



# French wineries analysis

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Tags	Seminar

What was written about our *goal*:

“Mary Smith, was recently hired for an analyst position at the Bank of Ireland. Her first assignment is to examine the competitive strategies employed by various French wineries.”

Key moments:

Over the past 5 years, firms did not met consumer expectations;

The number of companies decreased (from 10 to 4)

It turned out that the purchasing power in this industry is great

Mary's conclusions:

1. beer is drunk better at various social events
2. thanks to the Internet, buyers began to understand the best wines in terms of price/quality ratio
3. the wine industry is consolidating: there were 10 companies, now there is 4 (time period: 5 years)
4. more than 65% of sales are wholesale sales to restaurants
5. little fertile land

**TABLE 12.6** Characteristics of four major French wineries

	South Winery	North Winery	East Winery	West Winery
Founding date	1750	1903	1812	1947
Generic competitive strategy	?	Cost leadership	Cost leadership	Cost leadership
Major customer market (more than 80% concentration)	France	France	England	U.S.
Production site	France	France	France	France

With this research, Mary came to her boss and reported that, in her opinion, Southern Winery was stuck in the middle of two strategies - cost leadership and differentiation. The company tries to sell its wines at a price slightly lower than what other companies charge and at the same time tries to stand out by using a curved neck in the bottle, which raises the cost of construction of the bottles. As a result, the company's profit is compressed on both sides.

Boss answered:

"I believe that the South Winery could succeed at following both a cost leadership and a differentiation strategy if its operations were separated into distinct operating units, with each unit pursuing a different competitive strategy."

#### 1. Formulate a SMART goal for the project

**S** - specific - we need to research the competitive strategies used by various wineries in France + understand how a Southern winery can maximize its sales through the right combination of two competitive strategies

**M** - measurable - reports and calculations confirming the boss's theory about the Southern winery, the boss's approval of the report, various sources with which we can understand what is happening with the wineries; articles and books on competitive strategies

**A** - achievable - yes ( there are a few examples of firms that successfully combined these strategies)

**R** - relevant - yes, this industry analysis can help and serve as a case for similar problems in similar industries in European countries, for example Italy and Spain

**T** - time - the time given for this analysis is not specified

## 2. PSW

Problem Statement Worksheet											
Basic Question Задача проекта			Examine the competitive strategies of wineries in France, highlight changes in the industry, the causes of these changes and their consequences. Focus on Southern Winery, understanding how to combine differentiation and cost leadership strategies to maximize profits and avoid the closure of the company. Predict industry prospects and give recommendations to wineries to optimize sales.								
Background			Criteria for Success			Scope of Solution Space					
Due to a number of reasons (changes in consumer taste, digitalization, competition with producers of other alcoholic beverages), the demand for wine has decreased, the cost of living crisis also contributed to a decrease in demand for wine, and the consequences of the coronavirus pandemic were the reason of closure of many restaurants and bars, which were making up the majority of sales in the wine industry. As a result of these reasons, overproduction occurred and a sharp decline in prices. Also, the recent start of the SMO has caused an even greater increase in prices for food and fuel (cost living crisis → decrease in demand)			1) Calculations/reports show the success of a new way of combining strategies. Ability to implement two separate operating units to implement strategies. 2) Modeling of those calculations for the current market showed success in various areas, for example: increasing the number of clients, online promotion, the possibility of cooperation with marketplaces. 3) Boss approval.			Customer: boss; Our solution space is limited to two things: the Southern winery and the market. Understanding strategies and focusing on other wineries is not necessary - only relevant study of other companies is allowed to improve the competitiveness of the Southern winery.					
Constraints Within Solution Space			Stakeholders			Sources of Insight					
1) Environmental problems, causing more and more arable land to diminish from climate change, erosion and pollution. 2) Legal issues in EU in terms of alcohol and wine production regulation. 3) Diminishing profit margin, giving time and budget barriers, before line of no return for company survival is passed. 4) The company's management abilities. The company may not be able to cope with the management of two independent units.			1) Technology companies 2) EU 3) Southern Winery CEOs 4) Southern Winery employees 5) Customers			1) Articles, scientific works and books on competitive strategies 2) Company sales reports (both Southern winery and competitors) 3) Cases of successful combinations of two strategies (McDonald's, IKEA) 4) Similar wine cases					

## 3. PESTEL

**Political:** The French wine industry is governed by various regulations and policies, including production, labeling, and export. France is in the EU and this is making it easier to trade within the EU. Also, by corruption perceptions index France got score 71/100, therefore corruption is very low. The French Labour Code (Code du Travail) provides a comprehensive framework for both individual and collective relationships between employers and employees. And France's government plans to dedicate €200 million to efforts to dispose of unwanted and excess wine from the nation's winemakers. Overall, the wine industry in France is well regulated and the state has a strong influence.

**Economic:** The French wine industry is currently facing some economic problems. One of the most pressing issues is the steady decline in profit margins. This reduction in profits is leading to a trend of consolidation among wineries, as smaller and medium-sized businesses struggle to remain financially viable in a highly competitive market. In

addition to these financial troubles, there are also environmental concerns that are having a significant impact on the industry. The shortage of fertile land is becoming an ever-increasing issue, as the demand for wine continues to rise. This is putting pressure on current vineyards and making it hard to grow. Also, there has been a noticeable shift in consumer preferences. More and more consumers are choosing beer over wine, resulting in further economic strain on the wine industry. This shift in consumer preference, combined with the financial and environmental challenges, mean the French wine industry may face tough times.

