



ASSESSMENT OF SWOT – ANALYSIS APPLICATION IN ORDER TO DETERMINE THE DEVELOPMENT OF WINE SECTOR

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INTRODUCTION

Viticulture and wine – production are traditionally strong sectors in Bulgaria due to the combination of natural and human resources, traditions in wine- and technology selection, historical and cultural heritage, supporting the wine and country tourism. Examined are the factors that may affect the competitiveness of viticulture and wine – production several years after the membership of Bulgaria to the European Union.

Purpose:

Examination of possible methodological approaches in order to establish the status and operation conditions of the wine sector in Bulgaria.

To achieve this goal following **tasks** are defined:

- Assessment of possible methods for analyzing the strengths and weaknesses of wine sector. Determining the factor's influence affecting the sector;
- Determining the applicability of both approaches - SWOT and PEST analysis - on the internal and external development factors;

- Review and assessment of strengths and weaknesses, opportunities and threats for the sector development in Bulgaria;
- Summary conclusions and proposals for use of both methods (SWOT and PEST analysis)

RESEARCH METHODS

1. SWOT Analysis – Analysis on Strengths, Weaknesses, Opportunities, Threats

Core of SWOT analysis:

The analysis contains the conclusions of the review of internal and external environment to determine the strengths and weaknesses of the observed object, as well as external opportunities and threats for further development. SWOT analysis is a technique associated with the development of a matrix. The aim is to fully combine the strengths and weaknesses and external opportunities and threats of the object. So this is a situation analysis, unlike other arts of analysis that use market, product, or some other approach. In a dynamic and rapidly evolving environment, it will be different in different periods of time corresponding to the strategic objectives. Competitive advantages and key vulnerabilities of the organization are identified.

	Positive Impact	Negative Impact
Internal Environment	Pros + + +	Contras - - -
External Environment	Opportunities ? ? + +	Threats ? - -

Figure 1. Purpose of SWOT analysis

Purpose of SWOT analysis

Maximizing the left side of the matrix (strengths and external opportunities) and minimizing the right side (weaknesses and threats) by the choice of strategy.

2. PEST analysis

PEST analysis is a study of the influence of external environment on the particular business. PEST acronym derives from: **P** - politics, **E** - economics, **S** - social factors, **T** - technological factors.

Nowadays more and more is focused on the influence of environmental and legal factors and so the analysis extends significantly.

PEST analysis allows to define the **strategic perspectives**. Perspectives could be considered as **threats** or new, unforeseen at the time **opportunities**.

• **Political** - What is the government's attitude to business? What is the policy of employment, labor law, tax policy, European directives.

• **Economics** - What are the economic forecasts for the country and exact for the industry? What are the trends in interest rates, inflation, exchange rates and economic growth, etc.?

• **Social** – such factors as population growth, age distribution, distribution of wealth in society, level of education, health and safety.

• **Technology** - The technological innovations associated with new information and production technologies, alternative ways of delivering services, automation, inventions and developments.

PRESENTATION OF THE POSSIBILITIES OF RESEARCH METHODS - "SWOT & PEST ANALYSIS"

The combination of both methods (SWOT & PEST) is used to answer several questions related to the observed sector:

