Reassessing Competition in the Wine Industry: The Role of Consolidation in key New World Wine Regions.

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Keywords
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Research Question
Why is wine consolidation different from other industries? Why are there many new entrants in the wine industry but also more consolidation? How does this differ across New World countries?
Methods
Data analysis and presentation of stylized facts from a dataset from national statistical agencies, wine research entities. It also draws on structured interviews.
Results
Results include updated cross-country divergence in the degree of consolidation and highlight the impact of new owners including pension and PE firms for premium level consolidation.
Abstract
This paper looks more closely at recent dynamics around consolidation in the wine industry and tries to assess a paradox. Much of the consolidation in the wine industry differs from that of other sectors, where consolidation often includes standardizing and centralizing production and streamlining product lines as well as efficiencies in administrative and distributive functions. Instead, consolidation in the wine industry, especially for premium, ultra-premium wines, often aims to preserve the production process, wine-making style and terroir of their wines, often running several competing vinification, aging and bottling processes across their different wineries. It aims to answer several questions, How is winery consolidation different across countries? How does it differ from other alcohol industries? How effective is it likely to be in the face of growing demand and macro uncertainties?

To do so, this paper assesses competition in the wine industry, by tracking the evolution of wineries, production trends and consolidation in the marketplace across a dataset of New World wine producers. It builds on existing academic and industry literature about consolidation, the effects of mergers both in the wine industry and more generally and presents a more cross-country picture than some previous work, which often focuses on the national level.

The paper is constructed in two sections. The first summarizes key data and presents stylized facts about the evolution of wineries and wine production in several new world wine growing regions including Australia, Argentine,
Canada, Chile, South Africa, New Zealand and the United States, taking a cross section of the dynamics across the
growth of wineries, wine production and the dominance of the largest producers in each market. This analysis
shows that most of these producing nations continue to show two concurrent trends – an increase in the number of
wineries and an increase in the market share and relative production volume of the largest producers. For example,
in the paper’s dataset, on average, the largest 10% of wineries account for 35-50% of production, with a very long
tail of very small producers.

The second part incorporates additional analysis and the results of interviews with select wine growers to better
assess the dynamics and drivers of consolidation in the wine industry. In particular it uses case studies to assess
the impact of recent trends of acquisitions by public and private actors. It also compares the goals of consolidation
in winery operations with that of other alcohol production including spirits and beer, both of which are much more
concentrated than wine. Winery acquisition often preserves the name, terroir and unique style of winemaking of
several separate wineries, retaining a distinct brand and style of wines that go into the marketplace as competitors.
Benefits of the consolidation may include upgrades to the winemaking and winemaker, buying power, financing and
efficiencies in administrative processes, as well as sales and marketing. By contrast acquisition of craft beer
centralizes the production as well as the distribution, marketing and sales interaction, potentially reducing the
unique nature of the product including the location and natural inputs.

Overall it draws several conclusions. The increase in wineries reflects the development of new wine regions either
in areas which did not historically produce wine or new entrants as existing viticultural areas achieve new
prominence in the marketplace. There are country differences however, Australia and South Africa, stand out as
some of the few countries with a notable decline in the number of wineries, reflecting both climate stress and shifts
in production, as well as its later phase in development of the wine industry.

Changes in capital and ownership structure also drive some of these dynamics. Successful wineries and other
larger pools of capital including public pension funds, private equity firms are increasingly investing in wine
including wineries and other parts of the supply chain to the extent allowed by regulators. This has resulted in
growth both at the level of high-volume, approachable wines, where product differentiation may be less visible, but
also more interestingly at the level of premium wines where previously competing wineries now are part of the
same stable. Several companies and ownership groups purchase wineries but continue to operate them as
separate entities with different own estate wines. The volume and dominance are also affected by the development
of virtual wineries, which may buy in grapes or wine from a variety of producers and repackage and process it both
through traditional distribution and direct-to-consumer channels to try to capture different audiences. The paper
assesses how macro-economic trends including the stresses of the pandemic, increasing financing costs, climate
stress and changing regulations might impact these trends and how they might increase the barrier to entry for
profitable wineries.

Further work could include a closer look at the impact of new regulatory guidance from countries like the United
States which have raised concerns about competition in the alcohol industry or a closer look at the trends in the
distribution and retail arms of the sector which are if anything much more consolidated in many countries than the
production levels. A further assessment of lessons learned from operating in the pandemic and in the current
higher interest rate environment would also add to the understanding of the industry and could help producers and
investors better assess their tradeoffs.

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