

INTENSITY OF RIVALRY AMONG EXISTING COMPETITORS IN THE WINE-MAKING BRANCH

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Abstract

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The analysis of the rivalry among existing competitors in the wine-making branch is the aim of this paper. On the whole, the rivalry among existing companies in the wine-making branch may be described as intensive. When evaluating the level of intensity of rivalry among existing businesses in the branch, it is necessary to take into consideration their size and market share. Among first ten most significant companies on the market (84% market share) there is intensive competing. Individual companies use all their tangible and intangible means in order to extend their share and attract new clients. The aim of this competing is to strengthen the clients' trust in given brands, and it is about efforts to obtain the best positions possible for negotiations of wine distribution, mainly to chain stores, which requires favorable price quotes. The other group of subjects operating in this branch is formed mainly by small producers (16% market share). Given their small size, they are unable to effectively use the economy of scale, they do not make too big profit, and so they do not have enough finances for intensive competing.

existing competitors, wine-making branch, Porter's five force model, branch growth, differentiation

Wine-making has a long tradition in the Czech Republic and it dates back to the 3rd century. This branch is related mainly to the region of South Moravia (jižní Morava) where 96% of the total area of vineyards in the Czech Republic are located, and the Moravian wine-making region produces the same 96% of the national production of grapes. Besides the wine-making area of Moravia, there is also an area of Bohemia (Čechy) which belongs among the northernmost areas of wine-growing in Europe.

The businesses currently active in this branch are exposed to strong and ever-growing competitors. In order to succeed on the market and face the competitors successfully, individual businesses have to select a suitable competitive strategy which contributes to their growth and prosperity and which they are able to follow. For these purposes it is necessary that the management keeps track of factors of external and internal environments, that change quickly and considerably, and that the management includes them into the way it leads the business. These factors are decisive for strategic management of companies.

One of the important factors of the external environment businesses should pay good attention to is a level of intensity of rivalry among existing competitors in the branch. These competitors only become rivals when one or several of them start to feel some pressure or spot an opportunity to improve their positions. In most branches competitive actions of some company visibly impact its rivals which mean that the companies are dependent on each other (Porter, 1994). This is why the aim of this paper is to evaluate the level of intensity of rivalry among existing competitors in the wine-making branch.

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MATERIALS AND METHODS

Diverse forms of competition, such as price competition, promotion campaigns, product launch, and improved client services or guarantees, are used with various level of intensity. The level of intensity of rivalry in individual branches is a result of a number of mutually related structural factors. Some of them are following (Porter, 1994):

- *Equal competitors and competitors in number* – In case there are a big number of companies in the branch, it is very likely that some kind of competition is going to start. However, quite often sources for intensive rivalry are overestimated, which in the end results in damaging the stability of the whole branch. The higher the level of the concentration of the branch, the lower the intensity of rivalry.
- *A slow growth of the branch* – In case the branch is growing only slowly, the competitors start to fight for a bigger market share. This fight is then much more volatile than the situation when a fast growth of the branch ensures that the companies have an opportunity to improve their results if they manage to keep pace with the development of the branch. The slower the growth of the branch, the higher the level of intensity of rivalry among individual companies.
- *High fixed or warehousing costs* – High fixed costs create a big pressure on all the companies to fully use their existing capacity. These companies then create a big volume of production, and in order to secure sales they are forced to reduce the prices rapidly. It works similarly with the products that need to be kept in the warehouse even after their production has been discontinued. In such a case, companies also easily give in to the temptation to reduce the prices in order to boost the sales and thus reduce the warehousing costs. The higher the fixed or warehousing costs, the higher the level of intensity of rivalry.
- *Insufficient differentiation or switching costs* – Differentiation of the production creates layers of insulation against competitors because clients prefer certain vendors and remain loyal to them. The bigger the differentiation of the production, the lower the intensity of rivalry. Switching costs work similarly.
- *Extending the capacity in big increments* – This is carried out mainly with respect to economy of scope. As a result, this may destructively affect the stability of demand and supply, mainly when the extension of capacities may accumulate. The branch may get into a repeated period of enormous capacities and a drop in prices.
- *Diverse competitors* – In the branch there is a lot of competitors differing in their strategies, origin, strength of their character, and their relations to their parent companies. These companies have various targets and methods of approach to competitors so they may clash with each other.
- *Big strategic plans* – The rivalry in the branch becomes even more intense when a bigger number

of companies have allocated considerable finances in order to succeed. The plans of these companies may differ which then results in a destabilization of the whole branch, as it is then a competition of expansive companies that are even willing to sacrifice their profit.

