

**UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS**

MASTER'S THESIS

**UK MARKET POTENTIAL FOR SLOVENIAN WINE – CASE STUDY OF THE
INTERNATIONALISATION PROCESS OF THE SLOVENIAN WINE PRODUCER
GORIŠKA BRDA**

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LEA SLOKAR

IZJAVA

Študentka Lea Slokar izjavljam, da sem avtorica tega magistrskega dela, ki sem ga napisala pod mentorstvom prof. dr. Maje Makovec Brenčič ter somentorstvom prof. dr. Caroline Tynan, in skladno s 1. odstavkom 21. člena Zakona o avtorskih in sorodnih pravicah dovolim objavo magistrskega dela na fakultetnih spletnih straneh.

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1. INTRODUCTION

1.1. PROBLEM DEFINITION AND MASTER'S DISSERTATION PURPOSE

Slovenia has a proud tradition of wine culture, dating back to Roman times, producing unique grape varieties (Furer, 2005, p.44). The terrain lends itself to wine making with a continental and Mediterranean climate, the right soils and a tradition of small holding viticulture. Slovenia does not produce a lot of wine, but that which is produced is high quality wine commanding upper medium prices and in some cases falling into the category of cellar collections (Furer, 2005, p.44). Traditionally, Slovenian wine has been exported to the former Yugoslav republics. However with the increasing competition in these markets Slovenian wine producers are looking for new exporting countries, which would enable them to achieve higher returns.

The UK on the other hand is a correspondingly ideal market for Slovenian export:

- The UK is the world's largest importer of wine by value (Jones, 2003, p. 57).
- It is in the EU, which makes it easier for Slovenian companies to export.
- With little domestic production due to an inhospitable climate, the UK market is open to imports and does not suffer from the same prejudice and cultural obstacles to imports found in wine producing countries (personal observation).
- Perhaps most importantly, the UK market has expanded drastically over the last 20 years (see Chapter 3). Wine is no longer consumed only by the rich few and the market has split into many segments, offering excellent niche opportunities for Slovenian medium to high price wine categories.

On several visits in Britain it has been noticed that Slovenian wine is nowhere to be found. Coincidentally, a reasonably large Slovenian cooperative close to my hometown, on the border with Italy, was interested in exports to Britain, as a part of their internationalisation plan to add new countries to their old exporting markets. Goriška Brda is a cooperative with approximately 500 wine producers, whose wine ranges from quality class C (quality table wine – including brands such as Villa Brici) to B (high quality wine such as the famous Quercus brand) and to A (the highest quality wine under the brand Bagueri).

The company has already located a local British distributor who will promote their wine in a few carefully selected restaurants (Internal Source 5, 2005). Together with a very well known British wine expert, two types of wine have been developed to appeal to the specific British taste and the two types will be among the first ones to enter the British market. However, the main question of whether a bottle of high quality Slovenian wine can be successfully sold to the British consumer still remains. There would undoubtedly be severe competition from both old and new world wine exporters for wine falling into the cheaper price brackets, and the limited output of Slovenian wine means it would not be suited to the mass volume shelves of the chain supermarkets. Therefore the focus of this thesis will be on exploring the niche market for medium-high price.

1.2. RESEARCH AIMS

The obvious challenges or questions facing the entry of the firm will tackle the existing demand and market attractiveness, the Cooperative's profile and its suitability for the UK market, consumer awareness of Slovenia as a wine producing country and the appeal of the existing Cooperative's brand image.

When analysing demand (market attractiveness) the obvious question is what percentage of the UK market matches the Brda profile by price, type, country of origin and quality. In order to estimate the demand for Slovenian wine the analysis of the following will be necessary: trend in wine consumption in the British market, supply and demand for wine according to the country of origin, supply and demand for wine according to the type/taste of wine, sales analysis of the high quality wine, analysis of the pricing and positioning of the wine currently available on the shelves, analysis of distribution channels, legal requirements for entry.

The analysis of the Cooperative's processes and its profile is necessary and will be tested against the theoretical assumptions, set in the second chapter. The Cooperative's phase in its internationalisation has to be mature enough to enter such a highly competitive market. Brda is one of the leading wine producers in Slovenia with its cooperative structure, high percentage of young, highly educated work force, high ambitions and uncompromising quality standards. Recently the cooperative has decided to enter new stages of the internationalisation process and to enter new markets with its top quality wine. Specifically for the UK market, two new tastes and types of wine have been launched. However, the company's product, its location, established relationships in the UK, the mode of entry, determination and commitment of the people to the goal etc. will determine whether they can convince the UK consumer that the product is the right one.

