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Global Landscapes: A Speculative Assessment of Emerging Organizational Structures within the International Wine Industry

DAVID AYLWARD

ABSTRACT *As a rapidly evolving sector the international wine industry represents an interesting subject for analysis. Over the past two centuries the industry has experienced a number of major innovations and direction changes. The organizational shifts involved in these changes have been profound. From a monopolization of wine culture through the nineteenth and much of the twentieth century by Europeans, to the emergence of New World operators and their democratic influence, the international wine industry now stands at the edge of another major paradigm shift. This paper traces the industry's historical changes and speculates on the implications of such issues as global production, distribution, technology transfer, branding and the escalation of mergers and alliances. It argues that with the increasing global tendency of the industry, 'New' and 'Old World' distinctions may blur and disappear. Furthermore, as the wine landscape continues to evolve, we may well see a new set of rules, where the emergence of localized branding, an enhanced role for small to medium enterprises and the decline of national industries results in an irrevocable reconfiguration of the industry.*

Keywords: globalization; wine industry; New and Old World; innovation; export

Background

The globalization of economic and business activity appears to be continuing unabated in the new millennium. International trade, foreign direct investment, foreign portfolio investments and international currency transactions are increasing at an unprecedented rate.[1] This is a phenomenon that is common to all industry sectors across all countries. It is a phenomenon that became clearly apparent in the wine industry from the early 1980s and has been responsible for a reshaping of the industry's international landscape.

Much of the globalization literature over the last decade debates the advantages or otherwise of this interdependence at a macro level, where often broad

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economic, social and cultural assessments tend to mask the more geographic, industry and firm-specific issues.[2] In more recent regional science literature, however, there has been a greater emphasis on regional responses to global pressures, the role of clusters within a global environment and firm-specific strategies for responding to opportunities and challenges.[3]

It is within the context of these regional and firm strategies that this paper makes its projections for the wine industry. The international wine industry has undergone rapid transformation over the last 25 years, much of it in response to the industry's globalization of production, distribution and marketing. This transformation has had both expected and unexpected outcomes. Among the more unexpected outcomes has been the emergence of regional identity and branding and a redefined role for small and medium firms within these regions. These phenomena are explored and speculated upon within historical and contemporary contexts.

For the purposes of this paper, an extensive literature review was conducted in both primary and secondary sources. Scholarly literature on globalization theory, cluster theory, regional economic development, exporting behaviour and wine history was consulted. In addition, numerous newspapers, trade journal articles, and industry statistical collections were assessed for data to support the paper's arguments. The author's previous studies in related areas were also drawn upon for specific innovation and export data as well as interview results.[4]

Stage one includes historical comparisons between New and Old World wine industries, including the challenges and opportunities experienced by each. The second stage of the paper traces the evolution of each sector to the current production, distribution and marketing environments. This allows for scenario setting which comprises the third stage of the paper, wherein the author speculates on the international wine industry's future landscape and its broader implications for organizational reconfiguration across national, regional and firm structures.

Brief History—The Era of European Dominance

Europe's position in the world of wine has been one of complete dominance for the last two millennia. As late as the nineteenth and much of the twentieth century this dominance continued, albeit with major organizational shifts and paradigmatic ruptures. In the nineteenth century many European producers suffered in an industry plagued by devastating diseases and pests, the most notable being *phylloxera*. This root-attacking louse destroyed vines right across Europe throughout the 1860s and 1870s, resulting in virtually complete destruction.[5] It was not until the 1880s when American rootstock was imported and grafted that immunity to *phylloxera* was finally achieved.[6]

The American rootstock (ironically a New World cure) provided a turning point for European wine producers. Although still facing substantial challenges, including two world wars, the Great Depression of the 1930s and continuing pest outbreaks, the twentieth century was primarily one of rapid growth and consolidation of key varieties.[7] In addition, technological change in both viticultural and oenological arenas was matched with quality regulations and a revolution in the transport system. New, rapid transportation, in particular, meant that wine drinkers from all corners of the globe could now access good quality produce, rather than be subjected in many cases to their own localized and often inferior wine.

