singapore and Shanghai), specialise in selling investment-grade wine and also provide a brokering service for investors who are looking to sell their wines. For retailers and brokers who want to find a buyer or a seller of a particular wine, there are a number of trading exchanges that work just like stock exchanges – the most well-known of these is Liv-Ex, which is based in London but deals with sales around the world.

There are also companies, such as Amphora Portfolio Management and Cult Wines, that manage the wine portfolios of their clients, sourcing wines that the investor wants to add and selling those that they want to dispose of. There are even managed wine investment funds that investors can buy into without needing any knowledge of wine; for example, Sommelier Capital Advisors based in the USA.

London has traditionally been the hub of the wine investment world, with many of the leading companies being based there. However, it is coming under greater competition from Hong Kong, as interest in wine investment has increased in China; in 2008, the Hong Kong government abolished excise duty on wine with the aim of becoming the wine trading hub of Eastern Asia.[4]

Auction houses play an important role in the wine investment market. Although they sell a broad variety of wines (e.g. unused stock from retailers who have been forced to close), the big houses, such as Sotheby's and Christie's, specialise in selling investment-grade wines at headline-grabbing prices: for example, in 2018, Baghera Wines of Geneva sold 855 bottles and 209 magnums of Henri Jayer wines for CHF34.5 million.[5] One risk of buying wine at auction is that it may not be possible to know whether the wine has been kept in appropriate conditions. However, top auction houses now carry out detailed investigations to try and ensure that the wine has been properly stored since its release.

Another problem that has particularly affected wine auctions is fraud. Wine fraud is nothing new – there are examples of adulterated and fake wine from the earliest times and new cases are coming to light all the time. Nor is the problem limited to the most expensive wines; even brands such as Jacob's Creek have suffered at the hands of fraudsters. However, because of the money to be made, some of the most high-profile wine frauds of recent years have involved supposedly investment-grade wines being sold at auction. Perhaps the most infamous cases are Hardy Rodenstock, who sold bottles of wine that he claimed had been part of the collection of Thomas Jefferson (even managing to get them authenticated by an expert), and Rudy Kurniawan, who was eventually caught when trying to sell vintages of Clos St Denis from Domaine Ponsot that had never been produced.

Producers of wines at all price points are using increasingly sophisticated anti-counterfeiting techniques to protect their wines, with the producers of investment-grade wine leading the way. Auction houses and fine wine retailers also seek to validate the provenance of the wines they offer.

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6 Reaching the End Consumer within a Free Market – Hospitality Sector

From the wine industry's perspective, the key sub-sectors of the hospitality sector are bars and restaurants (which may overlap as new concepts appear).

The average price of a bottle of wine sold in the hospitality sector is often considerably higher than in the retail sector. Returning to the example of the UK, whereas hospitality sales account for only 20 per cent of wine sales by volume, they represent nearly 40 per cent of wine sales by value.[1]

6.1. Bars

Styles of bars differ greatly between, and even within, different countries. From a wine perspective, there are two main types: specialist and general.

SPECIALIST WINE BARS

These bars specialise in selling wine (although they may sell other alcoholic and non-alcoholic drinks). They are usually independently owned, individual wine bars or form part of a small chain. In many ways, they are very similar to specialist wine retailers – in fact, there are an increasing number of outlets that sell wine both for consumption on and off the premises (see Hybrids).

Like specialist wine retailers, these bars tend to have knowledgeable, well-trained staff who can hand-sell wine to customers. They usually seek out wines from smaller producers, often from less well-known wine regions and less common grape varieties, aiming at 'high involvement' consumers who are willing to pay above average prices for very good and outstanding quality wines. Specialist bars, are, therefore, an ideal route to market for such producers. As with specialist wine retailers, some of these bars focus on particular countries or styles of wine. For example, in Paris, bars specialising in natural wine are currently very popular.

Many specialist wine bars also offer food and choose some of their range specifically to match with that food. The food offering can range from artisan cheese and charcuterie platters to full three-course meals, and can reach the standard of fine dining restaurants.

Some bars specialise in having a small, regularly-changing selection of wine, whereas others have a wide range of wines at different price points – including, in some cases, super-premium hard-to-find wines. These specialist bars do not usually offer big-name wine brands (except perhaps when it comes to sparkling and fortified wines) because they cannot compete on price with the larger bar chains, which have stronger purchasing power. They tend therefore to stock wines from smaller producers.

There are some larger chains of wine bars (e.g. Davy's in the UK) that sell sufficiently large volumes of their most popular wines to have their own-label wines. These are usually high-quality wines and would be a good option for a medium-sized producer. Other chains of wine bars have specialised in wine bars in airport lounges (e.g. Vino Volo in the USA and Canada).

GENERAL BARS

These bars have less of a wine focus, with wine being just one – and usually not the most important – of the drinks on offer. The range of wines available would be very limited, usually produced by the major companies and from well-known regions and grape varieties. They tend to be inexpensive or mid-priced wines, chosen to appeal to a wide range of people and could be drunk with or without food. In wine-producing countries, these are likely to be dominated by local wines.

In some cases, these are the same wines as those available through retail outlets. However, with the bar's mark-up, these cost considerably more than in shops and so, to avoid consumers making direct price comparisons, some producers make brands that are sold only to the hospitality sector.

Some bars have a specific theme (e.g. American sports bars, Irish bars or British pubs), which will influence the range of drinks on offer. For example, Irish-themed bars throughout the world tend to promote the beer Guinness, with wine having much less prominence.

6.2. Restaurants

There are many different types of restaurant. A reasonable way to categorise them would be: non-destination, casual and fine dining.

NON-DESTINATION RESTAURANTS

As the name suggests, someone eating at a 'non-destination' restaurant is not making the meal the main focus of their lunchtime or evening (e.g. they could be going on to the theatre or cinema or having a quick meal after work).

Many non-destination restaurants are part of chains, although some are independently owned. In general, the wines on offer need to appeal to a wide range of consumers and so will tend to be from well-known regions and grape varieties. They are likely to be inexpensive or mid-priced. In wine-producing countries, the range will often be dominated by local wines.

Many non-destination restaurants have a country-based theme (e.g. Italian, Spanish or Lebanese), in which case the wines would tend to be heavily drawn from the relevant country.

CASUAL DINING

This category falls between non-destination and fine dining restaurants. They can be used in a variety of situations: from quick meals (as with non-destination restaurants) to longer meals (like fine dining restaurants). These restaurants tend to be independently owned, often being individual businesses or part of a small chain.

Casual dining offers a high quality of food and wine but without the formality of 'fine dining'. The wines offered in such restaurants will be more in the mid-priced to premium price bands than those in a non-destination restaurant. The wines will have been chosen with food and wine pairing in mind, the wine list or menu often including suggested pairings.

The wine list will often offer a mixture of wines from better-known regions and varieties and less well-known ones. Staff will be trained to advise customers on which wine might suit their particular taste, price range or food choices.

In wine-producing countries, the range will often be dominated by local wines and, if the restaurant's menu is themed around a particular cuisine, the list may also be dominated by wines from that country. However, in these restaurants, there are more likely to be some carefully chosen wines from other countries on offer as well.

FINE DINING

These are very much 'destination' restaurants, where the experience and the meal are the reasons for the visit. Many will have one or more Michelin stars or have a very prestigious head chef. Examples of fine dining restaurants include Le Bernardin in New York (USA), The Fat Duck in Bray (UK) or El Celler de Can Roca in Girona (Spain).

Food and wine pairings are particularly important in fine dining restaurants, with a trained sommelier and highly skilled staff on hand to make recommendations to customers. Many such restaurants offer ‘tasting menus’, which offer food and wine pairing. The wines in these restaurants must be of the highest quality and are often super-premium wines available in very limited quantities. It can be a great source of pride for a producer to have their wine listed in such restaurants. Restaurants such as these often use brokers to seek out hard-to-find wines that they want to feature on their list.

EXAMPLE OF CHOICE OF RETAILER WITHIN A RELATIVELY FREE MARKET

In a free market, consumers can choose between a variety of retail outlets depending on the type of wine and wine-buying experience they want.

High-volume, inexpensive branded Chardonnay	Low-volume super-premium Cabernet Sauvignon
Supermarket or convenience shop, as a large volume is available at a low price. The appeal of the product is to a large number of low-involvement and price-conscious consumers. In addition, supermarkets offer the convenience of buying wine at the same time as food or other goods, and the wine will be transported from shop to home by the customer. A branded product is unlikely to be sold in deep discounters as they will have their own private labels. Well-known brands also are not typically sold in casual dining restaurants as the difference in price compared to retail is obvious.	Specialist retailer and fine dining restaurants, due to the small volume available and the high price point. The appeal is to high-involvement consumers who would seek out specialist wine retailers for their product range.

EXAMPLE OF OPTIONS FOR GETTING THE WINE TO POINT OF SALE WITHIN A RELATIVELY FREE MARKET

As noted, producers in a relatively free market can choose between selling their wine directly to a retailer or intermediary, or directly to the consumer.

High-volume, inexpensive branded Chardonnay	Low-volume, super-premium Cabernet Sauvignon
Direct to retailer	
As a high-volume, inexpensive product, the wine is likely to be sold directly to the retailer. In this case, as a branded wine, it is most likely to be to supermarkets or chain of convenience shops.	As a low-volume, super-premium product, the wine is unlikely to be sold directly to the retailer as it may be inefficient to deal directly with many specialist wine shops and fine dining restaurants.

An alternative would be make use of an agent, distributor or broker who understands the target market. This allows the production company to focus on production. A joint venture with a distributor is also possible as they will understand the target market. However, any option that adds an intermediary (agent, distributor, joint venture, broker) will add cost to the product that needs to be offered at the lowest price.	It is more likely that an agent, distributor or broker will be used as they know the target market and can offer the wine to many, small appropriate outlets. This enables the production company to focus on production. The additional cost can be absorbed due to the high price of the product. It is unlikely that a joint venture will be created as the volume of available wine is too small.
Direct to consumer	
Selling via the cellar door or a wine club is an unlikely option for an inexpensive, high-volume wine as many consumers of this wine are likely to be low-involvement and therefore unlikely to travel to cellar door or subscribe to a wine club. Similarly, it is unlikely that the wine will be sold via consumer events such as farmers' markets or food and wine fairs. Given the high volumes and low price per unit, the producer is unlikely to dedicate staff to selling individual bottles through these types of event. The volume of the wine is too great to distribute from the company's own online shop due to the cost of logistics (warehousing and delivery to individual customers).	Selling via a cellar door is a likely option as the producer may want to offer customers a high-quality experience to build up loyalty to the brand. In addition, with only a small amount of wine available, a wine club can be used to build loyalty to the brand and to make exclusive offers to a limited client base. It is unlikely that the wine will be sold via consumer events as most consumers are unlikely to spend a large amount of money on an impulse purchase. Similarly, with only a small amount of wine to be sold, there is not sufficient to offer it to the general public via a website.

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7 Other Types of Market

Not all countries have a 'free market' for wine sales. Certain countries have adopted legal structures that limit the supply chain options available to producers and control the sale of wine to the end consumer. The two most significant are monopoly markets and the American 'three-tier system'.

7.1. Monopoly Markets

In some countries, particularly the Scandinavian countries and Canada, there is a government-run monopoly for the retail sale of alcoholic drinks. In Sweden, for example, the government-owned chain Systembolaget is the only retail outlet allowed to sell alcohol. There are also some specialist independent distributors in Sweden, licensed under special conditions.

Note that bars and restaurants can buy from the monopoly or from specialist independent distributors (who will often stock wines from small-volume producers or less-common wine regions, particularly for bars and restaurants). However, such countries usually impose high levels of tax on alcoholic drinks, making them very expensive.

In Sweden, Systembolaget is the only retail outlet allowed to sell alcohol.