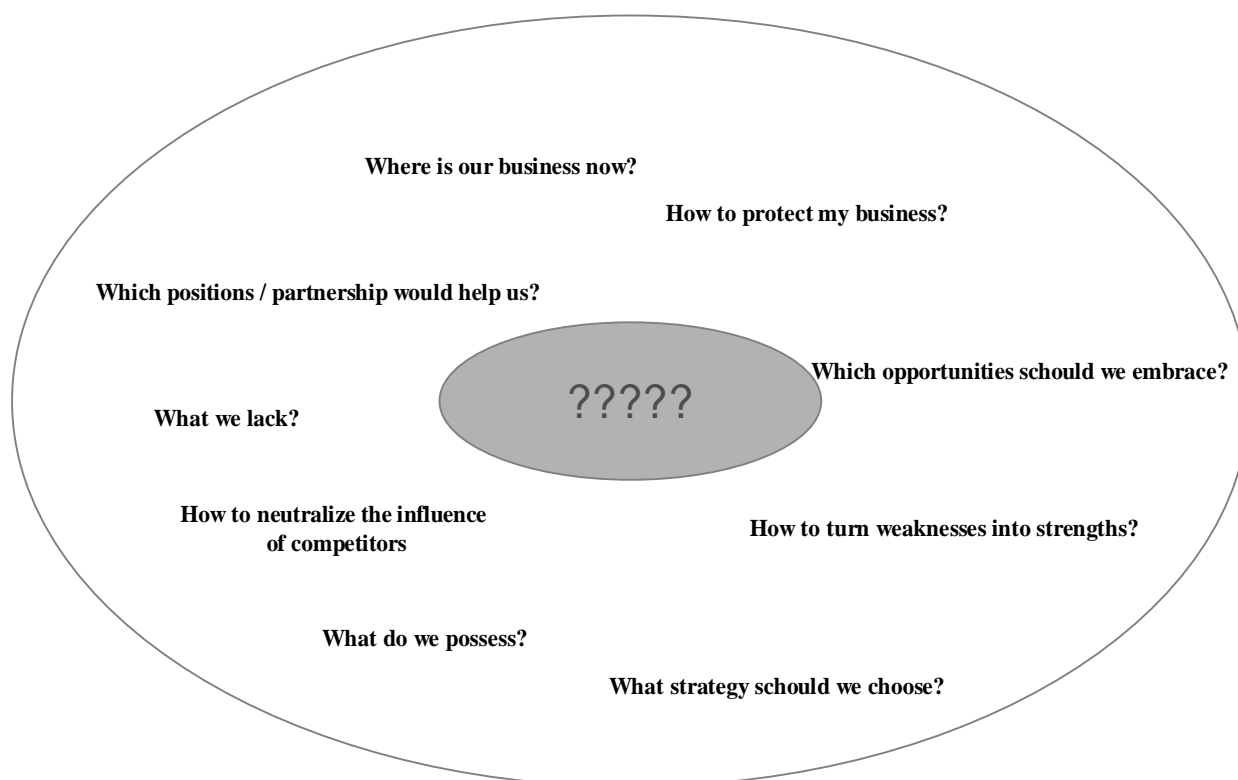


Figure 2. Combination SWOT & PEST analysis

In this context it is important to note that the structural components of SWOT analysis - strengths and weaknesses are internal, e.g. - Presence or absence of internal resources. On the other hand, opportunities and threats in combination with environmental factors (PEST analysis) are external.

1. Coverage of the strengths

- History and traditions

One of the most vital traditions in Bulgaria is the production of homemade wine. In all country sides are organized wine - festivities.

Traditions in the wine - sector are a fact - a unique local wine and dessert varieties. The "Day of the wine" is popular too.

- A variety of wine regions and favorable soil and climatic conditions

There are combinations of soil and climatic factors affecting the specific qualities of wines from local grapes, the quality of dessert grapes.

- Wide variety list of wine and dessert grapes

Unique varieties - products of ancient and modern selection, hybrid dessert grapes,

hybrids resistant to adverse factors, a range of new hybrids.

On this basis in Bulgaria are offered wines with a protected designation of origin. In addition there are regional so-called table wines with labels for variety and vintage. The most popular are "Mavrud of Assenovgrad" "Old red wine of Oryahovitsa", "Gamza of Novo Selo", "Merlot of Sakar" and others. General criteria are: authenticity and quality, based on the unique Bulgarian varieties „mavrud”, “gamza”, “dimyat” and “pamid”. These are products in small series for connoisseurs.

- A significant number of wine producers (mostly private)

Vine farms in Bulgaria are about 56 200, relatively evenly distributed throughout the country. There are approximately 28 000 wine growers and 170 wineries, most of them are new or reconditioned.

- Activity of domestic and foreign markets

Bulgarian wines are promoted and distributed on traditional and new markets, wines made of typical local grape varieties. In March 2011 Bulgarian wines won 23 awards in international competitions. These were prestigious exhibition as "Vinalies Internationales" in Paris (5 gold and 12 silver medals); the specialized competition for Chardonnay in Burgundy - Chardonnay du Monde (7 medals).

2. Coverage of the weaknesses

- Deteriorated age structure of the vines

The rate of replanting of new vineyards is lower than their demise, this leads to aging plantations and reducing their size.

- Small vineyards

After restitution large arrays were allocated to different owners, which makes mechanized production and processing harder. Often there are no investments to modernize the facilities.

- Different priorities in market orientation and style of wines

There is a confrontation with the new competitive market conditions - new wine styles, consistent quality, and guarantee of origin. On one side is a strong influence of urban culture to new generations, marked by the dominance of the distribution chain - supermarkets. On the other hand clearly races desire for a specific product - a high price, limited quantities, boutique approach.

