

THE COMPETITIVE ENVIRONMENT'S ANALYSIS ON THE WINE MARKET

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Abstract

The competitive environment's analysis on the wine market has as objective the characterisation of the main variables that define the sectorial realities. The research is materialized in: the analysis of the market shares, the analysis of the competitive position, the analysis of the competitive structure and the analysis of the competitive advantage. The competitive position is analyzed using the key factors of success, such as: market share, average price/1 litre wine, average production cost/ 1 litre wine, profitability and financial force, enterprise's image and commercial implementation.

The analysis of competitive structure emphasizes one of the most important characteristic of the wine market, such as its concentration, expressed by the market concentration index. The calculated index reveals what is the level of the market pressure and how permeable is the market for the new entrants.

The market performance was determined by analyzing the turnover growth index and the product portfolio, in terms of diversity, quality and prices.

Key words: competitive environment, market share, key factors of success, market concentration

The starting point of the work is the determination of national market size and the identification of the major players on the wine market from Romania. This work seeks the answer of this questions:

- How important is the market share in the diagnose of company status?
- What are the variables that give the importance to the company on the market?
- What are the chances for a new entrepreneur to enter on the wine market?

MATERIAL AND METHOD

The analysis of the competitive wine market was carried out using three research methods, namely: the rate method, the evaluation grids method and the scores method.

They were calculated the following indicators: the market growth rate, the absolute market share, the relative market share, the market concentration index, the cost advantage and the price advantage.

The material used to calculate the indicators consists in: enterprise contable balance and data sheets provided by the National Institute of Statistics and the National Employers of Vine and Wine (NEVV).

RESULTS AND DISCUSSIONS

Romania ranks the sixth in the top of the European wine countries, producing in 2009, 5.2 million hectoliters of wine, and in 2010 it has produced a quantity of 4.1 million hectoliters of wine.

Analysis of market shares

Was achieved by using the rate method, which outlines in a relative manner the variation of this indicator in a given period (2009-2010).

According to the NEVV, the wine market turnover had in 2010, the value of 398 million euros, decreasing with 8% , compared to 2009 (432 million euro). The turnover of red wine market represented in 2009, 39% of total turnover of the wine market, namely 168.5 million euro, and in 2010, 35% of total market turnover of wine, respectively 139.3 million euro.

In the research, it were analyzed the first three actors on the red wine market, namely:

- I. S.C. MURFATLAR ROMANIA S.A.;
- II. S.C. VINCON VRANCEA S.A.;
- III. S.C. CRAMELE RECAS S.A..

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The hierarchy of the companies on the market was done by calculating the absolute market shares, using the formula:

$$M_i = (T_i / T_t) * 100$$

where:

M_i - absolute market share of the „i” enterprise;

T_i - turnover of the „i” enterprise;

T_t - turnover of total red wine market.

From table 1 we can see that red wine market is lead by SC MURFATLAR ROMANIA SA, with a absolute market share of 10.6% in 2010.

Table 1

The turnover and market share of the first three competitors on the red wine market

The place on the market	The enterprise	The turnover (mil. euro)		The absolute market share(%)		The relative market share (%)	
		2009	2010	2009	2010	2009	2010
1	S.C. MURFATLAR ROMANIA S.A.	17,4	14,8	10,3	10,6	-	-
2	S.C. VINCON VRANCEA S.A.	10,2	7,9	6,1	5,7	59,2	53,8
3	S.C. CRAMELE RECAS S.A.	3,5	4,2	2,1	3,0	20,4	28,3

Source: Contable enterprise balances on 2010, NEVV - own calculations

The turnover of the company suffered in 2010 a decline of 14.9%, from 17.4 million euro in 2009 to 14.8 million euro in 2009. We note however, that in 2010 the leader has an improvement of market position, increasing its absolute market share by 0.3%, compared to 2009 (from 10.3 to 10.6%). This raises the question: How is justified the growth of market position, if company sales declined? The answer is: the total wine market registered a decrease in 2010 (17.3%), which is higher than the company's turnover decreased (14.9%), due to the fact that the companies which could not withstand the pressure of the economic crisis quit the market and the production of enterprises decreased.

