

# Influence of price level of imported wine on competition in the wine-production sector in the Czech Republic

*Vliv úrovně cen dováženého vína na konkurenci v odvětví vinařství v ČR*

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**Abstract:** The paper is a part of solution of the grant awarded by the Ministry of Agriculture (NAZV) No. QF 3276 and analyzes the influence of the price level of imported bottled wine on the competition in the wine-production sector in the Czech Republic. The comparison of the industrial producers' prices in the Czech Republic with the average import prices of bottled wine in particular years brings us to conclusion that a threat for Czech producers is first the price of the imported table wine (white and red) at present. The average import prices of this wine category varied under the minimal average industrial producers' prices in 1998–2003. The average import price of the white table wine in containers up to 2 liters was 19 CZK per liter in 2003 and the minimal average industrial producers' price was 26.90 CZK per liter in the same year. The price level is higher in case of the red table wine in general, but the average annual import prices (in 2003, 23 CZK per liter) also varied under the minimal average industrial producers' prices in all analyzed years (in 2003, 29.70 CZK per liter). The situation is more positive for the Czech wine producers in case of the quality wine. There is a space for an increase in price. The average import prices were by 25 CZK per liter per year higher in average than the maximal industrial producers' prices in the Czech Republic in all analyzed years. However, while the average annual import price of the white quality wine increases (50 CZK per liter in 1998; 93 CZK per liter in 2003) and creates a bigger space for the Czech wine producers in the price policy, the average annual import prices of the red quality wine varied around 80 CZK per liter in all analyzed years.

**Key words:** competition, import, price, wine-production sector, bottled wine, industrial producers' price

**Abstrakt:** Příspěvek, který je součástí projektu řešeného ústavem managementu na PEF MZLU v Brně pro NAZV č. 1025/3MZ3276, analyzuje vliv cenové úrovně dováženého lahvého vína na konkurenci v odvětví vinařství v České republice. Ze srovnání cen průmyslových výrobců (CPV) v ČR s průměrnými dovozními cenami u lahvého vína v jednotlivých letech vyplývá, že hrozbu pro české vinaře představuje v současné době především cena dováženého stolního vína, a to jak bílého tak i červeného. Průměrné dovozní ceny u této kategorie vína se pohybovaly v letech 1998 až 2003 pod průměrnými ročními minimálními CPV. V roce 2003 průměrná dovozní cena stolního bílého vína v obalech do 2 l byla 19 Kč za litr, minimální průměrná CPV ve stejném roce dosáhla hodnoty 26,90 Kč za litr. V případě stolního vína červeného je cenová hladina obecně vyšší, průměrné roční dovozní ceny (v roce 2003 23 Kč za litr) se však také ve všech sledovaných letech pohybovaly pod průměrnými minimálními CPV (v roce 2003 29,70 Kč za litr). U vína jakostního je situace pro domácí výrobce vína pozitivnější. Zde existuje prostor pro zvýšení ceny. Průměrné dovozní ceny se v analyzovaných letech pohybovaly nad maximálními CPV v ČR v průměru o 25 Kč za litr ročně. Ovšem zatímco u jakostního vína bílého průměrná roční dovozní cena roste (v roce 1998 činila 50 Kč za litr, v roce 2003 již 93 Kč za litr), čímž se zvyšuje prostor pro domácí vinaře v oblasti cenové politiky, v případě jakostního vína červeného průměrné roční dovozní ceny ve všech analyzovaných letech stagnovaly a pohybovaly se okolo 80 Kč za litr.

**Klíčová slova:** konkurence; dovoz; cena; odvětví vinařství; lahvé víno; cena průmyslových výrobců

## INTRODUCTION

Every national economy is more or less an open economy at present. It means that domestic businesses have to be prepared also for the competition of foreign businesses and their products in all industries of the national economy. The most common form of foreign competition is import.

That is why not only domestic businesses and their products in the market but also products of foreign businesses which are imported into the market, their character, quality, and also the level of their prices are necessary to be looked at in the analysis of an industry competition.

The imported wine means a competitive pressure for the wine producers in the Czech Republic – there are two

points of view. The price of imported wine determines the price freeze, which Czech producers can charge; the imported wine increases the intensity of rivalry among the winery firms in the market together.

The aim of the paper is to analyze the current price position of the Czech wine producers compared with their foreign competitors who import wine into the Czech Republic. The aim is to perform the analysis of the past development and the current situation to evaluate the influence of the price level of imported bottled wine on the competition in the wine-production sector in the Czech Republic.

