DOI: 10.17626/dBEM.ICoM.P00.2015.p084

ORGANIC PRODUCTION AS A TREND IN WINE INDUSTRY? – THE CASE OF CZECH REPUBLIC AND NEW ZEALAND

Sylvie FORMÁNKOVÁ, Helena CHLÁDKOVÁ, Naďa HANUSOVÁ
Mendel University in Brno, Brno, Czech Republic
E-mail: sylvie.formankova@mendelu.cz

Summary: The paper compares the current situation in organic wine production in the Czech Republic and New Zealand. Organic viticulture passes a major change in the European Union legislation. The Standing Committee on Organic farming has agreed on new rules for labelling bottles containing wine from organically grown grapes. Since the year 2012, the winegrowers are able to mark a bottle as 'organic wine'. The European Commission also approved 30 certification agencies worldwide to work under this equivalence with the EU regulation. Among these 30 agencies included the BioGro, which is New Zealand's leading organic certifier. Organically farmed vineyards formed 4.9% share of the total area of vineyards in the Czech Republic in the 2011, New Zealand proportion is 1% higher. The essential difference between New Zealand and the Czech Republic is in the question of satisfying domestic consumption by wine production. New Zealand export of wine grows rapidly and increased from 15.2 million litters in 1998 to 154 million litters in 2011, which is ten times more. Czech organic wines have much to offer to consumers. They have received many prestigious awards at international competitions but the foreknowledge of customers is very low and organic wine is drunk mostly by regular consumers. That is why this is necessary to be changed. The popularity of organic wine is expected to grow mainly on foreign markets. New Zealand organic wines are extremely popular and it is about to attain the Asian market.

Keywords: organic, wine, viticulture, industry analysis

1. Introduction

Viticulture is a field that has experienced a big boom in the last few years. The popularity of wine is increasing worldwide, therefore it is not surprising that also in the Czech Republic the number of consumers mount from year to year. Growing consumption especially of good wines goes hand in hand with it the increasing interest in grapes growing and wine making. On the European continent the cult of wine has begun to spread 3 thousand years ago. The history of wine growing in New Zealand is much younger. Its origins can be found in the early 19th century during the colonization period.

Organic farming is based on perfect knowledge of the needs of plants, animals and landscapes. The aim of organic farmer's effort is to produce, but in a sustainable way, which promotes diversity and sustainability of the cultural landscape. Organic viticulture as the branch has its origins in the fifties of last century in Switzerland and Germany however some argues that it originates in thousands years ago history when farmers did not use synthetic chemicals. Organic farming is developing in the CR since 1990, when according to the principles of organic agriculture farmed only three farms. Modern viticulture represents the mutual coexistence of winegrower with nature. Only by respecting natural laws that affect the vines can be achieved the primarily goals - the production of quality grapes. (The World of Organic Agriculture: *Statistics and emerging trends, 2006;,* Teara Story: *Organic farming,* 2009)

The aim of this paper is to chart the environment sector of organic winery in the Czech Republic and New Zealand and to identify the main differences which might be inspiring for Czech wine-growers and wine-makers to make progress in their organic wine production development.

2. Methods and methodology

Results of this paper are the outcomes of a deeper and broader research. To get and overview of the situation in this industry Grove model, which is an extended version of well-known Porter´s model of competitive forces, was applied. This selected part of the research is also presented in this paper. To get deeper knowledge about the current situation it is necessary to do the macro environmental analysis – PESTEL and observe all the factors existing in the branch. The outcomes and conclusions formulated in the Grove´s model result from the experience and knowledge gained from these all analyses. Do to the extent of this paper only the main results in the area of competitors, buyers, suppliers, possibility of fundamental change in the way of business and strength of general partners were elaborated. As a primary source of the data statistics, annual reports and scientific researches and papers were used.

