

Chapter 6

Wine Marketing, Pricing and Quality

Marketing, Sales and Distribution

Marketing is used widely throughout the beverage industry. Beverages more than most rely on the ability to categorize and price according to quality and to market to customers based upon their demographic segmentations in relation to food, occasion (situation), disposable income and many other strategies.

Variations in distribution and logistics are so dramatic that the creation of regional strategies is becoming important for each segmented group or category. Therefore, the sales organization has to take into consideration the regulations and restrictions controlling the products, in regard to retail (on- and off-trade, wine clubs), wholesale (distributors, sales agents, and wine schools) and the fast-growing direct marketing channel. The export market is also guided by these rules, however, the delivery system and distribution channels can vary dramatically from country to country.

The chain of events from vineyard to consumer may differ slightly from country to country because of legal restrictions but the procedures are the same, there's just a lot more of them. Understanding product, price, place, promotion and the marketing mix in the country of operation is the initial and most important step, prior to production. Grasping what the vineyard can produce and what the end users (customers) eat and drink is another first step.

Marketing Principles for Beverages

Marketing of wines is a process and this process is the single most important aspect for any producer, wholesaler and retailer within the beverage industry. Critical strategic decisions in planning, market strategy, sales, production, product or brand development, and even finance are affected by this process.

1. Marketing Analysis and Planning

Marketing is responsible for a complete analysis of its situation both internally and externally and all relevant environmental influences that could affect its wines, brands and quality. Furthermore, marketing provides each operational and functional area of the winery or wholesaler with its analysis and how this analysis affects their area-specific tasks. For instance, a pricing analysis could indicate potential strengths, weaknesses, opportunities and/or threats (SWOT) within the current or potential market. Therefore, the analysis can sometimes require radical or even unpopular decisions to be made in relation to the wine's price and quality in order to maximize the brand or wine's position.



Fig. 6.1. One of Systembolaget's retail stores in Sweden.

2. Selecting Target Markets

Once the marketing analysis is complete and analyzed correctly, selecting a target group, market or markets for their brands or wines is accomplished by matching their identified strengths and weaknesses to particular target markets and production.

3. Marketing Implementation

Putting plans, words and production into action is the next step and this is coordinated and launched with realistic logistical and distribution channel support. Marketers must make sure that the plan has synergy and that it can be translated and transplanted into concrete actions and tasks. Otherwise the plan is doomed for failure.

Swedish Market & Prices

1. Monopoly State

The Swedish state monopoly is called Systembolaget AB and is responsible for all sales of alcohol beverages over 3.5% alcohol by volume to the public. Systembolaget cannot import directly but must purchase its products through registered importers. All importers receive a detailed list of products to be purchased on a monthly basis. These lists are provided in a yearly plan and adjusted on a monthly and semi-annual basis.

All importers have the right to submit wines that they feel fit into the beverage category. Those products considered acceptable by the monopoly will then be tested in a blind tasting conducted by the buyers at Systembolaget. The winner or the beverage with the best quality 'wine to price ratio' will be purchased and listed either throughout the country or in a smaller number of specialized stores in relation to the price level and sales statistics of each geographical region. Price levels then become of vital importance. All products except those winning the tasting are excluded. The importer has the opportunity to submit the wine to market testing. If this proves to be a seller, the product is accepted into the portfolio and listed according to its price level. The waiting period for this test listing is over two years. So patience is a virtue!

There is another list called an 'order list', which is a list of products available through Systembolaget. This list encompasses other wines and products available from various importers and can be ordered in by the consumer. The only problem with this is that the consumer must be patient and plan instead of buying impulsively. Systembolaget has today about 450 basic wine brands, sold in all stores nationwide with some selected stores strategically placed throughout the country. These stores have over 1200 products on the shelves. Together with the order list this gives the consumer the possibility to order over 6000 different brands, a good service by any means.

I don't believe in letting loose the oligopolies either, as they would dominate the retail industry just like Systembolaget, but a system which allows for a maximum of two stores per individual or company, such as in New York State, these companies could then compete against be noted that the registered importers

have the right to sell their products to the on-trade (licensed restaurants and hotels).

Unfortunately, the state has not overlooked this either. In order to dominate the import side too the state owns its own import and manufacturing company called Vin & Sprit. Vin & Sprit is the most dominant importer and producer in Sweden with a number of vineyards around the world, not to forget the Absolute product range which it produces and distributes. This leads to stiff competition for the remaining 420 importers.

2. Customer Service

The public might not have an open system, but one area in Sweden which is far ahead of the competition is customer service. A knowledgeable workforce, very good product character descriptions and public depletion records for all wines in their stores.

