

ZOLTAN LAKNER*
GEDEON TOTTH**
ÁGNES TOTTH-HOFMEISTER***

**Global challenges,
national and entrepreneurial responses
in wine economy of the world**

1. INTRODUCTION

“Increasing production and decreasing consumption-that’s the whole problem” – declared soon four decades ago the well-known wine economist SCHELLENBERG (1966).

The world wine sector can be characterised by dramatic changes: the most important wine –producing countries meet with an increasing surplus as a consequence of the drastic changes in consumers’ life-style and preferences, and at the same time there is an increasing competition on their foreign markets. However the entry –barriers are considerable in the sector, a number of new entrant countries achieve considerable successes even in the European market (*Figure 1*).

The immediate aim of the current article is the analysis of strategy of key players of the world wine market, but the results of the analysis can be generalised: they offer a good possibility to determine the ways and means of the formation and realisation of a successful marketing strategy under conditions of a saturated market in the globalising world.

* Budapesti Corvinus Egyetem, Élelmiszeripari Gazdaságtan Tanszék, egyetemi docens.

** Budapesti Gazdasági Főiskola, Külkereskedelmi Főiskolai Kar, Marketingkommunikáció, Reklám Intézeti Tanszék, tanszékvezető főiskolai tanár.

*** Budapesti Corvinus Egyetem, Marketing és Média Intézet Marketingkutató és Fogyasztói Magatartás Tanszék, tanszékvezető egyetemi docens.

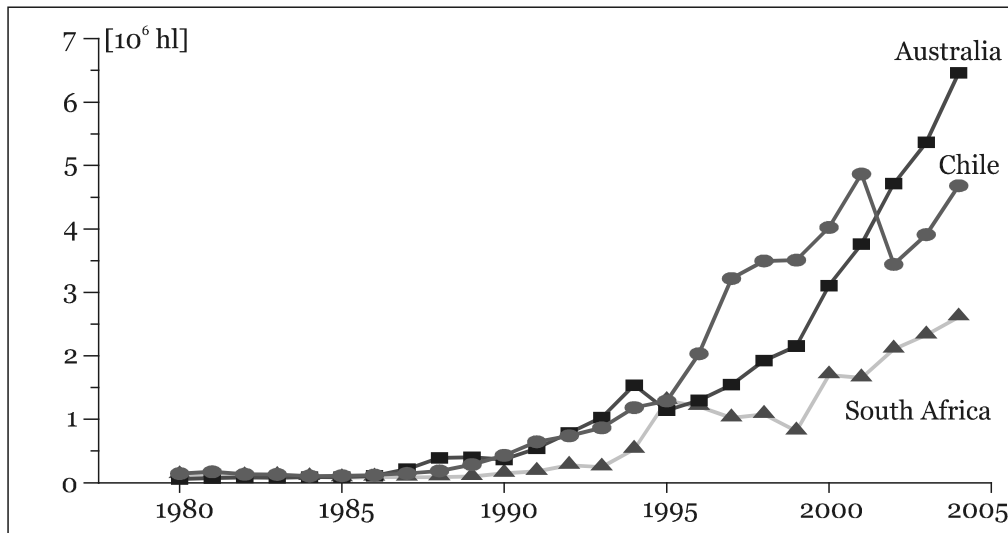


Figure 1
The wine export of some aggressive exporters¹

2. STRUCTURAL CHANGES ON THE WORLD WINE MARKET

2.1. Production and consumption trends

The area of grape production has decreased in recent decades in Europe and in the former member states of the USSR, while it is increasing in America, Australia and Asia.

After a period of stagnation in the 1980's, the area planted to vines decreased worldwide under the effect of European Union measures encouraging vine grubbing and due to extensive vine grubbing in the former USSR. This decrease has continued, at a fairly slow rate, during recent years. In the year 2000 the total area of the world's vineyards was 7800 m ha. During the last decade the decrease in the wine growing area of the world has slowed down, and there have been some increasing. This was due partly to limitations regarding the field of application of EU regulations financing vine grubbing, and to new plantations outside Europe (*Figure 2*).

During the last decades the vineyard area in America continued to grow, in spite of the uprooting of vines affected by phylloxera, there has been an increase in the area planted with vineyards in Asia, though many of these vineyards are designed for the production of the table grapes and raisins, particularly in Iran, Syria and Turkey. The increase in the area under vineyards in China has increased to 240,000 ha.

Grape production increased sharply until 1981–1985, then gradually decreased till the early nineties, as the area planted to vines diminished. Since then there has been a consistent increase in production, even though the total vineyard area

¹ Source: own calculations, based on Food and Agricultural Organisation of the UN statistics.

worldwide has continued to decline. This can be partly explained by the increasing yields, but it is also due in part to the generally more favourable climatic conditions and to the fact that the increase in vineyard area has been greatest in regions with higher yields.

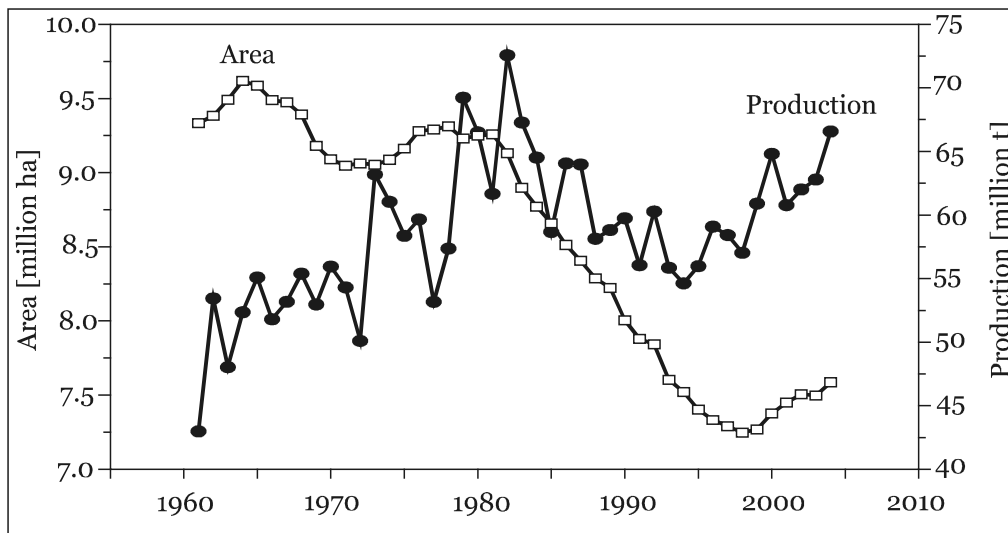


Figure 2
The grape territory and production in the world¹

Wine production in Middle-East countries has decreased or stagnated during recent decades. This can be explained by changes in the orientation of foreign trade in these countries.

