ORGANIC PRODUCING IN ENTRE-DEUX-MERS :

LIGHTING BY COSTS AND ECONOMIC PERFORMANCE

B. DEL'HOMME
H. SAMIE

VDQS BRNO

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Outline

- Introduction: the usefulness of studying organic viticulture
- 1 - Sample and methodology used
- 2 - The costs of returns: bio more expensive
- 3 - Business and economic performance: no notable difference
- Conclusion

Introduction

- If organic is very fashioned in viticulture, lack of references remains heavily ;
- Diversity and heterogeneity of situations make delicate generalization of surveys ;
- A lighting through a survey leaded end of 2013 on 15 wine estates from E2M (7 conventional / 8 bio) (accounting year 2012);
- Same methodology used, from costs to economic performance ;
- Quite interesting results, not to over estimate.

Sample and methodology

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	BIO	CONVENTIONAL
NUMBER OF FARMS	*8*	*7*
UAA PRODUCTION	*24*	*51*
AVERAGE YIELD 2008-2012	*44.73*	*54.48*
DENSITY PLANTS / HA	*3 730*	*3 575*
HA BY AWU	*13.37*	*12.39*

- Strong heterogeneity of marketed volumes (1 to 10 for organic, 1 to 147 for conventional) :
- just using global results

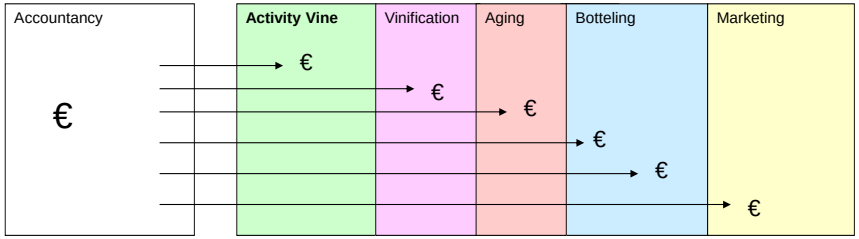
Sample and methodology

MARKET STRATEGY	ORGANIC GROUP	CONVENTIONAL GROUP
BULK (VOL BULK> 66 %)	*2*	*3*
BOTTLE (VOL BT > 88 %)	*3*	*2*
MIXED (BULK ≈ 55%)	*2*	*2*
BIB (BIB > 68 %)	*1*	

CIRCUIT	ORGANIC GROUP	CONVENTIONAL GROUP
NEGOCIANT (VOL > 53 %)	*4*	*5*
EXPORT (VOL > 85 %)	*1*	*1*
INDIVIDUAL CUSTOMERS (VOL > 50 %)	*1*	*1*
MIXED	*2*	

Sample and methodology

- Costing method : ABC method
- Full costs by activity :



✓ *Cost of a bottle* = Cost of Vine + Cost of Vinification + Cost of Aging + Cost of Botteling + Cost of Marketing

- Economic costs including cost of labour for the manager and family and cost on capital (# accounting costs)

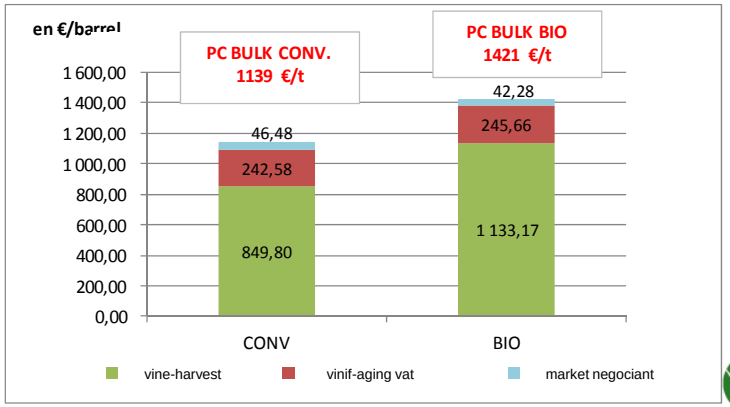
Sample and methodology

- Trade Performance :
  - ✓ Trade *effort*
  - ✓ *Range*
  - ✓ *Trade weight*
  - ✓ *Sake price*
- Economic Performance :
  - ✓ *Sale ability*
  - ✓ *Economic income*
  - ✓ *Income according to sale strategies*

Return costs : organic more expensive

Wine in bulk

Figure 1 : Comparison of production costs in bulk



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Return costs : organic more expensive

