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# **Czech wine production and its competitiveness**

## **České vinařství a jeho konkurenceschopnost**

*Pavel Žufan, Helena Chládková*

### **Abstrakt**

Příspěvek se zabývá hodnocením konkurenceschopnosti českého vinařství ve vazbě na rozvojovou koncepci formulovanou v rámci řešení grantu MZe ČR (NAZV QF 3276). Pro rámcové vyhodnocení konkurenceschopnosti je zvolen přístup „nových 7 S“, který je pokusem o úpravu původního konceptu firmy McKinsey na změněné podmínky dynamicky se rozvíjejícího podnikatelského prostředí. Klíčovými faktory konkurenceschopnosti českého vinařství jsou v rámci tohoto konceptu označeny „spokojenost zájmových skupin“ a „paralelní a postupné strategické údery“ – tj. faktory, které se ukázaly jako významné na tradičních vinařských trzích Evropy v souvislosti s nástupem tzv. nových vinařských zemí. Příspěvek vzniká v rámci řešení výzkumného záměru PEF MZLU v Brně, č. MSM 6215648904.

### **Klíčová slova**

vinařství, konkurenceschopnost, strategie, 7 S, dynamika

### **Abstract**

Paper focuses on evaluation of competitiveness of Czech wine production in relation to the development concept formulated within solution of a grant provided by the Czech Ministry of Agriculture (No. NAZV QF 3276). For evaluation of competitiveness, the concept of “New 7 S” is selected, which tries to move the original concept of McKinsey towards the changed conditions of the dynamically developing business environment. Key competitiveness factors for Czech wine production are considered to be the “shifting the rules of competition”, and “Simultaneous and sequential strategic thrusts” – i.e. factors, which have already proved to be important in traditional European wine markets in connection with the outbreak of the so called New wine-countries. Paper is written as a part of solution of research plan of FBE MUAUF in Brno, No. MSM 6215648904.

### **Key Words**

Wine Production, Competitiveness, Strategy, 7 S, Dynamics

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## **INTRODUCTION**

Changing conditions of business environment force organisations to compete and fight for new and new markets, look for new and new competitive advantages. Their traditional sources do not assure organisations a long-term safety and stability. Big organisations still reach economies of scale, operate with high promotion budgets, have developed distribution channels, and many other advantages that provide them with strength and good position for negotiations with suppliers and buyers. But all this is not sufficient, today. Leadership in price and quality is not a sufficient condition for assuring success. Being the first is not always the same as being the best. Entry barriers are lowering or are being overcome, and we live in a business world governed by hyper-competition.

Hyper-competition is a result of dynamics of strategic manoeuvring among global and innovative competitors. It is a result of a rapidly growing intensity of rivalry based on quality and price, it is a result of a strong competition. This rivalry leads to formation of new know-how, new competitive advantages or defence or building a new product or new market. In hyper-competition, there grows the intensity, speed, but also aggressiveness of competitors, and conditions for market imbalance and a quick change are being formed. Market stability is endangered with short production cycles, short product design times, new technologies, radical changes of market borders. In other words, the environment can be characterized as more and more uncertain, dynamic, with a growing heterogeneity of competitors and growing competitive fight.

Changes do not concern just high-tech industries or industries being subject to a deregulation, but also other industries, which seemed to be stable and unchangeable, so far. And wine production is no exception to this situation.

## **MATERIAL AND METHODS**

Evaluation of competitiveness of any industry should lead to identification of the potential for building a competitive advantage within this industry and to a suggestion of appropriate directions for competitive strategies of businesses within the industry.

Rational strategies in hypercompetitive environment focusing on a sustainable competitive advantage do not lead to desired results. The main focus is not only to adjust to the environment, but also to effectively reduce competitive advantages of other businesses and to influence and adjust the environment. Rather than looking for a sustainable competitive advantage and keeping a market balanced, it is about finding and forming new and temporary competitive advantages and keeping the market imbalanced.

Coming from this situation, the paper focuses on an application of the concept of the New 7 S (D'Aveni, 1994), which emphasizes the following possible sources of competitive advantages:

1. *Superior stakeholder satisfaction* – focusing on consumers, investors, employees, but also public in general. The basis of a competitive advantage should be sought from customer's viewpoint, but it is developed by employees and financed by investors. It has to be emphasized that employees have to have the authority to form and assure the process leading to formation of further values for customer.
2. *Strategic soothsaying* – as far as changes happening in the environment have lost their character of continuity, we can hardly talk about reliability of extrapolation-based prediction. On the other hand, we do need information about the future to facilitate decision making. Therefore there grows the importance of experience, and especially sensitivity and intuition – soothsaying.
3. *Positioning for Speed* – speed of implementing (practical application of) a strategy decides about its potential success.