Wine production is increasing in the southern hemisphere, partly due to an increase in domestic consumption and partly to the export orientation of some of the countries. This export-oriented policy is typical of Australia, New Zealand, Argentina, Chile and the Republic of South Africa.

Knowledge on consumption trends is essential for understanding the reasons for the success or failure of products and for predicting their prospects if introduced into new markets. In traditional wine-consuming countries there has been a strong downward trend in consumption for a number of years. The international market is increasingly competitive and market quotas depend to a great extent on the ability of exporting countries to adapt to changing demands. There is a clear tendency for the consumption of alcoholic products to even out: although wine consumption is decreasing in Mediterranean countries, an increase in wine consumption has been recorded in Nordic countries. As the income per capita increases, traditional lifestyles tend to be relinquished, which has caused the daily consumption of wine to practically disappear in Mediterranean countries. Wine is now drunk on fewer occasions, but there is a greater demand for quality wines.

¹ Source: own calculations, based on Food and Agricultural Organisation of the UN statistics.

In the traditional wine consuming countries a strong downward trend in consumption has been maintained for many years.

The most important causes of this process are as follows:

- increasing importance of motorisation;
- intensifying propaganda against alcohol-consumption;
- the social role of the wine is changing rather rapidly: in a modern economy the wine is not the product for quenching the thirst any more, but a product for the enjoyment of life;
- it is often hard to put the wine into “modern”, rushing life style. E.g. it is much more simpler to drink one glass of beer after a tennis party with some friends during ten minutes, than to sit down to drink a glass of wine with some dish.
- increasing popularity of non-alcoholic (juices, mineral water, energy drinks) and alcoholic (coolers: “disco-drinks” with low alcohol content, beers, “exotic” drinks e.g. tequila) drinks.

As a summary it is obvious, that the world-wine market can be characterised by an ever-increasing competition, fuelled on one side by the increasing production, on the other side by changing consumption patterns.

3. STRATEGIES OF KEY PLAYERS OF THE WORLD WINE MARKET

3.1. France: delayed response to challenges

The viticulture and wine making of France has one of the longest history, greatest value and highest reputation all over the world. The wine production and export is one of the most developed, representative part of economy and culture of France in general, and of agriculture in particular. The vineyards occupy 3% of the surface utilised for agriculture production, and give 15% of value of agricultural production. There are 500 thousand workplaces, joining directly to the viticulture and wine making, and additional 300 thousand jobs in branches of the national economy, joining indirectly to the wine sector e.g. in wine trade and wine-related catering.

That's why the problems of analysis of the wine making and wine marketing of France allows a favourable possibility to investigate the problems of another important wine producing countries in Europe.

The most important problem of French wine sector is the overproduction. This can be explained by two facts. On one hand, there is a decreasing domestic consumption, on the other hand, the wine export of France faces an increasing competition from new market entrant states (MERLET, 2006).

The wine consumption in France – like in another South and Central European states –, for long decades had been an integral part of meals and had been served as an important source of energy and the thirst-clenching as well as the disinfections. From these functions to our days remained only one role: to serve the pleasure of consumers. The wine consumption decreased extremely rapidly in case of younger generations (HAUTEVILLE, 2005).

The number of non-consumers is increasing especially intensively: their share is 38%. At the same time this rate in Denmark is no more than 11%.

In foreign markets the French wine export suffered considerable losses, too. In English market the share of French wines has been 45% in 1990, and only 19 % in

2004. Among the 15 leading marks, constituting a quarter of the market, there is only French brand. Eight brands are from Australia, 4 from California, 2 from South-Africa. In bracket of the most successful wines, with price of 8-12 €, the share of Australian wines is 41% and that of France wines is only 18%.

In opinion of numerous specialists, one of the most important cause of market failure of wines from France is the overburdening of consumers by pieces of unnecessary information on territory of production, variety, year of bottling, etc.

The driving back of the French wines on Danish market is a characteristic example of the export problems of France. In this market the share of French wines was 62% in 1992 and only 30% in 2003. The main places of sale are the super-and hypermarkets. An increasing number of consumers becomes "sales addict". This type of consumers considers the wine as a generic product. Contrary to the French style of wine buying and consumption, the new wine consumers the wine is a rather simple product: one colour, one variety, one taste and a favourable quality/price relation. The complicated regulation of wine making, and the junction between the wine, region and culture has only a secondary importance for the consumers.

The importance of away-from-home eating is increasing in France, too, but the wine consumption has not increased in restaurants. The weakest chain of the wine catering system is the middle -class restaurants and snack -bars. The most important problems of this segments are: (1) low level of wine-related knowledge among waiters; (2) the conventional bottles (75 cl) are too large (3) the prices of wines are too high, compared to another drinks. It is essential a better harmonisation of the wine price with the price of the meal consumed.

The new consumers demand new types of wine. From point of view of specialists, some traditional French wines, with high acid and tannin content are excellent, but the general consumers wants to buy sweeter products with a lower tannin content.

In some cases the strict quality -regulations are hurdles of product innovation and elastic reaction to the changing market-demand: in traditional markets, for traditional buyers the indication of the year of vintage is a favourable tool for product-differentiation. The strict interdiction of mixture of different vintages is counter-productive from points of view of marketing in new markets. The buyers wants to get an even product quality, independent of year of production.

The increasing anti-alcoholic propaganda is another adversary factor for wine consumption. In this field the wine producers' organisations try to emphasise the importance of wine-consumption in prophylaxis of cardio-vascular diseases as well as the fact, that the main cause of alcohol -related illnesses and death are the spirituous drinks.

As a summary it can be stated, that the competitiveness of traditional French wines has been decreased drastically. This situation can be explained by objective (changing lifestyle) as well as subjective (too rigid regulation, negligence of marketing activities).

In opinion of leading French wine export specialists there are good chances for the re-establishment of export-oriented way of development. There are practically unlimited possibilities of increasing of export: in China the per-capita consumption is only 0,4 l and in Japan 2,5 l per year. In this later state the yearly rate of increasing of consumption is 62%.

The development of wine –tourism seems to be one of the most important driving force for the wine economy. France in the first target country of tourism: the number of tourist, arriving to France from abroad is 75 million per year, the consumption of tourists is 102,4 million €. Nearly half of this sum (48,1 million €) is spent in hotels, restaurants and cafés. The government and professional organisations are increasing their efforts to promote the cooperation between the vine growers, wine makers, as well as other economic entities and municipalities to increase the wine regional cooperation, to offer a service –package for tourists, including wine and wine-related touristic attractions (HAJDUNÉ, 2005).