The second major player in this market is SC VINCON VRANCEA SA, which in 2010 had a market share of 5.7%, less with 6.6% comparing to the previous year (6.1%). The company sales in 2010 registered a decrease of 22.5% compared to 2009, which may explain the decrease of market share.

Unlike the first two competitors, SC CRAMELE RECAS S.A. improves in 2009-2010 the both analyzed indicators. Turnover increased by 20% in 2010 compared to 2009, and the indicator relative market share growth in 2010 by 43%.

The first three players in the wine market register different variations of the indicators "turnover" and "market share", namely variations in the same direction (both indicators of SC CRAMELE RECAS SA increase and both decrease at SC VINCON VRANCEA SA) or in the opposite (first indicator decreases, and the second increases at SC MURFATLAR ROMANIA SA)

It follows that the absolute market share analysis does not reflect the true state of the company and its dynamics on the market. Thus, the

firm market position appears as a variable influenced by market dynamics of the analyzed sector and not by the actual results of company.

To get a clearer picture of companies position on the red wine market, it was calculated another indicator, namely the relative market share, using the following formula:

$$M_r = (T_i / T_l) * 100$$

M_r - relative market share of the „i” enterprise;

T_i - turnover of the „i” enterprise;

T_l - turnover of the leader.

The competitive environment analysis based on this indicator answer the question: What percentage of the market of leader, is owned by the "i" company?

If on the red wine market, the leadership is occupied by SC MURFATLAR ROMANIA SA, then the next companies are permanently reported to it.

The relative market share of S.C. VRANCEA Vincon S.A. was in 2010, 53.8%, that represents over half of the leader's market.

The analysed indicator allows us to form a image of the firm performance, using always the same reference, namely the leader.

The analysis of competitive position

The competitive position of firms is analyzed by means of variables, called in the literature "the key factors of success". They do not have a fixed structure, it have an infinity of forms, depending on the enterprise type and size, its level of maturity, the entrepreneurial management, the market of company etc.

The analysis of competitive position answers the question:

- What are the variables that give the importance to the company on the market?

The three competitors from the red wine market were analyzed through the following key success factors: market share, average price/1 liter of wine, average production cost/1 liter of wine, profitability and financial strength, company image and commercial implementation.

The first method used to analyze the competitive position is the scores method.

To each key success factor is assigned a score from 1 to 5, depending on its performance in the analyzed company.

Then it was used the evaluation grids method. With its help, we calculated the actual market position of the company. The 7 criteria were weighted by degrees of importance, which allowed to calculate a weighted average note (\bar{N} has the value between 1 and 5).

$$\bar{N} = \sum g_i \cdot n_i$$

where:

g_i – significance coefficient of each criterion (in absolute terms);

n_i – note of each criterion.

Table 2

Evaluation grid S.C. MURFATLAR S.A.

Key factors of success	Importance degree (%)	Note
Market share	10	5
Average price (12 lei/liter)	15	3
Average production cost (5,4 lei/liter)	10	2
Profitability and financial strenght	30	5
Company's image and commercial implementation	15	4
Productivity	20	3

$$N = 0,10 \cdot 5 + 0,15 \cdot 3 + 0,10 \cdot 2 + 0,30 \cdot 5 + 0,15 \cdot 4 + 0,20 \cdot 3 = 3,85$$

Table 3

Evaluation grid S.C. VINCON VRANCEA S.A.

Key factors of success	Importance degree (%)	Note
Market share	10	4
Average price (13 lei/liter)	15	4
Average production cost (5,6 lei/liter)	10	2
Profitability and financial strenght	30	3
Company's image and commercial implementation	15	4
Productivity	20	3

$$N = 0,10 \cdot 5 + 0,15 \cdot 4 + 0,10 \cdot 2 + 0,30 \cdot 3 + 0,15 \cdot 4 + 0,20 \cdot 3 = 3,30$$

Table 4

Evaluation grid S.C. CRAMELE RECAS S.A.