A mini-revolution was also taking place in packaging. Traditionally, wine was shipped from the vineyard to distributors in casks or tuns (at which point wholesale merchants transferred it into bottles for retail sale). By the mid-1900s, however, this method was discarded in favour of bottling at point of production. The simple change allowed a major leap forward in quality control and supply chain management. Wine-makers could now apply the same care in bottling as they had in the product's making, rather than risking inexperienced handling, bad storage and partial or complete deterioration of their product.[8]

These achievements, together with unmatched growth in global wealth ensured that the wine regions of France, Italy, Spain and Portugal experienced unprecedented popularity and cultural dominance.[9]

As the industry matured and demand for quality grew, two previously nascent concepts were also gaining legitimacy. One was the link between wine science, or *oenology and viticulture*. By the late 1940s the *Institut d'Oenologie* had been established at the University of Bordeaux, with Jean Ribereau-Gayon as director. He was immediately joined by Emile Peynaud, the person responsible for putting oenology into practice. While many believe wine science and viticultural innovation emerged with the New World producers, its systemic organization actually began with Peynaud, who encouraged to a degree, product standardization and certainly leading-edge methodologies.[10] Although the French were reluctant to admit it, wine-making was being turned from an art into a science and the great Baron Philippe de Rothschild and others were helping to ensure this change become entrenched.

The other concept was that of regulated *quality*. In France four quality classifications were developed. The lowest is 'Vin de Table' for non-vintage table wines, followed by 'Vin de Pays' (VDP) for regional country wines from defined areas, and then 'Vin Delimite de Qualite Superieur' (VDQS) which included wines of a higher quality grading. Finally, there is the 'Appellation d'Origine Controlee' (AOC) which is the highest grading of French wines, where quality controls are applied to all viticultural and oenological aspects of the product.[11] Similar quality systems in Spain are banded under the Demominacion de Origen and in Italy, the Denominazione di Origine (DOCG).

These quality systems both reinforced and were reinforced by the oenological advances taking place across the continent. They were also, to a large extent, self-fulfilling.[12] As the systems became increasingly prescriptive for growers, wine-makers and consumers alike, the regulations tightened. *Terroir*[13] became more and more critical and the top quality categories such as the AOC, more exclusive.[14] Until the early 1970s the AOC and its counterparts in Italy and Spain served their purpose well. Varieties were specifically chosen for particular regions, yields were kept low, quality rose and most importantly, these regulations had the desired effect at the point of sale, where prices continued to inflate and the reputation of the producers climbed.

By the 1960s and early 1970s most New World producers were still contenting themselves with producing bulk wine of variable quality. Although Californian wine was gaining some recognition in the international market, it was limited and had many critics. Australia, South Africa, New Zealand and Chile posed no real threat to Europe. Their wines were regarded as mediocre, they had bad press throughout most of the continent and their export markets were virtually non-existent. In addition, the reputation of European wine was now such that importers had no taste for alternatives. Europe reigned supreme.

A Changing Landscape—The Rise of the New World

Four major developments, however, conspired to bring about fundamental changes within the international wine landscape. Partly by accident and partly by design, over the last three decades of the twentieth century these changes altered the dynamics of the industry to such an extent that today's wine industry bears little resemblance to the one monopolized by Europe throughout the last two centuries.[15]

Educating the Consumer

The first of these changes was slow to evolve but had a dramatic and lasting effect. As the culture of wine drinking became a more accepted part of daily life in traditionally non-wine drinking communities, its value and acceptability as a beverage also increased. People began to take wine drinking, but also its history, origins and varieties more seriously. European producers understandably embraced and promoted this cultural change. Consumers were taught to recognize the various quality distinctions, were given rudimentary advice on the differences in *terroir*, encouraged to tour Europe's vineyards and indulge in tastings. Most importantly, they were guided in their choice of wines from vintage to vintage. Distributors and merchants eagerly awaited news of the most agreeable wines from each vintage and bought it in volume to be passed on to their equally eager customers. In short, merchants and consumers alike were educating themselves in the mysteries and pleasures of wine.

The Taste Test

The second development was a direct response to the increasing popularity of wine. It was also a direct response to an emerging democratization of the product and the determination of New World producers to internationalize their business. In 1976 shockwaves rippled through the wine world when a blind taste test in Paris (with nine French judges) found that the best tasting cabernet and four of the best tasting whites were in fact, Californian.[16] This single outcome created the turning point that the New World so desperately needed. The international community was forced to recognize that at least Californian wines offered a high-quality alternative to the ubiquitous European brands.[17] While other New World producers such as Australia, Chile and New Zealand were attempting to capitalize on this development, France, in particular, was determined to ignore it.

