

The Chilean wine industry: new international strategies for 2020

Christian Felzensztein

Christian Felzensztein is a Professor of International Marketing in the School of Business at Universidad Adolfo Ibanez, Santiago, Chile.

1. Introduction

The Chilean wine industry has undergone numerous and profound transformations over the past 30 years – its quality revolution led by the complete technological renovation during the 1980s, the export boom of the 1990s, and the new terroir developments during the 2000 decade. This transformation has allowed a new generation of talented viticulturists and winemakers to capitalize on Chile's viticultural paradise and to produce World Class Wines of unique character and personality.

Chile is the world's eighth largest wine producer and the fifth largest exporter, reaching a market share of 8 per cent by volume of the global international wine market at the close of 2010. However, and most importantly, Chile exports 70 per cent of its wine production, making it the world's most globalized wine industry, with great flexibility, innovation and a long-term commitment to quality and service second to none. With 150 destination countries and 1.5 billion consumers per year, Chilean wines are positioned as the country's most emblematic and best known world ambassador.

Despite this undeniable success, Chilean wines face very high levels of competition in the different world markets from many appellations and brands, and **its average prices are substantially lower than those of its competitors**. As a consequence, the industry's present profitability levels are low, and there is an urgent need to elevate the premium positioning and average prices to achieve a sustainable return in the long term. Making decisive progress toward positioning Chile as a world-class appellation for the production of premium and superior wines, gaining additional image and value is the only possible response to the competitive challenges the industry face today. This is a key requirement for the health and long-term sustainability of Wines of Chile.

The Chilean wine industry is preparing a new strategic plan and international marketing strategy for 2020 aiming guidelines for a vigorous ten-year course of international development and defines the industry's vision, mission, positioning, strategic objectives, opportunities and plans of action with a new strategic marketing perspective. The industry is willing to developed the plan in conjunction with the wineries and key industry members, and with the conviction that this new strategy should advance toward a more significant participation in the world's premium wine segment. Aiming to develop this new strategic plan and international marketing strategy, the trade association Wines of Chile, is hiring a new consultancy company, and you are part of this team.

2. Objectives

Wines of Chile trade association has set the objective of becoming the number one producer of premium, sustainable, and diverse wines of the New World by 2020, increasing the value of bottled wine exports over the course of the decade to US\$3 billion. This is based on

This study is part of the www.clusterinnovation.com research network (SOC30), Conicyt Research Council, Chile.

Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision making. The author/s may have disguised names; financial and other recognizable information to protect confidentiality.

the opportunities and capacities explained and sustained by the historic growth of Chile's wine exports.

The industry wants to play a key role in Chile's progress, being convinced of the enormous potential of Chile's wine industry, its importance at the global level as a world-class producer, and its multiplying effect on the image of Chile. Over the past decade, wine has become the major ambassador of Chile in the minds of foreign consumers – as is reflected in the latest studies conducted by the *Fundación Imagen de Chile* as well as studies conducted by Felzensztein *et al.* (2004) and Felzensztein and Dinnie (2005) – regarding the perception and knowledge of the country in its principal markets of interest. Wine adds positive and valuable characteristics to the country image and facilitates the export of new products.

The Wines of Chile trade association is confident that this new strategic plan will serve the wine industry and the government's promotional and development bodies to work together toward achieving the objectives, strategies and commitments set forth, aligning the efforts to ensure effectiveness. Your aim as a consultant is to build this marketing strategy for the Chilean wine industry.

3. Global consumption

The world consumes approximately 236 million hectoliters of wine each year. After eight years of growth, this level fell in 2008 and 2009 as a result of the world economic crisis. The European Union decreased its demand, which was partially compensated by an increase in demand from North America and Asia (Table I).

Although the primary wine-consuming countries are France, the USA, Italy and Germany, the market trend has been toward a decreasing consumption in the large Western European producing countries and an increasing consumption in new consumer countries in Asia and Latin America, which still have a very low per capita consumption rate.

