

Czech wine-production industry and recent movement forces

Vinařství v České republice a aktuální změnotvorné síly

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Abstract: The paper focuses on identification of the current key movement forces in wine-production industry in the Czech Republic, and its goal is to analyse these key influences, and to identify the most important ones (long term industry growth-rate, technological changes, regulation influences and changes of government policy, and changes of societal priorities and life style). Based on the identified key factors influencing future development and changes in this industry, recommendations for firms are formulated.

Key words: industry, wine-production, environment, analysis, movement force

Abstrakt: Příspěvek je zaměřen na identifikaci změnotvorných sil v odvětví vinařství v ČR a jeho cílem je analyzovat tyto klíčové vlivy a identifikovat nejdůležitější z nich (dlouhodobá míra růstu odvětví, změny technologie, regulační vlivy a změny vládní politiky a změny společenských priorit a životního stylu). Na základě identifikovaných klíčových faktorů ovlivňujících budoucí vývoj a změny v odvětví jsou formulována doporučení pro firmy v tomto odvětví působící.

Klíčová slova: odvětví, vinařství, prostředí, analýza, změnotvorná síla

Czech Republic belongs to the countries with an important share of winegrowing and wine-production in the total agricultural and food production. The significance of wine-production industry is even increased by the fact, that the consumption of grape-wine has a growing tendency in the Czech Republic, and even though it overreaches the level of 14 litres per person per year (CSO), which indicates almost 20% growth in comparison with 1995, the average level of wine-consumption in the EU countries is still more than double. In the Czech Republic, there is an exceptionally high share of wine sold through super- and hyper-markets, in comparison with other wine-producing countries of the EU (according to the research of Chládková (2003), 46 % of Czech consumers mostly buy wine in this type of shops).

When estimating the future development of an industry, it is helpful to analyse (among other) also the key driving forces of that industry. This paper focuses on examining these forces for the wine-production industry in the Czech Republic and their possible development in future.

MATERIAL AND METHODS

First of all, it is necessary to define the analysed industry and its borders. This paper issues from Porter's definition of an industry (Porter 1994), and considers the

wine-production industry as an industry formed by producers of grape wine. This definition can be specified by reference to the CZ-NACE, according to which the paper deals with the following group: 159300 – *Grape wine production*.

The analytical part of the paper is based on the concept presented by Thompson and Strickland (Thompson, Strickland 1989) and identifies key driving forces in the above-mentioned industry including an estimation of their impact on this industry. The basic types of analysed driving forces are:

- Changes in the long-term industry growth rate;
- Process innovation;
- Diffusion of proprietary knowledge;
- Changes in cost and efficiency;
- Product innovation;
- Marketing innovation;
- Changes in who buys the product and how they use it;
- Changing societal priorities and lifestyles;
- Buyer preferences for a differentiated product;
- Entry/exit of major firms;
- Regulatory influences and government policy changes;
- Uncertainty and business risk.

This model can be extended regarding the development of environment (Sedláčková 2000) by one more driving force of growing importance, which is

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– Globalisation.

Identified factors in the above-mentioned areas are examined also with regard to their period of influence, and the possible implications on actions and strategies of wine-producers are discussed. Based on this analysis, the most important determinants of the future development are identified which should show managers the most important influences on their firms and assist them in being prepared for their impacts.

RESULTS

The nature of wine-production and situation of this industry in the Czech Republic clearly show, that trying to identify significant factors in wine-production, we have to consider also the situation of winegrowing industry (due to the high level of vertical interconnection of these industries). With respect to this, the above-mentioned driving forces can be described in the following way (the most important ones are bannered in bold):

Long-term industry growth rate – the influence of this force in winegrowing is determined by the Common Agricultural Policy of the EU, which conserves the actual area of vineyards and forbids new planting (i.e. planting new vineyards without their previous stumping) – till 2010. Wine-producers can issue from the fact that the consumption of wine in the Czech Republic is continuously growing – according to the data of the Ministry of Agriculture, the consumption grew by more than 83% in 2003 in comparison with 1993 (see Figure 1), where the wine-consumption per inhabitant grew at the same time by approximately 1 litre (CSO 2003) to reach the current 16.3 litres per person per year (including fruit wines). The average consumption of wine in the EU countries is, nevertheless, double (according to the data of the Ministry of Agriculture, the average con-

sumption of wine in the EU countries amounts to approximately 35 litres). Owing to this development, we can expect further growth in the domestic market (see the trend outlined in Figure 1). One of the main growth opportunities for Czech wine-producers seems to be the female segment, where according to the research of Chládková (2003) 44% of women say that they drink wine just once in half a year (18%) or even less frequently – whereas this category in the male segment amounts only for 19%.

