New World versus Old World success in global wine markets by 2030

[Written version]

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Good morning, and thanks to Professor Anderson for having invited me to contribute to today’s discussions.

I

Let’s grapple with definitions to begin with.

Geographically speaking, the Old World is customarily assumed to mean greater Europe -- and the New World the rest, namely the wine-producing nations of the southern hemisphere plus the wine-producing states of the USA and Canada. There are significant shadows to these terms, though.

The Old World tends to imply wine production governed by regulatory frameworks. New World wine producers are thought to be able to dance to their own tune. Old World practices are considered prescriptively traditional; New World ways experimental and pragmatic.

Aesthetically speaking, by contrast, the Old World is considered to hold all the best cards for fine-wine production, while the New World struggles to create -- or unearth -- raw material of equivalent quality.

The number of voters engaged in wine production in many European or Old World countries gives the activity a political significance missing in the New World. The consequence of this is
that New World wine creation is thought to be more market-sensitive, while Old World production has relied on market-distorting subsidies.

There is, in other words, a portfolio of ideas and assumptions connected with each of these terms. These are sometimes rusty and inaccurate in 2010.

The New World is currently confronting Old World problems like overproduction and the need for regulatory frameworks. The Old World, meanwhile, is laboriously searching for more market aptitude and greater freedom in its own approach to wine creation.

The theme of my address is that success in global fine wine markets in 2030 will require these processes to continue or to accelerate. Put simply, the New World must become Older, and the Old World Newer, in order to maximise their success in the world wine market.

What, though, is success? Measuring this as a proportion of the world wine export market alone, or simply in terms of leadership in a particular market, is inadequate. Volumetric success in an oversupplied market can be agonisingly unprofitable, value destroying and image-corroding. Success must also be ballasted by the largest possible share of the market for higher priced wines. High average prices are the key to profitability and long-term success.

II

I’ll now consider the recent and present successes and failures of both Old World and New World before looking forward to 2030.

Let’s begin with Old World successes. Note that these are distributed very unevenly within European wine-producing nations.

The first existing Old World success is that its greatest bottles continue to provide almost all of the wine world’s icons. The ‘icon’ metaphor is apt. It means wines that, at best, are disarmingly and inspiring beautiful, and thus impart a sense of the sublime to those who engage with them. At worst, though, these are mere mechanistic reproductions of little aesthetic merit and the object of senseless veneration. (Burgundy doubtless springs to mind.)

The possession of icons is valuable. It doesn’t necessarily guarantee profitability, but it does harvest high average prices and ensure a disproportionate share of the over-US$30 market. Icon
status, of course, is something only the market can confer. The self-proclaimed icon wine is usually snake oil.

Connected with this success is the way in which the Old World continues to occupy what we could call the aesthetic high ground of winemaking achievement. Some of you may be surprised to hear me say this, since another of the received ideas of the last two decades is that New World mastery of winemaking techniques exceeds that of the Old World.

We are in fact talking about two sorts of winemaking here. The New World has been closely identified with technically adroit, scientifically informed winemaking. The best of the Old World, by contrast, relies on reformed traditional practices. These are designed to respect or enhance the inherent print of difference in wine. Technically adroit winemaking, by contrast, is predicated on desirable technical outcomes, and thus tends to result in a greater consistency of result.

New World techniques have indeed had a major impact on the global production of commodity wine. Branded wines as we know them would not have been possible without those techniques. These are overwhelmingly wines of method, as opposed to wines of place.

Wines of place, by contrast, will continue to be modelled as closely as mindsets permit on the reformed traditional methods of the Old World. I call this the aesthetic high ground since it is now regarded as such in the New World as well as the Old. Wines of place, moreover, tend to retail for over US$30.

A third Old World success is the successful insertion of fine wine into the luxury goods sales arena. If you compare the current trading price of Château Lafite 2000, fuelled by irrational Chinese exuberance, and compare it to its production price, its profitability is jaw-dropping. Something which cost less than 100 euros per bottle to produce is now worth nearly 1,400 euros a bottle. This stellar ascent owes as much to luck as to judgement and marketing strategy. Indeed the marketing of such wines, oddly enough, is almost entirely surrendered to others.

