International Journal of Economics, Commerce and Management
United Kingdom Vol. VI, Issue 6, June 2018
http://ijecm.co.uk/ ISSN 2348 0386

KEY FACTORS IN THE DEVELOPMENT OF THE WINE INDUSTRY IN ALBANIA

R. Keco
Faculty of Economics & Agribusiness, Agricultural University of Tirana, Kodër-Kamëz, Tirana, Albania
rkeco@ubt.edu.al

I. Kapaj
Faculty of Economics & Agribusiness, Agricultural University of Tirana, Kodër-Kamëz, Tirana, Albania

J. Mulliri
Faculty of Economics & Agribusiness, Agricultural University of Tirana, Kodër-Kamëz, Tirana, Albania

I. Tomorri
Faculty of Economics & Agribusiness, Agricultural University of Tirana, Kodër-Kamëz, Tirana, Albania

Abstract

The Albanian wine industry is facing different problems and challenges of development over the last two decades which relate to the internal factors of the entrepreneurships as well as industry characteristics and other factors of economic development. Wine production in the last 25 years marks a dramatic change. In classical treatments of factors determining the development of this industry are evaluated climatic conditions, terrain and soil characteristics and elements of tradition, but the weight of these factors has dropped at constant rates. Our study aims to analyze some of the key factors affecting the development of this industry in our country. Despite the fact that are recorded such problems of internal environment of the sector businesses, such as those related to the provision of raw materials, the need for the adoption of modern technologies and increased product competitiveness, to improve the image by increasing quality, increasing distribution efficiency, improving marketing practices, etc., we have tried to analyze the external factors that affect the development of this industry. These factors are mostly related to the size of the market and its growth, with growth rates and per *capita income, consumption growth, competition level, and so on. Attractiveness of this industry is defined more and more by the market size expressed mostly by the size and profile of demand for this product.*

Keywords: wine industry, production, consumption, demand

INTRODUCTION

Background of the Problem

"Wine production is both art and science, a fusion of individual creativity and innovative technologies. But wine production is also a business, with economic factors governing wine production industry." (Bisson, L. et al. 2002).

Climatic conditions, geographic predictability and tradition are becoming increasingly irrelevant in the development of the wine industry. In a global context, this fact is justified by the phenomenon of global warming (increase by up to several degrees of average temperature has changed the map of suitable areas for the cultivation of grapes), genetic interventions on varieties of grapes (his cultivation at an sea level major altitude from UK to Argentina, up to about 2700 above sea level), technological developments and the increasing preferences for soft wines. So referring to this context, the global wine industry's geography has changed so dramatically, highlighting more new producers such as Chile, New Zealand, Argentina, Brazil etc. While the development of industry in the country reflects a complex problem related to the structure and characteristics of internal environment of manufacturing companies, the development of viticulture sector as well as factors for wine demand.

At national level, the amount of wine consumed in our country has oscillations in unclear data which hinders long-term prognosis on this indicator. This oscillation is influenced not only by historical factors relating to the replacement of systems, ownership of the means of production, economic and political turbulence but to a large extent by the lack of tradition and the existence of another tradition of raki, the perception of nonpropotional reports between quality and price, level of income per capita which deprives the consumer to create a regular report with the product etc.

The wine industry is characterized by enterprises of very different sizes and even heterogeneity of the technical and technological level and the strategic position of each. This phenomenon can be regarded as a normal phenomenon of the evolution of the industry in question, due to different patterns of development.

LITERATURE REVIEW

The study of development factors of the wine industry in our country is mainly based on the assessment of wine characteristics as a delicate product whose consumption is the result of a multitude of factors. Porter (1998), emphasizes changes in market size in the long run linked to some factors and more concretely:

- demographic changes, closely related to age structure, income level, education level and geographic location.
- needs, which are mainly affected by lifestyle, consumer philosophies, social characteristics.
- the relative position related to substitutes.
- new consumers, a large number of industries condition their growth more often from new entrants than by the growth of existing consumer consumption.

Camillo, A. (2012), identifies several factors affecting wine consumption like consumer education, other activities related to wine (replacement products), distribution channels, quality, price, country of origin and level of consumer's income.

Stanciu, S. (2014), in a study conducted in Moldova with over 1000 customers, considers wine consumption to be largely dependent on the quality, price, and income of the consumer. He does not foresee much change by gender or age structure.

RESULTS AND DISCUSSIONS

a. Viticulture

The wine production industry is conditioned to a large extent by the existence of raw materials and seen from this context, the trend of its development is quite similar to that of the development of the viticulture sector. For more than two decades, this sector reflects an oscillating dynamic that is mostly related to changing systems, transferring property rights, changing production structures, and so on. This trend is presented in more detail in the figure 1.