4. *Positioning for Surprise* – this element can significantly limit ability of competitors to react and facilitate reaching own business goals.
5. *Shifting the rules of competition* – operating and competing within traditional rules means that these rules can be predicted; shifting the focus to concentrating at our advantages, we can form an unoccupied space/market...
6. *Signalling strategic intent* – can be used as a help in anticipating reactions of competitors; they have to re-evaluate and change their existing strategies, and well managed signalling can also enable prediction of the changes and reactions of competitors.
7. *Simultaneous and Sequential strategic thrusts* or actions – combination of tactics, speed, surprise and adjustment of the rules can enable a more efficient competing, than making these steps in isolation.

Closer look at this innovation of the 7 S concept of the McKinsey & Comp. shows that the first two groups try to explain the main features of the new market conditions and suggest possible ways of formation of prerequisites for creation and acquiring value in these conditions, the next two groups propose ways to brake the “status quo”, and the remaining three groups lead to finding means to the right movements in the hypercompetitive environment and escape from competition (TheManageMentor, 2006).

This paper applies the above-described concept on the situation in Czech wine production industry, and it identifies possible sources of competitive advantage for Czech wine producers towards their foreign competitors.

## RESULTS

Many traditional wine-producing countries in Europe have experienced a decline in consumption of wine in their home markets, and also a rapid increase of sales of imported wines. In connection with this development, the European Union have applied strict regulation rules on wine industry aiming on an improvement of competitive ability of European wine producers.

Situation in the Czech market is slightly different – domestic consumption is growing, and Czech production is able to satisfy only less than a half of it (or sometimes even less than a third – depending on the harvest of grapes, which is changing every year; see Table 1). This makes some of the rules of EU less understandable, and for Czech producers of wine it is even more interesting to try to evaluate their position in competition with imported wine, and their future perspectives. For this evaluation we have used the concept of New 7S described in Methodology.

**Table 1: Development of domestic production and total wine consumption in the Czech Republic (CZSO)**

Indicator	Season	2001/02	2002/03	2003/04	2004/05	2005/06
Wine production [thous. hl]		545	495	560	570	438
Wine consumption [thous. hl]		1499	1590	1600	1650	1700
Share of domestic production		36,36 %	31,13 %	35,00 %	34,55 %	25,76 %

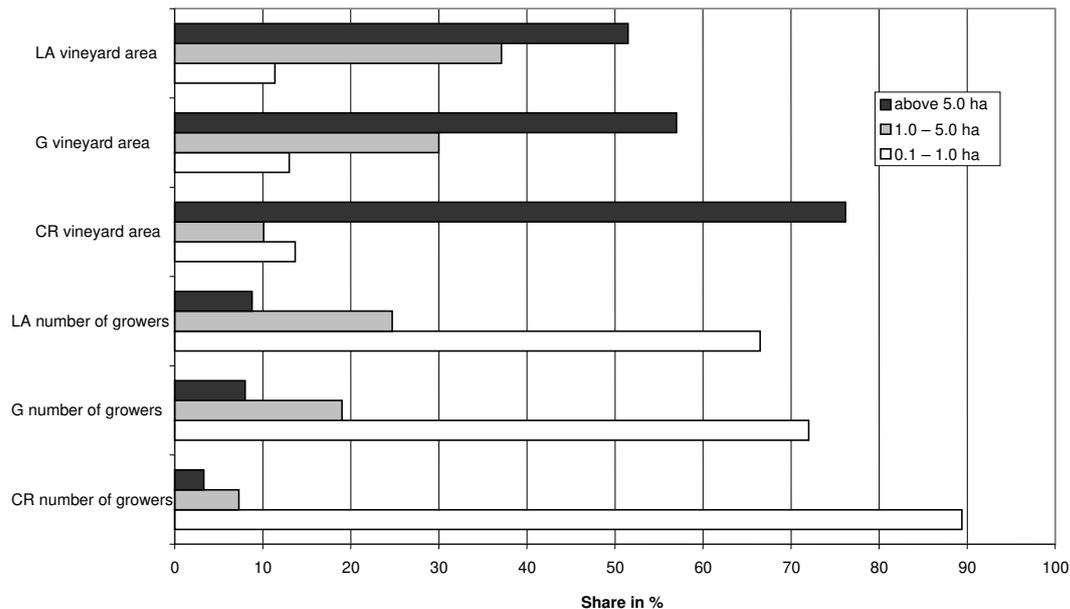
### 1. Stakeholder satisfaction

Main stakeholder groups for wine producers are represented by:

- a. *Customers* – basis for orientation when seeking competitive advantage; Czech customers show a reliable preference of Czech wines – according to Chládková and Pošvář (2004), only some 11 % of Czech consumers prefer foreign wines, and only about 4 % of consumers buy it more frequently than Czech wine. This orientation is

specifically shown in the segment of quality-wines, whereas in lower quality-classes there prevails price-sensitivity above origin-concerns.

