CZECH UNIVERSITY OF LIFE SCIENCES IN PRAGUE

Faculty of Economics and Management

Bachelor Thesis

The Potential of Foreign Producer When Entering into the Czech Wine Market

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Declaration

I hereby declare I have elaborated the Bachelor Thesis on “The potential of foreign producer when entering into the Czech wine market” by myself. I have used only sources which are listed in the Bibliography.

In Prague, 14. 3. 2014 Tomáš Pejcha

Acknowledgements

I would like to express my very great appreciation to my supervisor Ing. Petr Procházka Msc. Ph.D. for his valuable and constructive consultations while working on the bachelor thesis. His knowledge about trade and business, and his passions about my topic resulted in the successful elaboration of following bachelor thesis

The Potential of Foreign Producer when entering into the Czech Wine Market

Potenciál zahraničního producenta při vstupu na český vinný trh

Summary

The Bachelor thesis examines the potential of foreign producer(s) when entering into the Czech wine market. The main aim of this study is to characterize current conditions of the Czech wine market. Comparison of imports and exports of the main producers in the EU and the Czech Republic illustrated in order to find new possibilities in the Czech market. Thesis was prepared by using intensive research of wine bibliography and diversity of many internet databases and statistical offices.

The potential of foreign wine producer was defined by a business plan for a the potential product, trend analysis and S.W.O.T. analysis which showed the decent quality of foreign wines, and the opportunity to produce high quantity of wine and imported to the Czech Republic.

Key words: Wine, vine, trade, consumption, production, trend, S.W.O.T. analysis

Souhrn

Bakalářská práce se zabývá potenciálním zahraničním vinným producentem při vstupu na český trh. Hlavním cílem je charakterizovat současný stav vinného trhu v České Republice. Porovnání importu a exportu hlavních producentu v EU a České Republiky za účelem naleznutí nových příležitostí na českém trhu. Bakalářská práce byla připravena za použití vinařské literatury a internetových zdrojů a databáze statistického úřadu.

Potencial zahraničního vinného producenta je definován podnikatelským plánem s potencialním produktem, trend analýzou, a S.W.O.T analýzou, která ukazuje na poměrně dobrou kvalitu zahraničního vína s příležitostí produkce vysoké kvantity vín a dovozem do České Republiky.

Klíčová slova: víno, vinná réva, konzumace, produkce, trend, S.W.O.T. analýza

Table of contents

1 Introduction

Wine is very well known as a delicious alcoholic beverage, reflecting popular taste trends and wine´s beneficial effect to human health. Thanks to those aspects the wine trade market is not only growing worldwide but also in the Czech Republic.

This bachelor thesis is focused on the wine trade and particularly the entry of a potential foreign producer into the Czech Republic. The primary aim is, to analyze the Czech wine market in a way which will help to identify current trends in wine consumption in the Czech Republic, and also summarize the development of the import and export of major EU producers and the Czech Republic.

The first part of this thesis will address the theoretical basis for analysis of the Czech wine market. This will elaborate the cultivation, harvest and history of wine and also describe wine production, varieties of wine and classification of wine in Czech lands.

The second part of this thesis is focused on the practical, with primary emphasis on economics analysis of the Czech wine market. Based on theoretical projection, is determine expected export and import of wine products in the Czech Republic, and also describe present and future trends in consumption of wine, beer and spirits.

The last part will synthesize a recommended market plan for the potential producer based on the data shown, with profit projections for an export wine business into the Czech Republic. This may include suggestion(s) for new product(s) with high profit potential that should be directed to the Czech market.

2 Objectives of thesis and Methodology

2.1 Objectives of thesis

The importance and benefits of the study is to propose a possible way to import wines mainly from countries with a strong wine production. The target is primary designed in the form of a new wine product for a potential foreign producer for and it would be able to successfully entering into the Czech wine market. The main part of thesis is to provide a decent quality of wine for a low price. These products can be incorporated into the range of supermarkets and become successful on the Czech market.

2.2 Methodology

The theoretical part is based mainly on analysis of secondary data, which is presented in the form of reports and yearbooks processed by the relevant institutions. An important source of information and knowledge needed for analyzing and understanding the current situation in the wine market in the Czech Republic, are monographs and scientific articles related to this topic.

The research this section is based on theoretical foundations and market analysis, analysis of current and future trend of alcohol consumption in the Czech Republic and ordinary least squares method to find the relationship of the gross income of the average Czech household with consumption of wine and beer. Summary and processed information are essential for their further use in the study of the case and therefore the recommendation of a new product on the Czech market and help logic output of some marketing research, SWOT analysis and the design itself.

Specifically, case study obtained data was analyzed and uses to draft a potential product for the domestic market in the Czech Republic. Use of case study data also appears in developing the Finishing Touches product, illustrating a gap in the market which can profitably be filled.

3 Theoretical part – Literature overview

3.1 Demography of the Czech Republic

This part is about demographic features of the population of the Czech Republic, including population density, minorities, economic status, and small part of history of the Czech Republic.

3.1.1 History of the Czech Republic

History of Czech Republic beginning in the 4th century B.C.E. the Celtic clan settled in the region, followed by Germanic and Slavic tribes. The country itself began to as a official form in 9th century known as Great Moravia. When the Great Moravian kingdom fell, the Czech state emerged with help from the Monarchy of Premyslids. The kingdom of Bohemia was very important and also powerful in the region, but several conflicts like the Hussite Wars in the 15th century, and 30 Years' War in the 17th century, were painful for the Czech lands.

Under the power of Habsburg's family, these regions became part of the Empire of Austria-Hungary. This empire collapsed after World War I. and split into a separate state of Hungary, Austria and Czechoslovakia. During World War II the state Czechoslovakia split into a two states, namely Slovakia and Czech occupied by the Germans. When the war ended these two countries were again together but fell under the influence of the Soviet Union and were ruled by Communist governments. The 1989 Velvet Revolution ended the Communist regime and Czech and Slovaks Republics split in 1993. The country we know as the Czech Republic was put on the map on 1. 1. 1993.[1]

3.1.2 Population and Languages of the Czech Republic

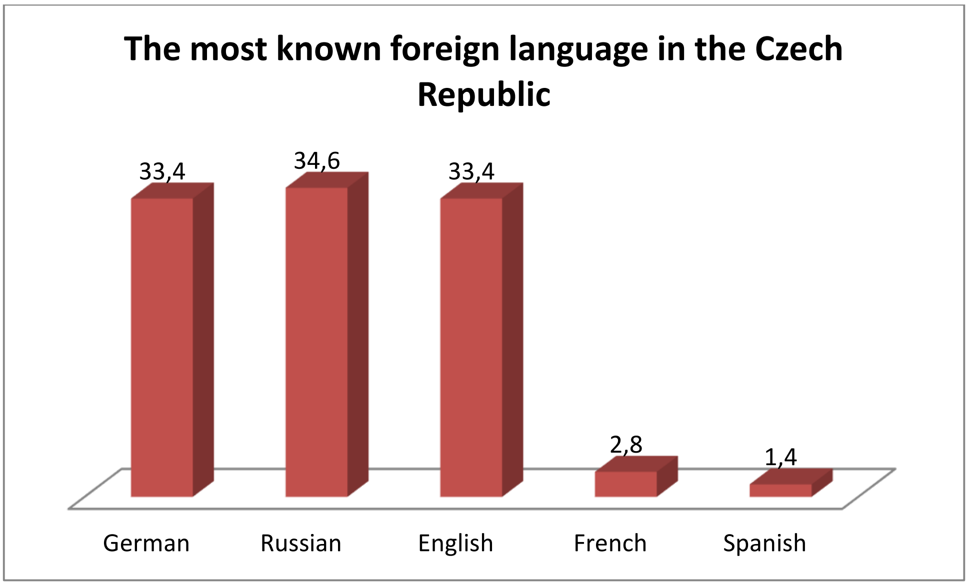
The current population of Czech Republic is more than 10, 5 million people, with 7, 5 million working label. Since 2006, natural growth has been positive, but

[1] Čapek, František. Dějiny zemí Koruny české v datech, 1999

the most important factor accounting for increased population numbers has been immigration, approximately 350.000 new immigrants during the last decade.

Based on information from European statistical office Eurostat, the most common known foreign languages in the Czech Republic are English, German and Russian. From 2000 to 2008 there has been a significant increase in the level of education in foreign languages.

Figure 1: Self-perceived known foreign language of adults (25-64 years), 2007



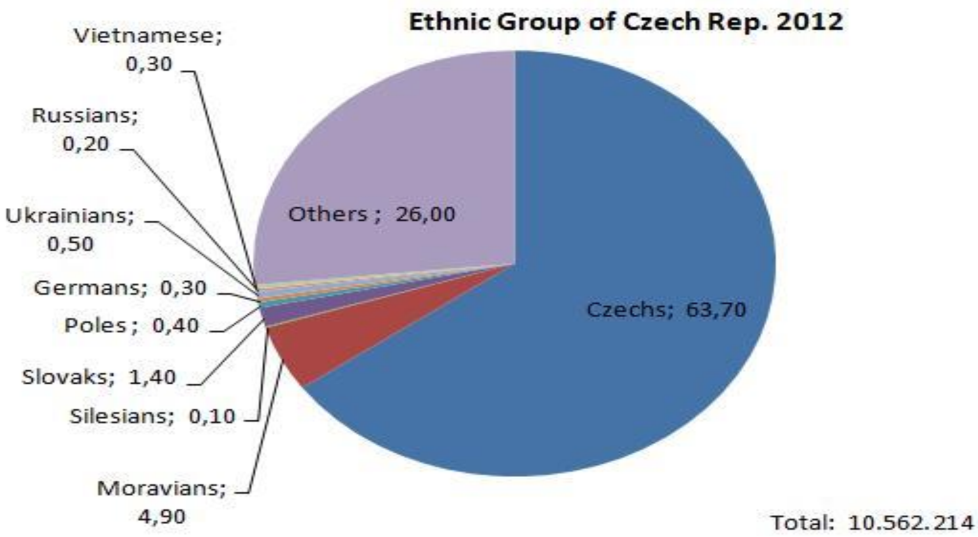
Source: Author, Eurostat, Adult Education Survey

Minorities, which are traditionally and on long term basics, live in territory of the Czech Republic. All of these minorities have some extra privileges. The Government of Czech Republic processed law of officially recognized minorities, which are Belarusians, Bulgarians, Croatians, Hungarians, Germans, Greeks, Poles, Romanist, Russians, Serbians, Slovaks, Ukrainians and Vietnamese. [2]

Citizens belonging to the officially recognized minorities have the right to use their own language in communication with authorities, Government and in front of the state courts of law.

[2] *ec.europa.eu*

Figure 2: Structure minorities in the Czech Republic 2012



Source: Author, Czech Statistical Office 2013

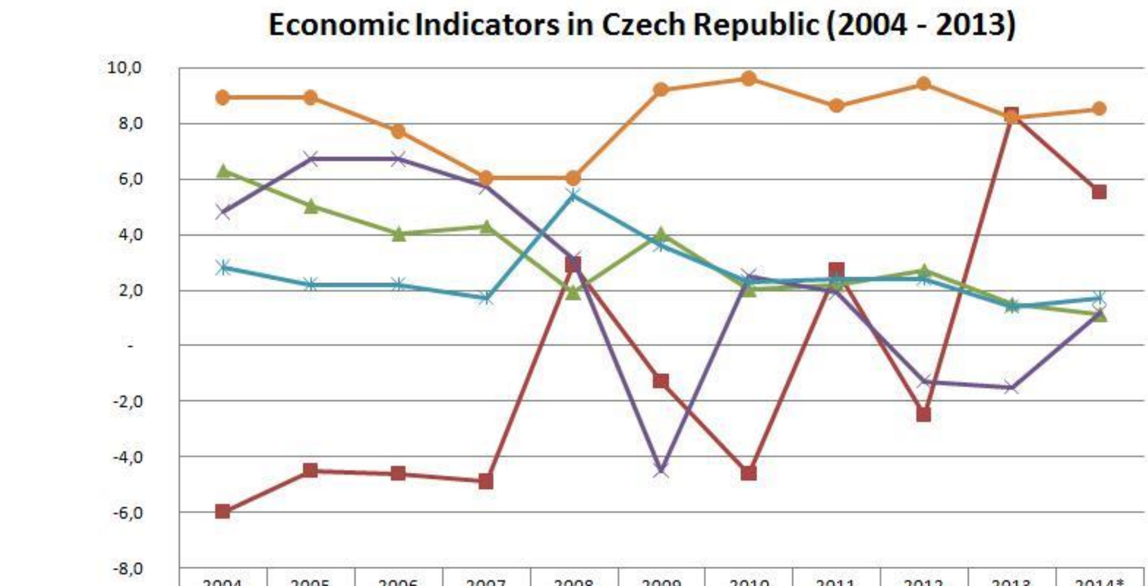
3.2 General Economic information about the Czech Republic

The Czech Republic is divided into 14 regions, including the capital city Prague. Prague is the smallest region in the republic has s GDP per capital more than twice the national average, and unemployment is rate half that the national rate. Prague is one of the top ten richest regions in EU and one of the most economically developed regions in Central and East Europe.

The Czech Republic is proud member of global important organizations such as European Union since 2004, NATO since 1999, OECD since 1995, United Nations Organization, WTO, IMF/WB, IBED and WHO[3]

[3]czechinvest.cz

Figure 3: The Czech Republic: Key macroeconomic indicators



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
EU vs. CZK	-6,0	-4,5	-4,6	-4,9	2,9	-1,3	-4,6	2,7	-2,5	8,3	5,5
Avg Income	6,3	5,0	4,0	4,3	1,9	4,0	2,0	2,2	2,7	1,5	1,1
GDP, P-2004	4,8	6,7	6,7	5,7	3,1	-4,5	2,5	1,9	-1,3	-1,5	1,2
Inflation	2,8	2,2	2,2	1,7	5,4	3,6	2,3	2,4	2,4	1,4	1,7
Unemployment	8,9	8,9	7,7	6,0	6,0	9,2	9,6	8,6	9,4	8,2	8,5

Source: Author, Czech Statistical Office 2013

** Forecast based on information on web site Czech Invest 2013*

The CIA fact world book, 2014 see the Czech economy in this way: ´´The Czech Republic is a stable and prosperous market economy closely integrated with the EU, especially since the country's EU accession in 2004. While the conservative, inward-looking Czech financial system has remained relatively healthy, the small, open, export-driven Czech economy remains sensitive to changes in the economic performance of its main export markets, especially Germany. When Western Europe and Germany fell into recession in late 2008, demand for Czech goods plunged, leading to double digit drops in industrial production and exports. As a result, real GDP fell 4.5% in 2009, with most of the decline occurring during the first quarter.

Real GDP, however, slowly recovered with positive quarter-on-quarter growth starting in the second half of 2009 and continuing throughout 2011. In 2012, however, the economy fell into a recession due to a slump in external demand. The auto industry remains the largest single industry, and, together with its upstream suppliers, accounts for nearly 24%

of Czech manufacturing. The Czech Republic produced more than a million cars for the first time in 2010, over 80% of which were exported. Foreign and domestic businesses alike voice concerns about corruption especially in public procurement. Other long term challenges include dealing with a rapidly aging population, funding an unsustainable pension and health care system, and diversifying away from manufacturing and toward a more high-tech, services-based, knowledge economy.´´ [4]

3.3 Wine History

Grapes were some of the earliest cultivated fruits in the world, and one of the oldest human products. The origins of grape cultivation and winemaking reach to Mesopotamia around 6000 BC. They came to Europe when Phoenician sailors were ferrying the grapevines to Greece. The Greeks were the first to grow wine with the effort of making it a real practice.

It first came to the Czech lands in 300AC when the Roman legions camped in the Southern Moravia, but the biggest expansion happened in the era of the Great Moravian Empire in the 9th and 10th century. In following years, viticulture grew rapidly especially under the enormous influenced of European monasteries. At the same time, new varieties of wine were being imported from Spain and also France. In response, wines from Moravia and Czech regions began being protected by order of the local monarchs, creating limits and quotas of wine imports.[5]

After the ruling of Charles IV in 1358, who restricted foreign wine selling in the Czech land, local wine making developed. These restrictions enabled the local wine makers to develop their vineyards so the people were supplied by the products which came from this land. Charles also made arrangements to have other varieties of grapes imported so the range of the wines would be wider and more types would be available for people to grow. Maybe the most famous would be the Burgundy blue, better known as Pinot Noir, which was imported here from France. The vineyards were then held mostly in Moravia due to the weather conditions and Czech viniculture improved quickly with practice

A slight decrease of wine production came with the Thirty Years' War and with the rising demand in trade and crafts, brewing industry and wine diseases in the 18th century.

