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Need for change? Analysis of the marketing strategy in a Hungarian wine manufacturing company

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Abstract

Our paper deals with the present questions of the marketing strategy of a Hungarian wine manufacturing company. Due to the changes of the company’s market position a question has been arisen about the need for changing the former marketing policy.

In our research, we analyzed the present marketing activities of the company based on literature sources and the databases provided by the company. We explored how the elements of the marketing mix appear in this winery, which marketing tools are used during its operation and how they use the modern – nowadays very popular and widely used – marketing tools such as online marketing and wine tourism. The efficiency of the used marketing tools and distribution channels were analyzed and assessed through primary data, i.e. by the results of our own questionnaire survey.

Based on the results of our research we formulated our conclusions and suggestions for a possible new marketing strategy.

Keywords: wine marketing, market analysis, Hungarian wine sector, marketing strategy

1. Introduction

In our study, we analyzed the market position and the marketing activities of a Hungarian wine manufacturing company. The actuality of the topic was given by the recent changes of the company’s operation and economic results. Due to the changes of the wine market trends and the economic crisis, the company should implement new, strategic changes in the past few years and reconsider the previous strategic efforts.

The main markets of the examined wine company are foreign markets; the most important traditional market is in the United Kingdom. The wines of the company are less known and less popular in the domestic market, although the company is one of the largest wine producers of Hungary. The marketing strategy, the marketing activities and the market position of the company are significantly different in the domestic and the foreign markets. In our research, we focused only on the domestic market and we made attempts to explore the opportunities for improving the company’s position in the domestic market and the possible ways of development.

The aim of our survey was to explore the most and least efficient areas of the company’s marketing strategy and to recognize the undetected market opportunities. The analysis was carried out based on the results of our survey, using descriptive statistical and mathematical statistical methods.

Based on the results of our research we formulated our conclusions and suggestions for a possible new marketing strategy. In the future, we would like to continue the research using our present results.

2. Literature review

The Hungarian an international literature sources in connection with wine, wine market and wine consumption is very wide. In our literature review, we would like to focus on the specialties of Hungarian wine, the Hungarian wine consumers and the recent changes and the tendencies of the domestic and international wine markets.

2.1. Short introduction of Hungarian wine and wine regions

Based on their color and the wine making methods we can differentiate white, red and rosé wines, while in Hungary and Germany the so-called ‘siller’ wines are also known, which wine has a color between rosé and red wines and originally it was made from a mixture of red and white grapes. (Gerencsér, 2008)

The differentiation of wines according to quality, sugar content and alcohol content is summarized in Table 1. (Török and Aranyossy, 1995)

Table 1: Types of wines according to quality, sugar content and alcohol content

<table>
<thead>
<tr>
<th>Quality</th>
<th>Sugar content</th>
<th>Alcohol content</th>
</tr>
</thead>
<tbody>
<tr>
<td>table wines</td>
<td></td>
<td>very low alcohol content (9-13 v/v%)</td>
</tr>
<tr>
<td>quality wines</td>
<td>sweet wines</td>
<td>moderate alcohol content (10-13 v/v%)</td>
</tr>
<tr>
<td>extra quality wines</td>
<td>dry wines</td>
<td>high alcohol content (above 13 v/v%)</td>
</tr>
</tbody>
</table>

Source: by authors based on Török and Aranyossy, 1995

The geographical and climatic features of Hungary are favorable for wine grape production, and our country has long-term traditions in wine-growing and winemaking industry. The history of winemaking in Hungary dates back to the Roman times. In the next centuries the Italian and French influence increased, while later, in the Habsburg era, a strong German influence was felt by introducing typical German grape varieties. In 1882, the phylloxera epidemic hit Hungary strongly and the traditional grapes should be
replaced with new varieties. The climatic and natural conditions of the country are more favorable for producing white wines, which have a special taste and aroma. The wine production is widespread all over the country, different varieties and types are grown in hilly areas and at plains as well. (Török and Aranyossy, 1995)

The ownership and production structure of the Hungarian wine-growing sector has undergone a complete change after the 1990s due to the privatization and compensation process. As a result of this process, a fragmented wine-grape production structure has developed. (Lakner and Hajdu, 2002)

