

University of Economics - Prague

International Business – Central European Business Realities



International strategy of a French wine company
within a global wine market.

Author: Bc. Clément DANIEL

Thesis instructor: Ing. Petr Král, Ph.D.

Scholar year: 2013/2014

Acknowledgments

I would like to express my sincere gratitude to the people, who supported and supervised me during the writing of this master thesis.

First of all, thank you very much to Mr. Kral for guiding and providing me the right advices through the whole exercise. The suggestions and recommendations have been highly appreciated.

Secondly, I would like to thank Mr. Fleurant who devoted some time in order to explain me the operating of Chapoutier's company, its strategy and implementation abroad.

Finally, my thanks go to my close relations who fully supported and encouraged me.

Abstract

The objective of the thesis is to investigate how a wine company plays on a globalized wine market and what are the adopted strategies in order to penetrate new markets. Some recommendations will be provided in order to improve the company's presence.

In this perspective two different markets will be analyzed: American and Chinese. For both markets we highlighted the main trends of consumption, the national production and competition. Moreover we described how the chosen company penetrated these markets, what are the stakes for the enterprise.

The French wine market suffers since 1960's and its consumption is going down every year. From this assessment French wine companies try to develop their activities abroad and reach new markets. The US market is the largest in the world in term of consumption in volume. The Chinese wine market is rather new but faces an incredible increase. The potential on both markets are substantial.

Key words

Global wine market, French wine company, Wine business, Strategies of implementation, International marketing

Abstrakt

Cieľom diplomovej práce je zistiť, akú rolu hrá vybraná francúzska vinárska spoločnosť na globalizovanom trhu s vínom, aká bola jej stratégia pri penetrácii nových trhov a aké sú jej možnosti pre zlepšenie výkonnosti.

Súčasťou výskumu bola analýza dvoch rozličných trhov: amerického a čínskeho. Pri oboch trhoch boli rozanalizované hlavné spotrebiteľské trendy, národná produkcia a miestna konkurencia. Následne bol popísaný prienik vybranej spoločnosti na vybrané trhy, ako aj jej podiel na týchto trhoch.

Keďže francúzsky trh s vínom trpí od roku 1960 a spotreba vína klesá každým rokom, francúzske vinárske spoločnosti sa snažia o rozvoj aktivít do zahraničia a o prienik na nové trhy. Z hľadiska objemu spotreby je americký trh najväčší na svete, čínsky trh je stále v rozvojovej fáze, kde zaznamenáva neuveriteľný nárast za posledné roky. Potenciál je pri oboch trhoch značný.

Klíčová slova

Globálny trh s vínom, Francúzska vinárska spoločnosť, Stratégie implementácie, Podnikanie s vínom, Medzinárodný marketing

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Introduction

The Chinese appear to have beaten the French at one of their own favourite pastimes – quaffing red wine. China's drinkers knocked back 1.86bn bottles of vin rouge last year, an increase of 136% over five years, making the country the leading market for red wine.¹

This news has shaken the wine' world up. The historic drinker and producer country of red wine has lost its first position in term of consumption. France conceded this position to a pretty new actor on the market: China.

We will evaluate how a French company extends its activity into international markets. The study will cover the domestic market, the United States market and finally the Chinese market. For each market we will determine what are the trends, main features, specificities, competition as well as stakes.

We will see how the company has penetrated the US market and how they run their activities there. We will then describe the Chinese market and its important potential. How the company reached it and which strategies have been adopted.

Thus the objective of the study is to assess the US and Chinese market for Chapoutier. If the enterprise is enough adapted to face the local demand and needs and what could be the axes of development. Several marketing tools and researches will help out in order to complete this goal.

In a personal point of view I was really interested in finding out how a small and medium size enterprise is competing on a global market. Moreover I wanted to discover what are the established strategies to get in new markets with different cultures and habits. The adaptation of companies is an essential aspect in our current global business world.

The wine industry is a global industry, whose members are appointed by seniority and geographical location. It includes:

- Producers of the old world (European Union, all countries around Mediterranean sea).
- The producers of the New World (United States, Chile, Argentina, South Africa, Australia, China...)

¹ <http://www.theguardian.com/world/2014/jan/29/china-appetite-red-wine-market-boom>

Top ranking producers, is historic trio countries, namely France, Italy and Spain totaling almost half of world production on their own.

French wines enjoy an unrivaled reputation worldwide, despite the emergence of new world wines markets. However French producers are worried about their near future. Since 1960's, the French wine production clearly tends to saturate and faces an annual drop in consumption of about 2 % on average. While the diversity of the French supply remains the same, the global competition increases and domestic demand decreases. National producers need to be more creative to deal with these weaknesses and reach new markets.

Globalization promotes the export perspectives of French production, particularly in the United States. Exports thus become one of the best solutions, enabling French producers to sell on several markets. In fact, the increase in wine consumption in the last forty years as well as a substantial growing wine culture in the United States in recent years, make the choice of exporting to this country relevant. USA became the first global wine consumer since 2010. International wines producers are aware of the fierce competition and the struggle to maintain and increase the market shares have seized this opportunity.

Chapoutier, founded in 1879 in Tain- Hermitage, is a French producer and marketer of wines from the Rhone Valley. This company has built an international reputation for its great wines of Côtes -du- Rhône. The enterprise Chapoutier is representative of the situation of French wine brand that develop export and reach new international markets. The analyze of Chapoutier's business strategies enables to check concretely the viability of the French wine on the United States market.

French producers are working with many countries abroad, but their attention is focused particularly on a market with great potential: China. This market of 800 million consumers is a real opportunity for French winemakers to create a qualitative picture of their products and to settle their business permanently, on a long-term perspective. It is very pertinent to see how Chapoutier started to penetrate the Chinese market in an economic and marketing point of view. We will describe the stakes, specificities and features of the future biggest wine consumer.

I. French market overview within the global context

1. Crisis of the French wine consumption on the domestic market

1.1 Domestic market situation since the end of the nineteenth century

French viticulture has gone through many crises during the nineteenth and the first half of the twentieth century. We assisted to two types of crisis: exogenous crises, such as the two world wars, and endogenous crises, such as the crises of mildew or phylloxera. However, during this period, once the crisis has passed, the consumption of wine went back to normal immediately. And until 1950, wine consumption in France increased greatly. However, this consumption growth stopped in 1960 and then experienced a different curve; it started to decline from 1965 without any valid reason. The decrease is regular and no major crisis may explain the situation. In the early 1960's, annual French wine consumption was 140 liters per person on average. In 2010, the consumption fell to an annual average of 56 liters per habitant. Another gripping figure would be the year 1980, in which more than half of consumers were considered as regular drinkers. The amount of drinkers is approximately only one fifth for the year 2010. Nowadays, the portion of French people who do not drink wine at all is around 38% (twice more than 50 years ago). Wine consumption has changed; this is not the drink with a meal anymore. It has become a friendly and festive beverage. In the 1980's, we assumed drinking wine with one out of two meals on average was normal; the assumption is considerably less 30 years later as it is only one out of four.

However, wine is still the most consumed alcoholic beverage in the French territory.

1.2 The various factors of the wine consumption crisis since 1960's.

The wine crisis in France is slowly but surely installed in favor of a combination of historical, structural and cyclical factors.

The first of these factors is the overproduction. Indeed, the first country in the world in wine quality and reputation, also has the largest planted area (figure from 2011) with 800 000 ha, 100 000 farms and 1 000 winemaking cooperatives. The production is

then distributed as follows: 16 million hectoliters (hl) of country wine², 18 million hl of table wine³, 26 million hl of AOC⁴, and, finally, 0.5 million hl of wine quality (VDQS⁵).

The progression of AOC wines was quick and uncontrolled at the expense of top quality wines. A set of factors are linked in order to achieve this great growth in the production of AOC wine: the absence of significant frost for nearly 30 years, pesticide use, and the selection of more productive clones (of vine). All these have achieved a yield up to 70 hl / ha in AOC, which is much higher than usual. This increase crop only leads each vintage to unsold stock.

The second factor is the overall mediocrity of French production. Productivist methods and a certain, enthusiasm for mass production, coupled with too dense planting densities generate large volumes of low quality wines. This element brings down the reputation of French wines.

The following is the breakdown of structures and the impotence of the big trade. France may well have the finest wines in the world; however, it suffers from the fragmentation of structures and isolation created by the individualistic spirit wineries in an ultra-competitive environment. In addition, only few traders in France have both an international dimension and a strong image in the global market to resell its surplus.

International competition is one of the most important factors since the beginning of the crisis in 1960. The French wine market has lost its reputation of excellence and is

<http://www.totalwine.com/eng/guide-to-wine/wines-of-france.cfm> (10.01.2014)

²**Country wine:** *“often from areas larger than AC zones, in which nontraditional varieties and higher yields are allowed”*

³**Table wine:** *“basic wine for which no geographical origin, grape variety or vintage may be claimed. ”*

⁴**Appellation Origine Contrôlée (AOC)** *“wines whose geographical origins, varietal make-up and production methods are precisely regulated – generally the best and certainly the most traditional.”*

⁵**VDQS** – *“Vin De Qualité Supérieure AC/AOC in-waiting, less than 1% of French wine qualifies for this designation.”*

not considered as essential anymore for all wine buyers on the planet. Consumers now look into new wines. Those wines come from emerging countries' vineyards and their structures look completely different from those in France. We count in the new wine country of the world about four or five main companies producing a total of more than 50% of the national volume. Thus, an excessive amount of bottles floods the world market at unbeatable production costs.

Another factor is that the internal market is in sharp decline. This is due to changing consumption habits, which includes a government anti-alcohol campaign (Evin law). The Evin law of 1991 limited the advertising and promotion of alcoholic wines. Many anti-alcohol actions launched by the government during the last 50 years have contributed to reduce the consumption in France.

We can also explain this decline in wine consumption in the domestic market with sociological phenomena - particularly phenomena related to lifestyle changes. Sedentarization and urbanization have contributed to the evolution of consumption (French people drink more often in the country side in practice). In addition, there is a structural change in the working day with a decrease in time allotted for a lunch break. Longer lunch breaks allowed workers to easily drink a glass of wine during the break. Moreover, young people consume alcoholic beverages between meals (e.g., spirits and beer), which presents a situation of wine rarely being consumed. The wine is not part of their collective identity marks anymore.

Finally, we observe that the meals structure has changed. French people do not eat for hours with the whole family and this tradition became less regular (Sunday is the typical day for such a meal). We assist today to a decrease in mealtime and the opening of a wine bottle is now synonymous of an appetizer, social settings, special occasions, such as celebration, and traditional family meals. It is not as standard as before to drink wine while eating. We must note the importance of water consumption during a meal, which takes the largest share as well as a massive increase of juice and soda consumption.

1.3 Figures of French wine market in 2010's.

France has taken its place as the world-leading producer in 2011 with 18.6% of global production, followed by Italy (15.9%) and Spain (13.1%). However, IWSR (The International Wines & Spirit Research) announced that there would be lower production by 2014.

Consumption has decreased by approximately 2% every year since the 1960's. Since the year 2005, this drop has decreased to 1.4%, leaving hope for a weaker fall in the coming years. The French are, for example, the first consumers of rosé wines in the world with an increase in consumption of 19.8% between 2005 and 2009. Sparkling wine consumption has also increased by 4.6% in 2011, which highlights the festive side of the current consumption. These two categories accounted for 34.1% of French consumption.

Since 2010, France is not the greatest wine consumer regarding annual volume. In fact, the United States received the first place with 13.4% of global consumption followed by France with 12.3% and Italy with 9.4% in 2011 (*See the World wine consumption*). However, wine consumption per capita and per year remains as before with 54 liters for French, 53 liters for Italian and only 12 for Americans.

Figure 2: World wine consumption in 2011 (quantity in liters 000)

Country / Territory	2010	2011	% Change 2011/2010	% World consumption 2011
World Total	23 410 550	24 367 197	4.09%	100%
United States	2 996 000	3 252 500	9.6%	13.47%
France	2 891 700	2 993 600	3.5%	12.29%
Italy	2 462 400	2 305 200	6.4%	9.46%
Germany	1 970 00	1 990 000	1.0%	8.17%

Source: www.wineinstitute.org - (10.01.2014)

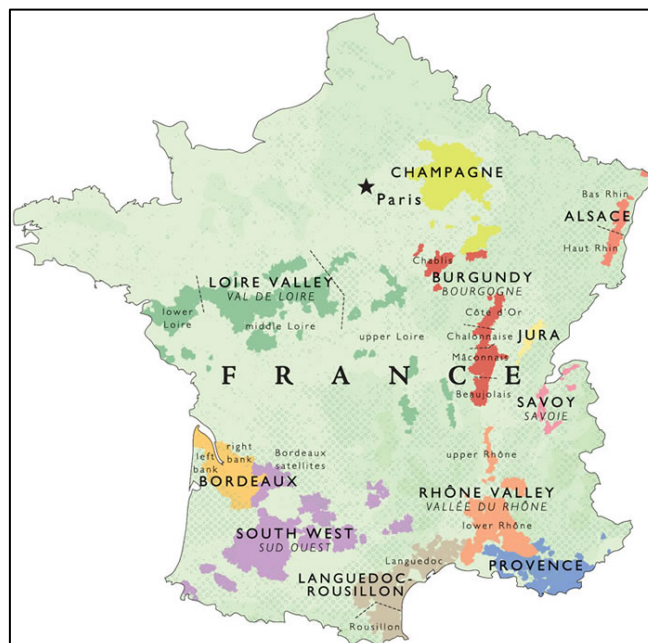
French wines seem to be gradually recovering from the crisis. However, during the past 50 years, winemakers have expanded their businesses into global markets as a solution.