The aim of the monopoly system is to limit alcohol consumption. Research has shown that privatisation of the market would lead to the greater accessibility of alcoholic beverages as well as greater competition, which, in turn, would lead to price pressure.[1]

Furthermore, the shops and their staff do not promote either individual products or producers, but simply advise customers, based on their requirements. Again, this removes any incentive for promotion or price reduction.

For producers, it is much harder to enter the retail sector in one of these markets and there is a considerable amount of bureaucracy to deal with. For example, to get a wine stocked by Systembolaget, a producer must first register with an importer who is an approved supplier of Systembolaget. However, this does not mean the producer is guaranteed to have its wines stocked. Four times a year, Systembolaget issues tender requests for various styles or types of wine that it wants to add to its range. Approved suppliers may then submit samples of wines that they believe satisfy the tender requests. All the samples from different producers are tasted blind by a panel to decide which ones best correspond to each tender request. Even once they have been selected, wines will be tasted again and chemically analysed prior to launch to confirm that they are identical to the tasting samples.

This is a lengthy process, and it can take seven to eight months from the original tender before the wine is launched in shops. However, as the final decision is based on quality alone, the process is intended to give smaller producers the same access to the market as larger ones. Also, once a wine is accepted, it will be available throughout Sweden and not just in a handful of small wine shops, offering the potential to sell larger volumes.

Strict controls on the retail sale of alcoholic beverages also exist in all but one of Canada's provinces and territories. For example, in Ontario, retail sales are controlled entirely by the Liquor Control Board of Ontario (LCBO), either through their own shops or by approved agencies (a number of local producers, including wine producers, are licensed to sell their own brands outside LCBO shops). The one exception is Alberta, which now has a private market for the wholesale distribution and retailing of alcoholic drinks, although it is supervised closely by the Alberta Gaming and Liquor Commission.

7.2. The USA's Three-Tier System

The growth and size of the wine market in the USA makes it desirable for both domestic producers and those seeking to export to the USA. Domestic production has not been able to keep up with rises in consumption. However, strict and complex legislation, implemented on a state-by-state level regarding the distribution and sale of alcoholic beverages, makes doing business in the USA no easy task.

Between 1919 and 1933, the Volstead Act prohibited the production, sale and consumption of alcohol in the USA (with the exception of wine to be used for religious purposes). The 'Three-Tier System' was introduced in the USA in 1933, upon the repeal of prohibition, with the aim of preventing a return to the pre-prohibition 'saloon' days of gambling, prostitution, crime and drunkenness. Many of these saloons were in effect tied houses, required to buy all products sold from a particular brewer or distiller. The three-tier system was introduced to prevent direct sales from the producer/supplier to the retailer to avoid producer monopolies and increased prices. Other perceived benefits to each state of implementing a distributor tier included the provision of additional jobs and easier regulation and collection of taxes, as well as the tax revenue generated by the creation of this additional tier of businesses.

The three tiers are:

- supplier (including producers, importers)
- distributor (including wholesalers, brokers)
- retailer (including off-premises licencees, e.g. supermarkets and wine specialists, and on-premises licences, e.g. bars and restaurants).

These laws generally limit or completely prohibit cross ownership between most retailers and the upper two tiers. Separations between the producer and distributor tiers developed later, but are far from universal. A producer may also be an importer (e.g. E & J Gallo), but cannot be a wholesaler. A wholesaler can also import, but cannot produce (e.g. Republic National Distributing Company). In principle, a producer cannot by-pass a wholesaler and sell direct to a retailer. That said, an increasing number of states allow wineries (as well as other producers of alcoholic beverages, such as breweries and micro-distilleries), from within and from outside the state, to sell directly to consumers (either through an on-premises licence, an off-premises licence or a combination of both), but usually with conditions attached. By contrast, some states still do not allow wines purchased in another state to cross their borders.

One of the vestiges of the repeal of prohibition in 1933 is that the Federal government ceded control of beverage alcohol sales to the individual states. Within the three-tier framework, this means that each state of the USA can have drastically different laws, which are very complicated and have led to a need for 'compliance officers' within alcoholic beverage companies. Following pressure from the temperance movement, some states remained 'dry' (manufacture, distribution and sale of alcohol is prohibited or tightly restricted at county level). No states are dry today, though there are still some dry counties throughout the USA.

States in the USA fall into one of three categories with regard to their legislation of the three-tier system, though in many cases these lines may be blurred in some aspects. States in which the state itself holds monopoly over one or more of the three tiers are called 'control' states. In these states, generally the only licensed off-premises retailer of alcohol is the state itself, though in some states this might be only for spirits and not wine, and many other exceptions. There are 17 control states currently in the USA.

Examples of various control states and their regulations:

- Idaho has a monopoly on off-premises sales of beverages with greater than 16% abv.
- Michigan has a monopoly only on wholesale sales and only of spirits.
- New Hampshire allows beer and wine to be sold in grocery and convenience shops only and operates state package shops (shops that sell prepackaged alcoholic beverages), but also allows a small number of private off-premises permits, which tend to specialise in smaller brands that the state shops do not carry.
- Pennsylvania has one of the strictest controls, with all spirits sold in state package shops, and where bars and restaurants who are permitted to sell on-premises must buy from the state package shops.

States in which the state does not participate directly in the sale of alcohol comprise the other two categories, 'open' states and 'franchise' states. In an open state, state involvement in the regulation of the three-tier system is relatively minimal. Suppliers and distributors are free to enter into and exit out of agreements to sell and distribute brands freely.

Franchise states have strong franchise laws that severely restrict the freedom of suppliers to change distributor arrangements. In a franchise state, an appointment of a distributor by a supplier is almost tantamount to a 'lifetime appointment' due to the strength of these laws. Franchise laws exist to protect distributors against sudden and massive changes to their business. For instance, in an open state, a distributor may enter into an agreement with an industry leading supplier, and in doing so be compelled to drop distribution rights of other brands, invest heavily in trade marketing of that supplier's brands, make investments in staffing and infrastructure, and so on. If that supplier abruptly decides to change distributors, the immediate loss of revenue could be catastrophic to the distributor. Hence, the franchise law provides a strong benefit to the distributor, but for the supplier, even if there is a legitimate reason to be dissatisfied with the performance of a distributor, there is little recourse if the distributor does not agree to release the supplier. When this occurs, the supplier may appoint an additional distributor of their choosing in the same state, and in some instances a brand may be sold simultaneously by multiple distributors as a result.

All states, be they control, open or franchise states, will have their own unique laws and regulations, and these may be highly prescriptive. Connecticut is an example of a state with very strict laws regarding the sale of alcohol. In this state, there is a very strong franchise law. Connecticut restricts the number of off-premises licences that can be held by any entity, and also restricts the number of licences available in each city and town in the state according to its population. While demand for a licence may be very high, supply is very low, and small shops are sometimes bought by large entities exclusively to obtain the licence. Connecticut also prohibits quantity discounts given by distributors, which limits the competitive advantage of large and well-capitalised shops. Furthermore, the state enforces 'minimum bottle pricing' for each of the tens of thousands of bottles sold by distributors, which sets the minimum price any retailer in the state may sell any item. Until recently, Connecticut prohibited the sale of alcohol by an off-premises retailer on Sundays as well. All of these prescriptions have allowed many small businesses to prosper in the state and generally has warded off the consolidation of sales as has occurred in other states. However, critics of these laws point to 'border wars' between Connecticut's shops and those across state lines, where prices may be significantly less, hours of operation may vary and availability of products may be greater.

Such arguments are not limited to the example of Connecticut; the strengths and weaknesses of the three-tier system are subject to widespread and fierce debate. Significant tax revenue is generated by maintaining three tiers of business, as taxes are levied upon each tier. Other benefits of retaining the distributor tier is that these businesses specialise in logistical efficiency and the largest of them service huge areas of the country. They also provide a trained sales force and marketing materials, and, in these ways, can potentially provide a producer with exposure that would be extremely costly (in time, effort and money) to gain otherwise.

One challenging characteristic of the USA wine market is consolidation. In the last two decades, the number of distributors has decreased by approximately two-thirds (from around 3,000 to 1,200), while the number of USA wineries seeking entry to the market has increased by a factor of five (from almost 2,000 to over 9,500). This bottleneck works to the disadvantage of smaller producers, who can find their products lost among the massive portfolio of brands held by the major distributors. The distributor sales force reduces the producer's control over the marketing and business-to-business selling of the product in the same way as a distributor in a free market would.

Although the number of USA wineries has significantly increased in recent years, many of the largest companies involved in wine production (the conglomerates) have also become bigger, generally through the acquisition of smaller wineries. The benefit can be felt by the large companies throughout the system. The conglomerate can provide an attractive array of products for a large distributor (and indeed to importers in export markets); the large distributor needs only to deal with one large company to gain a range of desirable brands that need limited hand-selling; the multiple retailer can provide a range of products for their customers while only dealing with one or two large distributors.

Small producers can seek out smaller specialist distributors that may be better equipped to sell low-volume, boutique brands; however, these distributors tend to be more limited in their scope without coverage across so many states. Furthermore, distribution contracts can be hard to break, and therefore, even if the producer feels they are not well presented by a distributor, they may not be able to be distributed by someone else.

Consolidation has stimulated activity in the direct-to-consumer category (both shipping to consumers and cellar door sales) and gradually, state by state, restrictions are being loosened. While this is a popular option for wineries without the volume to justify participating in the three-tier system, as mentioned in Selling Directly to Consumers, this route is not without its associated costs of labour, advertising, shipping and the burden of seeking to comply with the vagaries of each state's regulatory framework.

REFERENCE

1. *'Essential to public health'*, Systembolaget (retrieved 5 May 2021)

An Introduction to Marketing Wine 8

This section of the book (Chapters 8–14) introduces the key principles and processes of marketing as they relate to the wine industry. It gives a general introduction to what marketing is, examines the importance of brands and the different types of wine brand and sets out the main stages involved in creating a marketing strategy. It is not intended to create marketing professionals but merely to highlight the broad issues of which wine professionals should be aware.

8.1. What is Marketing?

Marketing is a hard term to define satisfactorily. Many definitions have been proposed, some of which are very complex and technical. A useful and simple definition is given by the Chartered Institute of Marketing (CIM), which states that marketing is: 'the management process which is responsible for identifying, anticipating and satisfying consumer requirements profitably'.[1]

As can be seen from this definition, identifying the target consumer and understanding their needs and wants is fundamental to successful marketing. However, it is often not simply the wine that the consumer wants but also the experience the wine will bring: for example, confirmation of social status, ownership of something perceived as valuable or return on investment capital. The marketing should therefore emphasise how the product can give the consumer the experience they are looking for.

The ultimate aim of marketing is to create profits, whether this is through volume of sales (attracting new consumers, encouraging existing consumers to buy more) and/or value of sales (convincing consumers that it is worth spending more money on this product, compared to its lower-priced competitors). Marketing campaigns cost money and resources; a successful campaign is one that achieves an adequate level of profit within a specified timetable (see Chapter 13).

8.2. Overview of the Marketing Process

Given that the entire company will be involved in the marketing process, it is important that there is a clear marketing strategy in place so that everyone knows what is expected of them. Creating and implementing the marketing strategy consists of five key stages:

1. Identifying the product/brand to be marketed.
2. Identifying the target market.
3. Setting the objectives of the marketing strategy.
4. Devising the marketing strategy (the 'marketing mix').
5. Implementing and monitoring the marketing strategy.

This is not necessarily a linear process: for example, stages 2, 3 and 4 are closely interlinked. However, for the purposes of this guide, each of these stages will be taken in the above order.

8.3. Using SWOT to Analyse a Marketing Objective

The SWOT (Strengths, Weaknesses, Opportunities, Threats) tool can be used to provide analytical insights into the achievement of any objective, including personal aspirations, but here we focus on its application to business objectives, particularly those relating to marketing. SWOT identifies factors that are relevant to achieving an objective, and divides the factors in two ways:

- Is the factor **helpful** or **unhelpful** to the achievement of the chosen objective?
- Is the factor **internal** to the organisation (such as resource or capability that would provide competitive advantage) or is the factor **external**, in the wider business environment (such as a political, economic, sociological, technological, environmental or legal factor or trend)?

