Outline of Presentation

- Introduces a new approach to analyzing trade statistics.
- Purpose is to gain insights into the way the major wine producing countries have positioned themselves in the key wine markets of UK, US & China.
- A business strategy perspective – concerned with how, over time, the wine producing countries have competed by trading off Price and Market Share. Hence, we used import data in local currencies.
- Data collection – sources and building the data set.
- Approach to the analysis.
- What story does the data tell us? The Winners and the Losers.

A Business Strategy Perspective

- As business strategists we are primarily concerned with the way firms compete in a market.
- Firm-level data are not available … we are limited to trade statistics. … but rather than analyzing export data we have looked at import data in local currencies.
- Looked at Volume and Unit Value and Total Value for:
  - All wine HS code 2204
  - Bottled wine HS 2204
  - Bulk wine HS 220492 (> 2 litres)
  - Sparkling wine HS 220410.
- An issue is we were unable to track bulk wine bottled in-market.
Data Collection

• To gain a wider understanding of how the data could be summarised, CN (Combined Nomenclature – European Commission), HTS (Harmonized Tariff Scheme) and USITC (United States International Trade Commission) codes were explored so as to understand the best way to capture the data to ensure consistency over the three countries.

• The data extracted were for the years 1996*-2012 from USITC (USA) and Eurostat (UK) and UN Comtrade (China) using the 6-digit Harmonized Commodity Description and Coding System (HS) codes (220410, 220421, 220429 and 220430) as well as the 4-digit HS code of 2204 which is a summation of the four 6-digit HS codes.

• Eurostat provided their data in Euros and the UN Comtrade database provides the data in US Dollars. The data were converted into the local currency using a system designed by Prof Werner Antweiler, the University of British Columbia Sauder School of Business.

* A major amendment of HS codes took place in 1996 and as a result some codes were re-coded at the 8 and 10-digit level. It was decided that extracting the data from 1996 onwards would provide the most reliable data.

Approach to the Analysis

• We have not done rigorous statistical analysis … instead we have simply interpreted the descriptive data – using Google Motion Charts to see what story the data tells us.

• The motion charts allow the dynamic interplay between Unit Value, Volume and Total Value to be observed over time. Changes in positioning – Unit Value (effectively price) and Volume (effectively market share) and the impact on Total Value – could be readily observed.

• The Google motion charts are available to other researchers at http://23inhouse.com/wine-data/charts.html.

• Look at the data – UK, US and China

Import charts

1. exports
2. uk-all
3. uk-bottled
4. uk-bulk
5. us-sparkling
6. us-all
7. us-bottled
8. us-bulk
9. cn-sparkling
10. cn-all
11. cn-bottled
12. cn-bulk
13. cn-sparkling

These charts are freely available for use by others, providing the source is acknowledged.

The charts are based on data sets extracted from USITC (USA) and Eurostat (UK) and UN Comtrade (China) databases by Geoffrey Lewis, Tatiana Zolna and Matt Scholles. The data sets are available by request from Geoff Lewis (geoff@bigbluecloud.net).

Total Value is in GBP millions (UK), USD millions (US), CNY millions (China). Volume is in millions of litres. Unit Value is in local currency (GBP/USD/CNY)/litre.

Some Unit Values associated with extremely small Volumes have been adjusted to avoid scaling problems.

Our thanks to the inspirational Prof Hans Rosling – see http://www.ted.com/hans_rosling_shows_the_best_stats_you_ve_ever_seen.html

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Global wine markets: Winners & Losers
In terms of Total Value in local currencies [2012]

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<thead>
<tr>
<th>All Wine</th>
<th>Bottled Wine</th>
<th>Bulk Wine</th>
<th>Sparkling Wine</th>
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<td>GBP1,157m</td>
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<td>South Africa, Australia &amp; USA – experienced large declines in Total Value from peaks</td>
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<td><strong>US</strong></td>
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<td>Italy</td>
<td>USD1,477m</td>
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<td>Australia</td>
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<td><strong>China</strong></td>
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<td>France</td>
<td>CNY4,816m</td>
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<td>Argentina, South Africa, Australia, &amp; USA – experienced large declines in Total Value from peak</td>
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<td>France (CNY4,816m)</td>
<td>Australia (CNY4,816m) &amp; Argentina (CNY4,816m)</td>
<td>France (CNY4,816m) – smallest percentage increase in Total Value</td>
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</table>

Conclusions

- France and Italy have adopted different strategic positions in all three markets.
- France has positioned itself as the high price competitor and has been willing to sacrifice market share to secure and maintain this position.
- Italy has taken the lower price, high volume position and has defended this position from attacks by New World producers such as Australia.
- In the three markets we studied, France emerged as the clear overall winner. While its positioning has fluctuated over time, its price leadership has never been under serious challenge.
- Italy’s position as the high volume, low(er) price player has not been as stable as France’s positioning. Even in the U.S. market, where this position was most clearly evident, for a short time in the mid- to late-2000s Italy was challenged by Australia.
Conclusions

• Italy lost this positioning to Australia in the U.K. from 2000 until the very end of the decade, but Australia failed to consolidate as it took on both France and Italy.

• Australia sacrificed its position in bottled wine in both the U.K. and the U.S. markets, but secured a strong position in bulk wine, and overall it lost significant Total Value.

• In China, France has again taken the high price position and to date has been able to capture the largest market share.

• Australia has positioned itself as number two player behind France – and so far has been willing to sacrifice share to maintain high price (and build Total Value).

• To date, in the China market Australia has avoided the commoditisation trap it fell into in the U.K. and U.S. markets. It has been willing to sacrifice market share in order to maintain Unit Value, giving up share in the last few years to Spain.

Discussion

Thank you

... and my thanks to Prof. Hans Rosling