The most challenging aim of the thesis is to assess the UK consumer awareness of Slovenia as a wine producing country and a potential for "made in Slovenia" to sell. What has to be estimated in this thesis is whether British consumers will actually choose Slovenian wine when facing purchase decisions at the spot. Whilst it is very difficult to assess what goes on the mind of a British consumer when confronted with a bottle of Slovenian wine on the shop shelf, stages of a consumer's constructive processing and decision-making will be predicted and analysed at the moment of wine purchase, which is considered to involve limited problem-solving, medium-cost products, quite frequent purchasing, medium consumer involvement and little search and less thought given to purchase. With this type of problem-solving a buyer is very likely to choose in-store, which puts stress on branding and positioning of the product (Solomon, Bamossy, Askegaard, 2002, p. 232-344). Probable outcome of the decision-making process will be analysed and the possibility of sorting Slovenian wine in the evoked set of brands estimated. For this, data will be gathered from secondary sources (market analysis surveys) and from first-hand interviews with buyers/supply chain for the high street. Short questionnaire is expected to deliver rough feeling of what would make British people buy the Cooperative's wine. Assuming that there is sufficient potential for the Cooperative's export the identified market niche will be assessed for its value.

The Cooperative has a well-established brand in Slovenian, former Yugoslavian and American markets. The obvious question is if the existing brand image will appeal to the British taste. Brand building in the UK market will be a difficult process. From the analysis of the existing brands on the British market Brda's appeal to potential customers would be crucial. Quercus and Bagueri do possess real and objective attributes of high quality and good value for money, however the emotional component is for now unknown and is dictated purely on the marketing component of the launch of the product.

1.3. HYPOTHESES

From the above set goals the following hypotheses will be tested in this thesis.

1. Goriška Brda is pushed from the small home market and is on its way to higher forms of internationalisation according to the Scandinavian stage model.
2. There is a potential for the success of Goriška Brda's wine in the UK market.
3. Goriška Brda should enter the market through the individual specialised stores and target the highest price categories. If the company chooses to export through supermarkets, it should do so in cooperation with other Slovenian wine producers.

1.4. METHODOLOGY

For the purpose of this case study a pluralistic methodology was adopted, incorporating both qualitative and quantitative approaches, where research bias is minimised by methodological triangulation (Simon, Sohal, 1994, p.34). Firstly, theoretical approaches were analysed. Secondly, secondary data was processed. And thirdly, primary data from the interviews with London-based retailers and buyers was acquired from questionnaires and in-depth interviews.

Information has been gathered from several sources, primary and secondary, and data presentation can best be described through “triangulation of methods” (Simon, Sohal, 1994, p.34):

- In phase one, crucial concepts were generated using a variety of means such as *literature review* and *content analysis* of relevant documents.
- In phase two, the themes of the research project were elaborated through open-ended, non-standardized interviews.
- In phase three, data was gathered through a standardized questionnaire.

1.4.1. Case Study Research

It has been argued that qualitative research in marketing research lacks the rigor and objectivity of the quantitative research (Baker, 2001; Patton and Applebaum, 2003; Poon and Swatman, 1997). The attack is on the personal involvement of the researcher and the lack of distance. Case studies have been viewed in a less favourable light in terms of research (Patton, Appelbaum, 2003, p. 63).

Definitions expose a case study as “an empirical inquiry that investigates a contemporary phenomenon within a real-life context where the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used” (Yin, 1989, p.1). “Case studies typically combine data-collection methods such as archival searches, interviews, questionnaires, and observation” (Yin, 1989, p. 1). While quantitative data often appears in case studies, qualitative data usually predominates.

The case study research has been chosen to support this thesis since the investigator has little control over events and since the focus is on a contemporary phenomenon within some real-life context (Yin, 1989, p.12). The case study of the Cooperative entering the UK market is designed to evaluate the real-life situation in the UK market and to realistically predict sales. The intervention, which should occur in this market according to Yin is the Cooperative

entering the British market. It is essential to estimate how consumers would react to that and to propose the best entry strategy.

