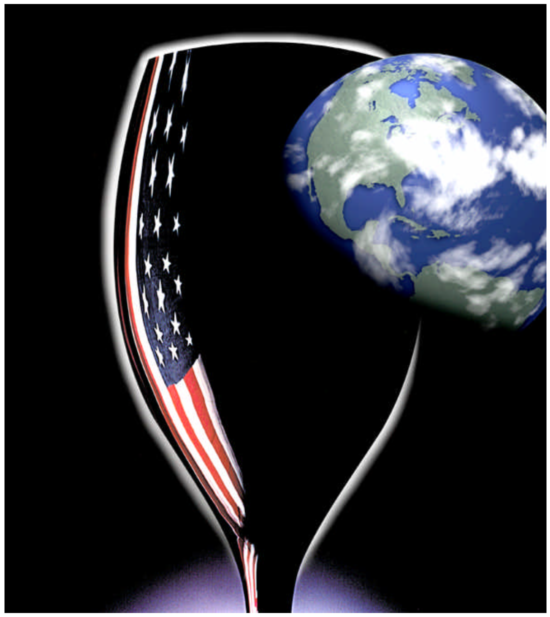

IMPORTANCE OF THINKING GLOBALLY

Why Your Company Should Export…
The Global Opportunity

Designed & Developed by the WineVision Global Taskforce - 2001

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We would like to encourage you to provide your suggestions, ideas, and recommendations to the Global Action Group by contacting Sue Cortese at (707) 265-1718, by email at scortese@delicato.com, or submit them by facsimile at (707) 265-7518.

WineVision – Strategic Priority III

Position U.S. wine as the high-quality, high-value product (across price points) in global markets targeted for the greatest success.

In 1999, the Global Taskforce of WineVision was charged with an aggressive goal: *double the "export" sales of American wines (from $560 million to $1.1 billion) by 2005.* Additionally, WineVision planners set four initial industry-wide objectives:

1. Develop and implement a U.S. wine positioning strategy.
2. Facilitate greater industry understanding and motivation for seizing opportunities in the global marketplace.
3. Build industry alliances with global partners.
4. Reduce or eliminate trade barriers in more than one half of the global market for U.S. wines.

Based on these initiatives, the focus of this paper will be to the second objective – ***seizing opportunities in the global marketplace.*** As with any strategic imperative, it is a process and one that must be embraced with a commitment to success.

Introduction

Foreign markets offer significant opportunities for the US wine industry. The year 2000 represented the 15th straight year of increasing wine exports from the US. However, our industry has only begun to penetrate many of the major wine markets in Europe and Asia. Canada also remains a growth market for our wines. The potential for expansion is obvious -- despite the growth in exports, our industry still holds only a 4% share of the world's wine export market. This is despite the fact that we produce almost 8% of the world's wine. Opportunity abounds!

But there are more reasons than just market potential to try exporting or to make a stronger commitment to your export marketing program. There are industry and government support programs that assist US wineries with information and opportunities to find foreign importers and to promote your brands. There is also the assurance that US wines have achieved a successful start in most foreign markets and the trade and media is receptive to additional products. The market is there _ the programs are in place. What are you waiting for?

The Rationale for Exporting American Wine

There are many compelling reasons why US wineries should increase their export efforts. These reasons are described in the following paragraphs.

Economic Returns of Investing

The economic rewards justify the initial investment and efforts to develop the market. While there are certainly additional costs involved with marketing your wines in new markets, the financial rewards more than often compensate for these expenditures. These expenditures can be mitigated by the use of current infrastructure and well established marketing strategies. Wine is increasing in its importance to international beverage companies. Wine represents 12% of alcoholic beverage company earnings in Europe, 50% in Australia and a negligible share elsewhere.

It's Easy to Export _ You Already Have Many of the Needed Skills

Entry into international markets leverages the marketing skills you have already developed. You already know your wines, your customers, and what makes your product sell in the domestic marketplace. These same selling strategies can often be used to reach customers outside the US. You are accustomed to dealing with a multitude of state laws regulating wine sales. The legal requirements in international markets are no more complicated than those at home, and in many cases the paperwork and label changes required for international sales may be more straightforward than in the US. In short, you are able to use existing infrastructure to add dimension and diversity to your current business.

Many US Success Stories

There are many examples of wineries that have been successful in exporting. No matter your size, your particular style of wine, or the particular foreign market you want to pursue, there is probably another winery that has figured out how to achieve success in exporting. Over 225 US wineries are actively exporting and have successfully increased sales. These wineries represent all market segments of our industry from the large size global wineries to the small boutique firms. Networking with these successful exporters or working with firms specializing in exporting on your behalf is a great way to learn and become a successful exporter yourself, no matter what your size.

