



Business Networks and Market Power in the French AOC Wine Industry

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Motivation and research question:

In a large number of wine production areas in the world, the cluster pattern, as conceptualised by Michael Porter, is relevant to describe the wine industry organisation and improve its understanding. It is especially the case for French AOC Wines production organisation. But even though numerous, research work on clusters structure and dynamics does not fully address the cluster's market power issue. Authors usually specify actions on the demand level or on the supply definition, but clusters direct or incident actions on prices are practically never mentioned, may be because of contrary, or at least dissuasive, national or international competition laws and regulations.

Based on a deepened case study of the French Rhone Valley AOC Cluster, put in perspective with other French and worldwide production clusters, the paper presents the original and successful strategic response implemented last year by the Inter-trade Association of this area and discusses the issues at stake concerning prices levels for the lowest part of French AOC wines ranges.

Methodology and Results:

Based on a deepened case study of the French Rhone Valley AOC Wines Cluster, put in perspective with other French and worldwide production networks, we specify the elaborated and specific strategic response designed by the cluster key organisation in this area: Inter-Rhone, the inter-trade association for AOC Rhone Valley wines. Then we focus on the network incentives through which: 1. Inter-Rhone actually insured a minimum price level despite the current threats exerted by hard discount or more generally big distribution organisations in the downstream channel on the lowest part of the AOC range; and 2. succeeded in maintaining lower prices at a level sufficient to notably insure, at least at mid-term, the survival of French A.O.C. organisation pattern.

Relevance to the future of world wine industry and ability to generate discussion:

The paper addresses the issue of the double path currently offered to the worldwide wine industry. Through demand evolution and competition, globalisation favours the industrialisation of wine-making. As well, some more traditional production patterns, generally structured in clusters are jeopardized, if not improving the market power and protecting prices levels on some specific products. Clusters collective strategies could be a way to compete in this new competitive context for the lowest part of AOC wines range if they were fully recognised as organizations. If recognised as such and if its market power was considered, this type of hybrid structure could fit perfectly to the specificity of an important part of the wine industry and could be a way to preserve in the long term, the full variety of wine production patterns in the best interest of consumers.