Surface area planted to vine

Although the world's overall surface area planted to vine tends to be constant, it has decreased by 0.8 per cent in the past four years, primarily due to the vineyards that have been pulled up and subsidized conversions in the European Union in the face of falling prices, over-production and the impoverishment of the sector. As a result, Spain, France and Italy, the three countries with the largest plantations in the world, have reduced the number of hectares planted. The primary parties involved are European countries that represent nearly

Table I World wine consumption total and per capita

Country	Thousand HL	LT/Per capita
France	30	47
USA	27	9
Italy	25	42
Germany	20	25
UK	13	21
Spain	11	28
Russia	11	8
Argentina	10	25
China ^a	9	1
Australia	5	24
Portugal	5	43
The Netherlands	3	21
South Africa	3	7
Others	65	
Total	237	

Note: ^a Assume a 13 per cent growth over the 2008 figure (available at: www.topwinechina.com); 2009 estimate

Source: International Organization of Vine and Wine (2010, available at: www.oiv.org)

58.4 per cent of the world's vineyards, particularly Spain, France and Italy. Non-European countries include the USA and China.

Production

The world's wine production fell in 2009 to volumes similar to those produced in 2008: 266 million hectoliters, a relatively low level of production and similar to that of 2001, 2003, 2007 and 2008. More than 70 per cent came from European countries, primarily France, Italy and Spain. In the New World, the USA, Argentina, Australia, South Africa and Chile predominate (Table II).

Exports

Worldwide wine sales presented an increasing trend prior to 2009, when it reached 86.1 million hectoliters. Total volume exported (73.5 per cent) is from European countries such as France, Italy and Spain (Table III).

4. Chile's national wine industry

In accordance with figures produced by Chile's Agricultural and Livestock Service (SAG, www.sag.gob.cl), the country has approximately 121,000 hectares of viniferous vines

Table II World wine production	
<i>Country</i>	<i>TH HL</i>
Italy	48
France	46
Spain	33
USA	21
Argentina	12
Australia	12
Chile	10
South Africa	10
Germany	9
China	8
Portugal	6
New Zealand	2
Others	51
Total	266
Note: Thousands of HL, 2009 estimate	
Source: International Organizational of Vine and Wine (2010, available at: www.oiv.org)	

Table III Primary wine exporting countries	
<i>Country</i>	<i>Thousands of HL</i>
Italy	19
Spain	14
France	13
Australia	8
Chile	7
Germany	4
USA	4
South Africa	4
Argentina	3
Portugal	2
New Zealand	1
Others	8
Total	86
Note: Thousand of HL, 2008	
Source: International Organizational of Vine and Wine (2010, available at: www.oiv.org)	

planted (2007-2008 registry), and the 2009 production is estimated to be 1.009 billion liters of wine. Exports in the same period reached 694 million liters and US\$1.381 billion. Red varieties comprise 73 per cent of the varieties produced and 27 per cent are white. Of the red, 63 per cent are those of high demand (Cabernet Sauvignon, Merlot and Syrah). In white grapes, 66 per cent of the surface area planted corresponds to Sauvignon Blanc and Chardonnay.

The primary export markets in terms of volume are the UK, the USA, Germany, and Canada, which together represent 50 per cent of the total exports and 34 per cent of the target markets, including the internal market. As can be observed in Figure 1, most of the decrease in the share of sales in the internal market has been diverted toward new markets rather than to existing markets. In contrast with the Australian industry, Chile has reduced its concentration.

5. Competition

The USA

The USA is the world's fourth largest producer and the sixth largest exporter. Its industry depends primarily on California, which is responsible for 90 per cent of the production. New York, Washington, Oregon, New Jersey and Virginia make up the remaining percentage.

The industry tended to increase the participation of red varieties in the total surface area planted from 51 per cent in 1995 to 61 per cent in 2009. With respect to specific white varieties, Chardonnay has increased dramatically since 1995. Varietals of lesser consumption on the world level such as Chenin Blanc and Pinot Gris have decreased their market share. In red varieties, those of greatest consumption worldwide such as Cabernet Sauvignon, Syrah and Merlot increased their share. The internal market continues to be the primary destination for American production, although it has decreased in importance. The industry's primary export destinations are the European Union, Canada, Japan and Hong Kong (Figure 2).

Australia

The average annual production of the world's seventh largest producer over the past for years is 1.4 million liters. There is an upward trend in hectares planted and therefore in wine production, which is reflected in a greater volume of exports. With respect to varieties planted, 58 per cent are red varieties and 42 per cent are white. Among the reds, 82 per cent are those in high demand (Syrah, Cabernet Sauvignon and Merlot). Chardonnay is the primary white variety and presents an interesting demand in all markets (Figure 3).