3.2. Australia: Ambitious plans, built on natural resources

Australia's relatively low land costs, a large choice of climate, terroir and moderate water availability means that the nation's natural resources, as well as the elastic modification of the varietal choice are the basic cornerstones of export-driven expansion of the Australian wine economy. Neither the environment (like in New Zealand) neither the place of origin certification system will not restrict this expansion. From point of view of natural resources the most important competitor of Australian wines seems to be Chile, following the same strategy as Australia, based on technological development and setting up modern plantations, consisting of premium varieties, such as Chardonnay and Cabernet Sauvignon. Although Australia is one of the world's smaller wine producers (2% of world production) and has a relatively low domestic consumption of 18.3 litres per head, it exports more than 27% of its production – 10% more than the key world wine producing nations, of France and Italy. According to the ambitious developments plan of the wine sector, the Australian wine industry will achieve 4.5 billion US in annual sales "by being the world's most influential and profitable supplier of branded wines, pioneering wine as a universal first choice lifestyle beverage."

Australia has also developed an industry structure with considerable economy of scale. Despite a large number of wineries (nearly 1000) just ten of those dominate the industry with an 84% share of the national crush. In fact 6% of the labels on the Australian market account for more than 75% of sales. Nevertheless the contribution of small producers to the industry's success has been out of all proportion to their size.

The market success of Australian wines in the British market offers numerous important lessons. Australia has been exporting wine to Europe (mainly to Britain) from the beginning of the 20th century. A rapid expansion in domestic production and in exports to Britain occurred during the interwar period. In these years the wine was sold at a lower price than the European products, mainly because it was regarded as inferior to the wines of Europe. The cheap fortified sweet 'port style' wines sold well compared to more expensive Port from Portugal. Heavy, fruity Australian reds were sold as 'Australian Burgundy' which was advertised as being good for the health. This Burgundy was alleged to contain a high quantity of iron and thus being good for anaemia and invalids. At that time Australian 'boarding house burgundy' had a lowly reputation in Britain, and obviously the main reason it was bought was because it was a cheap form of alcohol. In 1929 Australia passed the Wine Overseas Marketing Act, which established a Wine Overseas Marketing Board, whose primary purpose was to coordinate the export trade. This was renamed in

Australian Wine Board in 1963. In 1960 the Australian Wine Board took the initiative of establishing the Australian Wine Centre in London. This was financed by the Board and by seventeen leading Australian wine companies.

The Australian Wine and Brandy Corporation (AWBC) is a federal governmental statutory marketing authority. It is funded by contributions from industry members. Voting power is determined by the size of the contribution. Among the corporation's various responsibilities is that of promoting and controlling the export of grape products from Australia. The mission statement of AWBC emphasises, that the goal of the Board is „to enhance the global demand for Australian wine by creating a marketing environment in which wine producers, individually and collectively are able, through their own initiatives to achieve maximum long/term demand for their products.” The report of this AWBC determined: “Port, joins sweet sherry and muscat to form the „terribly trinity” of the Australian wine trade and reflects everything that is bad about it, not because these wines are disagreeable when well made but because the enormous demand of indiscriminating wine-saloon drinkers whose simple urge is for something sweet and strong has given rise to a yearly saccharine deluge pressed out of grapes of the first variety that comes to hand and bottled and put on the market almost as soon as the last fermentation bubble has risen.” To counterbalance this negative image, the ‘honest bottle’ image of Australian export/wines has been emphasised in 80’s amidst the adulteration scandals in Italian and Austrian wine industries. The Australian export/wines could be promoted as products of an isolated country of vast open space and pure air, far removed of falsification and industrial disasters. From the second half of eighties the Australian wines have been mentioned by some wine writers as ‘bottled sunshine’. The AWBC introduced a distinctive corporate identity logo for the Australian Wine Industry. In order to capture attention in the competitive European market the AWBC announced the simple uncomplicated statement ‘wine of Australia’ that has been combined with an explicit graphic symbol which communicates a similar visual message of ‘wine’ /the leaf of the grapevine, with the message ‘of Australia’ – symbolised by the image of the Australian kangaroo.

This rather aggressive marketing strategy is based on an increasing domestic consumption. The marketing communication of Australian wine industry emphasises the healthy image and high quality of wine. By this strategy it was possible to distance it from other alcohol beverages. In 1966 Australian domestic wine consumption amounted to a little more than two bottles per head of population per annum. 78% of wine consumption consisted of fortified ports and sherries while premium varietal table wines barely ranked in the statistics (just 700 tonnes of Cabernet Sauvignon was processed in Australia in 1966 and Chardonnay did not exist). The statistics underscore the enormous change which has occurred in the wine industry in just 30 years. Since 1966 to 2004 wine production has tripled (from 156 million litres to 572 million litres), Australians now consume 24 bottles of wine per head of population per annum, 80% of which is now table wine. In a far cry from the 1960s, the classic world grape varieties of Cabernet Sauvignon and Chardonnay contribute 165 thousand tonnes or nearly 19% of total production (SCHAMEL & ANDERSON 2002).

The most important directions of development of Australian wine marketing can be summarised as follows: (1) development into the direction of increasing of community acceptance positioning of wine (health, environment, lifestyle); (2) adoption

of a targeted publicity strategy to communicate the uniqueness and capabilities of the Australian wine industry (3) extending the influence of Australia in world wine forums and institutions. The key activities for the utilisation of competitive advantages are: (1) Increasing research and development effort and application to the priorities of quality and specification improvement, cost reduction and supply security. (2) Further development the existing wine industry "learning" culture of innovation and cooperation to compete. (3) Benchmark industry production and management processes to assure world best practice. (4) Accelerate the adoption of environmentally sustainable policies and practices in all aspects of the industry. (5) Maintain the existing minimal regulation to ensure market responsiveness and production flexibility. Based on the comparative advantages and competitive forces of the Australian wine economy the basic directions of the marketing strategy are (1) Broadening the appeal of wine so it is more accessible and attractive to the occasional and prospective consumer segments. (2) Gaining via market research a better understanding of consumer behaviour and attitudes relating to wine. (3) Enhancement and expansion of market distribution channels for wine. (4) Development new products to create new market opportunities and evolve existing products to anticipate and meet consumer needs. (5) Development promotional initiatives to increase the loyalty of the existing wine drinker segment; extend occasionality of consumption in the marginal segment; develop consumption in the prospective segment. (6) Utilisation of wine regions as defined by geographic indications as a brand marketing opportunity. (7). Increasing cooperative export promotion effort and focus on specific branded market segments in targeted countries. (8) Improvement access to export markets by small and medium wine companies. (9) Capitalising on wine tourism opportunities by stimulating wine tourism and improving the profitability for wineries (AYLWARD, 2002).

