

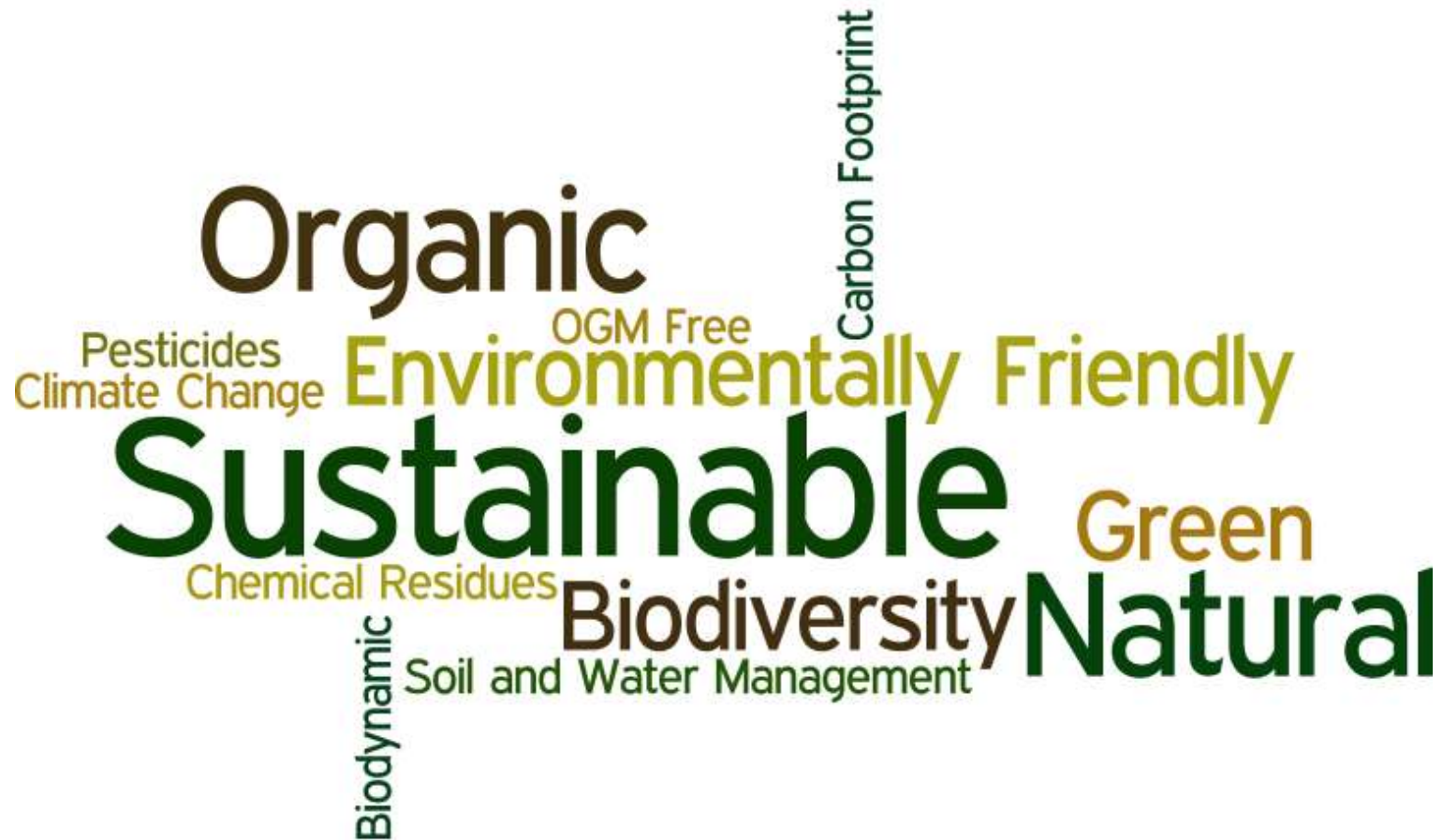
# Sustainability, environment, innovation and marketing: the wine industry challenge