Figure 1

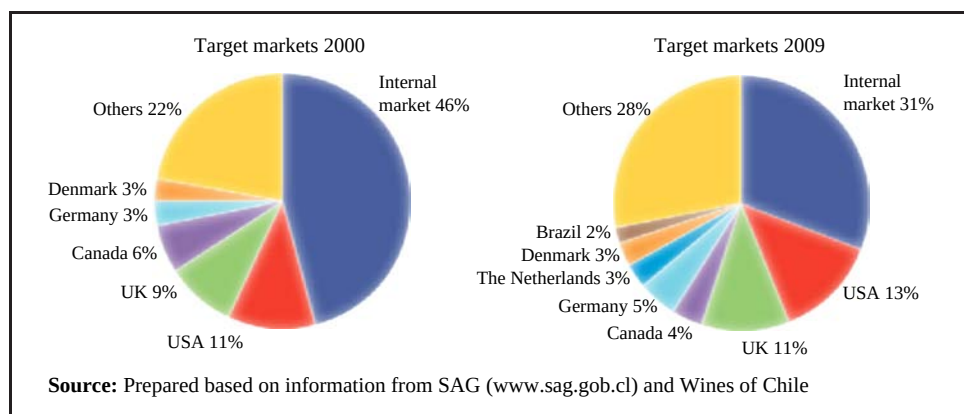
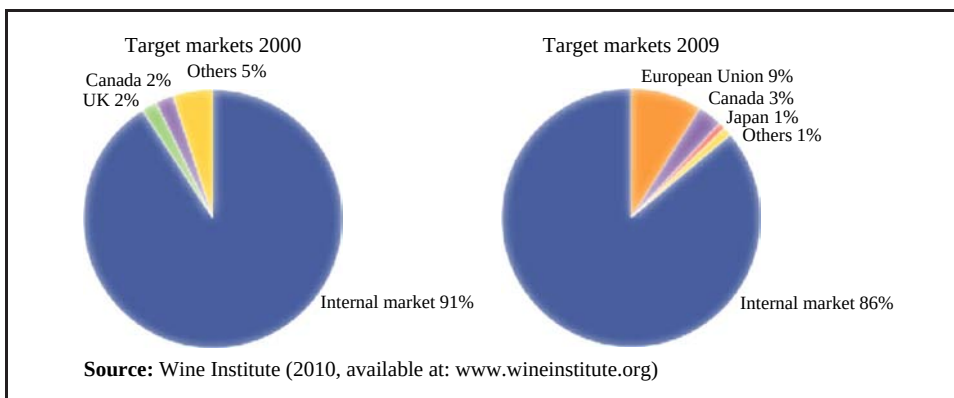
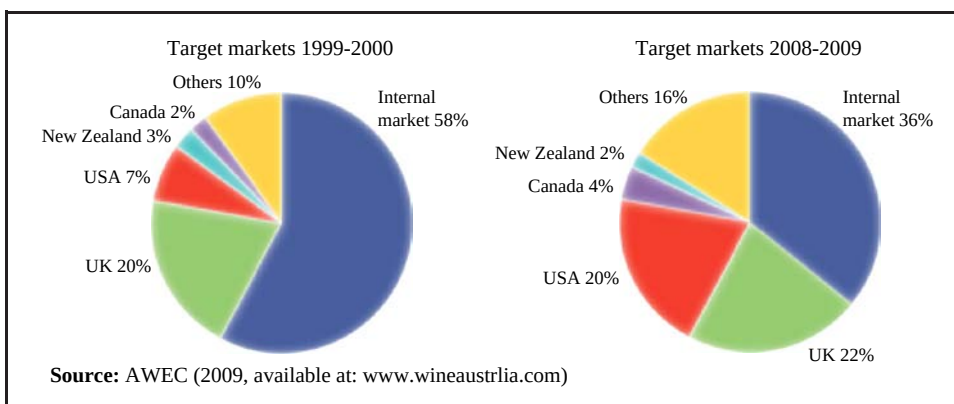