Process innovation – the winegrowing industry is (similarly as other primary-production industries) characteristic by a high share of labour, which means that it is not as dependent on technologies as e.g. processing industries. Especially in the case of small growers, there are frequently used contracts on mechanized operations (cultivation, chemical protection, etc.), and for example for an effective use of semi-mounted grape-harvesters, the break-even area is considered to be in the range of 40–50 hectares of vineyards. Such use of new more efficient technologies can significantly contribute to cost cutting. Wine-production technologies also went through a radical transition in the Czech Republic. These changes especially concern the transfer to controlled fermentation. The level and effectiveness of use of these new technologies seem to be an important movement force, which will influence the total results of winegrowing and wine-production subjects also in future.

– *Diffusion of proprietary knowledge* – owing to the fact, that there is almost no use of patent-protected technologies and none of the industries belong to the so-called “hi-tech” industries, this factor does not play an important role in these industries.

– *Changes in cost and efficiency* – economic conditions in the winegrowing industry (see Figure 2) put a high pressure on grape growers towards increasing the efficiency and intensifying the production. Wine-produc-

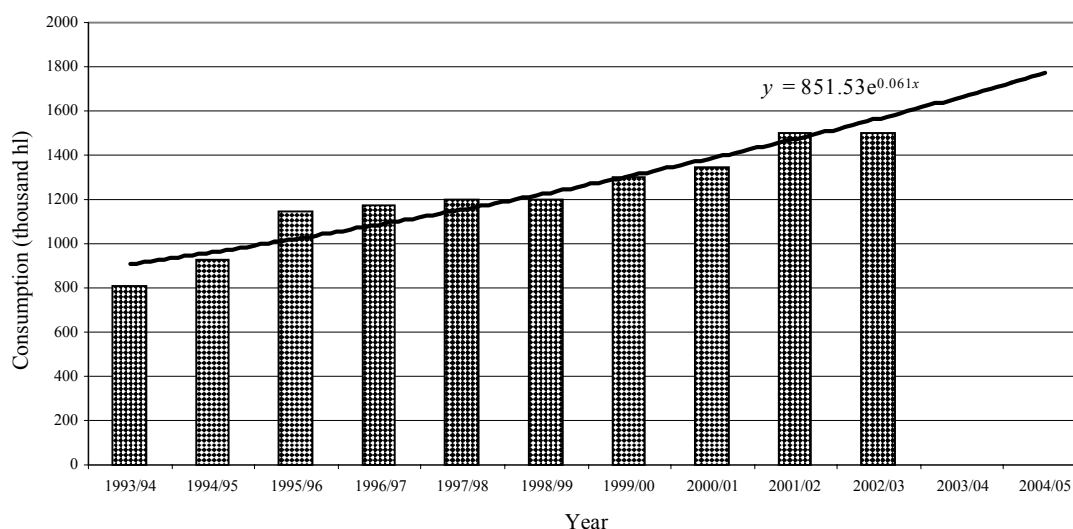


Figure 1. Development of wine-consumption in the CR in 1993–2003 (thousand hl)

Source: Ministry of Agriculture of the Czech Republic

tion shows a higher profit potential so far (see Figure 3), but it is threatened (just as winegrowing) by the low-price grapes and wines imports, especially from the Balkan countries and Spain. Therefore, this factor is growing in importance and becomes one of the decisive keys to reaching profits.

– *Product innovation* – there is a relatively very limited space for product innovation in winegrowing and wine-production; it is basically defined in the “wine-law” (Act No. 115/1995, about winegrowing and wine-production), it is a long-term issue, and in case of wine-production, it is very dependent on the quality of the input material. One of the main sources of innovations is especially in the “wine specialties”, which namely come from the le-gislature – selection of grapes, straw wine, ice wine, etc. There can be also ranked the at-

tempts of some firms to promote so called “territorial wines” accenting the producer’s brand, under this field, but these wines belong to a lower quality level of so-called label wines.

– *Marketing innovation* – this field is partly connected with the above-mentioned introduction of territorial wines and brand promotion. Among the standard marketing tools, there can be ranked for example wine tasting during vintage, presentations, receptions, etc. Advertisements in mass media (television, radio) are used very rarely in wine promotion, and when they are used, they mostly focus on invitations to certain social events (vintage, regional feasts, etc.). Most of the firms invest into regional advertisements (in connection with the local folk and historical traditions) or into its exports promotion.