Tomšík (2003) and Chládková (2003) deal with the connected problematic of the analysis of viticulture and wine production sector in the Czech Republic as well.

## SURVEY OF LITERATURE AND METHOD

The analysis issues from the Porter's (1994) definition of the industry competition. The intensity of competition in an industry depends on five competitive forces – new entrants, substitute products or services, bargaining power of suppliers, bargaining power of buyers, and rivalry among the current competitors. These five forces together determine the intensity of the industry competition and the industry profitability.

The paper focuses on two competitive forces: substitute products and rivalry among the current competitors.

The substitute products limit the industry profitability because they determine a price freeze, which businesses in the industry can charge. The more attractive the price alternative of the substitute products is, the more fixed the price freeze over industry profitability is (Porter 1994).

The rivalry among current competitors has a known form of clever stratagems to get a good position in an industry. Methods like a price competition, an advertis-

ing campaign, a presentation of products and an improved service for customers or a guarantee are used. But especially the price competition is a highly uncertain method and it often worsens the industry profitability. The price reduction is adjusted easily and quickly by the rest of competitors and when it happens, earnings of all businesses in the industry are going down if the price elasticity of demand is not sufficiently high (Porter 1994).

The object of the analysis is the wine-production sector – it means the production and the sale of wine in the Czech Republic. The analysis is focused on the production and the sale of bottled wine – the quality white and red wine and the table white and red wine. The classification of the imported wine regarding the quality wine and the table wine was made according to the 8-digit nomenclature for the customs designation of goods.

The price level of wine produced by the Czech producers is evaluated by prices of the Czech industrial producers. The import prices are analyzed for the wine imported in containers up to 2 liters because these imports go for sale into the retail trade network. The wine imported in containers bigger than 2 liters is mostly further processed and that is why it does not mean the main competition for Czech industrial producers.

The information for this analysis were drawn from the Situation and Perspective Bulletin for the Commodity Wine, from the information of the Czech Wine Producers Union, the Ministry of Agriculture of the Czech Republic and the Czech Statistical Office which were presented on Internet.

## RESULTS AND DISCUSSION

The wine production in the Czech Republic produced from Czech grapes was 495 thousand hectoliters in the marketing year 2002/2003<sup>1</sup>. Wine consumption in the

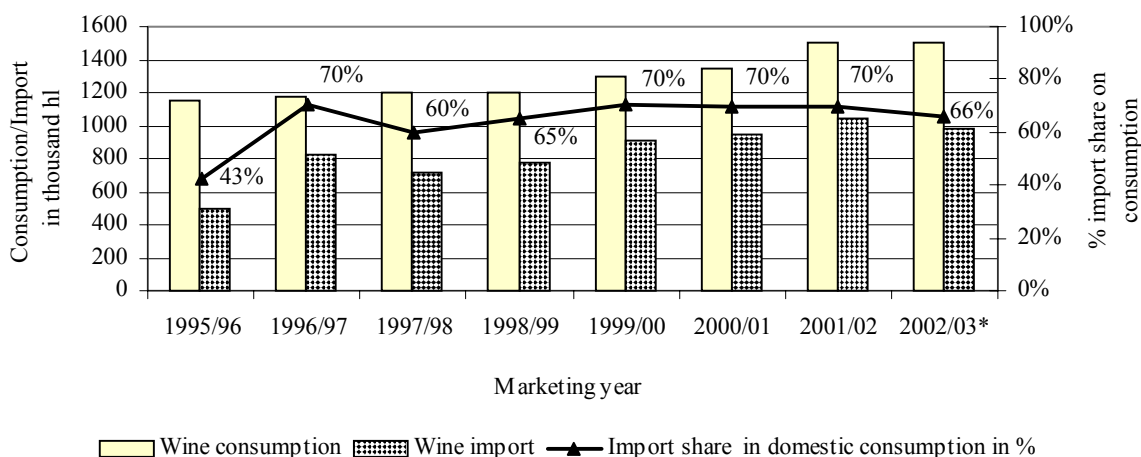


Figure 1. Comparison of total wine consumption and wine import into the Czech Republic in 1995/1996–2002/2003

Source: Czech Wine Producers Union; Ministry of Agriculture of the CR; Czech Statistical Office; own calculations

<sup>1</sup> Marketing year starts on 1<sup>st</sup> August and finishes on 31<sup>st</sup> July next year.