3. Results

3.1. Grove´s model of branch environment

1. Strength of existing competitors
The strength of existing competitors in the Czech Republic and New Zealand is very different. While the concentrations of competitors in the Czech Republic in the field of organic viticulture relatively small because there are only 80 entities registered as organic wine growers in 2010, new Zealand has already experienced a boom in the production of organic wine. There are more than 115 entities that are involved in organic wine growing. The competition is much stronger, but the sales area is much broader than in the Czech Republic. After New Zealand's organic wine is a great demand especially in Commonwealth countries. This is a great advantage. Czech Republic must find a sales area outside of the Czech Republic in countries where demand on organic wine exceeds supply.
The main competitors in the Czech Republic are especially small and medium-sized enterprises that are engaged in production of organic wines only marginally. The problem with entering the market can also be complicated and time-consuming administration.
Among the most powerful organic wine growing entities belong Ing. Petr Marcinčák winery, that farms on 104 hectares of vineyards and Miloš Michlovský who conquers the large market chains in last months. Most export oriented company is Wine cellars Čejkovice – Templars, which export its wine also to foreign countries such as USA. Wine cellars Čejkovice have very strong position among existing competitors especially because they are very accessible to consumers. Their organic wine can be found in the large supermarkets and store chains. It is clearly visible and attract by big bio label. As results from Marketing & Social Research made from Winery fund in 2008 people usually purchase wine in large store chains. Compared to smaller organic wine producer whose products are very difficult to buy, they can be found only in selected wineries or are accessible through online shops. Very good solution is applied by Josef Abrle who supply organic wine to selected shops with organic food in shopping galleries so it is also very accessible to public. And already mentioned Miloš Michlovský, who has started to supply to large store chains such as Lidl. But he does not mark his wines as organic yet.

In New Zealand is the competition more compact and more companies compete on similar levels. There are much more large companies that supply to supermarkets and store chains. Some of these wineries even form the competition in the field of organic wine for Czech wine growers such as Millton vineyards or Richmond plains that are accessible in stores with healthy food such as Marks and Spencer. (Pro-Bio, 2012; Vína z Moravy vína z Čech: Aktuality, *2*012)

2. Strength of potential competitors

By potential competitors are primarily meant winemakers who produce in an integrated system that provides a way of farming, whose main aim is to ensure sustainable development, which allows preserving the natural functions of agro ecosystem and other ecosystems. There is only a short step to growing wines in organic way, yet the transition to growing organic wine takes at least three years. Due to the large number of growers producing the integrated production, quantity of potential competitors is relatively high.

On the other side there are many berries for potential competitors to enter the market with organic wines. For the greatest barrier to entry into production of organic food is considered increased administration (certification, registration, etc.) decreasing demand for organic foods in the overall economic situation and financial crisis. Administration demanding costs companies money and time. It is necessary to mention the higher need of employees when comparing to conventional system of farming. Most of the work is done by hands so temporary workers and seasonal help are being used very often. Even if many small wineries try to employ family members and thus decrease costs, sometimes it is necessary.

Among other barriers when entering into the organic wine market is three to five-year transition after registration. Although the winemaker has used all the principles of growing in organic way he can grant certification after a long time. (CSO)

3. Strength of buyers

The production of organic wine growers can be often obtained in selected specialized shops (taverns, wine shops), both in stone, and the Internet, as well as in specialized organic food stores, or in private wine cellars. Offer organic wine, however, significantly expanded into restaurants where are being more often put on its wine list.

As a result of emerging technology is more often used an option to purchase not only Czech but also foreign organic wines via e-shops. In supermarkets and large retail chains can be also met Czech organic wine mainly produced by large growers such as Wine Cellars Čejkovice - Templars. Smaller winemakers often do not have the capacity to supply to supermarkets who are trying to buy at the lowest possible price. Winemakers themselves also believe that their brand and reputation would fall when supplying to the supermarkets. On the one hand this is understandable, but in this way could be organic wine brought closer to customers.

As for the specialized shops, each chooses a different strategy to attract customer to buy organic wine there. Usually it is unfortunately the price what will appeal to customers, and for that reason, shops are trying to negotiate the lowest possible purchase prices from suppliers. The organic wines form a little different situation. As the customer prefers rather the price than quality of the wine he goes for table wines packed in boxes. These consumers prefer more commercial chain store than specialized winery. On the other hand, consumers who buy wine for its taste and quality would turn more to specialized shops. There is also the option to purchase twisted wines at affordable prices. However, twisted organic wine one encounters rarely.

According to market research dealing with organic food, which was carried out by Food Chamber of the Czech Republic in 2010 was shown that quite a big problem is a very strong bargaining position of retail chains. Several manufacturers in the survey complained about the fees of chains that are charged, their unwillingness to listen and the fact that retailers have high margins and bad product placement. (Pro-Bio, 2012; Plocha ekologicky obhospodářovávané půdy, 2011*;* Focus, marketing & social research. *Výzkum:Trh s vínem v ČR 2008*, 2009)

4. Strength of suppliers

The suppliers could be divided into two main groups. First those suppliers who supply to the branch of viticulture and second group is formed by suppliers to the branch of winery.

