

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

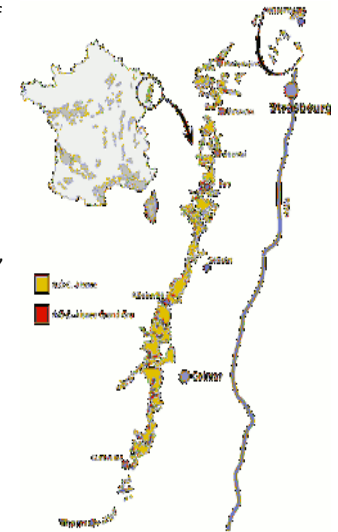
Work in progress

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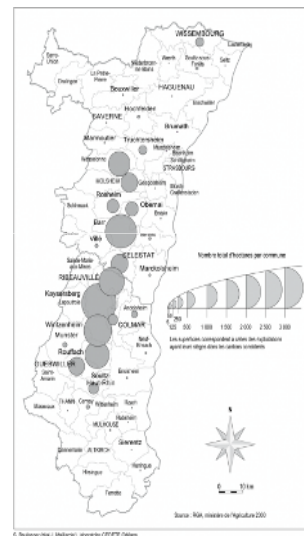
Introduction

- 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

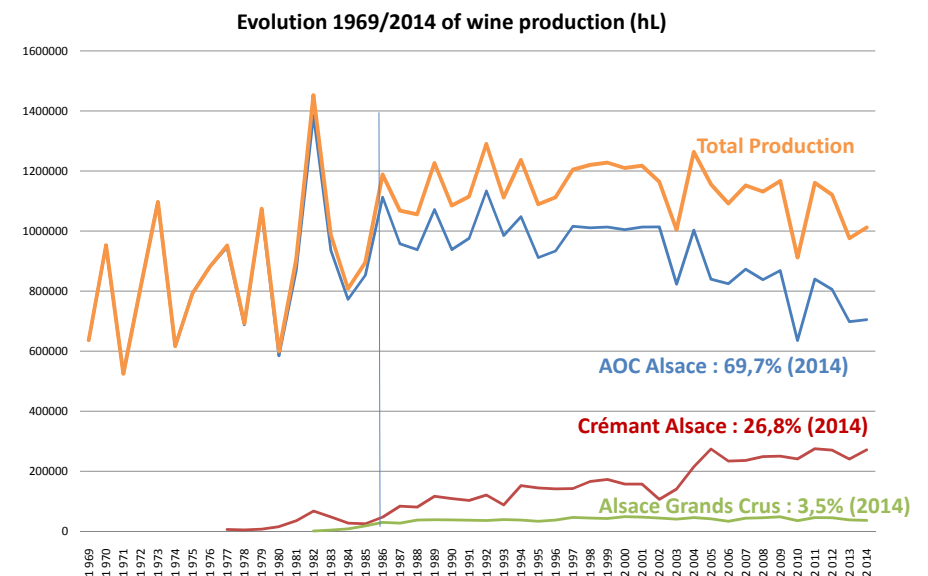


1 – Overview of the Alsatian vineyard

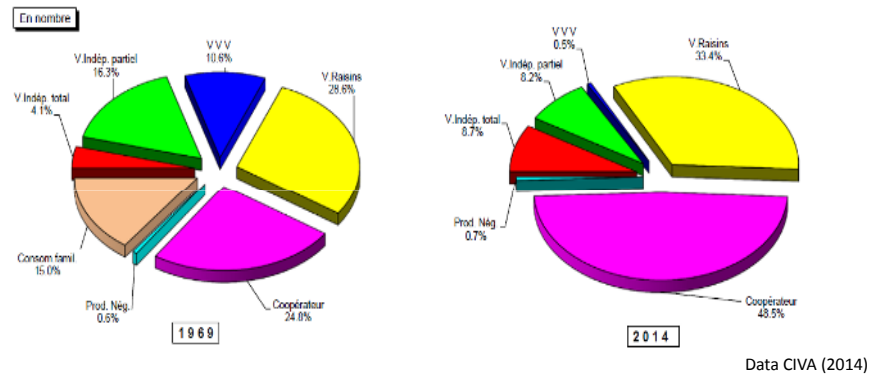
- Annual production (2014) :
 - 1.1 million hL of AOC wine \approx 150 M. bottles
- Annual revenue (2014) :
 - 530 M. € excl. taxes
- Production is composed of :
 - 90% white wines (18% of the French production of AOC white wine excluding sparkling wines).
 - 7 grape varieties
 - 3 labels
 - “AOC Alsace”,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



1 – Overview of the Alsatian vineyard



1 – Overview of the Alsatian vineyard



Main changes :

- Disappearance of the production for the family consumption
- Disappearance of the producers of bulk wines
- More cooperatives

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 1400 small growers that sell their production as grapes and with 20 producers of bulk wine.
 - **14 cooperatives** working with 2050 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



19 plots exploited by different actors

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 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 inheritance
 - 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 lack 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)
 - Price is high compared to others in the range 9 to 20€ excl.taxes
 - 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 an 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...