

Conclusion: What's Next?

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This book offered a broad overview of the different business models in the wine industry worldwide. It showed the diversity of this highly fragmented and extremely diverse sector. Above all, the different chapters showed that there is no dominant model and no guarantee of success at national scale in whatever we are talking about Old, New or New World wine countries. In particular, this book refutes the idea, however widespread in the Old World, that the model of the large, vertically integrated industries relying on one or more strong brands sold internationally would be the unique way for success in wine-producing countries. Different models coexist at national and inter-national levels and they are constantly evolving according to the challenges they already face. Many chapters showed that the actors operating in the wine industries as the wine industries themselves already adapt their strategies. Whether the actors within a particular industry or the wine industries grouped

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in national or international institutions, all players, in order to compete and perform on the wine market, use different tools to differentiate (mergers, vertical integration, clustering, designation of origin, brands, combination of origin and branding, etc.). At a micro level, the observation is similar. *Grands Crus* in the Old World or large and vertically brand companies in the New World are far from being the only destinies for a wine estate to exist. Reality is more complex. The importance of localization, proximity with consumers, the existence of a community sharing strong societal values and new forms of financing or sales, in connection with the evolution of the sociology of the consumer, are all factors that can allow small estates and wineries to achieve success. It is even possible that the latter are more resilient to the changes that will probably be imposed on the wine industry in the next decade.

We identify four mutations that could reshuffle the cards in the global hierarchy of wine-producing countries in the coming years. They are as many challenges as these countries, industries and companies in the sector will have to face in the future. They concern:

- the production of grapes and wine, in a context of climate change for most of the major producing countries;
- international wine trade, against the backdrop of possible trade wars and of deglobalization;
- the new geography and the new sociology of wine consumption that are beginning to upset demand;
- new ways to sell wine and communicate to reach the new consumers.

Thus, producing, exchanging, selling and consuming wine are likely to evolve very significantly in the next 10–15 years. These developments could be at the origin of an upheaval in the hierarchy of wine-producing and exporting countries. What could the world of wine and the wine industries worldwide look like by 2030 according to the expected changes? Rather than providing uncertain predictions, we will try to identify the most important trends that may affect the future of the wine industry.

28.1 Climate Change

A first important determinant of changes is the environmental context of the current wine production that is changing due to shifts in climate patterns already observed for the past and predicted for the future. These changes in temperature and air humidity are already modifying different elements as grape

characteristics (sugar, acidity). The production challenges and the strategies to ensure a sustainable product need to be adapted accordingly (Schultz 2016). Wine production could therefore evolve along two directions.

- First, the reduction of wine supply in certain regions facing climate change. In the latter case, the Old World (mainly France, Italy and Spain), the other countries of Southern Europe, but also Australia, Argentina, South Africa or California (United States) could appear as the future big losers of global warming. In addition to global warming, the European countries are particularly subject to extreme events such as late frost or hail storm as shown in particular by the 2017 vintage in the Bordeaux wine region. The evolution of viticultural techniques can limit these negative evolutions, for example, through the emergence of resistant grape varieties to water stress to reduce the impact of the high temperatures but also to diseases as powdery and downy mildew. The costs of these techniques, together with the needed organizational changes, the risk aversion of the winegrowers and their willingness to change, could then be decisive. As to the consequences of climate change in traditionally producing areas, a possible adaptation is the change in the variety mix. Grape varieties traditionally produced in each area of the Old World are the result of a secular selection of the best fit to the particular local natural (soil and weather) conditions. There is a wide dispersion in the optimal weather conditions for the different varieties (Ashenfelter and Storchmann 2016); hence, a rational adaptation strategy could be changing the varieties choosing the best fit to the new conditions. Nevertheless, such a path does not go without difficulties. Apart from the needed investments, the main problems could arise from two sides. One is the difficulty in changing the institutional setting of the regulations concerning appellation wines. For instance, in Italy and France, many Protected Designation of Origin (PDO) regulations dictate the varieties that can be used or not according to the area and the type of wine. Even though regulations can obviously be changed, some producers may be reluctant to do so, and conflicts on this issue can arise within the community. A second problem might be the consumers' acceptance of a change in taste of traditional wines and, more generally, in the characteristics they associate with those particular wines. Nevertheless, also consumers' tastes and preferences may change, either because of the different availability of wines or because of simply following new fashion trends. The changing preferences of English consumers for different wines across time (Ludington 2018) are an example of such a change. The evolution of wine production since the 1960s in the Bordeaux wine region from white to red following the evolution of consumers' taste is a second one.