In Champagne, by contrast, you have a region which has managed to ensure around half of its production is an internationally traded luxury item. It has done this by careful marketing calculation and a long and painfully acquired tradition of internal discipline. The evidence suggests that neither Lafite nor Moët disappoint those who have purchased them as luxury items.
A fourth success of the Old World is the protection of patrimony. It was, less than a decade ago, fashionable to deride France’s appellation system and its European equivalents. They have drawbacks, as I will point out.

However they also bring benefits. The creation of fine wines of place is not easily achieved. It is the result of the hard work by unremembered winegrowers over decades or centuries. This achievement can easily be squandered by ineptitude, exploitation, market entropy or the dubious compliment of the counterfeit.

The legal sanctions which underpin the appellation system help keep these at bay. The speed with which geographically delimited production zones have been adopted in the New World suggest that this is now universally understood.

I’ll now address Old World failings. You’ll have noted that most of the Old World successes I have outlined concern fine wines. Fine wine, however, represents less than five per cent of European production.

The greatest failing of the Old World is the annual production of around 2.4 billions of litres of unsaleable wine. This is a social problem which, for political reasons, the Old World has chosen to address slowly, by means of the manipulation of subsidy, rather than with the speed which the market would impose. These wines are dead on arrival, and thus play little role in the global wine market, though they drain half a billion euros from the the EU budget annually.

Of more relevance to the international market is the Old World’s second great failing: its inability to communicate the complexities of its wine offer, or to offer its modest wines in a manner comprehensible to global wine consumers.

This, of course, is the shadow side of the appellation system, and of the pious Old World hope that all of its wines would eventually aspire to quality status. Recent regulatory changes concerning wines of modest quality in Europe should make it easier to market such wines.

These changes are also intended to address the third major failing of the Old World: the inability to create wine brands predicated on consistency and reliability.
Much of the smoke and noise generated around wine emanates from those who care for its intricacies and value its creation as the highest and most artful act of agriculture. I plead guilty; I’m one of these. What I, and those like me, tend to forget is that wine brands have provided much of the motor force in the growth and expansion of wine drinking around the world over the past two decades.

Over 70% of the wine purchased in the UK market, for example, is now sold by supermarkets, and in most of those supermarkets the share of branded wine is now over 50%, rising to 70% is some stores and locations. These brands overwhelmingly emanate from the New World.

The loss of global market share of the Old World is almost entirely attributable to its failure to compete in the branded segment of the wine trade. The recognition of this failure has come slowly. Fragmented production together with irregular weather patterns and vintage conditions will continue to impede progress, even if the regulatory obstacles standing in the way of branded wine creation in Europe are removed.

Regulatory ossification, in fact, is the fifth major failing of the Old World, and it’s significant that I’ve alluded to it twice already. It stems from Europe’s long-term failure to recognise that the wine market has bifurcated into high-quality wines of place which have little in common with branded wines of method or commodity wines. The regulatory mechanisms put in place in the Old World in general serve wines of place well, but have been an active check on the development of branded wines.

The successes and failings of the New World over the past two decades have in general been the obverse of those of the Old World. Time is short so I will merely summarise these.

The New World has led the way in producing reliable, consistent, comprehensible and thus consumer-friendly wines. Until recently, production in the New World was geared responsively to market requirements. The wine world’s most commercially significant brands almost all emanate from the New World. Wine production in the New World has flourished in a low-regulation environment.

The New World has been less successful, by contrast, in creating fine-wine icons in which winemaking subtlety and finesse is evident. Few New World wines as yet belong within the pantheon of luxury goods.
I’ll now look at some key areas of the wine market and speculate on how conditions might change between now and 2030.

It seems inevitable, first of all, that the trend which currently divides the market into aspirational wines of place and commodity wines of method will continue.

Commodity wines of method, and especially big brands, seem likely to shed their last vestiges of origin over the next two decades, and become purely branded products of multiple origin.

Brand evolution delivers a few big winners and many small losers. The big winners then develop line extensions to satisfy the appetite for variety which their brand dominance has already throttled. Bought toothpaste recently? If so, you’ll have noticed that you can have any sort of toothpaste you want, as long as it’s Colgate.