2. National production and exportations

2.1 French wine regions

We find some wine producing regions in many different parts of France. However, there is none in the North and Northwest part. The most famous regions are Bordeaux for red wine and Champagne for the renowned sparkling wine.

Figure 3: French wine map's regions



Source: <http://www.delongwine.com> - (12.01.2014)

Bordeaux

The Bordeaux region is situated in the Southwest of France along the left and right banks of the Gironde Estuary and it benefits from a temperate oceanic climate. The area belongs to the Aquitaine region. With around sixty appellations, Bordeaux is the largest and most prestigious French wine region and is recognized as the producing world leader for over two hundred years. We identify around 7 000 chateaux, which supply some wine in the area. The region produces around six million hectoliters annually and allocates this as following: 80% of red wine and 20% of dry white wine. More than 120 000 hectares of land are used for viniculture. “Grand crus”⁶ are internationally famous, such as Chateau Margot, Chateau Latour, Pétrus, Cheval Blanc, Mouton Rothschild or other Yquem, and might cost more than one thousand euros per bottle.

The three main grape varieties in the Region are Merlot (50% of the production), Cabernet Sauvignon (24%) and Cabernet Franc (10%). Regarding the white grapes, we also count three important types with Semillon (8%), Sauvignon (4%) and Muscadelle.⁷

Burgundy

Two main regions compose Burgundy: the Beaujolais (southern part) and the Bourgogne (northern part). The vineyard extends 360 km lengthwise between Dijon and Lyon.

The Bourgogne region is the second most known region in France for the wine. It is located in the East Center approximately 150 kilometers away from Paris. The vineyard is very large is nearly 200 km from the southern point to the northern point. The region operates around 27 000 ha annually. It is divided in 5 sub regions: Yonne Chablis, Côte de Nuits, Côte de Beaune, Cote Chalonnaise and Maconnais. The overall climate is

⁶ <http://www.wine-searcher.com/wine-label-france.lml> - (12.01.2014)

Grand cru: « is the very highest classification of French wine. The term can refer to a wine in one of two ways, either a) the plot of land where the grapes are grown or b) the chateau at which the wine is made. The former applies most famously in Burgundy, Alsace and Champagne (but is also used in Languedoc and the Loire Valley). »

continental with really hot temperatures in summer and very low temperatures in winter. Every year, the area is producing around 1.5 million hectoliters, which is four times less than Bordeaux. This represents 0.3% of the global production of wine. Unlike the Bordeaux's system, there is no chateau classification, but everything is driven by the AC (Appellation Contrôlée) system.

The Beaujolais region is situated the Northeast of Lyon. The area extends 22 000 ha and produces 1.2 million hl of wine every year, which consists mainly of red. Three climates are predominant: oceanic, temperate and Mediterranean. This is the main strength of the vineyard. The area is split in two with the Beaujolais part and the Lyonnais; we identify 14 AOC in total.⁸

The Rhône valley

It is the second largest after the Bordeaux vineyards, as it covers six departments (along the Rhone river) and 75 000 hl of vineyards, which supply over three million hl of red, rosé, sparkling and dry white or sweet wines. It is divided into two wine regions commonly distinguished as the Northern Rhône Valley and the southern Rhone Valley. The Mediterranean climate and its many variations combined with the diversity of soils (very steep to the north, low hills in south) make the Rhone "terroir" very rich and unique, and thus produce high quality wine. The large majority of wine is sold under the appellation "Côtes du Rhône" or "Côtes du Rhône Villages"⁹

The Loire valley

Loire Valley offers various "terroirs" that produce a great variety of wines. The Loire Valley is known for its white wine; they produce every year approximately 75% of white wines. The region proposes the largest diversity regarding the white wines production with some dry, semi-dry, sweet and sparkling. 30 000 ha are operated at the vineyard. Among the grapes, the most commonly grown are the Chenin, Cabernet Franc,

⁸ <http://www.totalwine.com/eng/guide-to-wine/wines-of-burgundy.cfm> - (13.01.2014)

⁹ <http://www.hachette-vins.com/le-guide-hachette-des-vins/regions-viticoles/vallee-du-rhone/vins-terroirs-et-cepages-1-2-112.html> - (13.01.2014)

Cabernet Sauvignon, Gamay, Sauvignon and Pinot Noir. The annual production is around three million hl.¹⁰

Alsace and Champagne

Champagne is one of the most famous sparkling wines in the world. Champagne is recognized as a festive wine and is a very chic product. The Champagne region spreads in the Northeast of France between the towns of Reims and Epernay. There are mainly three different areas in the Champagne wine region: Montagne de Reims, Côte des Blancs and Valley of Marne. The vineyard is composed of 35 000 ha and the main grapes are Chardonnay, Pinot noir and Pinot Meunier.¹¹

Ninety percent of wine produced in Alsace is white. The region is situated along the German border and 15 000 ha are operated for the production. The grapes used are the following: Riesling (23%), Pinot Blanc (20%), Gewurztraminer (18%), Tokay Pinot Gris (13%) and Sylvaner (12%).

Others regions

There are actually few other regions that supply wine. We could, for example, list the Charentes region, specialized in the Cognac liquor, the low mountain chain Jura, which is well known for its sweet yellow wine, or the white wine from Savoy in the Alps. In the South of France, we find the Languedoc and Provence regions along the Mediterranean Sea as well as the Corsica, all three are known for rosé production.

2.2 French main companies

Few figures

¹⁰ <http://about-france.com/wines.htm#Loire> - (13.01.2014)

¹¹ <http://www.hachette-vins.com/le-guide-hachette-des-vins/regions-viticoles/champagne/terroirs-et-cepages-1-2-93.html> - (12.01.2014)

The French wine sector is characterized by a high fragmentation of production. Indeed, we count more than 100 000 wineries. However, we are witnessing in the last few years a series of mergers and acquisitions of wineries in all regions. There are approximately one thousand trading companies and create 30 000 jobs; some of them play a crucial role abroad on the international scene. In this section, we will describe three actors on the market, with three different influences on the world market.

Grands Chais de France (GCF)

The Chais de France (GCF) group is based in Petersfield in Northern Vosges (the Eastern part) and is specialized in the trading, production and export of wine and spirits. The company is the French leader in the export of wines and spirits and is the first private winemaker in France. The turnover for 2012 reached 840 million euros including 76% for export. Created in 1979 under the leadership of Joseph Helfrich, the group expanded rapidly in recent years, and it is now present in almost all wine regions of France: Alsace, the Loire valley, Beaujolais, Bordeaux, Languedoc –Roussillon, but also in Germany, China and Japan. The site Petersbach is considered really modern and very efficient with its fermenting capacity of 80000 hl and its bottling chain that has a capacity of one million bottles per day. The enterprise currently has approximately one thousand employees.

The group exports to more than 160 countries around the world. Twenty-four percent of production is intended for the national market and the other 76% is allocated as follows:¹²

- 72% Western Europe
- 8% Central and Eastern Europe
- 20% Global export (Non Europe)

GCF is proud to proclaim that the brand JP Chenet is the greatest selling French brand in the world. The range has declined to six products: two white, two rosé and two red wines.

¹² <http://www.gcfplanet.com/en/The-GCF-Group-10.html> - (15.01.2014)

These wines are viewed as rather affordable (approximately four euros a bottle). The bottle is distinctive in design with a twisted neck.

Castel Group

Pierre Castel heads Castel Group. Nine Castel brothers and sisters founded this company in 1949 in Bordeaux as a wine trading company. It became an international family group and Castel is now the world's third largest wine group behind the U.S.' Constellation Brands and Gallo (but before the French Pernod-Ricard and LVMH) with a production of 630 million bottles of wine in 2012 and a turnover for the wine industry of 1.2 billion €. ¹³ It is also the second largest producer of beer and sodas in Africa in partnership with Heineken and the South African company SABMiller. Today, Castel Group is at the head of 21 properties in the Bordeaux region and Provence, Languedoc and Loire and operates 1400ha in France. They have also developed production abroad; they have 17 properties in Africa and operate the vineyards on 1600ha, which are located in Morocco, Tunisia, and Ethiopia. The company employs approximately 20 000 people. Castel makes 80% of its turnover on national territory and 20% from its exports. The most famous brands that the group offers are: Plessis Duval, Roche Mazet, Vieux Papes, Blaissac etc. They offer an extensive selection of products with a vast price range.

Moreover, with the purchase of Nicolas in 1988, Castel became the owner of the largest chain of specialist wine shops in France. Through more than 500 stores located in the heart of major cities in France and abroad (Belgium, UK, Morocco and Russia), Nicolas offers over 1200 wines, champagnes and spirits. They also have the largest cave for the winemaking process near Bordeaux. This cave contains up to 40 000 barrels (10 million liters) and is the largest in Europe. ¹⁴

The group is very powerful and is ranked number one for trading French wines, second for beer and sparkling water in Africa, and is ranked the third world group for wine production and distribution in terms of volume and sales. We can see that they control the

¹³ <http://www.groupe-castel.com/groupe/chiffres/> - (16.01.2014)

¹⁴ <http://www.dico-du-vin.com/c/castel-groupe-castel-pierre-castel-troisieme-groupe-mondial-du-vin/> - (16.01.2014)

whole chain from production to distribution, as they own some castles and wine properties through the French retail leader, Nicolas.

M. Chapoutier

This wine producer and trader is slightly smaller than the two first companies. It is also interesting to see how a lower ranked company is developing and which strategy they adopt to compete among the massive corporations. M. Chapoutier employs about 130 people worldwide. The turnover for 2012 was 40 million euros (about 20 times less than GCF)¹⁵

Located in Tain l' Hermitage (South of Lyon - Rhône valley), this family company has existed since 1808. Michel Chapoutier, head of the vineyard since 1989, is a seventh generation winemaker. He greatly extended the property to a 360-hectare spread over multiple domains. The Hermitage AOC, the most prestigious appellation of the Rhone Valley, is 130 ha in total. Chapoutier cultivates 34 hectares of the vineyard, which designates it as the largest operator of the AOC. The company works with more than 20 appellations in France and abroad.

The “Maison Chapoutier” also owns lands in Portugal and Australia (in association with other producers).

The product range is large and the price policy is totally different than that of JP Chenet (GCF), for example. Both brands have a slightly different position. Chapoutier products are located at the top of the price range with prices between 10 to 50 euros on average per bottle. Yet, some “Grand crus” can cost up to 300 euros a bottle. The target group is obviously different and this type of wine will be proposed to fine amateurs of wine with a higher budget. The familial corporation has created a good reputation for its wine making process and its high respect towards the appellations. Furthermore, the current director, M. Chapoutier, is considered a great manager in the sector.¹⁶

¹⁵ <http://www.societe.com/societe/m-chapoutier-435580477.html> - (17.01.2014)

¹⁶ <http://www.wineanorak.com/rhone/chapoutier1.htm> - (17.01.2014)

Robert Parker Jr (very influent wine critic) said about the director: « *Michel Chapoutier's enthusiasm and commitment to exceptional, naturally made wines is a winemaking triumph, as well as a clear victory for all who care about the quality of wine* ». ¹⁷

2.3 French wine exports in 2012

In 2012, French wine and spirits exports hit a new record of over 11 billion liters and represent the third most profitable French export sector. The study, provided by The Federation of Exporters of Wines and Spirits of France (FEVS)¹⁸, supplies the figures of the French exports of wine and thus is a reliable source for current trends. Regarding the wine, exclusively, the country exported 7.5 billion euros in value, which is equal to 30% of the national production (+0.6 billion compared to the year 2011). A pair of reasons may explain this performance: the rise of the sales in Asia as well as the increase of Grand crus sales.

By volume exported, the three main countries decrease: by -7.1 % for Germany (for a total of 2.3 million hl), by -6.5% for the United Kingdom (1,87 million hl) and by -1.4% for Belgium (1 420 000 hl), compared to the year 2011. These three countries represent 40.7% of the 13.7 million hl of wine shipped from France in 2012.¹⁹

Denmark had the largest decrease in shipments (-13% to 203 300 hl), while Russia, which closes the top 15 countries by volume, had the greatest rise: +69.9% (to 176 400 hl). We can also note the significant increase in Italian and Japanese demand (+34.6% to 262 800 hl and +21.8 % to 690500 hl, respectively). In Asia, China also reported an increase of 25.6% in French wine imports (to 1.31 million hl); this reinforces its fourth destination in terms of volume, which is nearly as large as Belgian exports.