Consumer-driven Production

The third development, which will be expanded upon later in the paper, was the attitudinal response to the revolutionary taste test. Throughout the 1980s and particularly 1990s, New World producers in California, Australia, New Zealand, South Africa and Chile increasingly understood that a wine was considered 'good' if and only if, the consumer actually liked it. Initially the most successful at recognizing this fact were Australia and California. After a myriad of market samplings it was found that most consumers opted for robust, full fruit, rather sweet flavours. They also wanted wine that was good quality, value for money and dependable; that is, if they bought a particular branded variety, they wanted its taste to remain consistent.[18]

These requirements brought about a fundamental reorientation in both viticultural and oenological practice.[19] It was a reorientation that depended heavily on an industry vision and the dissemination and uptake of technology.[20] New World producers were committed to both, albeit in varying degrees. From the late 1980s, Australia, California, South Africa and to some extent New Zealand were bringing about a systemic organization of their wine industries.[21] The very fact that only now were they officially recognized as 'industries' is testament to this organization.

In California the University of California–Davis, the American Vineyard Foundation and the Californian Association of Winegrape Growers played central roles in coordinating funding, research, information, exports and government lobbying. In Australia it was the Grape and Wine Research Development Corporation, The Winemakers Federation of Australia, the Australian Wine Research Institute and the Cooperative Research Centre for Viticulture, while in South Africa it was the Nietvoobij Institute for Viticulture and Oenology and the South African Wine Institute.[22] At a tangible level, they provided advice and practical assistance in all viticultural and oenological aspects from clone and rootstock development, virus diagnosis, canopy management and harvesting methods, through to hygiene, maceration techniques, blending and quality testing. They also played critical roles in wine competitions, wine education, vertical integration, brand development and retailing.[23]

These organizations not only centralized resources, but gave their respective industries a sense of unity and common purpose.[24] They established targets, set priorities and created benchmarks for the entire industry, so that the growth, production and sale of winegrapes targeted consumer needs. In short, they created the vision.

Producer-driven Production

In contrast, the attitude of European wine industries, and in particular, the French, remained focused on a producer-driven approach. Throughout most of the 1980s and 1990s Europe's response to the increasing market penetration of New World varietal wine, was to adhere to its legislated quality systems and the concept of *terroir*, the antithesis of the New World approach.[25] Systems such as the AOC had little room for consumer input. Every aspect of the growing and wine making process was defined, from determination of which territories should be reserved for particular appellations, to the grape varieties that could be used, to soil characteristics, to approved oenological methods.[26]

There was a firm belief throughout the last two decades of the twentieth century that the New World challenge would be short lived.[27] Many Old World producers believed that if they simply maintained their appellations and wines and kept promoting their history, the consumers would tire of New World, 'industrial' varieties and return.[28] As one French producer stated: 'We don't make wines to please consumers. We make wines that are typical of their terroirs'.[29]

Compounding this attitudinal inertia were several structural barriers unique to the Old World. Due to a culture of heavily subsidized grape-growing and winemaking, European producers found it difficult to adapt to broader markets within Europe, and indeed beyond.[30] Often among smaller producers, who had always been paid regardless of their wine quality, there was no ready market for what many distributors and merchants believed was an inferior product. There was also a lack of flexibility in following changing trends, again the result of an entrenched producer-driven approach.[31] Then there was the AOC and its equivalents. As Colman states:

> Using the land register that dates from the time of Napoleon, the producers are able to geographically delimit the zones from which the grapes must come. The grape varietals are also controlled … and producers must choose from a short list of six accepted red wine varietals. The varietals do not change because tradition dictates that this year's vintage must taste like last year's vintage.[32]

Such legislated resistance to change restricted the parameters within which the smaller, less prestigious firms could operate. In addition, the AOC had increasingly lost sight of its original vision since the late 1970s. More and more, it was dictated to by those firms belonging to the most exclusive category. Regulations were altered, conflicts of interest were common and the very tenets of the AOC system were continually undermined.[33] Smaller firms were further disenfranchised by these distortions. The fact that most of them were small family businesses meant also that their ability to compete for established distribution networks and supermarket shelf space was severely limited.[34] Their demise was to be a symptom of a far greater affliction for European producers. By the end of the twentieth century the wine landscape was changing dramatically. It was becoming obvious that a new type of consumer was requiring a new approach by producers, new techniques, new marketing, new distribution and production and above all, a new attitude.