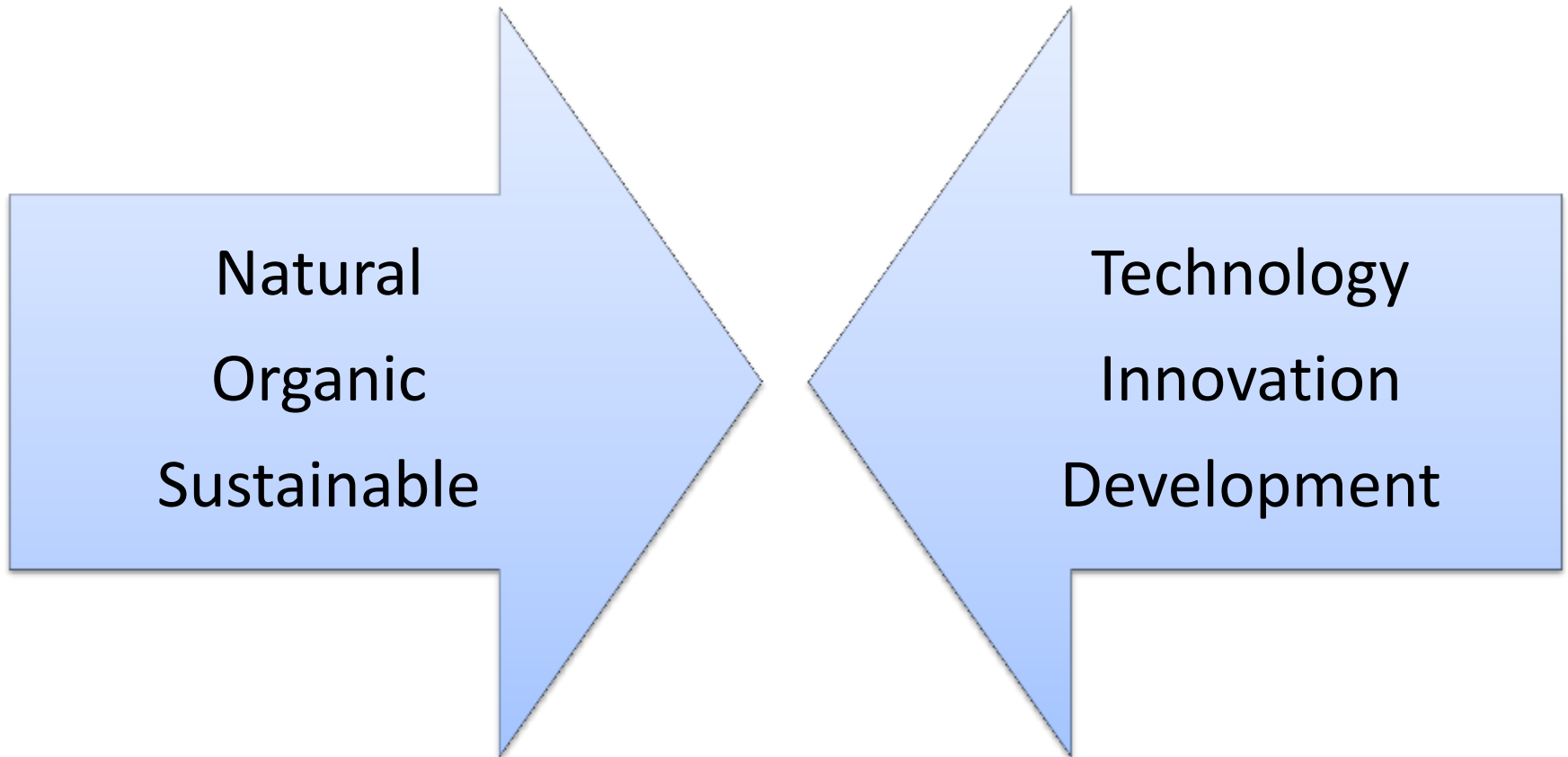
# The starting point: is wine sustainable?

- Wine (as any artisanal/traditional food) is generally considered by the consumer as a natural, handcrafted product and its historical reputation as a “green” beverage (in terms of the environmental impact) provided an advantage over most other food products
- As consumers around the world become more and more interested in healthy food or in ethical and environmental issues
  - Do they take care of the credentials of the wines they purchase?
  - Do they give importance to pesticides, winemaking practices and carbon dioxide emissions?
  - Is it translated by the wineries in their marketing policies?
  - How these issues can be exploited in rural development and in regional branding?

