Multi-variable analyses of marketing by wine producers

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Summary findings, conclusions, recommendations

The following conclusions are clear from the evaluation:

• Being aware of the challenges facing national wine producing enterprises we can state that none of the answers are universally valid for all the enterprises as this field is far too heterogeneous.

• It is appropriate to deal separately with the three typical categories of wine producing enterprises whose current positions, market behaviours, and perspectives are extremely different and thus their strategies may also differ.

• The situation for medium-sized enterprises seems to be critical, since they are too big to exploit marketing channels used by small enterprises (which channels seem likely to survive), but too small to appear in large supermarket chains where large scale enterprises are usually represented. The uncertainty of the wholesale and retail trade as well as their underdeveloped networks would pose too great a risk for them, consequently holding these enterprises back from the developments necessary for expansion.

• The situation is not too promising for small enterprises, since an increase in their production would not offer them a more favourable position while changes in consumer demand and preferences make classical marketing channels (sales directly to taverns and consumers) uncertain.

As a consequence, cooperation of a different depth, content and form is suggested for small and medium-sized enterprises, in which flexibility deriving from their small scale may be combined with the advantages of network functions (co-ordinated appearance in the market, technological developments, innovations, procurements, etc.). For the development of network co-operation, governmental assistance (national, regional and local) is inevitable, primarily in providing favourable initial conditions.

Examinational objectives

Changes in the world market price of wine products have accelerated in the last decade

• the world market for wine has widened;

• overproduction is becoming more perceptible;

• market regulations of the EU is becoming stricter;

• consumer practices are changing (e.g. turning towards quality brand wines, red wines, and new producers);

• the influence of commercial chains has increased;

• competition between traditional and new wine producers is becoming keener;

• the role of brands and marketing is getting more and more determinant in competitiveness;

• the volume (and value) of wine export is growing (today it has exceeded 20% of production), although the importance of the northern hemisphere (classical importers) is decreasing whereas the rates of southern states are increasing;

• viticultural technologies are in an accelerated progress (production of quality wine has come into the foreground);

• the importance of the grape varieties has also increased;

• sales channels differ from country to country, although the share of big chain stores is increasing everywhere.

There is an overwhelming choice of new world wine products in our most important export markets. Prices are decreasing; our market opportunities are getting ever tighter and in this situation local wine producers (and also others concerned in the sector) are facing hard decisions: whether or not they should enter into competition with the new competitors or be content with the remaining segments? Although Hungarian wine making traditionally secures a place in the forefront of the world market, still it can only respond to the aforementioned challenges through radical changes. As a consequence of our EU membership – and because of the appearance of the large multinationals long before Hungary's accession – we can observe the same challenges in the domestic wine market, thus it is important to know how and in what situation our wine producers have to face these challenges.

In order to analyse wine producers' experiences and efforts connected to sale, I carried out primary, questionnaire based research in the spring of 2004, in search of answers for the following questions:

• What are the significant marketing channels in wine sale and how important are they?

• How typical is the application of agents?

• What varieties are in demand?

• How is the marketability of wines judged? Is increased production considered?

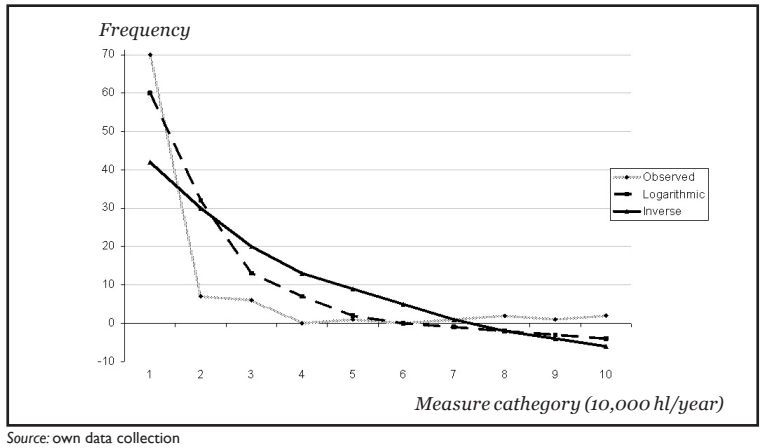
• Are there any difficulties in selling the wines, and if there are, what are the most noticeable problems?

In addition to these questions the questionnaire enquired about the most important production characteristics of the companies, since sales volume, geographical position, the number of employees, and the mode of operation may also influence experiences, efforts and the evaluation in general.

97 wine producers were involved in the survey by random sample and we were able to evaluate 90 questionnaires. Despite the fact that there was no possibility to set up a representative model for a variety of reasons – and this is clearly reflected in the fact that of the 22 domestic wine regions the ones close to Gyöngyös are overrepresented – still distribution according to the plant sizes is close to what is typical in the whole sector, that is, small and medium enterprises are dominant, while as the size of the enterprises increase their frequency gradually decreases (Figure 1, 2).