- *Big obstacles to leaving* – These obstacles are economic, strategic, and emotional factors that force the competing companies to compete in the branch, even though the revenue from the invested capital is low or even negative. If these obstacles are big, the excess capacity does not disappear from the branch because the companies are unable to overcome them and often tend to use extreme practices.

Thompson and Strickland (1993) add other factors to this list:

- *Amount of profits made* – The rivalry grows proportionally with the amount of profit made by successful strategic steps.
- *Fusions and acquisitions* – If strong companies from other branches acquire weak companies in the branch and take aggressive steps in order to get good positions of the newly-acquired companies in this branch, the rivalry in the branch grows.

The factors that determine the level of intensity of competition may change, and changes of the branch growth resulting from the growth of the branch are a frequent example. As the branch is developing, the level of its growth is dropping which is reflected in the growing rivalry, decreasing profits, and in turbulences. Another frequent change takes place when distinctive features penetrate the branch as a result of the acquisition. Also, technological innovations may raise the level of fixed costs in the production process and intensify the treacherousness of the rivalry. Porter's five force model of competition in the branch was used to assess the intensity of rivalry among existing competitors.

RESULTS

The rivalry among existing competitors in the branch starts when one or more competitors either feel some pressure or spot an opportunity to improve their positions (Porter, 1994). The level of intensity of this rivalry varies and it is a consequence of a number of interconnected structural factors:

Level of concentration of the branch

The competitive structure of the wine-making branch has been developing for last twenty years and its concentration has risen. Within the branch, individual producers form groups in order to improve their competitiveness and to make better use of their scope advantages. According to the research by *Data servis – informace s.r.o.* from 2009, the main companies on the market are *Templářské sklepy Čejkovice*, *Bohemia Sekt, a. s.*, and *Moravské vinařské závody, Bzenec*; together they control almost 26%

of the market. In the branch, there are other seven important companies that together with the first three control 84% of the market. Minor companies with a considerably lower level of competitiveness are irreplaceable here, and they have their own loyal clients mainly on local markets. Also, there is a number of small wine-makers who mostly work in other jobs and the production of wine is just an additional means of support for them (Hejmalová, Šperková, Duda, 2011).

The biggest companies on the market (according to the recommendation of the European Commission 2003/361/EC from May 6, 2003, they belong to a category of medium-big companies) set the main trends of development in the branch, are involved in setting the prices, and control a wide range of clients. Minor producers gain the competitive advantage mainly by using their close relations with the clients, which helps them to flexibly react to potential changes in their clients' preferences.

About 94% producers have their scope of activity in wine-making regions, and 85% of the companies are located in the wine-making region of Moravia (Albertina, 2011). There are four subregions – *Velkopavlovická* (named after the town of Velké Pavlovice), *Mikulovská* (named after the town of Mikulov), *Znojemská* (named after the town of Znojmo), and *Slovácká* (named after the Slovácko region) (Bublíková, 2010). The biggest among them is the subregion of Velké Pavlovice with an area of 4,750 ha. Among the most important producers of wine in this subregion are *Vinum Velké Pavlovice*, *Radek Baloun Velké Pavlovice*, and *Habánské sklepy Velké Bílovice* (belonging to the *Bohemia sekt, a. s. group*). In the subregion of Mikulov (Mikulovská podoblast), vineyards cover an area of 4,500 ha, and the most important producers here are *Vino Mikulov, spol. s r. o.* (belonging to the *Bohemia sekt, a. s. group*), *Mikrosvín Mikulov, a. s.*, and *Vinné sklepy Valtice, a. s.* The subregion of Znojmo is the smallest one covering an area of 3,800 ha, and the most important producers here are *Znovín Znojmo, a. s.* and *Vinné sklepy Lechovice, spol. s r. o.* The subregion of Slovácko encompasses an area of 4,400 ha and among its most important producers are *Vino Blatel* and *Viniblat in Blatnice pod sv. Antonínkem, a. s.*, *Novovín in Moravská Nová Ves, spol. s r. o.*, *Neoklas Šardice a. s.*, and *Livi Dubňany, spol. s r. o.* The wine-making region Bohemia (Čechy) is with its area of 550 ha considerably smaller than the region of Moravia and there are two subregions – *Mělnická* (named after the town of Mělník) and *Litoměřická* (named after the town of Litoměřice). The most important wine producers in this region come from Chrást, Velké Žernoseky, Litoměřice, Mělník, and Prague (Dominé, 2005).