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[4]The World Fact Book, 2014

[5]Mařík, Kamil a Bilík, Lubos. Cesty za moravským a českým vínem. 1. vyd. Praha, 2004

The 20th century brings the first laws wine restriction and the effort of the biggest harvests, but without the acknowledging the quality of wine. The socialist economy reaches its end in 1989 and in 1995 a new wine law, which continues the Austria-Hungarian tradition, comes to life and also goes along with the European law environment. The integration with EU wine legislation in 2004 came with some changes, which influence Czech viticulture in these days. Although the domestic wine market is dominated by wines from France, Italy and Spain, Czech producers are big players in the domestic wine market.[6]

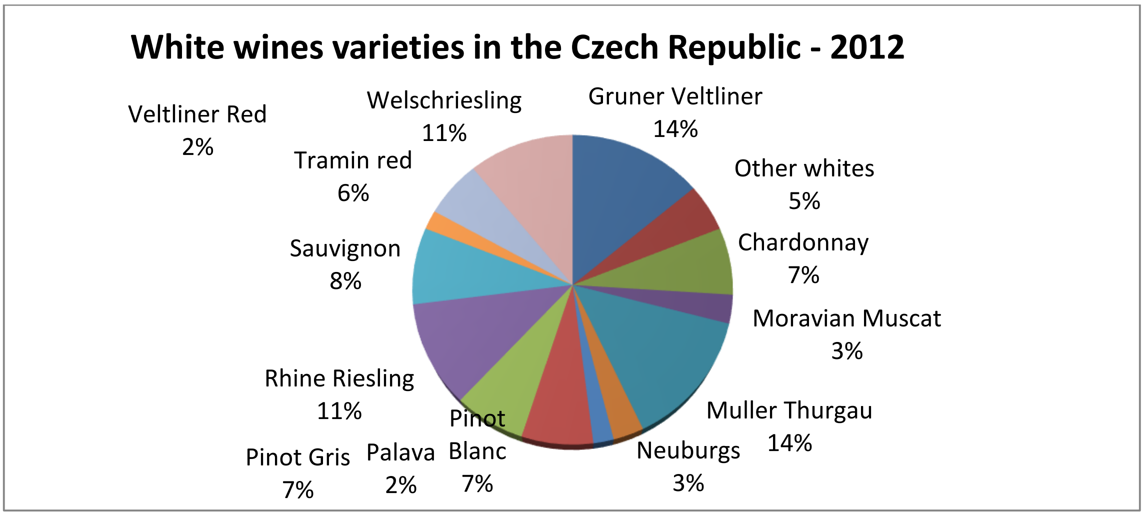
3.4 Vine

A necessary part for wine production is vine grapes. Grapes grow in cluster form around 5-300 berries on the grape plant. Vine grapes can have great deal of variety dark blue, red, white, green, yellow and pink colors.

3.5 Vine varieties

There are more than 60 vine varieties in the Czech Republic registered by the law of viniculture of Czech Republic. The primary and focused vine varieties grown in Czech Republic are Muller Thurgau, Welschriesling, Gruner Veltliner, Rhine Riesling, Saint Laurent, Frankovka, Zweigeltrebe, Blauer Portugieser and Pinot Noir.[7]

Figure 4: Structure of white varieties in the Czech Republic 2012

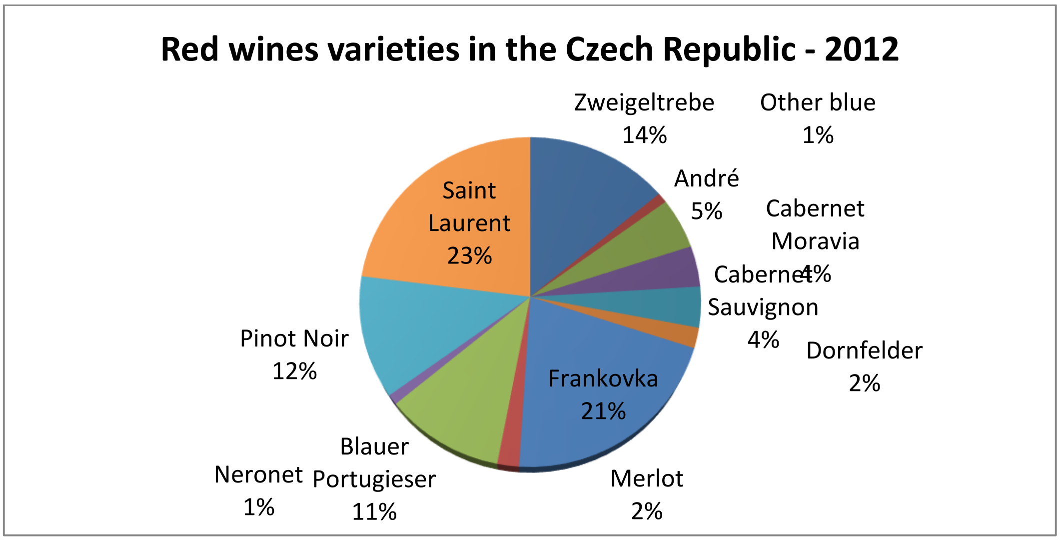


Source: Author, Association of winemakers Czech Republic

[6] Smutná, Kateřina. Historie vinařství na Moravě – pohled do archivních pramenů, 2004

[7] Baker, Helena. Kapesní průvodce po vinařstvích a vínech České republiky, 2007

Figure 5: Structure of red varieties in the Czech Republic 2012



Source: Author, Association of winemakers Czech Republic

3.5.1 Locations of origin – wine regions in the Czech Republic

The internet server wineofczechrepublic.cz said that, ´´The grapevine grows now on approximately 19 000 hectares of Czech soil. Cca 800 of these hectares lies in Bohemia, the rest of vineyards can we found in Moravia.

The Czech Republic is divided into two viticulture areas, Bohemia and Moravia. The Bohemian is further divided into two subareas („mělnická“ and „litoměřická“), the second one is divided into four sub-areas „mikulovská“, „slovácká“, „velkopavlovická“ and „znojemská“).´´[8]

The wine region Bohemia contains the approved wine-growing area in the historic land of Bohemia. The Bohemia region consist two wine subareas, includes 66 wine villages.

The vineyards are located around rives Elbe, Vltava and Berounka. The wine grapes gives fairy good revenue but the quality of wine is very inconsistent. Bohemia region is the most northern wine region in all of Europe, but despite the cool climate produces many excellent wines.

[8]www.wineofczechrepublic.cz/en/news/for-public/314-czech-and-moravian-wines-will-be-presented-together-on-the-prowein-fair.html

In these parts of Bohemia, the average temperature is around 9°C and in the growing season about 15°C. The largest and expansion of vineyard areas in Bohemia was achieved in 1756.

The wine region Moravia contains the approved wine-growing area in the historic land of Moravia. The Moravian production consists of wine subareas, includes 312 wine villages. The vineyards of Moravia produce many high quality white wines. Thank to good soil and weather condition Moravian wines have interesting spectrum of aromas and wide range of different flavors. Moravia wine region is also suitable for growing blue and red grapes for production of red wines. The dominant of Moravian wines is traditionally full and strong fruit taste. Due to the adding of new technologies for production of wine, the Moravian wine is softer and finer than in previous years.

There also are many wine producers near Brno which is a second biggest city in Czech Republic. Moravian producers total more than 95% of all cultivated vineyard registered in the Czech Republic. The vineyard of Moravia spreads for about 17,550 ha. This region is primary situated in the South Moravian Region and slightly extend into Zlin region. The annual average temperature is around 9, 5°C, the average annual rainfall is around 508mm and the average annual duration of sunshine is more than 2250 hours.

The primary factors of soil are very varied and diverse. Moravia is mainly dominated by the rocky soil, gravel, sand and loam. This diversity of the soils and climatic conditions gives the Moravian wines remembered character of subtle flavoring substances and pleasant drinkable wine.[9]

3.6 Wine Classification in the Czech Republic

Wines which are produced in the Czech Republic are categorized based on type and quality according to the Wine Act of the Czech Republic. There are two basic categorizations of wine. Characterization is based first on wine´s physical structure, either Still or Sparkling wine. Next characterization is color White, Rosé and Red.

[9] www.wineofczechrepublic.cz

3.7 Characterization of wines by the color of wine

- White wine – made from white, green or red grapes, respectively from blue grapes but without fermentation – this wine is called ,,the claret,, (Tramin Red)
- Rosé wine – made from red grapes with short fermentation or mixture of white and red wine – this mixture method is called ,,cuvee,,
- Red wine – made from blue grapes with long fermentation

3.8 Characterization of wines, by the type of wine:

Wine without origin

This is a category that the most customers previously knew under the name of table wine. This kind of wine comes from grapes produced in any EU member state. Table wine represented the lowest quality of the wine on the market; the grapes can be from mixture grapes or unregistered varieties of wine grapes. In some cases, it may be labeled variety and vintage. According to wine law of the Czech Republic it is forbidden produce a table wine with the name of the wine variety or with special attributes.

Country wine

Country wine meets the following requirements: It is made entirely from local grapes harvested on vineyards for quality wine or from the varieties which are not recorded in the National Wine Grapes Variety Book, but the wine law allowed them to produce and named them as country wine (e.g. Damascenka, Riesling Yellow, Blue Janek) Sugar content of the grapes at the harvest must be minimum 14° NM. Country wines can have label showing the wine origin, vintage and grape variety from which it was produced.[10]

Quality wine

Quality wine is a type of wine produced only with domestic grapes varieties registered in the National Wine Grapes Variety Book or grapes varieties permitted in any of the EU member state from vineyard suitable for quality wine from a single wine region. Manufacturing process must take place in the same wine region in which the wine grapes were harvested. The yield must not exceed the maximum allowed value 14 tons per

[10] Baker, Helena. Kapesní průvodce po vinařstvích a vínech České republiky, 2007

hectare. Sugar content of the grapes must reach minimum 15°NM. Quality wine must meet requirements which are classified by the State Agricultural and Food Inspection Authority (SZPI).

Quality wine with special attributes

The wine grapes must meet all requirements for the production as a quality wine; in addition the grapes must come from one wine sub-region. The origin of grapes, the sugar content, weight, grape variety or blend of grapes varieties must be verified by the State Agricultural and Food Inspection Authority (SZPI). Quality wines with special attributes must not increase the sugar content. Wine labels with special attributes include the name of the wine region and sub-region may also contain the name of the grape variety or varieties, vintage year and the name of the wine-growing village and vineyard. Wine with special attributes can be described as a postscript stamp.

Types of individual attributes:

1) Cabinet wines

   Wines made with grapes whose have reached at least 19°NM. Wines are light, dry and pleasantly drinkable wine.

2) Late harvest wines

   Wine which has the sugar content of the grape harvest at least 21°NM. The taste of wine is usually full, extractive, dry or semi-dry wine.

3) Selection of grapes

   Wines produce from grapes which ripen at least 24°NM. The wine is very fine, full of grape taste, with higher alcohol content, sometimes with higher residual sugar.

4) Special selection of berries

   Wines produce from grapes ripened very long vine plant and the wine grapes must reach at least 27°NM. Wines are very full of wine taste, semi-sweet or sweet wines.

5) Ice wine

   Wines produce from pressing frozen grapes, grapes harvested right after first freeze at a maximum -7°C. Sugar content must reach at least 27°NM. The grapes during the pressing process cannot be melted, and due to this method the water from grapes is freeze and completely pure and highly concentrated juice. Ice wines are very sweet and extractive. It can be prepared only in certain years and can be relatively rare and expensive.

6) Straw wine

Wines produced from grapes dried for at least three months on the straw or reed holders. Sugar content must reach at least 32°NM. Wine is very sweet with unique wine taste.

1^o NM = 1 kg sugar in 100l of wine juice

3.9 Manufacturing process

In the Czech Republic there are no significant differences in the process of making wine compared to another European countries Italy, Spain or France.

Harvesting or picking is for sure the first step in the actual wine making process. The optimal conditional for starting harvest is late of summer or end of August and continued until end of November. The one exception is ice wine, which is harvested after the first day with temperature less than -8°C.

When harvest is done the winemakers are no more waiting and vine grapes are selected into a different quality and squeezing process begins. The pressing or squeezing process is the most important procedure that directly affects the final quality of the wine. It is very necessary to archive the maximum amount of pressed vine juice or cider and keep the same level of wine quality. When the wine grapes are gentle pressing, better vine soft and of course better wine is being made. It is important to do not allow any pellets or mess from grape skin. It can cause bitterness and astringency in the finished wine. For instance, in the Champagne area is the pressing procedure extremely slow and gentle. Thanks to this gently and natural procedure the Champagne wine is the best sparkling wine in the World.

Fermentation is a process whereby yeasts transform simple sugar (glucose and fructose) into an alcohol and carbon dioxide which is released into the air. In this section of procedure the mash or cider produces alcohol and the mix slowly turns into a wine. This process requires necessary attention. Fermentation may be continues in vessels of natural wood, big ceramic jars or as is most common today, stainless steel tanks. The fermentation selected yeast culture or natural micro flora, which is mainly used by proponents of bio viticulture. Natural fermentation can cause of significant increase of temperature in the tank, therefore has to be often used so-called ´´controlled fermentation´´. In this method, fermentation is cooled by stainless steel tank´s sides so the temperature of wine tanks is not caused by the high evaporation of wine important aromatics.

It is means that where a high quality wine there is no chance to have a drink milk wine. Certain kinds of wines are produced while exposed to air; these methods are called, oxidative. For this it is necessary to have a hygienically sanitary environment in the fermentation cellar.[11]

The process of fermentation is described by the reaction:

$\mathbf{C_6H_{12}O_6}$ (glucose / sugar) = $\mathbf{2\ C_2H_5OH}$ (alcohol) + $\mathbf{2\ CO_2}$ (carbon dioxide) + **heat**

Fining wine

It is another important section of manufacturing wine. This is the entire range of actions which can improve the quality of future wine:[12]

1) Dissemination of wine
2) Clarification of wine
3) Filtration
4) Ripening of wine

3.10 Wine Labeling

,, This regulation is designed to protect consumers' and producers' interests and lays down certain rules for the application of Council Regulation (EC) No 1493/1999 on the common organization of the market in wine,, [13]

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[11] Ronald S. Jackson. Wine Tasting: A Professional Handbook,Elsevier press 2004

[12] Dinsmore, Webb, A. Chemistry of Winemaking,1974

[13] europa.eu/legislation_summaries/other/l21303_en.htm

According to EU legislation from 1999, all wines including table, low and high quality wines, liqueur and sparkling wines produced or imported to Czech Republic must provide the following information.

Following information must be included while labeling wine bottles for Czech market:

- The place of origin, name of country,
- The actual alcoholic strength by volume %
- The nominal volume
- The lot number
- The importer details (must include name of importer, local administrative area)
- must appear the wording, Imported by or Importer,
- Allergenic ingredients – presence of sulphites, if any.

The other information must also include on the bottle label

- Table wines and quality wines (dry, medium dry, sweet and color)
- Table wines with a geographical indication
- Quality wines[14]

3.11 Wine bottles and lids

There is a global wine problem for wine producers on current market, previously the most wine lids were made of cork but in these days the situation starts to change. Portugal and Algeria are the majority suppliers of cork oak trees from which is made cork as wine lids. Cork makers can not satisfy the demand and the prices of cork rising up, thefore it is necessary to looking for other alternatives for a wine lids.

Cork is harvested in the regular intervals approximately once in ten years. It is almost impossible to increase production from day to day.