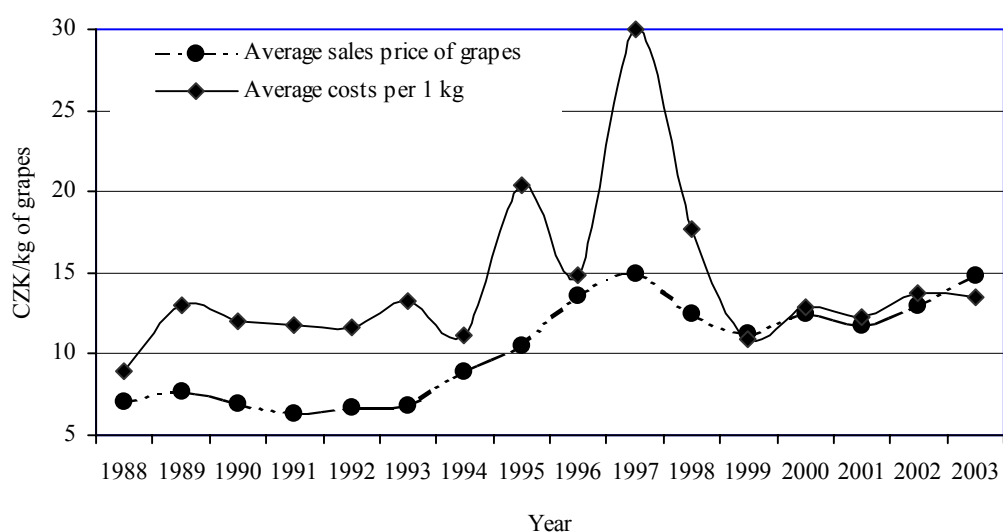


Figure 2. Prices and costs of grapes in the CR in 1989–2000

Source: ČMVVU

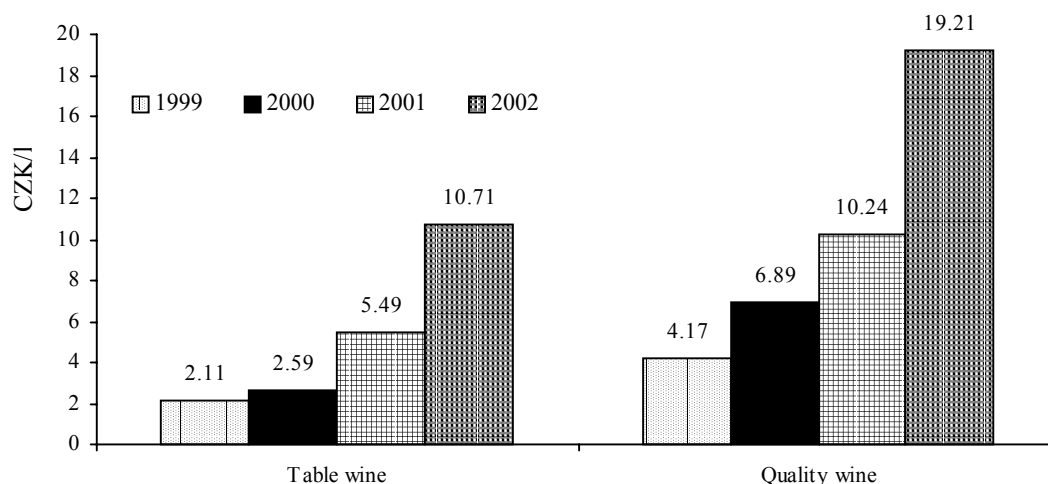


Figure 3. Average profitability of wine-production (grapes produced in the CR)