Emerging Landscapes

It was also becoming obvious that the New World challenge was not an 'aberration' as the Europeans had earlier hoped. By the beginning of the new millennium Australia, California, New Zealand, South Africa, Chile and to a lesser extent Argentina, had established a sustained presence within the global wine industry. In the case of Australia, California and Chile, the presence is also substantial.

New World Growth

For example, in terms of grape production (volume) for 2004, California ranked fourth in the world, followed by Argentina in fifth position, then Australia in seventh position, South Africa in tenth and Chile in eleventh position.[35] Together, these more substantial New World producers account for approximately 22% of total world production, a figure that is increasing rapidly.[36] This increase is also in contrast to much of the Old World production. Between 1991 and 2003 Australia's production, admittedly from a much smaller base, increased by 137%, from 458 million litres to 1,086 million litres. In 1986 it was a mere 10.8 million litres.[37] In the same period, France's production declined by 11.1% and Italy's by 29.6%.[38]

In terms of wine exports, Australia is now ranked fourth in the world, followed by Chile in fifth position, California in sixth and South Africa in ninth position. Together, New World exporters account for 35% of world trade (excluding intra-European trade), a figure that eclipses their contribution only a decade earlier. In the early 1990s it was approximately 14%.[39] As late as 1999, the figure was still only 19.7%.[40]

But the *importance* of international trade accounted for by New World producers transcends these figures. For example, the UK is the largest export market for both New and Old World producers. A decade ago, nine of the ten top selling wines in this market were from European producers, primarily France. In 2004, this situation was almost completely reversed. Seven of the ten top selling wines were from New World producers, six from Australia and one from California. Only three were European.[41] Reinforcing this trend was the New World's share of the UK market for the first time overtaking that of the European producers (48% vs 46%) in 2005, as opposed to 26% vs 67% in 1999.[42]

In the lucrative US market, the situation is similar. Australia is now the second largest exporter to this market, easily outdistancing France at number three and rapidly approaching Italy as the largest exporter.[43] New World market share has also risen from 16% in 1999 to 35% in 2005 while the European share has fallen from 81% to 61% in the same period. Furthermore, if the *super premium* wine producer price and output projections are examined between 1999 and 2005 (an indicator of quality), we again see clear trends. For example, there is a price decline of 5.7% for France and 7.1% for Spain, while California has a decline of only 1.3% and Australia an increase of 9%. In terms of output France has an increase of 22%, Spain an increase of 33%, while California records an increase of 57%, and Australia and Chile both record increases of 136%.[44]

Another telling indicator of New World performance over the past decade is its ability to combine its consistent quality, wine style and marketing to capture key price points in each of these markets.[45] While the major European producers have to some extent neglected the more popular (premium) price points in favour of super premium and icon markets, New World producers understood correctly that to build a brand image they needed to dominate the most popular market segments. To that extent they have succeeded. Price points within the $3–10 range in the UK, USA, Canadian and a number of European markets are now largely the domain of producers such as Australia, New Zealand, California and Chile.[46]

The potential for continued growth in production and exports within the New World remains high. Industry vision, a unified approach, strong emphasis on scientific methods, efficient distribution channels and innovative marketing techniques are being pursued by most New World producers and continue to underpin this growth. Rather than retaining the inferior status of the 1960s and 1970s, where they only managed to fill gaps in demand (inadvertently left open by the Europeans), New World wines offer a creditable, even robust alternative for consumers. Innovation, quality, uniformity and affordability have been packaged into a unique, consumer-friendly product. As a result, wine culture and participation have been democratized to the extent that the supply/demand landscape is undergoing significant reconfiguration.[47]

Rationalization and Mergers—Subterranean Landscapes

The rise of New World wine producers and their challenge to the growth, production and distribution methods of European traditionalists signalled an apparently clear demarcation within the international wine industry. There are, however, other organizational changes taking place at a *subterranean* level that will, over the next decade, increasingly obscure this demarcation.