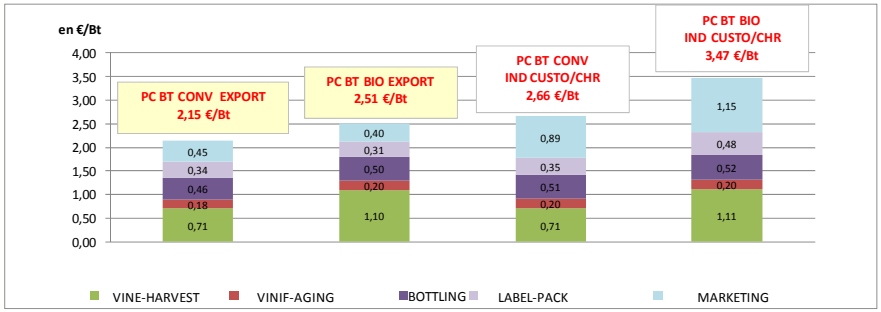
- Average cost organic : > 25 % (282 € per barrel)
- Main difference : Vine – harvesting costs
- Cost per hl (€) :

ORGANIC GROUP	CONVENTIONAL GROUP
158	127

% COST	ORGANIC GROUP	CONVENTIONAL GROUP
VINE - HARVESTING	80.0	74.6
VINIF. AGING	17.2	21.3
MARKET	2.8	4.1

Return costs : organic more expensive

Figure 2 : Comparison of production costs per bottle



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

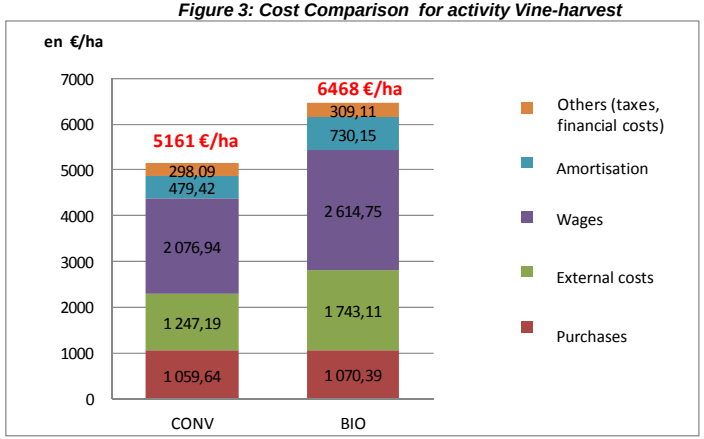
Return costs : organic more expensive

- Average bottle cost is higher among the bio :
  - ➢ + 16 % export
  - ➢ + 30 % individual customer
- vine remains the most important activity in the cost and the more explanatory
- packaging and marketing also play among individuals

Return costs : organic more expensive

Vine cost analysis / ha : + 25 % for bio

Figure 3: Cost Comparison for activity Vine-harvest



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Return costs : organic more expensive

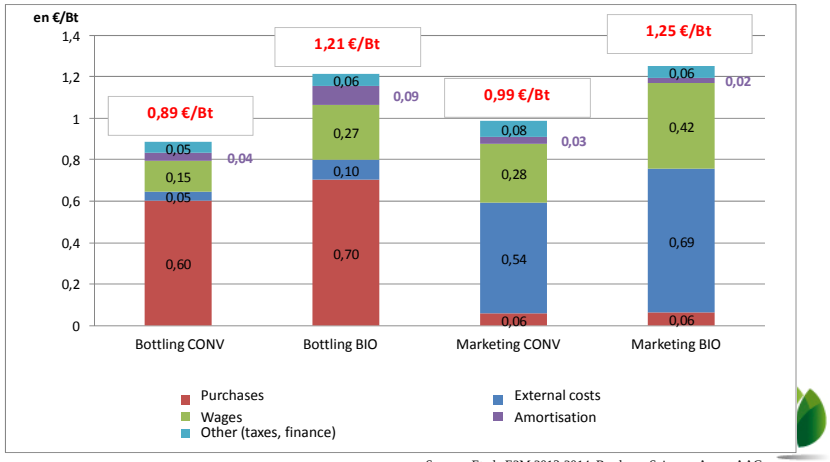
Vine cost analysis / ha : + 25 % for bio

- *variability* :
  1.87 for bio (4 228 – 7 897 €/ha)
  1.38 for conventional (4 377 – 6 028 €/ha)
- Most explanatory component : wages
- Manual harvest for 3 bio, not other significant difference regarding wages
- Amortisation and external costs

- Yield difference 10 hl/ha :
  Cost/ hl higher 52 % in organic

Return costs : organic more expensive

Figure 4: Cost Comparison of botteling, labelling and marketing for bottle



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Return costs : organic more expensive

- Packaging : + 36 % for bio : dry matter purchases, wages
- Significant differences of volume
- Marketing choices ?