- b. *Employees* – as those, who develop a competitive advantage; satisfaction of this stakeholder group is given by the financial evaluation of their work, above all, and this represents one of the main gaps against the foreign competitors. On the other hand, wine production is based on the experience of employees, which also comes from their contentment from the given character of work, and from the opportunity to reach a high-quality and appreciated result of the expended effort.
- c. *Owners* – as those, who decide about financing of all activities; structure of wine production in the Czech Republic projects into a multiple role of most of the owners – they are also employees, and winegrowers – and this projects into competitiveness of the Czech wine production, as well. Advantages of this reality especially include the influence of owners on the whole spectrum of operations within the product vertical of wine, their good knowledge of customer requirements, which – in the case of foreign competitors – is only intermediated, and not direct. Strong connection with particular region facilitating negotiations with the suppliers and local buyers, and shortening the way to the final consumer helps as well. On the other hand, this also lowers the potential to reach economies of scale and other size-bound advantages. Comparison of the structure of wine production in the Czech Republic, and in the neighbouring countries is provided in Figure 1.



**Figure 1: Comparison of the size-structure of winegrowers in the Czech Republic (CR), Lower Austria (LA), and Germany (G) in 2004 (Source: UWCR, 2006)**

- d. *Competitors* – they represent a benchmark and a reference for finding main potentials for possible advantages; in the context of this paper they are represented by importers of foreign wines. The main competitive edge of foreign wines represents their attraction for customers (something unusual), strong brands, and especially in case of red wines also a high quality hard-to-be-reached by Czech producers (due to the climatic conditions). In the table wines segment it is also a lower price enabled by higher governmental support of wine production in the exporting country.
- e. *Winegrowers* – as those, who determine quality of the key input; owing to their economic position their influence of the Czech wine production should be positive.

But due to the high level of backward integration of wine producers, the bad economics of winegrowing projects also into the results of wine producers, which means a negative impact.

- f. *Government* – as a regulator of all rules of operation of particular subjects within the industry, as well as a negotiator of conditions within the common European market. There is an apparent negative influence in connection with comparison of subsidies for winegrowers, which are sometimes triple (even in the neighbouring countries). This significantly reduces the competitiveness of Czech wine producers, who can not compete with the prices of such supported producers.
- g. *Media* – the experience of traditional “wine countries” and also of the Czech Republic confirms a direct influence of media on the development of wine consumption. Consumers directly react to the published articles about advantages or disadvantages of consuming wine or alcohol in general. The influence of Czech media in this respect is not distinctive – there are campaigns supporting, but also discouraging drinking wine. Furthermore, in terms of competitiveness of Czech wine producers, this factor is not an important one, because of its equal influence (negative or positive) on both, domestic and foreign producers.
- h. *Local administration* – local administrative bodies are involved especially in winegrowing, as far as they are focusing on keeping the character of the landscape, which is also given by the area of vineyards (except for their interest in prosperity of all subjects operating in the given area). Related to wine production itself and its competitiveness, these interests do not play a major role, so far.

## 2. Strategic soothsaying

Understanding customer needs should be one of the key advantages of the domestic wine producers. They know the market better than importers, and through its continuous monitoring they should be able to anticipate or flexibly react to the changes in customer habits, needs and expectations. Changes are going on especially in the field of preferred place of purchase (Chládková and Pošvář, 2004; Štůsek, 2005), where the big retail chains still prevail, but the future development is expected to be more directed towards the European standards. At present, Chládková and Pošvář (2004) refer a preference of buying wine in supermarkets in 46 % of their respondents, wine-shop in 18 % of respondents, and in a cask-wine outlet or directly from producer, both in 10 % of respondents.

Concerning monitoring the actions of competitors, this should be an advantage of wine importers as subjects, which are more experienced in the field of the methods and monitoring the dynamics of competitive rivalry, etc. This should be one of the major advantages of foreign wine producers operating in the Czech market.

## 3. Positioning for speed

Shifts in consumer preferences represent both, a threat, and also certain potential for acquiring a competitive advantage (Kučerová, 2005) – as mentioned above, the Czech wine producers should be able to build on their direct operations in the market, and thanks to this close contact they should be the innovators (coming first with new products), or should be able to react more quickly than competitors. Development of the Czech market is – hitherto – witnessing their success in these activities.