Production of wine in the Czech Republic is mostly owned by local companies (*Bohemia Sekt, a. s.* owned by a German company *Henkell International GmbH* is an exception) so the competing takes place mostly on the local level as well. However, it is necessary to take into consideration imported wines from abroad. It is quite important to note that

the local producers are able to satisfy only certain part of current wine consumption, i.e. less than 40% (Bublíková, 2010). The number of competitors coming to the Czech market from abroad has risen since the Czech Republic joined the European Union (May 1, 2004). This event simplified free movement of products, and also all import and export duties and quota of imported wine from the countries of the European Union were cancelled at the time (Šperková, Duda, 2009).

In general, the level of concentration in the branch could be described as high. According to the research of *Data Servis – informace, spol. s r. o.* from 2009, ten biggest companies on the market control almost seven eighth of it. In the branch, there is also a big group of small businesses with a small share of the market with major efforts to merge into bigger and better-competitive units. Despite this, the current high level of concentration in the branch rather reduces the intensity of rivalry among the existing businesses.

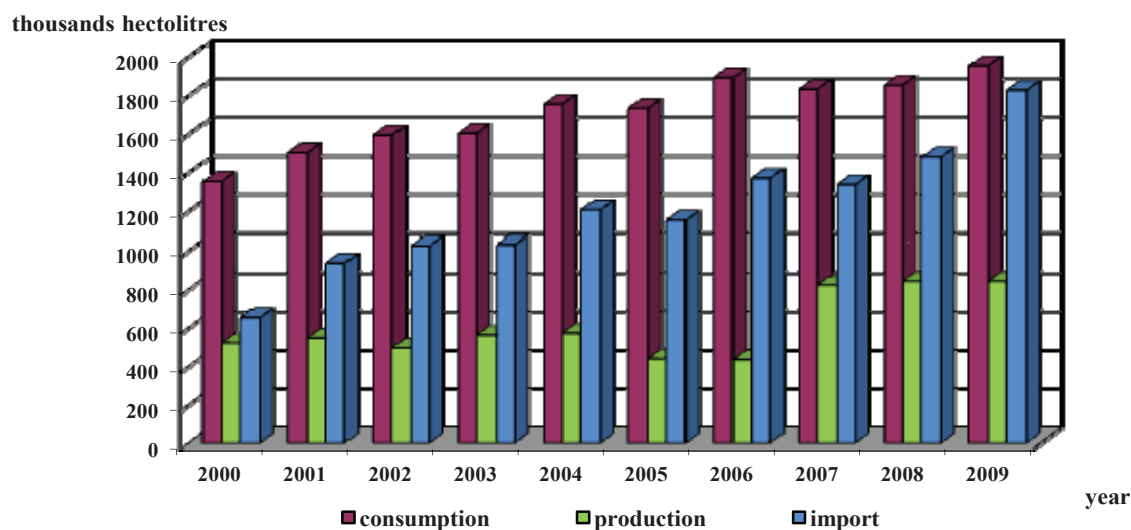
Dynamics of the branch growth

In terms of growth, the wine-making branch has been stable for last twenty years with no major fluctuations. This is obvious also from the curve of wine consumption, which has been growing for a long time and since 1989 has almost doubled to reach almost 20 liters per person (Bublíková, 2010). In 2002, the consumption was 16.2 liters and six years later it was 18.5 liters per person. In 2009, it was 19.1 liters per person, which is 0.6 liters more than in 2008 (Bublíková, 2010). In the Czech Republic, there is a great potential for further growth because Czechs are still behind the average in Europe, which oscillates between 25 and 32 liters per person per year. Also, the quality of both Moravian and Bohemian wines has been growing, which is shown by a rising number of awards obtained at prestigious exhibitions abroad (Fuksa, 2011).

The Czech government has considerably helped the wine producers in various ways, e.g. by introducing a zero excise tax on wine. Wine-making is also subsidized through *Vinařský fond* (Wine Fund) or through European funds and government and regional operation programs. Also, the government has been helpful in reducing the amount of paperwork, enforcing fair play on the market, and mainly in setting equal terms within the European Union.