As with any other case study research, this thesis is prone to the author's personal involvement and lack of predetermined procedures. However, maximum objectivity has been aspired in this as in any other case study. Namely, case studies generally "utilise a plethora of data collection methods including observation, interviews, histories and quantitative measures" (Patton, Appelbaum, 2003, p.64) to ensure the maximum objectivity and determination. The use of multiple data-collection methods therefore provides stronger substantiation of constructs and hypotheses. "Analysing data in different spaces, at different times and in different contexts and using different data sources to study the same object (interviews and archived records) all serve to attain triangulation and increase confidence in conclusions" (Patton, Appelbaum, 2003, p.64).

The ultimate goal of the case study, write Patton and Appelbaum, is to "uncover patterns, determine meanings, construct conclusions and build theory" (Patton, Appelbaum, 2003, p.65). In order to achieve these ultimate goals, both qualitative and quantitative research have been applied for the purpose of this study. As previously discussed, initially no such combination of methods was intended and the Mintel (Market Intelligence Food and Drink) survey findings and unstructured interviews were planned to be the sole sources of analysis. However, it became clear that the increase in the level of familiarity with Slovenia and its products would become one of the main factors of entry success. It was therefore essential to determine whether potential British consumers knew Slovenia as a wine producing country and whether they would be willing to buy Slovenian wine.

Case studies can incorporate several different methods, including participant observation, structured or unstructured interviews and examination of documentary material. As one of the basic qualitative research methods, structured, in-depth interview was applied for sorting and screening ideas and preliminary exploration. The in-depth interview as a research method was used because it is "discursive and allows the researcher and respondent to explore an issue" (<http://www.pra.ca/resources/indepth.pdf>, 2005). In-depth interviews are used throughout research to determine individuals' perceptions, opinions, facts and forecasts, and their reactions to initial findings and potential solutions (<http://www.pra.ca/resources/indepth.pdf>, 2005).

The interviews were structured and adjusted to the interviewee's area of interest. On some occasions data was obtained from informal meetings, such as, for example, the author's attendance at the London Wine Fair or via email communication.

The data of the second part of the research presented in this chapter was gathered through questionnaires, which were handed out to wine consumers on the streets of London. This survey research ultimately recorded the familiarity, or lack of it, of 66 wine consumers with Slovenia and its wine. Survey research "connotes a project to get information from a sample of people by use of questionnaire", wrote Tull and Albaum (Baker, 2001, p.384). "Questions may be asked in a personal interview, by telephone or sent by mail" (Baker, 2001, p.384).

The aim of the questionnaire from this thesis was to test the potential attitude of the respondents towards Slovenian wine. Potentially, it could be used to predict consumer behaviour once Slovenian wine appears on the shelves, even though the sample of 66 respondents cannot be used for general prediction in London, a city of 7.2 million (<http://www.statistics.gov.uk/census2001/pyramids/pages/h.asp>, 2005) inhabitants.

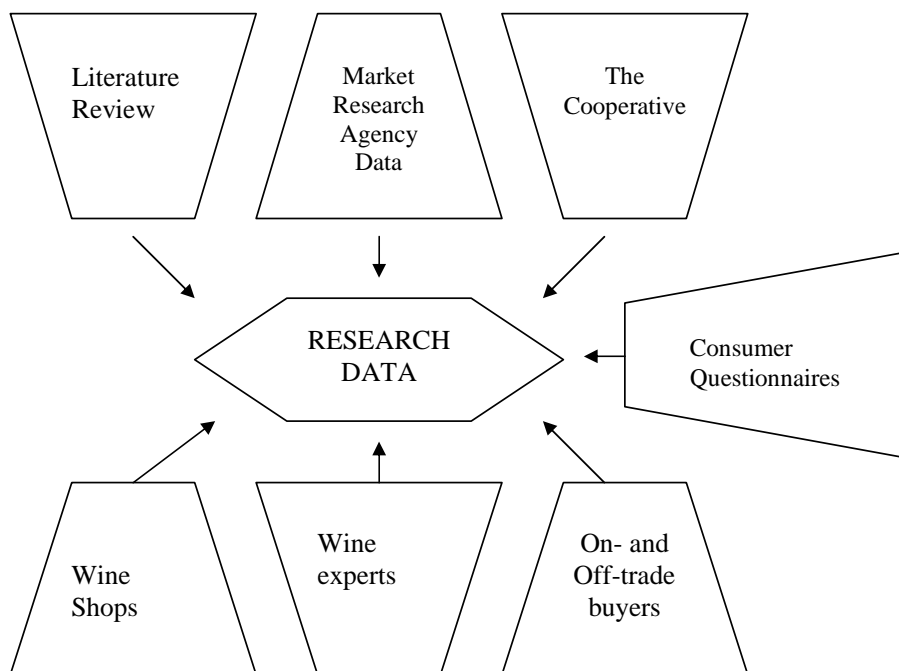
1.4.2 Data Sources Used In This Study

As previously mentioned, this thesis has attempted to gather information from several sources, primary and secondary (see Figure 1), and data presentation can best be described through “triangulation of methods” (Simon, Sohal, 1994, p.34):