- Marketing : + 27 % for bio : external charges , wages

Business and Economic performances : no notable difference

- Trade effort/ year similar : 0.54 – 0.57 AWU

- Effort more important for bio :
  14 % Labor force – versus 8 % for conv.

- Range: 16 products on average,
  but 4 products cover 75 % of sales

Business and Economic performance : no notable difference

Ranges : similarity

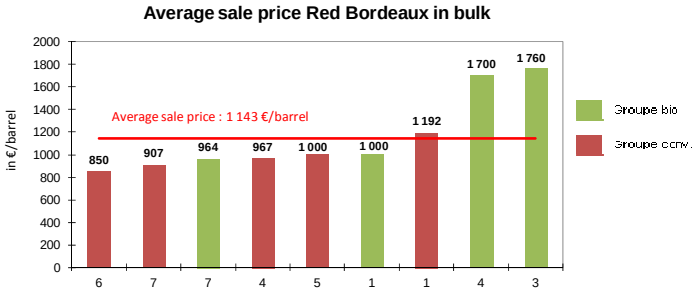
Tableau 3: comparison of ranges depending circuit - Etude E2M 2013-2014

	GROUP CONVENTIONAL		GROUP BIO	
	nb pdts sold	*nb estates*	nb pdts sold	*nb estates*
Négociant	3.86	*6*	2.25	*6*
Supermarket	1.86	*3*	1.88	*3*
CHR – Wine shops	4.14	*5*	7.88	*7*
Individual customers	9.43	*7*	9.75	*8*
Export	7.14	*4*	7.38	*4*

Business and Economic performance : no notable difference

Sale prices

Figure 5 : Average sale price for wine in bulk

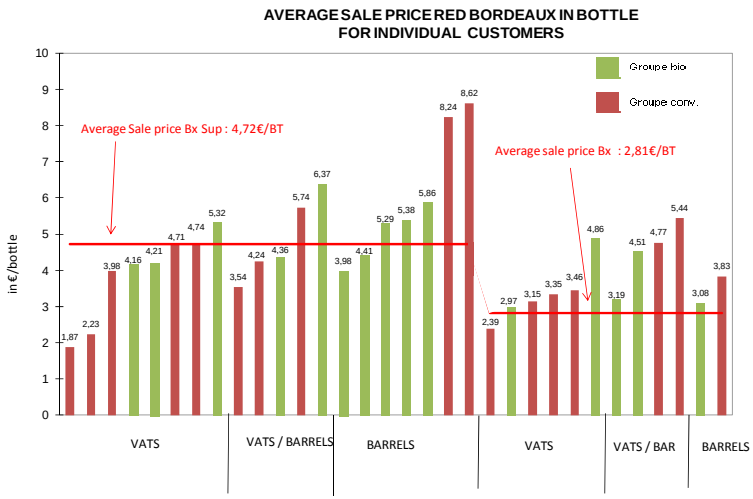


Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

- High variability, more important in bio. Possibilities to act
- No systematic « bio effect »

Business and Economic performance : no notable difference

Figure 6 : Average sale price wine in bottle for individual customers



 Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

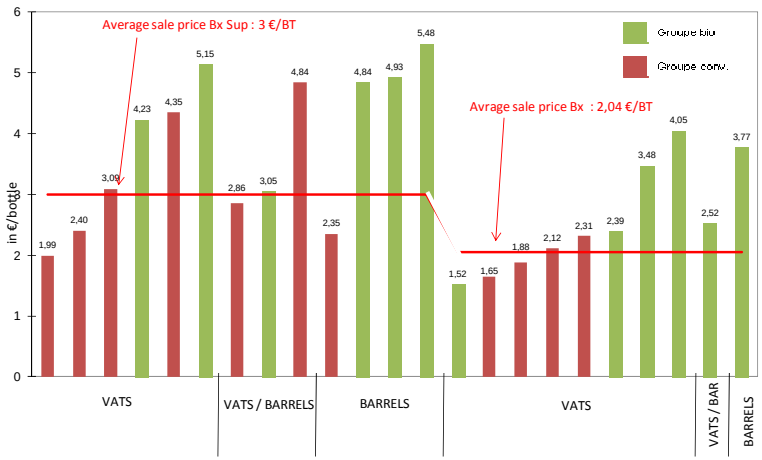
Business and Economic performance : no notable difference