## 4. Positioning for surprise

In connection with the previous paragraph we can emphasize the need to approach the offer to customers more creatively and offer innovative ways to customer satisfaction. Owing to the relatively small size of the Czech market it is probable that possible innovations would be perceived by foreign competitors with a certain delay, which exactly fulfils the conditions for limiting the rival's ability to react, and should facilitate pursuing the interests of Czech wine producers.

#### 5. Shifting the rules of competition

This element is also closely connected with the previous one. Organizations operate and compete within traditional rules, meaning that their actions are roughly foreseeable. Shifting the traditional focus is thus providing a possible basis for competitive advantages, as proved by an Australian company Casella Wines, which achieves a great success in the North American market with its “Yellow Tail” brand. The success is based on rejecting the traditional emphasis of “educating” consumers and marketing campaigns, and making the choice and drinking wine easier for them (Kim and Mauborgne, 2005). Similar principle could be used by Czech wine producers in order to reach an edge over their foreign competitors.

#### 6. Signalling strategic intent

Market signals belong to well known and long-term applied strategic techniques, which enable acquiring potential reaction of competitors and customers. Signals are sent to monitor competitors’ re-assessment and possible re-formulation and change of their strategies, which enables achieving an edge based on an easier predictability of their actions. These efforts, though, are more related to the nearest, i.e. in case of wine production the domestic competitors. Thus they do not have a significant impact on the overall competitiveness of Czech wine producers.

#### 7. Simultaneous and sequential strategic thrusts

Combination of tactics, speed, surprise and shifting rules enables a more efficient competing than realizing these steps in isolation. This is also one of the main ways to strengthen the position of Moravian and Czech wines. There is a number of activities realized not only by the particular wine producers, but also by the Union of Winegrowers of the Czech Republic ([www.svcr.cz](http://www.svcr.cz)) and Wine Fund of Czech Republic ([www.vinarskyfond.cz](http://www.vinarskyfond.cz)). One of the results of this effort is for example the portal [www.wineofczechrepublic.cz](http://www.wineofczechrepublic.cz), which focuses on building awareness of the quality of domestic wines, and building consumer preferences towards them. It is necessary to realize that these efforts have to be systematic, focused on a long-term actuation on customers and their results do not always have to bring immediate effects. It is particularly expected, that the activities of the Wine Fund will develop in this direction, which belongs to the main priorities of the fund.

Based on the above-shaded analysis of 7 S in the innovated concept we can identify several possible sources of competitive advantage for Czech wine producers. These could specifically include stakeholder satisfaction (especially related to customers), positioning for speed (ability to quickly react to the actual developments of the market), and also application of simultaneous and sequential strategic thrusts (connected also with using the assistance of the Union of Winegrowers, and the Wine Fund). At the same time it is necessary to keep in mind the advantages of foreign wines emanating from their perception by consumers as being of a higher quality (specifically in the case of red wines), and being unusual. Foreign competitors should also have an advantage in connection with their better experience with “strategic soothsaying” – based on their operation in various markets with different developments.

## **DISCUSSION AND CONCLUSION**

Analysis of competitive position of a company or industry belongs to key inputs to the strategic management process on the level of an organisation or even a country, thinking about its economy, industries, and their position in a world competition. The 7S analysis – either in the original or changed form – can add important insights to competitiveness analysis, but should not be considered a complete guide to this type of evaluation.

Very important advantage of the tool used in this paper is its up-to-date character; its emphasis of the necessity to continuously follow the developments of environment, which are

very hard to predict, and it is also unclear how to react to them in order to assure a long-term success. It also draws attention to looking for new approaches in order to form a new niche (or market) – ways that have proved successful in many industries, already.

On the other hand, this tool cannot replace a good knowledge of situation, experience, and especially intuition, which are necessary to be applied when looking for future strategies, even though it can help to facilitate them. It is one of the tools, that could help to find out WHAT to do (or what to avoid), but can hardly show HOW it can be done. For these purposes, we have to use another “battery” of tools connected with strategy formulation.

Most apparent influences in the Czech wine production industry include its slow growth, low level of domestic production, and its preference by consumers, but also growing imports, which fill the gap between domestic supply and demand, and also satisfy consumers’ desire to try new tastes, compare different production technologies and natural conditions, under which wine is grown, etc. So far it seems to be clear, that – at least in the attribute-segment (higher quality-classes of wine) – the Czech wine is successful in offering the customers satisfaction of their taste-, quality-, but also price-needs they desire to be satisfied.

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