WINE VALUE CHAINS

Where is created the real value in the wine chain ?

1-wine value chain from consumers to producers

how consumers trends impact the wine value chain

wine prices segmentation

2-retailers and consumers requirements in terms of quality

by

FABRICE CHAUDIER

sale & marketing consultant, wine market specialist still 2001

V&V

VINS & VENTES

+33 6 15 07 26 67 | fabricechaudier@aol.com

https://fabricechaudier.fr/

Notes

Why the creation of value is not so clear in the wine market today ? Based on a recent study lead by Jean-Marie Cardebat (one of the greatest specialist of wine economy) « The Palgrave Hanbook of wine industry economics » which try to find business models in the eleventh main wine producer countries, the three steps of value creation are :

-in the vneyard when is producing grapes,

-in the cellar where is transforming grapes in wine,

-in the market when consumers buy the final product,

which is not a big surprise. But in the last 20 years, the impact of the value creation change, evolve faster and faster, so know the upstream part only represent one third of the value created when the downstream wieigh three thirds.

This mean that if we want to control value, to get enough part of it so as to invest or develop a company, we have to understand how to share it, from retailers to producers. We have to reverse our point of view, looking the market from downstream to upstream and not anymore in the other way. (pages 3 &4).

VINS & VENTES

1-wine value chain from consumers to producers

→ upstream - downstream →

PRODUCTION → VINIFICATION → SALE & DISTRIBUTION → CONSUMPTION

PRODUCTION	VINIFICATION	SALE & DISTRIBUTION	CONSUMPTION
Purchase, material, cultivation, harvest, …	Wine cellar work, Blend, maturation, …	Marketing, trade, shipping & logistic, retail	Market = the consumers

three steps of value creation

↓	↓	↓
grape vine	**wine production**	**sale**
vineyard	**cellar**	**market = consumers**

1-wine value chain from consumers to producers

three steps of value creation

↓ **grape vine**
vineyard

↓ **wine production**
cellar

↓ **sale**
market
=
consumers

↓
1/3

↓
2/3

↓
value keys are becoming
-the retail price,
-value sharing beetween distribution actors and producers

VINS & VENTES

The economists conclude that it's not possible to analyze, provide economic market observation and ascertainment

↓

non tangibles and too larges concepts :
-quality,
-real predefined value,
because the wine « food drink » has disappeared to become an « product of experience »

Experience is a abstraction not a product.

↓

consumers trends :
-promise,
-reputation,
-labels ans marks,
-price acceptance and capacity

Consumers don't buy anymore a product but a social, qualitative, friendliness, gastronomic, sensorial, historical, etc. moment or experience. They don't want to consume but to drink wine.

VINS & VENTES

1-wine value chain from consumers to producers

Wine industry actors doesn't still measure this unusual situation where, as a consequence, all over the world business models doesn't exist

for examples :

grape vine	wine production
vineyard	**cellar**

↓

French wine producers

↓

don't access value creation

impoverishment

not enought money to invest

wine production	sale
cellar	**market**

↓

Bodegas or wineries

↓

don't control their supplies

weakness

not enought volume to sell

VINS & VENTES

Nevertheless and may be in an non intuitive way, we can notice that in all countries, in each market, arise

international shared trends, consumers

1/premium prices

price acceptance and capacity

2/links with :

-the producer,

-the origin,

-health,

-environment preservation

3/quick buying and short distribution circuit

4/understanding how to consume

&

4/learning wine culture or technic

→ retailers and consumers requirements in terms of quality

1-wine value chain from consumers to producers ; how consumers trends impact the wine value chain

VINS & VENTES

1/premium prices — price acceptance and capacity

2/links with :
-the producer,
-the origin,
-health,
-environment preservation

3/quick buying and short distribution circuit

4/understanding how to consume & learning wine culture or technic

→ retailers and consumers requirements in terms of quality

8

Let see the 5

→ impacts on value chain of these trends :

First : increasing consumption

2000 - 2019 +20 millions hl
+9%

= incredible evolution : in 20 years, 20 millions of hl are consumed (drunk if I use the good word) additionally

