

Crafting Winning Strategies in a Mature Market:

The US Wine Industry in 2001

Presented by:

María Camila Gómez.

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Questions:

Related to objectives.

1. How attractive is this industry?
2. Following the logic of competitive strategy, should a company enter this industry and if yes, what should this strategy be?
3. Following the logic of competitive strategy, what strategy should be established player follow?
4. What are the factors the industry competes on and invests in? How long has the industry competed on this factors?



A Brief History of Wine

Important facts.

Winemaking process: Far back as 2700 BC and evolve since then.

- Egypt - Consumption meant being closer to God.
- Greek mythology: Dionysus, God of wine.
- Italy, France and Spain.
- Roman Empire: Glassware for wine drinking.
- Middle ages: Wine became the drink of every strata of society.
- France 1700s: Sophisticated wine-producing techniques for fine tasters.
- 1800s: The California wine industry was born.



The Industry Landscape in 2001

Important Facts

1990s: Production of Chardonnay and Cabernet Sauvignon grapes doubled and Merlot tripled during a decade.

America became the 4rth larger producer, it remained stuck at 34th place in world per capita wine consumption.



VS





vs



Two Strategic Groups

	Retail Price per Bottle	Price Segment	Percent of Total Volume	Percent of Total Revenue
Premium	<i>Over \$14</i>	<i>Ultra-Premium</i>	<i>7%</i>	<i>25%</i>
	<i>\$7 to \$14</i>	<i>Super-Premium</i>	<i>16%</i>	<i>27%</i>
Budget	<i>\$3 to \$7</i>	<i>Popular Premium</i>	<i>33%</i>	<i>31%</i>
	<i>Below \$3</i>	<i>Jug Wine & Others</i>	<i>44%</i>	<i>17%</i>
			<i>100%</i>	<i>100%</i>

Premium vs Budget

Relevant Data

1990s - 2000s

The number of distributors had fallen from nearly 5,000 to 250.

Two major distributors per state.

Only 50 to 100 of the wineries had access to widespread distribution.

Enormous retail consolidation. Top ten supermarkets controlling 55% of the US market.

Majority of wine producers focused on low volume/high priced wines to gain the maximum ROI.

The distribution system increasingly focused in high volume/low priced products.

Nearly impossible for a new company to establish a domain position.

Low barriers invited more and more wineries into the US market.



Costs

Start-up

The capital requirements for entry were substantial.

- For a new entrant, undeveloped plot of land: \$15,000 to \$40,000 per acre (value of land).
- Value of land: \$65,000 to \$150,000 per acre.
- Price to establish an overwhelming winery: \$125,000 to \$500,000.
- Fixed Costs: \$300-\$700 per barrel.
- Aging process: 24-30 months.
- Salary of a wine maker:
 - \$64,000 for small winery.
 - \$111,000 for medium to large winery.
- 40% of their expenditures on distribution and marketing costs.

1997-2001: Production outstripped consumption by 15-20%.

10% of americans drank regularly. Of the remaining 90%. 44% were not