Being capital-intensive, the wine industry has for many years had a tendency to rationalize. Until recently, with a few exceptions, such rationalization has taken place at a national level, as the need for economies of scale in grape growth and production have encouraged the larger firms to 'cannibalize' those smaller firms with similar business organization and product style. For example, as the industry entered a period of rapid growth in Australia through the 1980s, a rash of takeovers and mergers took place. Mildara Wines took control of Yellowglen in 1984 and Krondorf in 1986 and then merged with Wolf Blass. Penfold's was bought by Adsteam, as was Kaiser Stuhl in 1982 and Wynn's Seaview in 1985. Penfold's itself then purchased Lindeman's in 1990 while Hardys swallowed Rhinecastle and Chateau Reynella in 1982. In California Gallo and Mondavi were also securing more profitable small wineries, while in Canada, Vincor was doing the same.[48]

Globalization of Production and Distribution

During the late 1990s and certainly the first four years of the twenty-first century, mergers and strategic alliances within the industry have intensified. The more noticeable and profound change, however, is that these developments have become very much transnational in nature. The intense need for capital, the opportunity to source grapes (at competitive prices) from multiple areas and the buying power associated with size has led the larger wine firms to look for acquisitions beyond their shores. But perhaps more important driving forces behind this activity have been the need to capture the most innovative oenological techniques, key brands, markets and market share.[49]

Technology Transfer

For some years the ubiquitous 'flying winemaker' has symbolized the international diffusion and uptake of oenological innovation. Primarily, this has taken the form of 'in-demand' winemakers being contracted for a period of time (usually during vintage) to act as consultants or overseers for particular producers or group of producers. As consultants they provide advice on new techniques, quality measures, maceration, oak usage, among others and are held responsible by many in the industry for facilitating the rapid transfer of knowledge and technology.[50] In more extreme cases, this knowledge and technology transfer has been represented by complete operations that have been shipped from one country to another, with the purposes of servicing (for a fee) an entire winemaking region.[51]

Traditionally, such transfers have been one-directional. Whether it be through 'flying winemakers' or small operations, the traffic has largely been from the New to the Old World. The ability of New World producers to produce consistent quality at a reasonable price, incorporate the latest in hygiene and temperature controls, crushers, cepages and blends, build national brands and capture key price points with bold, fruit-driven products has attracted considerable attention from Europe. As Old World producers have lost market share they have been increasingly keen to access these advantages using the quickest, most cost-effective methods. Rather than developing costly, innovative techniques, they simply import them.[52] To some extent, the practice is working.

Mergers for Markets and Market Share

Compounding the trend in technology transfer has been the quest for market share and the capture of key price points. The mergers and strategic alliances referred to include some of the world's largest wine firms.[53] As competition intensifies across key price points in key markets, further globalization of production and distribution has become an inevitable legacy. We have witnessed alliances between New World firms, Old World firms and most significantly, New and Old World firms. British based Allied Domecq has acquired champagne Perrier-Jouet and Stolichnaya, Diageo and France's Pernod Ricard has purchased California's Sterling Vineyards, Australia's Fosters Brewing has purchased California's Beringa Estate, Canada's giant Vincor now has California's R.H Phillips together with New Zealand's Crawford brand.[54] US Constellation Brands has purchased Australia's BRL Hardy to become the world's largest wine group and is in the process of absorbing US firm Mondavi, while establishing strategic alliances with France's famous de Rothschild and purchasing 40% of Italy's largest firm, Ruffino.[55] Previously, de Rothschild had established strategic alliances with Mondavi and US-based Gallo, who in 2005 has launched a bid for Allied Domecq. Another giant, France's LVMH (owner of Loius Vuitton, Moet and others) has recently purchased Western Australia's Cape Mentelle, New Zealand's Cloudy Bay and South Australia's Mountadam, while Australia's Fosters group has purchased Southcorp.[56]

When it is recognized that most, if not all of these major firms also have large stables of domestic wine firms the recent consolidation process has significant implications for the global wine industry.

Figure 1 below provides an example of the interests held by one global wine firm. It should be noted that the 'stable' of BRL Hardy was provided to emphasize the domestic ownership links. Similar 'stables' could be included for each of the incorporated firms in the diagram.