Systembolaget seems to believe, as I, that a well educated public will learn to appreciate wine for its quality, trade-up, and would therefore be less likely to abuse wine. I believe that product information and education is the way to compete.

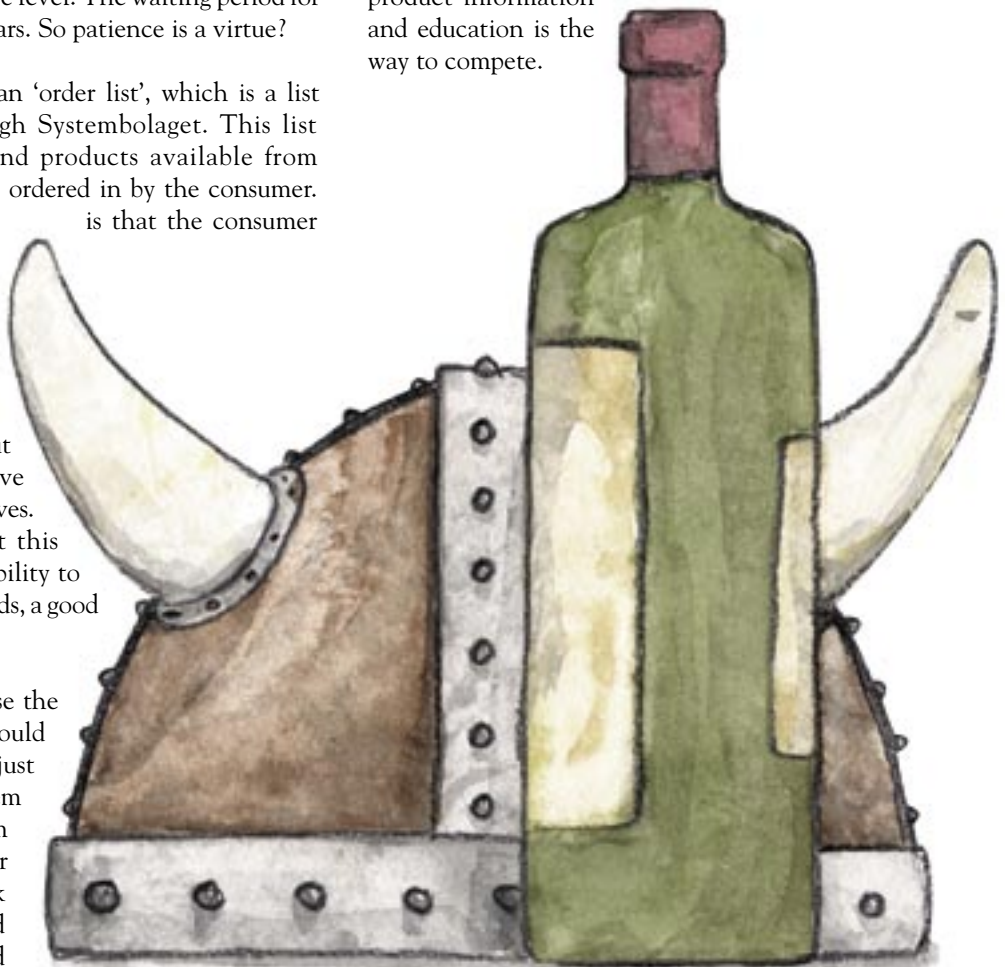


Fig. 6.26.

Swedish Price to Points Value Graphs for Red Wines

Red Wine Price Point Scale:

The prices range from 42.75 kr for a 70/75-point wine up to 2,962.50 kr for a 96/100-point wine.

Red wines dominate with about 80% of the sales. This per cent is reduced slightly during the summer. Wines under 80.00 kr are not of good value as compared to Denmark and Germany (cross-border sales), but they are very competitive in the 225.00 kr and up wine price ranges. One reason for this is that Systembolaget has a fixed mark-up of 21% and wines at these levels become very competitive.

