Winegrower or Winemaker? Influence on Business Efficiency In Burgundy

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The wine business in Burgundy

- 1.5 million hl, 200 million bottles 60.5% W, 31.5% R, 8% sparkling
  - 100 AOC: 33 grands crus, 44 AO premiers crus or village, 23 AO regional
  - Volume: 1.5% grands crus, 47.5% premiers crus or village, 51% regional
  - 2,000 years continuous wine tradition; Côte d’Or 31%, new vineyards 69%

- 3751 companies
  - 28,000 ha acreage, μ yield 54 hl/ha, μ wine estate 395 hl
  - 1.2 billion €, 48% Export, 23% mass-distribution, 14% direct sales, 12% catering, 3% urban wine stores

- 0.4% world wine production but 2.8% value trade, μ price*7
  - 6.5% French GI wine production, 18.5% value, μ price *3
  - 55% harvest for own wine-making, 29% for coop. wineries, 16% sold as fresh grapes, juice or grape must to traders

- Wine tradition Côte d’Or 72% own wine-making, 21% mechanical harvesting
- New vineyards 47% cooperative wineries, 71% mechanical harvesting

Outsourcing vs. integration, a key trade-off for the wine estates?

- To make or to buy? Outsourcing allows at:
  - Focusing on the core stage of business (R&D, marketing)
  - Benefiting from up-to-date innovations from sub-contractors
  - Reducing agency costs by downsizing the company

- While integration leads to:
  - Keep quality of production under control
  - Develop core knowledge for premium segment
  - Reduce transaction costs.

- In premium segments of wine industry, winemaking is integrated and this has a positive effect on profitability
- In medium range segments, winemaking is outsourced
Outsourcing vs. integration of winemaking
Determinants and business effects in Burgundy?

- 3430 wine estates
- Dataset from all wine cellar registers, 2011
- Principal Components Analysis
- Hierarchical Ascendant Clustering
- More stringent definition of the terroir, stronger the appellation is
- Higher ranked the appellation: better integrated wine-making & higher profitability

PCA, wine estates, Burgundy 2011
factors 1, 2 and 3, eigenvalue > 1.5

HAC dendrogram of business models in
Chablis area, n= 413 wine estates

Cluster 2 (22%)
Cluster 1 (54%)
Cluster 3 (16%)
Cluster 4 (8%)

% sold per wine
White 100% 99% 94% 100%
Sparkling 0% 1% 1% 0%
Red 0% 0% 2% 0%

% sold per packaging
Bottled 81% 2% 78% 3%
In bulk 19% 98% 22% 97%

Breakdown in bulk
Grape or must 13% 0% 8% 93%
Wine 88% 92% 96% 7%

% direct export
Direct export 4% 6% 6% 4%

% sold per appellation
Regional 2% 2% 2% 2%
Village 90% 87% 13% 4%
Premier Cru 11% 11% 13% 6%
Grand Cru 2% 3% 2% 10%

HAC dendrogram of business models in Côte & Hautes Côtes de Nuits, n= 627 estates

Cluster 5 (5%)
Cluster 1 (50%)
Cluster 2 (19%)
Cluster 4 (8%)
Cluster 3 (17%)

% sold per wine
White 1% 8% 19% 0% 1%
Sparkling 0% 1% 17% 0% 0%
Red 99% 92% 39% 97% 96%

% sold per packaging
Bottled 67% 79% 27% 7% 9%
In bulk 33% 21% 73% 93% 91%

Breakdown in bulk
Grape or must 27% 0% 7% 1% 1%
Wine 4% 12% 9% 91% 2%

% direct export
Direct export 42% 27% 5% 1% 0%

% sold per appellation
Regional 2% 28% 78% 18% 26%
Village 12% 47% 17% 53% 66%
Premier Cru 5% 21% 8% 23% 7%
Grand Cru 81% 5% 2% 7% 2%
Mapping of wine business models in Burgundy

Outsourcing vs. integration of winemaking, a key trade-off for winegrowers in Burgundy

Influence of winemaking integration and size on profitability

<table>
<thead>
<tr>
<th>2011</th>
<th>Turn-over /Expenses</th>
<th>Rate of return of assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>per size</td>
<td>Viticulturists</td>
<td>Winemakers</td>
</tr>
<tr>
<td>1st Quartile</td>
<td>-10%</td>
<td>-6%</td>
</tr>
<tr>
<td>Last Quartile</td>
<td>+15%</td>
<td>+22%</td>
</tr>
<tr>
<td>Δ</td>
<td>25</td>
<td>28</td>
</tr>
</tbody>
</table>

Smaller the estate, integrated winemaking, higher the profitability

<table>
<thead>
<tr>
<th>Wine estates</th>
<th>μ size</th>
<th>μ yield</th>
<th>μ sales</th>
<th>Income /working unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quartile</td>
<td>8 ha</td>
<td>47 hl/ha</td>
<td>5,700 cases</td>
<td>57,000 €</td>
</tr>
<tr>
<td>Last Quartile</td>
<td>34 ha</td>
<td>62 hl/ha</td>
<td>14,100 cases</td>
<td>47,000 €</td>
</tr>
</tbody>
</table>

Limitations
- Dataset: cellar registers record wine exit, no more
- Final export not recorded
- Internal exchanges between vineyard and cellar inside the same holding not distinguished
- Some traders own some vineyards in order to ensure wine grape procurement and quality at harvest time, they begin to be winegrowers
- Some winemakers begin to trade in order to complete their own brands portfolio

Conclusion
- Diverse ways /business wine sector Burgundy
  - diversity of wines
  - mosaic small & large companies
  - private or cooperative ones
- Complementarity between viticulturists, winegrowers, cooperative wineries, winemakers and traders
- The terroir of origin is a key issue for the choice of business model
- More prestigious the wine is, and higher the price, better integrated is the winemaking process for total quality management (true for red wine)
Thanks for your attention

Enjoy Burgundy wines!