- High variability in prices
- No bio specificity, but a trend towards superiority
- Barrel not systematic profitable

 Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Figure 7 : Average sale price red Bordeaux bottle export



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

- High variability in prices
- Bio specificity visible

Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Trade weight depending circuits

Tableau 4: comparison business weight by circuit - Etude E2M 2013-2014

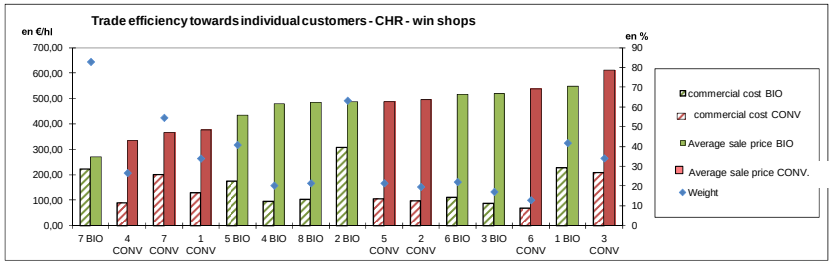
	GROUPE CONVENTIONAL			GROUPE BIO		
CIRCUITS	MARKET COST €/hl	AVER SALE PRICE €/hl	*WEIGHT %*	MARKET COST €/hl	AVER SALE PRICE €/hl	*WEIGHT %*
Negociant France	5.16	134.64	*4*	11.64	224.37	*4*
Individual customers - CHR - Wine shops	127.84	458.62	*28*	167.73	467.80	*39*
Export	78.71	307.06	*26*	53.2	360.00	*15*

- Trade weight higher in bio in France, less for Export

Business and Economic performance : no notable difference

Trade weight depending circuits

Figure 8 : Trade weight in bottle sales for individual customers/CHR



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Trade weight depending circuits

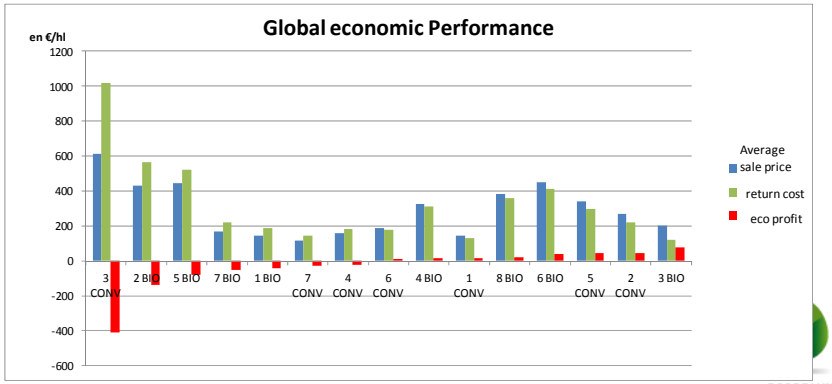
- Organic does not always allow better valorisation
- Marketing cost is not linked to sale prices

Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Economic performance

Figure 9 : Global economic performance

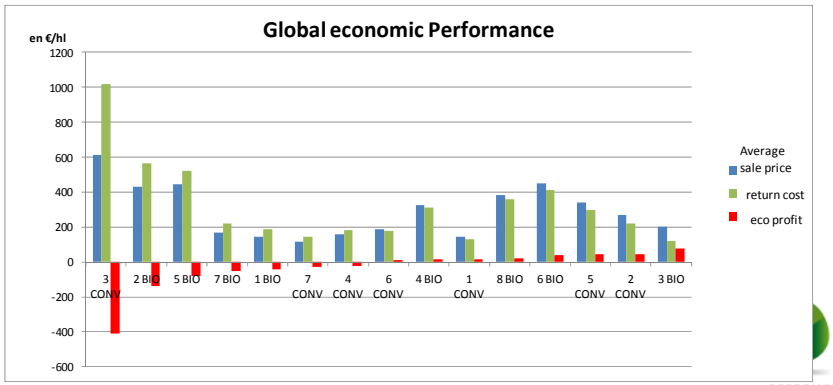


Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Economic performance

- No link sale price – performance (3 conv, 5 bio)