As can be evidenced by the graph the surface of vineyards is still far from that inherited from the system (16969 ha in 1991 and 10533 ha in 2016) while total production has almost quadrupled to a total production of about 205 thousand tons, this is due mostly to the cultivation of new varieties with higher production potential as well as intensive vineyards cultivation. However, the country still imports significant amounts of grapes mainly from neighboring countries such as Macedonia, Greece and Italy. There are no clear figures on how much this quantity is destined for table grapes and for processing from the wine industry. The area cultivated with vineyards does not exceed more than 2 % of agricultural land, less favored by the region's countries with a strong trend of vineyard cultivation.

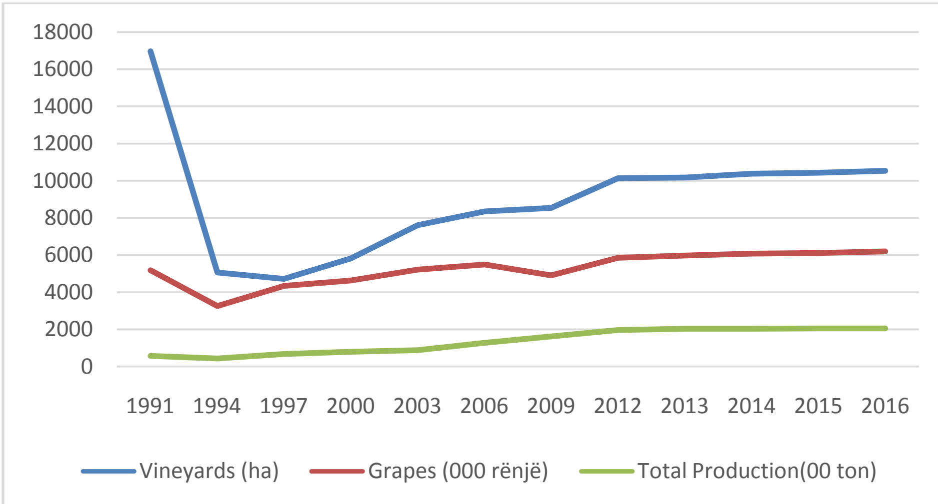

Figure 1. Development of viticulture 1991-2017

(Calculated, Statistical Yearbook 1991-2010, MBUMK and INSTAT 2010- 2017)

b. The wine industry

The wine industry inherited from the past system, following the privatization process, a kind of tradition based largely on outdated technology and amortized real capacities. One of the stimulating factors of domestic demand is estimated to be the improvement of the quality of the country's wines, mainly influenced by the improvement of agricultural practices, grape cultivars but also strongly supported by investments in modern technology of production as well as investments in human capital.

The number of enterprises operating in this sector has been redefined, from only 22 in 2000 to over 124 in 2017 , which is not associated with the same degree of change as regards the level of production *(INSTAT, Number of enterprises by sectors, 2000 -2017).* This makes us think that new enterprises have a low production capacity. However, imports have continued a nearly constant trend with an average of about 20,000 hl per year *(Official statistics MBUMK and INSTAT, 1995-2017).* Meanwhile, referring to the same sources, the total consumption of wine has increased by nearly 50% over a period of nearly 15 years. If we keep in mind that wine exports are almost insignificant, this level reflects the domestic demand for wine. In the last five to six years, the consumption structure is almost overemphasized in terms of the contribution of domestic production and imported wines. So, referring to this point of view, the contribution to growth of consumption comes mainly from domestic production.

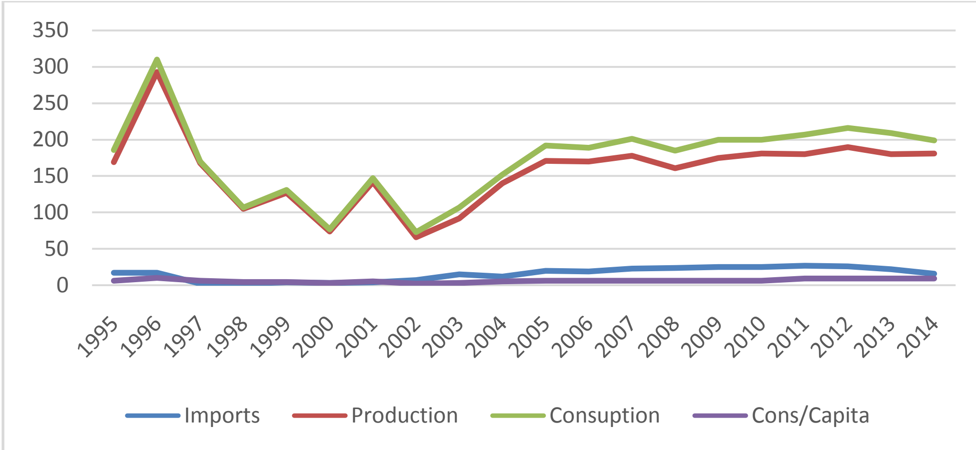

Figure 2. Data on wine consumption structure (Stat. OIV extracts, 1995-2016)