In value terms, the first three markets represent 39.6% of the sales of French wine exports. United Kingdom leads with 1.3 billion Euros and has been imported +9.1% compared to the previous year. This is mainly due to the increase of the Grand crus wines

¹⁷ *The Wine Advocate*, 2009. (17.01.2014)

¹⁸ *Annual report 2012; Les exportations françaises de Vins et Spiritueux*, Press conference February 2013. (19.01.2014)

¹⁹ http://www.fevs.com/files/actu/38_210_1.pdf - page 11. (19.01.2014)

from Bordeaux. United States also shows a strong dynamism: +18.1 % to 1.02 billion Euros. Germany remains stable for its imports in value (686 million Euros, -0.5%).

Half of French wine sales are destined to Europe; however, the Asian market remains the fastest growing. Between 2009 and 2012, wine sales to Asia recorded a growth of 30% per year on average, while growth was only 12% for all destinations and just 6% for Europe. In 2012, Asia accounted for 27% of total wine sales, which compares to only 17% in 2009. Asia contributes to half of the total exports increase between 2009 and 2012, which is mainly due to higher volume; it has actually doubled in four years.

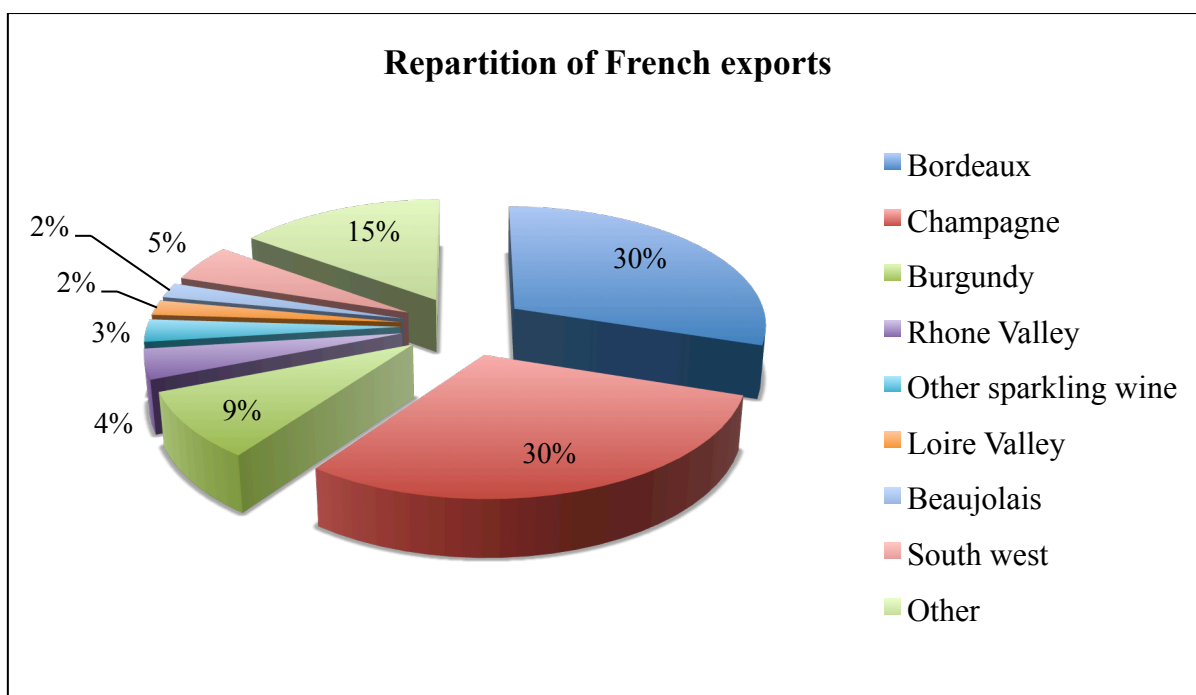
Regarding the emerging markets, sales to Brazil, Russia, India, China and South Africa (BRICS) represent 15.8% (7.5 billion euros) of French wines shipped in 2012. To increase exports of French wine and spirits, the specialists recommend further exporting to new emerging countries with great potential such as India, Vietnam, Thailand or countries from the MERCOSUR association (South American countries: Argentina, Venezuela, Uruguay and Paraguay).

With regard to the repartition by value of the vineyards shipped, the evolution compared to the previous year and the repartition is as follow: ²⁰

- Champagne: 30% (+4.7%)
- Bordeaux: 30% (+15%)
- Burgundy: 11% (+8.5%)
- Rhône valley: 4% (+11%)
- Loire valley: 2% (+8.3%)

Figure 3: Repartition of French exports in 2012

²⁰ http://www.fevs.com/files/actu/38_210_1.pdf - (20.01.2014)



Source: http://www.fevs.com/files/actu/38_210_1.pdf - (20.01.2014)

3. Importations / New actors in the market

3.1 Imports situation on the French market

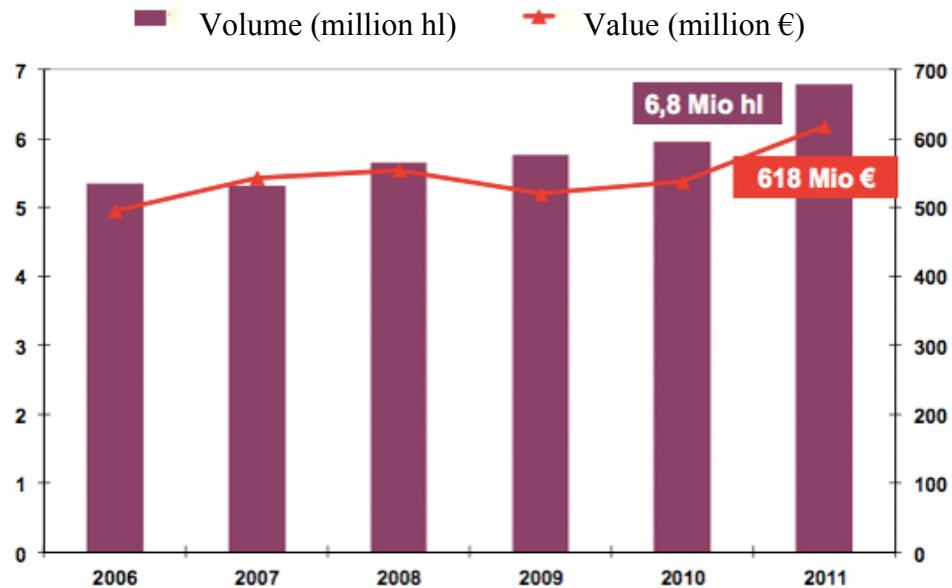
The annual report given by France AgriMer²¹ (National establishment of the agricultural and fish products) provides the figures regarding foreign trade. The institution works in tight collaboration with the ministry of agriculture and plays the role of intermediary between the government and the sector.

In 2011, France imported 6.8 million hl of wine. In fact, imports increased by 14% from 2010 and by 17% compared to the five previous years on average. In value terms, it represents 618 million euros, an increase of 15% from 2010 and 17% in comparison to the last five years, on average. Although French operators import nearly 7 million hectoliters, a part of these volumes is actually re-exported. Indeed, many French operators provide a logistic service (bottling assemblies) for importers' foreign account, especially Europeans.

²¹ <http://www.franceagrimer.fr/content/download/17190/133634/file/BIL-VIN-commerceexterieur-A11.pdf> - (20.01.2014)

To put things into context, a part of these imports is just transiting through the country but are taken into consideration in the official statistics.

Figure 4: Evolution of the French imports (2006-2011)



Source: <http://www.franceagrimer.fr/content/download/17190/133634/file/BIL-VIN-commerceexterieur-A11.pdf> - (20.01.2014)

Regarding the types of imported wine, we can regroup them into four categories:²²

- AOC or AOP (Appellation d'Origine Protégé): Protection or control of the origin (geographical) of the product. It is a synonym of high quality wine. It represents 14% in volume and 53% in value for 2011.
- IGP (Indication Géographique Protégé) or Protected Geographical Indication. Previously known as “vin de pays”, or country wine. This type is subject to lower restrictive rules than the AOC wines. It represents 8% of the total volume imported and 7% of its value.

²² <http://www.franceagrimer.fr/content/download/17190/133634/file/BIL-VIN-commerceexterieur-A11.pdf> - (20.01.2014)

- Without IG (without any origin protection), previously table wine, is also called bulk wine. This is the lowest quality wine in the current classification. It represents 75% in volume and 32% in value.
- Effervescent wines: all the sparkling wine. It represents 3% of the total volume and 8% of the value.

There are obviously some significant differences between the value and volume of the products imported. France imports predominantly bulk wine without any IG (3/4 of total volume) but represents only one third of the total value. The price per unit for this type of wine is quite low. Just the opposite, the AOP/AOC wine represents more than half of the total value but just 14% of the volume. Thus, France does not import much high quality wine with a high price per unit.

In terms of total value, the country imported approximately 600 million euros in 2011. This covers roughly 2.5% of French consumption. However, not all of this wine is consumed in the territory. Many wine traders have some vineyards abroad and import it to transform it or bottling purposes and then re-export it.

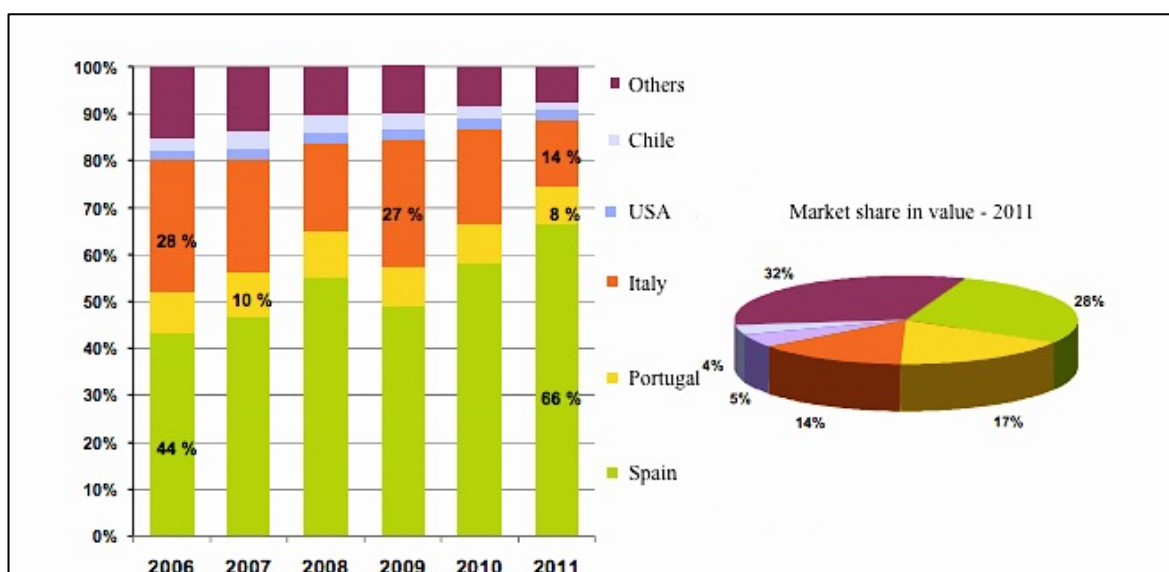
3.2 The French imports partners

- Historical European partners

In 2011, about 6.8 million hl of wine was imported to France; more than 91% came from the European Union and approximately 9% from other countries. This distribution has fluctuated little since the year 2000 when it was also roughly split as 91% and 9%. However, within the EU, we can notice some fluctuations. Spanish exports had lost some market share in 2009. This currently represents 66% (see figure Nr 5) of the French imports volume (against only 20% in 2000). Thus, Spain is the greatest exporter of wine on the French market.

Italy, meanwhile, continues to lose some market shares and represented only 14 % of the total volume in 2011 (it was around 60% in 2000).

Figure 5: Import partners in volume and value's share in 2011



Source: <http://www.franceagrimer.fr/content/download/17190/133634/file/BIL-VIN-commerceexterieur-A11.pdf> - (20.01.2014)

We can also note an increase of 59% for the Spanish imports on average on the period 2006-2010 (by relative volume). Wines from Spain are performing very well currently. Imports from Portugal have also increased (+12%) while Italian imports decreased considerably (-29 %).

In detail, the main French imports partner was Spain and had 4.5 million hectoliters and 173 million euros of wines shipped in 2011. Spain was the first-ranked supplier of the country in volume (+30% compared to 2010) and value (+28%). Italy is the second-ranked supplier by volume and third by value, with 0.9 million hl and 88 million euros. This was a decrease in volume (-21% compared to 2010) and a slight increase in value (+2%) from 2010. Finally, Portugal is the third largest exporter by volume and second by value with 0.6 million hl for 104 million euros. Portugal has both volume (+14%) and value growth (+4%).

However, in terms of value, we need to moderate these figures. Spanish imports represent only 28% of the total value, while Italian imports represent 14%; the difference is only 14 points and not 44 points from a volume perspective. The imported Italian wine has a higher cost per unit than the Spanish one. On the contrary, Portuguese wine has a high

monetary value per piece, as it represents 8% of the total volume but 14% of the imported value.