The cork trees valley and yards are passed from generation to generation and very often the cork trees are the sole property of the whole family. Worldwide the consumption of cork lids is around 15 billion per year. Prices of cork lids are in range from fifty cents to tens crowns, the price of cork must be considerable share of the cost of wine. Due to high price

[14] europa.eu/legislation

of cork, there are several of renowned winemakers from Switzerland, Italy and USA who have already begun using the wine lids made from plastic, glass or metal screw caps. For wines which are not intended for archiving, it is unnecessary to aerate through the lids, so more frequently used plastic caps, metal screw caps or glass lids. The new caps have the advantage compared to cork that wine is hermetically closed. The new caps have the advantage compared to cork that the wine is hermetically closed. The main advantage of plastic and metal crew caps is elimination of bad cork odor and taste.[15]

[15] Ronald S. Jackson. Wine Tasting: A Professional Handbook,Elsevier press 2004

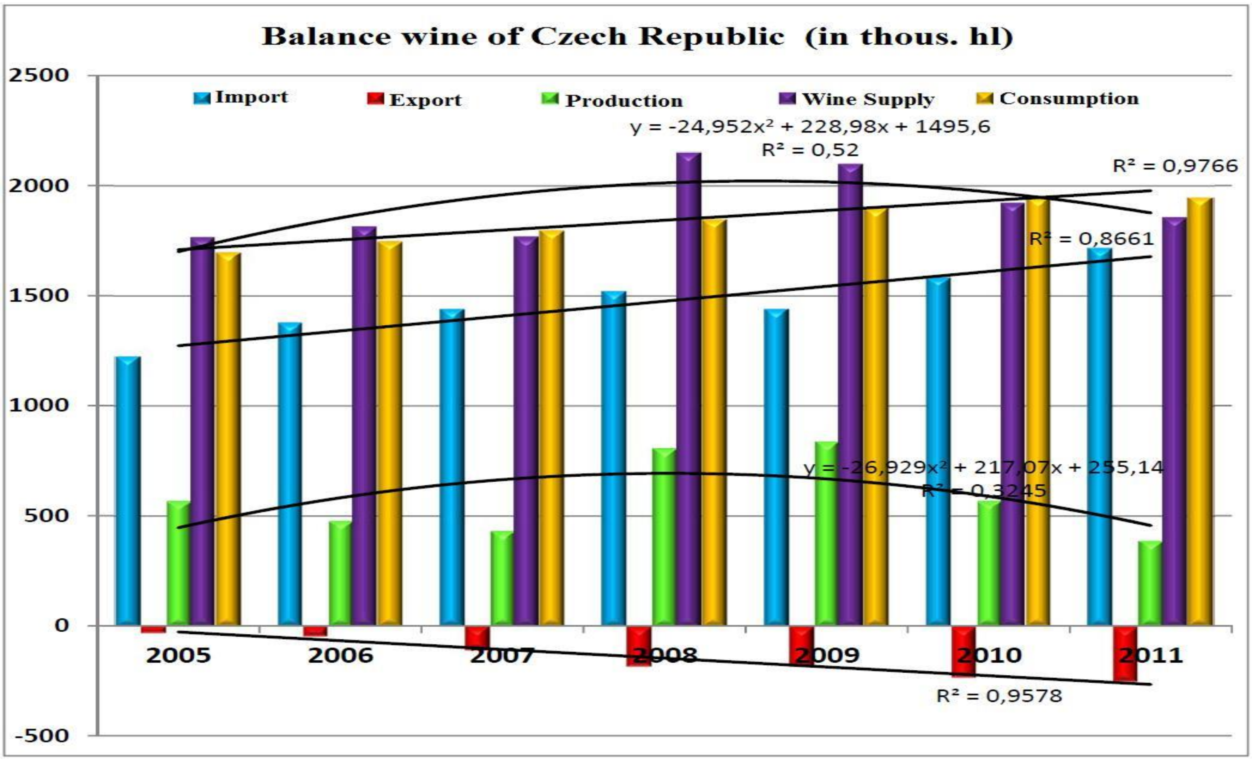
4 Practical part – Analysis of Czech wine market

The second part of this thesis is focus on the practical, with primary emphasis on economics analysis of the Czech wine market. Based on theoretical projection, is determine expected export and import of wine products in the Czech Republic, and also describe present and future trends in consumption of wine, beer and spirits.

4.1 Wine Import into the Czech Republic

The increasing trend of imports of wine in 2011 is continuing especially thanks to access Czech Republic to the EU. The total growth is more or less linear. This growth is probably due to low domestic harvest in 2009, extremely low domestic harvest in 2010 and lower average in 2011. Since 2004, which Czech Republic joined to EU the domestic production is considerably fluctuates and development of wine cannot be predicted. Situation on the domestic market is continuing trend of domestic wine export, due to this trend there is a significant decrease in domestic wine supply, which is reflected in the prices of grapes.

Figure 6: Balance wine in the Czech Republic



Source: Wine market of Czech Republic, 2011

In the graph above we can see the positive growth in exports of wine from Czech Republic. In 2005, it was the level of 5% of domestic production, in 2006 it was already 10%, in 2007 even higher 25%, between the years 2008-2009 the level of export was around 22%. In 2010, due to low domestic harvest, domestic export was around 40% but in 2011 domestic export was more than 65% of total production. These results are affected by exported quantities of local wine but also because of lower harvest and certainly due to positive wine trade in Czech Republic.

The import of wine is constantly growing; the linear line of wine import has slightly higher increase compared to domestic consumption of wine. This trend is related with lower domestic production in recent years. In 2007, wine stock in Czech Republic actually decreased, but in the next two years due to higher harvest the stocks increased again. In 2009 there was surplus of supply over demand; this year was surplus lower than in 2008, but still quite high. However, in the following years the situation went reversed and all already expanded wine reserves was exhausted.

Import of wine increasing on average 80 thousand hectoliters per year, export is increasing by almost 40 thousand hectoliters per year. Production of wine has fluctuated considerably and wine consumption is rapidly increasing. In the case of export, consumption and import as indicated the correlation coefficients of lines in the graph. Export is relatively stable in the observed 7 years after accession to the European Union; a less stable factor is total domestic grape production.

The graph above shows that in the first 4 years, wine supply very slightly exceeded demand and in the first 3 years, it was exactly the opposite. To compensate for this kind of fluctuations, there are procedures to place some wine stock in state reserves in warehouses. This type of fluctuation is not reflected in the chart, but generally because of the wine reserve stocks (before joining EU) we had lower prices than in other EU wine producing countries.[16]

When we detailed monitoring imports, we can very easily find that the trend is clear. The trend is continuous and dynamic increase in imports of bottled wine. In following chart we can see the correlation coefficient of the quadratic equation. The annual increase in imports

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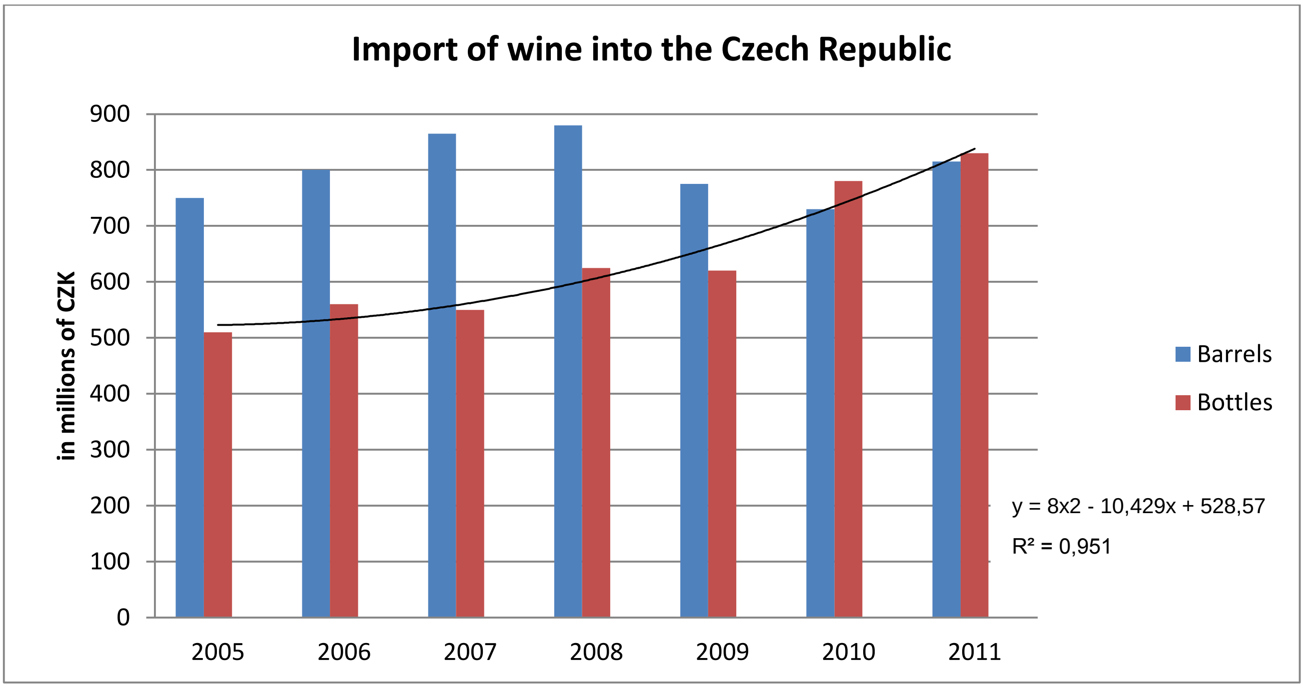
[16] SEDLO, Jiří. SVAZ VINAŘŮ ČR. Zahraniční obchod s vínem České republiky

of bottled wine for the last seven years is an average of 55 thousand hectoliters. The import of barrel wine is variable and apparently regulates the relationship between supply and demand, therefore its responds to the amount of domestic grape harvest and of course the amount of the wine stocks.

Figure 7: Import of wine into the Czech Republic



Source: Author, data from association of wine markers of Czech Republic, 2011

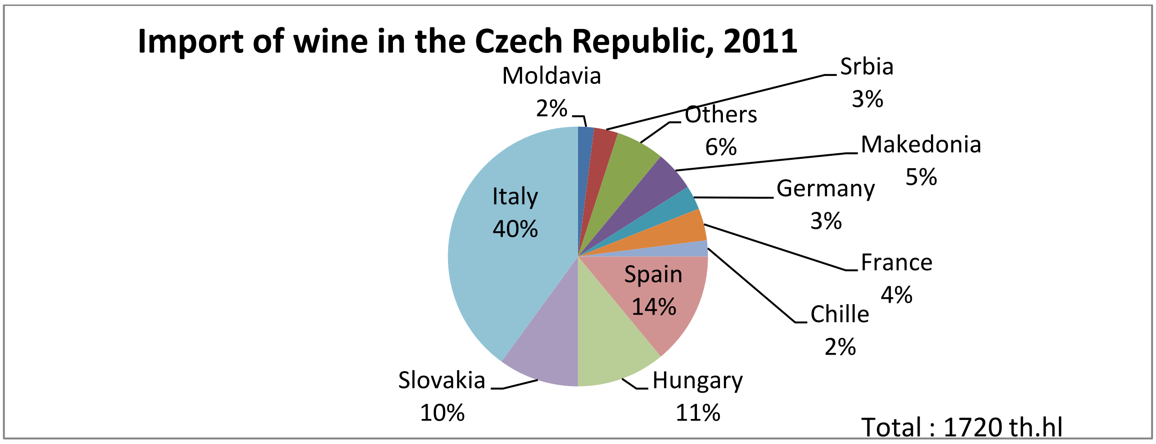
Table 1: Balance of wine market in the Czech Republic (in millions of CZK)

Year	Import	Export	Differences
2005	2290	147	-2143
2006	2699	193	-2506
2007	3143	293	-2850
2008	3275	415	-2860
2009	3139	385	-2754
2010	3260	464	-2796
2011	3563	550	-3013

Source: Author, data from association of wine markers of Czech Republic, 2011

The positive balance of foreign wine trade of the Czech Republic was for a first time exceeded the level of 3 billions of CZK. The volume and value of exported wine has been rising steadily in the long term. The financial value of consumed wines in domestic market per year is between 5-6 billions of CZK. (value of imported and domestic wine together) The biggest importer for the Czech Republic is Italy with net sales more than 1 billion of CZK. Italy is followed by France with net sales around 540 million of CZK. In total the level of wine import from France is around 11% compared to import from Italy.

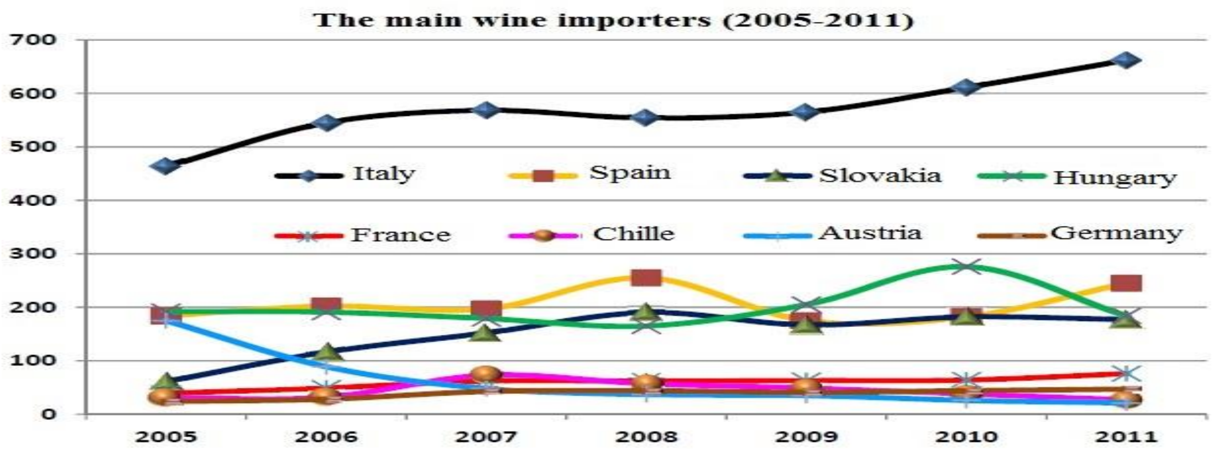
Figure 8: The share of the national total volume of imported wine



Source: Author, data from association of wine markers of Czech Republic, 2011

Approximately 85% of the volume of imported wine into the Czech Republic was delivered from EU member states, in financial statement it was around 82% of the total net sales.

Figure 9: The volume of imports from individual countries in recent years



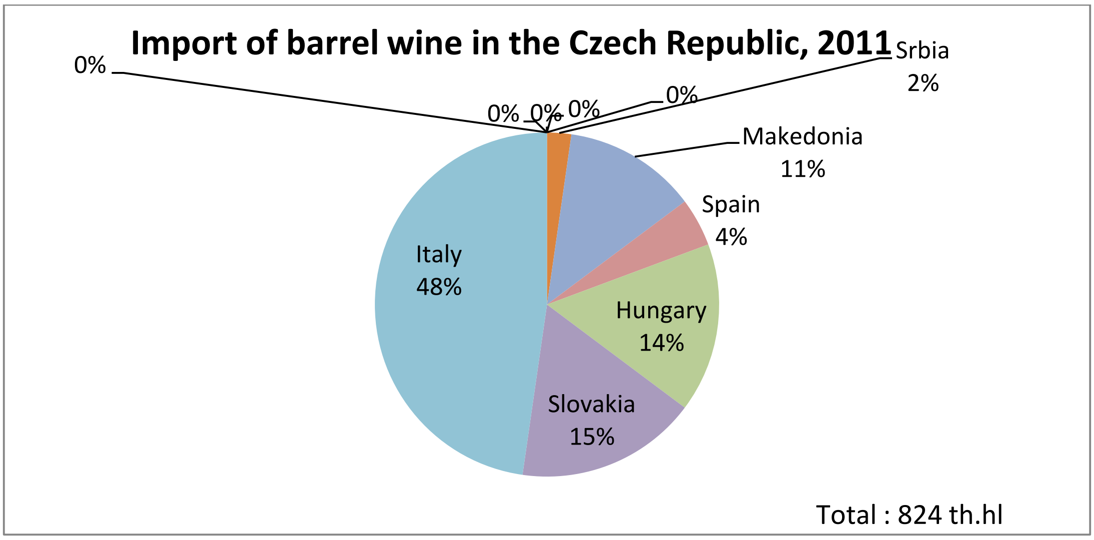
Source: Association of wine markers of Czech Republic, 2011

The larger decline of wine import occurred in Austria, 2011, which reached the lowest level in the last seven years. Similar trend was observed in the wine from Chile. Completely opposite trend apply to wines from Italy, Spain and France.

For countries which export wine to the Czech Republic, in the last seven years, we can divide all imported wines into four groups according to the volume of imports:

1) 1st group – Italy. Italy is the biggest importer of wine. A total import of wine is more than 40% of all import wine. The current volume of import is approximately equal to total production of Czech Republic. Italian import is steadily rising.
2) 2nd group – Hungary, Slovakia and Spain. These countries import to Czech Republic the same amount of wine as import Italy. While imports from Spain are approximately stable, an import from Slovakia and Hungary slightly fluctuates.
3) 3rd group - Chile, France, Austria and Germany. This group import around 12% of total imports to Czech Republic. Import from Austria steadily declining, in 2005 the import from Austria belongs to 2nd group and now is on the edge 4th group. Permanent increase we can see in imports from France and Germany. Imports from Chile peaked in 2007 and 2008.
4) 4th group- the rest of the World. Rest of the World recently imported around 10% total volume of wine. The biggest importers of this group were Macedonia, Serbia and Moldavia.