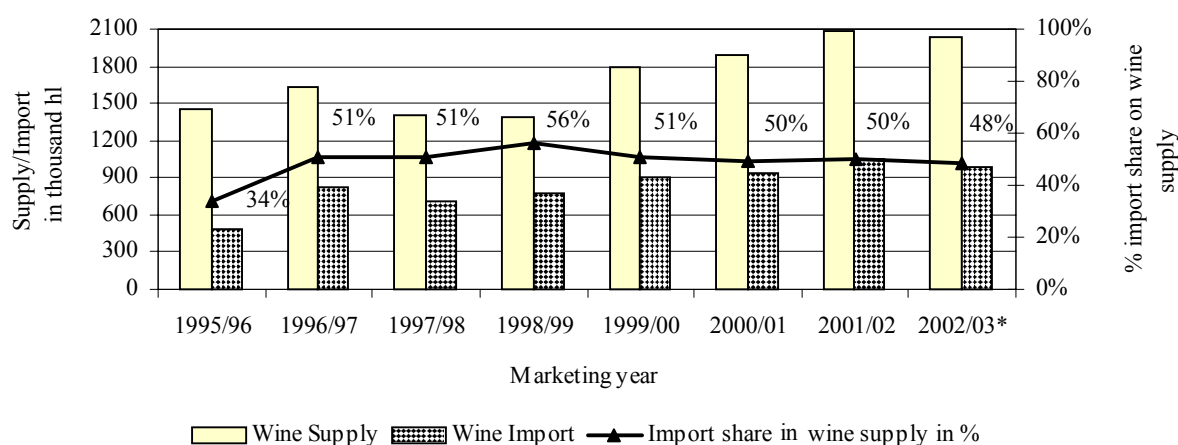


Figure 2. Comparison of total wine supply and wine import into the Czech Republic in 1995/1996–2002/2003

Source: Czech Wine Producers Union; Ministry of Agriculture of the CR; Czech Statistical Office; own calculations

Czech Republic was 16.2 liters per inhabitant – it means the total consumption 1 500 thousand hectoliters of wine in the same marketing year. In that year, domestic production covered only 34% of the domestic consumption of wine. The rest – about 66% of the consumed wine – had to be imported. The similar situation was also in the previous years. The domestic production covered only 36% of the domestic consumption in average from 1995, in particular years this proportion was from 21% to 55%. While the wine production in the Czech Republic was varying around 500 thousand hectoliters per year since 1995, the wine consumption in the Czech Republic was increasing. This situation is described in Figure 1 which presents the development of wine consumption and wine import in thousand hectoliters and the % import share on the total domestic consumption.

The imported wine has a big share in the wine consumption in the Czech Republic and has also an important share in the total supply of wine in the Czech market. The development of import concerning the total wine supply in the Czech Republic is described in Figure 2. The import share in the total wine supply varied around 50% in the industry in all analyzed years (except marketing year 1995/1996), it was even 56% in 1998/1999.

### Industrial producers' prices of wine in the Czech Republic

The industrial producers' prices of bottled wine increased in 2003 compared to 2002. Especially prices of quality wine (white wine and red wine too) increased mostly. The prices of white quality wine increased by 36% and varied from 46.60 to 58.30 CZK per liter, the prices of red quality wine increased by 34% to the level 52.80–66.70 CZK per liter.

The growth of industrial producers' prices of table wine was lower. The prices of the red table wine increased by 11% and varied from 29.70 to 33.00 CZK per liter, the prices of the white table wine increased by 10% to the level 26.90–30.20 CZK per liter.

The difference of the industrial producers' prices between the table wine and the quality wine intensified more in 2003. In this year, the difference between the price of the white quality and the white table wine (23.90 CZK per liter) was the biggest and also the difference between the price of the red quality and the red table wine (28.40 CZK per liter) was the biggest since 1998. The biggest difference from 1998 (7.30 CZK per liter) was also achieved between the price of the red and the price of the white quality wine (Table 1).

Table 1. Industrial producers' prices of bottled wine in the Czech Republic in CZK per liter in 1998–2003

| Year | White quality wine | White table wine | Red quality wine | Red table wine |
|------|--------------------|------------------|------------------|----------------|
| 1998 | 24.50–43.10        | 27.30–29.80      | 38.30–46.80      | 28.90–43.00    |
| 1999 | 35.70–42.60        | 25.60–28.80      | 38.30–48.10      | 27.60–30.70    |
| 2000 | 40.40–42.50        | 24.30–31.60      | 44.80–48.80      | 29.70–33.50    |
| 2001 | 40.60–45.80        | 29.60–32.80      | 45.40–52.30      | 32.30–35.70    |
| 2002 | 30.28–46.70        | 18.76–32.80      | 36.75–52.40      | 22.40–34.10    |
| 2003 | 46.60–58.30        | 26.90–30.20      | 52.80–66.70      | 29.70–33.00    |