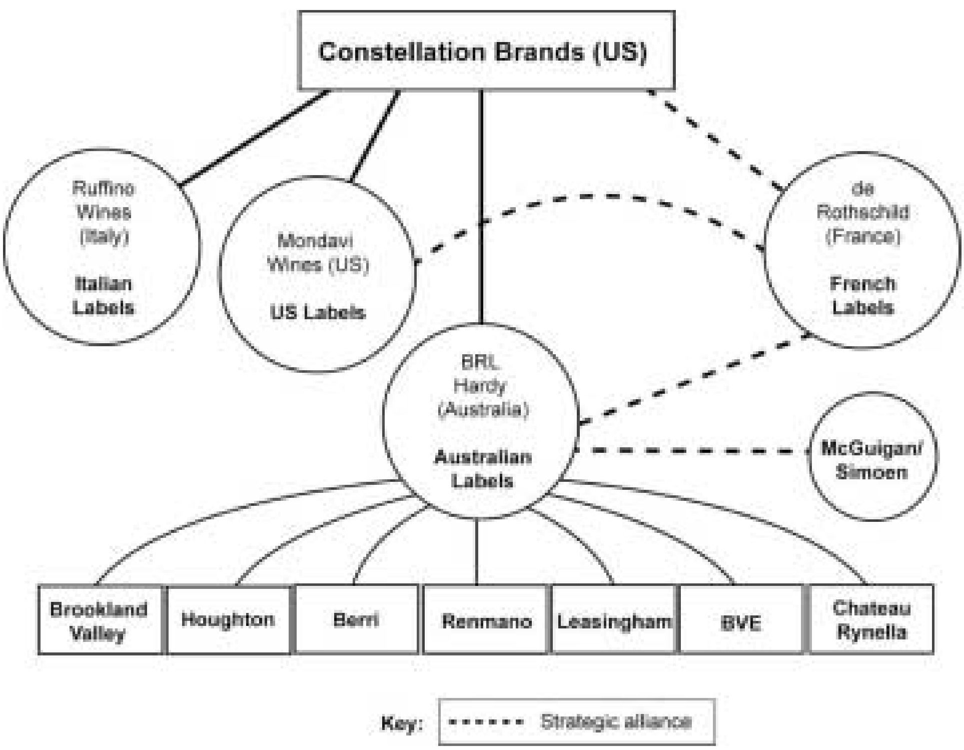

Figure 1. Constellation Brands as an example of the global landscape.

True Globalization

In 2005 the international wine landscape is fluid. Over the coming decade this fluidity, a reduction in ownership diversity and increased homogeneity of product is expected to undermine the current New/Old World distinction. The wine industry is witnessing a *true globalization*, with the increasing internationalization of production, distribution and marketing. New World firms from California, Australia and New Zealand are merging to create flexible production capacity and streamlined distribution channels, but more interestingly, Old World firms from France and Italy in particular, are exploiting this same practice.[57]

The Convergence of Strategies

As cited above, a number of the larger European firms are, in one form or another, creating strategic alliances with New World firms in order to access their technology and most importantly, their markets. After a number of years of attempting unsuccessfully to recapture the more popular price points in major markets, these firms are now retaining their niche markets while aligning themselves with those firms that dominate the lower price points. Such a strategy allows them to maintain their icon or prestige image and at the same time build market share in the lucrative branded categories. Importantly, the strategy also represents a final acceptance of the consumer-driven approach and the value of the market in determining wine style.

Conversely, New World firms who have possibly focused for too long on the popular categories, are now targeting super-premium and icon categories in an attempt to counter allegations of bland, 'industrial' wine production.[58] One strategy is to 'piggy-back' the more prestigious brands on their reputation in the popular categories. To a limited extent, this is working. Another strategy is to either purchase, or establish alliances with, the producers of iconic labels for immediate access to these high price points.

As European firms are attempting to access New World markets and price points, New World firms are in turn striving to enter those price points long held by the Europeans. The fact that both are to some extent departing from their traditional strategies and exploring the other's territory is a direct repercussion of globalized production and distribution.

A New Paradigm

The interesting aspect of these strategies is the increasingly problematic nature of drawing distinctions between New and Old World wine industries. Blurring of these distinctions will dramatically change the international wine landscape and have far reaching implications for concepts such as branding and *terroir*. We may, for example, see a situation where national strategies such as 'Brand Australia' are replaced by focused firm and regional strategies.[59] As consumers search for distinction in their choice of wine, regional branding, representing a collection of boutique and small wineries, will attract greater acceptance and influence. Global wine firms will be forced to promote the regional and firm characteristics of their product in order to maintain customer loyalty.