In field of technological development the most important directions are as follows: (1) Encouragement viable expansion in vineyards, wine processing storage and packaging capacity and supplier capability to meet market projections. (2) Influencing water access and pricing policies to ensure that the wine industry can secure its additional water supplies. (3) Implementation of a national, industry driven training initiative to expand quickly the supply of skilled personnel and to broaden and upgrade the skills of existing employees. (4) Undertaking a major investor education programme to attract equity investment and loan finance into the wine industry.

The basic directions of controlling and planning are the institution of a periodic benchmarking of the financial performance of the industry by relevant categories and pursuing cost reductions through productivity improvement and adoption of world best practice in packaging and logistics. Another central element of the strategic planning is the introduction of a risk management strategy that identifies and formulates contingencies for industry wide risks. For the Australian wine sector the governmental relations are essential. The basic need of the wine industry, that the State and Local Government land use planning policies, infrastructure provision and regional development strategies are supportive of the wine industry.

3.3. New Zealand: export success without state support

The strategy of wine producers in Australia and New Zealand show numerous parallel sites, but, at the same time there are considerable differences, too. The most important difference is that the marketing efforts of wine producers and traders of New Zealand are independent from the state and its resources (RIEKHOF & SYKUTA 2005).

The basic philosophy of wine producers in New Zealand: "Producing medium quality wines at bulk market prices is not an economic option." That's why the key players of this relatively new economic branch of the state are committed to a strong unanimity of view and commitment to quality

The basic strategy objectives and supporting actions of the wine sector of New Zealand are summarised in *Table 1*.

As opposed to the highly sophisticated European standards of wine nomenclature, the wines from New Zealand have been the use of varietal labelling, easy remembered and understood, and correlating strongly with colour and flavour. "Just decoding a German wine label, cluttered with Gothic script, or identifying yet another French chateau inhibits many potential consumers".

Like in Hungary, there has been an intense debate on the question "utilisation of general (word/wide known, utilised and recognised varieties) or local specialities. In opinion of SHEPPARD (1988): "out best Cabernets... are always going to go up against the classified growths of Bordeaux, and after all, Cabernet is Bordeaux.". The English have been dealing with Bordeaux for five hundred years, and so Cabernet is not just a wine, it is expected to be "Bordeaux". To fit a particular style and consumer perception, we will do much better to stay with the varieties that allow us to do what we are best at, and that is to be creative. We make unsurpassed wines at a given price level and should make the most of the English love of the style."

Familiar and recognisable labels can make the choice of wine less perplexing. The largest wineries have a great number, of different wines, but the labels are unique and instantly recognisable. The labels are built around well-established logos. Provided that the consumers know that the wines of a given firm are of exceptional quality than the choice to be made is simply between the various wines on offer of the same company.

Table 1

Strategy objectives and supporting actions of wine industry of New Zealand¹

Objective	Supporting actions
1. Informing the market about wines of New Zealand	<ul style="list-style-type: none"> • Deciding which markets are to be concentrated on (UK, US, Canada, Japan, Hong Kong?) • Assessing the most useful contacts in light of the local distribution chain. • Establishment a programme of visits to key markets. • Invitation of key wine writers to New Zealand and contributing to international wine and lifestyle magazines.

¹ Source: Barker et al. (2001).

Table 1 (continued)
Strategy objectives and supporting actions of wine industry of New Zealand

2. Establishment of the brands	<ul style="list-style-type: none"> • Preparation of promotional collateral (website, video, CDs, brochures) to reflect the points of differentiation described in section 5 above. • Development of New Zealand brands and brand icons (terroir, appellation, labelling, bottles etc.). • Assessing the most useful wine fairs/promotional venues to attend and ensure a NZ Central Otago presence. • Making intensive use of inward visits by wine writers by playing to their interest in the newness of the industry, what has been achieved so far, industry potential, new wineries being established etc. • Attending appropriate overseas promotional events as frequently and regularly as practicable.
3. Raising the profile of winegrowers and wineries of New Zealand	<ul style="list-style-type: none"> • Featuring of New Zealand winegrowers in articles and promotional videos. • Encouraging winemakers to attend overseas fairs to meet the trade and educate consumers. • Encouraging influential overseas winegrowers to spend time in New Zealand wineries. This will build the credibility of the local industry and lead to a valuable exchange of information. This could be formalised in an annual visiting winegrower award. • Establishing 'show-casing' events (eg the Pinot Noir Celebration) that influential wine writers could be invited to.
4. Development of an appropriate promotional programme with key importers, distributors and retailers to achieve a productive marketing partnership.	<ul style="list-style-type: none"> • Regularly consultations with key market contacts to ascertain what they need in the way of support and marketing collateral. • Researching local market conditions and regulations. • Visiting market contacts regularly and at least annually. • Invitation of key contacts New Zealand so that they can get to know the industry at first hand. • Commit to an ongoing relationship with key contacts.

3.4. Wines of South Africa: the European connection

The South African wine industry is an important economic of the country as a whole. It constitutes a 1.1 billion USD sector, produces 3% of world wine production (number 9 in the world) and is the 9th largest exporter of wine (BENTZEN & SMITH, 2002). The industry sustains more than 4500 commercial producers, an estimated 350,000 farm workers and their dependants, 3300 cellar personnel, and with a large number of workers and entrepreneurs operating in the wine trade and services sectors, and the state has earned up to 0.15 billion USD annually in taxes and excise duties. In addition to these, more than 0.3 billion USD are generated in annual earnings through wine tourism. The South African project for the development of

wine industry – Vision 2025 is an integral part of the strategic plan of the South African agriculture. The **Vision** of the industry envisages that it is “...innovation-driven, market-directed, globally competitive, highly profitable and dominant in selected global markets – a producer of uniquely South African products of great quality, distinction and impeccable traceability records. The industry is a global enterprise with strong South African cultural roots – reflecting good citizenship and social responsibility. Our industry is leading socio-economic transformation and empowerment in South Africa through equitable access to resources, business opportunities, markets and decision-making of historically disadvantaged and economically marginalized South Africans. Through all this the industry will perform as a dominant economic force in the SA economy.”