This leads to the following way of presenting the conclusions:

	Helpful to achieving the objective	**Unhelpful** to achieving the objective
Internal (organisational resources, capabilities)	**S** Strengths	**W** Weaknesses
External (business-environmental factors and their trends)	**O** Opportunities	**T** Threats

In the absence of a specified objective, there is no reference point for evaluating whether a factor is helpful or unhelpful. An organisational resource or external trend that is helpful for achieving one objective may be entirely irrelevant for another, or even an unhelpful distraction.

The SWOT tool helps an organisation in the following ways:

- For a given objective, to what extent do the various factors favour the organisation's success in achieving that objective? (This is sometimes referred to as 'strategic fit'.)
- Where there are mismatches between the factors and likelihood of success, what changes could the organisation make in order to achieve a better strategic fit? This is especially helpful in guiding investment in resources (such as vineyards, production equipment, labour) and capabilities (such as expertise to make a specified style of wine, create attractive packaging or lobby governments).
- Where there are threats, how can the resulting risks best be managed? Consider the likelihood and the size of impact of the risk, and the options to avoid it entirely, reduce probability or impact, transfer the risk (e.g. by purchasing insurance) or accept the risk and budget for its possible impact.

The SWOT process can also help the organisation to understand that a particular objective is not easily or realistically achievable, and to consider pursuing a different objective. A beneficial side effect of working through the analytical processes is that the insights gained can inspire ideas for alternative, more achievable business objectives. These can then be fed into subsequent SWOT processes and evaluated.

Note that SWOT analysis is value neutral. It does not show whether the objective is ethical or not, it merely provides guidance on achievability.

SETTING THE OBJECTIVE

The objective to be evaluated is selected prior to the SWOT analysis. The exact origin of the analysed objective does not matter, because the SWOT analysis evaluation will sort the realistic from the unrealistic and show the way forward. The origin of the analysed objective could be:

- Someone's educated (or uneducated) intuition that a particular business opportunity exists.
- An individual's personal business dream or aspiration.
- Something generated by other business tools, such as ones that analyse for unmet gaps in markets.

An example of the third kind is 'value-curve analysis'. The analyst selects various factors that differentiate products within a particular market (such as price, convenience, packaging, prestige, history, environmental impact, organoleptic attributes). Rather than evaluating each factor separately, consumer research is used to identify common clusters of consumer demand. The result of the research and analysis may discover that there are clusters of consumer demand that are under-supplied, or even completely ignored by the industry. An organisation can take into account the size of the opportunity and consider whether or not to develop products for that gap. As a specific example, many people in the wine industry assume that the demand for premium-priced red wines is best met by wines that are dry and complex in flavour. An entrepreneur might conjecture that there is an under-supplied market for premium-priced red wines that are off-dry with simple fruit flavours. Value-curve research and analysis might confirm this or not. If an opportunity is confirmed, then the next step for an organisation seeking success with such a product is to set a specific objective (e.g. 'build a million-case brand for a premium-priced off-dry simple fruity wine'), and analyse its strategic fit through a SWOT analysis, and use the conclusions of the SWOT analysis to show the best way to achieve success.

Having set the objective, the next step is to establish what belongs in each of the SWOT boxes.

STRENGTHS AND WEAKNESSES

In order to achieve an objective, what tools and resources are needed? What capabilities are relevant? Compared to other organisations that might pursue the same objective, how does this organisation compare and do its internal resources and capabilities provide it with a competitive advantage? Can it achieve the objective better? Faster? More affordably?

A resource is a 'thing' that the organisation has access to, that it can exploit as a tool. In the context of wine production, some resources that could be considered include:

- An established reputation in wealthy, growing markets.
- Reliable and affordable supply chain relationships.

- Vineyards in locations that favour a particular style of wine.
- Wine production facilities that are optimised for a particular style of wine.
- Access to reliable, affordable support industries (logistics, bottling and labelling, training of production staff, research and lab analysis).
- A strong financial position to enable investment.
- Internal expertise and experience, and the ability to make best use of these.

A capability is something the organisation is able to do. Some capabilities include ability to:

- build strong new brands or grow existing ones (considering all the Ps of marketing);
- scale production volumes up or down in response to changing demand, or change products to follow rapid changes in demand;
- experiment to innovatively develop and launch new products;
- lobby local, regional, national or global political organisations to achieve favourable political outcomes (such as subsidies, favourable regulations, governmental promotion).

OPPORTUNITIES AND THREATS

When considering the external business environment, a good SWOT analysis depends on the factors that are considered being:

- real and accurately described;
- everything that is most important to consider;
- relevant to the objective under discussion.

For any factor, also consider what the trends are that might affect the helpfulness or hostility of the external business environment in the future, as well as the present.

In order to achieve this comprehensiveness, some research is usually needed. If a factor is under consideration, research should reveal the full, accurate details. A useful mnemonic to help avoid missing anything important is PESTEL (Political, Economic, Sociological, Technological, Environmental, Legal). To ensure that a factor really is relevant, describe how it is helpful or unhelpful to achieving the objective.

When researching the external factors, ensuring all of the following aspects have been covered can help ensure nothing important is missed. Some examples are given for each, but the lists should not be considered complete.

Political

- The alcohol industry is very affected by political involvement, ranging at one extreme from prohibition and taxes that try to discourage consumption, to financial subsidy and other promotional support for prestigious cultural products at the other.

Economic

- A relatively weak or weakening local currency can improve the price competitiveness of exports (an opportunity in the big volume brand sector, but potentially a threat to prestige in the luxury sector), and it can make it more expensive to purchase equipment that needs to be imported.

- Foreign exchange instabilities can make it hard to plan (threat), but can provide opportunities for those that are able to respond more quickly than their competitors (opportunity).
- National or global recession reduces consumer purchasing power (threat), but could lead consumers away from more expensive comfort products and towards wine (opportunity).

Social (including cultural and demographic factors)
- Many countries have seen trends where one generation avoids the favoured drinks of their parents. This can present an opportunity, and then later becomes a threat as the wine- (or beer or sake or whisky) consuming generation gets older and declines.
- Even before there are political and legal interventions, cultural attitudes can greatly affect attitudes to alcohol consumption, including different ways that various alcoholic beverages are viewed.
- Social factors can affect production. For example, trends in the availability of skilled, affordable vineyard labour, especially in rural regions that are losing population to towns and cities.
- Changing cultural attitudes in other areas (such as attitudes to global trade, use of synthetic chemicals, the aesthetics of 'artificial vs natural', attitudes of friendship or animosity between nations) can also create threats or opportunities.

Technological
- New production techniques, types of equipment and analyses can all provide opportunities for increasing quality or decreasing costs (opportunity), but as techniques become shared globally, it becomes increasingly difficult for wines to retain the uniqueness of their local style (threat).

Environmental
- Climate change has obvious impacts on the way grapes ripen and the resulting styles, creating threats to some regions (especially those that have established a reputation that depends on restrictive production options and an established style, and other regions that are already on the hot limit of quality wine production), but can provide opportunities to regions on the cool margins of wine production.
- Pressure for alternative land use (urban growth, other agriculture or industry, return to nature) can threaten some production locations, and provide opportunities for others.
- Environmental change can also affect logistics, waste management and use of energy and synthetic chemicals.

Legal and Regulatory
- Production and trade in some regions is more tightly regulated than in others.
- Increasing regulation of trade makes trade more difficult (threat), but can improve the relative competitive advantage of an organisation that has the skills, resources and patience to navigate regulations (opportunity).
- Similarly, increasing regulation of production limits a producer's choices (threat), but could be part of a message expressing product integrity (opportunity). The reverse, relaxing production regulations, opens up new possibilities (opportunity), but could undermine

some of the competitive advantage of producers that have optimised their production to tight regulation (threat).

APPLICATION: CONCLUSIONS AND RECOMMENDATIONS

Having set the objective, and considered the resources and capabilities needed to achieve the objective (strategic fit), the SWOT analysis provides insight into:

- How achievable is the objective (should it be pursued or not)?
- If it is to be pursued, what further investment in resources and capabilities will maximise the chance of success?

It also charts the external business environment and identifies factors outside the organisation that can:

- help (what opportunities can the organisation take advantage of?) or
- hinder (what threatens success, and what can the organisation do to manage the resulting risks?).

It thus provides a great deal of guidance to any organisation in pursuit of a business objective.

REFERENCES

1. *Glossary: Marketing*, Chartered Institute of Marketing (retrieved 14 May 2020). This is CIM's original 1976 definition. A new definition was proposed in 2007; however, the original definition is still widely cited.

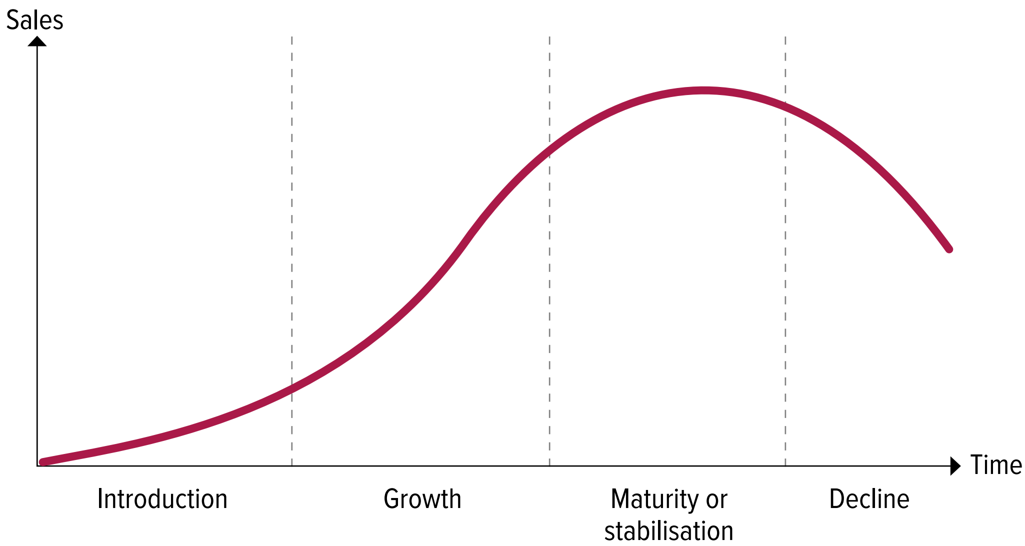
Identifying the Product/Brand to be Marketed

9

At its most basic level, marketing is about a product (or a range of products): a bottle of wine, a wine shop, bar or restaurant. Understanding the product's characteristics is essential to a successful marketing campaign (see Product in Devising the Marketing Strategy). The product may be brand new, launched to fill a perceived gap in the market that may have been identified by the company through market analysis or as a result of market research. Alternatively, the marketing strategy may be for an existing product, which may or may not have been updated.

All products have a 'life cycle'. As shown by the diagram below, sales of most new products start slowly, but, if the product establishes itself in the market, will then start to grow quickly as more and more people buy the product. Eventually, sales will stabilise as there are fewer people left who have not yet bought it or perhaps competition increases, and finally sales will begin to decline.

Product life cycle



A different marketing strategy is needed in each of the stages:

1. **Introduction** – The strategy should focus on getting the product into the market and gaining recognition and reputation. Initially, distribution may be limited to a few carefully selected channels to begin with.
2. **Growth** – The product should be increasingly widely distributed and aimed at a broader target market to encourage strong growth.
3. **Maturity or stabilisation** – The strategy should highlight the differences between the product and other competing products, which will have entered the market by now.
4. **Decline** – Faced with the prospect of declining sales, a company may take steps to extend the life cycle, perhaps by improving the product, updating the packaging, reducing

the price to make it more competitive or seeking new markets. Each of these will need to be communicated to prospective customers through an appropriate marketing strategy.

9.1. Branding

Without branding, products would simply become commodities. Provided that a product meets a certain standard of quality and style, the consumer would buy the cheapest option available and sales of the more expensive options would decline.