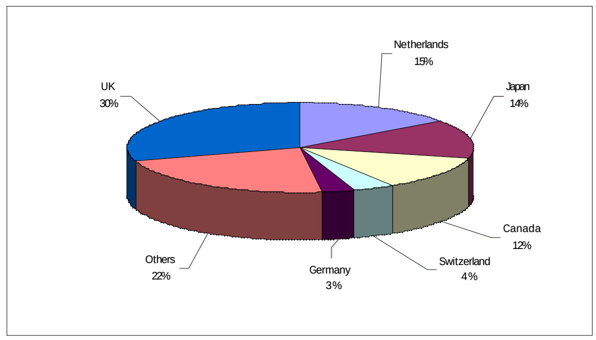
Market Diversification is an Important Long-Term Strategy

Currently the American wine industry is enjoying very strong sales domestically, but the US Market may not be that strong forever. With only 11% of US consumers drinking 88% of the wine, and that population aging dramatically, US wineries need to diversify to other markets if they want to maintain long-term growth and sustainability.

Though US wine exports have increased in the last few years, the numbers are still quite small compared with foreign competition. In 2000, the US exported wine to more than 164 countries, totaling $560 million. This sounds impressive, but when compared to the $2 billion in wine imports from foreign competitors, it's a mere drop in the bucket. Currently the US only exports 14% of its production and maintains 4% of the export market share. This is much lower than other large wine producing countries.

The situation worsens when you examine the number of US wineries that are actually exporting. Currently out of 1400 US wineries approximately 225 are actively exporting, and o those, only about 25 focus on exports as serious long-term strategy. Many others di their toe in the ocean by exporting to one or tw countries, and then often change their mind an exit. This damages international exportin relationships and makes it more difficult for re entry in the future. Also a few US wineries wi ship wine abroad only if they receive a reques to do so, but do not actively export on their own American wineries need to diversify their markets.

US Wine Exports by Volume: Major Destinations 2000

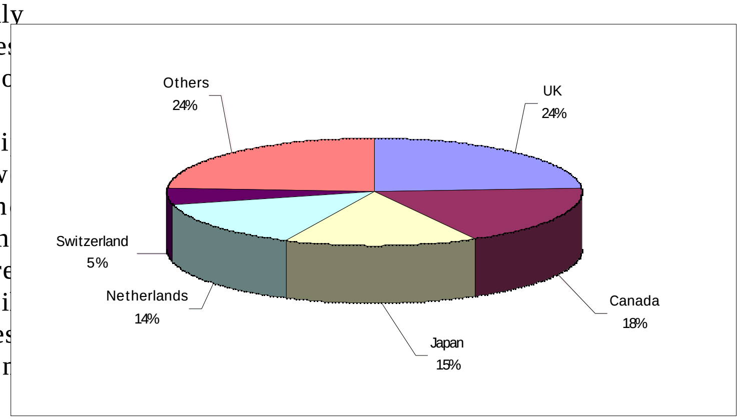


Source: US Department of Commerce, Morgan Stanley Dean Witter

Global Wine Comparisons – U.S. Industry

The US is the world's fourth largest producer of wine, with 900,000 acres of land devoted to wine growing (roughly 400,000 acres are in California, of which about 77,000 acres are in the Napa Valley and Sonoma County). In California, 800 wineries produce a crush of approximately 3.1 million tons of wine.

US Wine Exports: Share of Value by Markets, 1999



Exports as a % of World Wine Exports, 1997

Source: Impact Database, Morgan Stanley Dean Witter Research

Growing Competition from Imports Equals Less "Share of Shelf"

The US wine market is witnessing increasing competition from imports. Currently, approximately 25% of US wine market sales are from imports. This translates to "1 in every 4 bottles of wine sold in the US is from abroad."

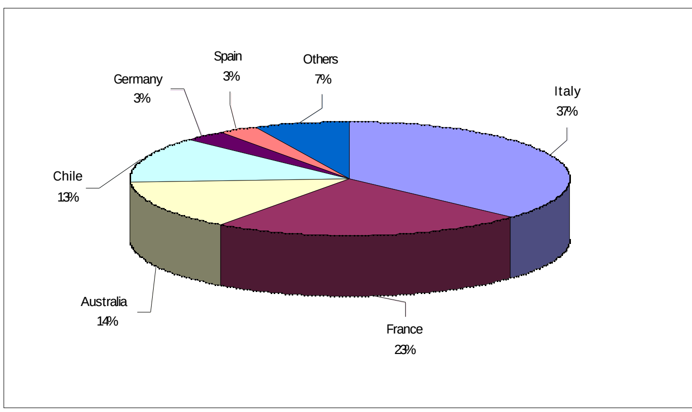
Imports as a % of World Wine Imports, 1997