Among the supplier in the field of viticulture fall companies, which offers products necessary for working and farming in the vineyard or for achieving quality wine. These include mechanical equipment, supporting structures, vine seedlings. These products are essential for working in viticulture and their position is strengthened by the fact that they can not be replaced by any substitutes. Suppliers also work out the position by the fact that the wine branch is not their only customer.

The second group includes suppliers of products, which are a direct input into the production process as preparations to wine, wine barrels, pumps, containers, labels, closures, etc. Bargaining power of suppliers is generally higher, but you can find the differences between small suppliers, products for wine and small material suppliers, who have very little bargaining power. By contrast, packaging and labelling achieved through concentration and importance to the industry higher influence. Suppliers of organic wine grapes also exist, although most of winegrowers are individuals who produce only from their own grown grapes. (Sharon, Forbesa, 2009; *On the up: The remarkable rise of the organic wine industry,* 2011)

5. Possibility of fundamental change in the way of business

In the process and production of organic wine is very little possibility of change. Procedures are always the same. They may differ in the environmental input and the use of other methods of cultivation. The change in business practices and in terms of sales is perhaps possible especially in the field of marketing. There are greater opportunities for promotion of organic wine delivery to specialized shops and proactive approach to customers.

6. Strength of general partner

General partner is explained as company that we depend on or vice versa. In case of wine industry, there is no company dependent on any particular company, which would have to sell some integral part of impact. As already mentioned, the company that produces organic wine is most dependent on the companies that supply integral components necessary for production, the associated integral part of production, but none of these companies constitute a monopoly.

4. Discussion and conclusion

Organic viticulture passes in the field of legislation in the European Union an important change. After many years the Standing Committee on Organic farming has agreed on new rules for labelling bottles containing wine from organically grown grapes. From the harvest in 2012, growers will be able to mark a bottle as 'organic wine' after meeting all the conditions in the organic cultivation system. The bottle will also have to show the EU organic label and code number of certificate. Further, the European Commission approved 30 certification agencies worldwide that import wines into the territory of the European Union to work under this equivalence with the EU regulation. Among these 30 agencies included the BioGro, which is New Zealand's leading organic certifier. (BioGro: *Think organics, think BioGro: In the news,* 2011; *Organic farming*: *EU policy, Legislation,* 2012)

Although neither Czech Republic nor New Zealand is one of the largest organic wine producing countries, both are above the world average. Organically farmed vineyards formed 4.9% share of the total area of vineyards in the Czech Republic in the 2011. In the case of New Zealand, the proportion is about 1% higher. At the present time there are no statistics on the consumption of organic wine per person, because as already mentioned, till harvest 2012 organic wine does not exist according to the EU legislation. Therefore, the total consumption indicates both conventionally grown and organically grown wines. But common consumption increases each year in the Czech Republic. In 2011, the value has not been published yet, but it is estimated that it will be around 20 litters per person, which is about 1.3 litters less than the average per capita consumption in New Zealand. (Hrabalová, 2011; Willer, Sorensen, 2008; Teara Story: *Organic farming,* 2009)

The essential difference between New Zealand and the Czech Republic is in the question of satisfying the domestic consumption by wine production. In 2011, based on the Fund of wine-makers estimation, the wine consumption exceeded production 5.5 times, so the Czech Republic is unable to satisfy domestic demand and this is also reflected in the large volume of imported wines. Imported wines account for more than 60% of the total supply of wine in the Czech Republic. Conversely, New Zealand production is 2.5 times higher than the consumption of wine and this records an option to export to other markets.

Although traditional viticulture in the Czech Republic has a long history in comparison with New Zealand, where the first vineyard was planted in 1851, New Zealand wines have earned an excellent position in the global wine market. The organic wines are available worldwide and there is still increasing interest especially in the U.S., Canada, Great Britain, but also Japan. Their approach to a healthy lifestyle and increasing interest in organic products exceeds the interest in the Czech Republic. According to a survey conducted by Lincoln University in New Zealand, 75% of respondents indicated that they would prefer wine made in environmentally sustainable way.