Figure 10: The share of the national total volume of imported wine



Source: Author, data from association of wine markers of Czech Republic, 2011

In 2011, imports of bottled wine increased more than 7, 5% from the previous year, but the value increased by 8% up to 2, 31 billion CZK. The biggest share of this value went for a first time to Italy (580 million of CZK), than in France (397 million of CZK). France supplied Czech Republic with a bottled wine at an average price 58 CZK /l, Italy per 24 CZK/l and Spain the price is around 14 CZK/l. Importers from Italy and Spain combined accounted for 56% of total imports. Imports of bottle wine from Italy for the second year overtook imports from Spain. As we can see in import pie chart belong the position of states is approximately the same as a year ago, Italy and Spain move closer and France, Hungary and Slovakia move closer as well.[17]

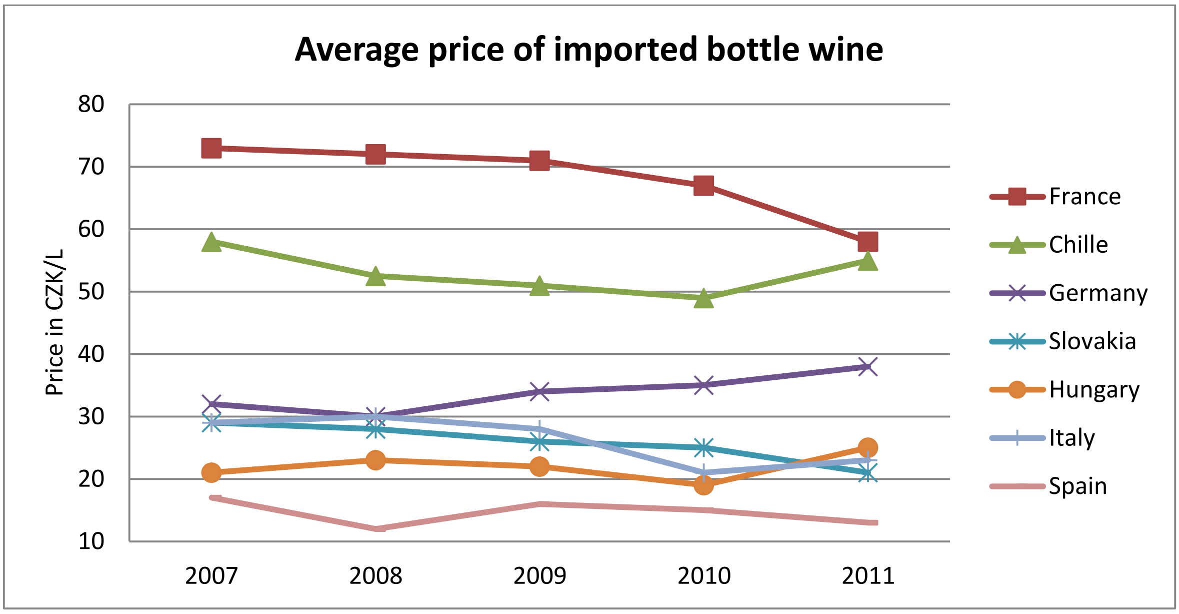
Figure 11: The share of the national total volume of imported wine

Source: Author, data from association of wine markers of Czech Republic, 2011

The average price of imported bottled and barrel wine by the individual state, as we can observe in the following figures, we can also deduce the level of wine quality.

[17] Svaz vinařu ČR. Zahraniční obchod s vínem České republiky

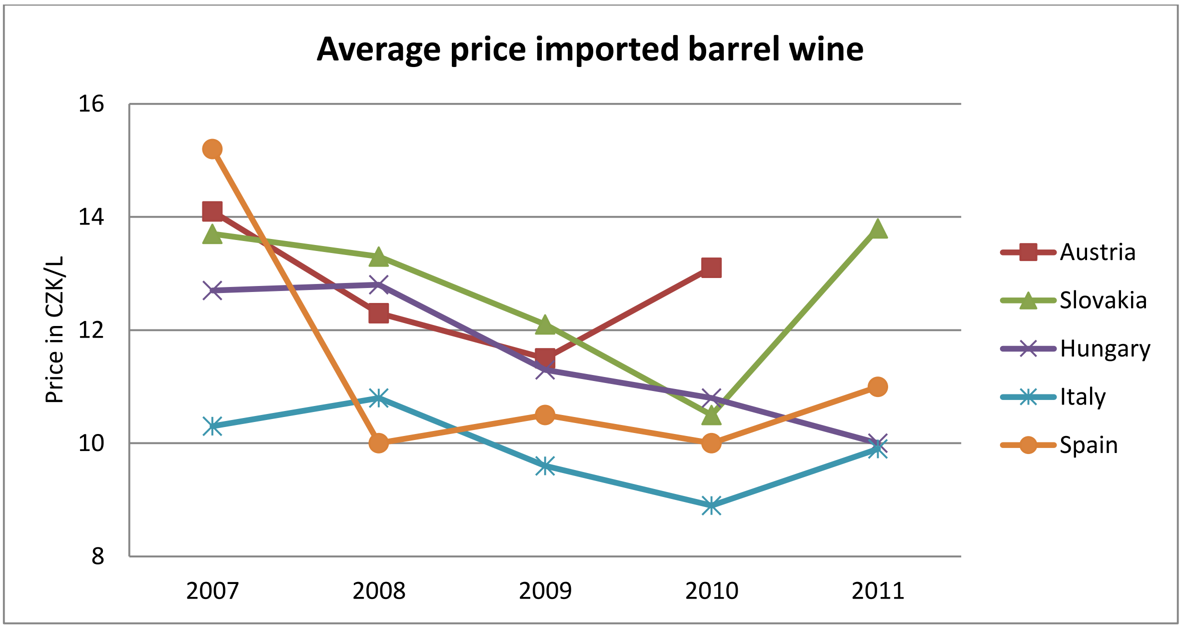
Figure 12: Imports of bottled wine to the Czech Republic in 2011



Source: Author, data from association of wine markers of Czech Republic, 2011

In the last five years, exporters dropped the price of imported bottled wine, but mostly within their existing price classification. The only exception is Germany, where the price is steadily increasing. Wine from Spain reached the average price of 14, 50 CZK/l, the wines imported from France have price per 57, 50 CZK/l.

Figure 13: The average price of imported barreled wine



Source: Author, data from association of wine markers of Czech Republic, 2011

The graph above can show us, that the prices of imported barrel wine had decreasing trend and also the price gap between countries is more and more closer (from 10,50 to 15,30 CZK / from 8,90 to 13,20) In the last year the prices rose again up and especially for wines from Slovakia. There is also an interesting trend of price evolution of imported wine from Italy, Hungary and Slovakia. It seems that Italy is a primary price wine maker (price-setter for category) and Slovakia´s and Hungary´s producers then copy the equivalent Italian pricing model.

4.2 Export wine from the Czech Republic

The export wines from the Czech Republic increase to 252 thousand of hectoliters of wine, which is annual increased by 9%. The financial value increased by 19%, which is approximately up to 550 million of CZK. The most of the wine has been exported to the Slovakia, Poland and Netherlands. The export of bottle wine continues in the same trend as in 2010, annually increased by 25%, which is good surprise cause of long wine stagnation in the years 2007-2009. The export of barrel wine practically started in 2006, the year after the total value of exported barrel wine was already 50 thousand hl. and in years 2008-2009 the total export of wine was almost up 120 thousand hl. per year. In 2010 the export of barrel wine increases again up 155 thousand hl. per year and year after stagnated. Total export of wine from the Czech Republic was made up of two thirds of barrel wine and third of bottled wine. Practically all barrel wine was exported to Slovakia, more profitable would be export of bottle wine and of course would be better orientation of the quality of wine. For the Czech Republic would be better to increase export of bottle wine instead of barrel wine cause of the lower harvest of grapes and also lower covered of domestic consumption of wine.

4.3 Cost and Revenue in the Czech Republic

The Czech wine producers paid to farmers by average price (17, 90 CZK/kg of grapes, 2012) the average selling price is depends on the average price of raw grapes and the average selling price was estimated up (44, 65 CZK/l) the change of price depending on many factors i.e. weather condition, labor cost, price of oil and energy.

Table 2: Industrial producer´s prices of wine

Year	White barrel wine, avg.price	White bottled wine, avg.price	Red barrel wine, avg.price	Red bottled wine, avg.price
2009	21,80	69,10	18,60	66,50
2010	30,40	67,70	30,60	80,80
2011	31,10	51,40	30,00	48,70
2012	31,20	58,40	30,30	58,70
2013,	32,60	60,40	30,10	61,70

Source: Author, data from szif

**note: These prices are by industrial producers, the prices are not include VAT, margin and transport cost. The prices were measured in November that year.*

The industrial producer´s price of bottled wine in the Czech Republic 2009 was 67, 8 CZK/L, the price is not stable and is in decreasing trend. The late of summer of 2009 the industrial price of barrel wine was by average 20, 20 CZK/l and in 2013 the price was around 31,35CZK/l, which is increased by 55% in last year.

Table 3: Orientation calculation of domestic bottle wine

Products	**Price of product per bottle, 2013**
Corks	1-2 CZK
Paper box	2-3 CZK
Wine bottle	5-10 CZK
Bottling and tapping	2-3 CZK
Label and design	5-10 CZK
Average price of barrel wine	23-25CZK
Total price per 0,75l bottle (exclude VAT, transport and margin)	**38-53CZK**

Table 4: The average consumer´s price of wine in the Czech Republic (in CZK/l)

Type of wine	2009	2010	2011	2012	2013
White wine	82,23	85,34	88,45	91,56	94,67
Red wine	94,59	98,12	101,64	105,17	108,69

Source: Author, data from SZIF

In the Czech Republic the consumer´s price is rapidly changing and Czech customer is willing to pay more for bottle of white or red wine. In 2009 the customer price of white wine was 82,23 CZK/l and price of red wine was 101,64 CZK/l, and in 2013 the price was already at the level 94,67CZK/l and 108,69 CZK/l, which is approximately 15% more than in 2009.

4.4 Trends in alcohol consumption in the Czech Republic

According to the latest OECD data (September 2012) is the Czech Republic in the first five countries with the highest consumption of pure alcohol per person over fifteen years old. The average Czech drinks around 12 liters of pure alcohol per year.

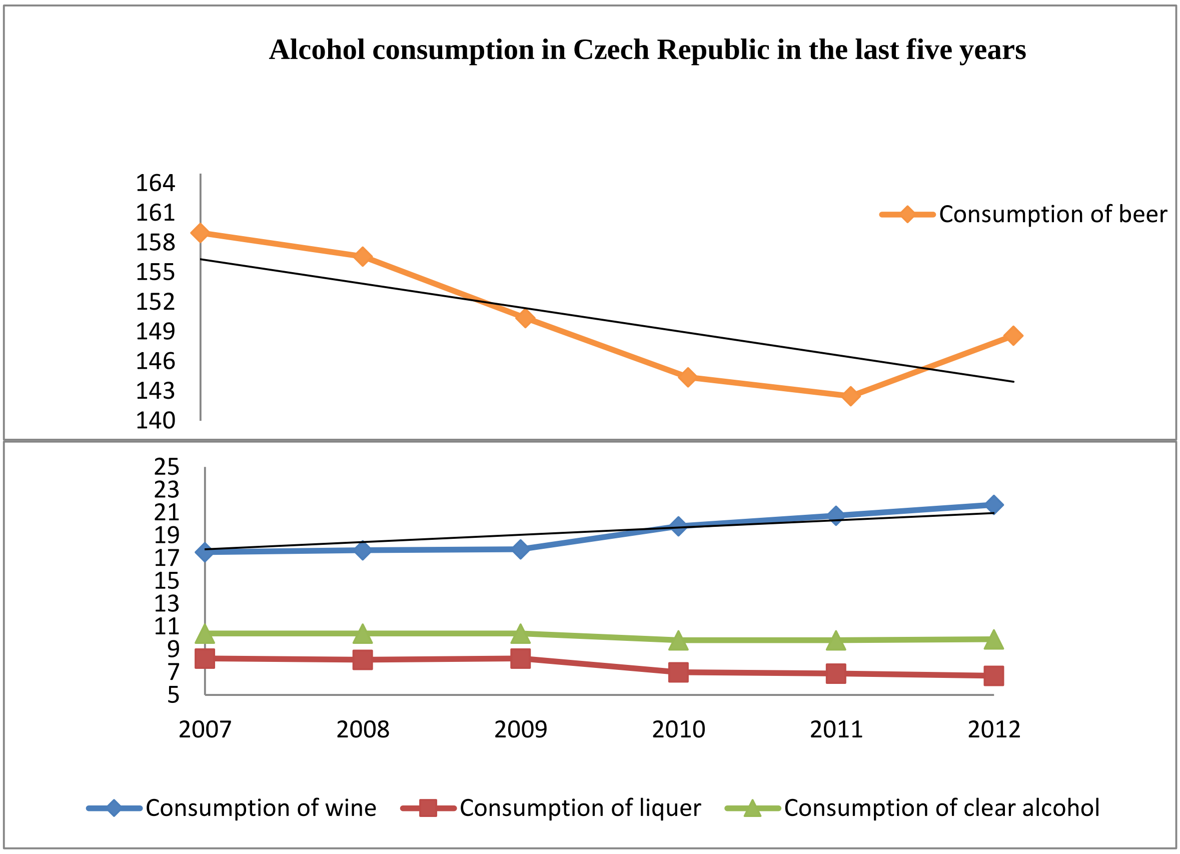
Table 5: Comparison of alcohol consumption in the World

Country	Consumption in liters per year
Luxembourg	15,3
France	12,3
Austria	12,2
Czech Republic	12
Estonia	11,9
Germany	11,7
Hungary	11,5

Source: Author, data from OECD

There are also several more databases from other servers Eurostat, WHO or EU statistic office, where we can find the different top list of the most alcohol consumption countries nevertheless there is a fact that the Czech Republic is in the first top ten countries with the highest consumption of pure alcohol.

Figure 14: Trend of consumption in the Czech Republic in the last five years



Source: Author, Czech Statistical Office

The consumption of alcoholic beverages in the Czech Republic grew in 2012. The average citizen drank more than 172, 2 liters per year, which is 6, 4 liters more than in 2011. The largest increase of consumption was recorded in the beer, where the average per capita consumption increased by 6, 1 liter up to 148, 6 liters per year. Traditional Czech drink rose up from the record lowest number in 2011. In the figure above we can see that from 1996 to 2009 was beer consumption around 160 liter per capital.

In 1994 the consumption of wine was around 15 liter per capital. In 2012 the annual consumption of wine increased by 0, 95 liter up to 21, 7 liter per year, which is more than 44% than in 1994. The interest of Czech citizens of wine has been growing rapidly in the last twenty years.

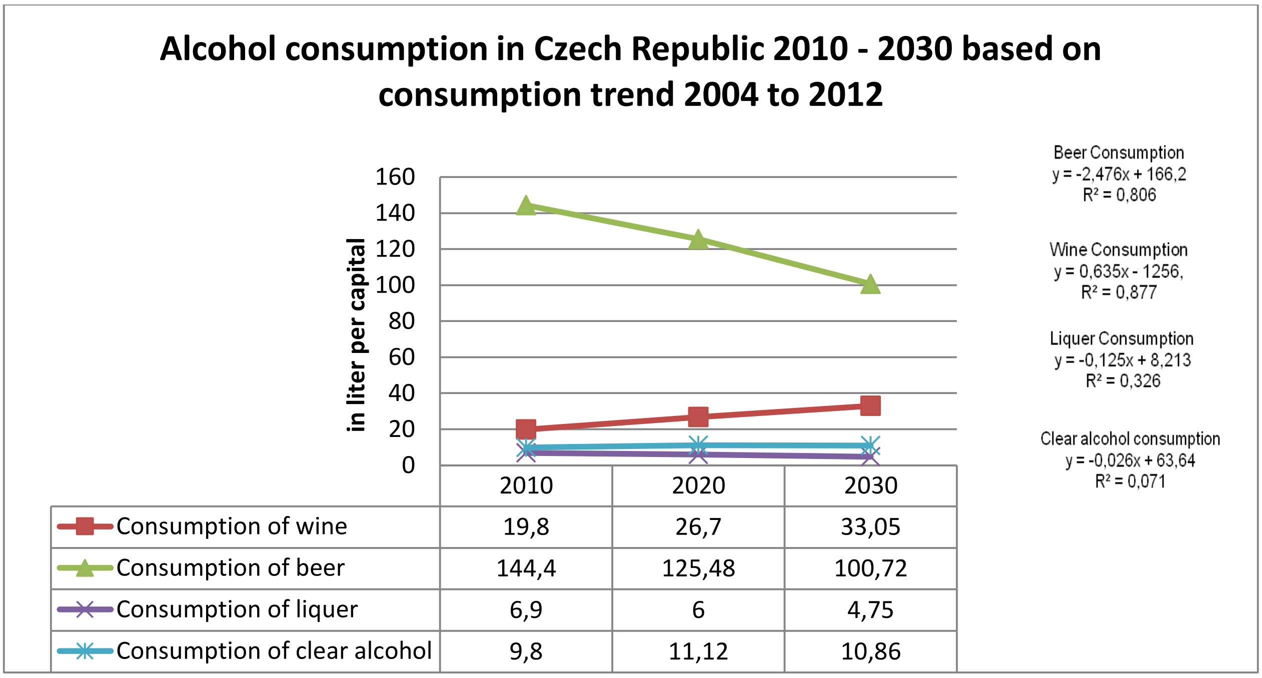
In contrast, the consumption of spirits fell to the minimum level 6, 7 liter per capital, this was most likely due to methanol affair and also cause of temporary prohibition in 2012.

4.5 Trend analysis of alcohol consumption in the Czech Republic

In this section will analyze some current trends and make projections for future consumption of wine in Czech Republic. I have used Microsoft Excel Office for all calculation. Firstly, I have created a graph where I use different types of trend lines: linear, quadratic, logarithmic, polynomial and exponential. Primary I was looking for one with highest (largest) coefficient of determination - R^2.