The growth is also enabled by a production gap on the wine market in the Czech Republic, as local producers currently cover only 40% of the whole wine consumption and the rest has to be imported (see Fig. 1).

All in all, the wine-making branch in the Czech Republic is now in the phase of growth. Current demand exceeds supply of the local producers and the growth is supported also by the government. In this branch, there is a big potential for growth so this branch may be expected to develop similarly also in



1: Development of consumption, production, and import of wine into the Czech Republic
Source: (Bublíková, 2010)

future. All these facts reduce the level of intensity of rivalry among individual companies.

Amount of fixed or warehousing costs

Storing wine correctly is necessary for its further aging and development. Wine should be stored in clean, dry and only slightly lit rooms with constant temperature and optimal air humidity. Wine should never be exposed to sunshine. Ideal temperature for storing oscillates between 7 and 18 °C. Temperature fluctuations should be kept at minimum, as they negatively affect quality of wine. Concerning air humidity, dry air causes vaporization while too humid air may cause molding. Ideally, air humidity should range between 60 and 80%. There are several options for storing wine, but the whole process always depends on the volume of production and financial possibilities of each producer.

Fixed costs are formed by depreciation, part of personal costs, and financial costs. They do not affect the wine-making branch considerably because they are closely related to the character of the production (must wine grapes) when the option to choose the scope of production is limited by natural conditions for growing the grapes.

Differentiation of production and switching costs

Differentiation of production is rather high, but concerning the product as such and its flavor, individual brands do not differ too much. Also, individual producers offer an almost identical range of products, which is another reason why there are hardly any switching costs in this branch. Current status of these factors considerably raises the level of intensity of rivalry within this branch.

Extending capacity in big increments

Extension of capacity in big increments is carried out mainly with respect to economy of scope. In the wine-making branch, it is very closely related to specialized production mechanisms used for producing wine and its subsequent aging and storing. Purchasing these mechanisms then considerably raises the capacity of production.

However, given the production gap on the market related to the ever-increasing wine consumption in the Czech Republic, the importance of this factor for the global intensity of rivalry in the branch is not too big.

Diverse competitors

Diverseness of competition in this branch is based mainly on the size of individual businesses because the range of products they offer is very homogeneous. Some businesses operate in the whole country, while others are rather regional. All this is reflected by their various approaches to promotion and distribution of products.

Another factor which sets the businesses in the branch apart is foreign capital and its influence on their activities. Foreign owners bring necessary finances into businesses, and these finances may be invested for instance into promotion or into reaching better quality of the production. The only company with foreign owners in the wine-making branch in the Czech Republic is *Bohemia Sekt, a. s.*, with a 100% share owned by *Henkell International GmbH* (Germany). However, given that this company belongs among first three with the biggest share on the market, this factor is very significant in this branch as well.

These aspects make individual companies adopt various strategies and targets and also various approaches to competitors, so they cannot be

generalized for the whole branch. From this point of view, the level of intensity of competition in the branch is growing.

Strategic plans of individual competitors in the branch

When evaluating strategic plans of individual businesses in the wine-making branch, it is necessary to take into consideration their size. In this branch, there are several groups of businesses classified according to their size, and only the biggest local producers compete intensively (e.g.

Bohemia Sekt, a. s., Moravské vinařské závody, Bzenec, spol. s r. o., Templářské sklepy Čejkovice), as they have enough finances at their disposal. Small businesses aim their strategies mainly at reaching better quality of their production and do not get too involved in competing. Given that the first three biggest producers control up to 50% of the wine market in the Czech Republic, this is a very significant factor for the intensity of rivalry in this branch.

I: Objectification of the level of intensity of rivalry among existing competitors in the wine-making branch