Branded pre-eminence is the result of a number of factors, but an early position in the market and strong distribution networks are vital. It’ll be difficult for the Old World to develop new brands of its own to compete with the existing New World brands.

Remember, though, that sourcing will become multi-national over the next two decades. All that will matter for the cheapest line extensions of a brand will be the right blending material at the right price. The more expensive line extensions, though, will evoke whatever qualitative cues they are able to. Europe still furnishes the wine world’s pre-eminent qualitative cues. Jacob’s Creek White Burgundy? Why not?

Assuming that the recent global financial crisis does indeed prove to be a blip, then the market for aspirational wines of place will expand greatly. It is this sector of the market, too, which will continue to provide the most attractive levels of profitability. The fact that the market is predicated on origin means that it is inherently resistant to branded dominance. The strongest areas of the Old World will remain well-placed for success, but the New World can make headway too.

Newly recruited wine drinkers in Asia and elsewhere will not assume that wines of place must come from Europe. Indeed wines of place created in the New World may prove more comprehensible that their European counterparts.

If the New World wants to succeed in this area, though, then it must adopt less interventionist wine-making techniques truly
capable of reflecting origin. It must also continue the search for wine-making terroirs which can produce naturally balanced wines of subtlety and finesse.

A notable feature of the last decade in parts of the New World has been the swift evolution in ownership of large, publically listed wine-producing companies and groups. This is much less true in the Old World, where there are fewer large players and a much greater level of family or co-operative ownership.

A booming wine sector concealed the inherent conflict between public ownership and the economics of wine production. The global financial crisis has made it all too plain. Public ownership works well when financing market-responsive, industrial processes like brewing or distilling. It works much less well with a long-term agricultural process like wine production, where patient capital is required.

The next two decades will see the owners of large wine brands withdraw from a production role and become purchasers, blenders and distributors. This will create opportunities for new private companies and co-operatives to assume a supplier role to those large brands. It will also help push brands offshore, since the historic bonds between sourcing areas and large brands will be broken.

The Old World will play a more significant role in furnishing the raw material for brands than it has done to date. Family ownership or indulgent private capital will remain the principal means of financing the production of wines of place, as well as of vineyard ownership more generally.

Success in this area will imply one of two things. It will either imply the long-term possibility of cheap production, based on assured water supply to low-cost production zones.

Or it will imply a site of genuine merit for wines of place. Vineyards not meeting either of these criteria will disappear. The days of the have-a-go vineyard are now over.

What, though, of stylistic developments?

The history of branded wines contains some shocking lessons for wine nerds like me.

The first is that the presence of some residual sugar is enduringly popular, provided the brand image retains freshness. What was
true of Blue Nun Hock 30 years ago is still true of yellowtail Cabernet Sauvignon today, and it will still be true of key brands in two decade’s time. As long as new drinkers graduate from soft drinks to wine, it will always be true.

The second lesson is the Pinot Grigio lesson. It tastes of nothing, and the more it tastes of nothing, the more people like it. Many new wine drinkers, that is to say, like flavour in strict moderation.

The third lesson, though, is that quality compromises will always be noticed by consumers, even in the case of branded wines. Palates attuned to simple flavours are not necessarily insensitive.

The branded wine sector, to summarise, will be bigger and more valuable by 2030. Range extensions and offshore sourcing will mean it will be more diverse. The core of the branded wine offer, though, will remain the conventional off-dry and affably neutral styles.

There will be further blurring of the boundaries between wine and beverage more generally, and more use of unconventional sales mechanisms to sell branded wines by association with attractive individuals and events.

The impact of new media and social networking will introduce a measure of anarchy into the most carefully laid marketing plans.

What of wines of place?

This market will be a flourishing and profitable one for those best able to compete effectively in it.

Wine is an emotional and aspirational purchase powered by a significant symbolic hinterland, thanks to its role in European culture, the Christian eucharist and Jewish ritual. In developed countries, it remains the alcoholic beverage mostly intimately associated with healthful, moderate consumption.