**Social:** The wine industry is significantly impacted by a variety of social trends. These include the evolving tastes and preferences of consumers, which can shift demand towards different types of wines or wine-producing regions. Furthermore, the increasing use of the internet for wine research and purchases is changing the way consumers discover and buy wines, making e-commerce an increasingly important sales channel for wineries. Lastly, the dominance of restaurant purchases greatly influences the wine industry. Restaurants not only contribute to a large portion of wine sales, but also play a major role in shaping consumer tastes and trends. These changes and trends in social behavior deeply affect the dynamics of the wine industry.

**Technological:** Several key things are shaping the industry. Online sales have changed how people buy products, opening up new opportunities. Consumer research helps companies understand what people want so they can offer relevant products. Finally, new wine production and marketing technologies help companies stay competitive by improving how they make and sell their products.

**Environmental:** The French wine industry faces a variety of environmental challenges that have the potential to significantly impact production. One of the biggest concerns is the limited availability of fertile land suitable for grape cultivation. With the high demand for French wines globally, the lack of land for vineyards could pose a serious problem. Additionally, the potential effects of climate change on wine production cannot be ignored. Changes in temperature and rainfall could change how grapes grow, potentially affecting both the quantity and quality of wine produced. These environmental elements might change the future path of the French wine industry.

**Legal:** The industry is governed by laws related to production, labeling, and export, and regulations related to alcohol sales and consumption. For instance, the Appellation d'Origine Contrôlée (AOC) sets rules for all French wines. This certification, granted by the government bureau Institut National des Appellations d'Origine (INAO), applies to certain French geographical indications for wines, cheeses, butters, and other agricultural products. AOC is anchored in the concept of terroir and traditional production methods, aiming to promote high-quality and authentic products.

In summary, the French wine industry is grappling with significant challenges due to shifting consumer preferences, economic strains, and environmental issues, all of which

are influencing its competitive strategies and profitability.

P	E	S	T	E	L
- regulations and policies, including production, labeling, and export	- consolidation among wineries	- the growth of e-commerce influence on the industry	- e-commerce, online sales	- climatic challenges (droughts in EU)	- AOC (institution that set rules for French wine industry)
- easy trade within EU	- shortage of fertile land	- shift in consumer preferences	- technological innovations in the industry (production, transportation etc.)	- limited availability of fertile land	- regulations and policies about production, labelling and export
- low level of corruption	- cost living crisis	- dominance of wholesale purchases			
- EU and France government plans for the reduction of vineyards					

#### 4. Industry analysis

**Nature and overview of industry:** French wine industry has biggest impacts on the history of winery. Most of terminology and methods in this industry are originated from France. France is selling not much wine, but their wine is much more expensive than others. While in world lower and middle segment now preferring to buy cheaper wine from Spain or Italy, France is a main exporter of luxury wines.

France was third world wine exporter in terms of per-bottle-of-wine with a market share of 14%. France was first world wine exporter in terms of net export surplus with a market share of 40% and 11.8B of dollars' worth.

**Limitations and risks:** Every year more and more arable land is diminishing because of climate change, erosion, and pollution. Water supply with increasing temperature and droughts during summer makes water supply a very expensive and important thing. And now, despite of high prices and demand on high-priced wine, profit margin of companies is decreasing.

**Government regulations and forecast:** More than 360 million of euros were to compensate companies in destruction of vineyards. This will help to reduce companies' expenses on land and decrease market supply, making their wine more expensive. So, despite industry is declining, this can change in horizon of 5-10 years, with France wine industry changing its course to luxury wine, and by so returning to growing net export value.

**Unique position in history:** History of French wine industry made names of French regions world famous brands, giving France monopoly on names of wine, such is Champagne; but regulations in EU place a burden over companies' bureaucracy and budget. Basic EU regulation was put in the year 2000, and then expanded in 2013, with the last implementation in 2019.

## 5. SWOT

### Strengths:

Long History (Founding date 1750): the winery boasts an extensive historical background, imparting a profound sense of tradition and heritage, potentially enhancing its brand reputation.

Competitive strategy: Differentiation strategy helps company to be unique in the market and highlights their wine among the other wineries.

### Weaknesses:

Poor combination of Generic Competitive Strategies: because of the poor coordination company faces bad profit and is "squeezed by both sides" - it means company cannot succeed neither in cost leadership strategy nor in differentiation strategy

High Cost Structure: Attempting to combine cost leadership with differentiation by using curved neck bottles may result in a high cost structure, leading to squeezed profit margins.

### Opportunities:

Diversification of Customer Markets: Exploring markets beyond France presents an opportunity for growth. Additionally, focusing on online sales and establishing contracts with marketplaces can further expand the customer base.

The Use of Technologies: There is a possibility to improve integration of strategies by improving the differentiation strategy - for instance, use technologies to produce curved-neck bottles for wine cheaper and faster.

#### Threats:

Changing Consumer Tastes: The French wine industry's failure to respond to changing consumer tastes poses a threat to all wineries, including South Winery.

Consolidation in the Industry: The industry trend towards consolidation indicates a competitive environment where only a few major players survive.

#### Strengths -> Opportunities:

Long and Established History: Provides a strong foundation for exploring and diversifying into new markets beyond France.

Competitive Strategy (Differentiation): Sets the company apart, making it well-positioned to capitalize on opportunities for growth, especially in online sales.

#### Weaknesses -> Threats:

Poor Integration of Generic Competitive Strategies: Ineffective coordination exposes the company to threats such as reduced profitability and challenges in both cost leadership and differentiation.

High Cost Structure: Attempting to combine cost leadership with differentiation may make the company vulnerable to the threat of compressed profit margins, especially in the face of industry consolidation.