Branding seeks to move a product away from being a commodity to the extent that consumers will want to buy that product even if it costs more than the minimum possible price. For example, a consumer may see two bottles of Marlborough Sauvignon Blanc on a shelf. One bottle is a mid-priced wine from a producer who is unknown to the consumer, whereas the other is 'Cloudy Bay Marlborough Sauvignon Blanc' and sells at a premium price. The consumer may choose the more expensive wine because they specifically want to buy what Cloudy Bay represents and not just any example of a Marlborough Sauvignon Blanc. Many successful brands command higher prices than similar generic products.

Cloudy Bay packaging pre-2016 (left) and post-2016. The imagery has been modernised but is still instantly recognisable as Cloudy Bay.

The term 'brand' also has multiple definitions. The CIM defines a brand as 'the set of physical attributes of a product or service, together with the beliefs and expectations surrounding it – a unique combination which the name or logo of the product or service should evoke in the mind of the audience'.[1] To be successful, a brand must create a positive image in the consumer's mind and this can be achieved in a number of ways:

Substance – Successful brands consistently deliver the same level of quality and style. For example, Champagne houses produce a non-vintage (NV) wine in a house style that is consistent from year to year and is not marked by vintage variation.

Consumer trust – As a result of this consistency, consumers come to trust a brand always to give them what they want. Many low-involvement consumers (see Segmentation) will therefore regularly buy their favourite brand of wine in preference to a cheaper, unbranded alternative that they do not know. This is an important factor in the success of supermarket own-brand wines.

Consumer engagement – The consumer should have a relationship with the brand and will ask for it by name. They will feel that the brand's marketing strategy is aimed directly at them (although this will clearly not be the case). Because of the 'closeness' of this relationship, successful brands are aware that even that the smallest change to their marketing strategy, such a minor label redesign, risks alienating loyal customers and will consider any such changes very carefully before implementing them.

Brand story – Successful brands have a 'story' (see below) to which consumers can relate – this creates an emotional attachment between the consumer and the brand.

THE STORY OF WINE

Many marketers believe that the story of a product or brand is one of its most valuable attributes. Research has shown that many consumers, especially millennials (i.e. those between legal drinking age and their mid-30s), are attracted to products with strong stories.

Compared to some products, it is relatively easy to tell the story of a wine. For example:

- What is the producer's history? Have they been producing wine for generations? In newer wine-producing regions, did their ancestors come from older wine-producing regions and bring vines with them? Did the producer have an interesting previous career?
- Where are the grapes grown? Do they come from a single vineyard, perhaps with an unusual or evocative name? What is the vineyard like? Is it steep, rocky, prone to mist in the morning, etc.? What other vegetation or animal life is there in the vineyard?
- How is the wine made? Is there a particular philosophy used (e.g. organic, biodynamic or natural)? Does the winemaker use any distinctive processes? Do they use unusual or especially old equipment?
- Is there a story behind the name of the wine, the label design or the bottle design?

This type of information creates a sense of authenticity; it links a wine to a particular place and a particular producer in a way that bulk production wines do not.

However, there is more to a successful story than just this. The story also covers matters such as price, where the wine is sold and how it is sold (i.e. the 'marketing mix'). Significantly, it also includes what other people say about the product, making consumers part of the story.

Price premium – Many successful brands command higher prices than similar generic products. Many consumers view higher prices as a guarantee of quality.

Longevity – Many leading brands have been in existence for a long time. This is particularly true of leading Champagne brands (see Leading Wine Brands). Yet, while a number of the biggest wine brands overall are relative newcomers, some have also been in existence for a long time: for example, Hardys (1850s), Gallo (1930s) and Robert Mondavi (1960s).

Strong brand name – Choosing the correct brand name is very important. The name must be easy to remember and, if the wine is to be sold in countries that speak different languages, easy to pronounce in all the relevant languages. An important issue to consider is whether a name that is perfectly innocent in one language could be offensive or obscene in another: for example, a co-operative in Saint-Tropez created a rosé to which they and gave the brand name 'Mist' (Made in Saint-Tropez) – all went well until the wine was distributed in Germany where the word 'Mist' translates as (polite version) excrement.

In some instances, it may be beneficial to have different brand names in different markets. This is not merely a translation, but a different name that is designed to better appeal to and resonate with the target market. Successful examples that have been tailored to the Chinese market include Penfolds (奔富'Ben Fu'), Lafite (拉菲'La Fei') and Casillero del Diablo (红魔鬼 'Hong Mo Gui').

Many successful wine brands have names that contain references to geographical features (e.g. Cloudy Bay, Blossom Hill, Banrock Station, Felton Road, Terrazas de los Andes). It may be that, because wine is a product very closely linked to agriculture and the land, such names give the wine a sense of place (even if many are made up). The name of a company founder can also be a successful brand name as it links the product to its heritage and gives a sense of longevity. This is very common for Champagne (e.g. Krug) and fortified wines (e.g. Taylor's Port). Some wine brands have not only a brand name but also a logo.

For a successful brand, protecting such assets through trademark registration is vital. In China, trademark rights are given to the first person/company to file an application, rather than being based on usage. Because of this, a number of companies that own well-known wine brands have needed to enter expensive legal battles to gain the right to own their brand name in the Chinese market; for example Treasury Wine Estate's battle to cancel the prior registration of the trademark 'Ben Fu' (used for their Penfolds brand) by a person not using the trademark for any commercial means.

Measuring the strength of a brand or its value to a company is not as easy as the measurement of a tangible asset. The value of the brand to its owner tends to be termed 'brand equity' and, typically, includes components such as brand awareness (the extent to which consumers are familiar with the brand) and brand image (how consumers perceive the brand), often among other measures. Brand equity is an abstract concept, with many people simply talking about positive and negative brand equity.

However, some companies employ specialist consultants to calculate the financial value of their brand equity to include as an asset on their balance sheet.

Many terms are used to describe different aspects of branding or types of brands. A few of the most relevant to the wine industry are:

Brand position – Where a brand 'sits' within a market and the cues used to indicate that position. It is often linked to retail price. Various ways of categorising brand position within a market have been suggested, one common method being:

- value
- standard
- premium
- super-premium.

However, the use of these terms, and the price ranges to which they apply, can vary considerably even within the same market.

A brand's position is usually set at launch, having been intended to hit a particular price point. If competition increases, a brand may have to lower its position to remain competitive. It is rare, but nevertheless possible over time and with a lot of work, to raise a brand's position: one example is Symington Family Estates' efforts to raise the market position of their Cockburn's Port brand by modernising production, updating the brand image and introducing new higher-end products.

Nevertheless, the cheapest end of the market should not be ignored as this offers the opportunity for high-volume sales. Some large wine companies, such as Concha y Toro and Hardys, have a variety of brands positioned in different parts of the market in an attempt to attract as wide a range of consumers as possible.

Private label – As discussed in Supermarkets and Deep Discounters, in many countries, such as the USA and the UK, supermarkets, deep discounters and larger chains of bars and restaurants have created a range of wines from different regions under their own brand name, such as Sainsbury's Taste the Difference in the UK, or an exclusive brand name, such as Kirkland Signature by Costco in the USA. These wines may be produced by well-known producers that have their own brands, but the producer's name will not appear prominently on the private label, if at all. Private label products are only available from the retailer or restaurant that created the brand. The benefits of this for the retailer are detailed in Supermarkets.

Many producers in Burgundy have a ladder of brands that range in quality and price.

Ladder brand – These are intended to give consumers easy-to-understand 'rungs' to help them trade up to a higher-priced and better-quality expression of the brand. The whole range benefits from the identity of the most prestigious expression of the brand.

Ladder brands tend to have three rungs:

1. **accessible** – the least expensive with the greatest distribution and the one that consumers will buy most often;
2. **stretch** – affordable, but only for special occasions;
3. **aspiration** – the most prestigious expression of the brand. Most of the brand's consumers will never buy it as it costs far more than they are willing or able to spend on wine; however, it should cast its super-premium identity over the entire ladder.

Ladder branding works very well for luxury products such as Champagne; for example:

1. **accessible** – Pol Roger non-vintage;
2. **stretch** – Pol Roger vintage;
3. **aspiration** – Pol Roger Cuvée Winston Churchill.

As for still wines, ladders may work for some 'soft brands' (see below) bought by high-involvement consumers, for example in Burgundy:

1. **accessible** – Bourgogne Rouge;
2. **stretch** – Gevrey-Chambertin;
3. **aspiration** – Le Chambertin Grand Cru.

However, ladder brands tend to work less well with wines bought by low-involvement consumers. This is because, while the accessible and stretch rungs may work, few, if any, consumers who buy the accessible wine will be aware that the aspiration wine exists. As a result, there is no identity given by the aspiration wine to the rest of the ladder. In the worst situation, the image of the entire ladder is based on the accessible wine and consumers could be reluctant to trade up even to the stretch rung as they believe it to be overpriced.

Soft brand – A term sometimes used to describe any cue used by a consumer when choosing to buy one product in preference to another. In the wine industry, this could be a country of origin (e.g. 'Brand Australia'); region (e.g. Rioja); geographical indicator (e.g. Pouilly-Fumé); grape variety (e.g. Merlot); or even a style of wine (e.g. oaky Chardonnay).

The concept of a soft brand is controversial. Some marketing professionals are happy to accept the existence of soft brands and to use the term; others do not consider these to be brands at all. Yet a soft brand does share many, but not all, the characteristics identified as features of leading brands.

Whatever it may be called, this is a very important element of wine marketing. Many wine-producing countries and regions promote themselves successfully in this way and the significance of geographical indicators in creating a regional identity of brand is increasingly acknowledged. While Sauvignon Blanc is produced around the world, only wine from a small, specifically designated area in the Loire Valley can be labelled Pouilly-Fumé AOC. Most producers within the appellation are too small to become a well-known brand, but they can benefit from the AOC's reputation to market their wines. Even outside the EU, GIs are being created largely for marketing purposes: witness the ever-growing number of AVAs being created in California.

Luxury brand – As with 'fine wine' (see Wine Investment in Wine Investment Companies), there is no agreed definition of what makes a luxury brand. These tend to be super-premium priced wines that only a very few consumers can afford, including Champagne prestige cuvées, Bordeaux *Premier Cru Classé* and the most expensive Californian wines.

Luxury brands promote the idea that they are scarce even if, as in the case of many Champagnes, this is not always the case. This perceived scarcity is one reason why luxury brands can usually charge a large premium. The marketing may also promote other assets of the product, such as the quality of the fruit or of the vineyard in which it was harvested, no expenses spared during winemaking, a rich heritage, etc. Every aspect of marketing strategy for the product is likely to promote the idea of luxury; for example, sponsorship of exclusive and luxury events, and positioning in the most upmarket retailers and on the wine lists of fine dining restaurants.

LEADING WINE BRANDS

Research company Wine Intelligence release an annual report on the globally most powerful wine brands.[2] The list of most powerful brands is based on consumer data regarding brand awareness, reported brand purchase and brand connection (e.g. affinity with the brand) across 21 markets (it does not use sales data). According to their research, the top 10 most powerful global brands in 2020 were:

1. [yellow tail] – Australia (country of origin)
2. Casillero del Diablo – Chile
3. Gallo Family Vineyards – USA
4. Jacob's Creek – Australia
5. Barefoot – USA
6. Gato Negro – Chile
7. Carlo Rossi – USA
8. Frontera – Chile
9. JP Chenet – France
10. Mouton Cadet – France

These brands all benefit from widespread awareness in multiple markets. However, on an individual-market level, domestic brands can be more prominent, particularly in wine-producing countries; for example, in the same report, Chinese brand Changyu is reported as the most powerful brand in China, German sparkling wine brand Rotkäppchen is reported as the most powerful brand in Germany, etc.