Competition within the industry is much tougher in New Zealand. Not only that there are more growers in organic growing mode - 115 compared to 80 organic wine growers in the Czech Republic in 2010, but there are mainly large companies that supply wine to the supermarket, which are experiencing high competition fight. In the Czech Republic, the market is dominated by small to medium sized enterprises engaged in production of organic wines. Many growers grow on the total area of up to 5 hectares and wines are sold at a location of its production and selected wine shops. In supermarkets, where the bargaining power of subscribers is large, Czech organic wine is met rarely. In New Zealand are many organic winegrowers who produce wines intended for export only.

In the Czech Republic there are also much greater obstacles when transferring to organic farming from conventional one. According to the Statistical Report ÚZEI from 2009, the biggest barriers are seen in administration and higher operation costs compared with conventional farming. (Institute of Agricultural Economics and Information)

At present, the organic viticulture industry is worldwide in the development stage and it can be expected a positive development in the future. Although the Czech Republic demand for organic wine in the past year rather stagnated, the demand for organic wine from New Zealand is constantly increasing, especially in Asia. A Vinexpo study by the International Wine and Spirits Record (ISWR) showed that even though China is only the eighth largest consumer of wine in the world, Chinese wine consumption is projected to rise by roughly a third by 2013. Overall wine consumption in Asia will jump by a quarter by 2015. Asia is now arguably the priority market for driving growth globally, and among New Zealand wine exporters. (*Vinexpo*: *For the trade only.* Global current and future trends to 2015: consumption, 2012) There is no doubt that customers have increasingly become discriminating about what they choose to drink. It is very important that they will be provided with what they expect from organic wine. The quality and enjoyment. Czech wines have much to offer to consumers. Although mostly smaller winemakers are concerned with the organic cultivation, the reason for transition to organic production was the belief that this organic system is better than conventional. They grow excellent wines that have received many prestigious awards at international competitions. Although the Czech organic wines have already found their consumers, the need for additional marketing activities that will result in expansion of its portfolio of consumers are required.

References

1. BioGro: *Think organics, think BioGro: In the news* [online]. 2011. Available from: http://www.biogro.co.nz/index.php/in-the-news/entry/biogro-first-nz-organic-certifier-to-gain-eu-equivalence;
2. CSO: *Czech statistical office* [online]. Available from: http://www.czso.cz
3. Europa.Eu. *Organic farming*: *EU policy, Legislation* [online]. 2012. Available from: http://ec.europa.eu/agriculture/organic/eu-policy/legislation_en
4. Focus, marketing & social research. *Výzkum:Trh s vínem v ČR 2008, Shrnutí hlavních výsledků studií realizované v roce 2008 pro Vinařský fond*, 2009
5. Institute of Agricultural Economics and Information [online]. Available from: http://www.uzpi.cz/indexen.htm
6. Mze, Andrea Hrabalová A Úzei Praha. Ročenka ekologické zemědělství v České republice 2010. Praha: ÚKZÚZ Brno, 2011. ISBN 978-80-7401-053-8.
7. NZ herald.co.nz: *On the up: The remarkable rise of the organic wine industry* [online]. 2011. Available from: http://www.nzherald.co.nz/lifestyle/news/article.cfm?c_id=6&objectid=10751620
8. Pro-Bio: *Výrobce biopotravin* [online]. 2012. Available from: http://www.probio.cz/
9. *Vína z Moravy vína z Čech*: *Aktuality* [online]. 2012. Available from: http://www.wineofczechrepublic.cz
10. Sharon L. Forbesa, David A. Cohena. *Consumer Attitudes Regarding Environmentally Sustainable Wine: An*. Faculty of Commerce, Lincoln University, New Zealand, 2009.
11. Teara Story: *Organic farming* [online]. 2009. Available from: http://www.teara.govt.nz/en/organic-farming
12. The World of Organic Agriculture: *Statistics and emerging trends 2006*. 1. Aufl. Tholey: IFOAM, 2006. ISBN 978-390-6081-816.
13. *Vinexpo*: *For the trade only* [online]. Global current and future trends to 2015: consumption. 2012. Available from: http://www.vinexpo.com/en/
14. Willer, H., Yussefi-Menzler, M., Sorensen, N. *The world of organic agriculture*: *statistics and emerging trends 2008*. Repr. London: Earthscan Publications, 2008. ISBN 978-184-4075-928.
15. Zemědělství: *Plocha ekologicky obhospodářovávané půdy* [online]. 2011. Available from: http://issar.cenia.cz/issar/page.php?id=1606