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Recent trends in the international wine market and arising research questions

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Recent trends in the international wine market and arising research questions

Abstract

Looking at the evolution of international wine trade over the last five years, the reduced growth rate and the varied performance of suppliers raise many research questions, at the micro- and macro-level. At the micro-level, research needs emerge regarding understanding consumer preferences, using innovative integrated approaches, and the exploitation of new paradigms concerning marketing strategies. At the macro-level, the key question concerns the possible evolution of international wine trade over the next 5–6 years, and the related consequences on the industry structure. Forecast of the future evolution of wine market is challenging and risky in a context dominated by discontinuities and there is not much research on how markets evolve. Nevertheless, wine economists should attend to this task with a wide multidisciplinary set of tools, also if imply an effort which is demanding and with uncertain results.
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Keywords: International wine trade; Prospect theory; Experimental economics; Marketing strategy

After 15 years of the new century it is interesting to have a look to what is happening and which research demands arise from the available data.

The year 2015 closed with a total volume of import equal to 98 million hectolitres, with an increase of 1% compared to the previous year, corresponding to a value of €23 billion, with an increase of 9%. In 15 years international trade grew by 75% in volume and doubled in value. The increase in the pace was not constant over the entire period. In general, the first part of the new century, until the international financial crisis in 2008–2009 has seen a rapid increase of international trade flows, but afterward the pace of growth became smaller, being even negative in some years.

Anyway, despite the slowdown of the general growth of international wine trade, over the last 5 years the change in the structure of flows started at the beginning of the century continued. Therefore, shares of sparkling and bulk wines are increasing in value and volume, while shares of bottled wines are decreasing, and also the phenomenon of re-export is increasing. Considering the last five years, sparkling wine continued to grow with an annual rate of 7% in value and 6% in volume and bulk wine with an annual rate of 6% in value and 3% in volume. Over the same period, bottled wine grew 5% in value but only 1% in volume in terms of annual rate.

Looking at the competitive performance of suppliers, it is possible to observe a variety of different situations. What was outlined in the first issue of "Wine Economics and Policy" about the first ten years of the new century still works over the last five: each competitor follows a very individual pattern in terms of areas and wine categories where it is successful or unsuccessful. Anyway, the European Union still reduces its market shares on total trade, while Chile and especially New Zealand show a fair increase of their competitive performance. This variety of situations suggests that beyond the possible role of preferential trade agreements, market by market, some suppliers are interpreting better customers; in terms of consumers and distributors needs.

These essential traits of the evolution of international wine trade raise many research questions, at the micro- and macro-level.

Concerning the micro-level, data from international trade supports what outlined by the editorial signed by the Editor-in-Chief, Silvio Menghini, hosted in the last (previous) issue of the journal. In a patchy landscape of wine markets, whose features appears as always different mix between common and local aspects, "the wine maker should therefore not act only on the core product but should look beyond (…) adopting different lines of actions" at company and market level. For sure "Wine Economics and Policy", as outlined by Silvio Menghini in the same article, is publishing many valuable contributions in terms of conceptual and operative tools useful to support wine companies in the ceaselessly endeavour of renovation and improvement of their relationship with different markets.

Nevertheless, looking to how the research on consumers is evolving, in the perspective of understanding their preferences, in my view, it appears particularly interesting

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the integration of the traditional research approach concerning stated preferences with the approaches referring to the experimental economy aimed to reveal preferences. In this rich and fast developing field, particularly promising seems the complex experiment designed to analyse the stabilisation of preferences over time, once the effects of marketing stimuli have finished, going beyond the discover of obvious effects of contingent external cues on products evaluations. On the side of companies' strategies, particularly interesting and fitting to the wine context appears the new visions about the concept of strategy, embedded in an ecological approach, according to William D. Nordhaus; where the development of the company is based on the co-evolution of the firm, the environment and the consumer. In such ecological perspective, also the paradigm of segmentation seems obsolete, while more promising appears a clear distinctive positioning, stimulating consumers to self-aggregate and become actors in a process of co-definition and co-creation of value. However, concerning the involvement of consumers in the company's processes, a contribute to this issue shows that this is not straightforward in the wine industry. On all the quoted topics a larger effort of wine economists is surely desirable.