# What are we talking about?



# First question: is there a contrast?



# Towards sustainability

- While the wine may seem to be one of the most natural alcoholic beverages, it is not free from carbon dioxide emissions, which contribute to climate change or to alter the microclimate of the vineyard
- Agriculture benefits from public goods such as
  - Natural resources, ecosystems, clean water
- But also produce externalized costs that are transferred to the society:
  - carbon dioxide, chemical residues and other waste
- Understanding these externalities helps to promote accountability to consumers and to identify opportunities for innovation and saving

# More awareness, more regulations

- Today the consumer is aware that the consumption of food has an influence on his health and an impact on the environment
- The more the pressure from consumers and authorities on these issues increases, the stronger will requirements be progressively implemented
- For example, the impact of pesticides on human health and on the environment
  - their use has been be increasingly regulated
  - under the influence of the public opinion pressure, they may be prohibited by a number of countries by 2050
  - although the viticulture is a major consumer of these products
- All economic sectors need to adapt to standards limiting their environmental impact, in order to meet the expectations of consumers on this issue
  - Winemakers will likely be forced to print the amount of CO<sub>2</sub> needed to produce one liter of wine on the back of each bottle

# The importance of being «green»

- Environmentally responsible and sustainable business practices are becoming increasingly crucial to consumers
  - 60% of US adults who purchase online say it is very or extremely important to them that a company is environmentally conscious
  - Nearly half of those who shop online said they seek eco-friendly products specifically, at least sometimes
  - More importantly, 45% of respondents who shop online said they would pay at least 5% more for a product with higher ecological features
  - A further 22% were willing to pay at least 10% more
- So the wine industry should pay attention to this expectation and increasing sensibility that consumers have

## And the wine drinkers?

- The demand for organic wine by consumers is getting stronger, all over the world
- A research by Wine Intelligence on 1000 “regular drinkers” of the 4 main export markets (US, Germany, UK and the emerging China) sees a growing incidence in the choice of so-called “ethical wines” (organic, biodynamic, fair trade etc.)
  - In the UK and in the US about a third of the sample declared important to purchase a wine coming from organic, sustainable or fair trade viticulture
  - A figure that rises to 67% of respondents in Germany and 86% in China



# Environmentally-friendly wine?

- In the near future, consumers will consider the ecological factor as one of the main parameters to select a wine, attributing an importance similar to price, variety, and origin
- This parameter may affect at least the segment of average consumers, not particularly “passionate experts”, who buy wine at the supermarket but are responsible of the majority of volumes in the industry

## Environmental issues are a part of the Marketing Mix

- The increased focus on environmental issues has contributed to a rise in the demand for environmentally friendly products and services
- The spotlight on sustaining the environment has created new terminology such as “carbon footprint”
- Many companies have adapted their marketing strategies to capitalize on the consumer appetite for Environmentally Friendly products
- An Environmental Friendly marketing strategy takes into account additional factors which aren't usually part of the marketing mix

# Environmental marketing strategies

- The product: “Green” wine
  - Organic, biodynamic or natural certified wine production
  - Sustainable wineries (energy, water, fuel...)
- The environmentally friendly packaging
  - Lighter or recyclable bottles
  - Alternative closures
  - Without compromising product quality or appeal
- Environmentally friendly products can increase and decrease production costs for companies but this may be balanced by an increase in sales caused by a positive product and brand image
- A failure to observe environmentally friendly rules could lead to sanctions and consequently negative advertising, with strong impact on brands

# Yellow+blue makes green!



- Aseptic packaging is far more efficient and lightweight to transport than bottles, reducing carbon dioxide emissions and saving fuel
- The new packaging offers greater portability, durability and the ability to preserve the wine for future use

# What is “carbon footprint”?

- Eighty percent of the wine is drunk within one week from the purchase, especially in the basic segment
  - Does it makes sense to put 12 bottles of wine in a 20€ case and transport it for thousands of kilometers?
- The "carbon footprint" of the wine is the amount of carbon dioxide (CO<sub>2</sub>) involved in the production and transport of this product
- A research published by the American Association of Wine Economists by Colman and Paster ("Red, white and green: the cost of carbon in the Global Wine Trade", 2007) examined the cost of CO<sub>2</sub> emissions under different regulatory regimes, suggesting how the producers and consumers of wine can reduce the ecological cost of the wine, increasing its sustainability