Figure 1

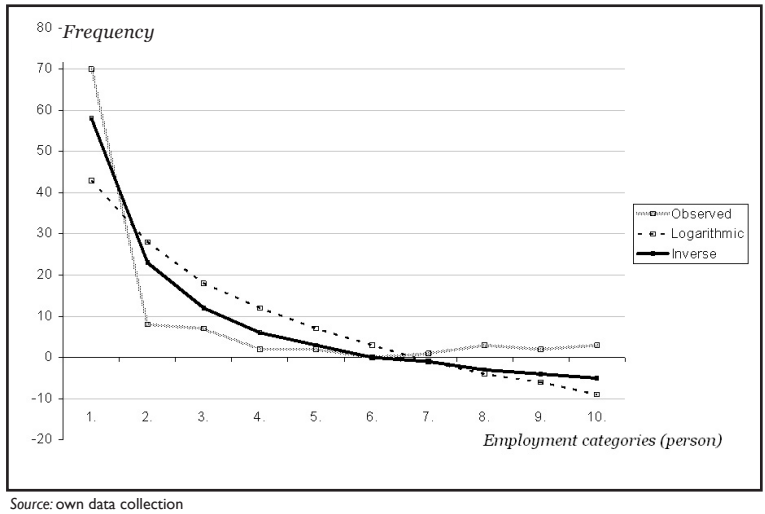
Frequency distribution of wine producers according to size



Source: own data collection

Figure 2

Development of the numbers employed in wine production



Source: own data collection

Sales volume (hl/year) and the number of employees (person), which reflect the same distribution and hold true for the whole industry, are important features of size of the enterprise. On this basis, my conclusions can be extended – although with due foresight – to the whole sector (nevertheless it should be emphasised that it is not valid to individual wine regions!). At the same time, the sales volume of the 90 examined wine producers is 908,950 hl/year, which is approximately 20% of the annual national wine production.

The questionnaires were processed on PC with the help of a statistical software package (SPSS-11.0), and of the received

results I would like to show only the simple statistical features (frequency distribution) and the result of the cluster-analysis.

Conclusions

As a rule when the frequency distribution of a model is unusual, nothing can be done professionally with the simple statistical means calculated from the features of the model's individual units. They are professionally uninterpretable, or what is worse, they suggest false conclusions. In this case, the average sales volume of the wine producing enterprises would be 10,546 hl/year, but as it is shown in diagram 1, there is a quite heterogeneous field behind it and this average does not tell us anything about the represented majority (76%) of much smaller sales volume (or about the few huge plants selling 70,000 hl/year).

It is more expedient to use cluster-analysis which enables us to divide the field into the most characteristical (the most homogeneous) groups (or clusters) possible and to examine the development of the average characteristics within the clusters. Since every quantitative characteristics can be included in cluster-analysis, this division could be examined not only according to plant size, but also according to every other characteristics. On the basis of numerous experiments, the three cluster system seems to be the most acceptable to divide wine producing enterprises appropriately (Table 1). In this case, the multitude getting to the given clusters are sufficient in number (Table 2), and at the same time differences between the clusters are of significant dimensions (or at least at the majority of the indexes).

Table 1

Cluster characteristics

Variables	Clusters		
	1	2	3
Since when have they been producing wine (year)	1,985.38	1,983.08	1,973.50
Annual average sale (red wine) (hl)	390.85	6,461.54	21,236.67
Annual average sale (white w.) (hl)	1,002.82	17,230.77	62,430.00
Sells directly to the consumer (%)	27.01	9.77	2.33
Sells to taverns (%)	23.52	8.85	0.83
Sells to restaurants (%)	3.70	1.77	4.00
Sells to wholesalers (%)	34.48	45.38	35.83
Sells to retailers (%)	5.59	17.31	1.17
Sells to network (%)	4.03	6.92	11.17
Sells to multinational corp. (%)	1.46	1.54	44.67
Employs coordinators (1-yes, 2-no)	1.85	1.46	1.17
Employs agents (1-yes, 2-no)	1.87	1.62	1.17
Rate of personal use (%)	4.07	1.94	0.37
Easily saleable (%)	81.83	57.31	82.50
Plans to increase production	1.49	1.46	1.58
Annual total sale of the winery (hl)	1,393.66	2,3692.31	83,666.67
Number of employees (person)	2.62	13.00	55.67
Type of business (1-private, 2-partnership)	1.41	1.92	2.00
Age of answerer (year)	3.15	2.77	3.17

Source: own data collection

Table 2

Distribution of wine producers among the clusters

Cluster	Number of wine producers
1st cluster	71
2nd cluster	13
3rd cluster	6
Total	90

Source: own data collection

The typical groups of wine producing enterprises according to cluster-analysis can be characterized as the following:

• 1st cluster: the groups of classical small enterprises. 78.8% of the enterprises included in the model belong here. They have been in operation for an average of 19-20 years and sell approximately 14,000 hl/year. Most of them are private enterprises with 2-3 employees and an owner of middle age. Their typical fields of sale are wholesalers (34.5%), direct consumers (27%) and taverns (23.5%). They employ coordinators and agents as well. The personal consumption rate is the highest among them (4.1%). 81.8% of their production can be sold without difficulties.

• 2nd cluster: middle size enterprises (14.5% of the model). Their average sale is 17 times higher than that of the small enterprises (23,700 hl/year).

They primarily sell to wholesalers (45.5%) and retailers (17.3%). They do not depend much on the work of coordinators and agents. They have an average of 13 employees and they function as companies led by relatively young entrepreneurs. They have huge problems with sale: in this category approximately only 57.3% of their produce can be sold without difficulties.

• 3rd cluster: large enterprises (6.7% of the model). Their average sales volume (83,700 hl/year) is 3.5 times more than that of the medium-size enterprises.

They sell mostly to multinational corporations (44.7%) and wholesalers (35.83%), other target groups are untypical, nor do they employ agents or coordinators. They work with an average of 55-56 employees, exclusively in partnerships and these are the enterprises with the longest presence in the market (since 1973 averagely). They have no basic problems with sale (82.5%).

Besides the individual characteristics of the clusters, it is also informative to examine their similarities, features that show no differences:

• Generally in all the clusters the rate of red wine compared to total sale is 1/3, which is (34-39%), and the national ratio is also close to this (approximately 30%)

• In all of the clusters, the rate of sale to restaurants (1.8-4.0%) and personal consumption (0.4-4.1%) is quite low

• Every cluster hold an uncertain view on the possibilities of further increase in sale (1.46-1.58 average in a scale where 1= yes 2 = no)

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