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Business and Economic performance : no notable difference

Economic performance

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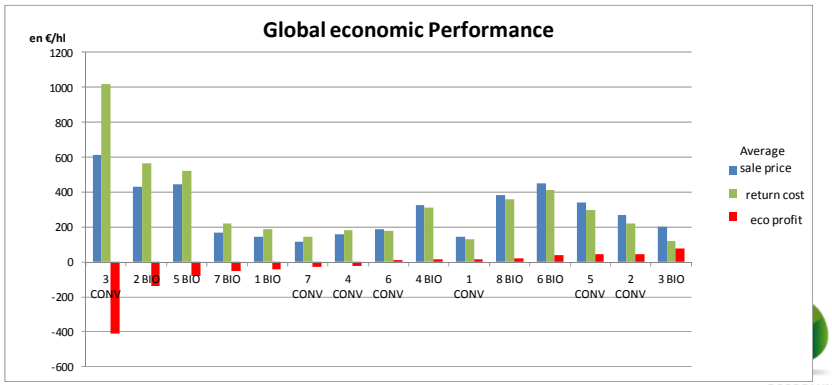
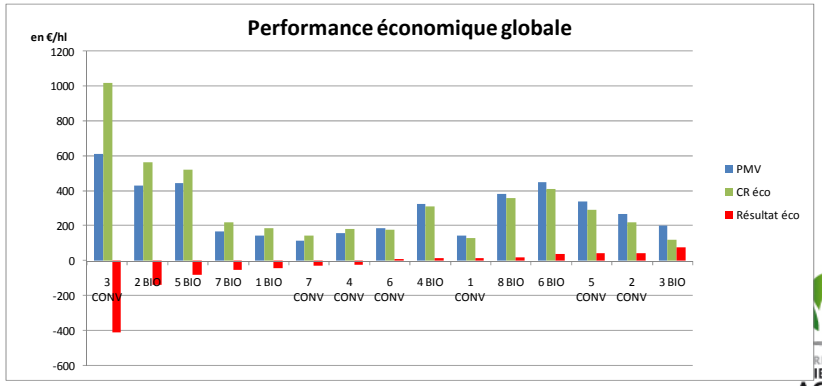


Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Economic performance

- Sales in bottle (2, 3 conv) and bulk (3 et 5 bio) at both extremes



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

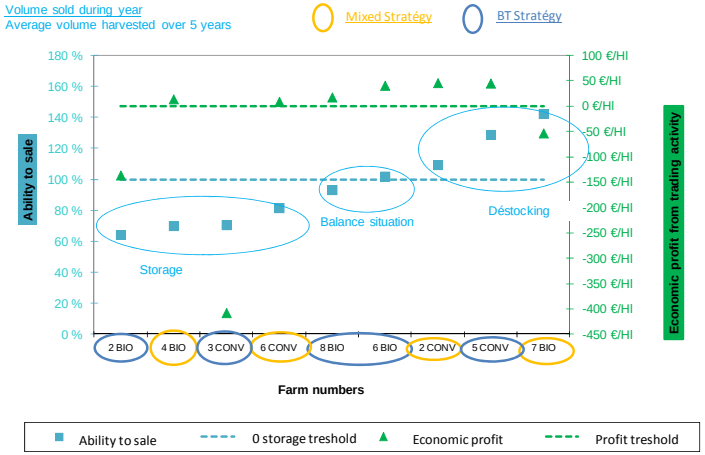
Business and Economic performance : no notable difference

Economic performance

- Performance = adequacy cost - price
- Higher costs in bio are covered by higher sale prices
- But performance also relies on = ability to sale