The intellectual challenge of true wine connoisseurship will never be embraced by more than a small percentage of all wine drinkers. A much larger percentage of the world’s new wine drinkers, though, will wish to engage with fine wines of place without necessarily understanding their intricacies, either for aspirational reasons or out of simple curiosity. Its gastronomic role is key here.
It follows from this that a combination of communication and kudos will be vital to success in this sector of the market. Foot-leather and distribution are no longer enough.

Kudos comes from two sources: historical pedigree and critical endorsement. Neither can be purchased, at least as far as I know.

Communicational force, by contrast, can very easily be purchased, since the two main tools are the back label and the website, together with participation in the critical circuit.

The Old World’s advantages in terms of historical pedigree will be squandered without a much greater communicative effort.

There are real opportunities for New World producers here, since critical endorsement can make up for a lack of historical pedigree. Where all three come together, the opportunities are already outstanding and will become more so.

Indeed the most successful wines of place in fact cease being wines of place and become super-brands: Lafite, Le Pin, DRC, Hill of Grace, Cloudy Bay. Their position is then unassailable -- provided they continue to win critical endorsement by maintaining quality.

The dominant critical voice over the past two decades has been that of Robert Parker. The future will bring more critical plurality, especially via the new media, though significant critical traction by definition can only ever be achieved by an elite. Critics will, though, become more specialised. The Burghound model is the forerunner here.

It is idle to ignore the impact of wine investment on the success of wines of place. Whenever there are major disparities between release prices and subsequent trading prices within the drinking window, there are opportunities for investment.

The large majority of international investment activity is currently concentrated on the Bordeaux market. Will this still be true in 2030?

Bordeaux has four overwhelming advantages over other regions in this respect: there’s a lot of it; the château system makes it easy to understand; its wines mature predictably and attractively; and stylistically it has broad appeal.

No other Old World region is ever likely to achieve the same pre-eminence since none will ever meet all four of those criteria.
It is entirely possible that parts of the New World may eventually qualify, though I suspect that five or ten rather than two decades of evolution may be necessary.

However individual properties in almost any region will attract investor interest whenever suitable disparities between release price and trading prices at maturity become evident.

The pool of investible wine will be much larger by 2030, and it will include many more New World wines than at present. Enduring investment potential is a fair measure of success. As with icon status, though, this can only ever be conferred by the market.

Two further points deserve consideration.

Few agricultural products receive the scrutiny which wine does, and that scrutiny will intensify in the years ahead. Consumers want wine, as the pre-eminent agricultural project, to be as natural as possible. They want to know that it is grown without damage to the environment in healthy, biologically active soils; that its carbon footprint is minimal; and that it contains as few additives as possible.

Present-day wine labelling requirements are shockingly lax by comparison with food labelling requirements. This may not be so in 2030. Success will evade the environmentally complacent winegrower, and is unlikely to shine on wines whose flavours derive their focus and force from a suite of additions.

The final point concerns climate change.

Everything I have described in based on a world of continuing peace and prosperity. Wine is a luxury; no one need drink it; its market draws on the superfluous income of the world’s wealthiest citizens. The worst-case impacts of runaway climate change, were they to come to pass in the next two decades, would pose major social and political challenges to our present world order and trading systems.

A second observation is that wine aroma and flavour profiles are matters of nuance. Chemically speaking, very little separates the $100 bottle from the $10 bottle, and climate is a major driver of those nuances. Climate change will, sooner or later, deform terroir and upset existing hierarchies. It will make life tougher for some and easier for others. Exactly whose life will be tougher and whose easier remains opaque, to me at least, as does the time scale within
which these events will unfold. I look forward to learning more from Professor Barlow this afternoon.

A final summary. Success in 2030 for the Old World will mean

- greater equilibrium between production and demand,
- more participation in brands,
- continuing occupancy of the aesthetic high ground, and
- above all far more effective communication with consumers.

Success in 2030 for the New World will mean

- continuing market responsiveness,
- some disengagement from brands and from public capital, and
- a courageous assault on the aesthetic high ground in order to create fine wines of place.

And success in 2030 for wine creators as a whole will depend on

- growing environmental respect,
- on climate change responsiveness, and on
- honouring at all times the high act of agriculture in which they are engaged.