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10 Identifying the Target Market

Although the creation of the product is often a key part of the story of wine, it is only one part of the marketing process. A product that fails to provide something different, cheaper or better than a product that is already on the market is likely to have limited success. Most products will not appeal equally to all consumers and therefore it is important to identify the type of consumer that the product is aimed at (the target market) so that the marketing strategy can be tailored to their wants and needs.

10.1. Segmentation

Segmentation is the division of the market place into distinct subgroups or segments, each characterised by particular tastes and requiring a specific marketing strategy.[1] The target market for any given product may be one or more of these segments.

Although the principle of consumer segmentation sounds simple, the practice is much more complex. Because everyone is different, the consumers in a particular segment will never be identical. The aim is to choose a group who have sufficiently similar preferences and needs to create a meaningful segment that can be targeted by companies. On the other hand, the segment should not be so small, with so few potential customers, as to make it unprofitable.

Segmentation is often based on four sets of variables: geographic, demographic, psychographic and behavioural. A segment will usually be defined as a combination of variables.

GEOGRAPHIC VARIABLES

These relate simply to where the consumers live (e.g. a country, region or city) and whether they live in an urban or rural area. Usually, these are too broad and cover too wide a range of people to be meaningful on their own.

DEMOGRAPHIC VARIABLES

These include:

- age
- gender
- ethnicity
- family status (e.g. are they single? do they have children?)
- income
- level of education (e.g. are they university-educated?)
- occupation
- socioeconomic status; an individual's or family's position in society relative to others based on their income, level of education and occupation.

PSYCHOGRAPHIC VARIABLES

These are psychological characteristics, such as:

- lifestyle (e.g. people who like to go out to eat and drink, the health-conscious)
- personality (e.g. people who like to show off their wealth or knowledge of wine)

- values and beliefs (e.g. vegetarians, people who prefer products that are organic, environmentally friendly or Fairtrade)
- interests (e.g. people interested in wines from a particular country or region).

BEHAVIOURAL VARIABLES

These are variables based on consumers' observable behaviour:

- What benefit do they want from wine (e.g. quality, value for money, prestige)? When do they buy wine (e.g. regularly, only on special occasions)?
- Where do they buy wine (e.g. supermarkets, specialist wine retailers)? How often do they buy wine and in what volume?
- What is their level of brand loyalty?
- What is their level of interest in wine (e.g. enthusiast, moderate interest, indifferent)?
- Are they early adopters (i.e. people who are keen to buy new products when they come on to the market) or late adopters?

People who share psychological or behavioural characteristics are more likely to behave in a similar way than those who live in the same area or are in the same age group.

There is no global model of consumer segmentation; each country is different, even countries as geographically close as the UK and the Republic of Ireland. The closest the wine industry has got to creating global segments is to separate high- and low-involvement consumers, although even this division is not valid in all countries and the grouping is too broad to be useful without further segmentation. High-involvement consumers have a deep interest in the wine they drink, are keen to try new products and tend to spend more on wine. In contrast, low-involvement consumers have little interest in the detail of what they drink, stick to a few products that they know and are unlikely to spend much on the wine they buy.

There have been several attempts to divide wine consumers into narrower segments (mainly in the context of wine tourism rather than wine buying). An early attempt was made by Hall,[2] who split wine consumers into three groups:

1. **wine lovers** – those with a great interest in and knowledge of wine, high income and high level of education;
2. **wine-interested** – those with a great interest in wine, moderate wine knowledge, university-educated with moderate income;
3. **wine curious** – those with a moderate interest in wine but limited knowledge, moderate income and medium level of education; they see wine as an opportunity to maintain social relations.

While level of interest and knowledge is a useful way to separate wine consumers, it is too simplistic to link this to income and level of education.

Other wine consumer segmentation models have been proposed, each with their advantages and disadvantages. One common disadvantage is that, because these models tend to be the result of academic studies with a relatively small sample size, they do not readily extend to the market as a whole.

However, more recently, a number of specialist market research companies have created their own consumer segmentation models based on much more detailed data. For example, Wine Intelligence has created a series of models (known as 'Portraits') for various markets, including the UK, the USA and China. As can be seen from the overview of the 'US Portraits' on the following page, models such as these can be much more detailed.

Wine Intelligence provides a range of additional information to help companies understand these segments, breaking each down into demographic groups, level of involvement and their wine-buying habits, motivations and behaviour. Although companies have to pay to access this information, it can be invaluable in helping them work out how to target specific types of wine consumer successfully.

However, even with such a sophisticated segmentation model, there will still be plenty of consumers who do not fit into any one particular segment. Nevertheless, a successful segmentation exercise will help to identify the type of consumer who might buy a particular product. Armed with that information, a company can make a realistic estimate of how much that consumer may be willing to pay for it, where the product is likely to sell and how best to market it.

10.2. Market Research

Market research is the gathering and analysis of data about a particular market segment in order to understand what that segment wants or needs.

Market research can be useful at all stages of the marketing process. Prior to starting work on a new product, a company can use market research to understand whether there is a demand in the market for that product and, if so, what features people would like it to have and how much they might pay for it.

However, market research is especially important in creating the market strategy as it can confirm whether the approach suggested by the segmentation exercise is accurate or not before the company embarks on a potentially expensive and time-consuming marketing campaign.

Market research takes time and effort to arrange, and some methods can be relatively expensive, such as setting up a focus group. It is therefore important to be clear about the aims of the research from the outset.

- What information is needed (e.g. what price are consumers prepared to pay for a particular product)?
- From whom will the researchers gather data (e.g. a small group of consumers from a particular segment or a cross-section of the public)?
- How will the research be carried out? For example:
  - survey – a series of questions designed to investigate the opinions, feelings, actions or behaviours of a large group of people;
  - focus group – a small group of people drawn from the relevant consumer segment, brought together to discuss and comment on the topic being researched;
  - interviews – one-to-one discussion of the topic being researched;
  - observing consumer behaviour (see below);
  - secondary research – market research carried out by using data already available in the public domain or available as a report from a market research company.

Once the market research has been conducted, the data can be analysed and acted upon.

Wine Intelligence's US Portraits 2018 (reproduced by permission of Wine Intelligence)[3]

	Engaged Explorers	Premium Brand Suburbans	Contented Treaters
Who are they?	Younger, confident wine drinkers who enjoy discovering new wines	Mid to older aged, frequent wine drinkers, lower spending but very knowledgeable	Infrequent, but high spending drinkers, who know what they like
Why do they drink wine?	Wine is part of their lifestyle and social life so they spend time and money in the category	They enjoy wine in social situations in the on-premise for casual occasions	They have wine infrequently but enjoy it in social situation as a treat or to pair with their dinner
Where?	Enjoy buying from wine shops and wineries and are highest spenders in on- and off-premise	Get wine from the supermarket or previously known wineries, often in bulk to get value	They buy wine from liquor stores or wine shops or from wineries they visit to stock up
What do they drink?	Have the broadest repertoire and enjoy trying new varietals, regions and types of wine	Very broad repertoire, however they know what they like and prefer domestic wine-producing regions	They know what they like and stick to the more mainstream varietals preferably from domestic regions

	Social Newbies	Senior Bargain Hunters	Kitchen Casuals
Who are they?	The youngest segment, drinking fairly frequently and rely on recommendations due to lack of knowledge	Most infrequent and one of the oldest segments with good knowledge due to a long time in the category	One of the oldest, very infrequently drinking segments, they have little interest in the category
Why do they drink wine?	Wine is often consumed in the on-premise and in social situations with friends and family	Low confidence in their knowledge, wine drinking centers around casual occasions at home	Not understanding much about wine and little interest to learn more, they mostly drink at home for informal occasions
Where?	Main factor when buying wine is convenience, so many wine-buying channels are used	Most consumers get their wine from the supermarket, being strongly value-driven	Very price-conscious, their primary channel is the supermarket, rarely branching out
What do they drink?	They are exploring the category and enjoy trying more niche varietals and regions of origin	Despite their good knowledge of varietals and places of origin, they stick to what they know and drink from a narrow repertoire	Drink from a very narrow repertoire and stick to what they know

OBSERVING CONSUMER BEHAVIOUR

Another form of research involves observing and analysing the behaviour of target consumers. This may be to find out the needs and wants of these consumers, or it may be used later in the marketing process to monitor the success of a campaign and possibly make adjustments to make it more successful.

Marketing can have an influence on consumer behaviour in several ways. It can focus the consumer's attention on something that they need or want and can also draw attention to products that the consumer didn't previously know they wanted. Some marketing (e.g. an advert for a local wine shop) can direct consumers to where they can buy the product, reducing the effort needed to buy that product. In various ways, marketing will also usually highlight the selling points of the product (whether that be a luxury status, the fact that the grapes were organically grown or a competitive price) and thus can influence the evaluation of the alternatives available and the final purchase decision. Therefore, understanding what appeals to the target consumer, their lifestyle (where they live, where they shop, what they read or watch, etc.) and what influences their decision making can be very useful data to ensure the marketing strategy is as effective as possible.

Methods of observing and recording consumer behaviour include watching how consumers move around a shop, interacting with consumers (e.g. retail or hospitality staff may build up a profile of the preferences of regular customers), store loyalty cards (records of purchases), web analytics (information recorded about what web pages people have visited, how long they spent on the page, etc.). There are also many academic studies that have researched factors that can influence consumer behaviour, such as the lighting, music or decor in a shop or restaurant.

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11 Setting the Objectives of the Marketing Strategy

The first vital part of creating a marketing strategy is to define its objectives. Clearly defined objectives will help people in different parts of the company understand their role in the marketing process. Objectives will also make it easier for the company to analyse whether the strategy is working or not.

The objectives should cover four key areas:

1. What type of marketing strategy does the company want to pursue? There are three broad options:
    - **Undifferentiated or mass** – Appealing to the whole market, or a large section of it, with a single product; for example, many branded wines available in supermarkets and other large retailers.
    - **Niche** – Aiming a product at a specific segment of the market; many wines are niche products.
    - **Multiple** – Either appealing to numerous segments with one brand (each segment will potentially require a different marketing approach) or launching several brands each targeting different segments.
2. What are the aims of the marketing strategy? For example:
    - launch a new product;
    - communicate improvements to existing product;
    - increase sales;
    - increase market share;
    - improve brand awareness;
    - improve brand identity;
    - attract new consumers.
3. How will the success of the strategy be measured (e.g. profits, value of sales, market share)?
4. Within what time period should the objectives be achieved? It could be a short-term strategy or be for a period of several years.

Another important element is to set the marketing budget. Marketing can be a very expensive activity and, while some large companies have substantial budgets, most can only set aside a small amount of money to promote their products. The budget should be set by reference to the profits that the marketing campaign is expected to produce; there is little point to a marketing campaign that costs more than it ever brings in.

12 Devising the Marketing Strategy

Having understood the product or brand to be marketed, identified the target market, including their needs and wants, and set the objectives of the marketing strategy, a company can then devise the marketing strategy to achieve those objectives.

The elements of the strategy are often referred to as the ‘marketing mix’, a combination of factors that must work together for the strategy to work. If any one element is weak, this will weaken the entire marketing effort.

One common way of identifying those factors is the ‘5 Ps’: product, price, people, place and promotion. Some marketers omit ‘people’ and refer only to the ‘4 Ps’. Others use the ‘7 Ps’, although the additional factors (physical evidence and process) relate mainly to the delivery of services rather than products, so they are not covered here.

12.1. Product

This is the object, service or system that is being marketed. In terms of wine as an object, it includes the liquid itself and all packaging and branding.

Marketing should communicate the characteristics of the product that will appeal to target consumers and how it will satisfy their needs and wants. The presentation of the product (i.e. the bottle, label and any other packaging) should be designed to appeal to the target consumer; different types of consumers are often attracted to different features on labels. The marketing should also describe the experience that the product will deliver to the consumer as this is seen as an increasingly important part of marketing (see The Story of Wine in Branding).

The wine market is often described as ‘saturated’; in other words, there are already enough products to satisfy consumers’ needs and there are few gaps in the market. There is therefore strong competition between relatively similar products. In such a market, companies need to explain clearly how their product is different from that of a competitor, such as higher quality, better value for money, organic, vegetarian/vegan, Fairtrade, etc.