The products of our wines today are destined almost entirely for the Albanian market, some essential reasons consisting mainly of loss of legacy markets due to systems change, high costs and quality of row ingredients, more complex problems in terms of imbalance of quality-price, in image loss as a result of abuses, in the confidence still fragile of Albanian consumer towards home products, the inadequacy of income etc.

Considering the large quantities of handicrafts and informal sales that are out of official statistics, the situation becomes even more unclear with regard to the per capita consumption rate assessment.

Despite the steady growth of wine supply in the country, its offer is still far from meeting the domestic consumption needs without mentioning export opportunities in the region and beyond.

From the studies conducted on the enterprises of this industry, there is a low level of application of contracts and consequently an opportunistic behavior of the parties in the total volume of transactions *(KECO et al, The vertical integration of the wine industry; What support policies should be adapted, Tmisoara, Romania, May 2009).* In recent years activities within the Albanian consumption structure occurred dramatic changes.

New living culture has also led to a positive integral change in the basket of consumer goods that is closely related to the types of products but also to the change of standard that is closely related to their quality. Let's not say that the presence of wine on the Albanian table is becoming part of it. We can say that reports of confidence in the product in the country are a factor to be taken into account when comparing the consumption of it to Europe.

One of the key factors determining consumer demand is revenue, but how much this factor is determining as far as wine industry products are concerned. For this we have analyzed the GDP / capita data in the countries of the region (Macedonia, Montenegro, Croatia and Greece) as well as the level of per capita consumption in these countries. Observed data are interesting.

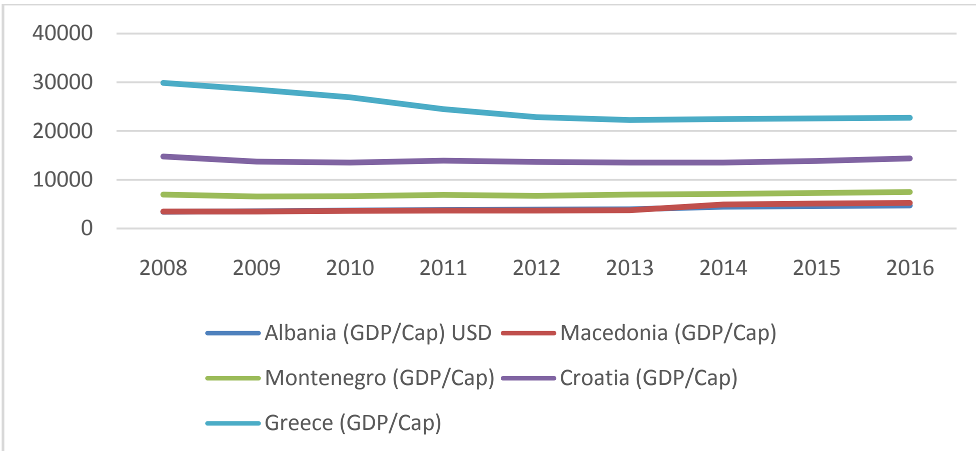

Figure 3. GDPper capita (2006-2016, http://www.tradingeconomics.com/indicators).

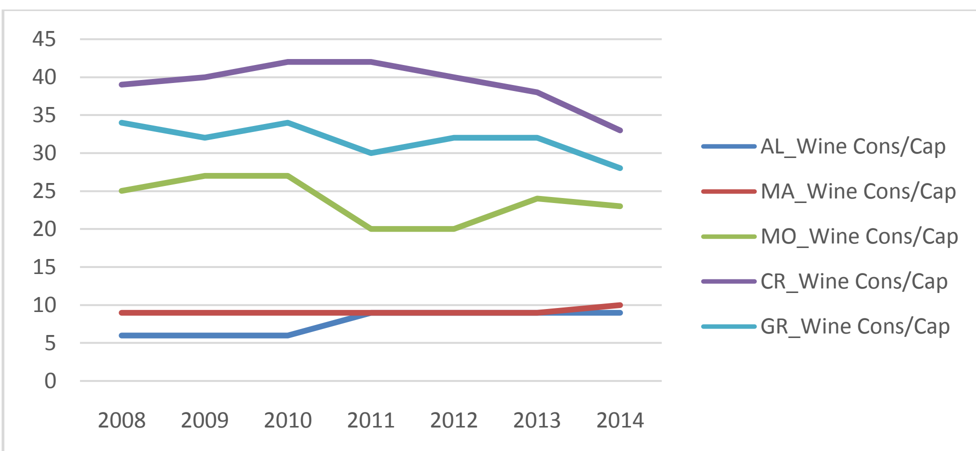

Figure 4. Per capita consumption (2006-2015, http://www.oiv.int/en/databases-and-statistics)