The coefficient of determination is y = 0,635x - 1256, 7, R^2 = 0, 8772. Based on the result of the analysis we can better control market and faster react on the changing life style in Czech Republic.[18]

Figure 15: Trend analysis of alcohol consumption



	2010	2020	2030
Consumption of wine	19,8	26,7	33,05
Consumption of beer	144,4	125,48	100,72
Consumption of liquer	6,9	6	4,75
Consumption of clear alcohol	9,8	11,12	10,86

Source: Author, Czech statistical office

The Czech Republic belongs to the group of EU countries with a significant proportion of vine growing. This is very important contributing factor to the increasing consumption of wine which is the current trend. Reasons include the popularity of modern international

[18] Fox, John. Applied Regression Analysis, Linear Models, and Related Methods, 1999

lifestyle and general healthy lifestyles. People more and more consider wine as a healthier alcohol beverage than beer or spirits.

The consumption of beer in the Czech Republic was 144, 4 l per capita in 2010. The average consumption of beer one decade later may be as low as 125, 48 l per capita, which would be 19 liters less than in 2010. The largest decrease of consumption beer which we can reasonably predict for 2020, the average consumption would decrease by 25 liters down to 100, 72 liters per capita per year.

On the other hand, consumption of wine in the Czech Republic shows the reverse trend than for beer. The trend of increased consumption started right after the revolution in 1989.At that time, people did not know better quality of wine; they had no chance to buy imported wine in regular supermarket. During the first two decade after revolution the consumption of wine increased by 44%. The consumption of wine was 19, 8 l per capital in 2010. The projection of wine consumption might be around 26, 7 l per capital in 2020, which would be an increased by 34, 5%. The prediction of wine consumption is calculated to 33,05l per capital in 2030, which is 23% more than in 2020. For detailed data and projections on alcohol consumption in Czech Republic from 1989 to 2030, See the table on the page 62.

4.6 Regression analysis of alcohol consumption

In this part of analysis I would like to primary focus on the strength of alcohol consumer market in the Czech Republic. Measurements used for analysis include percent of gross income spent on consumption of wine and beer in the Czech Republic, and the increased or decreased expenditures for wine, beer and spirits in the Czech Republic.

How does changing gross income influence consumption of wine and beer in the Czech Republic? I wanted to focus to find out a relationship between average gross income and consumption of wine and beer. To calculate my finding I have used ordinary least squares method for analysis the level of influence between average income and consumption of wine and beer. Microsoft Excel Office helps me with a calculation and decided to say that average gross income is independent variable (X- regressor) and the consumption is dependent variable (Y – regressant). I would like to find out, how will increase or decrease the consumption when the average gross income is changing. The simple regression function is: $Y = a + b_1X$

Table 6: Average gross income, consumption of wine and beer

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Average income	15524	16430	17466	18344	19546	20957	22691	23488	23951	24455	25112
Beer consumption	159,9	161,7	160,5	163,5	159,1	159	156,6	150,4	144,4	142,5	148,6
Wine consumption	16,2	16,3	16,5	16,8	17,2	17,4	17,2	17,8	19,8	20,75	21,7

Source: Author, Czech statistical office

Table 7: Average gross income, consumption of wine, OLSM

OLSM

Wine consumption agains average income

DATA:

Average gross income in Czech Republic

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
15524	16430	17466	18344	19546	20957	22691	23488	23951	24455	25112

Wine consumption in Czech Republic

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
16,2	16,3	16,5	16,8	17,2	17,4	17,2	17,8	19,8	21,8	23,8

consumption of wine per year ag: 2000 - 2010   How influence gross income to consumption of wine in Czech Republic

OLSM			average gross income		wine consumption in liters per person
		1	15524		16,2
		1	16430		16,3
		1	17466		16,56
		1	18344		16,8
	X	1	19546	Y	17,13
		1	20957		17,4
		1	22691		17,24
		1	23488		17,79
		1	23951		19,8
		1	24455		20,75
		1	25112		21,7

XT	1	1	1	1	1	1	1	1	1	1	1
	15524	16430	17466	18344	19546	20957	22691	23488	23951	24455	25112
XTX	11	227964									
	227964	4,843E+09									
(XTX)-1	3,721480088	-0,000175									
	-0,00017519	8,453E-09									
(XTX)-1XT	1,001880389	0,8431612	0,66166765	0,507853647	0,297279127	0,050090569	-0,2536833	-0,3933072	-0,4744187	-0,5627128	-0,6778105
	-4,3957E-05	-3,63E-05	-2,754E-05	-2,0119E-05	-9,95802E-06	1,96963E-06	1,6628E-05	2,3365E-05	2,7279E-05	3,1539E-05	3,7093E-05
	8,278409356										
a,b	0,000467651										

y=8,278409356 + 0,000467651x

Source: Author, Czech statistical office

The result of ordinary least squares method was the simple regression equation y=12, 38538914 + 0,000248466x.Which actually means that the average gross income will increase by 1 the consumption of wine will increase by + 0,000248466.

Table 8: Regression analysis of alcohol

Summary output

Regression Statistics	
Multiple R	0,89798387
R square	0,80637503
Adjusted R Square	0,757968788
Standard Error	0,931686697
Observations	11

ANOVA

	d.f.	*SS*	*MS*	*F*	*significance F*
Regression	2	28,92047919	14,46024	16,65849	0,001405547
Residual	8	6,944320813	0,86804		
Total	10	35,8648			

Term	*Coeffucients*	*Standard Error*	*t Stat*	*p-level*	*Lowe 95%*	*Upper 95%*	*Lower 95%*	*Upper 95%*
Intercept	36,00266358	14,90073998	2,416166	0,042101	1,641495597	70,36383	1,641496	70,36383
Gross income	0,000206473	0,000163572	1,262273	0,242404	-0,000170725	0,000584	-0,00017	0,000584
Beer consumption	-0,143844567	0,076746556	-1,87428	0,097762	-0,320822441	0,033133	-0,32082	0,033133

Source: Author, Czech statistical office

According to the value of the coefficient is the R square has value 80% which means that the model fit to the data and have high portion of probability. The beer consumption is not significant. Model as a whole is not significant because the significance F has very low value. The regression output is not by chance that would be shown by significance of F at the regression. The smaller the significance F is, the greater the probability that the regression output is not by chance. In this case the significance of F for a regression is 0, 0014, which means that there is only 0, 0014% chance that our output was abated merely random of chance. The resulting regression model can be also written as an equation:[19]

Y wine consumption = 36,002 + 0, 00020*gross income -0, 14*beer consumption

Base on these results of my calculation, I have decided that the average gross income and consumption of wine has no significant influence each other to much and there are so many factors which have more impact on average gross income and consumption of wine

[19] Bronislava H,: Mikroekonimie, Management, 2006

and beer for example the level of unemployment, Government support of local production, price of another alcohols, weather, harvest, rate of currency, inflation, politic situation etc.

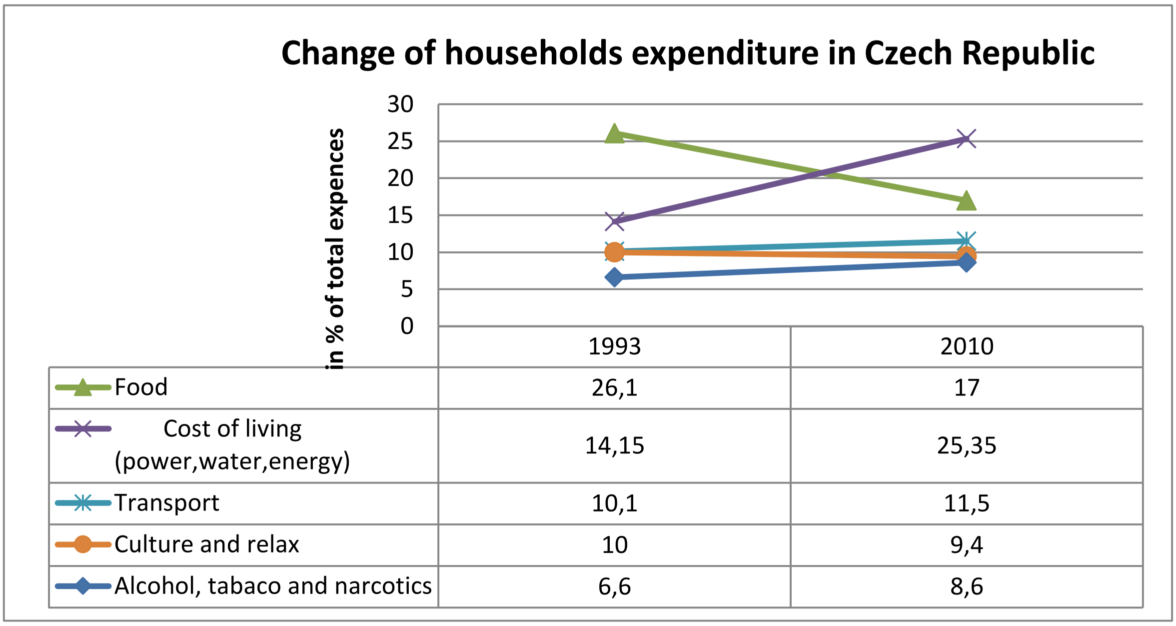
4.7 Household budget survey in the Czech Republic

Household expenditures on housing (rent, energy and other cost) in the Czech Republic grow so quickly in recent years that it became the largest item in household budget. In 1993 the share of domestic household budget amounted to average around 14%, in 2011 it was more than a quarter. Households will have to pay more in next year, especially for a gas and rent in apartments.

After payments associated with housing, households spent the most money on food In 1993 the regular family spent on food more than 26% of total budget, but family in 2011 spent only 16% of total budget, which is approximately 35% less of share food in total household expenditures.

The share of expenditures for transport, culture and recreation were without any dramatically change. In 1993 was average expenditure for transport around 10, 3% and almost two decade after was around 11, 5%, the same trend was in culture and recreation.[20]

Figure 17: Household expenditures in the Czech Republic



	1993	2010
Food	26,1	17
Cost of living (power,water,energy)	14,15	25,35
Transport	10,1	11,5
Culture and relax	10	9,4
Alcohol, tabaco and narcotics	6,6	8,6

Source: Author, Czech statistical office

[20] novinky.cz/finance/rodinne-rozpocty, 2010

Alcohol and cigarettes are more expensive, the first five current major household expenditures closing the cost for alcohol and tobacco products. The prices of these goods rose up, especially due to higher taxes on these products. In the last two decade the share of alcohol and tobacco increased by 30% of total housel budget. In 1993, expenditure for alcohol and tobacco were eighth overall. Place of overall standing. It is assumed that the price of alcohol and tobacco will go up in the future. It is assumed that the price of alcohol and tobacco will go up in the future. This area of spending may be placed as high as third overall, right behind spending on housing and food.

These days a typical family spends approximately 8, 6% of the total family budget on alcohol and cigarettes. In last two decades data has shown a significant change in the entire structure of expenditures of Czech households. In early 90´ the Czech family spent more than tenth of their income on clothing and footwear, in 2010 this was less than five percent.

5 Case Study

The last part, is synthesize a recommended market plan for the potential producer based on the data shown, with profit projections for an export wine business into the Czech Republic. This may include suggestion(s) for new product(s) with high profit potential that should be directed to the Czech market.

5.1 Introduction of the Case Study

This is the introducing of the new potential product, which it might have been successful on the market. The new product is developed based on the results of all analysis, thanks to the previous analysis; it came to the research results.

The Czech market is influenced and attracted by western world, reducing the demand for a beer and rapid increase of consumption of wine, this trend is also due to vision of modern and healthy life style. Every year is imported more wine from Italy to the Czech Republic. Prices of Italian wine are very consistent or even slightly decreasing in last five years. Based on Czech consumers preferences the Italian wines are sign of good quality and taste with very reasonable prices. Domestic wines have high quality, unfortunately the quality is not stable and the price is very high. Domestic wines for Czech consumers are somehow stereotypical (labels, bottle and full of strong taste of wine).

Based on the analysis of preferences Czech consumer, the largest proportion of vineyards and also the highest level of consumption are Czech wine varieties Blaufränkisch, Saint.Laurent, Muller Thurgau and Gruner Veltliner. Italian wines of similar style are primarily Merlot, Chardonnay and Pinot Gris. These varieties of wine are among the most popular wines, and also among the most heavily consumed per capita, in the world. It is assumed that this trend of popularity will also continue to the wines of the Czech Republic.

On the basis of the previous price analysis on the Czech market. The average Czech consumer is willing to pay around 80-110 CZK per liter of wine, which is approximately 60-80 CZK per wine bottle with a volume 0,75l so the potential of a new product is possible when the potential producers are able to imported quality bottled wine in this price gap.

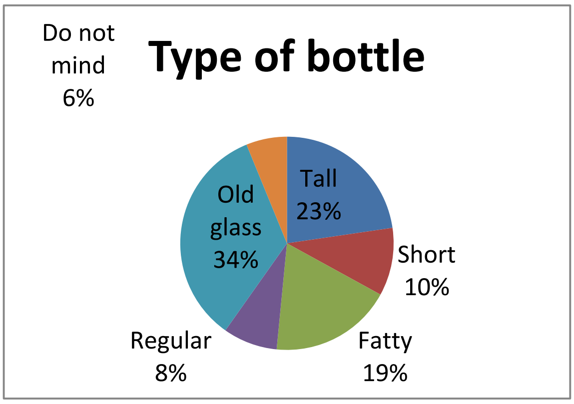
5.1.1 Wine bottles and lids

Exploring Czech consumer's preferences of the Czech wine market. Following main summary findings were obtained.

I would like to project preferences of Czech consumers and their opinion of wine bottle, lids and label. I have made several basic questions and asked around 97 respondents in the wine market office where I was working whole fall 2013 and also I asked customers of restaurant in center Prague where I worked as well.

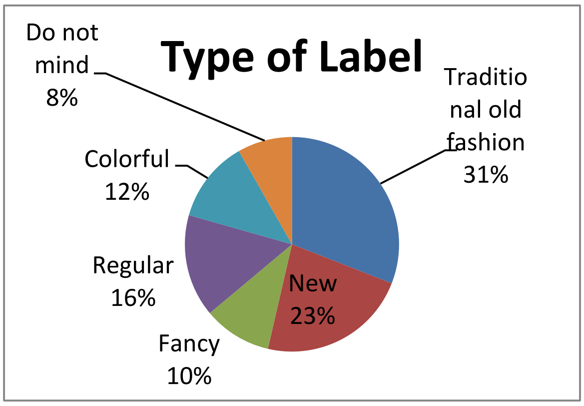
What type of wine bottle would you prefer?

- Tall 22
- Short 10
- Fatty 18
- Regular 8
- Old glass 33
- Do not mind 6



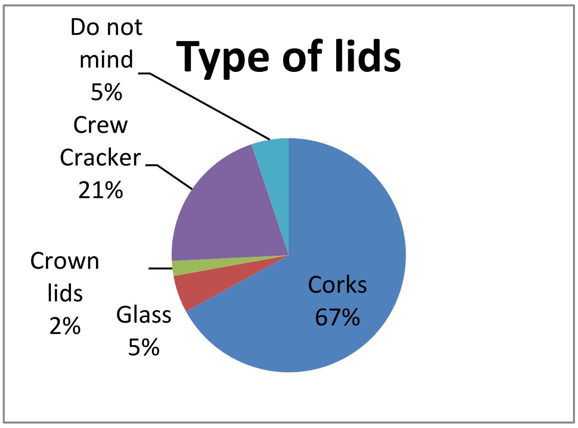
What type of wine label would you prefer?

- Traditional old fashion 30
- New design 22
- Fancy 10
- Regular 15
- Colorful 12
- Do not mind 8



What type of wine bottle´s lid would you prefer?

- Cork 65
- Glass 5
- Crown lid 2
- Crew cracker cap 20
- Do not mind 5



The results of consumer preferences were very interesting and also important for good choice of developing the optimal wine bottle or more likely the most market wanted wine bottle. The most popular wine bottle bases on information from consumer surrey were old glass with 34% of respondents and also were very popular tall bottle with 23% of respondents.

The consumer preferences of bottle label the situation was almost same as bottle. The most popular wine label was traditional old fashion with 30% responses and also new design with 23% of respondents. The situation about wine lids or caps was completely different than in situations above, more than 67% of respondents answered that their prefer cork lids and only 21 % respondents would prefer metal crew cracker caps.

The Czech consumer preferences explored that consumers enjoy and looking for old fashion bottles and label with nice cork, second the biggest consumer preferences are tall bottle with fancy label and crew cracker cap.