Note: Table wine in CZK/l, quality wine in CZK/0.75 l

Source: Ministry of Agriculture of the Czech Republic

- *Changes in who buys the product and how they use it* – recently, there are apparent significant changes in the part focusing on societal priorities and lifestyle (and resulting also from the legislature). As for the character of customers (who buy the product), certain orientation in the field of types and qualitative categories of wine becomes an important part of education, which is also connected with a membership in certain social group. Wine becomes a “cultural” drink, which often replaces beer as a drink connected with meal, which is a very important change in the Czech Republic.
- **Changing societal priorities and lifestyles** – change of the lifestyle is significantly projected into the above-mentioned growth of consumption in the domestic market, which continues since 1990, and it is expected to continue also in the near future. The most important changes in consumer habits are based on more emphasis placed on a healthy lifestyle focusing on healthy nutrition, in which wine replaces spirits and beer. A shift of perception of wine-quality is connected with the new categories of wine included in the “wine-law”. All of these are gradual changes showing results in long-term trends and demanding attention of all potentially influenced subjects.
- *Buyer preferences for a differentiated product* – as it was already mentioned, differentiation on the general level is perceived mostly in the way of building a brand and the effort to assure customer loyalty, but this force does not have a high significance, so far.
- *Entry/exit of major firms* – in this context, we can mostly mention capital entries into the already existing firms – mostly entries of foreign investors. This process, though, does not recently belong among the main movement forces, because market leaders already have a clarified ownership structure, but we can expect its significant growth connected with the development of the open wine-market of the Czech Republic within the EU.
- **Regulatory influences and government policy changes** – legislative rules related to the commodities grapevine and wine can be divided into two groups: basic laws (laws on winegrowing and wine-production, government directions about the way and conditions of providing subsidies on vineyard planting, renovation, and promotion of wine-sales, and other decrees of the Ministry of Agriculture of the Czech Republic), and incidental directives (other supplementary laws and implementary regulations). Among the basic laws, there has to be ranked also the new act on winegrowing and wine-production, which was approved in April 2004 and started to be in operation at the time of entrance of the Czech Republic into the European Union. The act only deals with the specifics of the Czech Republic, because the EU directions are directly valid in the member countries. The new act defines especially the basic terms in the field of winegrowing and wine-production. For the firms operating in wine-production, it becomes a basic source for categorisation of particular wines and their series. This act also conditions the way of labelling

wines and specifies sanctions for not keeping or violating the directions included in the act. The main change for Czech winegrowers and wine-producers is the stop-status of the area of vineyards, which should be valid till the year 2010.

- *Uncertainty and business risk* – from the point of view of the life cycle of the examined industry, we can say that it is in the growth stage and the risk is connected mainly with a possible failure in the free competition, and not achieving a sufficiently strong position for the future change from growth to stabilisation. Owing to the fact that this industry is expected to continue in the growth (as it was already mentioned), the risk from this point of view should not be too significant for the current competitors.
- *Globalisation* – a force, which gains in importance. Its influence has already showed up in the technological field and it will be interesting to follow the results of application of foreign managerial experience in the firms partly or totally owned by foreign owners, and cancellation of market barriers connected with Czech integration into the EU.

The most important movement forces in the current environment of winegrowing and wine-production in the Czech Republic are long-term industry growth rate, technological changes, regulatory influences and changes of the government policy, and changes of societal priorities and lifestyle. These forces are clearly interconnected, and their consideration in particular business strategies (trying to take advantage of their opportunity-aspects, and to avoid the negative influence of their threat-aspects) will be one of the key external success factors in the future.

Due to the long-term growth-tendency of wine consumption, firms are able to keep their sales volumes, even without voluminous expenses in marketing. But sole keeping the sales volume in the market, which grows, means in fact a loss of market share. Therefore, it is necessary to use marketing tools in order to achieve a sales growth of the same level as the growth of the whole industry. After the prospective change of growth into stagnation, but also in the open European market with wine, much higher intensity of rivalry can be expected, with a success of only those, who have built a strong position in the past and are sufficiently protected against the competitive attacks.

DISCUSSION AND CONCLUSION

Identification of the key movement forces within an industry can help firms in creation of their plans and strategies for future. It is necessary to know and estimate the future development of the key influences, and to formulate the future strategies so that they are in accordance with the environment they should be applied in. The goal of this paper was to analyse these key influences in the wine-production industry and to identify the most impor-

tant ones, which are the long-term industry growth rate, technological changes, regulation influences and changes of government policy, and changes of societal priorities and life style. At this point, though, the analysis of the key movement forces in an industry should not be the only tool used by managers. There exist a number of other tools, which can be used instead (e.g. the Porter's model of five forces – Porter 1994) or as a supplement (e.g. elaboration of the industry attractiveness evaluation matrix, 4C model, etc.) to this method, whereas all these analyses have a common goal – to help strategists in identification of the current position of their firm and to facilitate the future development opportunities, limits, and threats. The results acquired using these analytical tools (published by e.g. Tomšík 2003; Černíková and Škorpíková 2003; Chládková and Černíková 2003) can serve as very important inputs for the following stage of the strategy-formulation process (formulation of strategic alternatives), and also help in selection of optimum strategies leading a firm to reach its corporate goals and to overcome the existing strategic gap.

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