# How producers can reduce the impact of CO2?

- Restoring the biological productivity of some marginal or neglected land, instead of breaking down forests or converting highly productive agricultural land into vineyards
- Minimizing the use of agrochemicals, especially in the presence of effective alternatives
- Improving irrigation precision to maximize water efficiency
- Using local oak barrels instead of imported
- Improving the efficiency of winery operations and the use of renewable energy and biofuels
- Using recycled bottles, purchased on a regional basis, or by taking into account non-glass packaging options for the everyday consumption wines
- Reducing the shipping distance and selecting the most efficient way possible (for example, by ship and not by plane)

# Some examples from the wine industry

- A number of wine-growing regions such as Bordeaux and Champagne have already begun to address the problem
  - A study commissioned by the Conseil Interprofessionnel du Vin de Bordeaux (CIVB) in 2008 shows that the annual production of about 760 million bottles of Bordeaux produces 200,000 tons of carbon equivalent (CE)
  - The CIVB is therefore committed to reduce emissions by 75% by 2050
  - The CIVC Champagne has been working for years to resolve the "carbon budget" of champenoise production, and has already identified a number of strategies to reduce the environmental impact (reduction of the weight of bottles and transport by air...)
- This problem must be anticipated because the changes will take several decades

## Other examples

- The British government is in pressure on the distribution chains to limit the amount of imported bottled wine in the UK and promotes wine imported in bulk and bottled locally
- The Australian WFA (Federal Association of technicians and wine producers) identifies the environment between 5 strategic points to be considered
- Several wineries made investments of million € to increase their use of renewable energy (photovoltaic cells, hybrid vehicles...)
- The trade press also (eg. Wine Spectator or La revue de Vins de France) is paying more attention to the issue of residues in wines or sustainability
- Sustainability is now an issue in the cellar design and is becoming a value for marketing activities



# The demand: the Scandinavian monopolies

- In Sweden, Norway and Finland (and in Canada, too) drinks with more than 3.5% alcohol content are sold to the public only through a state monopoly for the sale of alcoholic beverages
- The goal of the monopoly is not to maximize profits but to promote healthy eating
- Systembolaget, in Sweden, is distinguished by its wide range, which can not be compared to any other store in the world
  - It has over 3000 references from 40 different countries, including beer, wine and spirits - and are constantly renewed
  - In addition, they have a list of nearly 10.000 products that are provided by their suppliers and can be ordered at the shops or their web page
  - More than 400 stores are the only ones who can sell alcohol over the Country

# Monopolies can change the market

- Systembolaget, Alko and Vinmonopolet have been extending for several years their selection of:
  - Low-alcohol wines
  - In lighter bottles or recyclable containers (bag-in-box, PET)
  - Wines certified as organic, sustainable or fair-trade
- This extension is for all the different types of wine packaging and for most of the major wine producing Countries
- The result: today more than 50% of the wine imported in Scandinavia is bottled in alternative packaging
- The opportunity: new producers, regions or Countries can win the tenders thanks to their production of environmentally-friendly wines

## National plans to sustainability: New Zealand

- The commitment of New Zealand to produce award-winning wines, which reflect the pure landscape and climate, has prompted the local wine industry to become a world leader in the field of sustainability
- Energy conservation and waste reduction initiatives belong to the culture of wine production in all the regions of the Country, which produce over 200 million liters of wine for export and domestic consumption each year
- The New Zealand wine industry aims to be the first in the world to be 100% sustainable

# Sustainable Winegrowing New Zealand



- Sustainable Winegrowing New Zealand was established in 1994 as an industry initiative directed through New Zealand Winegrowers and was adopted by growers from all the regions ([www.nzwine.com/sustainability](http://www.nzwine.com/sustainability))
- The introduction of winery standards in 2002 has been a significant development to underline the industry commitment to sustainable production
- Sustainable Winegrowing NZ was developed in order to:
  - Provide a best practice model of environmental practices in the vineyard and winery
  - Guarantee better quality assurance from the vineyard through to the bottle
  - Address consumer concerns regarding products which are made taking care to respect the environment
  - Create and foster the image of the Country as a leader in high quality wines (NZ wines have the higher average price on the market, except for Champagne)