5.2 Design of potential product

Design is a big idea, covering product design, service design, graphic design, and environmental design. Design provides a set of tools and concepts for preparing successful products and services. (Kotler, Marketing 4th edition)

By gentlemen Ferrell and Hartline in Marketing Strategy 5th edition, 2010 said that, *the issues of packaging and labeling might not seem like important considerations in branding strategy. Although packaging and labeling strategy does involve different goals than branding, the two often go hand in hand in developing a product, its benefits, its differentiation, and its image. Consider, for instance, the number of products that use distinctive packaging as part of their branding strategy. Obvious examples include the brand names and brand marks that appear on all product packaging. The color used on a product's package or label is also a vital part of branding, such as Tide's consistent use of bright orange on its line of laundry detergents. The size and shape of the label is sometimes a key to brand identification. For example, Heinz uses a unique crown-shaped label on its ketchup bottles. The physical characteristics of the package itself sometimes become part of the brand.*

In this part of work I would like to primary focus on label and packing, this is something what has to be different from what is already on the market. The new potential product needs to be new, and give the opinion of the customers that they buy something more for a less money. The selection or types of wine products on the market is very wide, in regular supermarket or hypermarket we can buy numerous type of wine (white, rose and red) and also (still, sparkling, desert) The frustrations and confusion part for customer during the shopping in supermarket is, picking the right thing, in very short time. The most of the customers when came to retail store with many shelves with wine start to be nervous and frustrated of not knowing what actually they want to buy.[21]

For example: The customer who came to store with a shopping list and ideas what needs to buy. The customer is tired of whole day in school, work, tourism or business travel and needs to buy something eat and drink and if possible in very short time. The customer is walking through the supermarket and choosing selection of vegetables, pasta, ham, cheeses, raw meat, chicken or fish. Now is coming the situation of fitting or paring food with wine. The customer just do not know what to buy, she/he is starting be distracted by huge selection of wines with fancy names and many prices. The most of the customer is getting scared by massive variations of wine and rather buy a beer or soda.

In that point the new potential product is designed to be very good recognized by sign of Italian flag. The Italian flag will give the customer sign of tradition, country of origin and also level of quality and price. There are more than Italian flag; the potential design of a new product is being developed for better orientation customers between the store´s shelves and easier way to pick the right thing by pictures on the label with traditional product from Italy and also by color.

Figure 18: Sign of the bottle

Source*: Author*

[21] Underhill, Paco. Why we buy: The science of shopping, 2000

The flag will help customer easier to find this product, in the store shelves no matter if the customer came from red wine section, white wine section or desert wine section. The Italy flag will give the right sign that there is the favorite customer wine, where wine from is and also the price range.

Figure 20: The typical Italian products

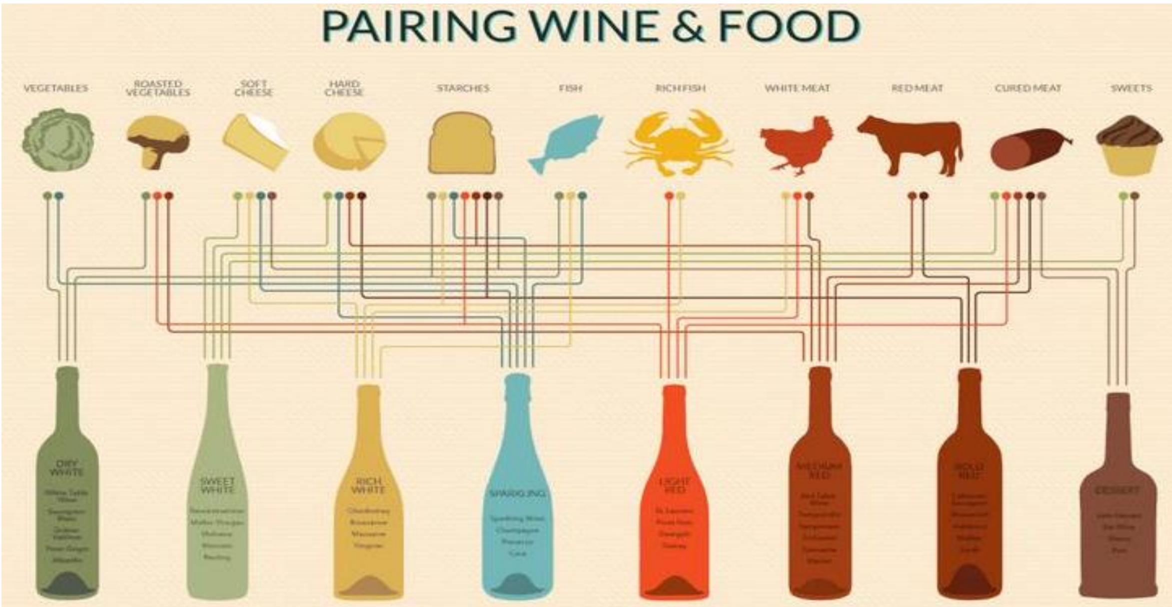
a) 

b) 

Source: Author

These products on the label will help a customer with buying decision, when customer already know that bought cheese, tomatoes and spaghetti. The customer is probably searching for wine, which is pairing wine and food together. [22]

Figure 19: Color on the label



Source: *http://winefolly.com/review/5-tips-to-perfect-food-and-wine-pairing*

[22] Young, Felina, C. Cristobal M.. Principles of Marketing, 2008

In this part of development of a new potential design is the most sophisticated. The figure as we can see above is designed to be on back side of the wine bottle. The color base on characterization of wine or type of wine will be used on the open label and also around the main front label.

Figure 21: Color on the open label and around the main front label

a) 

b) 

Source*: Author*

Example of situation: Customer has in shopping cart fish and vegetable and she/he is looking for a perfect wine to have with it. It does not matter from which way will come to the wine shelves. Customer will get into the shelf with wines, no matter in which part of the way with shelves she or he is staying. Customer will have a look around and see the sign of Italy flag. Take any of the bottles of wine with sign of Italy flag, turn it over and will see the pairing wine and food. In this part the customer released that she or he is looking for wine, which perfect pair with fish. Fish color is blue. In this point customer is looking for a white wine bottle with sign of Italy flag and blue open label and blue frame label.

5.3 The potential product

The potential product is designed but it still has to be made the price analysis of the suggestion in the price strategy and potential price target.

Table 22: Final version for the potential producer

Source*: Author*

The prices are based on price list from internet shop www. Vinarskepotreby.cz this e-shop is very good for a price orientation in wine industry cause even the Czech wine makers do not the business with Czech stores with wine tools and they rather cooperate with a foreign stores from the EU. The reason is price of goods; stores abroad are sometimes more than 30% cheaper than in the Czech Republic but even thou it can give us the orientation price of the potential new product.

Table 9: Orientation calculation of potential product

Products	**Price of product per bottle**
Corks	1,9 CZK
Paper box	2,39 CZK
Wine bottle	6,8 CZK
Bottling and tapping	2-3 CZK
Label and design	5-8 CZK
Better quality barrel wine	13-15CZK
Total price per bottle (incl. VAT)	**31,09-37,09 CZK per bottle**

Source*: Author, prices from vinarskepotreby.cz, data from Czech statistical office*

Based on orientation calculation of potential product, the product is developed with unique and original label, there is potential of importing better quality of wine than is average. The size of wine bottle and also type of corks are designed by preferences of Czech customer. The potential producer with the developed product would have approximately 40CZK per bottle for negotiation price with supermarket or hypermarket, promotion and profit.

5.4 S.W.O.T analysis

In this marketing analysis I would like primary focus on Italian wines and the previously suggested new product in comparison with other wine producers on the Czech market. Italy is the leading of wine producer in the European Union and any new suggested product must realize its strengths, weaknesses, opportunities and threats to compete on the wine market and also continue developing 'the perfect product' which can be successful in the Czech wine market.

5.4.1 Strengths

Taste

By unique growing condition due to hot summers and air from sea, the Italian wines dispose of modern, fresh, light and fruit taste of wine

Tradition

Italy has been a pioneer in producing wine. Its tradition in this sector dates back to the Etruscans, Greek settlers and the ancient Romans, the first ones to start vineyards and consume wine in the area that is now Italy. All over the following centuries, wine-making was improved, and modern techniques like wine storage or large scale production were initiated. Consequently, the rooted tradition of grape-growing and wine production has contributed to associate wine with Italians belief, customs and way of life, in other words, with an important part of the Italian cultural capital and identity [23]

Price

Italian quality wine keep very low producer´s price but do neither loss quantity nor quality

Climate

In agriculture is positive climate condition very extreme importance, this is even more important in viniculture. Italian wine producers have to rely on the hot summer and nice climate. Italy covers numerous of climate zones, from the North part of Italy to coastal regions there is a typical Mediterranean climate, with warmer winters and dry and hot summers. The different of combination of climate zones the Italy is so unique land that there is growing grapes in nearly every region of the country.

Design

Design is bigger part of work, most likely that something what makes this product different from competitors and also makes bigger chance to be successful , it is a huge idea of unique label with practical tool of pairing food and wine at the same time helping customers with better orientation of potential wine on the market.

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[23] Asero, V., and Patti, S. Developing the Tourist Market through the Exploitation of the Typical Products, 2009

5.4.2 Weaknesses

Promotion

This potential product will be new on the market and it might be difficult to get into a customer's mind. Customers usually have some kind of stereotypes and stable type of taste.

Business contract

To be new on the market is very hard, what is even harder is to be supplier to the supermarkets and hypermarkets. Supermarkets focus on price and for a small producer of wine it's very hard to negotiate the better price against bigger players on the market.

Expenditures for transport

Due to growing price of oil and higher prices for highway it might be difficult to transporting wine for stable expenditures for transporting.

5.4.3 Opportunities

Tourism development

In UK, France or Ireland is the Czech Republic well known by the beer tourism, so there is a new opportunity that people from abroad would like to try also wine tourism with possibility of making their own wine or some kind of education wine camps. These kinds of activities would also promote and increase consumption of wine.

Expanding market

Thanks to changing life styles the wine consumption of wine in the Czech Republic is rapidly increasing, we can assume that the same trend will continue in other post communist countries such as Poland, Slovakia, Ukraine and Belorussia. These countries have huge potential of expanding wine market from the Czech Republic to other countries.

Transport

Whole European Union is very well connected by roads, highway and train. The transportation from Italy to the Czech Republic is perfectly connected by road and train. In case of urgency it can be transport by airplanes and directly delivery into a three airports.

Taxation

The Italian wine producers have an advantage in low taxation on still wine in the Czech Republic. There are no duties while trading within the EU.

Trends in wine consumption

In last two decade the consumption of wine increase by 44% and this trend will continue based on trend analysis.

5.4.4 Threats

Change of currency rate

The Czech Republic is not part of Euro zone, which means that Czechs have their own currency. This might be difficult in terms of make a stable price contract with supermarket. As long as euro and Czech crown will be by influence there is a possible threat of higher rate crown which will influence price of wine and it can be cause of worse position against to competitors.

Weather conditions

Italy has strength in weather conditions but this strength could turn in a weakness whether climate change threatens the harvest of grape, for example particularly rigid winters or flood in the vineyards.

Competition

Italian wines are very popular in the Czech Republic and due to very cheap price of imported Italian wine do not have so many competitors who would be better in term of quality, quantity and most importantly price. There are several of competitors treats, first is right below, which is overproduction of wine. Second threat is that cause of global warming the climate zones are changing; there is a possible prediction that in China due to change of climate will be the perfect climate zones for a wine in China. Chinese hi-technology and so cheap labor will be cause of perfect quality of wine for very less price.

World wine overproduction

The other threats represent the overproduction in Europe and also worldwide. It is accounted that by the average the production of wine is 30 % over the consumption. This might have the impact on the price.

6 Conclusion

The Bachelor thesis deals with wine trade in the Czech Republic and particularly the entry of a potential foreign producer into the Czech Republic, and further suggest a suitable product for the Czech wine market that could be successful.

The theoretical part of the thesis analyzed the demography, history, economics and population of the Czech Republic. This analysis was made for potential producers of any place wine exports. Likewise, it described the wine history, vine, wine variations and place of origin for wine growing. The theoretical part of this thesis characterized the types of table wine, country wine and the differences between these kinds of varieties. The last part of the theoretical part explained the process of wine production and its subsequent species as well as the importance of the label in the Czech Republic.

The practical part of the thesis projected the analysis of the Czech wine market and mainly concentrated on the wine export and import of wine in the Czech Republic. When the Czech Republic joined the European Union, the market with foreign wines became more varied and gained in popularity.

The largest import of wine comes from Italy, Spain and Hungary into the Czech Republic. The biggest wine importer is Italy, this is due to the fact that Italian wines are nice, light and fruity of taste and even more important very affordable. Czech consumers found Italian wine very attractive, due to this fact the wine is increasing in popularity and these wines are highly demanded. Every year, Italy imports more than 50,000 hectoliters of wine, and this trend continues. The Czech Republic is well-known for its beer history and high consumption of beer. However, in recent years this trend has declined and wine is slowly taking its place on the market as can be seen by the increasing consumption of wine, which primarily has to do with the change of lifestyle to a modern and healthier one.

Wine as a product is a very stable commodity on the Czech market. Based on the analysis performed in this paper, it can be said that the gross income does not affect the consumption of wine. It is however affected by other factors such as unemployment, lower harvest and weather conditions.

After conducting the research and analyzing all data, it has been found that the Czech Republic is a strong market for the distribution of wine and potential producers would have a high chance of succeeding if producer(s) would use a {potential} product like the one described in the last part of this thesis. It is true for any new product that is introduced to the market, that it must be something innovative, there must be a demand for the product and most importantly it must be memorable. The product that has been designed is based on a survey of Czech consumer preferences. The key for the product's success is the design and the label. The label is designed so that each customer can easily and quickly find the wine product that he or she needs. The label on the wine consists of the Italian flag to indicate from which country it is originated. The label also has a picture of the food product with which the wine is best paired.

The final SWOT analysis confirms the success of a potential output and thus a viable entry of foreign producers in the Czech market.

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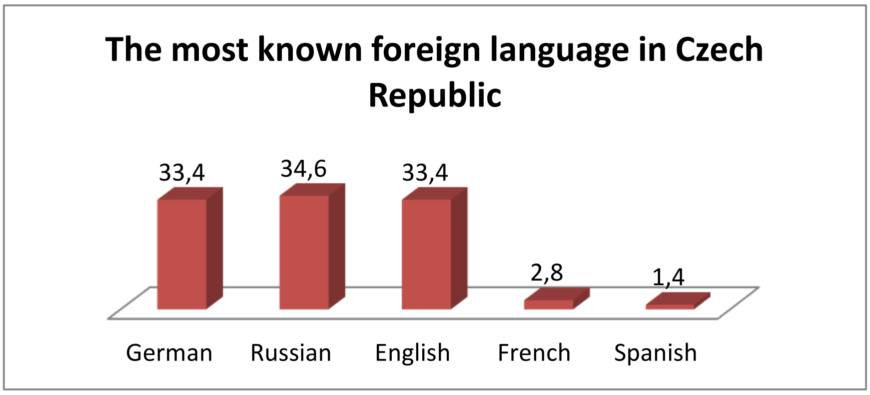

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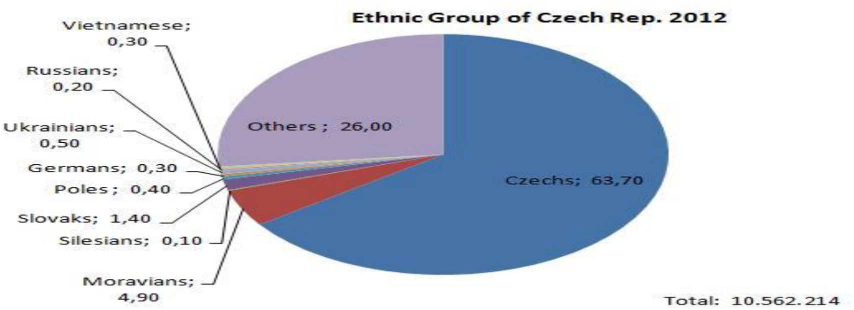