Second : increase in value twice as high as in volume

2000 - 2019 world export :
Volume +76,50%
Value +165%

2010 - 2020 in french supermarkets :
average retail price +38%

→ impacts on value chain

Third : increase in value twice as high as in volume BUT an expected price acceptance in France

39 €	23 €	12 €	5 €
icon	ultra premium	super premium	premium
Above : declining sales			Below : image drop declining sales
			No place for basic & popular premium

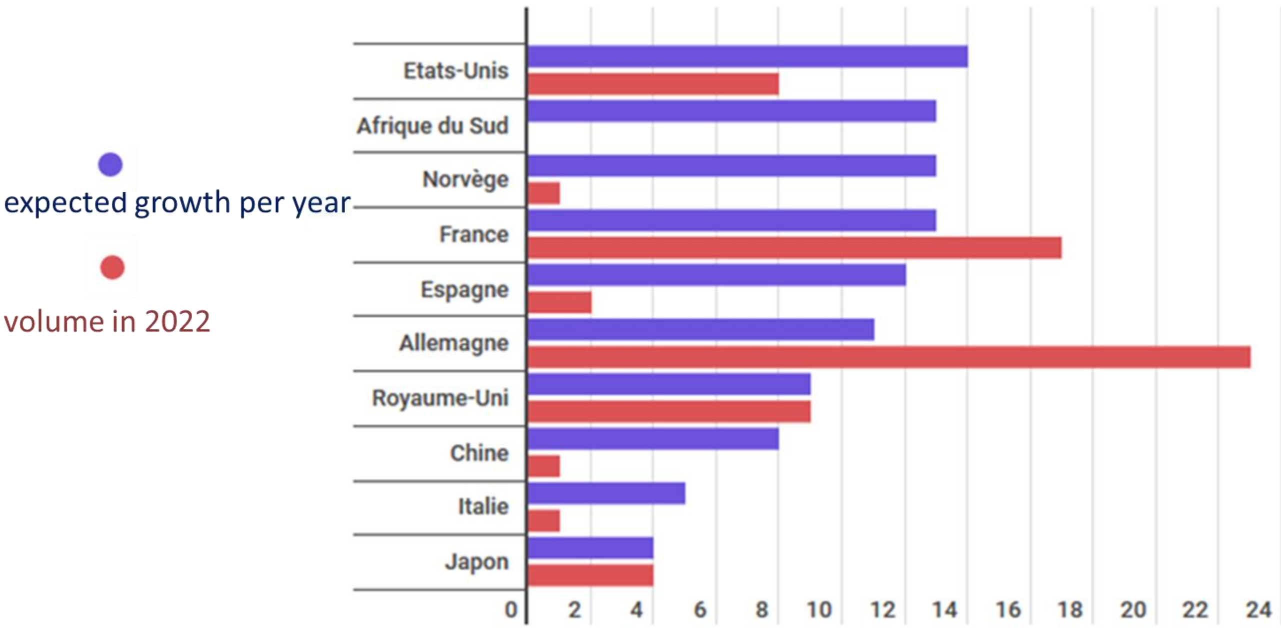
Concentration to the premiumization limit

-the long term development on basic & popular wines (Spain understood that very well when they decided to multiply by three the value of their exportation),

-the speculation, the inflation on iconic wines (French Grands Crus Classés are now too expensive for "normal consumers", reserved to a small luxury market disconnected from the real one

→ impacts on value chain :

Fourth : organic fact (whatever the label)



In France, organic wines are the only segment where the consumption increase.

In Germany or in the US, more than half of the market is under environmental labels.

In this conversion is a good item to perceive the common interest between up and downstream : upstream can preserve its production tool in front of the climate changes thanks to agroforestry or preserving environment strategy ; downstream, consumers give sense by buying good health products, becoming involved citizen-consumers.