The baselines of the development of wine economy in South Africa show numerous parallel features with that of Australia and New Zealand, but there are some specific features, too. The most important of these are as follows:

- The South African wine sector is heavily concentrated: there are 4326 vine-producing farms, 424 cellars for 108 thousand ha vineyard surface. Under these conditions, there are favourable possibilities for homogenous products.
- In development of wine production and marketing of South African wines the investments from Europe (British, Dutch, German and French capital) has played a determining role.
- The Broad Based Black Economic Empowerment Act, accepted in 2003, and Government's BEE (Black Economic Empowerment) strategy aim to address inequalities resulting from the systematic exclusion of the majority of South Africans from meaningful participation in the economy. Vine-growing is an especially living –labour intensive activity, that's why the development of vine-farming seems to be an useful tool for decreasing the poverty among the black population. By this way the vine growing and wine producing sector of South –Africa gets considerable financial resources.
- The benchmark-analysis of production gets an increasing importance. In place of traditions, there are a conscious effort to set up the benchmark system of technological and financial performance of enterprises in the wine growing.

3.5. Chile – a success story form South America

The Chilean wine –export has been extremely concentrated. In 1980, 15 wineries were responsible for 91% of exports, and the largest 3 for close to 40%. To the eighties of the last century, the large wineries have emphasized the lower priced segments, while the smaller wineries have worked to migrate to higher priced segments. These different focused strategies, suited to each type of firm, have enabled these original exporters to grow a phenomenal 20 times in period 1980-2003. Yet, despite that growth, these original 15 firms were responsible for only 62% of exports in 2001. Thus, new entries in the bottled wine export market gained 23% market share during 1981-1996, and more interestingly, an additional 15% market share in the 5 years between 1996 and 2001. New entrants are becoming a mayor player in the Chilean wine industry. In the early period of 1980-1996 startups only represented about 13% of the firms that started exporting in that period. Almost all new entry into exports came from former local bulk producers and cooperatives that switched to exports (44%), foreigners that came in through wholly owned firms or

strategic alliances with traditional local producers (30%), and subsidiaries of traditional wineries (13%). In last decades almost all export growth, and most new firm entry, was sustained by established firms, local and foreign. At the same time, innovation was being spurred by a very small group of foreigners and local experienced entrepreneurs through start-ups. What the Chilean wine industry has is strong export growth fuelled by traditional producers and focused on low valued added segments, while a few "mavericks" are creating havoc with their innovations and opening new markets that still have to develop strongly. Evidence of the influence of innovation on value added comes from the evolution of average price for bottled wine. The average Chilean FOB price for one liter of wine increased from \$US 1.41 in 1980 to only \$US 1.59 in 1990, but then increased to \$US 1.80 in 1995 and to \$US 2.71 in 1999, afterwards stabilizing around \$US 2.60 in a more stagnant world economy. This increase has been due mainly to increasing wine quality. For example, the average price for Viña Montes increased from \$US 3.0 in 1996 to \$US 5.9 in 2001. The strategy of increasing value added through wine quality and accommodating to trends in foreign tastes has been followed by traditional wineries, and lately also by start-ups. Unlike the earlier period, during the 1996-2001 period, 49% of new entry were start-ups with no clear links to traditional firms. Thus, the Chilean wine industry has two kinds of start-ups. Early start-ups developing competitive advantage through radical innovations and opening new markets, and late start-ups coming in when the opportunity widens up by the availability of technological and market knowledge, coupled with a natural competitive advantage in wine producing through extraordinary natural conditions and low production costs (WALTERS, 1999). The first ones create new opportunities, the second ones help capture them for the country. The upgrading of the Chilean wine industry benefited greatly from competition, but not less importantly, by cooperation. This fact shows that Chilean winemakers not only changed jobs often from one winery to another, thus diffusing knowledge in their new firms, but they also did consulting for several other firms.

The company Wines of Chile, created in 2002 with the sole purpose of promoting the image of Chilean wine on international markets, has concentrate its efforts to consolidate the position of Chilean wine in the English market. In 2003, 20 percent of Chilean wine exports are sent to England, representing between 5 percent and 6 percent of all England's wine imports. The business of Wines of Chile, jointly financed by Wines of Chile and the state-owned Agriculture and Livestock Development Fund, aims to diversify the presence of Chilean wines in England. Besides improving the Chilean presence in England's supermarkets (80 percent of Chilean wine exports to England goes to supermarkets), they try to develop a more aggressive strategy in other niches, such as restaurants and hotels,"

Although Chile does have a successful market promotion campaign called "tastes of Chile" that includes wine. Promotions are managed by an organization called "Wines of Chile" which is composed of both the Wine Producers Associations in Chile, Vinos de Chile and Chilevid. Their annual budget is \$6 million, which is less than 1 percent of the total value of Chile's bottled wine exports last year. The marketing funds are used for generic promotion. The Government contributes 15 percent of the total amount, through its export promotion agency called ProChile. Wines of Chile spend most of its allocated budget on their offices and activities in London, Germany and the US. The remainder is spent on promotional activities in

Canada, Ireland, Korea and Japan. Activities include the “Tastes of Chile” campaign that promotes fruits and wine. The images used build on the natural beauty of Chile and the quality of the products. Another promotional program is the activity called “Wine Show and Tasting”. This activity takes place normally once a year. It consists of seminars and wine tasting. ProChile contributes with logistics and market information and the wineries pay the costs. With this strategy the wine industry is promoting wines in markets like Russia, Netherlands, Denmark, Sweden, Czech Republic, Brazil, Mexico, Venezuela, Taiwan and Hong Kong.

3.6. The wine economy of US – capital and natural conditions

The wine economy of US has a practically unlimited production capacity, and there is a considerable probability that this country will be the key player of the wine economy of the world.

Two fundamental economic reasons lead to this possibility. First, the United States boasts world-famous growing areas that rival France and Italy in quantity produced and in quality of wine, as the technology and weather are extremely similar. Napa and Sonoma Valleys are also key tourist attractions, providing a constant source of customers. Second, wine prices in the United States are rising. US wine firms engage in fierce competition, especially in Napa and Sonoma Counties in California, forcing continuous changes in product quality. Few other countries boast such a large market base and compete against each other simultaneously for an expensive, non-durable consumer markets. The US wine market has many domestic suppliers, regions, styles and varieties. A competing wine from outside the US finds it difficult to compete on a varietal basis alone; however, many wine Regions in the US produce wines of extremely variable quality, even within the higher-end Regions of Northern California. Where the French and Italian producers aim for quality over quantity, US wine sales and production seem to concentrate on bulk sales (MORAN, 1993).