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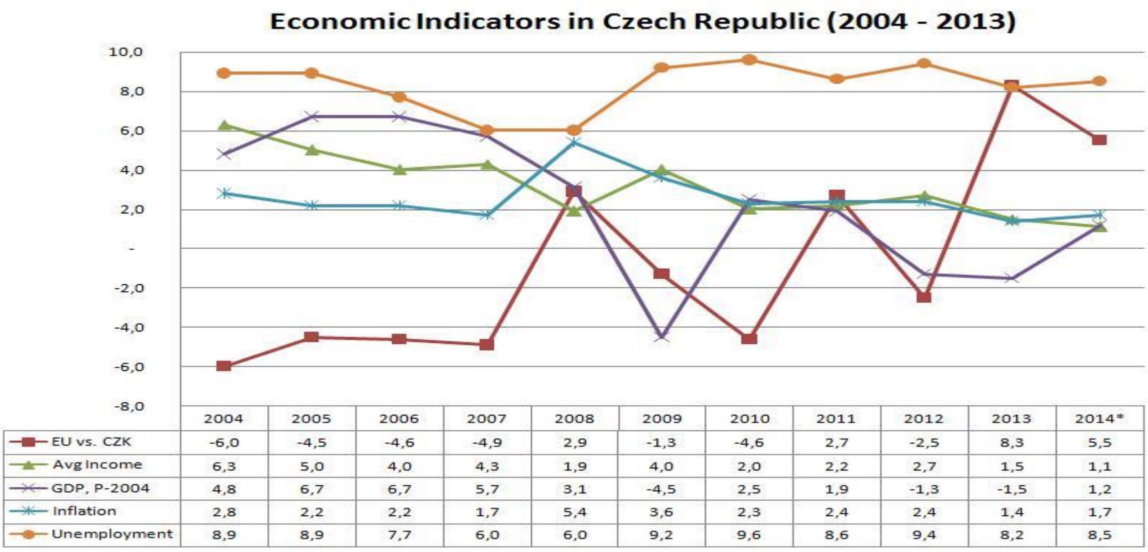
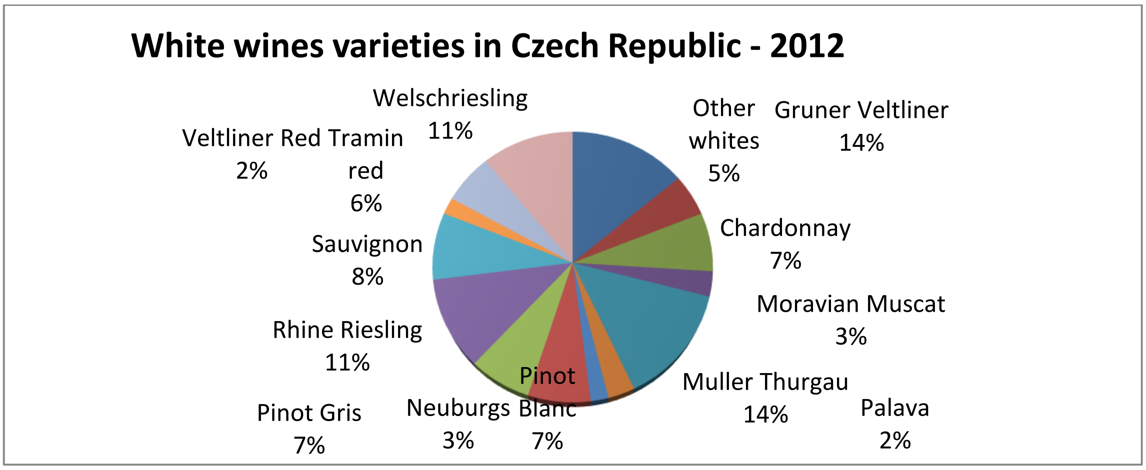
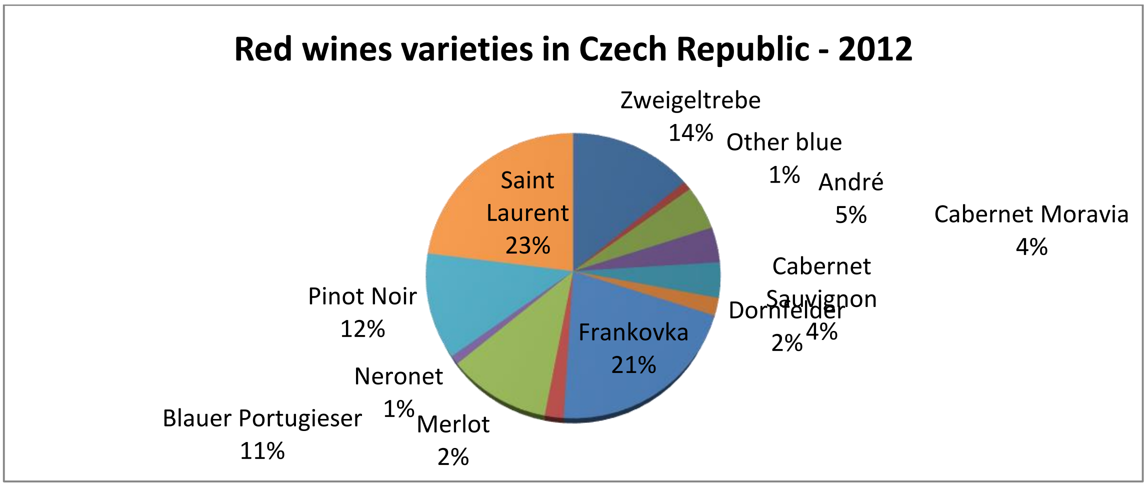


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
EU vs. CZK	-6,0	-4,5	-4,6	-4,9	2,9	-1,3	-4,6	2,7	-2,5	8,3	5,5
Avg Income	6,3	5,0	4,0	4,3	1,9	4,0	2,0	2,2	2,7	1,5	1,1
GDP, P-2004	4,8	6,7	6,7	5,7	3,1	-4,5	2,5	1,9	-1,3	-1,5	1,2
Inflation	2,8	2,2	2,2	1,7	5,4	3,6	2,3	2,4	2,4	1,4	1,7
Unemployment	8,9	8,9	7,7	6,0	6,0	9,2	9,6	8,6	9,4	8,2	8,5

Source: Author, Czech Statistical Office 2013



Source: Author, Association of winemakers Czech Republic



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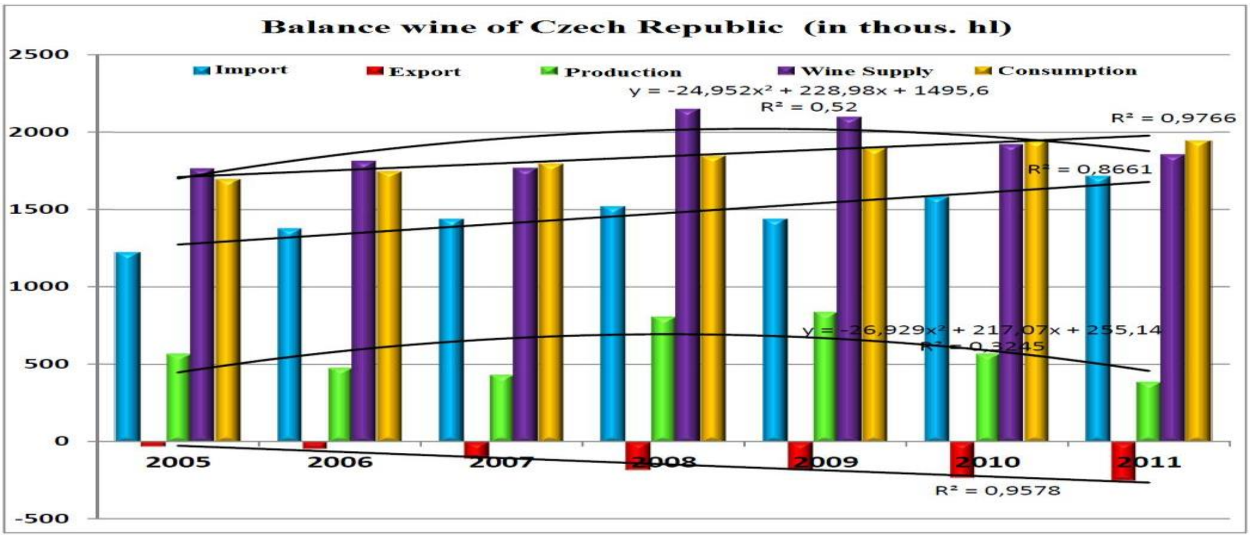
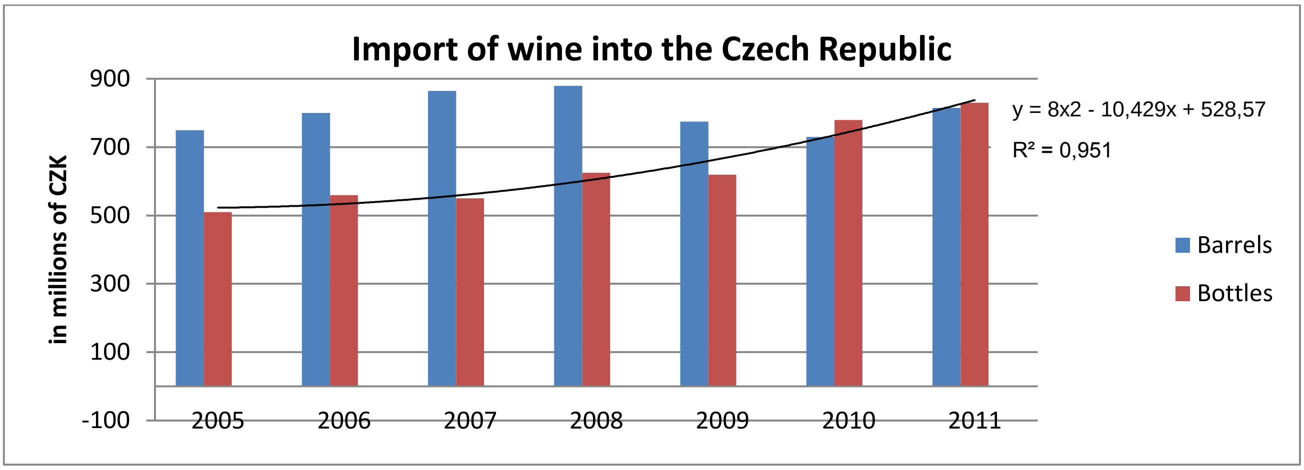


Source: Wine market of Czech Republic, 2011



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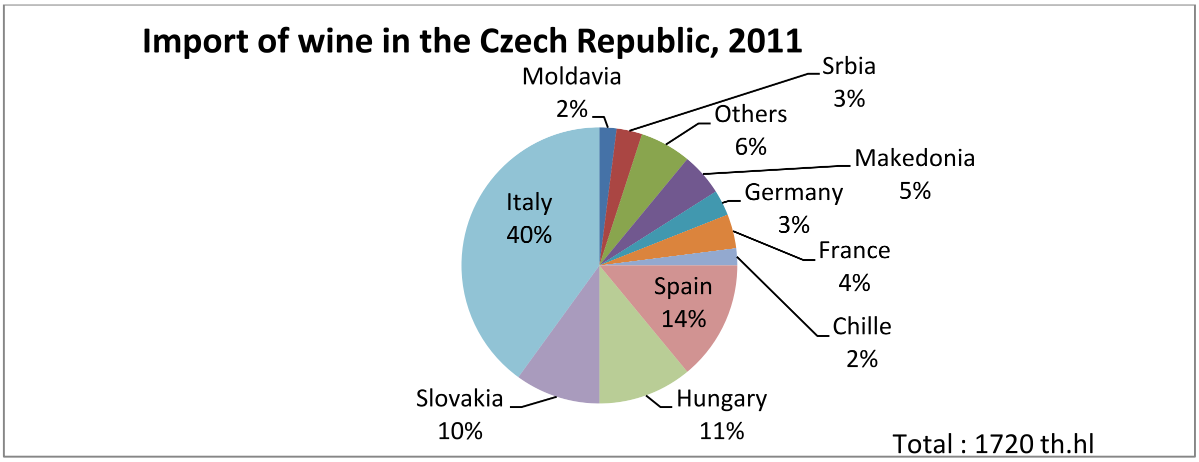

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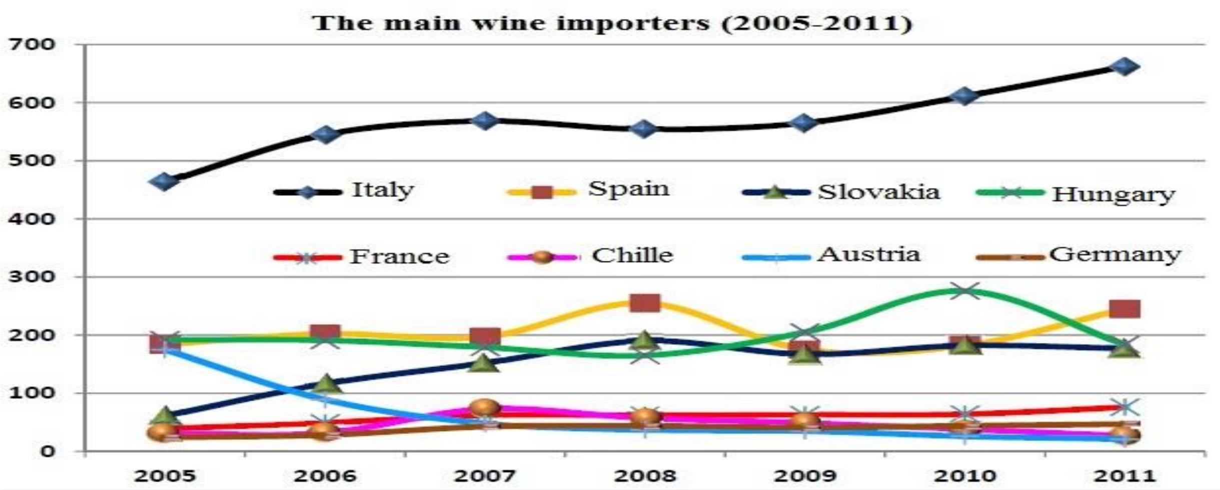

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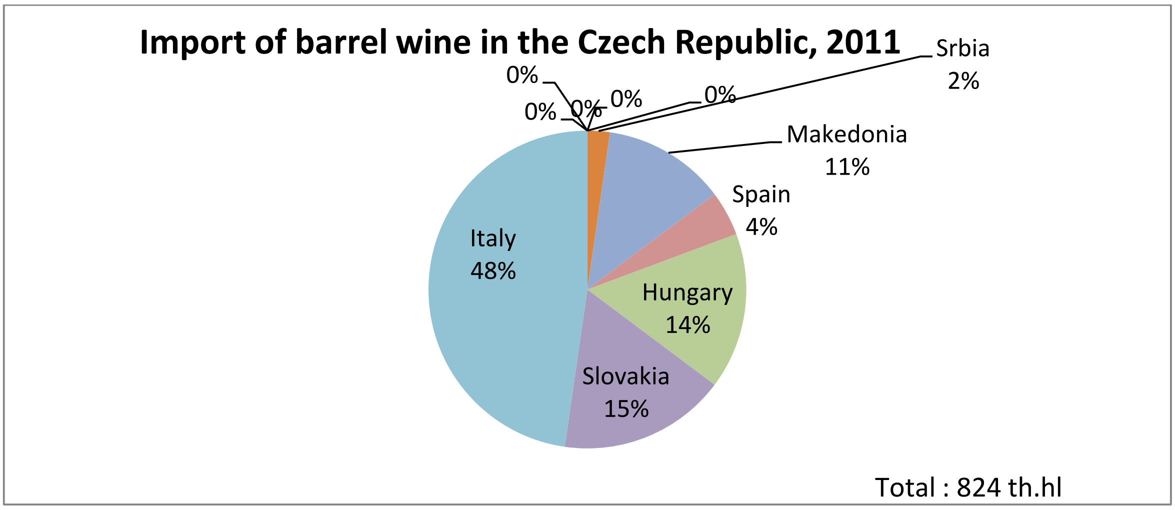

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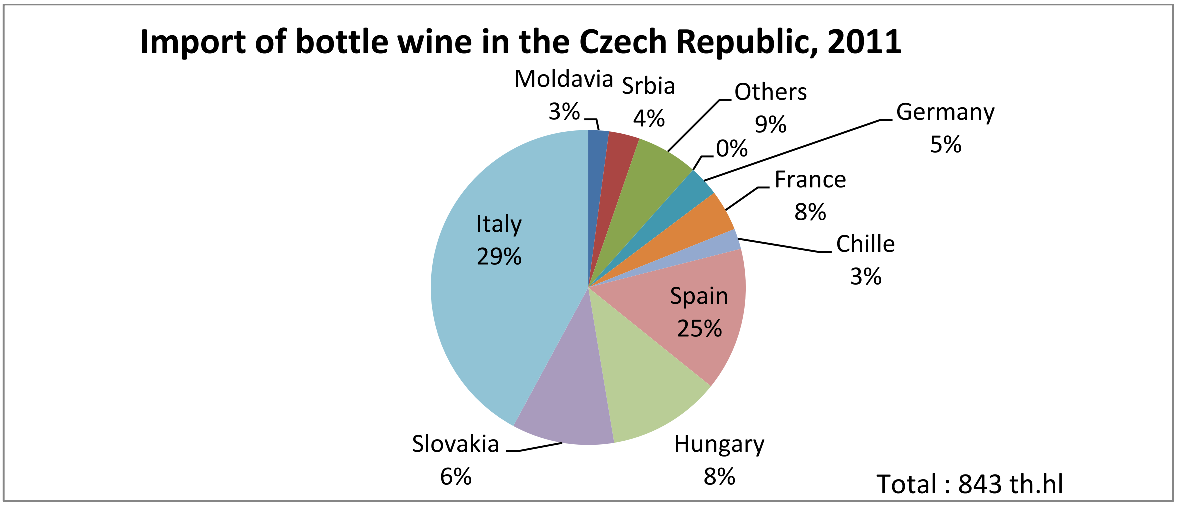