Points	Price	Points	Price
70-75	42,75 kr	88	94,50 kr
75-78	45,00 kr	88-89	101,25 kr
78-81	47,25 kr	89	105,00 kr
81-83	52,50 kr	89-90	134,93 kr
83-84	56,25 kr	90	172,50 kr
84	60,00 kr	90-91	247,50 kr
84-85	63,75 kr	91	337,50 kr
85	67,50 kr	91-92	487,50 kr
85-86	71,25 kr	92-94	675,00 kr
86	75,00 kr	94-95	900,00 kr
86-87	79,50 kr	95-96	1 425,00 kr
87	84,00 kr	96-100	2 962,50 kr
87-88	88,50 kr		

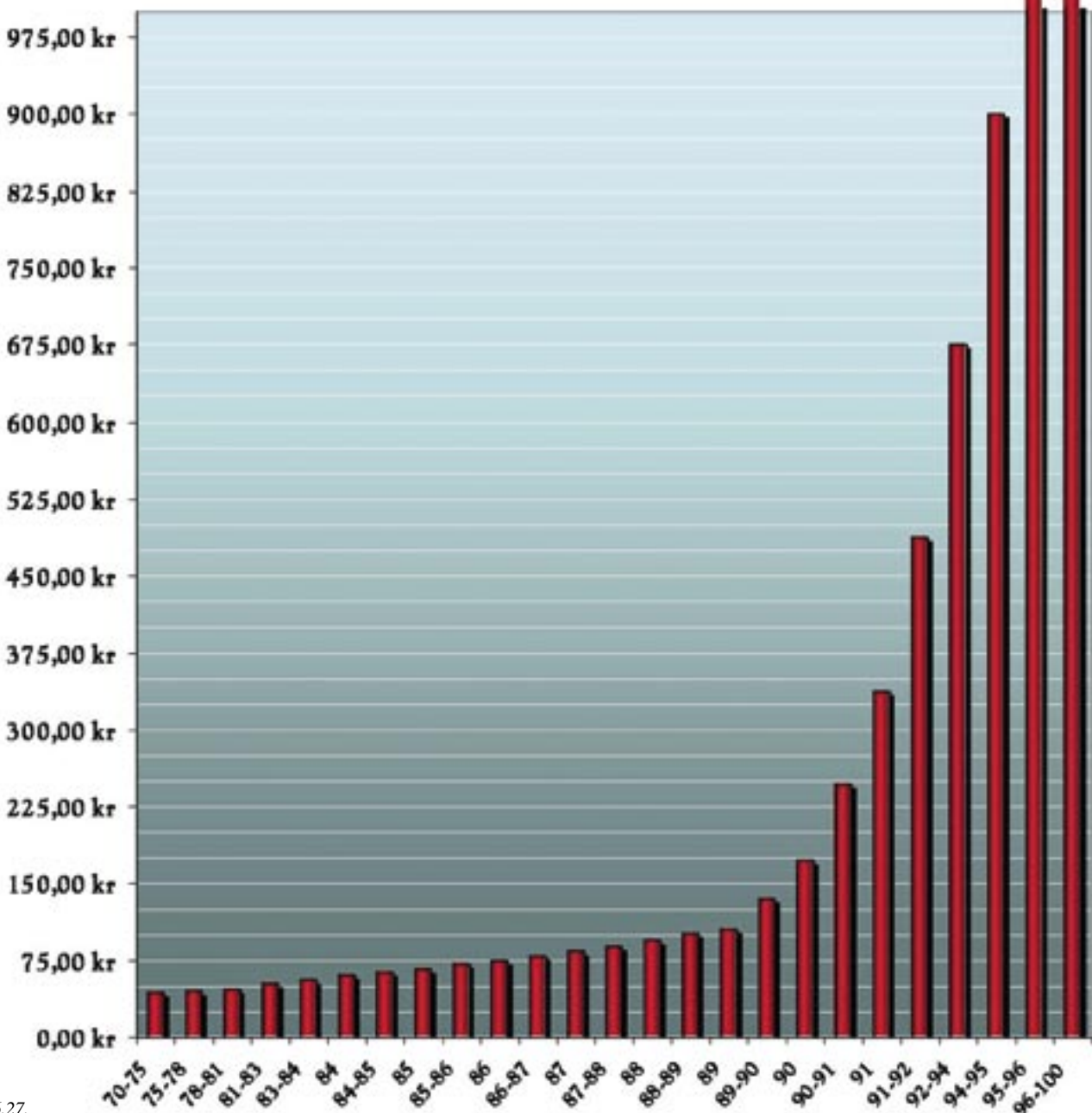


Fig. 6.27.

Swedish Price to Points Value Graphs for White Wines

White Wine Price Point Scale:

The prices range from 43.00 kr for a 70/75-point wine up to 1,200.00 kr for a 96/100-point wine.

Wines under 70.00 kr are not of good value as compared to the cross-border wines in Denmark and Germany; nevertheless, they are very competitive in the 125.00 kr and up wine price ranges. One reason for this is that Systembolaget has a fixed mark-up of 21% and wines at these levels become very competitive.