New world

The third countries (outside of the EU) represent only a small part of the total volume of French wine imports with roughly 12%. In 2006, this portion was greater and represented one fifth. However, in terms of value, the share is very important. In fact, it represents 41% of the total imports value. Thus, the value per unit imported is very high compared to European imports. We find several regions in this new world category:

- United States: The US represents 5% of the 2011 total imports value. American producers have competed among the bigger competitors for several years and their imports rise continuously over the years. Moreover, American wine reputation is becoming better and is more recognized.
- South America: Chile and Argentina are the two main exporters. Chile exports four percent of the French import value.
- Oceania: Australia and New Zealand represent roughly 2% of the imported wine on the French market.
- South African: South Africa is the main African wine producer though it has a really small share of French imports.

II. Development and stakes of the North American market

1. The United States: a major actor in the wine sector

1.1 A huge demand

The largest consumer in the world

“Aren’t we getting sophisticated? The United States last year, despite wars, government deficits and a punky economy, overtook France to become the world’s biggest consumer of wine.”²³

In 2011, the United States became the first-ranked consumer of wine, in terms of volume, ahead of Italy and France. This represents 13.5% of the world consumption in 2011 (with more than 300 million nine-liter cases). In fact, annual individual consumption has doubled in 40 years to 12 liters per person in 2011. Despite the economic crisis that hit the USA, the American people drank more wine. In 2009, U.S. consumption grew by 0.8%. However, the figure per inhabitant is less considerable. That is to say that wine consumption in per capita in the USA is around 12 liters in 2011. This compares to 52 liters per capita in France and more than 60 liters per capita in Vatican city. The USA ranked 15th in terms of a per capita basis.²⁴

A need to import

The country imports about one third of its total wine consumption. These imports are from many countries. However, more than half of the value imported is from Italy and France (28% and 30%, respectively; see the table below). The European producers are the main international suppliers of wine. It is important to differentiate the total imports in terms of value and volume. Figures are not always similar, and an expensive French wine,

²³ America is drinking more wine, Fred Tasker, 25th May 2011. (02.03.2014)

²⁴ www.lemonde.fr - Les Etats-Unis, premier pays consommateur de vin, 13.03.2012 (02.03.2014)

for example, could represent only 14% of the total imports in volume but 28% in value. Australian wine is typically opposite.

The American market is rather open to all kinds of wines and, lately, we see a diversification of the origins of these wines. For example, it is easy to find wine from South America, Oceania, and South Africa.

The chart below shows us the origins of the United States' imported wines. We can notice the differences between the value of the imported wine and its actual volume.

The chart below, shows us from where are the imported wine into United States. We can notice the differences between the value's share of the imported wine and its actual share's volume

Figure 6: Market share in US wine market, in 2008

	Market Share (volume, Hl)	Market share (value, US\$)
Italy	28%	28%
Australia	22%	15%
France	13%	30%
Argentina	9%	4%
Chili	8%	5%
Spain	6%	6%
Other countries	14%	12%

Source: http://www.adelaide.edu.au/cies/research/wine/pubs/Schamel_WC0210.pdf -
Quantity vs. Quality: An Analysis of Wine Export Strategies into the U.S. Market, G.
Schamel, January 2010. (05.03.2014)

Italian and Spanish Wines

The leading provider of U.S. wine maintains its dominant position. A part of Italian production has made great qualitative progress since 2000. If exporters are reasonable and do not increase their prices carelessly, the future is very positive for Italian wine. This is actually considerably supported by the growing restaurant industry sector, which is typically favors Italian wine. Italy is noted as the country that exports the largest quantity of wine into the United States, selling over 2 million hectoliters of wine in 2007. That represents 28% of the volume and value imported on to American soil for the year 2008.

Spanish wines, which represent a relatively small market share, have also seen significant qualitative progress since 2000, and could grow in the market.

However, these wines have rather bad reputation. American consumers create a negative link to an American Hispanic image, which is connected to Latin American immigration.

Australian Wines

Australian wines are progressing steadily on the market. These wines have many benefits. The general opinion is that significant qualitative progress has been made. We find that Australian wines have a fruity taste, which may taste similar to Californian wines. There are some very reputable, leading brands that are well positioned to gain market share in the US market. The average consumer price is around 12-15 USD/75 cl. Thus, we can conclude that these wines are affordable for the American consumer.

South American Wines: Argentinian and Chilean

Argentina and Chile occupy rank third and fourth in terms of volume among the U.S. imports. These wines have several very positive benefits on the market: they are grape variety wines, with leading brands clearly identified and benefiting from strong reputations. With low to medium prices (with some averaging 6-7 USD / 75cl), they are easily accessible for consumers and should continue to progress.

Other wines

German wines occupy a small market share (3% of import volume in 2008). They are attended for, according to the operators, to specific consumers who have a link of any kind with Germany (German origins, business counterparts, people visiting the country, etc.). They are generally little known and their presentation, i.e., the label, is not well adapted to the market due to complexity.

Portuguese wines, except for Porto, are intended primarily for Portuguese communities. These wines are rather popular in some cities, such as in New York and Boston. The New Zealand wines have begun to develop in the US market. They benefit currently from a trendy phenomenon. South African wines are also progressing.

1.2 Produce and assess the global wines

American production

In terms of production, viticulture is very important in the United States. Thus, even if production is half of what another country produces, e.g., France, annual volumes are steadily increasing (+20% between 2002 and 2012). The wine industry plays a very important role in the economy of the US with an economic impact of more than \$60 billion in 2012. The United States ranked fourth in wine production in 2011 after France, Italy and Spain.²⁵

Californian wine

California produces more than 90 % of the total American wine production²⁶. The state produces more or less than 200 million cases of wine per year. Most are dry white wines and some dry red wines, but there are also rosé, sweet white wine, Chardonnay and others. It is important to note that red wine production is very strong and increased by +135% in 10 years, although it still remains less important than the production of white wine.

²⁵ <http://www.wineinstitute.org> - California wine profile 2012 (11.03.2014)

²⁶ <http://www.wineinstitute.org> - California wine profile 2012 (11.03.2014)

The main producing region is the Central Valley (73% of production). The most known regions (Sonoma Valley and Napa Valley) represent six and four percent of the production of the state, respectively. Among all the produced varieties, Chardonnay leads with 27%. Californian wines are exported to 125 countries including Europe (UK, Germany, Denmark, Sweden, Poland), Japan, China, Mexico, and Canada. These exports were worth more than a billion dollars in 2008, which is substantially higher than the value of \$35 million in 1986. The average annual growth rate is, by volume, 10% over 10 years. These exports are mainly input quality wines produced by three main groups worldwide.

The wine monopoly

In the United States, three major international companies dominate the wine market and represent almost half the market in terms of volume. “He noted that the big three—Gallo, The Wine Group and Constellation—grew 8% on a huge base of 150 million cases. They represent in real terms almost half the industry’s growth.”²⁷

Gallo

Gallo is the world leader in volume and was established more than 80 years ago. The group consists of 45 worldwide brands in its portfolio relayed by 4 600 collaborators and is present in 90 countries. This represents a total volume of 76 million cases sold every year for a total of 900 million bottles. Their annual revenue is estimated at \$1.7 Billion. The multinational company employs more than 5 000 people.²⁸ Gallo’s strategy is based on the acquisition of brands, repositioning through innovative concepts, and the adaptation of supply to demand towards targeted markets. The company uses all the advantages of a world leader: a large production capacity to generate low production costs, a very powerful branding to transform a correct quality product into a cash cow via a power marketing, and a sales force that is very present on the ground. Finally, its association with the retail chains that relay the image of the product towards the final customer.

²⁷ <http://www.winesandvines.com/template.cfm?section=news&content=105598> - 26th of September 2012 (13.03.2014)

²⁸ <http://yongjiwine.blogspot.cz/2011/03/top-30-us-wine-company.html> - March 2011

Constellation Brands

Constellation Brands produces an annual volume of more than 110 million cases worldwide. The company emphasizes the independence of the firms it acquires particularly in terms of production. This company is characterized by its strong presence in the European market. This is evidenced by the \$1.3 billion purchase of Western Wines in April 2006. Western Wines is the largest independent importer and distributor on the English market. This purchase was not made in order to expand the brand portfolio, but it was a clear "attack" on the UK market through storage capacities. In fact, in August 2006, just four months later, Constellation Brands closed Western Wines to absorb a part within its structure Constellation English UK.²⁹

Finally, the \$1.3 billion purchase of the legendary Robert Mondavi house, famous for its collaboration with the Rothschild House, enables Constellation Brands to have the upmarket world's largest brand.

The wine group

This company is based in San Francisco and is producing 44 million cases every year. It is known for its high productivity and its very low ratio of employees per thousand cases sold. This productivity can be explained by a high degree of automation in the production process and by strategies of wholesale distribution and the Bag-in-Box (BIB) format.

Its second strength is the quality of its partnerships and acquisitions. This is reflected in the strategic acquisition and integration of Golden State Vintners in 2004. This acquisition brought control of a company that supplies many of the industrials within the wine sector. The group established a partnership with Grand Chais de France (leader on the French market), through a "marketing joint venture". Moreover, this is one of the largest European operators in terms of bulk and wholesale.³⁰

²⁹ <http://www.decanter.com/news/wine-news/487024/major-uk-distributor-western-wines-to-close> - 21 August 2006 (13.03.2014)

³⁰ <http://yongjiwine.blogspot.cz/2011/03/top-30-us-wine-company.html> - March 2011 (18.03.2014)

The American parker grading system

For many years, Robert Parker's grading has been the source of reference in the wine world. He created this scale in 1978 and became considered a revolutionary in grading wine. "The man with the paragon palate... for countless wine lovers, Robert Parker's tastes are infallible."³¹

His newsletter, the Wine Advocate, amasses more than 40 000 subscribers in 37 countries. Regarding French wines, he grades only wine from Bordeaux and Burgundy regions: "The Wine Advocate is the best for guiding the consumer through the labyrinth of Burgundy and Bordeaux. » (Forbes)³². The specialized magazine is considered as the most trustful one of wine newsletters.

The scale is up to 100 and is divided as follow:³³

95–100: Classic: a great wine

90–94: Outstanding: a wine of superior character and style

85–89: Very good: a wine with special qualities

80–84: Good: a solid, well-made wine

75–79: Mediocre: a drinkable wine that may have minor flaws

50–74: Not recommended

However many wine lovers and wine makers have criticized the Parker's system. It is judged as too influent. Some wine makers even admit trying to respond to the criterias of the wine critic. He usually appreciates strong taste wines with some wooden touch. Mr. Parker has standardized the wine world and the differences between the wines are slightly lower. Many people think this loss of differences lead to lesser wine's personality and style.³⁴ The American writer has decided to continue his expertise in a new promising market: Asian. The Parker's scale has upset the wine sphere for the last decades especially in the 90's and 2000's.

³¹ <https://www.erobertparker.com/info/WineAdvocate.asp> (18.03.2014)

³² <https://www.erobertparker.com/info/WineAdvocate.asp> (18.03.2014)

³³ <http://www.wine-searcher.com/wine-scores.lml> - 2011 (18.03.2014)

³⁴ <http://www.miroir-mag.fr/8635-robert-parker-lavocat-du-vin-qui-influence-les-gouts-du-monde/> - 11th October 2013 (22.03.2014)

2.3 The American consumer and his specificities

The U.S. citizen consumer

The wine market in the United States currently has 206 million potential consumers among the adult population, which are those persons over the age of 21 years old. Concretely, we count around 81 million wine drinkers that are portioned as follow: 47 million frequent drinkers and 34 million marginal drinkers. Since 2010, the United States became the major consumer of wine and has overtaken France.

The US consists of fifty very different states. We identify heterogeneity in wine consumption across the country with a concentration on specific geographical areas. There are many regional differences.

In addition, regulations on alcoholic beverages are specific to each state in the United States. In some, the sale of alcohol is unregulated, which encourages the purchase of wine, while in others, it is controlled and, hence, restrains the sale and thus wine consumption.

In 2003, the top ten consumer states represented over 60% of the domestic consumption in volume.³⁵ Firstly, the states of the East Coast are turning more towards consumption of European wines. This is due to the geographical situation of the coast and the influence of European culture. The West Coast favors its own production and mainly consumes Californian wine.

The majority of wines are consumed in urban areas where the purchasing power is higher than in other areas. The map above shows the six major cities where consumption is concentrated: Los Angeles, New York, Chicago, Boston, Washington DC and Miami. (see map below).

³⁵ <http://labonnegrappe.over-blog.com/> - USA presentation du marché du vin. November 2010 (23.03.2014)

Figure 6: Major wine consumers cities in USA



In 2008, the three leading consumer states were California with 41 000 of 9L cases, Florida with 22 000 cases and New York with 21 000 cases. This ranking is confirmed and has remained similar since the 1990s. The last ranked consumer of wine in the United States is North Dakota with only 263 of 9L cases.