Business and Economic performance : no notable difference

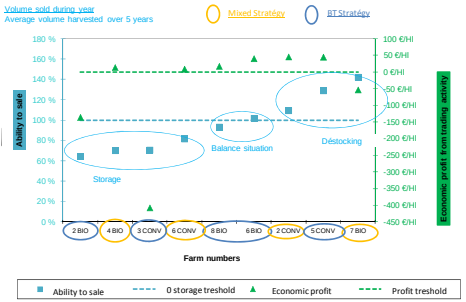
Economic performance



Business and Economic performance : no notable difference

Bottles and mixed

- Storage mostly observed, penalizing profit
- Destocking does not mean price

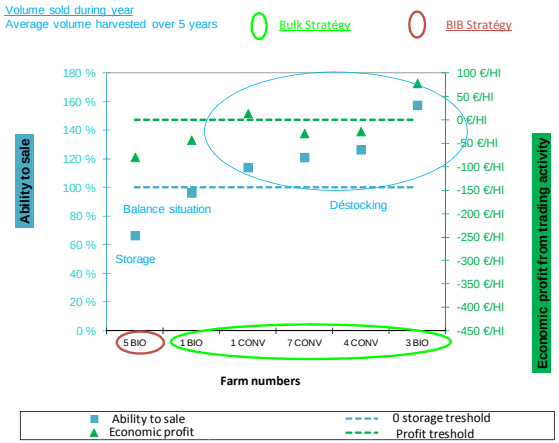


Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Figure 10 : Capacité à vendre et résultat économique des stratégies BT et Mixte

Business and Economic performance : no notable difference

Wine in bulk



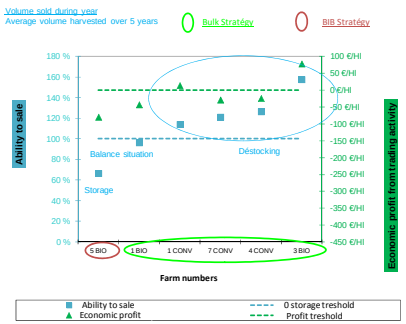
Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Figure 10 : Capacité à vendre et résultat économique des stratégies BT et Mixte

Business and Economic performance : no notable difference

Wine in bulk

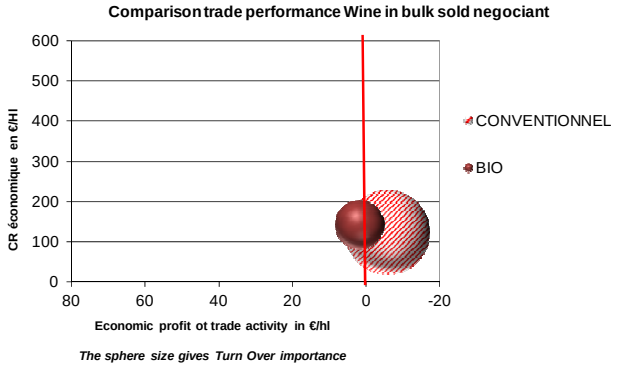
- Mostly destocking
- Destocking does not mean losses



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Performance by circuit : wine in bulk, sale price effect

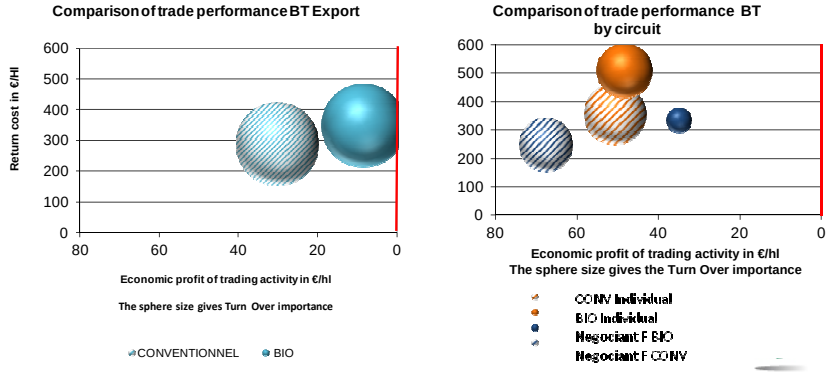


Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Performance by circuit : sales in bottles, positive effect

Figure 12 : Comparaison de la performance commerciale de la Bouteille



Source : Etude E2M 2013-2014, Bordeaux Sciences Agro - AAG

Business and Economic performance : no notable difference

Performance by circuit

- Sales in bottle Export : Important Turn Over, BIO prices higher (2.69 €/bt et 2.39 €/bt), but less profit while higher costs (2.62 €/bt et 2.17 €/bt)

- No significant difference in France circuits

Conclusion

- With this sample, BIO production costs 25 % higher

- higher costs in different activities (rapes, bottling and labelling, marketing)

- Comparable trading performances

- Similar economic performances

Conclusion

- No ready-made idea on the bio / conventional: neither guarantee of success nor impasse;

- The economy is not the only dimension to look at for today evaluating the interest of a production system: environment and social dimension are also needed to take into account...

Thank you for your attention