The classic bottle in Europe, 750 ml, is not the market leader in volume in the US market. The share of bottles and containers larger than 0,75 l is more than 70%, but wines with higher perceived quality are mainly sold in 750 ml bottles.

The US wine market includes many bulk wines, those in containers greater than 3 liters that are not varietal or vineyard specific that enjoys a large following. These wines account for more than 30% of total US sales by volume and use a great deal of the US wine supply. The same sales account for only 14.3% of total dollar sales. The same principle applies as above: the larger the container's volume, the lower its unit price. Should US wine producers use the bulk market, which few international competitors compete in directly, to attract new wine drinkers and make wine more accessible? Or is the US wine drinker becoming more concerned with quality over time? It seems obvious that there is a market for bulk wines, and that US wineries are producing a large amount of bulk wine volume? Most experts feel that the industry's future lies in quality wines.

Applying Porter's well-known five –force model to the wine economy of US, it is obvious, that *the relative bargaining power of buyers* is of larger interest to the firm's marketing strategies. Firms are recognizing consumer wine patterns to consume wine as a complementary good, rather than push its substitutability with other beverages and foods. Suppliers, such as Gallo and Heublein, have large *relative supplier bargaining power*, becoming larger through acquisition and vertical

integration. There is a *large threat of new entrants*, especially in the pop-premium market, to all wineries in California. We concentrate on this when making our conclusions about the Chilean ability to compete. *The threat of substitute products* leads all firms to product differentiate, regardless of size, costs, or market share. This is the greatest challenge to this industry, and forces more decisions based upon demand conditions rather than supply. Gallo and Kendall-Jackson showed, through lawsuits over labels, that *the intensity of rivalry among the current competitors* is extremely high. Managerial choice is at the center of the industry trends, and today management seems to be concentrating on differentiation. Innovative technologies from innovative winemakers, together with great grapes, helped launch America's wine industry. America's wines also benefited from a production and marketing approach, taken early on, that encouraged the production of varietal wines, or wines made predominantly from a particular type of grape. Initially, many American winemakers followed the pattern in France and Italy, naming their wines after the famous European winemaking regions, including Chablis, Burgundy, Champagne, Sauterne, Chianti, Rhine, and Moselle. US regulation now identifies 15 wine-type names of European geographic origin and requires these "generic" wines to be qualified with the true place of origin, such as "California Sherry."

The Wine Vision 2025 project			
AMERICAN CULTURE FORUM make wine an integral part of American culture	SUSTAINABILITY FORUM become a leader in sustainable practices – economically sound, ecologically and socially responsible	GLOBAL FORUM position the US wines in the global market, targeted for the greatest prosperity	COMMUNICATIONS FORUM enhance community wide communications and coordination
expand the acceptable wine occasions across the demographics of wine-consuming segments	protect and enhance watershed ecosystems waste management effort establish good neighbour and community relations program political actions to foster governmental cooperation	develop a position for US wines within the global market place create a venue for American wines about the global market opportunities and how to access these markets	develop and communicate a consistent, unified message to advance Wine Vision objectives build a database on existing information resources conduct wine marketplace information needs assessment

Figure 3
The Wine Vision 2025 project¹

¹ Source: Winve Vision, 2000.

The basic directions of development of US wine business has been summarised in document *Winevision 2025*. The basic priorities of this strategic plan are: (1) To make wine an integral part of the American culture; (2) To be the preeminent supplier to the global market; (3) To be a leader in sustainable practices. To achieve these goals, the *Winevision* project summarises the agenda of wine industrial development as follows: (1) creating an image of U.S. wine that will enhance consumer demand; (2) facilitating industry wide coordinated legal and political strategies to address resurgent anti-alcohol sentiment; (3) enhancing the distribution system; (4) eliminating global and domestic trade barriers; (5) maximizing relationships with stakeholders and public officials at all levels of government; (6) developing the best sustainable environmental practices; (7) funding and supporting coordinated research and market databases; and, (8) enhancing the industry talent pool.

In framework of *WineVision* project numerous studies, fori and other marketing – related activities have been financed. To realise the project-concept, the US wine industry is pledged to pay 2.5 million USD for three years. The most important activities of the project are summarised in *Figure 3*.

As a result of planning numerous new directions of development of wine marketing could be formulated. An important consequence of the domestic surveys is the underscoring the importance of the so-called “millennial generation” as a target group. This generation, 70 million strong and now aged 10-27 years old, already is consuming wine, there is ample room for growth. “These are the children of the baby boomers and they are the largest generation ever in spending power,” “Almost every other industry is targeting this group, but when they look at the wine industry, they feel ignored.” In opinion of wine industrial specialists the most important ways of direction to integrate this generation to the wine consumers, the key steps should be made into the following directions: (1) Exploring further to determine why there are strong likes and dislikes in the taste of wine. Development a new “fruity red wine that is hip/cool and priced below \$10,” but marketed as “quality wine for the new generation.” (2) Emphasizing certain attributes, such as relaxation, the food connection and social situations. Beginning strategic marketing planning to reach an audience that is already drinking wine but who do not perceive wine as hip/cool. (3) Considering convenient packaging, such as screw caps and multi-packs of smaller bottles, and colorful labels with simple descriptions. (3) Emphasizing the value equation: Good quality for good price – under \$10 and perceived to be decent quality. “Give us a wine that is priced between winos and high class.” Starting advertising to this group using online, television and print ads showing casual social situations with messages of relaxation with wine, not to get drunk but to enjoy and enhance life.

The segmentation of consumers is gaining in importance. E. g. Hispanics are a huge potential wine market, with spendable income of U. S. Hispanics totaling more than 550 billion, more than the gross national product of Spain or Mexico. He said that beer producers Miller and Budweiser spend \$40 million and \$20 million, respectively, on Hispanic media, and that 53 percent of U.S. Hispanics go online. Women consumers, who make up 51 percent of the population, purchase 57 percent of wine, and it is predictable, that with the growing importance of wine sales in supermarkets and warehouse stores, women will buy a higher percentage of wine in the future.