COMPETING RIVALRY IN THE BRANCH (1 point ... lowest, 9 points ... highest)	Estimates of the evaluator year 2011
Number of competitors, their competitiveness Rivalry in the branch rises with a big number of competitors of a similar competitive force. Small number of competitors..... [1 point] Big number of competitors..... [9 points]	7
Number of competitors, their competitiveness Rivalry in the branch rises with a big number of competitors of a similar competitive force. Small number of competitors..... [1 point] Big number of competitors..... [9 points]	7
Number of competitors, their competitiveness Rivalry in the branch rises with a big number of competitors of a similar competitive force. Small number of competitors..... [1 point] Big number of competitors..... [9 points]	7
Growth of the branch If the demand for the products in the branch grows slightly, the rivalry rises. Big growth of demand..... [1 point] Slight growth of demand..... [9 points]	9
Differentiation of products With growing differentiation of products the protection against competitors grows while the rivalry in the branch drops. High differentiation [1 point] Low differentiation..... [9 points]	9
Differentiation of competitors Differences among competitors in terms of their strategies, approaches, force, and their origin raise the level of competitive rivalry. Low [1 points] High..... [9 points]	8
Pace of extension of new capacities If the new capacities are extended in big increments, the competing rivalry is bigger. Extension in small increments [1 point] Extension in big increments [9 points]	5
Costs of leaving the branch If it is costly to leave the branch, in terms of already invested finances, long-term contracts etc., companies try to remain in the branch, which again raises the rivalry. Small [1 point] Big [9 points]	8
Character of competition and approach to the business ethics Competition may be fair or "gangster-like". Fair [1 point] Gangster-like..... [9 points]	6
Width of competition Competition may focus on a number of aspects or may be limited only to a certain aspect. Limited competition [1 point] Wide competition [9 points]	5
Points in total	57
Average result (total/8)	7,1

Source: author's analysis

Obstacles to leaving the branch

Obstacles to leaving the wine-making branch are quite big. They are based mainly on specialized production and storing devices that (except for filter devices) cannot be used in other branches. This is why they are very hard to sell when a company discontinues its production. The real estate and warehouses that mostly provide suitable conditions for aging and storing wine are another big barrier for their owners, as they are quite hard to sell as well. In this branch, social obstacles related to providing jobs for the employees, who due to their qualifications cannot very easily switch to other branches, play a significant role. Cultural and emotional obstacles are also very important, because most wine-makers continue in a long tradition or play an important role in the local atmosphere of the region.

The obstacles to leaving the branch are big and they force the businesses to remain in the branch,

which only raises the level of intensity of their competition.

Objectification

According to Porter (1994), the level of intensity of rivalry among existing competitors in the wine-making branch belongs among the five forces. In order to objectify this force, a method based on Keřkovský and Vykypěl (2006) has been used. This method is based on a subjective evaluation of the factors using a point classification of individual indicators of the model (scale of <1, 9>). See Tab. I. for the results.

Based on this analysis, the influence of individual factors in the wine-making branch can be described as very strong (see Tab. I), which according to Porter (Porter, 1994) results in a low productivity of this branch. This statement is proven by financial results of individual companies (Albertina, 2011).

SUMMARY

On the whole, the rivalry among existing companies in the wine-making branch may be described as intensive. Influences of individual factors are shown in the Tab. II.

II: *Influence of factors affecting the level of intensity of rivalry among existing companies in the branch*

Factor	Influence
Level of concentration of the branch	medium
Dynamics of growth of the branch	low
Amount of fixed or warehousing costs	small
Differentiation of production and switching costs	high
Extension of capacities in big increments	low
Diverse competitors	medium
Strategic plans of individual competitors in the branch	big
Obstacles to leaving the branch	big

Source: author's work

When evaluating the level of intensity of rivalry among existing businesses in the branch, it is necessary to take into consideration their size and market share. Among first ten most significant companies on the market (84% market share) there is intensive competing. Individual companies use all their tangible and intangible means in order to extend their share and attract new clients. The aim of this competing is to strengthen the clients' trust in given brands, and it is about efforts to obtain the best positions possible for negotiations of wine distribution, mainly to chain stores, which requires favorable price quotes. Therefore, there is a pressure to reduce the price of wine, and in return the production and distribution have to be adjusted in order to reduce costs. At the same time, this pressure affects also wine-growers, as the purchase prices of grapes go down which is quite destructive for them. The level of intensity of this competing is reduced only by a long-term dynamic growth of the branch and by the fact that local producers are unable to fully satisfy the demand for wine on the Czech market.

The other group of subjects operating in this branch is formed mainly by small producers (16% market share). Given their small size, they are unable to effectively use the economy of scope, they do not make too big profit, and so they do not have enough finances for intensive competing. Even though there are lots of companies like this, they focus only on local markets and narrow segments of clients. The level of intensity of this competing is therefore low, and it is rather about efforts leading to mutual cooperation when producers try to merge with bigger businesses, or to form a group or association with the aim of strengthening their bargaining power on the market.

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