Rank	Country	By Volume (%)	By Value (%)
1	UK	16.6	21.0
2	US	14.8	14.8
3	Germany	19.3	14.2
4	Other W. Europe	5.6	5.6
5	Japan	5.2	5.2
6	Belgium-Luxembourg	5.1	5.1
7	Netherlands	4.3	4.3
8	Former USSR	4.0	4.0
9	France	9.7	3.8
10	Denmark	3.0	3.5

Source: Centre for International Economic Studies 1999, Morgan Stanley Dean Witter Research

International wine companies view the US as a perfect consumer target – especially with the current currency exchange rate that favors foreign marketers. Also the low level of advertising by American wineries makes the US wine market vulnerable to persuasive foreign advertising of "high quality, low priced wines." Many of the top selling foreign wines fit this category and are exported to the US from France, Italy, Australia, Chili, and Spain.

US Wine Imports by Volume: Major Sources, 2000



Another example of growing competition is the increasing acquisition rate of American wineries by foreign owners. Since the beginning of 2000, several large foreign firms have purchased ownership in US wineries. A recent example is the Australian brewer's, Fosters, purchase of Beringer. The marketplace has become truly global, and American wineries need to make sure they maintain and increase "share of shelf" and have access to global distribution. As published in Wine Business Monthly (May 2001), the top seven foreign owners of wineries / vineyards in California are:

1. Diageo (England)
2. Foster's Brewing Group (Australia)
3. The Hess Collection (Switzerland)
4. Skalli Corporation (France)
5. Antinori (Italy)
6. Louis Vitton Moet Hennessey (France)
7. Allied Domecq (England)

Concerns and Issues with Exporting US Wine

Common misconceptions and barriers to exportinginclude the following:

A. I can't make money exporting.

It is important to recognize that you will have to make some initial investments in order to market and export your wines internationally, but the financial rewards more than often compensate for these expenditures. It is uncommon in exporting to find higher margins but many US wineries have already increased sales and profits through exporting.

B. I'm not sure how to change my labels, learn international rules and certifications, and deal with paperwork issues.

There are any helpful organizations that will assist you in dealing with international export rules, paperwork, and label changes. One of the most useful websites is WineScience.com (see listing in the back of this brochure). You may also want to contact the California Export Program for assistance or work closely with an importer or freight-forwarder that can help guide you through any paperwork and label issues.

Keep in mind that shipping wine internationally is not much more complicated than shipping wine across interstate lines in the United States.

C. How do I deal with the language and cultural barriers?

English is widely spoken by many of the buyers in key export markets. A translator may be found by directly contacting the overseas offices of the governmental and trade resources listed in the back of this brochure but is rarely necessary. Your first steps to overcoming potential cultural barriers simply involves a search on the Internet or visit to your local bookstore. Many of the aforementioned governmental organizations have also prepared various pamphlets on the *do's and don'ts* of these markets. Other good sources include local Embassies and Consulates.

D. I'm selling all my wine domestically, so why should I spend extra time, money, and stress trying to sell internationally?

This is a very valid question and the answer has to do with long-term strategic thinking. By beginning an export program now, you will be more strategically positioned for the future and will be able to ride the highs and lows of any economic shift in the US. Furthermore, we have entered an era of global marketing. In order to stay competitive you need to shift your mindset to encompass the whole world as your market, not just the US. By exporting, you increase the attraction of your business for purchase by a large global drinks conglomerate. Don't put all your eggs in one basket. Think strategically and globally NOW!

E. I'm willing to export but I don't know how to get started.

The WineVision Global Taskforce is developing export readiness and preparation workshops, networks, and mentor programs which we hope to introduce in 2002. In the meantime, you can get started by researching the websites and export agencies listed at the back of this brochure.

F. How do I find a reliable importer to work with?

One of the objectives of the California Export Program (CEP) is to assist wineries in finding an importer, agent, or marketing partner in major export markets. This assistance takes several forms:

1. Opportunities to participate in wine tastings and trade shows in all major export markets.
2. Trade visits to California where media and retailers from key countries visit wineries to familiarize themselves with our wine regions and diversity of fine wines.
3. Direct communication with CEP offices in the U.K., Canada, Europe, Japan, Taiwan, Hong Kong, China, & Singapore.
4. Importer lists with contact information. These lists are located on the CEP website (Calwinexport.com). Additionally you may wish to contact the Foreign Agricultural Service (Fas.usda.gov) and the California State Department of Agriculture (Cdfa.ca.gov).