Figure 2**Figure 3**

South Africa

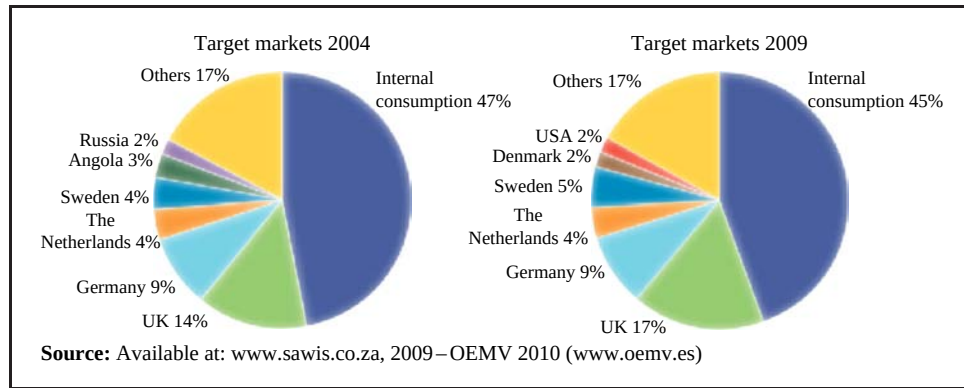
South Africa currently has approximately 101,000 hectares planted to wine grapes. It has 3.8 per cent of the world's production, putting it in eighth place on the world scale.

Grapes destined for white wines constitute 56 per cent of the total planted, and Chenin Blanc leads with 19 per cent. Red varieties make up 44 per cent of the total; Cabernet Sauvignon represents 13 per cent. Owing to the shortage of white wine, they have increased the plantations of Chenin Blanc, Sauvignon Blanc and Chardonnay. Most of South Africa's production is consumed in the internal market. The majority of the remaining share goes to the UK and Germany, which together receive 47 per cent of the total exports. Other markets such as Switzerland and The Netherlands follow to a lesser degree. It is noteworthy that although the USA currently represents 4 per cent, its participation has been increasing (Figure 4).

New Zealand

New Zealand's wine industry has doubled its plantations in just six years. Its wine production has increased even more, and the industry has shown a strong development in exports with an average annual growth rate of 33 per cent in the past five years.

In recent years there has been a decrease in the relative importance of Chardonnay with respect to Sauvignon Blanc and the increase in importance of Pinot Noir over Cabernet Sauvignon. New Zealand's primary export markets for 2009 were Australia and the UK. It is important to note the evolution of sales to foreign markets, which currently represent 70 per cent of total sales, as opposed to the 34 per cent that it represented in 2000. It is also

Figure 4

interesting to note that Australia, the UK, and the USA reach 12, 12, and 7 per cent, respectively (Figure 5).

Argentina

With 211,261 hectares of vineyards, Argentina is the fifth largest wine producer. It exported 283 million liters in 2009, which represents an increase of 32 per cent over world's 2008.

Argentina has consistently increased its plantations of red varieties, which have increased by 150 per cent in 18 years, and in 2008 red varieties were double the number of whites. Hectares planted to white varieties decreased by 21 per cent during the same time frame. It is important to note the relevance of rosé wines in the Argentine industry. Malbec continues to be the most planted varietal (25 per cent of all reds), although Cabernet Sauvignon and Syrah have also increased significantly (18 and 13 per cent, respectively). Among the white varieties, Chardonnay has experienced the greatest growth.

The internal market continues to be the primary destination for Argentine production and represented 79 per cent of the volume sold in 2009. The remaining 21 per cent is exported, in order of volume, primarily to the USA, Paraguay, Russia, the UK, Canada, Brazil and South Africa. The most important markets in terms of value are the USA, the UK, Canada, Brazil, the Netherlands and Denmark (Figure 6).

France

France continues to be the leading producer and consumer of wine worldwide. The following table shows a summary of the primary French figures. Figure 7 shows the importance of the different destination countries for French exports.