12.2. Price

This is the amount that a consumer pays for a product. It is not just the price of a product on the shelf; it includes any additional costs, such as delivery, as well as discounts. It also includes the cost (in time or effort) that the consumer is willing to go to in order to buy the product.

In an ideal world, the pricing strategy for a product would strike a balance between the producer’s desire to make a reasonable profit and the price that sufficient numbers of consumers are willing to pay for it. However, this balance will be affected by the various factors that contribute to the price of wine, as discussed in Chapter 1 on Supply and Demand and Chapter 2 Costs through the Supply Chain.

In addition, there are many different pricing strategies that a company may use when setting the price of its products. For example, the price of a new product may be set relatively low (or enter the market on a price promotion) to undercut the competition and rapidly reach a wider section of the market – the expectation is that consumers will permanently switch to the new brand because of the lower price (this is known as a penetration strategy). However, subsequent attempts to raise the price of the product may not be successful if the consumer feels that the product now offers less value for money than its competitors.

Academic studies have shown that consumers are strongly influenced by price when making their purchase decision.[1] Research using brain scans indicates that many people get more pleasure from a wine they think is expensive than from the same wine if they think it is cheap. Consumers with lower wine knowledge who are looking to buy a wine for someone with greater knowledge are therefore more likely to buy a more expensive bottle on the assumption that it will meet the recipient's expectations.

On the other hand, some studies emphasise the psychological importance of certain price points;[2] while these vary from country to country, consumers may, for example, be more likely to buy a wine priced at USD 9.99 than USD 10, because they instantaneously associate the first number with 'USD 9' even though it is much closer in value to USD 10. Knowing this, a producer may reduce the price of their wine slightly so that retailers can hit the desired price point.

12.3. People

The 'people' element is sometimes interpreted in different ways, depending on the model. Some marketers will use 'people' to mean the attitudes and behaviours of the target consumer (see Segmentation and Market Research). The other aspects of the marketing mix will need to be tailored accordingly; for example, if the target consumers are not very active on social media, there is little to be gained by running an intensive social media campaign.

In other models, 'people' refers to the relationship between the company, its staff, its partners and its customers, and includes aspects such as employee attitudes and skills, and customer service (whether that customer be the target consumer or a business customer such as a distributor). The attitudes and behaviours of the target consumers may be considered separately; usually initially, as this factor affects all other aspects of the marketing mix.

Wine producers should ensure they have enough sufficiently knowledgeable and trained staff to sell their products, either to final consumers at a cellar door or consumer event, or to distributors or retailers. It is important that any companies a producer works with, such as distributors and public relations (PR) agencies, share the producer's image and vision. This should make it easier to present a consistent message at all stages of the supply chain. This may require resources supplied by the producer; for example, a winemaker or a sales representative of the producer may conduct a complimentary masterclass for the employees of the distributor or retailer to highlight the brand image and story as well as showcase the products (see Promotion).

12.4. Place

This relates to where the product is sold. A company needs to identify where its target market shops, such as supermarkets, deep discounters, specialist wine shops or online, and focus on those outlets.

For example, high-involvement consumers buy wine in independent specialist retailers. They are more likely to shop at the premium supermarket chains, but are being increasingly attracted to the deep discounters. They tend to drink at specialist wine bars and dine out at casual and fine dining establishments. As these consumers are keen to experiment and expand their repertoire, these outlets are ideal for placing wines from lesser known regions and/or grape varieties – provided the quality is suitable. Even if there is only a limited supply, that does not matter as such outlets will tend to sell low volumes.

In contrast, low-involvement consumers are looking for wines, typically at lower price points, with a simple aroma/flavour profile but that meet a certain quality standard. They tend to buy wine at the supermarket and eat and drink in general bars and non-destination restaurants. Products likely to appeal to the low-involvement consumer should therefore be placed in such outlets.

This element also involves identifying the most effective distribution channels. The types of wines preferred by high-involvement consumers are often sold through specialist intermediaries, whereas those favoured by low-involvement customers tend to be distributed by larger intermediaries.

There are additional considerations when a producer is deciding whether to sell its wine in more than one market. Consumer tastes vary from country to country and, in order to satisfy these, it may be necessary to produce wines with different aroma/flavour profiles, levels of sweetness and alcohol.

Issues such as legislation, taxation and duty or restrictions on distribution, such as monopoly markets and the US three-tier system, may make some markets less attractive than others. Also, a producer may decide that they cannot sell their wine profitably in so-called 'price-sensitive' markets (see Factors that Influence the Demand for Wine – Social Factors).

Producers may also choose to focus on more or less mature markets. The table below sets out a model of wine market maturity that is suggested by Wine Intelligence.[3] Markets can move both up and down in this categorisation.

Type of market	Description	Examples
Mature market	Markets where wine appears to have reached its potential with stable or declining volumes.	Germany, France, Switzerland, UK
Established markets	Markets with strong historical growth that is tailing off.	Ireland, South Africa, Italy, Hong Kong
Growth markets	Markets where wine is a mainstream product and/or experiencing growth.	USA, Canada, Brazil, Poland
Emerging markets	Markets where wine is experiencing growth and shows potential from a relatively low base.	China, Russia, Turkey, Taiwan
New emerging markets	Markets where wine is still a relatively new and unknown beverage, but showing some potential.	India, Malaysia, Philippines, Thailand

In very general terms, mature and established markets show the greatest amount of saturation and least growth, but have the advantages not only of reliable trade structures and routes to market, but also an established wine culture. By contrast, emerging and new emerging markets may hold potential for most growth, but also carry the most risk and often do not have the structures in place for an easy route-to-market.

12.5. Promotion

This covers all the methods used to promote a particular product. Because psychographical and behavioural segments will include people from different geographical locations and with a variety of demographic characteristics, a single type of promotion will not be enough to appeal to the whole segment. The marketing campaign should therefore consist of a variety of elements to connect with as many members of the segment as possible.

For products being marketed in more than one country, it is important to be aware of the legal constraints of different countries, in particular in relation to alcohol advertising.

Promotional activities can be divided into those that take place at the point of sale and those that happen elsewhere.

AT THE POINT OF SALE

Price Promotions

In many markets, retailers regularly offer price promotions of one sort or another (although these promotions are rarely used by deep discounters). The typical aim is to increase sales of existing products, gain volume sales for new products or attract new customers; however, sometimes they can be used to help shift old stock or discontinued lines (often called ‘bin ends’).

There are many types of price promotion (i.e. those that effectively reduce the price of a product, usually for a limited period); common examples include:

- a specified amount or percentage discount on all or selected items;
- seasonal sales (e.g. in the run up to Christmas, ‘summer wine’ promotions);
- discounts on certain days (often used by the hospitality trade to encourage business on quieter weekdays);
- discounts for certain groups of people (e.g. students, members of the armed forces).

Another common form of price promotion is the ‘multi-buy’ or volume discount. While the price of the product is not itself reduced, consumers pay less if they buy more than one. Common examples include:

- buy one, get one free (also known as ‘BOGOF’);
- buy one, get one half price;
- buy three for the price of two;
- save a specified amount or percentage when spending over a certain amount or buying a certain number of bottles or more;
- (in the hospitality sector) buy, for example, two large glasses (25cL) of wine and get the rest of the bottle free.

The success of a price promotion cannot be judged until the promotional period has ended and the price returns to normal. If the price reduction has worked, although sales will drop once it is increased again, they will still be higher than they were before the promotional period. However, there is a risk that the promotion will not build consumer loyalty to the product, or even the retailer, when the price returns to normal. Consumers will view price promotions simply as ways of buying products cheaply and will switch to the next similar product to be on promotion. In this case, post-promotion sales will be no higher than those before the price reduction.

Another risk of a price reduction is that it may damage the image of the product in the mind of the consumer, who may come to view the reduced price as the 'correct' price for that particular product and not be willing to pay the full price again once the promotion is over. For this reason, the Champagne industry has been very concerned about the regular price promotions on their wines in British supermarkets over recent years.

Multi-buys and volume discounts are less likely to affect the consumer's image of the product, as the reduction in the price of the individual products may not be immediately apparent. However, these promotions have been particularly controversial as they are seen to encourage excessive alcohol consumption. For that reason, they have been banned in some places, including Sweden and Scotland, and there are calls in many countries to limit price promotions on alcohol generally, either by banning them altogether or introducing policies such as minimum unit pricing.

There are two further types of price promotion, which carry less risk of devaluing the product image. 'Link saves' offer consumers who buy one product a reduced price on another product from a different category. So, for example, where a retailer suggests that a particular wine will complement a certain type of food, they may keep the wine at full price but offer a reduction on the food item. Also, many wine retailers offer discounts not on the wine itself but on delivery costs by, for example, offering free delivery for orders over a certain amount (of bottles or price).

Promotions can be highly beneficial to wine producers as they can increase sales and brand awareness. However, many big retailers expect producers to meet the cost of any promotions, including any loss in sales revenue, with the result that they may only be financially viable for larger producers.

Competitions

Competitions can be used to encourage consumers to buy a particular product. For example, a New Zealand wine producer could offer anyone in a particular export market who buys a bottle of their wine the chance to enter a draw to win a two-week holiday in New Zealand. This may be a more attractive, higher-value proposition to consumers than merchandise as it gives them the chance to win something exclusive.

Most companies running competitions also use them as an opportunity to collect consumers' contact details, which they can use for further promotions, subject to data protection laws in the relevant jurisdiction.

The offer of free merchandise such as these wine glasses may influence product choice or encourage consumers to buy more.

Limited Edition Packaging/Presentation

It is common for companies to create limited edition packaging for their products. Some producers of super-premium wines offer exclusive, elaborately-designed presentation cases for particular wines that are prized by wine investors and so contribute to the luxury brand image.

Other producers create limited edition packaging linked to major events such as the mens' soccer World Cup or the Olympic Games. If this is a regular promotion, such as Champagne Lanson's limited edition packaging to tie in with its sponsorship of the Wimbledon Tennis Championships each year, this can help promote the brand's image. However, most limited edition packaging is seen by consumers as little more than a bit of fun: while some consumers may be introduced to the brand in this way and then buy again, it does not tend to increase sales in the longer term.

Consumer Tastings

Some retailers offer in-store tastings, particularly to introduce customers to new products or vintages.

There can be a cost to the retailer of opening bottles that they could have otherwise sold, although many distributors and producers are willing to provide a few free bottles for tasting purposes. However, studies have shown that offering tastings can increase sales.[4] Many consumers, especially low-involvement ones, are nervous about spending money on wine when they do not know if they will like the taste. If customers try the wine and like it, they are more likely to buy it, not just at the tasting but again in the future. Even if the customers do not like the wine at the tasting, they may well buy something else while they are in the shop.

Many distribution companies offer to host in-store tastings to promote their wines and will send a representative to talk about them. Sometimes, they will arrange for the winemaker to come and tell the story of the wine. Many restaurants also now host wine tasting dinners where the wines are matched with different courses of food.

Staff Incentives

Staff may be offered an incentive to sell more of a particular product. For example, the member of staff selling the largest number of bottles of a particular brand of Champagne during the promotional period might be rewarded with an expenses-paid visit to the region. These are usually funded by the producer or the relevant trade body. However, it should be noted that in some markets, such as China, this practice is considered bribery or unfair competition and is therefore illegal.

Staff Training

Staff may be trained and educated on particular products. Such training may be provided by the retailer, the distributor or the producer themselves. Educating staff about how a wine is made and allowing them to taste it helps them to promote the product with more confidence and enthusiasm, and will enable them to tell the story of the wine.

Using staff as a promotional tool, either via incentives or training, can work well where there is personal contact between the sales staff and the consumer, such as in specialist wine shops and bars, and fine-dining restaurants. However, it is not appropriate for larger retail outlets, such as supermarkets, where there is little or no interaction between staff and consumers.