The typical profile of the consumer

Wine drinkers 50 years and older represent 50% of wine consumers. However, we have begun to see a new generation start to consume wine. This will necessarily support wine consumption trends in the coming years. Wine is no longer a niche product and it now attracts younger people (less than 45 years old). These new generations have discovered wine at an earlier age than their parents.

“It’s generational, experts say. The big millennial generation, born since 1982, is coming of age sophisticated about wine, made comfortable and savvy by their parents – America’s wine loving baby boomers. Millennials are going straight to complex red wines rather than starting with sweet wine (...)”³⁶

³⁶ America is drinking more wine, Fred Tasker, 25th May 2011. (25.03.2014)

The younger generation's consumption has changed the structure of U.S. wine market habits. Unlike the baby boomers, who consume primarily American wines (schematically at 75% against 25% of foreign wines), the new generation does not know any borders and is willing to drink wine from anywhere. The proportions are reversed compared to the generation of baby boomers: the millennials drink 75% of imported wine. This is justified by the fact that they are more curious and open minded of what they consume. Eighteen percent of consumers aged between 21 and 34 reported drinking wine at home while relaxing.³⁷

Locations and times of U.S. consumption

In the United States, wine is the most requested alcoholic beverage in bars and lounges with 51% of total demand, according to a Wine Opinions survey of regular wine drinkers. Nine percent of U.S. consumers drink wine daily and 29% drink several times a week. Wine is mainly consumed without food. In fact, 59% of wine is consumed outside of meal times and 41% is consumed during meals.

The Wine Intelligence survey indicates that 36% of casual fans drink wine once a month. Forty-six percent of U.S. consumers taste wine with a formal meal in restaurants. For 52% of them, wine is consumed during a celebration or a special occasion. Finally, 30% of consumers drink wine during a special family meal at home.

The economic crisis has not changed the volume of wine consumed by Americans; it has rather changed the place of consumption and purchase behavior. The crisis has led consumers to seek wines with a better quality / price ratio. Moreover, the crisis has led to less dining out. Americans eat their meals more often at home. Therefore, the consumption of wine is more often at home. At restaurants, wine by the glass is usually preferred.

³⁷ ³⁷ <http://www.winealley.com> – Septembre 2009 - *Economie : le marché américain du vin reste une priorité* (24.03.2014)

Figure 8: Wine drinking occasion by generation (% top two box by occasion and generation, in 2013)

Occasion	Millenials	Gen X	Baby Boomers	67 +
Cocktail Party	87	88	79	79
End-of-day drink at home	82	82	79	72
Casual weekday restaurant dinner	82	82	75	74
Bar or Lounge	75	71	58	39
Business entertaining	76	71	55	39
Takeout	58	56	40	25
Ball game or concert	48	35	21	14

Source: <http://www.winebusiness.com/news/?go=getArticle&dataid=110521> - *Consumer Wine Trends: Americans Drinking More, "Better" Wines*, Januaray 21, 2013 by Erin Guenther (25.03.2014)

We can notice that the youngest generations used to drink wine more frequently than older generations in public places such as bars or concerts. For the oldest generations, drinking wine is connected to some specific occasions. Consumption becomes generalized and popularized and is becoming accessible for everyone.

The U.S. consumer preferences

Americans consume as much white wines than red wines - around 45% for each. However, women prefer whites and rosés, while men enjoy red wine more.

The grape variety is really important for Americans. This is the most important criteria before origin and brand's name. It should also be clearly visible on the label because it is the first purchase criterion. With 60% of the consumption, Chardonnay is the preferred variety in the US, and Merlot is in second ranked.

The wine consumers in the United States most often choose a wine that they have already tried and enjoyed. This trend has been reinforced by the crisis. French wines tasted by the Americans enjoy a high rate of repurchasing. The packaging is another factor of purchasing for consumers. Glass bottles represent 96% of sales. However, some new packaging is emerging and could compete with the classic bottle of wine in the near future. For instance, the Bag-in-box three or five-liter is cheaper and has the advantage to last longer than a standard bottle. These are valued traits for the consumer.

2. French wine position in USA

2.1 Exportations

In 2012, French wine exports to the Unites States ranked fifth in terms of volume with more than 12 million cases³⁸. This represents an increase of 15% from the previous year. In value terms, the USA is the second nation right behind the United Kingdom. The sales represent more than one billion USD. This represents a sales increase of 5.1% from 2011. Ninety-one percent of France's wine exports into the US are bottled wine. This fact explains the difference in the ranking as the second position for value and fifth for volume. In fact, exporting a finished product costs more than in bulk. Secondly, American consumers are wine lovers of upmarket products such as expensive Bordeaux red wine and, of course, Champagne sparkling wines. Thus, the USA is an essential partner for French wine exports.

The Unites States is the first market for importing Loire Valley wines. Historically, the UK was always ahead regarding that wine. In 2013, the USA became the main partner for the region, with an increase of 8% in sales from 2012.³⁹ The white wine is more appreciated by the Americans (around 80%)

³⁸

³⁹ <http://www.lesechos.fr/entreprises-secteurs/grande-consommation/actu/0203286642066-les-etats-unis-premier-marche-export-des-vins-de-loire-647246.php> - February 2014 (28.03.2014)

2.2 Perception from consumers

In 2010, 72% of U.S. consumers still consider France as the country offering the best wines. The image of French wines remains good to consumers, and they consider it the "wine country." Yet this qualitative recognition is increasingly challenged by the Californian and Italian wines. For example, California comes in second position with 51% of positive opinion.⁴⁰

French wines have a great advantage. In fact, the Americans consider them the best in the world. According to a 2008-2009 survey conducted by UbiFrance on American consumers, French wines are very well known in the US, and the country is considered as a quality producer of wine ahead of Californian and Italian wines. However, despite this good identification by American consumers, very few consumers know the names of French wine producing regions. There is a real lack of knowledge and expertise. Generally, only people benefiting from high-income or older households have this knowledge. The survey also highlights the link made by the Americans to French wine and special occasions or celebrations. In the United States, French wine is often associated with major events. For example, on Valentine's Day, 26% of Americans offer a French wine for the occasion. It is considered less suitable for more informal occasions (at home or in a restaurant), while wines from other sources are considered more suitable for most circumstances of consumption. French wine is the wine most likely to be consumed at least once per year.

Finally, it should be noted that French wine has a very good rate of repurchase after tasting and a good quality / price ratio. French wines, according to a survey by Wine Market Council, are considered to have a good quality / price ratio by 43% of consumers (for comparison -60% for Australian wines).

In addition, a SWOT analysis will help us to analyze the position and how French wine is perceived in the US. This marketing tool enables us to highlight the internal as well as external issues.

⁴⁰ <http://www.lescavescoopdu13.fr/vinsfrancetrenager.pdf> - 2010 (28.03.2014)

Figure 9: SWOT analysis of French wine on US market (created by myself)

Strengths	Weaknesses
<ul style="list-style-type: none"> - Good notoriety - Reputation for good quality - Strong and positive associations with the image of France - High purchasing rate after tasting - High repurchase rate - Offer good value for money 	<ul style="list-style-type: none"> - Assumed expensive, difficult to appreciate and only suitable for formal occasions - Sales focused on specific product categories or less dynamic distribution tracks - Very small familiarity with the French regions - Low word of mouth - Low shelf's attractiveness - Concentration of sales in specific regions.
Opportunities	Threats
<ul style="list-style-type: none"> - Wine consumption in the United States is increasing. They were the first consumers in the world in 2011. - The French wine, considered trendy by the young generation is more and more appreciated. - Americans really appreciate diversity and complexity of French wines. - Online sales are a great opportunity in regard that the Americans buy more and more on Internet. 	<ul style="list-style-type: none"> - The progression of French wine is not always as good. Indeed, the share of French wines in the United States went down from 21.9% in 2004 to 18.9% in 2006 in the United States. - The AOC system is often considered too complicated for Americans. There is a real lack of understanding towards the labels which are viewed as too complex. - The new world wines are much more accessible and are stronger in regard to the differences of packaging shapes and marketing. - French wines suffer abroad due to their aging image that is difficult to change on sight of American consumers. - The situation of the US dollar is a real challenge for wine exporters. When the USD is weak compared to the Euro currency, the Americans see their purchasing power diminish and prefer rather buying locally.

3. Chapoutier's position and strategy in North America

M. Chapoutier entered the North American market in the 1970s; they were one of the first European exporters after World War II. They started with the United States and then spread their activities further in Canada, Mexico, and South America (mainly Argentina and Brazil)

3.1 Penetration and adaptation to the North American market

M. Chapoutier had to adapt its strategy into the American market and legislation. Since the prohibition in the US, the exporters have to respect the Three - Tier System⁴¹, which regulates alcoholic beverages including wine. The system is unique and is protected under the 21st amendment of the American Constitution.

The distribution is subject to federal regulation based on the "Three Stages" system⁴². They are inevitable for the marketing of a wine product on the US market. Three agents govern the commercialization of foreign wine in the territory: the importer, distributor, and retailer. Each has a well-defined role. However, this system is highly contested because it reduces the financial margins of the producers, it is compulsory, and each state has their specific regulations.

The importer

U.S. regulations require a designated importer for foreign suppliers of alcoholic products; these importers are authorized to introduce this type of product on the U.S. market. The importer is an independent intermediary living in the foreign country and chosen by the company, which entrusts him or her for the distribution of its products. He or she buys products from the exporter and then resells them for his or her own account. The exporter

⁴¹

<http://www.wineandspiritsil.com/images/Regulation%20of%20Beverage%20Alcohol%20in%20Illinois%20Understanding%20the%20Three-Tier%20System.pdf> - 2010
(01.04.2014)

⁴² http://www.marketingwine.com/industry_overview.htm (01.04.2014)

then is released of all necessary commercialization activities including: exploration, physical distribution, storage, customer service, and negotiations with the clients.

In general, companies that rely on importers are those which cannot organize themselves to distribute their products due to a lack of means

The distributor or wholesaler

Distributors or wholesalers buy products to importers and distribute to retailers. They do not sell directly to consumers. There are over 300 wholesalers in United States. Wholesalers represent several wineries; thus, importers must choose the distributor that has compatible products in terms of market segmentation and price.

The major retailers

The retailer is the last link in the distribution chain. Three main categories of retailers are distinguished: liquor stores, which sell 46% of the volume of imported French wines (for the year 2010), hypermarkets and supermarkets (31%), and restaurants (23%). The trend for all foreign wines is different: supermarkets and hypermarkets play a major role (50% of sales) for all foreign wines while they represent only 31% of sales of French wines.⁴³

We must highlight the fact that each state has its own regulation, and some are following this Three-Tier rule (around 60%) and the others are under control of the national government. It decides which products will be commercialized and which will not. This structure of rules is also leading the Canadian market.

Chapoutier had to find the right way to penetrate the North American. They, in response, decided to work in collaboration with an American importer in the 1990s. As the United States has many states with their own laws and regulations, the rules are different and penetrating this massive market takes a lot of time and resources. The easiest way to do so is to have a business with a local importer who has knowledge of the overall market,

⁴³ <http://www.suddefrance-developpement.com/fr/fiches-pays/etats-unis/vin/circuits-de-distribution.html#> (03.04.2014)

the distributors as well as American legislation. This solution is viable to create a brand image and enhance visibility.

However the main disadvantage is the lack of control over the distribution. The company actually faced that issue: *“The main difficulty with a national importer is that you don’t really control your distribution in the states. If your importer has better interest to keep your brand within a distributor in a specific state (e.g.: this distributor represents bigger brands from your importer, and they work well on them), they may not want to move your brand even though this specific distributor under-perform on your brand.”*⁴⁴ Thus Chapoutier decided to work differently when they launch new brands on the market; the enterprise makes business directly with distributors for the last five years. Indeed after few decades on the market they precisely know it and its specificities.

3.2 The current competitive position of Chapoutier

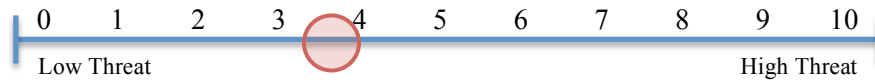
PORTER analysis⁴⁵: This marketing tool enables us to assess the competitive forces in the North American wine market. The author has determined different relevant aspects or sub-factors for each of Porter’s Five Forces and then, by giving them different weights, those factors were transferred on the scale. Thus, we will try to evaluate the health of the group within the North American market.