Strategies for Exporting

The numerous concerns and issues identified above provide compelling reasons for why US wineries would want to increase their commitment to exporting. This section reviews the most important elements to focus on when commencing an export effort or when renewing and increasing your commitment to an existing export business. Essentially this involves two components:

1. developing an integrated and strategic export mindset, and
2. adopting Best Practices from wineries with export experience in order to maximize export effectiveness.

Developing an Integrated and Strategic Export Mindset

US wineries today face a fast-paced, highly competitive, global business environment. Competing successfully in such an intense environment requires world-class business practices and operations. US wineries can benefit from the hard lessons learned by US companies in other industries that have faced similar industry conditions. The experiences of other industries offer important insights for US wineries on how to avoid falling prey to international competitors and most importantly, how to thrive in both the domestic market as well as abroad.

The first critical element to focus on when increasing your commitment to exporting is the development of an integrated and strategic mindset. What this really means is moving from a haphazard, or non-integrated, export strategy to an integrated, systematic export strategy. While at first this sounds relatively straightforward, in fact, it requires a fundamental mental shift in how US wineries envision their own involvement in the global business arena. Specifically, it requires wineries to envision their core and central business as the marketing and product positioning of their wines *worldwide*. There are two important dimensions of this vision: the worldwide dimension and the marketing and product positioning dimension.

Worldwide Dimension

This dimension is fairly self-explanatory. An effective export effort requires the winery to envision its central and core market as the global, world market rather than just the domestic market. Rather than focusing on the domestic market as a central market, with the export and international markets as peripheral and separate from the central business operations, an integrated and strategic mindset envisions one central, worldwide market as the focus for the winery. This does not in any way mean that any winery will be actually operating in most countries or regional markets of the world at one time. Instead, it means that the winery views the entire set of world markets as central to its core business operations and actively engages in strategies for succeeding in these markets, equally. In its simplest form, an integrated and strategic mindset for exporting involves setting goals and intentions for attacking export markets as well as the domestic market, rather than haphazardly “selling wine” to foreign markets if there happens to be extra supply that the domestic market can not use.

Marketing and Product Positioning Dimension

The US wine industry has traditionally focused on, and succeeded in, producing a premium wine _ a high-quality product. The attention has been focused on the quality of the product itself, not on the professionalism of the product positioning. However, now that global competition has resulted in many more players entering the global wine industry as well as the consolidation of the wine industry in many respects, business and competitive factors such as pricing, marketing, product positioning, and access to distribution channels have become more important than ever before. The increase in global competition means that the critical success factor for succeeding in the wine industry has shifted from product quality to product positioning. This in turn requires a corresponding shift within US wineries from focusing on producing world-class wines to focusing on developing world-class marketing strategies.

These same competitive conditions have been experienced by other industries. For example, we are probably all too familiar with the case of VHS vs. BetaMax in the VCR industry. By all industry, product, and customer-preference standards, BetaMax was clearly the superior product and technology. However, due to the world-class marketing strategies and overall superiority of the professionalism with which VHS businesses approached their business operations, VHS’s inferior product became the world standard and the product of choice. While this one example certainly provides ample evidence that changes in one’s industry conditions and environment require aggressive response, there are many other examples that exaggerate the importance of growing an aggressive and fairly quick response to competitive changes within an industry.

Business experts in the field of Strategic Management have identified significant advantages to being an early mover and proactive competitor in any industry, and this industry is no different. In the wine industry, increasing commitment to an integrated export strategy proactively and early on can result in advantages from:

a) establishing, rather than having to react to, the taste standard;

b) establishing brand and label familiarity, which, given the distinct advantages of highly recognized and prized California regions, are guaranteed a high degree of success;

c) establishing brand loyalty, which follows directly from the previous point; and

d) establishing key distribution relationships and securing lockouts of other brands and regions.

Maximizing Effectiveness

In addition to looking to the global business environment for critical components of an effective export agenda, US wineries can draw on the valuable experience and expertise within the US wine industry. US wineries that are currently exporting offer important lessons with regard to which business and operational practices to emphasize in order to maximize export effectiveness. Important components of this experience have been collected in the interviews and questionnaire survey conducted by a team of researchers in the College of Business at San Francisco State University. This team of industry experts sent questionnaires to every winery in California and the Pacific Northwest published in the Wines and Vines Directory to tap into their export experiences, intentions, opinions and assistance needs. These wineries account for well over 95% of the wine produced and exported by all US wineries. The excellent response rate lends depth and richness to the validity of the findings of this study, which are described below.