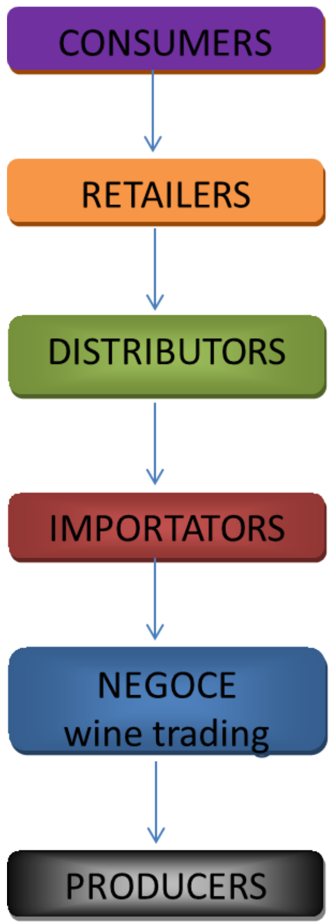
VINS & VENTES

1-wine value chain from consumers to producers ; how consumers trends impact the wine value chain

→ impacts on value chain :

Fifth : a new model of distribution ?

export old distribution chain



margins :

50% on trade / off trade

33%

25%

20%

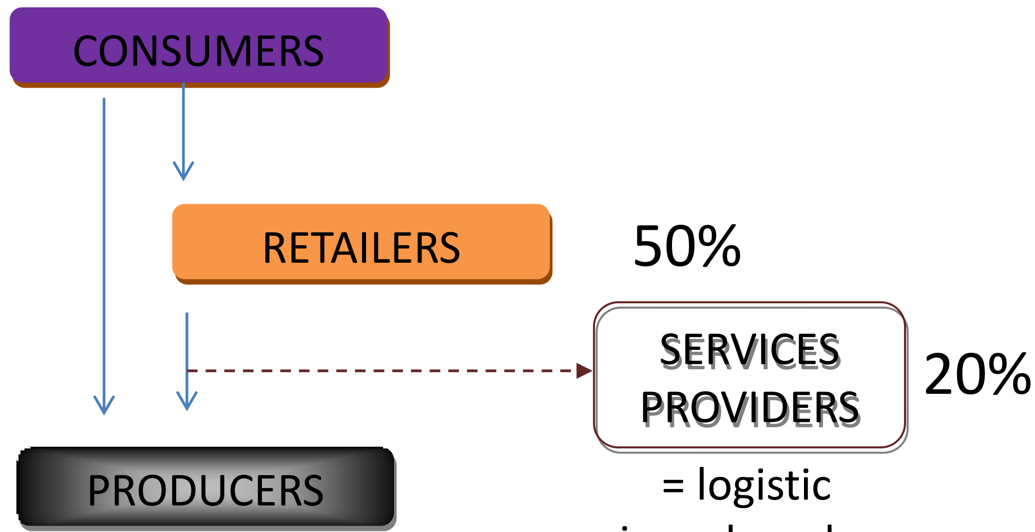
6 steps ;
4 between consumers and producers

This chain (usual in France) cost a lot of money to pay margin a each step and face problematics as how to :
-face tense flow,
-stock,
-serve the market,
and obviously how to finance it.
Most of time producers and consumers are both losers in this system (the firsts profits, the seconds fair retail price).

VINS & VENTES

→ impacts on value chain :

Fifth : a new model of distribution ?



new distribution chain, direct sale

= logistic
= wine whare house
= marketing
= commercials
= communication
= digital
= block chain
= big data

This new appearing chain satisfy the requirement of short circuit. The relation between consumers and producers is the only requisite to allow a market. Retailers are integrate as first and unique partners to rely them ; all the intermediates are services providers.

Let see the interest of these evolutions face to the segmentation ; if it depends on each country and sort of retail, trends are clear and here again, shared internationally.

Wine segmentation

France	International
1er Prix	Basic Popular
Entrée de Gamme	Premium
Cœur de Gamme	Super premium
Haut de Gamme	Ultra premium
Luxe	Icon

depends on each country and each distribution channel

Trends 10 last years

France		International	
1er Prix	-40%	Basic Popular	↘↘↘ ↘
Entrée de Gamme	-10%	Premium	=
Cœur de Gamme	+32%	Super premium	↗↗
Haut de Gamme	+22%	Ultra premium	↗↗
Luxe	=	Icon	=

Wine segmentation United States

Off trade		
Basic	4,9$	
Popular	9,9$	
Premium	12$	average level
Super premium	15$	
Ultra premium	19$	
Icon	Above	

In the US, first consumption market in the world, the average retail price level was multiply by two in 20 years (from 6 to attempt 12$ in 2020).