Figure 10: PORTER analysis of French wine on US market (created by myself)

⁴⁴ Interview with P-A. FLEURANT, North & South Americas Export Director at M. Chapoutier (see the whole interview in appendix) – (March 10th 2014)

⁴⁵ This theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. Porter’s five forces help to identify where power lies in a business situation. This is useful both in understanding the strength of an organisation’s current competitive position, and the strength of a position that an organisation may look to move into. <http://www.cgma.org/Resources/Tools/essential-tools/Pages/porters-five-forces.aspx> (04.04.2014)

Figure #1: Threat of new entrants



Factor	Threat scale	Factor	Threat scale
Time and cost of entry	3	Access to suppliers and distributions channels	2
Customer loyalty	7	Need for specialist knowledge	3
Regulatory and legal restrictions	2	Retaliation by established products	5

Figure #2: Bargaining power of Suppliers



Factor	Threat scale	Factor	Threat scale
Supplier competition	0	Number and size base	0
Switching costs (suppliers)	1	Cost of switching to alternatives sources (firm)	5
Uniqueness of the input supplied	1		

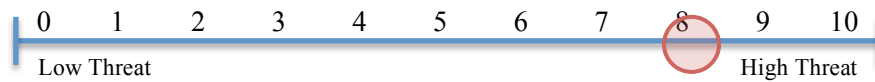
Figure #3: Bargaining power of customers (buyers)



Factor	Threat scale	Factor	Threat scale
Number of customers	3	The cost of switching	10
Number of firms	7	Backward integration, self-	2

supplying the product/service		sufficiency	
Buyer information availability	8	Customer's size of orders	5

Figure #4: Threat of substitute services



Factor	Threat scale	Factor	Threat scale
Number of substitute available in the market	9	Buyer propensity to substitute	8
Lifestyle switching cost	6	Monetary switching cost	9
Customer loyalty	8		

Figure #5: The intensity of competitive rivalry



Factor	Threat scale	Factor	Threat scale
No of competitors	8	Product differentiation	9
Exit barriers	2	Brand loyalty	7
Market size and growth perspectives	1	The power of buyers	10

The overall results found are a relatively saturated market with a rather low threat of new entrants due mainly to financial and administrative barriers (the Three Tiers system i.e.). The industry is also characterized by a somewhat non-existent bargaining power of suppliers as the companies produce their wine with their own wineries. The power of

customers and the threat of substitutes are relatively high. In fact, in business to consumer area it is pretty difficult to make the clients loyal to a brand. It is very easy for them to try other brands or even other types of wine or beverages. However, in the business-to-business sector (restaurants), it is easier to create customer loyalty. One of the development strategies of Chapoutier is to develop its portfolio of restaurants and thus make the brands more known to everyone.

Finally, the intensity of competitive rivalry is quite strong. The national competition with Californian wine is clearly and well established for decades and the new world producers export more and more into the American continent.

There are only a few French wineries exporting wine from the Rhone Valley region that are positioned in the North American Market.

The main winery is Guigal with Approximately 100,000 cases in the US per year, which are mostly Cotes du Rhone. They have a high price (about \$15), but great recognition thanks to the “lalala” wines.

3.3 A promising future

The exporter is the second largest winery in the Rhone Valley region. The sales of the French company are increasing year after year in America. “Now it is a focus market for the company since it considers it as the biggest potential for Rhone wines outside of France. The facts prove them right, since the sales in the US jumped by 200% between 2010 and 2013.”

As seen in the first section, American wine consumption is huge and the country even became the leading consumer worldwide. With more than 300 million inhabitants, the USA represents an amazing potential for wine exporters. The behaviors regarding wine have changed and its consumption is seen trending upwards. The young generation appreciates wine and is more susceptible to take a glass of wine. French wine still benefits from a very good and classy reputation. The forecasts for the following years are very positive regarding wine consumption in the USA and the country should keep this position.

Moreover, Chapoutier can count on the press and different rankings. The most renowned magazine, The Wine Advocate, which is run by the American Robert Parker, attributed many scores of 100 points for Chapoutier wines. This is the most rewarded winery in the world. Due to a lack of knowledge of French wines, the American people rely heavily on the rankings provided to make their decisions. *“This makes a whole difference in this market which is really about scores and press.”*

The company has also been elected as the *Most Admired French Winery* in the world by Drinks International in 2013, and the company ranked fourth place among 50 international wine brands by The British magazine, which surveys about 400 consumers in the world and asks them to rank a list of brands from the one they know the best to the one they know the least. The North American continent is the major international market for Chapoutier's company. The United States is leading and represents the most profitable country behind the French market.

III. Evaluation of the Chinese market

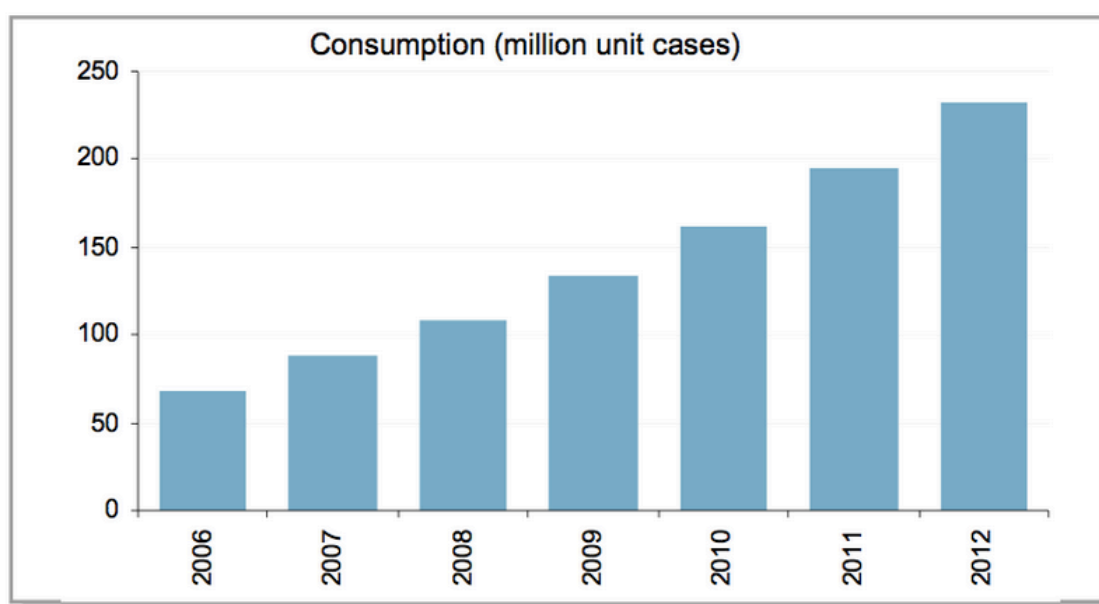
1. A new actor in the sector to count on

1.1 Consumption features

China is a rather new developing wine market. In fact, the Chinese government decided to push the citizens to drink more wine in the late 1980s. The former, most similar beverage, called « baijiu », was a pure white liquor. In 1987, the country realized the potential with wine and started to encourage people to consume some. Regarding production, the country has a very important history with more than 2 000 years of wine making. However, the Western society did not recognize Chinese wine as real wine before the 20th century.⁴⁶

During the last years, wine consumption in China has increased in a considerable way. It represents the most booming market in the world. The average increase for the 2006-2012 period is around +24% per year. In volume, the number of cases consumed has increased by more than four-fold in six years (see the figure below).

Figure 7: Chinese consumption in volume



Source: <http://www.businessinsider.com/china-is-drinking-the-worlds-wine-2013-10>

⁴⁶ <http://www.wineeducation.com/chinadet.html> (17.04.2014)

With more than 155 million cases of nine liters of red wine (or 1.865 billion bottles) consumed in 2013, an increase of 136% from 2008, China, including Hong Kong, now stands ahead of France (150 million cases), Italy (141), United States (134) and Germany (112). However, China is the fifth largest wine consumer in general, including sparkling wines, far behind the United States, France and Italy.⁴⁷ The Chinese craze for red wine has accelerated since 2005. Between 2007 and 2013, consumption has been multiplied by 2.75 times (International Wine and Spirits Research).

It is very difficult to accurately quantify the number of wine consumers in China, because the data is not very reliable on this subject. Some sources come up with a market of approximately 240 million people and others cite approximately 100 million consumers. However, several trends emerge. The consumers of wines reside in mostly urban areas. The main areas of consumption are also the major Chinese cities: Shanghai, Beijing, Guangzhou, etc. Currently, although predominantly rural (50-55% of Chinese live in rural space), China's population is experiencing a massive urban exodus. Thus, the consumer panel of wine should grow in the following years. The average age of Chinese consumers is between 25 and 44 years. They belong predominantly in the middle class and see the wine as a standard of westernized life and an emancipation regarding the self-sufficient culture imposed 20 years ago.

The Chinese prefer red wine to white wine. The color red represents happiness, love and luck, while white is a taboo value of mourning. The consumption of white wine would have, however, a gradual growth particularly due to the westernization of Chinese tastes. Chinese consumers prefer fruity wines which least irritate their palate. For red wines, Cabernet Sauvignon is the most known grape. This is followed then by Merlot, Syrah or Pinot Noir. For white wine, Chardonnay is the most appreciated. Other varieties, such as Sauvignon Blanc or Riesling, are quite popular and can be easily found.

Formerly, the Chinese consumed alcoholic beverages during special occasions and celebrations. Alcohol was consumed with family members and loved ones according to

⁴⁷ <http://www.theguardian.com/world/2014/jan/29/china-appetite-red-wine-market-boom>
Wednesday 29 January 2014 (21.04.2014)

some rituals sign of respect. This practice is still common among older generations. Yet, today, alcohol is no longer reserved for formal occasions.

However, wine consumption is quite "seasonal"; it is marked especially by the Chinese New Year (26 January 2009, February 14, 2010), but also Valentine's Day, the 1st of May and the National Day (October 1st).⁴⁸

When the Chinese make a visit to their families and provide gifts, wine is one of the presents frequently offered. Chinese drink wine more frequently for the image and for health benefits.

1.2 A Growing Production controlled by few groups

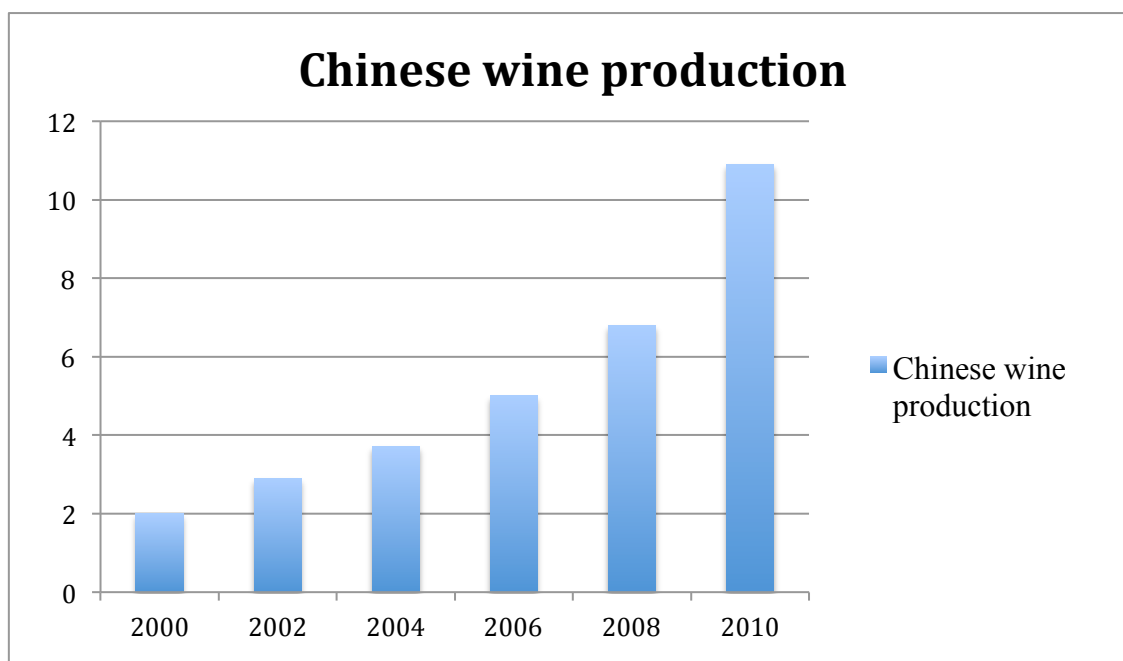
China is the seventh leading wine producer in the world with a total share of 2.6% of world production in 2010. Since 1995, annual wine production in China has been steadily increasing. In 2010, China produced over 1.8 million liters. The number of Chinese wineries with annual sales volume of more than 2 million Yuan (around 300 000 USD) exceeded 200 in 2009, an increase of nearly 50% from 2008. In 2011, there were more than 900 vineyards. The annual wine production of China represents 80% of national consumption.⁴⁹

In ten years, Chinese consumption has increased by more than five-fold. In 2000, production was around 2 million Hl and reached nearly 11 million Hl in 2010. By comparison, France produced 42 million Hl in 2012.

⁴⁸ <http://www.dechavanneconsultants.com/images/escaia/etude%20filire%20-%20gilduin%201.pdf> - page 32. L'exportation de vin en Chine, 2012 (22.04.2014)

⁴⁹ <http://www.suddefrance-developpement.com/fr/fiches-pays/chine/vin/production-de-vin-et-exportations.html> - 2012 (25.04.2014)

Figure 12: Evolution of the Chinese wine production, period 2000 - 2010 (million Hl)



Source: *Découvrir le marché du vin en Chine – Observatoire viticole – Juillet 2009*

Regarding the climate and product zones, many parts of China are quite wet; nevertheless, Western China has many desert areas. Rainfall is strongly influenced by monsoons. Wine growing is concentrated in monsoon areas or in desert areas. In Northern China, temperatures are equivalent to those of Central Europe and Russia. In Ningxia (the central region), the temperatures fall down to -30°C in January, which makes grape growing impossible. In July, it is relatively warm and the Chinese climate is similar to Southern Europe or North Africa. This heat is accompanied by humidity in most cases except in the desert area where it is always very hot and dry. Different climates in the country allow a wide diversification of wine production. China has ten main wine producing regions; the locations are fairly sparse. The three most important areas are:⁵⁰

Shandong: which is the historical zone, located around Beijing, produces itself about 60% of the national production.