After the political and economic transition, the former Soviet and East-German markets, which were built on the need for mass production, has collapsed, and the producers had to face many problems. Winemaking companies recognized that the quality needs of the potential Western-European market could not be satisfied by the used varieties and technology. For the reconstructing and modernization of the sector, the governments raised several supporting funds, which could be used for investments and even for interest subsidies of credit loans. By the help of these supports, the grubbing up of old plantations has started in the new, privatized lands. The winemaking technology also improved significantly after the transition period, investments focused on the improvement of storage capacities, winemaking facilities and bottling capacities. The installed winemaking systems and new technologies were in compliance of the quality standards and safety requirements. (Sidlovits and Kator, 2007)

According to the official EU vineyard census in 2009, the area of Hungarian vineyards was 82,479 hectares. In the 1980s, this was about 160,000 hectares, until 2001 it decreased to nearly 91,000 ha. In 2004, the year of accession, the total size of the vineyard area was 93,217 ha and until 2011, it decreased to 72,324 hectares of land. This tendency is strongly influenced by the EU regulations, for example, new plantings were prohibited until the end of 2015, and only replanting is allowed. (EC, 2008)

According to variety types, 66% of all grapes are white wine, 30% is red wine and 4% is other grapes. (KSH, 2010) and by canopy management techniques, 59% of the Hungarian vineyards use different cordon training system, 30% is head pruned and 11% of the area is managed by other types of system. (GAIN Report, 2013)

By the data of the National Council of Wine Communities Hungary’s grape production was 28,000 tons in 2012. The total area of vineyards is situated in the 22 wine regions, which official list is defined by a ministerial decree. Roughly 90% of the total area are owned by wine communities, while the area of vineyards which is not under the wine community system is about 7,000 hectares (Gaál and Párdányi, 2006). Each wine community covers a vineyard area of a minimum of 50 hectares. The main body of this system is the National Council of Wine Communities (the Hungarian abbreviation is HNT). Wine communities perform the legal activities (e.g. providing statistical data) and they protect and represent the members’ interests. (www.hnt.hu)

2.2. Wine consumers

The successful operation of winemaking companies is highly determined by number of wine consumers and their satisfaction. Numerous surveys and literature sources analyzed the wine consumption habits of the different groups, which results shall be used during the implementation of strategic planning processes of the enterprises.

Durrieu and Hofmeister-Toth (2008) examined the market orientation of French and Hungarian wineries through a wide international survey. They findings strengthened that for being competitive, winemaking companies shall seek information about their customers’ current and future needs, their competitors’ current strengths, weaknesses and long-term strategies and they shall take actions based on the relevant information. The authors underlined that actions shall be taken for sharing customer and competitor information internally, i.e. the importance of intra-firm communication.

Hungarian authors (Botos and Hajdu, 2004), based on the results of their survey, which was conducted in Hungary, determined the following six groups of Hungarian wine consumers: consumers of high quality wines, highly educated wine consumers, elite consumers, young consumers, consumers of rural areas and consumers of pubs and liquor stores.

Consumers of high quality wines are those consumers who buy only bottled, high quality wine, and they drink it clearly, without any added materials. In this group 75% of the consumers are regular wine consumers, the share of women is slightly higher, the share of secondary and higher educated people is very high. Most of the members of this group live in towns or the capital, young and middle aged, and they drink wine mainly with family and friends and at celebrations. They consider wine as a drink which is closely connected to traditions and culture and gives a gastronomic satisfaction. They prefer quality wines and they do not reject new products, new tastes, and special products either.

In the group of highly educated consumers, one can find people with secondary and high educational level, with a greatest share of white-collar workers in high positions. Most of the consumers of this group live in towns. The most preferred wine is semi-sweet. They make their choice based on the wine type, variety and the region of origin. They consider wine as a drink which is closely connected to traditions and culture and gives a gastronomic satisfaction, but wine consumption is considered as a tool of building relations as well.

There is an overlap between the elite consumers and highly educated consumers, as in the elite group many highly educated white-collar workers are grouped with high positions. They prefer dry, bottled, quality wines, but they prefer traditional brands and they consider wine as a very important tool of relation building, representation and they highlight cultural and gastronomic role of wine.

The members of young wine consumers are of the age between 15-29 years, they are mostly women with secondary level of education, with a greatest share of white-collar workers in high positions. They prefer quality wines and they do not reject new products, new tastes, and special products either.

