Pricing strategy and price developments for wine in Poland

This module guides you, a developing country (DC) exporter, in choosing an appropriate strategy for the pricing of your wine, when exporting to Poland. As Poland is a growth market, prices are still low and the cost per bottle remains the most important determinant as to which wines consumers buy. The market is increasing and as quality becomes a more important factor in buying, wines in the higher price points are likely to become more popular. Furthermore, the price of your wine depends on the segment you will target. Be aware of the competition you will face in each segment.

Costing and pricing for wine
Pricing is a vital component of your marketing mix, as only pricing generates a turnover for your company, while production, distribution and promotion are expenses. Be aware though, that in many cases, you will not be able to dictate your own prices. Your market research should give you insight into prevailing prices, appropriate margins and competitor prices.
Your pricing strategy is based on what objectives you want to achieve. Objectives driving business strategies include maximisation of profits, revenues, quantities, margins, signalling quality leadership, cost recovery, survival or maintaining the status quo.

Pricing strategies for wine
In the wine market, it is important to determine which market segment you target. The segments range from low-end to high-end, where consumers have different demands regarding the price and quality of the wine they buy (see Figure 1). This section discusses different possible price strategies, based on the price and quality of your product:

![Figure 1: Pricing Strategies Matrix](image-url)

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**Premium pricing**: where you set your price high to reflect the exclusiveness of the product. This is an appropriate strategy if you supply high quality wine, with a well-known brand name. This strategy can be appropriate also for niche markets like organic and Fair Trade.

**Penetration pricing**: where your objective is to increase sales and market share, or obtain a foot-hold in the market. You aim to sell at a price lower than your competitors’. A negative side effect is that it generates a low quality image (price fighter), hindering future upward marketing.

**Economy pricing**: where you offer a low-quality product at a low price. This strategy is useful when addressing the low-end market segment. Make sure you can produce efficiently and at low costs, enabling you to set your price lower than those of competitors. This strategy can be suitable when targeting the discounters.

**Skimming**: where you set your price high in order to make a profit quickly. The drawback of this strategy is that consumers may become disappointed after buying your product, since the price does not reflect the expected quality. This strategy is usually pursued when introducing a new product on the market, where the early adopters are willing to spend money on something new. The costs of the investments can be earned back by the company, after which it can lower the price. Polish customers are sensitive to this strategy, as status is often connected to wine consumption, yet this strategy is common for New World producers which have an established brand name.

**Pricing strategies for Poland**

You can adopt **premium pricing** if your product is perceived as unique or superior; in other words when you supply a high quality wine. This pricing method is most useful in the case of products for the **high-end** market, or niche markets, where margins are usually higher. You can lower the price later to increase volume. However, note that if you are a new supplier it can take several years before you have developed a recognised brand.

Even though cheap table wine dominates in Poland, there has been an increase in the number of specialized wine boutiques. Around 6% of wine is sold via such stores, and their sales account for the sale of mostly quality wine (Barczynski, 2007). The prices in wine boutiques start at the €4-5 range, but the majority of sales is in the €5-25 range.

When using the premium pricing strategy, you have to consider the demand for your product. You need to know the maximum price which the market is willing to pay. This will allow you to estimate what reasonable expectations regarding sales volumes and profits would be. Using these figures and insight into your cost structure, it is possible to fine tune your price by dividing all your costs and your desired profit per unit to be sold, and analysing if the market will bear this price. Some points of interest to consider when setting an export price in such cases are:

- **Aim to charge the price the market will bear.** Do not go above “price points”, the price set by the market for similar products you have identified;
- **The price should reflect the company’s quality levels and delivery conditions;**
- **Keep in mind that it is not easy to increase prices at a later stage;**
- **The negotiated price depends on the INCOTERM, the means of payment, credit terms and currency risk, quantities and the means of transport;**
- **Exchange rates often fluctuate significantly.** Some buyers hedge against monetary risks.

**Price points for wine, ex works:**

- **Entry/min-level**: up to €7.50
- **Mid-Level**: €7.50-13
- **Premium**: €13-25
- **Super Premium**: > €25

*(FAS Warsaw, 2008)*

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You can adopt **economy pricing** when your product competes mostly on price in return for a basic quality. This pricing method is most useful in the case of products for the **low-end** market, where margins are lower. As soon as you add more value to your product, you can increase the price.