The most important implication from the study regards the factors that influence US winery satisfaction with their export program. Two components have been identified here as significantly contributing to a positive winery evaluation of their export program.

Resource Commitment

The first component is the way in which the winery <u>commits resources</u> to their export program. Resource commitment touches on three areas: financial, personnel, and information systems.

Financial resource commitment can be broken down to include the budget a winery allocates for travel costs, attending global trade shows, developing knowledge of foreign markets through research studies, communication costs between countries and costs associated with establishing trade channels.

Resource commitment to personnel involves the supply of “man” hours allocated to the export practice, whether the same individual is in charge of exports and domestic sales, whether a specific employee is formally assigned to monitor and manage exports, and whether the accountability of winery personnel reflects a balance between domestic sales and export focus.

Finally, resource commitment to information systems includes housing databases on distributors, wines, countries, preferences, tastes, distribution channels, shipments, orders, inventory tracking systems and harvest season information. Information systems provide a central, automated, and efficient center for business practices. Information systems also provide a critical accounting advantages by tracking profit, gross profit, inventory, cost control, damaged inventory, international vs. domestic sales, and export value. Such systems enable a winery to forecast and explore the possibilities of growth _ specifically examining the impact of increases in exports.

Each of these resources outlined above are beneficial to the winery. Insufficient resource commitment is related to lower levels of export performance by US wineries. Systematic resource commitment to each of these areas, therefore, can make the difference between success and failure in a winery’s export program.

Intermediary Relationships

The second critical component was identified as <u>intermediary relationships</u>. Effective intermediary relationships have been found to be critical to high levels of export performance. In their primary export market, most exporting wineries used either an agent (54.5%) or an importer / wholesaler (40.2%). Only 5.3% went directly to retailers. Intermediary effectiveness had a significant and positive effect on the performance of export programs. The relationship between the intermediary and the winery seems to be affected by factors such as communication, quality, integrity and goodwill.

Therefore wineries looking to establish effective intermediary relationships should place great importance on:

1. the effectiveness of communication between the exporting winery and the intermediary;
2. the perception that the intermediary and supplier discharge their obligations reliably and honestly to each other; and
3. the belief that both parties will look after the interests of each other beyond contractual obligations.

Next Steps

During 2001, the WineVision Global Taskforce is focusing on achieving the objective of *"facilitating greater industry understanding and motivation for seizing opportunities in the global marketplace."* This brochure and other information resources support this objective.

In the future we will be moving forward to complete the other objectives outlined in the WineVision Plan, such as developing and implementing a US wine positioning strategy, building industry alliances with global partners, and reducing trade barriers. Some of the tools and resources to watch for in the future are:

EXPORT READINESS ASSESSMENT: A short questionnaire is being developed for wine community professionals, which assists in determining your *Export Profile.* It is based on Best Practices in exporting in the wine community. After completing the assessment, you will total your results to determine which of three (3) Export Profiles describes your company's export situation best. Based on your profile, you will then be able to identify *Next Steps* to assist you in exporting wine successfully. This assessment is intended to be used primarily for developmental purposes.

WORKSHOP: WHY EXPORT? (2 hours) An engaging and interactive workshop discussing the pros and cons of exporting. Participants complete an Action Plan that identifies exporting strategies to fit their specific situation.

WORKSHOP: HOW TO EXPORT? (4 hours) A hands-on workshop outlining the step-by-step process to begin exporting. Based on the Export Readiness Assessment, the workshop is designed for participants in Stages 1 or 2 of the Export Profile. At the end of the workshop, participants will have completed a Preliminary Export Strategy and Implementation Plan, as well as identify *Next Steps* in terms of who to contact and how to get started exporting now.

EXPORT NETWORK GROUPS (1 to 2 hours) Informal discussion groups with wine community members who are already successfully exporting. Includes brief descriptions of how they got started including pitfalls to avoid and best practice tips. This program will generally be advertised as part of ongoing wine network meetings in your community.

EXPORT MENTOR PROGRAM (time commitment varies) A program which matches Stage 1 and 2 Export Profiles with experienced exporters in an informal mentoring situation. The export mentor provides advice and support via face-to-face conversations, email, and telephone follow-up.

Sources:

Morgan Stanley Dean Witter Report, "The Global Wine Industry, Can Wine Life the Spirits," published April 23, 2001

U.S. Department of Commerce

Office International de la Vigne et du Vin

Impact, April 15 & May 1, 2001

Wine Business/Monthly, May 2001

San Francisco State University