Hebei: well known for the production of dry white wines, located in the South of Shandong region.

XinJiang: located at the extreme Northern West part of China, produces mainly red wine.

⁵⁰ <http://www.wine-searcher.com/regions-china> - 2013 (25.04.2014)

Local companies producing wine are either joint ventures or Chinese companies that have adopted foreign methods of wine making. There are only a few actors on the market that control a large portion of production: “The three largest Chinese wineries – Changyu, COFCO Great Wall and Dynasty – enjoy about 50% of the entire market share. The top ten wineries have an 80% market share.”⁵¹

Changyu: Chinese company's first production of wine, created in 1892, is the largest wine producer in Asia, with a capacity of 80 000 tons a year. He has nearly 20% market share in value;

Great Wall: Created in 1983 the company provides value 17.3% of the national market (but 31% in the South). It exports 1,500 tons of wine, half of China's total exports;

Tonghua: Founded in 1937 the company represents 14% of the market value (45% in the north).

Dynasty Company: founded in 1980, is the fourth largest producer with a market share of around 10% in value. It is a leader in the east (Shanghai, Hangzhou, Suzhou...). The company is organized as a joint venture with Rémy Martin, the known French spirits company.

1.3 Strategy for Chinese companies

Chinese companies' major advantage is price. China is the country where we see the most advertising for wine; it is advertised on the television, billboards, in magazines, etc. Communication about wine in China is based on a very similar way that spirits or beer are based. They speak very little of the product itself, but rather about the brand and the association of the product to the brand. This is the adopted strategy in the national territory.

Companies in the industry are engaged in various strategic trends:

- Increasing the industrial productivity and modern technology adoption of most wineries;
- Qualitative market normalization and the fight against fraud and counterfeiting;
- The creation of attractive brands and high-value;

⁵¹ <http://www.capewineacademy.co.za/dissertations/Rise-of-the-Dragon-The-Chinese-Wine-Market-Raymond-Paul-Noppe.pdf> page 11 - March 2012 (24.04.2014)

- The development of trade marketing and the struggle to get the best linear position in the supermarkets;
- The development of sustainable and ecological wine growing;
- Product differentiation and ranges with segmentation strategies adapted to different markets;
- Openness to capital and expertise from abroad.

Chinese companies are engaged in a process of rationalization and concentration to create strong national brands with an important communication. They are heavily advertised in every channel. They want to develop their activities and become larger. The government in China encourages the development of these national, powerful groups.

2. Environment and features of the Chinese market

2.1 Specific selection criteria

The criteria for choosing a wine for Chinese consumers are, in order of importance: price, packaging, advertising, and, finally, geographical origin. As wine consumption is rather new in the country, people are not very well educated regarding the different types of wine and need other factors than quality or technical information to make their choice. These criteria largely explain the decision of the average consumer in China to opt for a domestic wine, as imported wines can be easily inaccessible to him or her. This price differential is amplified by the undervaluation of the Chinese Yuan against some currencies such as the Euro, for example.

Price is a critical factor in the purchase of wine, especially as this is unaffordable for the majority of the population and the price differences are considerable. A locally produced wine can be sold at €3 and imported wines are approximately €10-20. Moreover, the packaging in China is extremely important, as the box design can influence customer decision.

Wine is a popular product for the image it may reflect: social status, sophistication, and Westernization of lifestyles. It is considered as a luxury product that is now accessible for everyone. However, the Chinese consumer is not, in general, sensitive to names and prefers to turn to the brands that established and known.

In terms of advertising, they communicate with well-known Chinese idols or sponsor some trendy events such as fashion shows.

The Chinese consider French wines among the best wines in the world. This recognition is due to the French winemaking tradition and the richness of its soils. The typical French wine consumer is seen as a *bon vivant* that loves to eat out and is educated. However, French wine is sometimes not well understood due to the labeling being poorly adapted to the Chinese market. Wine is now considered a healthy product, with near medical virtues. "The French wine paradox" has considerably strengthened this aspect of wine. Thanks to its renowned reputation, French wines are the largest import into China. Thus the country of origin may play an important role in the decision making process. This is the case especially in certain situations such as offering a present to someone or for consumption at the restaurant.⁵²

However, more and more Chinese are interested in wine and their selection criteria may change. The perpetual increase of the purchasing power will lead to a better and faster development of the imported wines.

2.2 Environment influences

We will go through a PEST analysis in order to define the macro economic factors which influence the wine business in China. This marketing tool is elaborate for helping an organization on long-term orientation.

⁵²http://www.winecoreports.com/upload/internet/LI_HU_JUN_Do_Chinese_Consumer_P_refer_to_Buy_Imported_Wine_Effect_of_Country_of-Origin.pdf - P 18 (27.04.2014)

Political factors

Firstly, the government encourages the consumption and production of Chinese wine. They realized the massive potential with the wine in China for about 20 years. Moreover the Chinese government is more flexible regarding the international trade. The risk is that the government raise taxes on imported wines if the sales threaten the national industry.

In fact wine import duties have been reduced considerably. Since the country entered the World Trade Organization the imports tariffs went down. In 2005 China lowered the import duties on bottled wine from 43% to 14% as well as for the bulk wine from 43% to 20%.⁵³

Secondly regulations for wine labels are very low. In Europe labels stick on bottles have to comply with many specifications: alcohol degree, place and date of production, capacity etc. Finally the corruption risk is relatively present in the country and exporters have to count on this especially when they enter the market.

Economical factors

The Gross Domestic Product raised on average by 9% for the period 2009-2012. China is currently among the most dynamic economies. Secondly the income of urban disposable grows on average by 13% every year and we know that China is facing a phenomenon of urbanization. This is coupled with an important grow of middle class, with higher purchase power. The inflation rate is rather low with 2.5% for the year 2013.

Finally China became the first red wine consumer worldwide, ahead of France.

Social factors

The image of the wine consumption has changed over the last past years. It is nowadays seen as a fashionable, trendy and classy beverage. In fact Chinese consumers are very sensitive to the brand image and what the brand symbolized. Thus the marketing and bottles labels are essential for a brand development.

Secondly red wine is very appreciated by Chinese people. The red color is synonymous of love and happiness.

⁵³ http://www.embassyconferences.co.za/media/file_icons/AAWE%202013-zhang-pesmetch.pdf - page 8 - June 2013 (27.04.2014)

Moreover wine consumption is greater during special occasions (including Chinese New Year, Valentine's Day, Spring Festival, etc.). Finally offering a bottle of wine as a present is getting usual.

Technological factors

Firstly regarding the domestic production, Chinese vineyards are pretty new, well equipped with modern infrastructures.

Secondly online sales are increasing and become a classic way of selling. More and more Chinese have an Internet access.

Finally there is an actual technological development in China winemaking spurred by joint ventures and partnerships.

2.3 Strategic axes

We will make a SWOT analysis in order to highlight the internal and external factors which influence the wine sector in China from a French international exporter point of view.

This analysis could help a wine exporter to see how the Chinese market is organized. Moreover, the tool enables us to realize the potential and inconveniences of the market. In a future decision making process, a company needs to perform such analysis to choose what strategy work on.

Figure 13: SWOT analysis of French wine in Chinese market (created by myself)

Strengths	Weaknesses
<ul style="list-style-type: none"> - Chinese government supports the sector. <p>It will continue to grow with the same dynamism.</p> <ul style="list-style-type: none"> - Substantial economic growth and GDP - Around 25% rise every year for wine demand. - Wine plays a significant role in the business and social life. - Excellent image of French food in China and particularly wine. - Wine is seen as a healthy and natural product and is associated with social success. 	<ul style="list-style-type: none"> - Low consumption of wine in China per capita: about 1.5 liters / year - Substantial lack of knowledge of Chinese consumers on wine. - Traditionally Chinese are not used to drink wine (tea is the national beverage) - Wine's symbol is more important than the taste itself and the quality of the wine. - Significant differences between regions - Distribution channels are quite complicated - Personal contacts are primordial to conduct business in China
Opportunities	Threats
<ul style="list-style-type: none"> - Increase of the standard of living - Massive growing population. The major cities have huge demands. - Only 10% of the wine in China is imported. There is a great market space. - Low import tariffs - Traditional celebrations and Chinese typical fests can be used as marketing tools. - Education is part of Chinese culture, possibility to teach them the features of French wines. - Cheap labor force in case of bottling directly there and the brands can still keep their foreign brand name. - China is the first red wine consumer worldwide. - Online sales, very important distribution channel and information provider tool. 	<ul style="list-style-type: none"> - The average income in China is still quite low and limit the consumption of imported wines - Highly competitive market. Some foreign groups are very well organized, especially for Australian producers. The prices of these wines are more accessible than French wines in general. - Domestic production is increasing considerably year by year. - Increase of import taxes in order to protect the national industry. - Bordeaux wines are leader in the Chinese import market for more than ten years. It will be difficult to change the habits of consumers who are loyal to Bordeaux. - Chinese wine market still poorly regulated: little respect of designations and especially many problems of counterfeits.

3. How Chapoutier can penetrate and convince the Chinese market

3.1 Different ways to communicate

The axes of communication

The festive spirit

Traditionally, in China, wines and spirits are consumed during the holidays and are a very highly appreciated gift. The Chinese do not consume that much wine at home; alcohol in general is shared between friends during dinners.

Wine is becoming more fashionable, and the Chinese can see beautiful gift boxes in hypermarkets and supermarkets during holidays or festivities, e.g., the Chinese New Year. Some other events are also good occasions to offer wine as a present, such as the National Day on October 1st, Labour Day on May 1st (one week), the Feast of the Moon (mid-October), or Valentine's Day (Chinese and West).

Wine and Health

Wine is good for health. This argument is attracting more and more banquet attendees, officials and businessmen. Indeed, Baijiu (typical Chinese alcohol) is very harmful for their health; thus, an alcohol that is considered healthy is gratifying for them. With this in mind, wine has been replacing the traditional Baijiu alcohol.

The Chinese are very superstitious about the benefits of food on the human body. The fact that wine lengthens life is an argument that appeals to the whole society.

In fact, Chinese popular belief is that good food helps to strengthen the body. It has never been proven that Baijiu helps strengthen the stomach, while several worldwide studies have proven the health benefits of wine.

Wine and luxury

Another line of communication for wine in China is the relationship between wine and luxury. French-made products are directly associated with luxury in the eyes of many

consumers. The price of many French wines (such as Bordeaux) is also a luxury position that appeals to a certain social class. Presents from France are considered luxurious and make a good impression.

The recent adulterated and counterfeit alcohol scandals have further strengthened the confidence in imported products.

Romanticism

Red wine reflects glamour and the image of France, class and romance. Women love red wine; by default, they do not like beer or Baijiu (too strong). Wine helps to keep a festive spirit. We see wine more and more in romantic films.

The essentials

The role of experts is essential for wine producers to be credible. To gain credibility, wine promotion needs an expert who reassures Chinese customers. An expert in wine can be a sommelier or simply a producer in the sector. For example, some online websites' sales are using wine sommeliers to present videos and introduce their wines. Opinion leaders are also very important in China. That is, the Chinese trust them and we have the following ratio: 10% of the population may influence 90%.

E-commerce is growing very quickly in China and a digital communication strategy for the wine producers that want to penetrate the market is essential. Many surveys show that Chinese prefer to look for products on the Internet. In the wine business, they can obviously buy online, but they can also get some information regarding the grape varieties, the maturity, the vineyard and its history, the producing process, and so on. According to a survey conducted by Wine Intelligence: *"75% of them said they often go online to look for wine information, and 62% said they frequently use social media as a source."*⁵⁴

Many wine producers or distributors make the choice of communicating on social networks. In fact, they are trying to interact with their followers through Facebook, Twitter

⁵⁴ <http://www.digitalintheround.com/chinese-wine-market-digital-strategy/> (03.05.2014)

or Weibo, which is a Chinese community website (a mix between Twitter and Facebook) and already had 500 million users in 2013.⁵⁵ Those tools have the advantage to create brand awareness and involve the consumers.

For a poorly educated wine society, the Internet represents a key point for the companies. Another very important point is the reviews from consumers. The Chinese highly rely on these reviews. Because of this, companies should look very carefully at them to control their e-reputation.