Points	Price	Points	Price
70-75	43,00 kr	90	125,00 kr
75-78	46,00 kr	91	172,00 kr
78-81	49,00 kr	91-92	285,00 kr
81-83	52,00 kr	92-94	375,00 kr
83-84	55,00 kr	94-95	600,00 kr
84	58,00 kr	95-96	900,00 kr
85	62,00 kr	96-100	1 200,00 kr
86	68,00 kr		
87	75,00 kr		
88	85,00 kr		
89	99,00 kr		

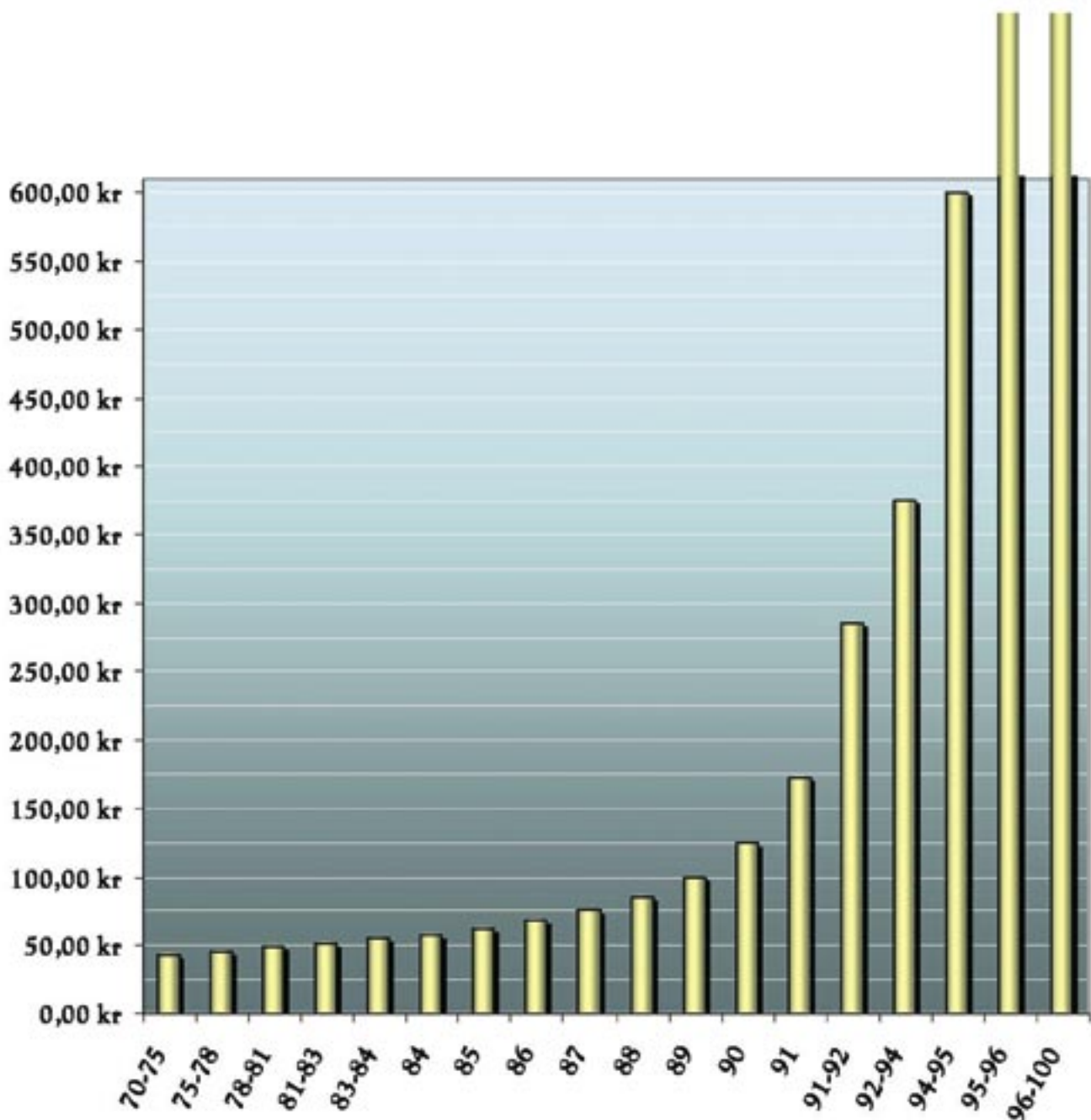


Fig.6.28. White Wine - Quality to Price Scale.