Consumers of rural areas prefer table wines; their motivation for consumption is based mostly on family traditions. They do not consider the gastronomic value of wine, they consider that wine is a drink which is closely connected to traditions and culture and gives a gastronomic satisfaction, but wine consumption is considered as a tool of building relations as well.

There is an overlap between rural consumers and poor consumers. They prefer sweet and red wines. They drink wine because of its alcohol content, and for its group cohesion effect. They also prefer new products.

Consumers of pubs and liquor stores are mostly men with basic educational level or skilled workers in the 15-29 and 40-59 years old age groups. They prefer dry, bottled, quality wines, but they prefer traditional brands and they consider wine as a very important tool of relation building, representation and they highlight cultural and gastronomic role of wine.

The members of young wine consumers are of the age between 15-29 years, they are mostly women with secondary level of education. They rarely consume wine, only at special occasions. They prefer sweet and red wines. They drink wine because of its alcohol content, and for its group cohesion effect. They also prefer new products.

Consumers of rural areas prefer table wines; their motivation for consumption is based mostly on family traditions. They do not consider the gastronomic value of wine, for them wine is a tool for conversations.

Consumers of pubs and liquor stores are mostly men with basic educational level or skilled workers in the 15-29 and 40-59 years old age groups. They are basically considering wine consumption as a social event, but the share of lonely consumers is relatively high. They drink a higher amount of wine and more often than the average. They prefer white dry wines and they do not consider the quality of wine. Their main motivations are family tradition, relief from stress and thirst. The wine is a tool for keeping relations, enjoyment and entertainment. They are regular consumers of pub, liquor stores, or they buy wine directly from producers, non-stop shops and shops at fuel stations. (Botos and Hajdu, 2004)
2.3. Tendencies of the wine market

When analyzing the global wine market, we can recognize the new trends resulting from the globalizing world. The world market tendencies of wine seem to be changing in our time; the former leading European wine-growing countries have lost their former role in the world market share both in their production and consuming results. Nowadays, the threat of the New World wines strongly determines the competitiveness of the European wine-growing countries. (Storcz and Illés, 2014)

Globalization has also appeared in the winemaking sector. Nowadays, the threat of the New World wines strongly determines the competitiveness of the European wine-growing countries. The most prominent and productive New World wine-growing countries are the United States (California in particular), South America (Chile, Brazil and Argentina), Australia, New Zealand and South Africa. As a result of growing globalization, the EU wine market has entered into increasingly sharp competition. The market share of the New World wines is increasing; their products' popularity is growing, these wines are well accepted by the consumers. (Lazányi, 2008) A common feature of the new winemaking countries is that they produce world wine varieties under favorable geographic and climatic conditions; they use high-tech technologies, they have highly educated professionals, and they have cheap labor force. It means that they can produce efficiently and they can sell their products at a very reasonable price. They can harvest 3 times in two years, and they have the opportunity for irrigation. (Dunay and Storcz, 2014)

3. Methodology and Data

In our research, the first step was to introduce the examined company, then we analyzed the production data and the marketing strategy of the firm. We collected the main descriptive data about the company's history, the changes in the production and the market share, and we also analyzed the marketing policy of the company.

As the second step, we conducted a questionnaire survey among the Hungarian wine consumers of the examined winemaking company. Our sample covered the present consumers of the products of the company, the respondents were chosen from the followers of the social media site of the company and the members of the mailing lists.

In this paper, we focus on the results which were calculated basically by descriptive statistic methods for the analysis of the behavior and the opinion of the consumers.

4. Results

In this chapter, we summarize the main results of our research. Firstly, we give a short introduction of the company, secondly, we introduce the main features of the present marketing policy of the winery and finally, we summarize the results of our survey that was conducted among wine consumers.