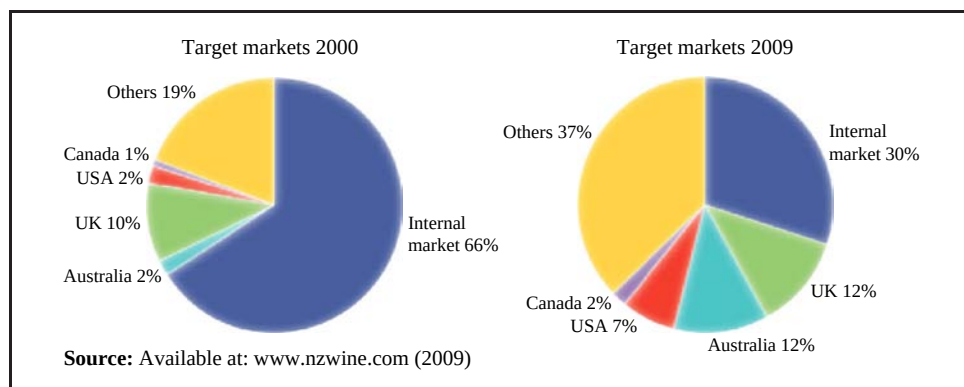
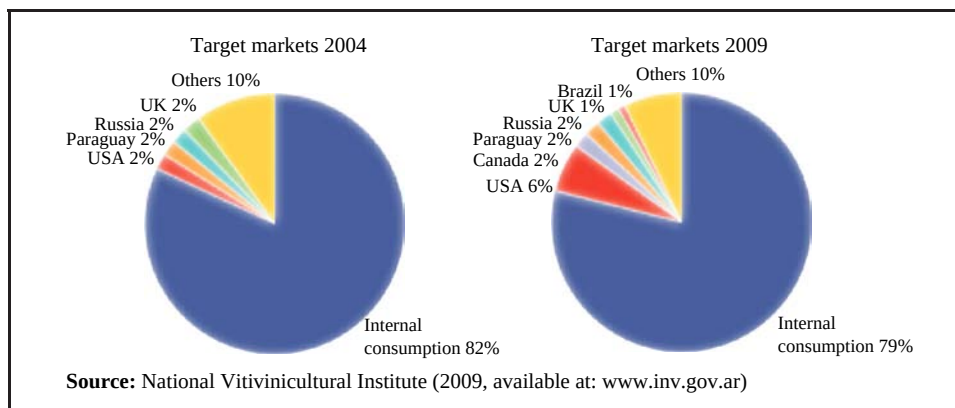
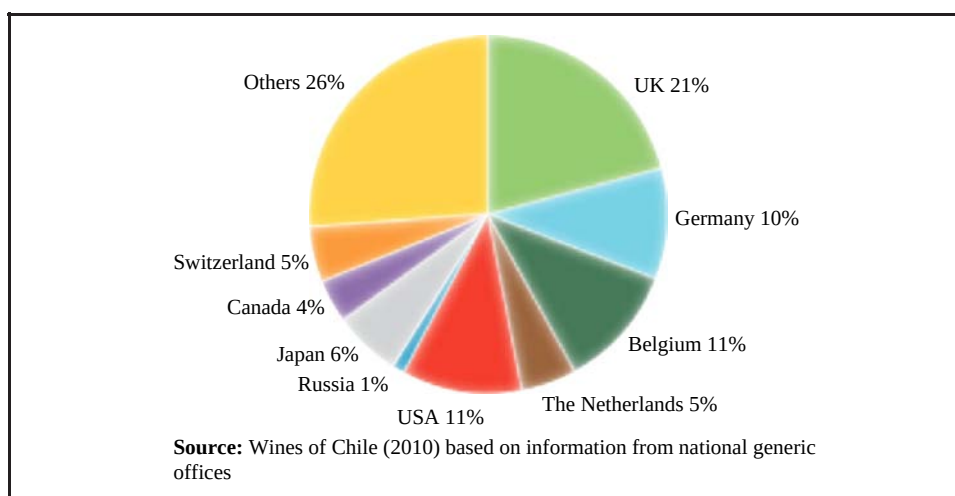
Figure 5

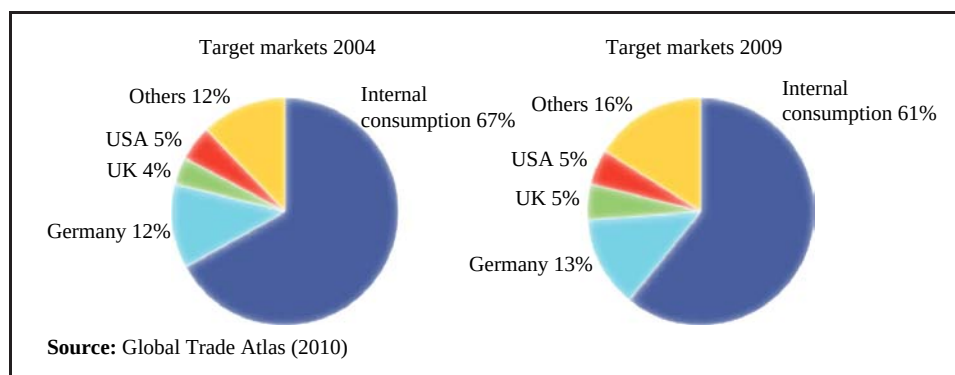
Figure 6**Figure 7**

Italy

Italy has a long tradition in the wine industry, and it reaffirmed its international importance in 2009 by maintaining second place in production, exports, and consumption after France. Italy's commercial balance in the wine industry is historically positive. Despite the success of its exports, however, it has also registered a significant increase in wine imports in recent years. Although it has a minor influence in the overall commercial balance, it makes Italy one of the largest importers in the world.