VINS & VENTES

1-wine value chain from consumers to producers ; how consumers trends impact the wine value chain
wine prices segmentation

CONSUMERS → RETAILERS → DISTRIBUTORS → IMPORTATORS → NEGOCE wine trading → PRODUCERS

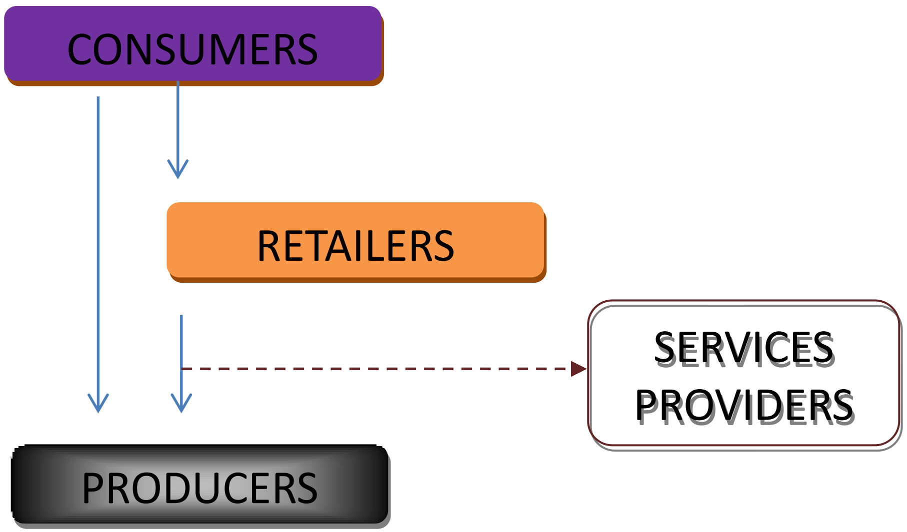
12$

For these 12$, in the old distribution chain, the producer is paid 2,67€ ; he get a possible trade & marketing budget of 34€ cent and finally receive 217€ per hectoliter.

2,67€ = possible trade and marketing budget 0,34€ = 217€/hl

VINS & VENTES

1-wine value chain from consumers to producers ; how consumers trends impact the wine value chain
wine prices segmentation



12$

4,5€ = possible trade and marketing budget 1,23€

=

343€/hl

58% added value

For these 12$, in the new distribution chain, the producer is paid 4,5€ ; he get a possible trade & marketing budget of 1,23€ and finally receive 343€ per hectoliter.

To compare and understand the Bordeaux value problem :

United States first consumption market in the world

Average off trade value retail price 12$

↓ ↓

Old distribution chain	New distribution chain
=	=
217€/hl	343€/hl
↘	↙

Currently Bordeaux commodity prices (« cours »)
105€/hl

Let examin known the consequences in terms of

2-retailers and consumers requirements in terms of quality

Both consumers and retailers share these requirements ; the only difference is that retailers need margins too.

→ attendance : be present 365 days by year, 24 hours per day

→ strong brands : international brand
origin (rare or famous)
new products
producer identity

→ labels & notes

→ quality and environment preservation proofs

The model is know the origin guarantee European system.

