Quantification of the marketing and distribution costs for the commercialization of Alsatian wine

Work in progress

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Introduction

- The object is to evaluate, for the Alsatian wine the costs of distribution and marketing based on:
  - the type of the wines
  - The producers
  - the different distribution channels
- Already been done for other wine regions.
- Our work is based on the method presented during the last conference for example for Burgundy (Bouart & Lecat, 2014).
- Only a few economic studies have been done concerning the marketing and distribution costs on Alsatian wines even if this production presents a lot of specificities compared to others in France.
- Two steps:
  - identification of actors and singularities in a difficult global economic context
  - exploration study for the instance

1 – Overview of the Alsatian vineyard

- Annual production (2014):
  - 1.1 million hl of AOC wine = 150 M. bottles
- Annual revenue (2014):
  - 530 M. € excl. taxes
- Production is composed of:
  - 90% white wines (18% of the French production of AOC white wine excluding sparkling wines).
  - 7 grape varieties
  - 3 labels
    - "AOC Alsace", with optional name of the grape variety
    - "Alsace Grand Cru" with the name of the location and the vintage and optionally the grape variety
    - "Crémant d'Alsace"
  - 2 extra indications
    - "Vendanges tardives"
    - " Sélection de grains nobles"

1 – Overview of the Alsatian vineyard

Evolution 1969/2014 of wine production (hl)

- Total Production
- AOC Alsace : 69.7% (2014)
- Crémant Alsace : 26.8% (2014)
- Alsace Grands Crus : 3.5% (2014)
1 – Overview of the Alsatian vineyard

Main changes:
- Disappearance of the production for the family consumption
- Disappearance of the producers of bulk wines
- More cooperators

Data CIVA (2014)

1 – Overview of the Alsatian vineyard

• The growers:
  - Approx. 4,200 producers (wine + grapes) exploiting 15,600 ha.
  - Wine made by:
    • 40 negociants working with 1,400 small growers that sell their production as grapes and with 20 producers of bulk wine.
    • 14 cooperatives working with 2,050 cooperators producing grapes
    • 720 independent wine growers (200 of them sell 89% of the volume).
  - 57% exploit less than 2 ha. ➔ secondary activity
  - 43% (1,790 producers) exploit more than 2 ha.
    (corresponding to 91% of the total surface of the vineyard).

1 – Overview of the Alsatian vineyard

• Selling actors:
  - 41% by the cooperatives
  - 39% by the producers traders
  - 20% by the independent wine growers

• Selling channels
  - 50% hyper and super markets
  - 20% HCR
  - 15% direct selling
  - 15% wine merchants and specific circuits

• Markets (2014)
  - 74% for the domestic market
  - 26% for the export (mainly Northern Europe; Belgium is the first market).

2 – Specificities of the Alsatian vineyard

• In general, no possibility to make an assembly of wines
  ➔ Common identification: the name of the grape variety

• Bottling
  - Mandatory to bottle in the area of production (Alsace)
  - Mandatory to use the specifically patented designed bottles
  ➔ Impossible to sell in bulk or in bag in box

• Structure of the exploitations
  - Plots are small (approx. mean size around 12 a.)
  - Plots are dispatched on several villages
  ➔ Higher production costs for the grapes production
  ➔ Guarantee of security
The division, the interweaving and the geographical distribution generate high operating costs: The case of the “Lieu dit Mambourg”.

Moreover the distance, the access is sometimes difficult to for the equipment.

2 – Specificities of the Alsatian vineyard

• As a first conclusion:
  – Very small vineyard with a lot of small actors. A lot of those small actors do not reach the economic critical size required to develop a marketing strategy and an export strategy.
    ➔ It partially explains the increase of recent mergers between actors and the development of the biggest cooperatives
  – The size of the plots must be increased to improve the profitability but it is difficult due to:
    • The need of keeping a soil diversity,
    • The need of sharing the plots in case of in heritage
    • The protection barriers built by the actors
  – The vineyard is currently managed by grape growers for grape growers. The wine makers must adapt themselves to the high level of the price of the grapes.
    ➔ Consequently:
    • There are financial difficulties to develop a marketing strategy to sell wine.
    • We observe a lake of interest of the growers for the marketing aspects.