Regarding the GDP / capita indicators, we see non- conforming changes between Albania and Macedonia, as well as a slight change in relation to Montenegro but what is easily evidenced is a significant change in the level of per capita consumption of wine (Macedonia has a per capita consumption level of about 1.6 times higher, while Montenegro is about three times higher than our country). Likewise, no fair ratios are established between Albania's income indicator, percentage flow and consumption ratios per capita. This fact makes us judge that income is not the only determinant at the level of consumption of this product. So other factors such as those related to lifestyle, faith, tradition and other factors of social character are believed to be influential factors in consumption of this product.

There is no detailed information about changes in the price index of wine consumption to assess any correlation between this indicator and consumer level as well as to the magnitude of the monthly family income. Yet we find that wine is a product with a high segmentation of demand for it, making its consumption significantly influenced not only by income but also by social status, level of information possessed, its distribution patterns, and so on.

CONCLUSIONS AND RECOMMENDATIONS

The consumption structure in a good part (40-50%) is dominated by imported wines. The country's wine still has problems with the image and level of consumer confidence. In addition to this fact, we believe that wine production companies coming mainly from the countries of the region such as Macedonia, Montenegro, Italy and Greece have sophisticated marketing techniques and well-structured distribution channels, which makes them quite "aggressive" in relation to the market. So, according to the features of this product, they emphasize the necessity of some of its special forms of trading and keeping it in their function, to have a stable space in a market as well as an ever-improving image. The reduced level of integration and other objective barriers that consist mainly of structural and infrastructural problems, create an anemic and often chaotic marketing.

Problems of viticulture sector reflected not just in the bid size of the row ingredient for the wine industry but also in small quantities and variety changes delivered from farms in the country as well as the grape quality, deduct a significant impact on the development trend of the wine industry. Despite this problematic, referring to recent developments in this sector , the medium term bid potential will be significantly higher, which is an opportunity that should be considered by the operators of this industry.

Considering the data of the countries of the region regarding the impact of the level of income in wine demand (per capita consumption level), low to moderate levels of GDP / capita does not prove strong correlation between the two variables for the countries like Macedonia or Montenegro. At high levels of this indicator (GDP / capita), as in the case of Croatia, Greece or Italy, there is a clear link between them.

This proves the fact that wine is a delicate product with a high segmentation of demand for it. Moreover, the demand for this product appears to be influenced by a number of factors such as consumer, social, faith, etc. , which should be considered intelligently by businesses in this sector affecting the growth of the "collateral" of this product in consumer decision making.

From the preliminary assessment of the development trend of this industry in the country as well as the macro environmental variables, the high development potential of this industry is assessed but needs to be properly evaluated by the processors. This would require serious investment in technology, image enhancement, the development of integration potentials with regard to raw material supply as well as sophisticated marketing practices. Increasing product competitiveness in the conditions of a highly dynamic and open regional market remains a challenge to be overcome by industry enterprises.

Finally, we believe that there is a strong need for further studies dealing with the consumer behaviour, distribution channels as well as practices to be used from companies to increase their presence to the market. Another field of a high interest for further studies would be the relationships among stakeholders in the wine industry as well as level of horizontal coordination and vertical integration.

REFERENCES

Bisson, L. et al. (2002), " The present and future of the international wine industry", Nature Publishing Group.

Keco, R. (2010), "Strategic Management Problems in the Wine Industry" , Monograph.

Kučerová, R. (2005), "Factors of wine demand in the Czech Republic and neighboring wine-growing countries", Agricultural Economics - Czech.

Camillo, A. (2012), "A Strategic Investigation of Determinants of Wine Consumption in China", International Journal of Wine Business Research.

Stanciu, S. (2014), "The factors influencing consumers' behavior on wine consumption in the Moldovan wine market", International Conference "Risk in Contemporary Economy".

Porter , M. (1998), "Competitive strategy - Techniques for Analyzing Industries and Competitors". New York: Free Press.

INSTAT, Number of Enterprises by Sectors, 200-2017

Official statistics MBUMK and INSTAT, 1995-2017

Albania GDP (1984-2018); from http://www.tradingeconomics.com/albania/gdp

Wine consumption per/capita (2006-2015), from http://www.oiv.int/en/databases-and-statistics