VINS & VENTES

→ digital & multicanal

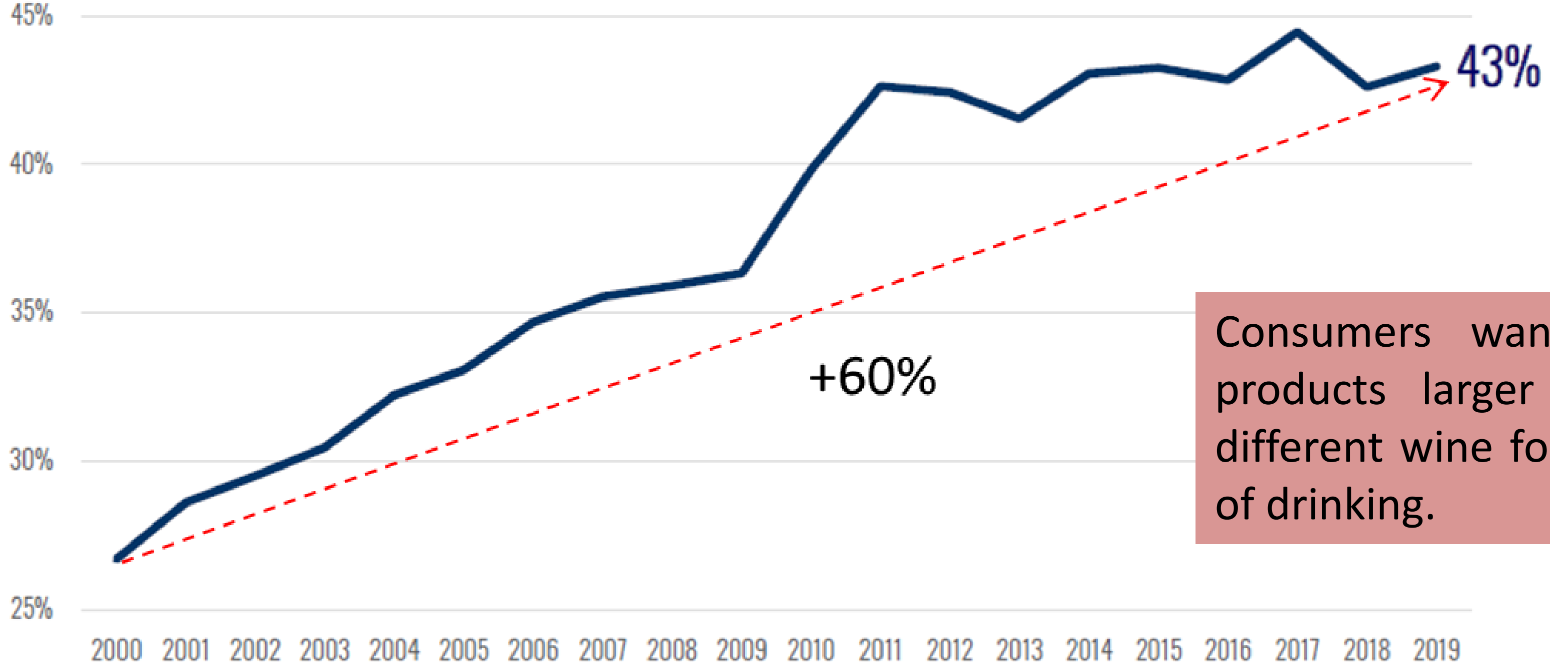
Amazon and Carrefour include these items as strategic priorities : Amazon bought shops (like Whole Food), Carrefour develop drive purchase.

→ supply chain = 0 stock ; 0 break

This maximal pression is first support by producers.

→ international range

Market Internationalisation Index



Consumers want a range of products larger and larger, a different wine for each moment of drinking.

VINS & VENTES

→ trade marketing

Wine producers have to finance (or cofinance with their retailers or services providers partners) all consumers requirements, and first in the wine shops

set the wine in a drinking situation

understand how / when / with whom / with whom — drink the wine ?

initiate to wine technic, history, tasting, etc.

In conclusion the wine market is not more a ratio or a sort of relationship between supply and demand but a not intuitive correlative need add tremendous volumes + higher quality requirement

DATAS & STUDIES SOURCES :

-OIV organisation internationale de la vigne et du vin
-CIVB conseil interprofessionnel des vins de Bordeaux
-Wine Intelligence
-IVBD interprofession de Bergerac - Duras
-CNRS université de Tours
-Palgrave Handbook of Wine Industry Economics
-Eric Giraud-Héraud - Université de Bordeaux - Inrae - ISVV
-Business France - France Agrimer
-Interprofesional del vino de España
-OeMV observatorio español del mundo del vino

with
innovin
COGNAC + BORDEAUX
_NOUVELLE AQUITAINE
innovation cluster

THANK YOU FOR YOUR ATTENTION

FABRICE CHAUDIER

sale & marketing consultant, wine market specialist still 2001

V&V

VINS & VENTES

+33 6 15 07 26 67 | fabricechaudier@aol.com
https://fabricechaudier.fr/