- Misunderstanding and ineffective use of opportunities for funding and supporting the sector

This year growers in the country can absorb 22 million Euros in three different measures, including provided 2.1 million Euros for production promotion in countries outside the EU. Up to now there are no approved projects under this measure. The country has 95 096 ha vineyards, as in the past 10 years, newly planted areas are only 13 480 ha.

According to Bulgarian experts - traditional varieties such as "Mavrud" and "Dimyat" are not known abroad, although tourists appreciate them when they taste them.

3. Identifying the opportunities by the methods used - "SWOT & PEST Analysis"

- Health Benefits of grapes and wine

Proven prophylactic effect against many diseases due to contained natural antioxidants in grapes. Proving the origin of wine is becoming internationally ever more important. The origin of the product is both a feature that increases its value, on the other side - a guarantee of consumer protection. Bulgarian legislation describes the control of the origin of the grapes, but its effective implementation requires a system for quality check in order to fulfill better control of wines quality.

- Niche market for environmentally friendly, organic and gourmet products

More often people talk about sustainable lifestyles and the clients increase their social activity. Environmentally friendly products and safe production are focused. Environmental cleanliness and health of the products are important criteria for consumer preferences. European and world markets are looking for more and more environmentally friendly and healthy products and functional foods. Users are searching for quality boutique wines, too.

There is a deficit in products such as dessert grapes, grape juice and raisins. In this market situation Bulgaria can take advantage and develop the production of such additional or secondary products for different custom fields. Appropriate soil conditions exist.

- Population growth and changes in its structure - Diversification of consumer preferences, new market niches, market segmentation.
- Globalization - Opportunities for exchange of experts and technology, access to information and markets, wine tourism. Need for constant

comparative analysis with the "best" in the industry and prevention of popular errors.

- Expectations for the revival of the wine market

After the financial crisis shock, as in other areas and the wine market is expected to get a move on. Last year, wine industry was facing one of the most difficult years in recent memory because of the deep recession in many key markets like the U.S. and the UK. However, worldwide, now the market of white, light wines is moving slowly. These kinds of wine were much more - resistant to the crisis. The trading volumes are still not impressive,

but the trend is positive in several markets. North America and Asia are carriers of growth, while Europe continues to decline its trade volume. Typically, after most - difficult years of crisis there is a change between the major market participants. For example, is expected that traditionally "traders" - such as Italy, Spain and Greece continue to lose export volumes.

Remarkable growth is predicted only for the northern countries, partly to Eastern Europe. Certainly its export levels are not particularly large, so the focus will be - soon the price.

Forecast consumption for the top 20 still light wine markets				
Market	Volume 2004	Volume 2009	Volume 2012	Volume 2015
USA	248,402	281,205	301,665	321,960
Italy	296,875	297,710	295,691	294,057
France	312,846	280,010	265,103	260,497
Germany	240,595	240,287	240,584	241,003
United Kingdom	125,276	136,603	139,858	141,816
China	40,207	93,121	115,769	124,922
Argentina	120,330	117,084	112,908	107,783
Spain	115,517	91,945	92,213	90,090
Russia	38,885	61,811	63,636	67,628
Romania	54,740	56,805	57,685	59,210
Australia	41,873	48,990	50,640	52,240
Canada	30,267	39,181	43,990	50,555
Netherlands	37,382	41,552	43,931	45,285
Portugal	43,371	42,685	43,272	43,411
Brazil	31,037	32,900	35,170	36,840
South Africa	33,358	32,761	32,219	32,685
Switzerland	30,950	30,510	30,829	30,857
Belgium & Luxembourg	28,795	29,373	30,007	30,584
Greece	29,201	30,697	29,715	30,170
Hungary	26,880	27,935	27,998	29,250
Other	384,301	426,479	441,355	456,343
Total	2,311,087	2,439,643	2,494,237	2,547,187

All volumes in '000s of 9-litre cases

Source: The IWSR Database 2011 ©

Figure 3. Estimated consumption for the first 20 - white wine

4. Identifying the threats by the methods used - "SWOT & PEST Analysis"

- Globalization

Increased competition by traditional wine producing countries, and by the "New" countries - Chile, South Africa, Australia and others. In Western Europe the market of table wines is faced again with overcapacity, especially in Spain, Italy and southern France. Further adjustment of table wines to the new

quality standards is expected to be the only alternative.