- In phase one, crucial concepts were generated using a variety of means such as *literature review* and *content analysis* of relevant documents (*Mintel and Keynote reports, data from the wine shops, internal data from the Cooperative*).
- In phase two, the themes of the research project were elaborated through open-ended, non-standardized interviews (*wine experts* i.e. people from the industry, experienced with Slovenian wine, *on- and off-trade buyers*).
- Finally, in phase three, data was gathered through a standardized *questionnaire*. The third phase lacks proper representational sample, which is due to the limitations of one researcher.

The so-called “generative triangulation” (Simon, Sohal, 1994, p. 34) can be used for the employment of informal methods. It aims at formal data enrichment or it simply proves their validity. Informal techniques are supposed to harvest crucial concepts from the target population, which have to be elaborated in phase two of the strategy through the use of semi-formal interviewing (or some other appropriate technique). Where random samples are obtainable, informal data is finally tested among a larger section of the population using the more formal procedures (Simon, Sohal, 1994, p.35).

Figure 1: Information Sources Applied in this Thesis



Source: Author's presentation of the data sources, 2005.

2. LITERATURE REVIEW

2.1. THE INCREASING IMPORTANCE OF INTERNATIONALISATION

The rapid changes in the international sphere and the growing importance of international markets to companies of all sizes force small and medium size companies to look for new markets. It has been argued that a pattern can be evolved according to which companies will internationalise and seek foreign markets. Whilst there are several theories explaining the internationalisation path, none of them is totally reliable as globalisation among other things increased the likelihood of chances and coincidence, which interfere in the stage process of internationalisation.

Many factors, including technological progress and lowered communication costs, improvements in transportation and logistics, e-business, lowering of barriers to trade, the growth of international strategic alliances etc. both allow and force companies to look outward and to either begin with the internationalisation process or to expand in their internationalisation (Albaum, Duerr, Strandskov, 2004, p.2).

The above listed reasons have caused internationalisation to become one of the key success factors for any company. Internationalisation enables company to grow. Furthermore, the stage of internationalisation indicates its growth or stage of development. Namely, as Coase puts it, firms grow with (Bradley, 2004, p.48): “increases in spatial distribution of the exchange transactions organised; increases in the similarity of the exchange transactions; and increases in the likelihood of changes in prices of assets being transferred”. All three conditions, argues Bradley, are more likely to occur in international markets than in purely domestic operations.

Apart from the analysis of internationalisation process, specifically of mastering the foreign market, there is a need to analyse small firm specifics. A small firm is a firm with fewer than 500 employees but with sales greater than \$500,000 (Baird and Lyles, 1994, p.48). It is believed that knowledge and experience play crucial part in the internationalisation process of a small company anywhere in the world; however, there is still a question of global-born exporters or global companies (Baird and Lyles, 1994, p.48).

The main question to be addressed in this theoretical part is what determines the success of the internationalisation process. If a firm wishes to internationalise, can we argue that business knowledge and international experience¹ are the most significant factors influencing the success of the internationalisation? Or can we simply say that there is no such thing as a pattern for the step-change programme from domestic to international company. If we assume that the widely recognised model of internationalisation can be applied for the majority of companies, can we say that Goriška Brda is one such company? If not, how can we predict its next moves and success?

Unfortunately, domestic markets can only rarely fully satisfy company's expectations. This is specifically the case for companies originating from small markets like Slovenia where the so-called push forces are stronger. For the purposes of this study export behaviour theories will be examined closely, since these, in contrast to the international trade theories attempt to explain “why and how the individual firm is engaged in export activities and, in particular, how the

¹ Business knowledge and international experience are according to the Scandinavian school the two the most important factors determining the success of the internationalisation process (Johanson and Vahlne, 1990, p.11). More on the Uppsala internationalisation model in the sub-chapter 2.4.1.

dynamic nature of such activities can be conceptualised” (Albaum, Duerr, Strandkov, 2004, p.62). Scandinavian internationalisation model and Scandinavian stage theory will be analysed and used to support the hypothesis for the case study. Some of the international marketing approaches will also be borrowed, since they normally represent the necessary support for the marketing strategy.