Source: MIS SAIF (Market Information System of State Agricultural Intervention Fund)

The new payment into the Wine Fund – 1 CZK per liter or 350 CZK per hectare of vineyard – could be the reason of such a high increase in the industrial producers' prices of wine in 2003. But the force of amendment of the Act about Viniculture and Wine-production Sector and with it also the duty of payment into the Wine Fund has come since March 2002. The truth is that payers of value added tax pay the payment into Wine Fund together with value added tax; the others pay the payment twice a year (on 30<sup>th</sup> June and on 10<sup>th</sup> January in the following year). The payment maturity for a vineyard is till the end of a year. This time, incongruity of payments into the Wine Fund could probably bring the increase in prices of wine in 2003 but it does not explain the price decrease at the end of 2002.

### Comparison of import prices to industrial producers' prices

The average import prices of white quality wine were higher than the maximal industrial producers' prices in the Czech Republic in all analyzed years (Figure 3). In addition, the difference between the average import price and the maximal industrial producers' price has been going up since 1998. This difference was only 6.90 CZK per liter in 1998, in 2003 it was 34.70 CZK per liter.

In case of quality red wine, the average import prices varied above the maximal industrial producers' prices in the Czech Republic in 1998–2003 as well (Figure 4). However, the development of import prices is not so positive in comparison to the development of industrial produc-

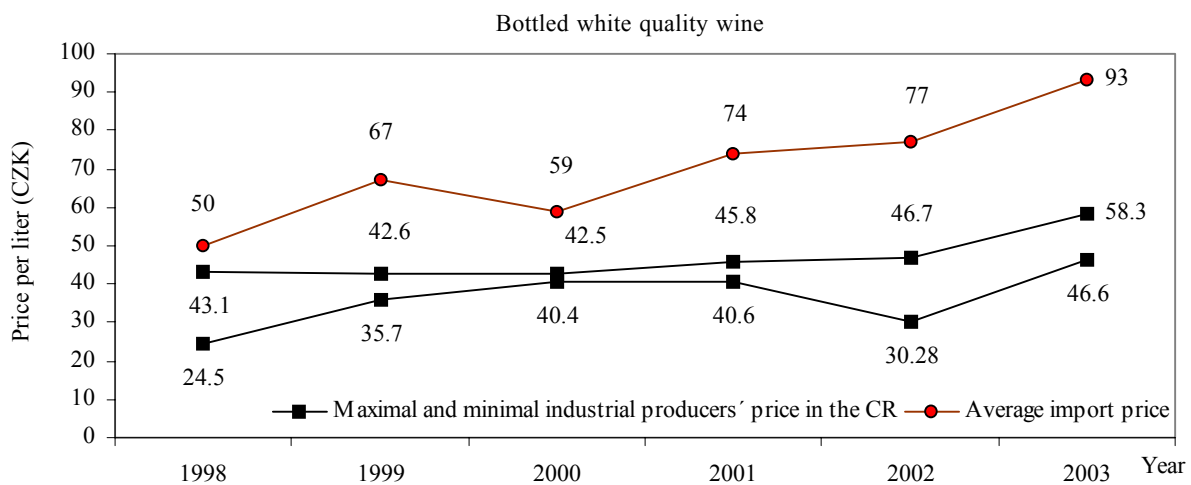


Figure 3. Comparison of development of industrial producers' prices and average import prices of bottled white quality wine in 1998–2003 in the Czech Republic