It is interesting to note that Italian wine production has 470 appellations (denominations of origin), 316 of which are D.O.C., 35 D.O.C.G., and 119 I.G.T. There are 650,000 wine companies, 25,000 bottlers and 678,868 hectares planted to vine. 50 per cent of the Italian wine production is controlled by cooperatives. Its 2009 production was close to 46 million hectoliters, which is considerably lower than the average of the past five years. With respect to the regions, 60 per cent of the production is concentrated in four of the 15 producing regions: Veneto (17.33 per cent), Emilia Romagna (14.97 per cent), Apulia (13.26 per cent) and Sicily (12.49 per cent).

Italy's internal market continues to be the primary destination for national wine production, and the primary target markets by volume are Germany, the UK, and the USA. The following table shows the primary figures of the Italian industry (Figure 8).

Figure 8

Spain

Although Spain has more areas planted to vine than any other country, it is the third largest producer with an average annual production of 41.6 million hectoliters over the past five years. There is a downward trend in plantations, while both export volume and value have increased (except in 2009, due to the global economic crisis).

Germany continues to be Spain's primary export destination, with a value of US\$407 million. The UK follows with 15 per cent and the USA with 10 per cent, while France, the Netherlands and Switzerland are also relevant markets.

Summary of the evolution of the Chilean wine industry in the global context (Table IV)

Table IV Evolution of exports

	France	Bordeaux	Burgundy	Italy	Spain	Australia	Chile	USA	South Africa	New Zealand	Argentina
1989						39	28	83		4	
1990						38	43	110		4	45
1991						54	65	125		6	28
1992						79	74	147		7	23
1993						103	87	132		9	25
1994						125	110	133		8	23
1995					675	114	129	147		8	197
1996					720	130	184	180		11	112
1997					973	154	216	227	110	13	120
1998					1,150	192	231	272	117	15	109
1999					972	216	234	291	128	17	88
2000				1,764	902	285	267	294	141	19	84
2001				1,586	1,054	338	311	304	177	19	88
2002	1,554	220	69	1,579	1,037	418	349	282	217	23	123
2003	1,502	202	64	1,328	1,281	519	395	349	238	27	185
2004	1,425	178	60	1,427	1,469	584	468	461	268	31	155
2005	1,383	172	64	1,609	1,450	670	418	388	281	51	215
2006	1,472	182	70	1,830	1,434	722	474	405	272	58	293
2007	1,515	193	79	1,883	1,558	787	610	455	313	76	360
2008	1,370	179	66	1,751	1,690	715	589	491	412	89	414
2009	1,251	155	56	1,900	1,440	752	694	418	430	113	283
Growth Rate											
1990-1999					11	20	25	14	8	16	72
2000-2009 (%)	-3	-5	-2	1	5	14	12	5	13	22	16

Note: For those countries for which there is no available data, the average is calculated based on available years

Source: Wines of Chile (2010) based on information from national generic offices

6. Consumers

Wine consumers

The Chilean industry's primary target markets are the USA, the UK and Canada. The main consumer-level trends in those markets are:

- A change in consumer habits. The new consumers are intelligent, they seek good value, and spend more time socializing at home, especially as a result of the global economic crisis. They are trading down for personal consumption, but trading up with friends and family. For example, 53 per cent of the consumers in the USA are dining at home more often. Television food channels and food-related blogs are increasing in popularity. Once the crisis has passed, we can expect that these consumers will return to higher priced wines, although they will not reach the same levels they did in the late 1990s and early 2000s.
- A new segment has appeared. The "Millennials" are consumers from 21 to 29 years of age and represent 70 million consumers in the USA alone. 40 per cent of the wine they drink is imported. They learn and communicate on-line. These new consumers drive the new trends.
- Consumers have greater access to a broader range of wines through new products and distribution channels, such as on-line sales.
- Consumers are increasingly more sophisticated and informed. They seek out natural, sustainable and organic products.
- New trends lean toward wines with lower alcohol levels and a greater consumption of White and rosé wines.
- Social networks (Facebook, Twitter and blogs) are increasingly important and allow low-cost, high-frequency communication with bloggers and consumers around the world.