EXAMPLE OF PROMOTION OPTIONS AT THE POINT OF SALE

The following table sets out the typical promotional activities for the examples of a high-volume, inexpensive branded Chardonnay and for a low-volume, super-premium Cabernet Sauvignon at the point of sale. The options apply to both the retail and the hospitality sector unless otherwise stated; however, some of the options may not be permitted or available in all markets.

The high volume and low price of the Chardonnay means that it needs to be bought by high numbers of consumers. The aim is therefore to raise awareness of the brand with a large number of people (many of which will be low-involvement consumers) and give this brand an advantage against its immediate competitors. By contrast, the low-volume and the super-premium price means that the product is aimed at a small number of wealthy and/or high-involvement consumers, those who see the wine as a highly desirable experience, an investment and/or as a status symbol.

	High-volume, inexpensive branded Chardonnay	**Low-volume, super-premium Cabernet Sauvignon**
AT THE POINT OF SALE		
Price promotion	Likely option Price promotion for a limited period can make the product more competitive and attract new customers, with the aim of turning them into regular customers. Given the large volumes to sell, attracting large numbers of customers to buy the wine is beneficial.	Unlikely option Price promotion can devalue the customers' perceptions of the brand, which would be detrimental to its luxury image. The small amount of wine made also rules out price promotion.
Competitions	Possible option Competitions can be a useful tool to deepen engagement with the product and to collect contact details of consumers for further promotional initiatives. The inexpensive price of the wine means that consumers may be persuaded to buy the wine for a chance of winning the competition.	Unlikely option The high price of the wine means that people are unlikely to buy it for the chance of winning the competition.
Limited edition presentation	Possible option in retail Limited edition packaging can be linked to major events in the calendar (e.g. Christmas) or to events that the company is sponsoring. If consumers enjoy these events, the limited-edition packaging could give a competitive advantage over similarly-priced products, at least in the short term.	Possible option in retail The product can be presented in exclusive, elaborately-designed packaging, contributing to the luxury brand image. Limited editions may also have investment potential.
Consumer tastings within retail and hospitality venues	Unlikely option As the product is mostly sold in supermarkets and non-destination restaurants, both the settings and the lack of wine-trained staff make this unlikely.	Unlikely option The small amount of wine available makes this unlikely. The company is more likely to rely on fine wine retailers offering tastings for which customers will pay, offsetting the cost of the tasting.

	High-volume, inexpensive branded Chardonnay	Low-volume, super-premium Cabernet Sauvignon
Staff incentives	Possible option in hospitality If the wine is sold mainly via supermarkets, staff incentives are an unlikely option because there is no personal contact between sales staff and customers. However, staff incentives can be used in the hospitably sector; for example, to reward the staff member who has sold the most of the promoted brand.	Unlikely option The volume of wine is very limited and is likely to be spread across many specialist outlets, meaning that there is very limited possibility to sell more wine.
Staff training	Possible option in hospitality In hospitality, staff can be given background information about the wine in order to promote it with customers. This training is unlikely to take place in supermarkets where there is no contact between the sales staff and customers.	Likely option Staff in retail and hospitality need to be informed about the product in order to be able to speak about it knowledgeably.

AWAY FROM THE POINT OF SALE

Advertising – TV, Cinema, Radio, Press, Billboards

A well-designed advertising campaign can be a very powerful tool for promoting a product to a potentially large and varied group of consumers. A particularly successful campaign can remain in consumers' minds for a long time after it has been withdrawn, sometimes even for years.

Advertising campaigns can be very expensive, especially if they run on television, in cinemas or in the national press. Companies also need to employ the services of an advertising agency to design their campaign (even the biggest companies with an in-house marketing team) and this too can be very costly.

Where a product is being marketed globally, adverts can be easily translated into other languages, although companies should ensure that there is nothing about it that might offend different cultures or get lost in translation. Sometimes specific 'international' advertisements, delivering the global brand message, are created for use without change wherever the advertisement may be shown.

The main issue with all such advertising is that, due to the health concerns associated with alcohol, most countries have laws restricting the advertising of alcoholic beverages. These range from total prohibition, as in the United Arab Emirates and Qatar, through very strict controls, such as the *Loi Evin* in France, to a less rigid approach based on self-regulation by the alcohol industry, as in the UK. As well as trying to discourage excessive drinking, these laws and codes of conduct also seek to limit the promotion of alcohol to younger people (even those above the legal minimum drinking age). It is essential that any advert conforms to the requirements of the country in which it is used.

Most advertising campaigns are conducted through a combination of channels:

Television or cinema – These can be the most powerful of advertising campaigns and can reach the largest number of people. As a result, however, they are very expensive, especially if the advert runs during a popular prime-time television programme, and so only companies with large marketing budgets can afford them. Product placement may also be used, often at a lower cost. This is a form of advertising in which branded products feature in a form of media, such as a TV programme or a film.

Radio – Although usually considered slightly less effective than TV or cinema, radio adverts are less expensive and so are open to companies with more modest marketing budgets. However, the lack of images may make them much less memorable.

Press advertising – This often takes the form of a striking full-page image with little or no text, designed to promote the brand's image. However, for products that have a story to tell, such as wine, adverts with text can be very effective at attracting readers and giving a much more detailed story than a 30-second TV, cinema or radio slot, and often at a lower cost. It is important to place the advert in the right print media (newspapers or magazines) to reach the target consumer segment. Some large brands will advertise in the general, non-specialised press to reach as many people as possible. However, most wine companies will place adverts in specialist wine or food publications as these tend to be read by high-involvement wine consumers. Some producers also pay respected wine writers to write articles specifically about them and their wines in such publications (sometimes known as 'advertorials').

Billboards – Some companies use billboards to advertise their products. They are found in a variety of locations. They are often seen by the side of roads, but, as most people are unlikely to be able to look at them for very long, these must have a striking and memorable image and a short, simple message. However, posters at railway stations and bus stops can contain a more detailed message because people waiting for a train or bus often spend longer reading advertising posters as there is not much else to do.

Digital Advertising – Online Platforms

The internet and social media have become a very easy way for companies to advertise their products cheaply to a large, global audience. This will usually take the form of an advert on another website (for example that of a magazine or a supermarket) or a social media channel (see below for more detail on the use of social media). Aside from the costs of creating the advert, the company will only need to pay if the advert is on another company's website.

Social Media

Social media such as Twitter, Facebook, WeChat and Sina Weibo have caused companies to review in a major way how they relate to the public. For the first time, it is possible to have a dialogue *with* consumers rather than talking *to* consumers, as is the case with more traditional advertising media. It is also particularly important for communicating with younger consumers.

While social media can be used to share adverts, positive reviews and other promotional activity, studies suggest that non-promotional activity is equally important; indeed, it is believed that companies that only use social media for promoting themselves tend to alienate followers. Companies should therefore also use their account to share news, articles, photos and, increasingly, videos that are likely to interest their target consumers, even if they are not directly related to wine. Producers can also post updates, including photos and videos, of what is going on in the vineyard or winery.

It is important that a company chooses the most appropriate social media channels to communicate with its target market. For example, recent statistics suggest that younger people are turning away from Facebook and Twitter to more visual media such as YouTube and Instagram.[5]

One aspect of social media that companies need to understand is that it allows people to share their experiences with others easily. In the wine world, this means ordinary consumers (i.e. not only well-known critics) can share their thoughts on a particular wine. There are now a number of social media sites dedicated to wine where people can share reviews and tasting notes with other users. Many wine retailers' websites also allow customers to leave reviews. These 'peer reviews' have become increasingly important on wine purchase decisions, especially among millennials, many of whom trust these more than reviews by established critics.

While social media can potentially provide invaluable free promotion, it can also lead to negative publicity and reviews. Companies need to manage their social media presence, both frequently and carefully, and react to any negative content in as positive a way as possible. There is also a danger that users may post inappropriate materials to a company's page, which should be taken down immediately.

Websites

The internet offers a wide range of new promotional possibilities. It allows companies to communicate with large numbers of people throughout the world, including markets in which they are not otherwise present.

A website can give consumers a great deal of information about a business, enhanced through the use of photographs and videos. A wine producer's website can tell the story of the wine, give details of the wines produced, offer food and wine pairing suggestions, incorporate an online shop and provide details of upcoming events. It can provide different levels of information to satisfy different types of consumer; for example, there may be some basic details about the wines produced that will satisfy most consumers, but perhaps a link to more technical specifications detailed enough to satisfy the most exacting of high-involvement consumers.

A website must be attractive and easy to navigate. Internet users are very demanding and will not tolerate any site that seems badly constructed, runs slowly or crashes. Websites have become an essential part of brand image and must be consistent with the overall marketing strategy. While there are online applications that allow companies to build their own website cheaply, these websites tend to look very similar. Many companies therefore prefer to have a personalised site created for them, but employing consultants and IT experts can be costly.

Companies want to ensure that as many people as possible find their website, which can be difficult given the vast number of websites now in operation. Studies show that people searching online rarely go beyond the first couple pages (or even the first page) of Google search results.[6] For this reason, companies use a variety of ‘search engine optimisation’ techniques to ensure their website features as high as possible in search results.

Another concern about websites is that they can be accessed by people below legal drinking age. Almost all websites for alcoholic drinks will have some form of filter, asking whether the visitor is of legal drinking age in their country of residence or asking them to enter their date of birth and country of residence before they can access the site. Of course, these filters are entirely dependent on visitors being honest.

Smartphone Apps

There is an ever-increasing range of smartphone apps that allow users to find, read about and comment on individual wines. Some are intended for high-involvement consumers who want to read reviews from other enthusiasts or professionals (to which they already subscribe) or to keep track of the contents of their own cellars.

Aside from the opportunities for free publicity discussed above, several wine companies are starting to engage with these apps to promote their business. For example, some shops allow their stock information to be shared through these apps so that consumers who want to buy a particular wine can find out who stocks it, with the shop then paying commission to the app operator if the consumer clicks through to buy the wine.

Reviews and Awards

A favourable review or a high score from a well-respected critic can significantly boost sales of a particular wine. Producers may target particular critics and send them samples of their wine to try and, hopefully, get a review. However, many critics do not like this approach; for example, Robert Parker made a virtue out of always buying his own wine to taste.

Producers may also send samples to wine competitions such as Decanter World Wine Awards or the International Wine Challenge. If the wine wins a medal, the producer can use this in their promotional material and it is also possible to purchase stickers to put on the bottle, showing at the point of sale the awards that a wine has won.

It is thought that critic scores and awards can influence the purchase decision, especially among lower-involvement and less knowledgeable consumers. Critics’ scores and medals can also be influential for wine buyers. Many producers therefore consider the cost of entering the competition and sending the required number of bottles for tasting a worthwhile expense.

Wine Tourism

Wine tourism is an important form of promotional activity that may be particularly beneficial for new producers and those in up-and-coming wine regions, as it provides an opportunity to engage with the public. As explained previously, giving consumers the opportunity to taste wine can significantly increase the likelihood of sales, and people who visit producers are generally more likely to become regular customers and to recommend those wines to others.

While some producers simply operate a cellar door for customers to come and buy wine (see Selling Directly to Consumers), many are offering increasingly sophisticated wine tourism experiences. These include tasting rooms, vineyard and winery tours, visitor centres, shops

Medals from wine competitions are thought to influence purchase decisions.

(often selling local produce, art and wine-related paraphernalia as well as the producer's wine), cafés, casual dining and even fine dining restaurants and accommodation. Some offer experience packages, such as allowing visitors to participate in the harvest or to become a winemaker for the day. Many hire out space for events such as weddings and parties.

While wine tourism can increase sales, developing the infrastructure can be very expensive. Tourists can also take time away from day-to-day operations in the vineyard and winery, and small wineries may simply not have the staff to deal with large numbers of tourists. Some wineries therefore only run occasional events and organised tours, while others do not encourage visitors at all.

