Unperceived cost: a Dilemma for French Wine-Growers

Applied Research
Work-in-progress

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Outline

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Introduction

Economic profitability of wineries is a key-issue for any wine-producing regions

A lot of studies focus on production cost

– in the vineyards,
– in the wineries
– or in the logistic process.

But distribution (and marketing) costs are not covered a lot in academic research.

Due to the emergence of new technologies and the underlying change of consumer purchase behaviour, multi-channel policy generates cost, conflicts and challenges in terms of performance (3C’s).

→ estimate the accurate level of specific cost for each channel.

→ Get an idea of underestimated/unperceived costs such as: conditioning, communication supports and public relations expenditures, sales promotion, the time to prepare the orders, commercial risks, storage and so on,...

I. Objectives

Based on small case-studies of French wineries coming from different regions:

• to identify distribution costs

• to understand why wine producers seem not to be aware of those costs.
II. Methodology (1/3)

- (1) Quantitative and qualitative data among wine-growers (face-to-face)
- (2) In-depth interview for one or several distribution channels+ face validity
- (3) Assessment of "real costs" in taking into account For example:
  - the cost of samples,
  - miscellaneous overheads
  - time spent per task by their staff or family members or themselves based on the salary's grid.

- Time and cost of each task are often underestimated because they are executed by their family or themselves ➔ a bit like the "syndrome of Chinese restaurant".

II. Methodology (2/3)

- 30 producers
  - From different French regions
  - From different sizes
  - With different sales strategies ➔ Proposition of a typology of producers with a typology of distribution costs

II. Methodology (3/3)

- Case 1: Small producers
  - Direct sales (mainly French Market): Champagne

- Cases 2 & 3: Producer with a portfolio of famous appellations in Burgundy
  - Case 2: 20 ha, 85 % export
  - Case 3: 27 ha, 20 % bulk, 10 % export, 70 % direct

- Case 4: Producer multi-channels (southern Burgundy)

III. List of Channels

- (1) fairs and local market;
- (2) personal selling;
- (3) at the winery;
- (4) at the wine shop;
- (5) on trade (pubs, hotels, restaurants and wine bars);
- (6) Works Council;
- (7) off trade (supermarkets, etc.);
- (8) cooperatives;
- (9) direct marketing;
- (10) telemarketing;
- (11) négoce (in bulk and in bottles);
- (12) clubs;
- (13) distributors/wholesellers;
- (14) home party;
- (15) duty-free and train station
- (16) En-primeur system.
IV. Results

Case 1
Small producer
Champagne

Case 1: Small producer

Profile
- Simple structure: wine-grower and his retired mother
- Limited range: 3 references
- One channel: direct sales

In champagne
- 3 ha
- Wine-grower in charge of viticulture and wine-making
- 30,000 bottles
- 100% French market
- Direct sales (estate)
  - Mother in charge of the cellar
  - Opened 7 days a week
  - Orders prepared by the wine growers
- Range and price VAT incl.
  - BSA: 12,10
  - Rosé: 13,50
  - Blanc de blanc: 13,50
**Case 1: small producer**

**Distribution costs**

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottles for the tasting</td>
<td>10 000</td>
</tr>
<tr>
<td>Reception cost</td>
<td>1 500</td>
</tr>
<tr>
<td>Time spent with the client</td>
<td>20 000</td>
</tr>
<tr>
<td>Mailing</td>
<td>30 000</td>
</tr>
<tr>
<td>Marketing/sponsorship</td>
<td>3 500</td>
</tr>
<tr>
<td>Depreciation &amp; Maintenance</td>
<td>5 000</td>
</tr>
<tr>
<td>Total cost</td>
<td>70 000</td>
</tr>
<tr>
<td>Cost per bottle</td>
<td>2.33</td>
</tr>
</tbody>
</table>

**Profits**

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turn-over</td>
<td>363000</td>
</tr>
<tr>
<td>Estimated margin by the producer (Selling Price- cost price)</td>
<td>126 300</td>
</tr>
<tr>
<td>Estimated margin with distribution cost</td>
<td>56 300</td>
</tr>
</tbody>
</table>