4.1. Introduction of the examined company

The predecessor of the examined company was established in December of 1990, as a private limited company. In 1995, the enterprise form was changed, the company was transformed and since then it has been operated as a joint stock company. Its subscribed capital is 164 million HUF (approx. 565,517 EUR). The owners of the enterprise are four individuals and a Hungarian limited company. (Illés and Storcz, 2014)

The company is one of the largest winemaking companies in Hungary, its main area of the company is situated in the Northern part of the Central Transdanubia region with a gross area of 657 hectares from which 630 hectares is for producing wine grapes and 27 hectares is for producing walnuts. The company has four wine-growing areas, which are situated in different sites. Three of the four production areas are relatively close to the headquarters of the company, which is situated in the Northern Transdanubia region. The fourth production area is in the Southern Transdanubia region of Hungary with 120 hectares. The total amount of the company's grape production is between 4,000 and 5,000 tons per year.

The first outstanding success of the company was in 1998, at the Wine Challenge, one of the world's largest wine competitions, when the company's "Cserszegi Fűszeres" won the "White Wine of the Year" award. "Gerszegi" was launched under the name 'Woodcutter's White' outside Hungary, as English-speaking customers simply cannot pronounce the Hungarian name.

The most important market of the company's wines is the United Kingdom, which represents 75% of the sales, but in the recent years, the domestic market has been improved and shows an increasing tendency.

4.2. Market position and marketing mix of the company

According to the company's own analysis, the greatest share of their revenues is generated at international markets, while their domestic market share is low, at about 3%. A strategic goal of the company is to strengthen the market position and the brand name at the domestic market. According to the company's calculations, the Hungarian wine market is stagnant. The market may be segmented according to the type and the price of wines. Red wines represent 57% of the market, white wines only 33%, while rosé represents 9.5%. The market position of the company is the strongest in the segment of white wines.

The products of the company are grouped into four main brands: Hilltop, Premium, Art and Bag in Box. Table 2 summarizes the proportion of the different brands in quantity and sales.

<table>
<thead>
<tr>
<th>Product brands</th>
<th>May 2014 Quantity (%)</th>
<th>Sales (%)</th>
<th>May 2013 Quantity (%)</th>
<th>Sales (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilltop</td>
<td>69%</td>
<td>74%</td>
<td>68%</td>
<td>72%</td>
</tr>
<tr>
<td>Premium</td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Art</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Bag in Box 3 l</td>
<td>17%</td>
<td>15%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Bag in Box 10 l</td>
<td>12%</td>
<td>8%</td>
<td>17%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: by authors based on company data

"Hilltop" brand represents the traditional Hungarian and international wines and cuvées. The "Premium" brand is for the highest quality wines and specialties. These wines are considered as the company's flagship products. The "Art" brand have special names, they represent the special wines, which may be produced in special time, or
under special conditions. The "Bag in Box" brand is a special brand with a new package, when wine box is used as package.

The price of the brands is depending on quality and packaging. The Hilltop brand is in the medium price category, Premium represent higher prices, Art products have the highest price which is moving at a wider scale. The practical Bag in Box brand is sold at a very favorable price.

The distribution channels of the company are shown on Table 3.

<table>
<thead>
<tr>
<th>Distribution channel</th>
<th>Proportion (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypermarkets</td>
<td>31,0</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>4,1</td>
</tr>
<tr>
<td>Discount stores</td>
<td>21,6</td>
</tr>
<tr>
<td>HORECA</td>
<td>10,4</td>
</tr>
<tr>
<td>Retailers</td>
<td>15,2</td>
</tr>
<tr>
<td>Wine shops</td>
<td>6,5</td>
</tr>
<tr>
<td>Other (e.g. direct sales)</td>
<td>11,2</td>
</tr>
</tbody>
</table>

Source: by authors based on company data

Promotion activities of the examined are characterized by a low budget promotion, which focuses on the image of the company, which is closely connected to the well-known name of the chief winemaker. The communication suggests the mix of classical style, traditions and new trends.

4.3. Questionnaire survey

The questionnaire was submitted to the mailing list members and to the followers of the social media site of the company; it was filled in by 261 persons. In this stage of our research we concentrated only on the present consumers of the company’s products, because we wished to check their satisfaction, and through this, the appropriateness of the present marketing policy.

The questionnaire contained twenty questions, concentrating on the consumers’ wine consuming habits, their knowledge about the company and its products, their preferences, their information about the company, and of course, it included personal questions such as the gender, the age, the educational level and the financial background and the living place of the respondents.

According to the answers, 44,3% of the respondents are male and 55,7% is female. The highest proportion of the respondents are in the age group of 25-44 years old (29,5% represent both the 25-34 and 35-44 years old groups). The share of 55-70 years old group is very low, we had only 4 respondents in this age group.