The future of *terroir* is more difficult to predict. First impressions suggest that it may lose relevance in a truly globalized environment. Because the trend is towards branded and varietal wine with easy to understand labels and clearly identifiable taste, the notion of *terroir* would appear more difficult to market. It is a notion that is based on the intricacies of weather, soil type, ground slope, grapes and wine making 'savoir-faire', all of which provide wine with a unique personality. It is also a notion that because of its somewhat ambiguous nature lost favour throughout the 1990s. With a renewed focus on regionalization and localization, however, the complex natural components of *terroir* may receive a new recognition. As Brian Croser maintains, in the restless search for excellence the concept of *terroir* will again find favour on a global scale.[60] In fact, he argues strongly that it is a concept which could and should co-exist with blended commodity wines, with the respective markets complimenting each other.[61]

Globalization and the New Localization

It appears inevitable that the increasing globalization of wine will trigger a relative decline in the product's national identity. If any one of the world's larger wine firms is taken as an example of this globalization, the multi-dimensional supply chain becomes immediately obvious. Growth, production, distribution and marketing of the firm's wine can take place simultaneously on several different continents with the supply chain of any one brand spreading across a number of geographically diverse countries. A relatively small number of firms globally have this type of supply chain capacity. However, these same firms account for a significant proportion of international trade. In an industry such as wine, where product identification, customer loyalty and branding are so closely interwoven, the legitimacy of national identity in such an environment is undermined. While sporadic drinkers' purchase of wine is based largely on price, regular consumers need to identify with their product's heritage, location and brand development. If that same product is grown and produced in one place, and marketed under a parent firm in another, its branding soon becomes meaningless.

Globalization and the growing issue of brand identity, however, have placed the notion of *localization* at the centre of attention. According to Enright:

> Globalization can … allow firms and locations with specific sources of competitive advantage to exploit their advantages over ever wider geographic areas, often, though not always, at the expense of other areas.[62]

While national identity is at risk of dilution in a global landscape, local or regional identity may well emerge as a new force. To some extent, this regional identity is already emerging in Australia, California and New Zealand and exists in France and Italy. In Australia, regions such as the Hunter, Clare, Barrossa, and Yarra Valleys are marketing themselves to the world and establishing their own brand identity. In California, the same is happening with the Napa and Sonoma regions, while in New Zealand the Malborough region markets itself as the producer of the country's super-premium brands. In France there are the well known branded regions of Bordeaux, Burgundy and Champagne.

Localization and Clusters

The emergence of regionalism/localization is, in part, the outcome of increased 'clustering' within wine industries, and very much related to this, the response of small and medium sized enterprises (SMEs) to global pressures. Throughout much of the 1990s in New World wine industries, the landscape was very uneven. Most New World industries comprised large numbers of boutique and small firms and a very small number of large firms. These numbers were inversely related to their production and export capacity, with the largest 5–10 firms accounting for upwards of 80% of the national capacity and the many hundreds of small firms contributing to the remaining 20% or less.[63] Although this distortion has continued into the new millennium, there are indications that it may not be a permanent condition.

Trends highlighted in the author's previous studies and which appear to be emerging across a number of New World industries, point to the fact that wine firm clusters create a disproportionately positive influence.[64] Infrastructure, knowledge flows, supply chains, research and education bodies, regulatory frameworks, advisory organizations and general firm interaction appear to be significantly more intense within these clusters than in non-cluster regions.[65]

The intense interaction within these clusters also appears to translate into the enhanced diffusion and uptake of innovation, marketing, distribution and importantly, exports.[66] The momentum appears to be self-sustaining. As the clusters have grown in size and complexity they in turn have attracted both new and re-locating firms. Large multinationals usually have either their head office or a large subsidiary based within these clusters, which provide a 'learning environment' for the participating boutique and small firms. An example of the above influences can be seen in the Australian context. In this geographically diverse wine industry there are perhaps seven major clusters located across five states. The most innovative of these clusters is located in South Australia, where all of the industry's national intermediary, funding, regulatory, research, education and export bodies are also located.[67]

It is no coincidence that in terms of core innovation and export measures, firms in the South Australian wine cluster perform substantially better than either non-cluster firms or their counterparts in the industry's less developed clusters.[68] For example, approximately 78% of South Australian firms export compared to between 40% and 45% in the industry's other clusters and approximately 20% of firms in non-cluster regions.[69] In addition, they are almost twice as export intensive (exports as a ratio of total sales), export to more markets and are more geographically diverse in their export destinations.[70] In terms of innovation, these same South Australian firms access the industry's research services at more than twice the rate of firms in other clusters (68% versus 32%), and almost seven times the rate of non-cluster firms (10%). Inter-firm collaboration is also substantially higher for South Australian firms, as is new product development, employee education levels, marketing and technical innovation.[71]