2.2. INTERNATIONALISATION AND EXPORT MARKETING

It seems that international marketing is proving to be of ever-increasing importance to companies of all sizes, to their customers, and to national economies (http://www.tradeforum.org/news/fullstory.php/aid/722/Sharpening_your_Competitive_Edge.html, 2005). For most companies, export operations are the initial step in internationalisation. Whilst it is true that market opportunities sometimes take companies to higher, investment options of entering the market, for most companies export is the key to the increased internationalisation (Albaum, Duerr, Strandkov, 2004, p.70).

Internationalisation has become a must in the globalising world of today. Internationalisation may be thought of as “a process, an end result or a way of thinking” (Albaum, Duerr, Strandkov, 2004, p.5). Internationalisation of a firm means that “a firm becomes more involved in and committed to serving markets outside of its home country” (Albaum, Duerr, Strandkov, 2004, p.5). There are many definitions of internationalisation and more recent ones describe internationalisation as a process by which firms increase their involvement in international business activities (Johanson, Vahlne, 1990; Johanson, Mattsson, 1988). “Internationalisation can be viewed as an overlapping, ongoing process where the connections between such processes create constantly new intersecting groupings” (Andersson, 2002, p.369).

At the beginning it is worth mentioning that over the years attempts have been made to find a standardised measure for internationalisation. Even though no generally accepted measure for internationalisation exists, Albaum et al. point to the Sullivan’s measurement model which can be presented for the orientational purposes.

Sullivan’s model is based on the following (Albaum, Duerr, Strandkov, 2004, p.8):

- Foreign sales as a percentage of total sales;
- Foreign assets as a percentage of total assets;
- Overseas subsidiaries as a percentage of total subsidiaries;
- Physical dispersion of international operations;
- Top managers’ international experience.

Many theorists have tried to explain why internationalisation of the company occurs in the first place (Johanson, Mattsson, 1988; Fletcher, 2001; Johanson, Vahlne, 1977 etc.) and there is a general consensus that a company is driven firstly by the home country market factors (push factors), host country market factors (pull factors) and the firm specific factors. This structure dictates the key points of a rough market analysis. If a company faces a decision, whether to enter a specific market or not, one should start from the above mentioned four points and develop its analysis further into “the analysis of markets and potential markets, the planning and development of products and services that consumers want, the distribution of products through channels that provide the services or conveniences demanded by purchasers, the promotion of products and services to inform and educate consumers about those products and services, the setting of prices that reflect both a reasonable value of products or services to the

consumers, as well as a satisfactory profit or return on investment and the technical support given to customers to ensure their satisfaction” (Albaum, Duerr, Strandskov, 2004, p.4).

Before the internationalisation models are introduced in this chapter, however, the motives i.e. the main drive of internationalisation process are going to be discussed. The explanation, why a firm engages in international activities, will therefore follow.

2.3. MOTIVES FOR INTERNATIONALISATION

From the review of the export behaviour theories it is now quite clear that the main question they try to answer is why do companies engage in international activities (Johanson, Vahlne, 1990; Dunning, 2001; Bradley, 2004 etc.). “Regardless of how the business firm explicitly states its major objective there is really only one basic or primary incentive – to make a profit” (Albaum, Duerr, Strandskov, 2004, p. 62). Namely, export business to the exporters is mostly the “difference between a profit and a loss for the entire company” (Albaum, Duerr, Strandskov, 2004, p.62). In addition, Albaum states, “foreign operations, including exports, lead to stability of profits”.

However, despite the underlying profit making motive, there can be further discussion of the proactive and reactive motives, since this might influence the success of the company’s export (Fletcher, 2001, p. 30). According to Czinkota, proactive motives are initiated by the company and cause strategic changes, whereas reactive motives are initiated by the environment and force the company to react and adjust to the change (Czinkota, Moffett, Ronkainen, 1999, p.368).

In general there are different kinds of stimuli or influences, which cause a firm to engage in exporting. First, the motivational factors are specified as internally influenced (such as managerial urge, economies of scale, risk diversification, excess capacity of resources etc.) or externally influenced (foreign market opportunities, change agents, unsolicited orders, small home market etc.). Secondly, motives include saturated domestic markets and harsh competition from foreign producers. Even when a firm is successful at home it may be attracted by business opportunities abroad (Gronhaug, 1992, p. 60).

