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"AOC Versus Marque: Quelle Stratégie pour les Producteurs?"

"Appellation d'origine contrôlée" versus Brand Name

Which strategies for the producers?

International competition on the wine and spirits market is characterized by a considerable disparity of strategies used by the producers and wine-producing regions. Beyond the innumerous marketing practices in commercialization and pricing procedures[1], the terms of specification of a product upstream still remain very undecided between a label related to the origin of the products and a label related to a brand name. There is a confrontation of both methods today on international markets and they represent a fundamental challenge for the production sector (from winegrower to distributor) as well as for governments, which must decide public policy orientations in wine production. The objective of our research project is to arrive at understanding the different arguments to permit producers to achieve an arbitration of the two methods. In this way we hope to indicate the competition mechanisms between countries which are traditionally exporters (principally European countries) and the so called "new world" countries which today compete for the still well-established supremacy of the traditional model of wine growing and production.

Therefore the European Union has for a long time occupied a dominant position with more than 70% of world production and consumption in 1999. Five countries (France, Italy, Spain, Germany and Portugal) today still account for more than 70% of world exports and European wine growing represented a final production of more than 12 billion euros in the year 2000 more than 2 billion of which was obtained in third country markets. The remarkable success of the EU in this sector of agriculture is due certainly in large part to the French system of certified origins "Appellations d'Origine Contrôlée" (AOC) applied throughout Europe by "Quality Wines Produced in a Specific Region" (Vins de Qualité Produits dans une Région Déterminée)[2]. This system is based on reference to a specifically determined region and is controlled by particularly strict requirements imposed on the producers. Therefore the choice of superior vines (adapted to the area) the limitation of production per hectare (to assure the best possible merits of the land), the control of methods (the limitation, even the actual forbidding of irrigation and harvesting machines) are so many factors which limit the producers very drastically on the quantity produced as well as the quantity put up for sale. The objective of this restrictive system is however to guarantee a typical product in the end for the consumer, which in exchange allows a high sales price thanks to a differentiation strategy and the creation of a marketing niche and therefore unearned income related to this niche.

[1] Among these we can note direct sales at the vineyard, sales through an agent who is able to sell to mass marketing or specialized cellarmen. Furthermore, the pricing systems are often the result of these vertical links, but they also depend on wine auctions (as in the case of Burgundy wines) or on late vintage high quality wines (as in the case of Bordeaux wines).

[2] Throughout the article we use the term A.O.C. referring to 1935 French legislation. This reference is certainly the best known internationally. However the "Denominazione de Origine Controllata e Garantita" in Italy and the "Denominacion de Oregfen Calificada" in Spain also count for a large part of export volume.

The other central point of production methods and marketing is that which is seen for a large part today in newly exporting countries such as the United States, Australia, Chile or Argentina. This concerns a more industrialized form of wine growing which depends, above all, on strategies of brands easily identified by the consumer because of considerable volume and of a reputation based on this volume and on a rigorous control for consistent quality of the final product. Advertising investment is essentially associated with these brands and the efficiency of these companies depends on their ability to achieve economies of scale while guaranteeing a strong consumer demand. International brands can be comparable to industrial companies, which carry out substantial advertising and marketing[3] (E&J Gallo in the United States, for example, or Jakob's Creek in Australia). (the English marked is an example of the battle between the two systems in that the consumers are relatively neutral regarding the two types of country).

This, of course, is concerned with only one typology of systems, which reflects only the two central cases in point. In reality, the actors very often use mixed strategies of affiliation to an AOC and brand development like in Champagne (where the promotion of the product is more often individual) or in a good number of Italian vineyards.

We note in this article a notion of "quality" which represents both real or objective quality of wine such as the grade attributed by an oenologist, and the reputation of the wine, which comes from advertising investment. Indeed, one or the other of the two elements directly influences the perception of the quality by consumers and, in the end, the readiness of the consumers to pay for the best. In this perspective, both systems of production, which we presented, are distinguishable by their strategy in the quest for quality. The producers adopting the A.O.C. strategy guarantee a certain quality by limiting a precise, selected territory. In other words, this constraint of capacity allows them to benefit from a quality intrinsic to a region or from a reputation, which is associated with them more or less objectively. Producers who choose brand strategy can play on the image, the reputation of their product by investment efforts (advertising, promotion, R&D …). The absence of real constraints in ability to supply means that a producer can provide for all the demand made to him on the marked.

In this article we study the economic characteristics of these two models of production marketing and show under what market conditions the A.O.C. strategy can efficiently compete with brand strategy. We explain the influence of the adopted strategy on the choice of quality. Section 2 presents the model hypothesis held throughout the article. Section 3 is devoted to the determining of an optimal strategy for a firm in a monopoly situation and shows particularly how belonging to an A.O.C. system can have, for some value perimeters, a dissuasive effect on the decision of marketing of the high quality product. In section 4 we extend the analysis to a duopoly and attempt to determine under what conditions respectively the two firms should be affiliated with the A.O.C., one committed to the brand while the other chooses the A.O.C. and finally both firms adopt a brand strategy. We show in section 5 the examples in which offering the possibility to a company of being affiliated with an A.O.C. is beneficial (res. damaging) from the consumers' point of view, by explaining in detail the influence of such an affiliation on the choice of quality and on the quantities made available to consumers. In conclusion we compare the long-term viability of the two systems of wine production and marketing.

[3] E&J Gallo is the most important wine producers in the United States, for example, or Jakob's Creek in Australia. Gallo had the biggest advertising budget in the wine growing sector in 1996 with 27.6 million dollars (Bastien, P. (1997).