3.7. The alliance of “new exporters”

In December of 2002, Uruguay, Argentina, Chile, the United States, Canada, South America, Australia and New Zealand formed a pact that will forever change the world of wine. The pact is known as the Mutual Acceptance Agreement (MAA). Participating countries agreed to understand and respect their differences in growing methods as well as views on wine production. This “New World” agreement has left the “Old World” growers such as France, Germany, Italy, Spain, Portugal and Austria to acclimate to a new and rapidly transforming wine culture and market

The terrain of the New World allows for production of wines that are fruity and high in sugar, while a key element, acidity, is not as readily produced. Therefore, according to the regulations of the OIV, the New World participates in “acidification”, or the addition of grape acid to their wine. The French have expressed their grievances in accordance with this regulation and have proceeded to refer to New World wines as “manufactured wines”. What they neglect to mention is that in Old World grapes, there is an overabundance of acid, which at times would prove to be undrinkable in its normal state, therefore the OIV allows them to take part in a process known as “chaptalization”, in order to sweeten the wine.

4. SOME LESSONS FOR THE HUNGARIAN WINE ECONOMY

The wine economy of Hungary has considerable traditions and looking at the potential of wine production in this state, it can be concluded that there is a huge potential for grape and wine production. At the same time, during the last two decades there emerged numerous crisis symptoms in Hungarian wine sector.

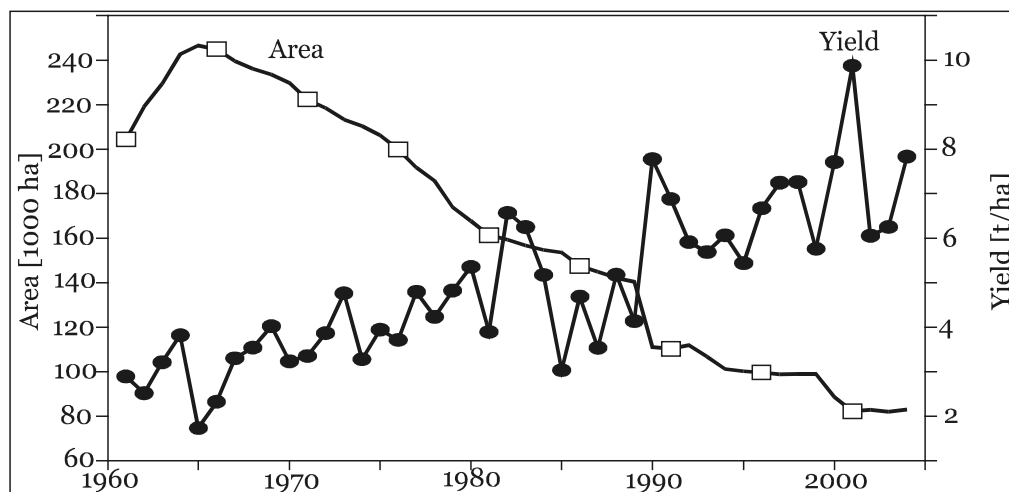


Figure 4
The grape area and yields in Hungary¹

¹ Source: own calculations, based on Food and Agricultural Organisation of the UN statistics.

The most important of these are as follows: (1) decreasing of the wine export-quantity; (2) stagnation of wine –export prices around 1.2 Euro/l; (3) stagnation in domestic wine consumption; (4) increase of age of typical wine consumers; (5) low profitability of vine growing and wine production (decreasing production area, instable and only slowly yields (*Figure 4*). It is thus essential to improve marketing and quality. An analysis of the strengths, weaknesses, opportunities and threats facing the Hungarian wine sector (*Table 2*). To meet the new challenges, a comprehensive wine policy is needed. There is a wide range of possibilities for state interventions (*Figure 5*), but international regulations (EU, WTO) considerably restrict the scope of economic and juridical measures which can be applied. The most important ways and means, in harmony with EU-regulations, are summarised in *Table 3*.

Table 2
SWOT analysis of the wine sector of the Hungarian wine sector¹

Strengths	Weaknesses
Favourable agro-ecological potential	Ineffective utilisation of natural resources
Traditions of wine growing production	The economic position of wine growing is rather weak
Technically and technologically highly qualified human resources	Lack of up-to-date economic, marketing knowledge as well as foreign language skills
Considerable experience and well-established brand names in former Soviet member-states	Intensive price and promotion competition on these markets
Large production capacities with numerous relatively modern machines	Heterogeneous technical and technological level even within one line
Possibilities	Threats
To increase the market share in developed countries by exploring comparative advantages	Increasing protectionism
Improvement of positions on the home market	Decreasing aggregate demand and increasing import competition
Product and process innovation	Without an increase in of the capital-inflow technical and technological gap between the Hungarian production and international level will widen
Better utilisation of the concept of up-to-date in-and output side marketing	If the modernisation of vineyards loses momentum, the variety structure will become obsolete

¹ Source: own model.