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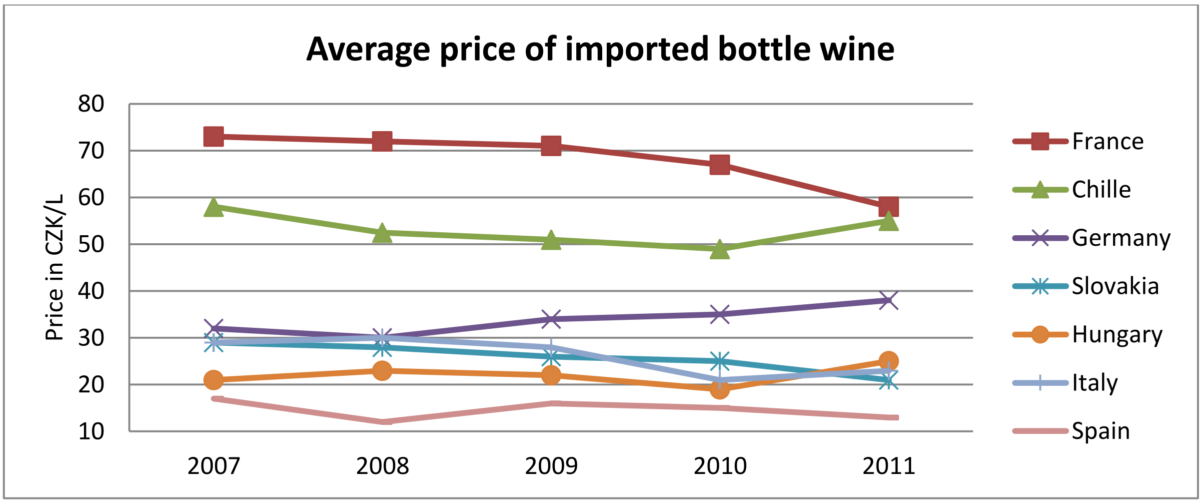

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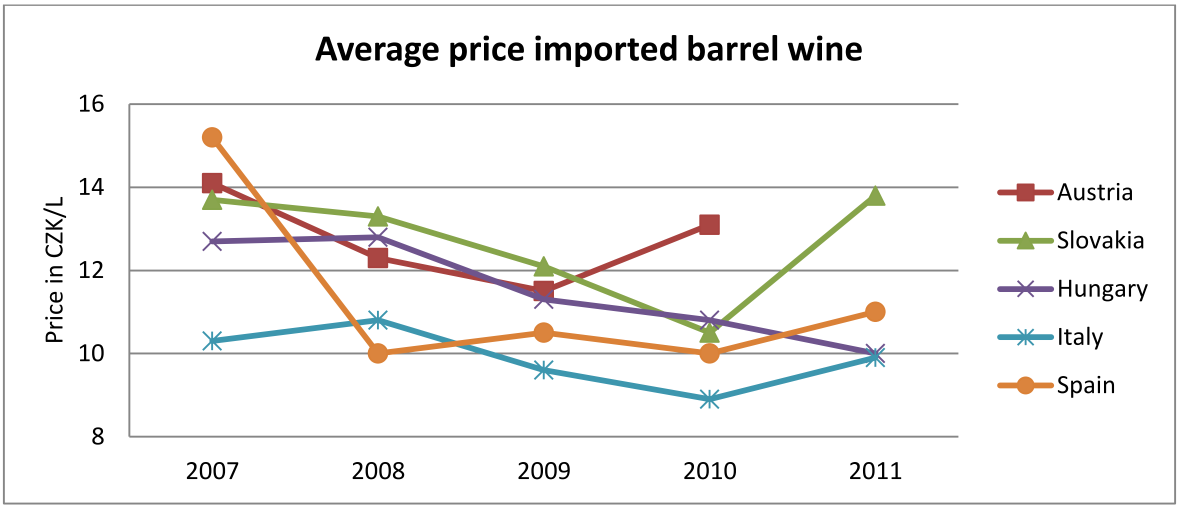

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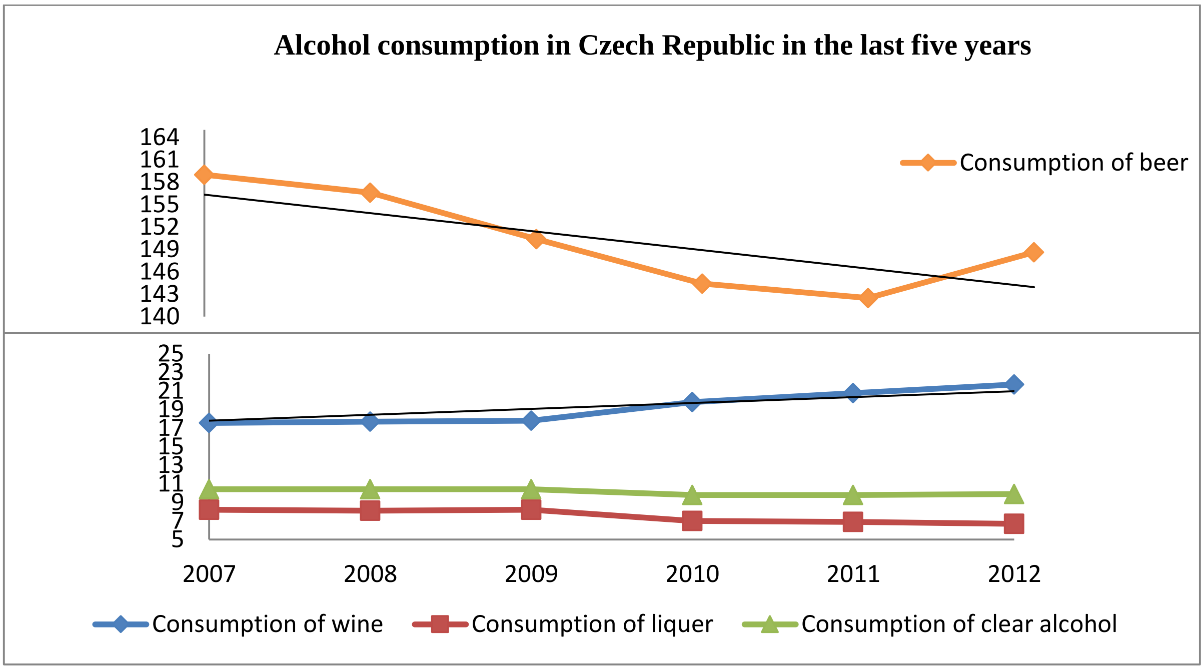

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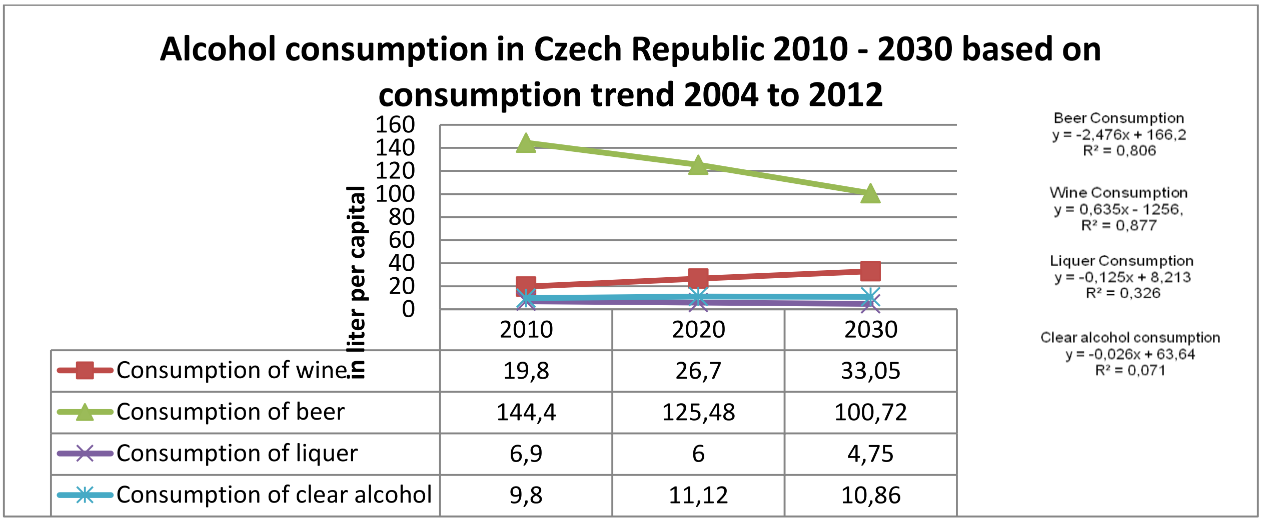
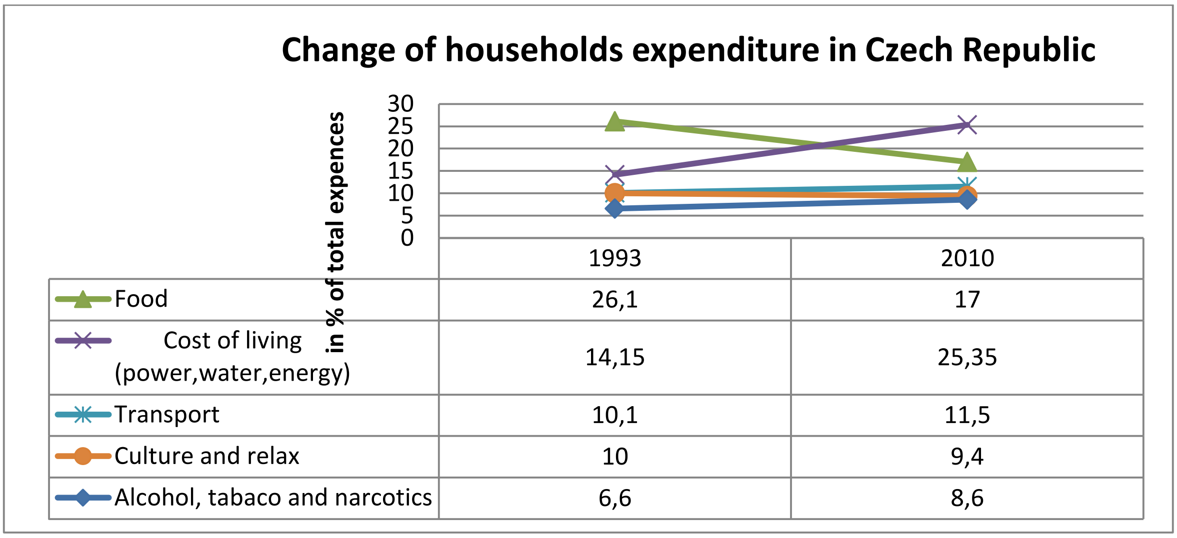


	2010	2020	2030
Consumption of wine	19,8	26,7	33,05
Consumption of beer	144,4	125,48	100,72
Consumption of liquer	6,9	6	4,75
Consumption of clear alcohol	9,8	11,12	10,86

Source: Author, Czech statistical office



	1993	2010
Food	26,1	17
Cost of living (power,water,energy)	14,15	25,35
Transport	10,1	11,5
Culture and relax	10	9,4
Alcohol, tabaco and narcotics	6,6	8,6

Source:Author,Czechstatisticaloffice

Source: Author

a) 

b) 

*Source:*Author

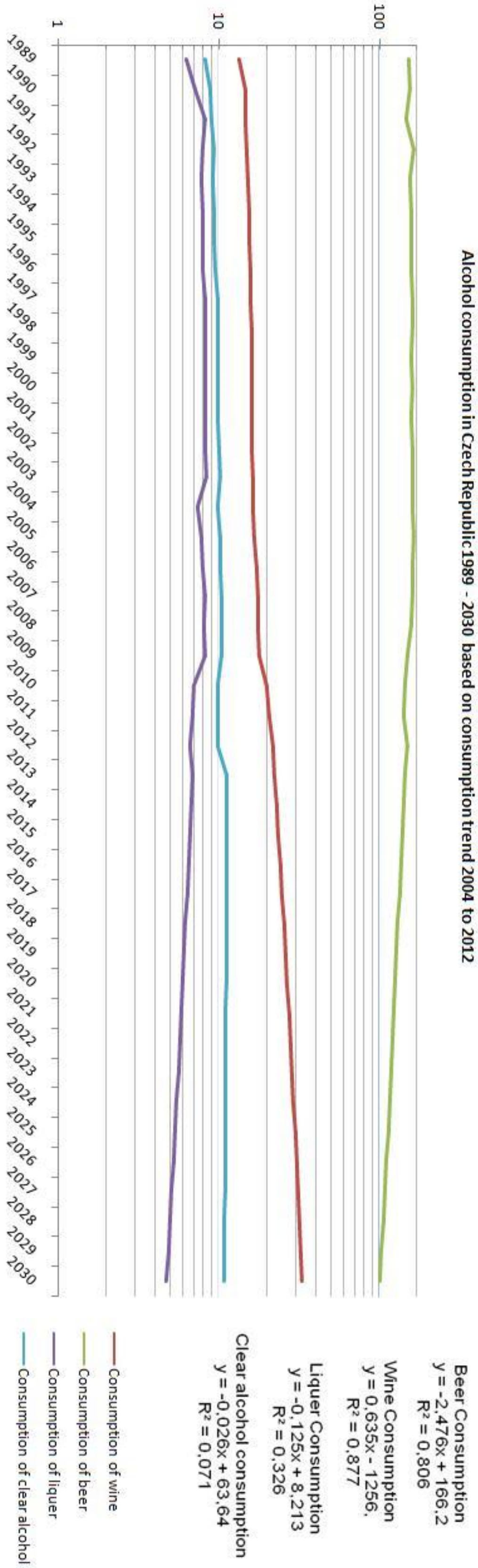
Source: http://winefolly.com/review/5-tips-to-perfect-food-and-wine-pairing

a) 

b) 

Source*: Author*

Source*: Author*



List of tables:

Year	Import	Export	Differences
2005	2290	147	-2143
2006	2699	193	-2506
2007	3143	293	-2850
2008	3275	415	-2860
2009	3139	385	-2754
2010	3260	464	-2796
2011	3563	550	-3013

Source: Author, data from association of wine markers of Czech Republic, 2011

Country	Consumption in liters per year
Luxembourg	15,3
France	12,3
Austria	12,2
Czech Republic	12
Estonia	11,9

Germany	11,7
Hungary	11,5

Source: Author, data from OECD

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Average income	15524	16430	17466	18344	19546	20957	22691	23488	23951	24455	25112
Beer consumption	159,9	161,7	160,5	163,5	159,1	159	156,6	150,4	144,4	142,5	148,6
Wine consumption	16,2	16,3	16,5	16,8	17,2	17,4	17,2	17,8	19,8	20,75	21,7

Source: Author, Czech statistical office

Products	**Price of product per bottle**
Corks	1,9 CZK
Paper box	2,39 CZK
Wine bottle	6,8 CZK
Bottling and tapping	2-3 CZK
Label and design	5-8 CZK
Better quality barrel wine	13-15CZK

Total price per bottle (incl. VAT)	**31,09-37,09 CZK per bottle**

Source: Author, prices from vinarskepotreby.cz, data from Czech statistical office

OLSM

Wine consumption agains average income

DATA:

Average gross income in Czech Republic

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
15524	16430	17466	18344	19546	20957	22691	23488	23951	24455	25112

Wine consumption in Czech Republic

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
16,2	16,3	16,5	16,8	17,2	17,4	17,2	17,8	19,8	21,8	23,8

consumption of wine per year ag: 2000 - 2010 How influence gross income to consumption of wine in Czech Republic

OLSM		average gross income		wine consumption in liters per person
	1	15524		16,2
	1	16430		16,3
	1	17466		16,56
	1	18344		16,8
X	1	19546	Y	17,13
	1	20957		17,4
	1	22691		17,24
	1	23488		17,79
	1	23951		19,8
	1	24455		20,75
	1	25112		21,7

XT	1	1	1	1	1	1	1	1	1	1	1
	15524	16430	17466	18344	19546	20957	22691	23488	23951	24455	25112
XTX	11	227964									
	227964	4,843E+09									
(XTX)-1	3,721480088	-0,000175									
	-0,00017519	8,453E-09									
(XTX)-1XT	1,001880389	0,8431612	0,66166765	0,507853647	0,297279127	0,050090569	-0,2536833	-0,3933072	-0,4744187	-0,5627128	-0,6778105
	-4,3957E-05	-3,63E-05	-2,754E-05	-2,0119E-05	-9,95802E-06	1,96963E-06	1,6628E-05	2,3365E-05	2,7279E-05	3,1539E-05	3,7093E-05
	8,278409356										
a,b	0,000467651										

y=8,278409356 + 0,000467651x

Source: Author, Czech statistical office

Summary output	
Regression Statistics	
Multiple R	0,89798387
R square	0,80637503
Adjusted R Square	0,757968788
Standard Error	0,931686697
Observations	11

ANOVA

	d.f.	*SS*	*MS*	*F*	*significance F*
Regression	2	28,92047919	14,46024	16,65849	0,001405547
Residual	8	6,944320813	0,86804		
Total	10	35,8648			

Term	*Coeffucients*	*Standard Error*	*t Stat*	*p-level*	*Lowe 95%*	*Upper 95%*	*Lower 95%*	*Upper 95%*
Intercept	36,00266358	14,90073998	2,416166	0,042101	1,641495597	70,36383	1,641496	70,36383
Gross income	0,000206473	0,000163572	1,262273	0,242404	-0,000170725	0,000584	-0,00017	0,000584
Beer consumption	-0,143844567	0,076746556	-1,87428	0,097762	-0,320822441	0,033133	-0,32082	0,033133

Source: Author, Czech statistical office