Source: MIS SAIF; Czech Statistical Office; own calculations

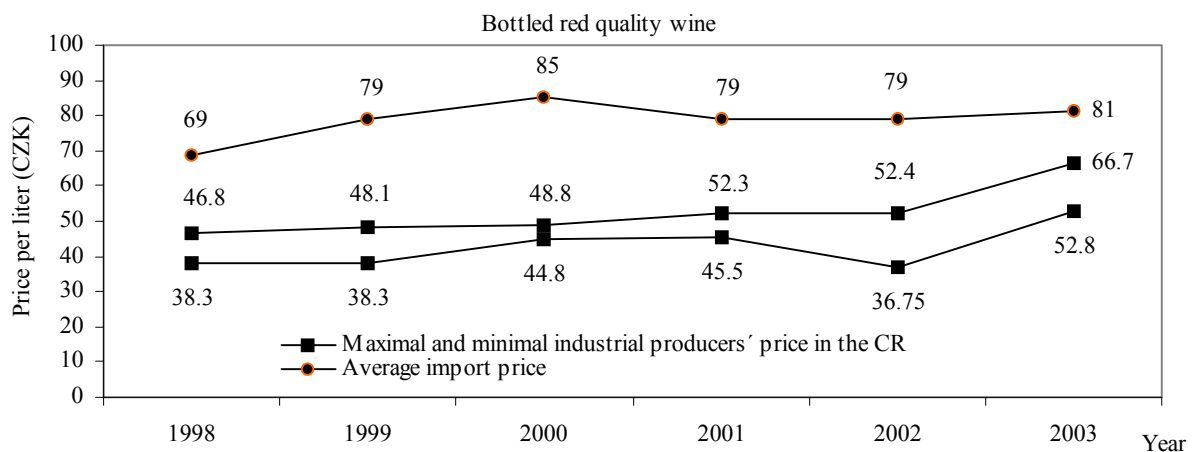


Figure 4. Comparison of development of industrial producers' prices and average import prices of bottled red quality wine in 1998–2003 in the Czech Republic

Source: MIS SAIF; Czech Statistical Office; own calculations

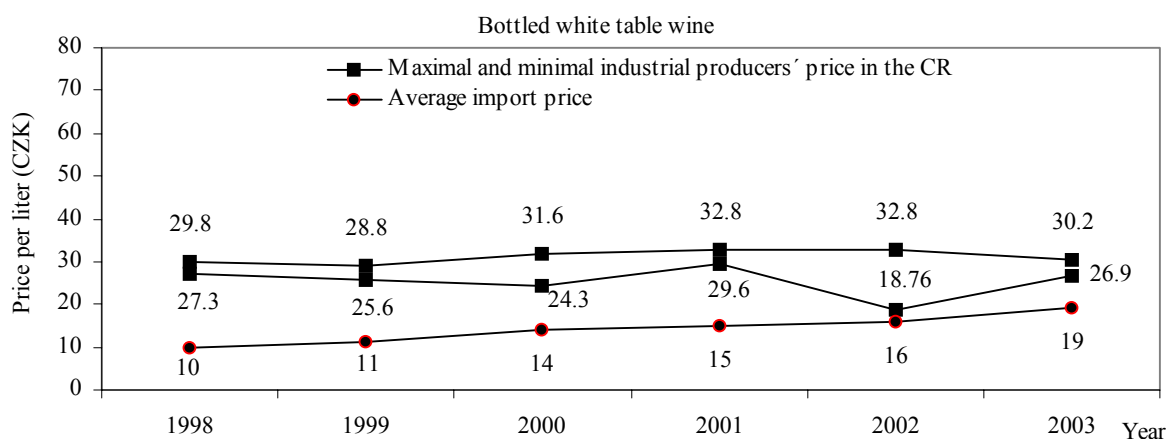


Figure 5. Comparison of development of industrial producers' prices and average import prices of bottled white table wine in 1998–2003 in the Czech Republic

Source: MIS SAIF; Czech Statistical Office; own calculations

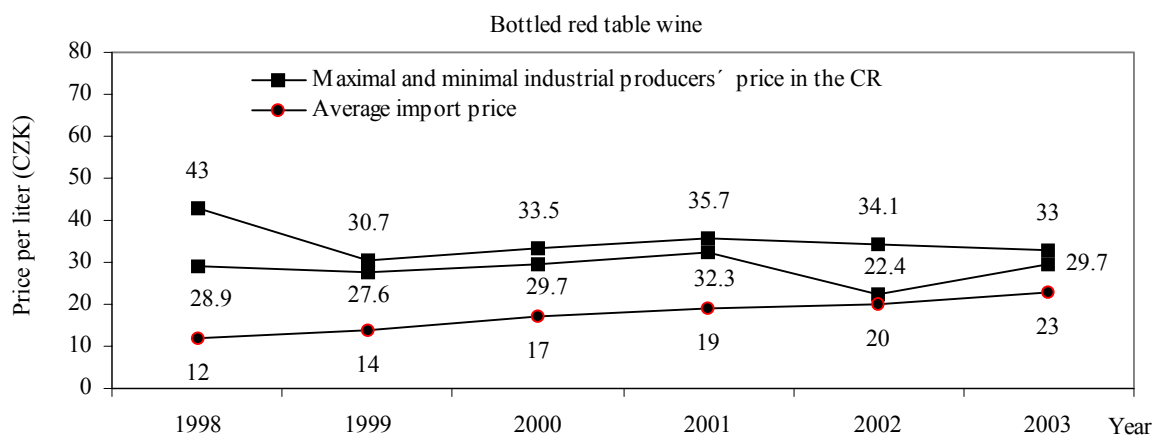


Figure 6. Comparison of development of industrial producers' prices and average import prices of bottled red table wine in 1998–2003 in the Czech Republic