Image of Chile in target consumer market

The most relevant variables for mass consumers of the most important markets for the industry are varietal, promotions, recommendations and origin (country or region) (Tables V and VI).

Consumers in the USA and the UK have a low affinity with Chile, which is not true of Australia, New Zealand, Italy and France. This is consistent several country image studies that conclude that Chile has a neutral or nil image among international consumers at the mass level. This implies that for mass consumers, Chilean wine is a product of unknown origin.

Although higher-income and more frequent wine consumers from the USA drink Chilean wines, they have a low affinity with the country. The cases of Italy and Australia stand out in

Table V Relevant variables at time of wine purchase

	<i>Important or very important (%)</i>	
	<i>UK</i>	<i>USA</i>
Variety	79	73
Promotional offer	65	51
Recommendation of friends or family	63	71
Country of origin	60	47
Region of origin	57	47
Recognized brand	54	69
Alcohol level	33	33
Recommendation from store personnel	29	52
Bottle appearance of label design	26	33
Medal or Award	21	21

Source: Vinitrac (2009)

Table VI Country affinity

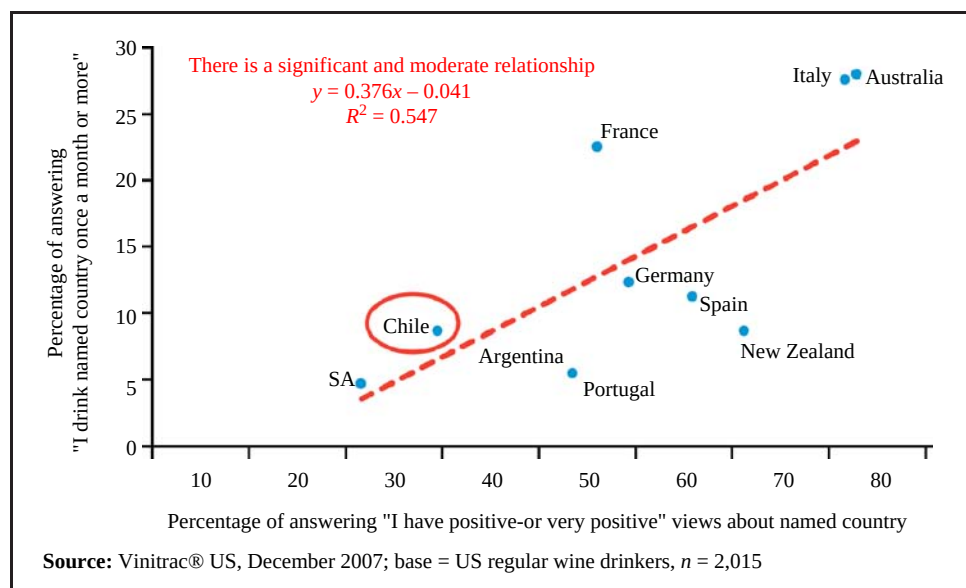
	Positive or very positive responses (%)	
	USA	UK
Australia	73	78
Italy	71	66
New Zealand	61	70
Spain	56	62
USA	nd	47
Germany	49	38
France	46	56
Portugal	43	47
Argentina	32	28
Chile	29	35
South Africa	21	39

Note: With people, culture, or other
Source: Vinitrac (2009)

that there is coherence between the positive perception of the country and regular consumption of wines from those regions. Figure 9 shows these country image trends.

7. Economic importance of the industry

One of the Chilean government's current policies aims to convert Chile into one of the world's top ten exporters of food products over the course of the next ten years. The wine industry is doing its part to achieve this goal, as Chile is now the fifth largest wine exporting country on the globe. In recent decades Chile's food and agriculture sector has been deploying a successful strategy of internationalization, which has become a pillar of the agro-export basket and of the country's economic development. Our fruits and vegetables, wine, seeds, and agricultural and forestry products reach hundreds of countries around the world and provide employment to more than 800,000 people.

Figure 9 Relationships between views about named country and wine frequency of consumption

Wine exports make up 2.6 per cent of Chile's total exports and 14 per cent of exports in the forestry-agriculture-livestock sector (2,009 figures). The sector has more than 260 companies with annual exports greater than US\$50,000, 21 per cent of which export more than 100,000 UF (approx. US\$4.2 million) per year. This means that the majority – 79 per cent – of Chile's wine exporters are small- and medium-sized companies. Chile produces an average of 887 million liters of wine per year, 70 per cent of which is for export markets, which have grown steadily in value by 11 per cent per year. These exports are sent to 150 countries, with the USA, the UK, and Canada being the most important markets.