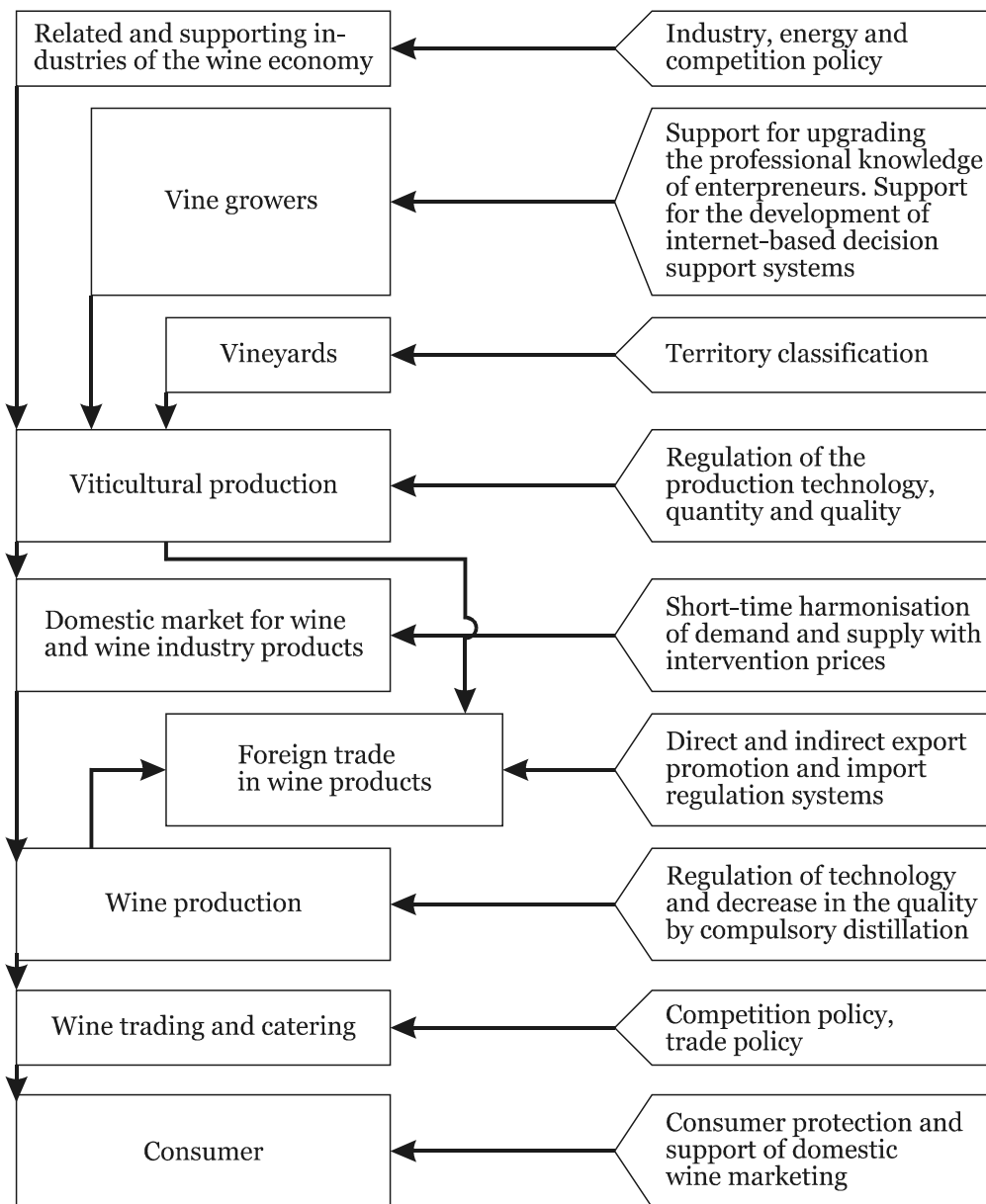


Figure 5
Possible ways of influencing the wine economy by means of state policies¹

¹ Source: own model.

Table 3
Goals and means of economic policy enabling to strengthen
the competitiveness of Hungarian wine sector¹

Utilisation of resources

- Optimal utilisation of natural resources
 - ⇒ Abandonment of state subsidisation of intensive wine production on territories with adverse natural conditions
 - ⇒ Development of an integrated information system to determine the optimal geographic structure of agricultural production, taking into consideration the agro-ecological, economic and social aspects
 - ⇒ The agricultural support system should be reconsidered to promote not the export, but the development of biological-technical and technological background of wine production
 - ⇒ More rigorous environmental protection
- Better utilisation of human resource
 - ⇒ Stabilisation of economic environment of wine production
- Utilisation and upgrading of know-how and production culture in the wine sector
 - ⇒ Upgrading of the middle and higher education system by increasing the number of students and efficiency of education, more emphasis on the economy and marketing
 - ⇒ Better concentration of additional resources, available for the EU, active role in various programs for upgrading of the research and development, setting up innovation parks
 - ⇒ Creation and strengthening of market institutions of grape and wine products (system of common warehouses, stock and produce exchange)
- Increasing financial resources of enterprises
 - ⇒ Harmonisation of tax system (value added tax, fiscal tax) with the EU practice
 - ⇒ Abolition of import duties, burdening the import of wine –industrial inputs (e.g. machinery)

Development of home – demand

- Prevention of illegal food industrial production and trade
 - ⇒ Sophistication of means of struggle against the “black economy”
- Increasing aggregate wine-demand
 - ⇒ Modification of personal tax-revenue system, with a special emphasis on families with three or more children
- Increasing the knowledge of wine consumers
 - ⇒ Further development of an integrated collective marketing policy

¹ Source: own model.

Table 3 (continued)
*Goals and means of economic policy enabling to strengthen
the competitiveness of Hungarian wine sector*

Sector structure, corporate strategies and rivalry

- Consolidation of the ownership structure
 - ⇒ Completion of the process of privatisation
 - ⇒ Where necessary, setting up holdings for assets (property) administration, and re-structuring
- Selective promotion of small and medium scale enterprises
 - ⇒ Extension service and increasing of professional and marketing knowledge of wine growers
 - ⇒ Subsidisation of introduction of TQM, ISO, and HACCP systems and environmental auditing
- Increasing the effective (working) competition
 - ⇒ Predictable import-liberalisation
 - ⇒ Effective merger control and law-enforcement in competition policy, to hinder the commercial organisations to get an economically superior position in bargaining with wine producers

Joining and supporting sectors

- Development of logistical infrastructure
 - ⇒ Modernisation and development of road and communication systems with a special emphasis on the specific demands of wine economy (interconnecting and service roads)
- Export promotion
 - ⇒ Increasing the efficiency of economic diplomacy, promotion of collective marketing activities (wine trades, presentations, videos, etc.)
 - ⇒ Country-image development
- Promotion of tourism
 - ⇒ Development of village tourism with an emphasis on wine tourism

REFERENCES

- AYLWARD, D. K. (2002): Diffusion of R&D within the Australian Wine Industry *Prometheus* 20(4) pp. 351-366.
- BARKER, J., LEWIS, N., MORAN, W. (2001): Reregulation and the Development of the New Zealand Wine Industry. *Journal of Wine Research* 12 (3) pp. 199-222.
- BENTZEN, J.; SMITH, V. (2002): Wine prices in the Nordic countries: Are they lower than in the region of origin? Discussion Paper No. 0223 Adelaide University Adelaide 5005 Australia
- FAO: Yearbook of Agricultural Production and Trade, 2005; Rome.
- HAJDU INÉ (2005): Bor és piac (Wine and market in Hungary), Mezőgazda kiadó, Budapest.

- HAUTEVILLE, F. (2005): *Bacchus, 2005 – Enjeux, stratégies et pratiques dans la filière vitivinicole*, Dunod.
- MERLET, I. (2006): *Oenotourisme in Europe-project concept*, Bordeaux.
- MORAN, W. (1993): *The Wine Appellation as Territory in France and California*. *Annals of the Association of American Geographers* 83 (2) pp. 694-758.
- SCHAMEL, A., ANDERSON N. (2002): *Wine Quality and Varietal, Regional and Winery Reputations: Hedonic Prices for Australia and New Zealand*. *The Economic Record* 79 (2) pp. 246-274.
- SCHELLENBERG, A. (1966): *Weinbau*. Freuenberg, Hueber pp. 32-38.
- WALTERS, A. (1999): *Rebuilding technologically competitive industries: lessons from Chile's and Argentina's wine industry restructuring*, Ph.D. Thesis, MIT. WineVision Project, Napa valley, CA.