- Climate change

Impact of global warming and drought on various stages of the vegetation period on the vine - additional irrigation causes higher costs

- Price dumping

The reason is that the wine transformed to mass product. According to study of Institute International Wines and Spirits Record (IWSR) - 77% of the wine market consists of

wines that cost not more than €3.50. In many countries this percentage is even over 90 (Bulgaria is one of them). Price dumping is possible because of the globalization of the wine market. The winners in this case are the huge supermarket chains that sell almost two thirds (2/3) of the wine in the world. The chains create and control the market, price, and then the quality. Hundreds of resellers and importers supply such supermarket chains, they are specialized in trade of wine in bulk. They buy wholesale young or aged wines, blend them with others, and process them according to demand.

Wines come from major wineries and cooperatives, than they are bottled in rented for this purpose farms. Such farms dealing almost exclusively with the bottling of wine are popular in every country, which produces or consumes wine. It is not necessary that the farms should be located near to the vineyards.

CONCLUSIONS AND CONSEQUENCES

The guidelines for building a "successful" scenario of development of the wine sector are summarized on the basis of the presented strengths, weaknesses, opportunities and threats, as well as the driving forces that change (positive or negative) the observed industry.

In order to spread their influence, the following "components" for success are explained:
- Quality and Image /Uniqueness/.
For each of these components are prioritized the key points:

1. Quality

The quality objectives are related to the overall performance of the Bulgarian wine, as well as are directed to his admirers. These are people who appreciate the culture of wine and rendezvous on a cup of fragrant drink, they know the different varieties and brands and that's why the focus is on:

- Certified seed

Providing optimum qualitative safe seedlings with help of plant biotechnologies - quality raw materials for competitive wine.

- Skilled human resources

Providing high qualitative education and opportunities for practical trainings, practical researches, international technology and specialists exchange.

- Standards for quality and safety

Compliance with the requirements of European and global consumers to high standards and

consistent quality, safety and health food effects.

- Trends in consumer preferences

Compliance with current trends for consumption of aromatic, light wine with guaranteed origin.

The market has become capricious: boutique taste wine and collections are in trend. The major production facilities for industrial quantities are seldom successful. Exclusive wines with own character and image are positive accepted.

2. Image

Recognition of the image is a slow and difficult process. In order to build or defend the image of Bulgarian wine, the consumer need to find out and to remember its attraction - "made in Bulgaria". In this direction, the highlights are:

- Active marketing

Key points are gaining of market niches, thanks to a wide range of products, marketing and protection of intellectual property rights, consistency of quality. Reasonable alternative for development is increasing the share of quality wines by modernizing technology.

- Activity of the private sector in line with national advertising policy

Smart decisions about individual advertising campaign for private producers, consistent with current market trends. Scale and significantly more effective advertising campaign aimed at the overall image of the wine and tourism opportunities.

- Wine – tourism

Globally, wine tourism is booming. The reason is that wine producers have the opportunity to present and sell directly to the consumers. This includes visits to vineyards, tracking technology into the wineries, spa procedures, animated tastings.

The economic potential of the combination of natural and historical landmarks in viticulture and wine production should be developed.

Natural, historical, ethnographic, folklore and even culinary heritage and traditions are unique and attractive, but we still do not have ready tourism product. The thematic links between good wine in the winery, excavations near it, the cultural and ethnographic or eco-trails nearby are still not related. The final product must contain: cultural heritage, natural attractions, regional characteristics, local customs, traditions,

festivals, folklore, culture of grapes and wine, and finally but not last- the charm of Bulgarian wines.

The goal is to capitalize the opportunities of wine tourism through its incentive in order to improve the profitability of wineries. Possible are joint advertising campaigns with tour operators, supported by appropriate infrastructure and skillfully organized complex for tasting and relaxation.

CONCLUSION

Experience worldwide shows that persistence in profitability and competitiveness of the wine sector could be achieved only through closer integration with other industry related sectors with focused and consistent national policy. On this line is achieved a qualitative end product, additional incomes from secondary and sub - products and added value in large scale.

Geographically Bulgaria has all the natural - climatic conditions for the deployment of wine sector in progressive and profitable industry.

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Transforming of the weaknesses and potential threats to the successful scenario, is a question of political support, consistent, long-term orientation towards the client.

Key point is the focus on related industries such as tourism, pharmaceuticals, environmental industries. A stress on connecting units such as logistics, product niche, development of qualified staff and others is needed.

All this would lead to the perception of wine not so much as a spirit, but above all as a national symbol and cultural good.

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