We are witnessing these same positive influences in California's Napa and Sonoma wine clusters, South Africa's Stellenbosch region, New Zealand's Malborough cluster and even in embryonic regions such as Canada's Niagara wine region.[72] Government, industry, public sector research organizations and a multitude of suppliers are co-locating partly by design and partly through a natural attraction to concentrated resources, in a new and innovative way. This new localization represents far more than simple co-location. It represents a dynamic response to the new opportunities and pressures of an increasingly globalized industry. It is a form of localization that may well afford its participants access to focused research and development, targeted marketing and collective branding. The critical mass afforded by these clusters would also provide participants with similar 'purchasing power' to the industry's multinationals, allowing them to capture superior distribution channels and super-premium to icon price points with adequate shelf space.

Rather than being an industry in which the small and medium sized firm faced extinction, or at best, a tenuous existence as predicted by many during the 1990s, this emerging landscape may well reconfigure the positioning and influence of these firms and as a result, their market share.[73] We may indeed witness a global wine landscape without national boundaries or identities but instead, punctuated by significant pockets of localized production and branding.

Policy Implications

If this is the case, it will also make sense for a reconfiguration of industry policy towards region and firm specific extension, export and marketing programmes. A redistribution of national funding would also appear appropriate.[74] The current funding mechanisms in Australia, for example, are based on growth and production, which in practice means that the majority of resources are directed towards the largest firms. As globalization of ownership increases, a significant proportion of these resources will be dedicated to firms whose ownership is actually located outside the industry. Zhao argues that on a cost–benefit analysis R&D funding from Australia's Grape and Wine Research and Development Corporation disproportionately benefits overseas consumers over domestic consumers.[75] This is true, but she has failed to recognize the more serious issue of producer R&D costs and technology benefits. For a number of the New World's major producers who are owned by international interests the domestic R&D levies create a substantial flow-on effect in terms of technology transfer to the parent firm. For example, in Australia the Hardy Group is Australia's second largest producer and largest exporter. Yet this firm is owned by Constellation, a US firm, whose export profits and technological innovations return to the US.

This complex nature of ownership and industry dynamics needs to be understood more fully by policy makers if domestic industries are to reap the benefits of public sector initiatives and targeted schemes. Historically, there has been a growing dichotomy between rhetorical and actual support for domestic SME firms; increased support for the larger multinational firms (through greater participation in decision making and enhanced access to specific R&D) has naturally led to a restriction of access to available resources for those firms with limited capacity. Due to sheer numbers, a tendency to cluster, their growth trajectories and their experimental capacity small to medium enterprises represent the 'next wave' in the industry's production and export capacity. These firms are region-specific rather than global in nature and as such, require the same industry priorities, milestones and focused support that was awarded their larger counterparts during the 1980s and 1990s. Industry vision within each producer nation must now be oriented towards that firm sector which best represents its interests. In a global environment, it appears that the distillation of these interests will more and more occur at a regional or local level.

Concluding Remarks

In terms of a consistently evolving and developing industry sector the international wine industry presents a near perfect case study. Unlike many sectors, it has experienced very few static phases. Instead, we have witnessed over the last two centuries at least, an industry whose progression has been sometimes steady, but often rapid with rather dramatic innovations and direction changes.

From the domination of the industry by European producers through the nineteenth and much of the twentieth century, to a democratization of wine culture and the emergence of New World 'players', to the current reconfiguration of global production and distribution, the wine story is one punctuated by significant paradigm shifts. It is a story that continues into the new millennium, encompassing the issues of technology transfer, branding and the implications of mergers and alliances. Most importantly, however, it is a story that now carries with it possibly the most profound paradigm shift the industry has yet to experience. With the escalation of global production and distribution as well as the race for market share within the industry, New and Old World distinctions will continue to blur and may even disappear in the coming decade. In short, the global wine landscape will undergo irrevocable reconfiguration. This article has speculated on the organizational implications of that reconfiguration and the emerging role for localized branding and small to medium enterprises.

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