3 – Exploratory survey

• Aim: attempt to evaluate the marketing and distribution costs

• Qualitative data among different types of wine – growers (face to face) in the same geographic area (Bennwihr). Only three interviews are developed here:
  – interview 1: small independent producer (organic)
  – Interview 2: medium independent producer (conventional)
  – Interview 3: head of marketing division - biggest cooperative in Alsace

• Quantitative survey is in progress

3 – Exploratory survey – CASE 1

• Small producer:
  – 4,5 ha dispatched on 28 plots and 4 villages
  – 20 000 to 25 000 bottles/year
  – Range of 17 wines (all varieties except Sylvaner, no Cremants, no late harvests)
  – Production is organic and certified but certification is not commercially used!
  – Aims for an average 40hL/ha. overall, while the legal limit in Alsace is 82hL/ha. (55hL/ha. in the “Alsace Grands Crus”)
  – 70% to export (including 23% to the USA) via approx. 10 importers.
  – Sales in cellar represent 10 to 12% of the total sales. The difference is sent to the domestic market via wine shops.
3 – Exploratory survey – CASE 1

• **Small producer:**
  – No difficulty to sell the production: the majority of the wines are sold before April
  – A few marketing spending and very low distribution costs:
    • No need to find new customers!
    • No website, no online sales, no mailing.
    • Same labels for all the wines since 2004 and no counter label except specific requirements for foreign markets.
    • 4 to 5% of the produced bottles are dedicated to marketing activities (tasting, ...)
    • 2 days per months are usually devoted to customers and sales

Marketing and distribution costs corresponds to approx. 5% of the bottle price (departure of cellar and excl. taxes)

3 – Exploratory survey – CASE 2

• **Medium producer (conventional):**
  – 13 ha. dispatched on 4 villages and 80 plots
  – 130 000 to 140 000 bottles/year
  – 1 permanent employee + short term employees for specific tasks
  – Yields conform to the legal limits
  – Range of 21 wines including 9 “Alsace Grands Crus”
  – Price strategy aligned to the market and the competitors
  – 70% to export (1/3 to the USA and Canada, 1/3 in Asia and 1/3 in Northern Europe)
  – No sales in hyper and supermarkets
  – Sales in cellar correspond to 20% of the sales; the difference is sent to wine shops

3 – Exploratory survey – CASE 2

• **Medium producer:**
  – No difficulty to sell the production
  – Cash problems – Export is a long term investment
  – Costs in marketing and distribution represent 10 to 15% of the total cost of the bottle:
    • Informative website
    • Mailing,
    • Labels (emphasizing the brand instead of the name of the variety)
    • Travelling to the foreign markets (two annual visits in Asia and North America + frequent visits to the European customers)
  – “For exporting, communication must focus on the name of the variety associated to the soil and the Alsace denomination”.

3 – Exploratory survey – CASE 3

• **Big winery cooperative**
  – First cooperative in Alsace since different mergers / acquisitions of firms in financial difficulty.
  – 1400 ha. with 350 growers (3ha. per growers in average) – 16 M. bottles including 5.5 M. bottles « Crémant d'Alsace ». A part of the demand is not satisfied.
  – Production is marketed under several brands depending on the markets. The main brand (Bestheim) is composed by 27 references.
  – Price strategy is aligned to the market and the competitors (between 5 and 30€)
  – For all the brands:
    • 30% to export including 75% for Northern Europe. The others markets are mainly Canada, Germany and USA.
    • 70% to domestic market. 75% hyper and supermarkets, 5% cellar and the difference for wine shop and CHR.
3 – Exploratory survey – CASE 3

• Big winery cooperative
  – Merchant website
  – Mailing
  – Label and specific bottle designed (blue color)
  – Budget advertisement : 450K€
  – Sponsoring
  – 3 employees dedicated to strategy marketing and negotiation (full time)
  – 2 employees dedicated to the cellar (full time) + growers free help
  – The most expensive marketing activities (by bottle sold) are the cellar and the CHR for different reasons.
  – Distribution costs relatively less important than marketing costs (by bottles).

Distribution and marketing costs (including packaging) represent approx. 25% of the bottle final price.

4 - Very first conclusions
(hypothesis of the future quantitative work)

- Not all of the actors are able to estimate and calculate the distribution costs per product and per channel (except the big cooperatives)

- Some producers, with a large or medium size, have a lake to identify the real market that they can obtain and the comparative advantages they can have. So, it seems they have the temptation to start a war of prices.

- The big actors are constraints by the competitors and adopt a competitive approach;

- Some producers adopt a real strategy of differentiation made possible by a small size.

To be continued...