At the macro-level, however, the key questions, in my opinion, concern the possible evolution of international wine trade over the next 5–6 years. It is worth to investigate if the flattening of the trend in volume has to be considered permanent or temporary, and if the recent rearing of value is a promise for an acceleration of *premiumisation* or is simply a conjuncture. With respect to this crucial aspect of *premiumisation*, how is it possible to conciliate the search of consumers for value for money with the higher consumer's satisfaction for low-medium price wines; revealed by the paper published in 2008 by Goldstein and colleagues.[1] Moreover, as re-export and bulk wine trade are increasing, what could be the effects on the value distribution over the supply chain, also considering the increasing role of private labels? In this perspective, it looks particularly interesting to understand what could be the evolution of the structure of the industry: still an oligopoly with fringes? Or more and more an oligopoly, despite structured in different segments of supply. The fringe is represented by the constellation of micro and small enterprises, dramatically expanded during the new era of the international wine market, started during the 1980s, in the old and new producing countries. A new type of micro, small and medium integrated wine companies, controlling the whole production process, from the vineyard to the bottle until the final market (frequently establishing a direct contact with the final consumer). These are what in France are known as *vigneron récoltant*; more in general in Europe are defined Independent winegrowers having also a specific syndicate: the European Confederation of Independent Winegrowers (10 member states in Europe plus Canada). But the specificity of the small winery is perceived also elsewhere, as witnessed by the Australian Small Winemakers Show. Which could be their future competitive strength? As a matter of fact, the slowdown of growth of international trade is the result of a stall in the evolution of consumption, blocked at around 240 million hectolitres over the world, which inevitably determines an increase of competition in all market segments. As outlined also on our journal by Etienne Montaigne and Alfredo Coelho, diseconomies related to size in the wine sector can be adsorbed in the production of high price wines, especially in firms not driven by the return on equity. But considering the entire value chain, micro, small and either medium companies remain vulnerable and their competitiveness requires that "smallness" is itself an element of strength, at least in specific segments. Therefore, a challenging question is if it will still exist a not contestable market for small companies rooted in their territory or if their survival will depend on their ability to exploit opportunities of ICT and digital economy, developing effective and efficient network of firms able to reduce individual costs at least in the marketing and distribution phases of the value chain. Concerning this point, it looks revealing a recent article appeared on the food section of The Guardian website with the title: For wine producers, small is beautiful – but big is useful size is not everything in a vineyard – but it matters (http://www.theguardian.com/lifeandstyle/2016/mar/20/wine-producers-small-is-beautiful-big-is-useful).

Of course the task to forecast the future evolution of wine market is challenging and risky. Indeed, all the forecasts offered four or five years ago failed, as all overestimated the growth of consumption and international trade. Now Euromonitor is forecasting a substantial stability of consumption in terms of volume, which should determine a corresponding stability of international trade in volume, with a moderate increase in value. Some professionals claim that whatever China will do, it is reasonable to expect that in the United States the individual consumption will move in 7–8 years to the same levels of the UK, determining a new stable increase of wine demand. This looks encouraging, but considered the importance of the issue, more scientifically-based research should be carried out. The failure of some attempts to foresee the evolution of the market is not without explanations, despite the value of scientists and professionals applied, being based on traditional approaches. The investigation of the future should include the awareness that our time is intrinsically different from the recent past: the economy and the society evolve no longer with a continuous change, eventually with cycles, but by a sequence of discontinuities and some scholars suggest to apply to markets dynamics the Zygmunt Bauman paradigm of liquid modernity, where lasting is replaced by transient, introducing the concept of liquid markets. The traditional tools of economics, essentially based on the expected utility looks therefore no longer sufficient. Probably it is necessary to follow alternative approaches, maybe on the path indicated by the Prospect Theory by the Nobel prize

[1] Goldsteiny, R., Almenbergz, J., Dreberx, A., Emerson, J-W., Herschkowitschy, A., Katzy, J. (2008). Do More Expensive Wines Taste Better? Evidence from a Large Sample of Blind Tastings. SSE/EFI Working Paper Series in Economics and Finance No. 700, April 24, 2008.

Daniel Kahneman. Larry Lockshin in his recent editorial on this journal observed that "there is not much research on how markets evolve and the effects of policy and practice on such" and has invited scholars to fill this gap. I believe that Larry Lockshin solicitation deserves a positive response with a wide multidisciplinary set of tools; despite, as said, such researches are clearly demanding and with uncertain results.

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