- Second, the exploration of new terroirs in non-producing regions at the moment, reinforced by the evolution of viticultural techniques. Vine growing in tropical or semitropical areas, as in India or in certain areas of China or Brazil, is expected to grow. The growth of wine consumption in Asian countries is such that these terroirs will receive strong incentives to develop either from local companies or from foreign investors. Climate change is likely to have a positive impact on some parts of Northern Europe. England is increasingly considered as a terroir with a high potential for wine making. It is therefore already possible to observe pioneers planting vines in England. Germany or even the Scandinavian countries could also see their wine production—already important in Germany—increase. Canada or the North of the United States could follow the same evolution.

The economic impact of these changes is difficult to assess but has to be considered. An in-depth analysis is necessary to build relevant scenarios and to provide risk analysis for individual regions and to quantify the costs and/or benefits of regional climate developments. It is nevertheless clear that climate change and technical developments associated with it will disrupt the mapping of global wine production. New challengers will certainly emerge. China is one of the favorites because this country has already begun to move on toward a large-scale wine production and already proclaims itself an important wine-producing country. This change in production mapping should also be reinforced by the upcoming difficulties in international wine trade.

28.2 International Wine Trade and De-globalization

The hardening trade war between the United States, China and Europe in the wine market presumably foreshadows a new world order in which international trade will be much more limited. What we can call a form of de-globalization begun with the slowdown in trade flows since the 2009 economic crisis and the rise of socio-environmental concerns related to globalization. The wine sector will not escape this trend. By the symbolic nature of wine, because it is attached to regions and therefore to countries, of which it often bears the name, wine appears as an ideal good to overtax in the context of a commercial war. In the past, it has already been the target of this type of practice (especially French wines during the second Iraq War). It is all the easier to hit the wine as it is an alcoholic beverage and therefore carries

negative societal externalities. Non-tariff measures, including health measures, therefore appear to be obvious instruments of protectionism. Here we underline once again the importance of regulations and public interventions on the setting of the wine industries.

We can expect the protectionism to favor, by nature, local consumption and domestic markets. The incentive to produce and consume locally is becoming stronger and stronger. The large, export-oriented firms are presumably the more exposed ones, in particular those which export wines with low unit value. This could be reinforced by the rise of local consumption relative to oenotourism (with the mapping of new wine routes and the opening of the estates for visits and wine tastings, e.g. in the Old producing countries such as France and Italy). Successful business models of local and short distribution channels for wine sales have already and successfully been developed for several years by the *Grands Crus*, models that could also be adopted by smaller estates.

The restriction of trade should therefore favor the emergence of new vineyards and a fragmentation of world production. In this, it is linked to the climatic evolution which will impact the world production. It should also encourage more local consumption and ultimately new forms of sales. The way to sell the wine could change significantly in the years to come. In a world where the “local” food concept is gaining importance and tells a story about the product, where the distance becomes expensive, it will be necessary to retain a more local clientele. Many vineyards are already aware of that. But for the most famous brands and for the most spread in the world, the local market is not enough. The extent to which production and consumption will shift to local wines is nevertheless constrained by natural conditions and by consumers’ habits. While global warming, for instance, favors wine production in the United Kingdom, its production is undoubtedly insufficient to meet the present British demand for wine, and it will presumably also be in the future, unless deep changes in consumption habits occur.

28.3 Changes in Wine Consumption

Reactions at the global scale to the changes induced by global warming are also possible through changes in consumption habits and, hence, in the demand for wine. Nevertheless, they are only possible in the long run. Copying with these trends would imply an increase in wine consumption in Traditional producing countries and a decrease in New consuming countries. This contrasts with the trend toward converging drinking habits

between different beverages (Holmes and Anderson 2017) and would require a huge change in many countries' marketing outlets. Just to give an example, the share of exports over the Italian production, which was around 5 percent in 1950, is now around 50 percent (Corsi et al. 2018). A strong reconversion toward domestic consumption is hardly conceivable. But an increase in the competitive pressure in the international markets is easily predictable, because most of the changes induced by the changing trade flows will presumably take the form of trade-diversion effects rather than of a direct substitution of domestic production for imports.