72,1% of the respondents have higher educational level, 21,3% have secondary level education. 37,7% of the respondent live in towns (29,5% in the capital, Budapest, 13,1% in other towns) and 18% in other types of settlements.

The surveyed group of consumers prefer dry wines (67,2%), 21,3% like semi-dry, while sweet wines were the less preferred (11,5%).

The next question was connected to the frequency of wine consumption. 37,4% of the respondents drink wine more than once a week, 30,5% once a week. Based on these data we can say that the consumers of this company can be regarded as frequent wine consumer.

Some questions were connected to the consumers’ satisfaction with the quality, price, availability, packaging and the promotion of the company’s products. The respondents should qualify their satisfaction in the given aspects (price, quality, availability, promotion and packaging of the products) on a five-grade scale (5=excellent, 4-good, 3-average, 2-sufficient, 1-insufficient). The distribution of the grades is illustrated on Figure 2.

Figure 1 shows the proportion of the answers for the question: why do you like the wines of the company. As it can be seen, the taste and the quality of the wine represent the highest proportion (29% each), while the price to value ratio is the second most important preference (26%).

Figure 1: Why do you like/prefer the wines of the company? Source: own calculations

Figure 2: Comparison of different responds on consumers’ satisfaction on a 5 grade scale (in %) Source: own calculations

As it may be seen, quality and price reached the best results; more than 50% of the respondents assessed these characteristics with the best grade (5). According to availability – which feature describes the opinion about the distribution channels - grade 5 was given by 42,6% of the respondents, grade 4 was given by 29,5% and 21,3% of the respondents assessed this activity as average.

Packaging of the products was assessed by more than 80% of the respondents as excellent and good.

The worst results could be found among the opinions about promotion. Only 16,4% of the respondents evaluated the company’s promotion activities as excellent, 27,9% as
Our results has strengthened that the promotion activities of the company shall be improved, and the name of the winery could be more widely known.

5. Conclusions and suggestions

According to the results, the greatest share of the consumers is in the age groups between 25-44 years, i.e. they are young and younger middle aged people. Most of them live in towns, have higher educational level, the gender proportion is equal. Most of the consumers drink wine regularly and they prefer quality.

The survey revealed that the wines of the company are not popular among the elder age groups, which may be derived from the foreign name of the company or maybe that the company use those distribution channels, which are not preferred among the elderly persons. Although our results showed that the products of the examined company is preferred mostly by the young and middle aged consumers, it should be suggested that according to several international literature sources, the elderly age group (above 60 years) is one of the most significant group of consumers. Therefore it is suggested to find such promotional activities by which this age group could be reached. For this, the organization of different events and field trips, which highlight the other special features of the winery (good geographical features, landscape, recreational possibility etc.) are suggested.

The price policy of the company is appropriate, because the real prices and the price levels which were accordance with those which the respondents indicated in the questionnaire.

The distribution channels used by the company are basically in accordance with the need of the consumers (except for the above mentioned older age group). The consumers regularly buy wine in hyper- and supermarkets and in special wine shops. Based on our results and the international experiences, some elements of the distribution policy should be changed. As it was described in Table 3, only 6.5% of the products are sold in wine shops. This proportion should be increased, because the availability in these special shops suggests the high quality of the products. As the company – and the consumers – considers that the quality is one of the most important features of the wine, and the company's products are considered as high or good quality products, this distribution channel should be improved. By this change, the formerly mentioned elderly consumers also could be reached more easily.

Our results has strengthened that the promotion activities of the company shall be improved, that means the management should consider a significant change in the marketing policy of the company. The use of the internet based promotions (website, social media) could be important mainly for the active population (young and middle aged consumers), and the special events, and a more targeted promotion campaign could attract the other age groups as well. Besides the quality and the well-known name of the chief winemaker, a key element of the promotion could be the attractive place of the winery, the special events, and the other activities which are focusing on wine tourism activities.

Our results underlined that the present consumers of the company's products are well satisfied in each aspects, with a well-based and organized promotional campaign – which focus on the Hungarian consumers – the domestic market of the company should be improved, and the name of the winery could be more widely known.

References

www.hnt.hu (website of National Council of Wine Communities)