From a domestic perspective, the wine industry operates in several regions of the country, from the Coquimbo Region in the north to the Araucanía Region in the south. The Maule and O'Higgins regions have the greatest concentration of area planted to vine (53.4 per cent), although the Metropolitan, Valparaíso and Biobío regions also have a significant amount. The industry's continuous development and geographic diversification have attracted both domestic and foreign investment to historically less-developed zones such as the Maule Region, which had previously been overlooked as an area worthy of investment. This development has also benefited the many agents involved in the value chain, including suppliers of materials, technology and complementary services, and particularly the large number of grape growers, most of whom are small producers. At the same time, the wine industry continues to be a major source of tax revenue for the government through the Alcohol Law (ILA). Over the past five years (2005-2009), the Wine ILA accounted for an average of 0.21 per cent of the country's total tax revenue. In 2009 alone, the wine ILA generated tax revenues of US\$58 million.

Recent research conducted by Felzensztein *et al.* (2011) studied the factors that influence the development of inter-firm cooperation in marketing in the Chilean wine industry. The results confirmed that location is an important aspect that determines the quality and features of the product and its resulting appeal to foreign markets. It seems that location benefits associated with collaboration and access to information and technologies are rarely considered compared to the specific benefits associated with terroir. Results also provide evidence of a focus of co-operation with firms that are located close to the focal firm, and mainly with those directly involved in its value chain. Emphasis of firms co-operating in marketing activities designed to attract new customers and to strengthen the relationship with them were found relevant.

Finally, the emerging wine tourism industry is opening up a new area of business that has great potential, as it offers high-quality employment that not only diversifies risks and sources of revenue, but also fosters more comprehensive and sustainable development in the regions and communities in which these services are located.

8. The wine industry's contribution to developing the country image

More than other Chilean products, wine reaches millions of homes and consumers around the world with a well-identified country brand that associates the name "Chile" with quality and diversity. This makes the brand a unique vehicle for positioning the country's image, which is considered one of the nation's strategic assets and also facilitates the introduction of new products and services.

In 2009, Chile exported 42 million cases of wine, the equivalent of 510 million bottles. From a conservative perspective, each bottle is seen by at least three people, which means that the Brand Chile reaches 1.5 billion people each year. Assuming a moderate cost of US\$0.852, which is the average cost per contact on the Internet in the USA, the value of this impact is US\$1.275 billion per year.

Developing the "Wine of Chile" category in key International markets will improve and expand Chile's position in the minds of consumers. Positioning Chile as a country that produces high-quality wines will reinforce the country's positive attributes such as good agricultural practices, high-quality cuisine, attractiveness as a tourist destination, a country with its own identity and traditions, a good quality of life, and a sociable people who know how to enjoy themselves and make the most of special occasions, among other qualities.

Keywords:
Wines,
Viticulture,
International marketing,
Marketing,
Marketing strategy

9. What is next?

The wine industry is one of the pillars of Chilean agriculture and of the country as a whole. In addition to its importance for exports and investment, its impact on employment, personal and professional development, the country image and in facilitating new Chilean exports make it one of the most emblematic sectors in the national economy.

Notwithstanding the above, the wine industry suffers from low rates of return compared to other productive sectors, despite having an attractive growth potential. Further development of the sector will depend on raising Chile's position as a country of origin for premium wines, and this task will require commitment and support from both the public and private sectors and, once achieved, will benefit the country as a whole. Now it is time to set up sound international marketing strategy aiming to achieve the above goals.

References

Felzensztein, C. and Dinnie, K. (2005), "The effects of country origin on UK consumers perception of imported wine", *Journal of Food Products Marketing*, Vol. 11 No. 4, pp. 109-17.

Felzensztein, C., Hibbert, S. and Vong, G. (2004), "Is the country of origin the fifth element in the marketing mix of imported wine", *Journal of Food Products Marketing*, Vol. 10 No. 4, pp. 73-84.

Felzensztein, C., Echecopar, G. and Deans, K. (2011), "Marketing strategy, innovation and externalities: the case of the Chilean wine cluster", *Journal of Business & Industrial Marketing* (forthcoming).

Wines of Chile (2010), Several industry reports.

Corresponding author

Christian Felzensztein can be contacted at: c.felzensztein@uai.cl