Source: MIS SAIF; Czech Statistical Office; own calculations

ers' prices. Though the average import price increased by 15% to 79 CZK per liter in 1999 from 69 CZK in 1998, it has varied around 80 CZK per liter since 1999. On the other hand, the maximal industrial producers' prices in the Czech Republic have been growing up since 2000; it results that the positive difference decreases – it was 36.20 CZK per liter in 2000 and only 14.30 CZK per liter in 2003.

The average import prices of bottled white and red table wine varied under the minimal average industrial producers' prices in the Czech Republic in all analyzed years. We can see a similar development of prices of white and red table wine from following Figure 5 and Figure 6. Though the price level is higher in case of the red table wine in general, the development of the import prices and also of the industrial producers' prices in the

Czech Republic has a similar trend. The import prices were by 11 CZK per liter per year lower in average than the minimal industrial producers' prices in the Czech Republic. Though this situation is not very positive for the Czech producers of table wine, the development of the analyzed prices in the analyzed years is positive because the industrial producers' prices stagnated or were increasing only very slightly and the average annual import prices were going up – it results the negative difference of prices of table wine was decreasing. In case of the white table wine, the difference between the minimal industrial producers' price and the average import price went down from 17.30 CZK per liter in 1998 to 7.90 CZK per liter in 2003; in case of the red table wine the difference went down from 16.90 CZK per liter in 1998 to 6.70 CZK per liter in 2003.

## Industry competition

Considering the share of imported wine (48% in 2003), the imported wine intensifies the rivalry among businesses in the wine market in the Czech Republic at present.

A current threat for the Czech wine-producers is especially the price of the imported table wine – both white and red. The average import prices in this category of wine were under the average yearly minimal industrial producers' prices in all analyzed years (1998–2003). In 2003, the average import price of table white wine in containers to 2 liters was 19 CZK per liter, the minimal industrial producers' price in the same year have reached the level of 23.90 CZK per liter. In case of table red wine, the average yearly import prices (23 CZK per liter in 2003) were in all analyzed years also under the average minimal industrial producers' prices (29.70 CZK per liter in 2003).

The import price of table wine not only determines the price freeze for the Czech producers, but it also increases the competition among the current competitors in the market in the form of price competition.

The situation in quality wine production is more positive for the Czech producers. In this segment, there is a bigger space for the Czech wine producers in the pricing policy. The average import prices in the analyzed period were above the maximal industrial producers' prices in the Czech Republic in average by 25 CZK per liter per year. But whereas the average yearly import price of the white wine grows (in 1998 it was 50 CZK per liter, in 2003 already 93 CZK per liter), which increases the space for the Czech wine producers in the pricing policy, in case of the quality red wine the yearly import prices in the whole analyzed period stagnated and ranged around 80 CZK per liter. In 2003 the average import price of quality red wine (81 CZK per liter) was – for the first time – lower than the average import price of quality white wine (93 CZK per liter).

The intensity of rivalry of the existing competitors is therefore lower in the case of quality wine, but the development trend of import prices related to the development of industrial producers' prices in red quality wine can create a threat in the future.

## CONCLUSION

Foreign trade plays an important role in the wine-producing industry in the Czech Republic, and it is charac-

teristic by a significant dominance of imports over exports – imports have almost 70% share in the total wine consumption in the Czech Republic and 50% share in the total supply of wine in the market.

A significant factor of competitive pressure for the Czech wine-producers is represented especially by the imported table wine, because the price of white and red table wine is lower than the industrial producers' prices in the Czech Republic (the average difference for the period of 1998–2003 is 11 CZK per liter). The import price of table wine determines the price freeze for the Czech producers, and subsequently increases the level of competition among the current firms in the market in the form of price-competition. The intensity of industry rivalry is lower in the case of quality wine, but the development trend of import prices in relation to the development of industrial producers' prices of red quality wine can create a threat in the future.

The results of the analysis provided in this paper can be extended by the analysis of the import prices of wine according to the territorial viewpoint. This will be one of the directions of the author's future research.

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