Public relation is a communication way to depend on as well. *“What’s the difference between advertising and PR? Advertising is saying you’re good. PR is getting someone else to say you’re good”* (Jean-Louis Gassée). Thus, PRs can reach two targets: internal and external audiences. Hence, PR could be aimed towards employees, labor unions, advisors, and consultants or even owners of the entity. Outside of the company, companies can target current or potential customers, activist groups, investors and donors, potential employees, governments, partners, and suppliers... The PR activities are various: communication with opinion leaders, communication in crisis, internal communication, public affairs and lobbying, sponsoring, corporate social responsibility, etc. The main goal for the wine companies would be to increase the awareness of the brand as well as getting a good corporate reputation.

Chinese consumers are sensitive to the history behind the vineyards. They want to know when the vineyard was created and if there is a long history. The Chinese highly appreciate vineyards with castles, which represent the cliché of class and luxury. This is actually a good point to charm them and promote wines with nice stories.

3.2 Chapoutier’s strategy in China

The French company entered the Chinese market in 2009. It is now the export leader of the Rhone Valley wine. They adopted a direct strategy with a team of two employees who are there to develop Chapoutier’s portfolio. They aim to work mainly in

⁵⁵ <http://www.bbc.com/news/business-26588397> (04.05.2014)

the business-to-business market which corresponds to restaurants and hotels. The strategy is slightly different than in a business-to-consumer perspective.

The advantages of implementing an employee's representative strategy on the target market are numerous; the exporter has total control over the definition of its trade policy (product, promotion, price, customer target, service, etc.). Secondly, the information feedback is excellent and direct; there are no intermediaries. Moreover, the presence of an employee representative directly on the market can facilitate the paperwork, settling potential disputes, recovering receivables, and a better logistic. Finally, they might easily gain knowledge of local business practices, the culture, and habits of the clients.

The company made this choice in order to create a brand image and to become known by prescribers. In fact, some people influence the market a lot. Having local workers facilitates those tasks. When a company is rather new on the market, they firstly need to obtain some contacts that they can rely on. In order to develop the activity in the B2B market and reach some restaurants/hotels, they have to create a network. *“But you want to be in those places and reach the right people: sommeliers, beverage managers of world-class hotels etc. It takes time, the competition is already there (American wines, Italian wines) but business is a matter of relationships in this country more than any other. This is why we have our own team there: in order to position Chapoutier in opinion makers' mind as a World-Class winery that can't be ignored.”*⁵⁶

Whether the company would have made the choice to subcontract with local distributors or agents would reduce their margins. With an additional intermediary, the company does not completely control the marketing policy and the image conveyed. Furthermore, they would be totally dependent to the results of the third party. However, working in collaboration with a local distributor ensures the right way of communication toward the customer targets. Those local counterparts know the market very well and could avoid many mistakes in the implementation of the strategy. In a logistic and administrative point of view, this solution could be more effective as well. All in all it could avoid any beginning mistakes when penetrating an unknown market.

⁵⁶ Interview P.A Fleurant

Chapoutier has adopted a global strategy to spread their products internationally. However, they do not adapt their offer into each market. In the case of the wine business, the product itself (wine) is hardly modifiable; however, the packaging, the price and communication strategy may be adaptable to the market targeted.

For the Chinese market, the company prefers to make the brand more visible and tries to create a brand image. However, we know that the customer target is very sensitive to labels and attach a great importance to the brand name or winery. The Grand Crus from Bordeaux are very well known all over the world and strongly appreciated by Chinese people. For the Rhone Valley, which do not enjoy such a great reputation, they have to face this challenge in making their products reputed by the customers. Thus, it is primordial to communicate frequently through the most effective channels.

Regarding communication, Chapoutier attempts to reach a professional clientele. Thus, they are regularly attending fair trades to show their different brands. Moreover, they are communicating online and are present on different wholesaler websites. Last year, the group made a “story telling” video about the founder, Michel Chapoutier, and how he manages the company. The Chinese are very receptive to such a video.

3.3 Recommendations

Chapoutier's wine will need to develop their brands portfolio on the Chinese market through different marketing and communication activities. The main objectives are to raise the brand's awareness as well as increase the sales. The group is already the leader of the Rhone Valley wine in the country. They have to reinforce this leader's position on a long-term orientation.

Marketing strategies

For its market positioning, the company should continue to spread an image of being top-end of the market, because this image is very appreciated by the Chinese due to it being synonymous of luxury. In fact, with a high pricing policy, the products are positioned at a high-end market.

Regarding the distribution and sales, the company needs to expand the payroll or at least sub-contracting with other companies. The current strategy with a team of two employees is very good for control and a low cost structure. However, for such a massive potential market, the payroll is very limited. Hiring more qualified employees could be a solution. The requirements are a full understanding of the Chinese culture as well as an expert knowledge and expertise of the business specificities. Another solution would be to establish partnerships with local agents who master the environment and already have some contacts in the industry. This solution is surely more costly, but could bring more sales.

Regarding the product itself, Chapoutier has to take advantage of the good French wine reputation. They produce mainly red wine which is currently a trendy product in China (became the largest red wine nation in 2013). However, this is a real challenge with the labels. The Chinese highly rely on them but do not appreciate complicated labels. Thus, they are expecting some basics about the process, but not much. They really like the French image and a French name, a castle's picture or even a map of the region.

For distribution, the company can also make some strategic partnerships with successful local distributors, retail shops, or wholesale stores. Once again, this strategy adds another intermediary so the final price is automatically raised. They should perform market research with a ratio between client's losses (too expensive) and the gain of market shares in new regions or cities. As the country is really large and the number of third cities (around one million people) is substantial, setting up with local distributors based in all the parts of the country would be conceivable.

Chapoutier would like to develop the brand through a B2B strategy so there is an important focus on hotels, restaurants, bars and clubs sales channels.

For the regional segmentation, the company has to enjoy the booming wine demand in several middle cities that have a few million inhabitants. There is a real potential in those cities. Of course, the major cities, such as Shanghai, Beijing or Hong Kong, are the main targets, but the international competition is already implemented.

The French company should launch a webpage in Chinese. For the moment, we only find information in Chinese on an unofficial website. This is always a confidence token for the

potential clients to see information in their language from the official source. We know the significance and interest on the Internet for Chinese people.

Brand exposure and activities

One way to become known is through participation in fair trades. Every year, many wine related exhibitions are organized in China in the major cities. This represents many advantages such as raising awareness, developing contacts, maintaining a market presence, finding agents or distributors and supporting existing distribution channels. This is exactly what Chapoutier is seeking. The enterprise should continue to be present in fair trade all over the country. This is a very good way to raise the awareness in a B2B scope. In fact, many professionals participate in these exhibitions in order to find new suppliers and propose different products to the final customers.

Regarding advertising, any channels would be conceivable. However, some specialized magazines (wine, gastronomy, luxury, travel, economy, men's lifestyle, etc.) and webzines are surely a great way to reach the target. The placement in movies and TV series are also an effective solution but rather expensive. In regard to this situation, an online campaign would be a very effective way of communication. We could imagine some banners or social media advertising in different platforms such as Facebook, Twitter or Instagram. In this case, the campaign will rather catch the attention of private individuals and the aim would be to build a reputation toward a large public by being as visible as possible.

Overall, there are some key points they need to communicate on: the healthy features of the wine, the romanticism around the consumption for couples, the luxury and the festive spirit.

Sponsoring might be a high valued solution to promote the brand. Many brands do, indeed, sponsor some events - mainly top-end and luxury events. For example, we regularly find Champagne brands that sponsor fashion shows or other contests. We could also think of sports such as golf, tennis or horse riding; any posh connoted sports or social events would suggest that the brand is a brand of luxury and elegance.

The company could also organize wine tasting on different occasions such as fair trades, sponsored events, or even create their own event at a restaurant. The company could then invite gastronomic critics, journalists, sommeliers and other influential people in the sector.

As there is an obvious lack of education in the wine field in China, we could even think of opening a school that is financed partially by the company. In fact, educating people will be the next challenge in the following years for the wine producers.

Conclusion

The French wine market is quite saturated. The historic wine nation faced a decrease of the wine consumption from 1960's by about 2% less every year on average. Different factors may explain this phenomenon of decline and the companies had to develop their brands abroad. We can say that with the globalization and the boom of international flows it has been easier for the wine makers to reach new international markets.

The United States is a major actor in the wine world. The consumption and production is not as old as the European countries such Italy, Spain, Greece or France. However the country is currently the first consumer of wine worldwide since 2010. The American consumers are pretty open minded regarding the country of origin and always curious to discover new tastes. This is why many countries decided to settle their activities on the North American continent.

Chapoutier reached the market very early compared to other European companies. This is one of the reasons why the brand is that well established and renowned. The US market is very competed by international and national wine producers. Indeed the Californian wine caught a very important market share over the previous decades.

On the other side, the Chinese wine industry is in a growth stage. If the wine is not really a historical and typical beverage in China, its consumption is now increasing a lot thanks to: a government support, a steadily increasing wine production, a growing influence of prescribers through blogs, magazines ...

If the evolution of the wine production in China is confirmed in the coming years, China could also become a major player in the wine's export, reaching, for example, the future Asian consumer nations.

However, this democratization of wine production is also beneficial to wines importers, as the potential of the country is very large. Thus, it is in this context that Chapoutier decided to settle its activity there. Indeed, if the consumption remains relatively low per capita it should know a boom in term of total volume consumed. The domestic and international competition is growing quickly but the Chinese are real lovers of French wine and its reputation. Once the companies understand well the Chinese needs it is rather easy to gain

some market share and develop the activities. Thus the first companies that export and be established there, will be the most rewarded in the future.

Appendix

#1: Interview M. Chapoutier, 25th March 2014

By Pierre-Adrien Fleurant

Position: North & South Americas Export Director at M. Chapoutier

1) What is the share of international sales of Chapoutier?

It is split about 50/50 between domestic sales and exports.

2) What is the current position of Chapoutier in the international market?

Chapoutier is the second winery in the Rhone in terms of volume (cases sold) and turnover. Though is almost impossible to evaluate its position vs. the rest of the wineries worldwide (lack of statistics).

Chapoutier elected *Most Admired French Winery* in the World by Drinks International in 2013, and #4 among 50 international wine brands The British magazine surveys about 400 consumers in the world and ask them to rank a list of brands from the one they know the best down to the one they know the least.

This reflects the high level of visibility of the brand across the wine consuming markets.

3) Why Chapoutier decided to export toward the North American market?

Chapoutier is actually one of the first French wineries that started to sell again to the US after World War II. However the export sales to the US were pretty limited till the 90's, when the current owner Michel Chapoutier sealed its partnership with US importer Paterno (now Terlato Wines).

Now it is a focus market for the company since it considers it as the biggest potential for Rhone wines outside of France. The facts prove them right, since the sales in the US jumped by 200% between 2010 and 2013.

4) How did Chapoutier penetrate the North American market? Any difficulties/barriers or specifics?

They started with a national importer (see above) in the early 90's for the core range (Rhône wines).

The main advantage of selling to a national importer is that when you are small, you don't have time to deal with each distributor in each state. The importer buys the wine from you and then resells it to the distributors. It can be also very helpful to build your brand when you don't have visibility yet.

The main difficulty with a national importer is that you don't really control your distribution in the states. If your importer has better interest to keep your brand within a distributor in a specific state (e.g.: this distributor represents bigger brands from your importer, and they work well on them), they may not want to move your brand even though this specific distributor under-perform on your brand.

So over the last 5 years, when it came to launch new smaller brands (Roussillon, Alsace), Chapoutier started to sell directly to distributors. This is also better to cut margins and reach a competitive retail price on the shelves.

5) Who are the main competitors? (Few figures about the market)

Chapoutier: Approx. 70,000 cases in the US, with a mixed portfolio from Northern and Southern Rhône.

Guigal: Approx 100,000 cases in the US, mostly Cotes du Rhône. High price positioning (CDR about \$15) with great recognition thanks to the "lalala" wines (La Landonne, La Mouline, La Turque).

Jaboulet: They sell about 70,000 cases in the US, mostly Parallele 45. Their price positioning is lower than Chapoutier and Guigal.

Perrin: Their leading volume brand is La Vieille Ferme which retails at \$9. The top end is Chateau Beaucastel in Chateauneuf du Pape.

6) What are the perspectives within this market?

They are very good, the US wine market is trending up and fairly priced wine regions like the Rhône really do have an opportunity.

Chapoutier has more 100 points from American critic Robert Parker than any other winery in the world. This makes a whole difference in this market which is really about scores and press.

7) Does Chapoutier plan to reach new market such as China?

Chapoutier is the leading Rhone winery in China, and is growing fast thanks to the press recognition of its high-end wines (see above).

8) If yes, what kind of strategy will be adopted? (In term of sales, marketing, management and logistic)

We have a Team of 2 people there. We go through different channels of distribution for each brand depending on what we are aiming at: Top-end restaurants, chains etc.

It is a very young wine consuming country, so there are only pockets of wine consumption in the metropolitan areas. People still tend to drink “labels” (like Mouton, Margaux etc.). But you want to be in those places and reach the right people: sommeliers, beverage managers of world-class hotels etc. It takes time, the competition is already there (American wines, Italian wines) but business is a matter of relationships in this country more than any other. This is why we have our own team there: in order to position Chapoutier in opinion makers’ mind as a World-Class winery that can’t be ignored.

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