As the bulk of wine sold in Poland is in the lower price range, entering the low-end market would be the potentially best method for DC producers. Although sales in supermarkets show that the average price for a bottle of wine is between € 5 and € 7, anonymous brands selling between € 2 and € 4 dominate small grocery stores, discount chains, and are present even in supermarkets. These brands represent low-priced Bulgarian and Hungarian wines, some New World wines and less prestigious wine from countries such as Spain. Small grocery stores sell almost exclusively wine from the lowest pricing segment and account for 47% of the sales of table wine in Poland. Retail chains such as LIDL and Netto have around 30 wines in their assortment, all of them below €4, with an average price of €2.50 and the cheapest (white) wines starting at €1.80 (Deliancourt, 2011).

When using this method, you need to know what **competitors** are doing, since you need to offer a price that is comparable to or lower than those of competitors. In the low-end segment, customers base their purchasing decision primarily on price, and can easily switch to competitors if comparable types of wine are available. Next to that, you still need to make a profit; as a result, you have to calculate your **production costs** precisely. The price should stay above your production costs. Therefore, after calculating these costs you can evaluate whether you will be able to set a price comparable to those of direct competitors in the low-end segment.

**A combination** of pricing methods is also possible. Often you will find yourself not in one of those two extremes, but somewhere in between. In general, the higher the quality you offer, the higher the price you can ask.

**Delivery conditions and terms of payment**

- **As to delivery conditions**, buyers in Poland prefer quotations on an **ex works** basis, or **Delivered Duty Unpaid (DDU)**.

Export terms of sale (Incoterms) determine which costs are covered in the price of cargo and at which point ownership and responsibility for the cargo is transferred. You need to pay careful attention to contract fulfilment in case of contingencies during export procedures, shipment etc. Be aware that transportation problems, including late delivery, can result in claims which diminish your profits. It is very important to be familiar with both the legal and practical aspects of export terms. **Ex works** is the most common delivery term in this sector, and means that the seller has the goods ready for collection by the buyer at the date agreed upon.

- **The most commonly used terms of payment in the wine sector are normal payments on account. However, when supplying a full container exporters should try for a Letter of Credit (L/C). When supplying lower volumes, down-payments are sometimes also used.**

Terms of payment are an important part of negotiations as buyer and seller clearly have different interests. Payments through open accounts would be preferable to the buyer, but could pose risks to the seller, while advance payments would be preferable to the seller. High-volume transactions can be executed with a Letter of Credit (L/C), as this is a guarantee to both the customer and the supplier that the money transfer will take place after delivery. Note that the buyer will still check the quality of the supplied wine. Supermarkets usually do not work with a Letter of Credit, but importers sometimes do.
After trading several times with the same importer, payment on open account is more common. When supplying smaller volumes, a pre-payment can be requested, usually half of the amount.

International prices are mostly quoted in Euro (€), and for Poland in Zloty (zł). When dealing with European buyers, you must bear in mind that the recent strong fluctuations in Euro rates may affect your business, for example if you quote in US Dollars.

**Prices and price developments for wine in Poland**

Since consumers in Poland prefer low-priced wine, pricing is an important aspect of a company's strategy when addressing this market. High pressure is exerted on margins, so producers should try to reduce costs, and set a competitive price in order to increase sales.

Domestic and import/export prices of wine vary according to a number of factors, such as the type of wine (grapes used), its quality (taste, scent, production region etc.) and the level of supply available on the global market. In general, the higher the quality of your wine, the higher the price you can ask for it.

Regardless of the economic crisis, the average consumer price of wine increased between 2009 and 2010. Furthermore, as indicated by Table 1, you can see that there has been an increase in consumer prices for wine in Poland and, as of 2010, it has caught up with the EU average price increase. This increase can be partly attributed to the growing popularity of wine in Poland.

### Table 1  HICP consumer price index for wine, 2003-2010, 2005=100

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</tbody>
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Source: Eurostat (2011)

**More information on prices and price strategies**

- CBI’s ‘Export Marketing Planner’ (chapter 4.5).

This survey was compiled for CBI by ProFound – Advisers In Development in cooperation with Theo Jansen

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