# The NZ vision: beign sustainable is the future

→ Sustainable Winegrowing New Zealand is an integral part of the future of New Zealand wine production. As such, the programme aims to deliver the following benefits to its members:

- A **framework for viticultural and winemaking practices** that protect the environment while efficiently and economically producing premium wine grapes and wine
- A programme of **continual improvement** to ensure companies operate with a goal of improving their operational practices
- A platform for **technology transfer** so that companies are kept up to date regarding any new technology and its application
- An external audit structure that has integrity and rigour to comply with **market expectations**

# The results

- Joining any of these programmes is voluntary
- However, **to be included in New Zealand Winegrowers' national and international marketing, promotional and awards events**, wines must have been produced under one of the recognized, independently audited, sustainability programmes
  - Today an estimated 94% or more of New Zealand's producing vineyard area (accounting for approximately 90% of the wine produced) is now SWNZ certified
  - A further 7% of vineyard area operates under other certified organic programmes
  - Organic production is expected to increase to approximately 20% of producing vineyard area by 2020

# California Sustainable Winegrowing Program



- The California Sustainable Winegrowing Alliance (CSWA) developed a 3rd-party certification program related to the California Sustainable Winegrowing Program (SWP) to increase the sustainability of the wine industry by promoting the adoption of sustainable practices and ensuring continual improvement
- The goals of the certification program are to enhance transparency, encourage statewide participation and advance the entire California wine industry toward **best practices in environmental stewardship, conservation of natural resources and socially equitable business practices**
- Since 2002, more than 1800 wineries and vineyards participated in the Sustainable Winegrowing Program
- In addition, more than 10.000 vintners and growers participated in over 240 **educational workshops** targeting specific practices such as energy efficiency, integrated pest management, and air and water quality

# Performance metrics integrated to further promote, measure and communicate continuous improvement

→ The initial set of metrics include:

- Water Use (vineyards and wineries)
- Energy Use (vineyards and wineries)
- Greenhouse Gas Emissions (vineyards and wineries), and
- Nitrogen Use (vineyards).

→ The goals of the metrics project are to:

- **Provide** growers and vintners with **tools** to measure, manage and track their use of natural resources to optimize operations, decrease costs and increase sustainability;
- Enhance the California wine community's **global leadership position** in sustainable agriculture and production;
- Enable participating SWP winegrowers to **benchmark** their performance metrics to drive **innovation** and adoption of **sustainable practices**
- **Communicate** continuous improvement in performance to stakeholders;
- **Improve credibility** with regulators, policymakers, retailers and consumers



# Sustainable is much more than organic

- The decisions and the practices used in vineyards and wineries can impact natural resources, employees and communities, as the quality of the grapes and wine
- While the organic viticulture focuses on the use of pesticides, sustainability to the next step and allows wineries to deal with things that are not addressed by the organic practices like:
  - reducing water and energy use
  - minimizing pesticide use
  - building healthy soil
  - protecting air and water quality
  - recycling natural resources
  - maintaining surrounding wildlife habitat
  - providing employee education
  - communicating with neighbors, retailers and consumers about vineyard and winery operations

# How to do that?

## 1. Internal analysis

(who we are?)

- What can we actually do?
- What are our strengths and weaknesses?
- Can we develop a sustainability program and how?

## 2. Market analysis

(where are we now?)

- Who drinks our wines? Where? Why? Why not?
- What are the opportunities to take and the threats to face?
- Who are our actual/potential competitors? (East Europe?)

## 3. Marketing Strategy

(where do we want to go?)

- What are our goals (volumes/commodities vs. quality/margins)?
- Differentiation, Positioning, Targeting
- National/regional brand development

## 4. Education

(who will do that?)

- Which skills the professionals (entrepreneurs, managers, winemakers, salespeople, industry policy makers...) need?
- How can they transfer the strategy into a coherent tactic application?

## 5. Operational plans

(how to reach our goals?)

- Promotion
- Sales
- Wine Tourism
- Brand management

But any plan is a mix of...



Pierpaolo Penco  
pierpaolo.penco@mib.edu



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