At micro level, these trends could have different impacts on the different operators of the chains, depending on the structure of the wine sector in each country and on the strength of the changes they could have to face. The distribution of the gains and of the losses from climate change as well as from trade shrinking will be linked to the organization of the industrial chain and on the market power of the operators. The more concentrated the wine processing, the more it has some market power vis-à-vis the pure grape growers and hence the possibility to pass the negative effects to them. This is nevertheless less obvious when wine cooperatives are important players in the wine processing. Wine estates producing grapes and wine are more common in the Old wine countries and on the higher-quality segment. As such, they will suffer more the consequences of climate change (that will affect quality) and less those of the trade reduction, as compared to the other operators (because of the lower price elasticity of these wines).

28.4 Distribution and Relation to the Consumers

Two further main issues seem central trying to forecast the future of wine sales. The first concerns the use of the Internet in the relationship with the end customer and the second questions the relevance of traditional distribution channels. These two issues are closely linked. The Internet allows easy direct sales and thus doing without traditional intermediaries. Having a commercial website is however far from enough to organize a direct sale commercialization system. The estates would have to be able in the future to create a "community" around their name, their brand. Crowdfunding as an innovative financial tool constitutes an interesting vector for building a community of customers actively participating in the life of the property (Bargain et al. 2018). More and more vineyards are using it to finance new equipment or new plantings or even the development of a new product or marketing strategy. A refund of the funds poured in the context of a crowdfunding campaign

in the form of bottles of wine is both a new way of financing and, perhaps above all, a new form of selling (eventually, since it is the bottles of future vintages that are sold). It is a way to bring new consumers to the product of a specific estate. In addition, we look at community management as being able to become an essential communication tool for building such a community of customers, even more than other forms of communication. It is in this context that we can imagine a gradual decline in the number of sales via conventional distribution channels compared to direct sales, interrogating once again the organization of the wine industries and the relative power that some actors have. The rise of an expanded wine tourism offer will also go into this direction.

These types of sales closer to the consumer (direct sales) should be in line with the evolution of sociology of wine consumers. From a rather old, European, masculine, not interested in social medias and high-income consumer, the typical wine consumer is becoming (and it will be even more true tomorrow) younger, international (American and Asian in particular), more feminine and more connected (Cardebat 2017). Once again, it appears that social networks and the exchange of information between consumers on the Internet concerning the quality of wines are likely to become increasingly important. The notion of community will be all the more affirmed, giving more importance to the new opinion-makers such as “the wine community” and the other consumers, much more than the traditional opinion-makers like newspapers, guides or famous experts. The notion of community does not necessarily refer to purely local customers in geographic terms but to customers sharing common values that wine conveys (typical characteristics, societal and environmental commitments, for landscape preservation or social purposes, etc.). Of course, these trends are not at the same stage everywhere in the world, much depending on the tradition of drinking wine and on the country status according to wine production, since the tradition of drinking local wines is deeply rooted in Old wine countries and can help in facilitating the creation of wine communities. Though, customers can now be everywhere in the world, even if a rise in the obstacles to exports can be anticipated. We are not describing here the end of exports, but an evolution in the way of doing business at the international level. If exports become more costly, operators will have to think about how to reach foreign consumers, especially new consumers from New wine countries. Two strategies emerge. The first one is related to product differentiation: building a strong brand and creating a strong community that will make consumers willing to pay more for a product that represents a strong added value for them. The second strategy is about the “tariff jumping”. If there are barriers to trade, then the players must produce

closer to consumers, as Japanese car companies did in the United States in the 1980s. Absurd as it may seem to some experts for which a wine is attached to a terroir, this strategy can pay off for generic wines, produced by leading brands used to using grapes from different terroirs to produce their wines. This model will be similar to that of the big brewers who produce their beer locally in the United States, for example (local and craft breweries). We can therefore anticipate a future growth of foreign direct investments in the wine sector: greenfield investments, corresponding to the purchase of land and the pure creation of a new vineyard, but also brownfield investments when brands buy existing vineyards or create alliances with local brands.

It is therefore self-evident that many variables will affect the future evolution of the wine industry worldwide, so that an exercise of prediction of the potential future directions of the wine industry is inherently imperfect and partial and potentially totally wrong. This is the risk of such an exercise. But our effort has been to present the most likely evolutions and some hints on the interplay among the different actors of the industry and to offer a perspective in terms of breaks of tendency rather than of a plain extension of past trends. The wine industry is very likely to know several breaks of tendency in the next 10–15 years and the actors of the industry will need to make strategic choices.

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