**Generalisation**

- Cost per bottle
  - Between 2 euros and 6 euros
- **List of items** contributing to cost variation:
  - Samples
  - Time spent per tasting
  - Reception cost
  - CRM cost (recruitment)
  - Staff & time
  - Marketing budget

**Implications**

- Selling price is not high enough in order to take into account the labor cost
- Possible solutions
  - Increase selling price
    - Risk of losing clients? Increase of CRM costs?
  - Use another distribution channel
  - Premiumisation
Cases 2& 3: Producer with a portfolio of famous appellations in Burgundy

Case 2: 20 ha, 85% export
Case 3: 27 ha, 20% bulk, 10% export, 70% direct

Case 2: 85% export

Profile
- 20 ha
- 100 000 bottles
- 29 references
- Price between 9 and 80 euros (B2B, excl. VAT)
- 85% export with a focus on USA (40%)
- France: Independent retailers, restaurants through agents

Case 2: 85% export

PR cost/image

<table>
<thead>
<tr>
<th>Cost</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Website and referencing cost (per year)</td>
<td>6 000</td>
</tr>
<tr>
<td>Reception of influencers</td>
<td>10 000</td>
</tr>
<tr>
<td>Contests and guide</td>
<td>5 000</td>
</tr>
<tr>
<td>Charity</td>
<td>5 000</td>
</tr>
<tr>
<td>Market promotion (visits)</td>
<td>50 000</td>
</tr>
<tr>
<td>Brochure</td>
<td>5 000</td>
</tr>
<tr>
<td>Press officer</td>
<td>50 000</td>
</tr>
<tr>
<td>Contact hours</td>
<td>65 000</td>
</tr>
<tr>
<td>Total cost</td>
<td>191 000</td>
</tr>
<tr>
<td>Cost per bottle</td>
<td>1.96</td>
</tr>
</tbody>
</table>
Case 3: direct-bulk-export

- 27 ha
- 20% bulk
- 10% export
- 70% Direct Sales (cellar et wine fairs) with 90% of sales in France
- Average price (B2C, VAT incl.): 10,95
  - between 6,5 and 80 euros
- 15 references

Wine fair in Lille (3 days)

<table>
<thead>
<tr>
<th>Costs take into account by the producer</th>
<th>Complementary costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration</td>
<td>Working time (2 people); minimum salary</td>
<td>1050</td>
</tr>
<tr>
<td>Travel expenses (hotel-transport-restaurants)</td>
<td>Transport time (2 days)</td>
<td>700</td>
</tr>
<tr>
<td>Samples</td>
<td>Time to prepare the fair 2 days (1 avant +1 après)</td>
<td>700</td>
</tr>
<tr>
<td>Brochures</td>
<td>Labor cost</td>
<td>2450</td>
</tr>
<tr>
<td>Invitation/Mailing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>Total cost</td>
<td>8106</td>
</tr>
<tr>
<td>Estimated cost</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Implications

- Turnover in the fair: 36 912
- Bottles sold: 2400
- 141 clients
  - 68 clients
  - 73 new clients
- Distribution cost per bottle: **3,40**
- NB To be taken into account
  - undirect profit of new clients' recruitment
Case 4: Producer multi-channels (southern Burgundy)

- 17 ha
- 67,000 bottles
- Average selling price 8,9 €
  - between 5,5 and 15 euros
  - With 10,84 € for direct sales and 7,59 € for B2B
- Sales
  - Cellar: 30 %
  - Wine fairs: 12 %
  - Cafés-Hotels-restaurants (agents): 12 %
  - Export via agent: 16 %
  - Independent retailers: 30 %

Conclusions

- Important to calculate the distribution cost per product and per channel
- List all the actions and time spent per action
- Analyse each alternative/channel and find an optimum
- It is strategic issue to assess
  - Production cost
  - Marketing cost (image)
  - Distribution cost
What about the prices?

• Should we adopt?
  – A competitive approach
  – A cost-based approach
  – Perceived-value approach

Recommendations for the industry

• Pricing's consistency for the final consumers
• But also optimization of distribution policy (and the underlying profitability)
• In other words, it is a matter of opportunity cost management....