Many wine regions have developed successful wine tourism strategies bringing together not just producers but also other tourist businesses (e.g. tour companies, restaurants, hotels). They have created wine trails that link up a number of producers and that visitors can follow; in some regions, such as Alsace, these include cycle routes. Others have created special tourist attractions, such as the Napa Valley Wine Train, which includes a gourmet dining experience with Napa Valley wines aboard vintage rolling stock and includes the option of winery visits.

High-involvement wine tourists are more likely to travel to wine regions to visit wineries and sample the local food. Because they are keen to widen their wine knowledge, they enjoy tours of vineyards and wineries and like the opportunity to talk to the people involved in producing the wine. Low-involvement tourists are more likely to visit a winery because it is in the region they are visiting – for example, visitors to Barcelona might take a day trip to a Cava producer in Sant Sadurní d'Anoia. They will usually be happy with a brief tour or simply just a tasting. However, even low-involvement tourists make purchases and can recommend wines to others and so this segment should not be ignored.

Many wineries provide additional activities beyond wine tasting to attract larger numbers of consumers.

Public Relations

Companies regard good PR as essential to successful promotional activity. Advertising is not the same as PR: advertising seeks to draw attention to and promote a specific product or range of products, whereas the aim of PR is to give the business the most favourable image possible in the mind of consumers. PR activities include:

- representatives of the company attending public events or appearing on TV or radio news programmes to comment on issues relevant to the business;
- press releases;
- newsletters;
- social media.

A strong social/corporate responsibility policy can also help create a positive image in the eyes of many consumers.

One particular form of PR used by many larger companies is the brand ambassador. While they are often full-time employees of the company, chosen for their excellent brand knowledge and their social and presentation skills, some brands employ a celebrity who the company believe shares the values and image of their products. The celebrity brand ambassador will feature in advertising campaigns and/or videos posted on the brand's website; for example, tennis player Roger Federer is a brand ambassador for Moët et Chandon. In China in particular, key opinion leaders (a person, community or organisation that creates high quality content on social media and has a large group of loyal followers, ranging from thousands to millions) may be hired by wine companies to create social media content about the company's brands that is then shared by the key opinion leader with their huge numbers of followers. If the key opinion leader has a genuine interest in and knowledge of the product, this option can be very powerful in markets where 'word-of-mouth' and peer recommendation is highly valued.

Sponsorship

Many sporting and cultural events are supported financially by sponsorship deals. Examples of wine companies that sponsor events include Chilean wine brand Cono Sur (Tour de France), Mouton Cadet (golf's Ryder Cup) and Champagne house Carbon (supplier of Champagne for Formula One podium celebrations).

In some cases, the deal simply involves display of a business's logo on billboards or participants' clothing. Other deals give the sponsor exclusive rights to be served in the bars and hospitality venues at the event.

Some companies also sponsor television programmes. This is cheaper than producing a television advert; the product or company logo appears briefly at the beginning and end of the sponsored programme, either as a still or, increasingly, in a short piece of film.

In most countries, sponsorship is treated as a form of advertising and is therefore subject to the same legal restrictions. It can be a controversial topic, particularly in the sporting arena where some people question the suitability of linking alcohol with activities that are intended to promote health and well-being.

Events and Festivals

An increasing number of wine regions are organising festivals that bring together producers from that region. They often take place in urban areas and provide an ideal opportunity to taste a variety of producers' wines without having to travel out to vineyards and wineries, which tend to be in rural areas. These events are likely to attract high-involvement consumers, but, because these festivals usually include local food and other entertainment, such as live music, they can attract a broader range of consumers than are prepared to go to visit vineyards and can therefore be an excellent opportunity to engage with new customers.

The benefit of attracting new customers has to be offset against the cost of attending these events. Producers usually have to pay to exhibit and may have to pay additional staff to run the stand; they will also have to use up stock as tasting samples they could otherwise have sold. In addition, there is the cost of preparing the stand: these will vary in style depending on the type of event, ranging from a simple table to a more expensive branded pop-up bar with a seating area and props.

The stand also needs to stand out to attract visitors, as an obvious disadvantage of exhibiting at events is that there are lots of other stands and products competing for the visitors' attention, unlike at their cellar door. All the producers will be offering tastings and individual producers need to think about offering something distinctive, such as food pairings or a more formal tasting at which visitors can taste a specific range of wines, perhaps run by the winemaker.

Even at wine festivals, tastings must be carefully managed; it is not unknown for consumers who have paid to enter a fair to consider they have the right to drink (rather than taste) as much as possible, often with regrettable results. To combat this problem some events issue visitors with vouchers that must be handed to staff on a stand before the visitor can be given a sample.

Some producers also exhibit at events where wine is not the main focus, such as food fairs, travel shows and music festivals. These events attract an even wider range of visitors, many of them not regular wine drinkers. Again, these can be an excellent opportunity to engage with new consumers who might not otherwise try their wine; however, they are much less likely to ultimately result in new customers and increase future sales. In order to make exhibiting at such events worthwhile, producers will usually charge for people to try their wine or simply sell wine by the glass.

Free Merchandise

This is another way to generate sales without the need to reduce the price of a product. Such offers are particularly common before a national holiday or any other time when alcoholic drinks are given as gifts; for example, a bottle of wine could be offered for sale in a special presentation pack with two branded glasses. Big producers also have various promotional items that they offer to consumers who buy their products, such as branded ice buckets, corkscrews and even items not directly related to wine, such as umbrellas. These products can help to increase the brand awareness not only of the person using them but also others around them, and so indirectly promote sales.

EXAMPLE OF PROMOTIONS OPTIONS AWAY FROM THE POINT OF SALE

The following table sets out the typical promotional activities for the two example wines away from the point of sale. The options apply to both the retail and the hospitality sector unless otherwise stated. Some of the options below may not be permitted or available in all markets.

	High-volume, inexpensive branded Chardonnay	Low-volume, super-premium Cabernet Sauvignon
AWAY FROM THE POINT OF SALE		
Advertising – TV, cinema, radio, press, billboards	Likely option Adverts in the non-specialised press and in the media in general may be used as these will be seen by a large number of consumers with the aim of increasing brand awareness.	Possible option The wine will be more expensive than most consumers are willing to pay, therefore advertising through non-specialised media is unlikely to be effective. However, specialist wine publications that are aimed at high-involvement consumers who are prepared to pay the high price of the wine may be suitable.
Digital Advertising – online platforms	Likely option The brand can be promoted by adverts on social media as they will be seen by large numbers of consumers.	Unlikely option General social media platforms do not target the small number of potential purchasers of this super-premium product.

	High-volume, inexpensive branded Chardonnay	Low-volume, super-premium Cabernet Sauvignon
Social media	Likely option The brand can be promoted at reasonable cost through the winery's or brand's own social media accounts to the appropriate demographic groups.	Unlikely option The number of potential customers is limited and so it would be difficult to reach them efficiently by social media.
Websites	Likely option The brand can be promoted at reasonable cost by a website targeted at likely customers.	Likely option The brand can be promoted at reasonable cost by a website targeted at likely customers.
Public relations	Possible option PR can be used to raise brand awareness long-term and, in the short term, to let consumers know where the brand can be purchased. For example, if a wine is highlighted in a national paper's wine column, this could drive consumers to the retailer highlighted. PR can build brand loyalty and increase sales.	Unlikely option The volume of wine produced is not sufficient for general brand-building activity. However, PR targeted at top wine journalists and influencers could be valuable.
Sponsorship	Possible option Sponsoring events can build brand awareness with a large audience, especially if the event is televised and the branding is clear to see.	Unlikely option The company is unlikely to be big enough to have the budget for this, nor does it have the volume of production to meet the demand it could create.
Events and festivals	Possible option The brand can be promoted via events and festivals to the appropriate demographic groups. This provides the best consumer sampling opportunity. Branded free merchandise distributed at events can increase brand awareness both at and after the event.	Unlikely option The wine lacks the volume to promote via large scale events, though small, very prestigious events could be possible. Branded free merchandise is also a possibility at small, prestigious events. The merchandise can increase brand awareness both at and after the event.

	High-volume, inexpensive branded Chardonnay	**Low-volume, super-premium Cabernet Sauvignon**
Reviews and awards	Possible option A medal from a wine-judging competition could be an advantage in making the brand stand out from similar wines, especially for lower-involvement consumers. Reviews and awards are also important to influence the buyers who makes decisions for retail and hospitality businesses.	Possible option Samples can be sent to prestigious wine-judging competitions with a view to gaining recognition, especially if the place of origin is not well known or does not have a reputation for high quality wine. High-involvement consumers and buyers may be influenced by gold medals, trophies and high scores from respected critics. High scores from the most respected critics may also increase investment potential.
Wine tourism	Unlikely option Low-involvement consumers are unlikely to be looking for a wine tourism opportunity.	Possible option High-involvement consumers might be interested in visiting the winery. The feasibility of this would be determined by the volume of wine available and whether the company wishes to invest in this option.

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13 Implementing and Monitoring the Marketing Strategy

Once the strategy has been drawn up, it can be put into practice. However, marketing is a dynamic process and the strategy needs to be kept under constant review to check that it is working as intended. If necessary, the company should consider making changes to the strategy or even the objectives. Ultimately, the decision may have to be taken to abandon the marketing process and withdraw a product from sale if it is considered that the objectives will never be met.

There are many ways to measure the success of a marketing strategy. This could be as simple as looking at sales figures, profits or the number of hits on a website. However, it could entail more detailed research (often called 'marketing research' to distinguish it from 'market research') to understand how consumers are reacting to the strategy. The simplest form of this is to ask consumers directly for feedback, either individually or through a focus group. If one of the objectives of the marketing strategy is to improve the brand image, consumers could be asked how they perceive this to see if there has been any improvement.

More complex processes include eye-tracking to analyse how consumers look at websites, store layouts and adverts, and viral marketing research, which estimates the probability that specific communications will be transmitted throughout an individual's social network (the 'Social Networking Potential').

Marketing Options 14

There are several different ways in which companies can carry out marketing.

Companies with sufficient resources can employ an in-house marketing team who will help to create and drive the marketing strategy. Some of the largest companies with a global presence will have teams in all their key markets to ensure that they fully understand the market and identify any new trends.

Many smaller companies cannot afford a marketing team and may outsource some or all of the marketing function to a PR company or advertising agency. Although this will cost money, it will be cheaper than employing skilled marketing staff.

Some smaller companies do not carry out enough marketing to justify paying external advisors and do the work themselves. However, this may be one person or part of one person's job role, and, in this case, marketing activity is likely to be relatively limited.

In some parts of the world, wine producers can become members of an industry association (such as a *consorzio* in Italy or the VDP in Germany), a generic trade body (such as Wines of Australia or Wines of South Africa) or an informal trade grouping (such as VIGNO, the *Vignadores de Carignan* in Chile). One of the main aims of all of these organisations is to help promote their members' products. They may have a marketing team, but, if not, the groups can benefit from the combined knowledge and experience of their members. Although a membership fee will be payable, it will be considerably cheaper for individual producers than employing their own marketing expert, and they will benefit from the increased exposure of being marketed as part of a larger portfolio of wines.

15 D2 Wine Business: Recommended Further Reading List

The Diploma reading provided by WSET gives students the study materials they need for successful study.

If students wish to extend their studies, the following are recommended but are **not required**. You do not need to buy any additional books. In the case of conflict between the WSET study guide and other sources, students should follow the WSET study guide for the purposes of the examination.

Thach, L. and Matz, T. eds, 2013, 2nd edition, *Wine: A Global* Business. Elmsford, NY: Miranda Press.

Wagner, P, Olsen, J. and Thach, L, 2011, 2nd edition, *Wine Marketing and Sales: Success: Strategies for a Saturated Market*. San Francisco, CA: Wine Appreciation Guild.

Yeung, P. and Thach, L. 2019, *Luxury Wine Marketing*. Oxford: Infinite Ideas. (This book is focused on luxury wine only, rather than the wider wine market. However, it shows application of route to market options and general marketing principles to this specific sector, which may be helpful for some students.)

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