Key factors of success	Importance degree (%)	Note
Market share	10	3
Average price (13 lei/liter)	15	4
Average production cost (5,6 lei/liter)	10	2
Profitability and financial strenght	30	4
Company's image and commercial implementation	15	4
productivity	20	3

$$N = 0,10 \cdot 3 + 0,15 \cdot 4 + 0,10 \cdot 2 + 0,30 \cdot 4 + 0,15 \cdot 4 + 0,20 \cdot 3 = 3,35$$

Positioning the three companies on a scale from 1 to 5, depending on competitive market position, we can see the following hierarchy:

- First place – S.C. MURFATLAR S.A., where $N = 3,85$;

- Second place – S.C. CRAMELE RECAS S.A., where $N = 3,35$;

- Third place – S.C. VINCON VRANCEA S.A., unde $N = 3,30$.

In in analyzing of the competitive position of firms on the market, it reverses the order in top of the two companies, on second and third place. Thus, S.C. CRAMELE RECAS S.A. company, although it has a market share smaller than S.C. VINCON VRANCEA S.A., it has a better competitive position than this. That dues to the profitability and financial strength of the company, remarked on the market with quality products for picky buyer, who is willing to pay a higher price for a bottle of wine.

Analysis of competitive structure

Highlights an important feature of red wine market, namely its concentration, expressed by index of market concentration.

Competitive structure of market it answers the question:

• What are the chances of a new entrepreneur to enter the wine market?

To answer these question we must have a clear picture of analized market size, in terms of number of competitors and their size (expressed by absolute market share).

In this sense, it was calculated the partial index of market concentration, using the formula:

$$I_{pc} = \sum M_i,$$

where,

I_{pc} – partial index of market concentration

M_i – absolut market share of company „i”

(we can analyze the first 4, 8 or 12 companies on national market).

In specialized literature, at values of market concentration index smaller than 50%, we meet a dispersed market, and at values over 50%, the market is concentrated.

To calculate the market concentration partial index it were used the market shares of the first 8 companies in the wine field.



Figure 1 The market shares of the first 8 companies in the red wine field

$$I_{pc} = \sum 10,60\% + 5,70\% + 3,0\% + 0,06\% + 0,04\% + 0,03\% + 0,02\% + 0,01\% = 19,46\%$$

Analyzing the obtained value, we see that the red wine market from Romania is dispersed, because the market concentration index has a value of 19,46. This highlights the existence of an open market, without entry barriers for new firms.

On this market the competitive level is low, and products quality requirements are reduced.

Analysis of competitive advantage

In terms of products portfolio offered on the market, the leader has over 15 brands covering the full range of quality segments: low, medium and premium. The first 5 brands are: Zestrea Murfatlar, Lacrima lui Ovidiu, Premiat Eticheta Neagra, Sec de Murfatlar and Conu Alecu.

S.C. VINCON VRANCEA S.A. aims to increase substantially the quality of those wines that have high prospects in entering the foreign markets and at the same time to reduce the production costs at those types made exclusively for the internal market, so as to achieve an increase in profit from sales of quality wines and also for the basic consumer.

The most recognized brands: Comoara Pivnitei (collection wines), Beciul Domnesc (premium), Vita Romaneasca, Poroles Pontica, Cabernet Auslese (mid). Beciul Domnesc includes red wines (Cabernet Sauvignon, Merlot, Pinot Noir, Fteasca Neagra) 5 - 6 years old.

S.C. CRAMELE RECAS S.A. company holds in its portfolio recognized brands, such as: Scwablen Wein, V – Legend of Transylvania, La putere, Cocos Shyrah, Castele Rock. The company is also present each year in international fairs and gets many medals for its quality wines, creating in this way a very good image, on national and international market.

CONCLUSIONS

The characterization of the competitive environment was made on the red wine market from Romania. The main actors on the red wine market from Romania are: SC MURFATLAR ROMANIA S.A. (10.6%), S.C Vincon VRANCEA S.A. (5.7%) and S.C. Cramele Recas S.A. (3.0%).

The variables that give importance to the companies on the market are mainly: the profitability, the financial strength, the company image and the commercial implementation. The market leader is Murfatlar, with an average note of competitive position of 3.85, followed by Cramele Recas with 3.35 and Vincon Vrancea with 3.30.

The red wine market in Romania is dispersed, the market concentration index has a value of 19.46%. This highlights the existence of an open market without barriers to entry for the new firms. The level of competition in this market is low and the product quality requirements are reduced.

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