Figure 2: Classification of Motives to Internationalise

	INTERNAL	EXTERNAL
PROACTIVE	Managerial urge	Foreign market opportunities
	Marketing advantages	Change agents
	Economies of scale	
	Unique product competence	
REACTIVE	Risk diversification	Unsolicited orders
	Extend sales of seasonal product	Small home market
	Excess capacity of resources	Stagnant or declining home market

Source: Albaum, Duerr, Strandskov: International Marketing and Export Management. 2004, p.63.

Howell argues that there exist logical and rational reasons for expanding into a new market, such as lower manufacturing costs, more rapid market growth, saturation or decline in home

markets, obtaining new resources such as technical expertise and financial incentives (Howell, 2004, p.236). Apart from the rational motives to go abroad there are also “irrational” ones, such as personal ambitions and a chief executive’s vision to pursue a foreign marketing strategy (Howell, 2004, p.236). According to Albaum, Duerr, and Strandskov, the distinction in motives is important because it “identifies the nature of the export decision task” (Albaum, Duerr, Strandskov, 2004, p.63). Apart from the internally and externally stimulated initiatives, the motives are categorised in terms of whether the export activity is of a reactive or proactive nature.

Having analysed the motives of the internationalisation, the subsequent question is: How certain can we be that a company is on its way to profit? What needs to be done in order to enlarge the volume of sales? Can we claim that if a company is already performing internationally, the chances of its success on a particular market will be higher?

2.4. EXPORT BEHAVIOURAL THEORIES

In the last two decades we have witnessed a vast amount of research of the internationalisation process of the firm (Johanson, Vahlne, 1990, p.11), which is not surprising, considering the importance of the international trade over the recent years. The ways in which firms become increasingly involved in international activities, is one of the central topics of international business research (Andersson, 2002, p.365). This internationalisation process, as Johanson and Vahlne put it, is manifested in many ways: “establishment of foreign subsidiaries, international joint ventures, licensing agreements, international advertising campaigns etc.” (Johanson, Vahlne, 1990, p.11). However, there is not a single standardised model of internationalisation so far, instead theorists derive their findings from the conclusions of empirical Scandinavian internationalisation process research (Johanson and Vahlne, 1977, p.23) and develop further ideas of internationalisation process (Gronhaug, 1992; Dunning 2001; Andersson, Gabrielson, Wictor, 2004).

The study of internationalisation process includes The Stages Approach. According to this approach, the internationalising firm increases its commitment to foreign markets and simultaneously gains knowledge with relation to this market². In contrast, The Learning Approach attempts to explain patterns of internationalisation behaviour. This approach recognises the internationalisation process as an “evolutionary, sequential build-up of foreign commitments over time due to interaction between knowledge of foreign markets, and increasing commitment of resources to their development” (Fletcher, 2001, p.28). The Contingency Approach does not commit itself to one or two factor analysis, but is based on the premise that firms’ international evolution is influenced by several market-specific and firm-specific characteristics. Andersson, Gabrielson and Wictor view export activities as dependant upon the following factors: “the size of the firm, the age of the firm, the technology level of the firm, the age of the CEO, occurrence of planning and the perceived dynamism in the firm’s environment” (Andersson, Gabrielson, Wictor, 2004, p.23). External situations or opportunities may cause firms to skip some stages and therefore to firstly enter markets that are psychically distant from the home country. Finally, The Network Approach attributes are contingent to development of networks of relationships over time. Namely, international actors build up knowledge about each other as they interact, which is to bind them closer together over the time. The market and the role of a firm in that market play the central role in The Network Approach (Fletcher, 2001, p.29).

² It may as well be the other way around, since it is difficult to separate the two processes.

Theories of export behaviour identify several stages in the process of internationalisation and although each theory uses a different classification scheme, the theories all portray one common view: the decision to go international is a gradual process that can be subdivided (Albaum, Duerr, Strandskov, 2004, p.61-62).

More recent empirical studies indicate that The Stages Approach is most effective in explaining the export development process when companies are grouped either according to similarity in managerial attitudes, or according to the size of firm and product orientation. Other studies have confirmed that there is a general pattern of evolutionary development. “An understanding of the importance of initial experiences and the learning process is important for smaller companies and for smaller countries, especially for late-comers to internationalisation” (Albaum, Duerr, Strandskov, 2004, p.71-72).

In order to assess which model can be best applied for the medium-sized company such as Goriška Brda, brief presentation of The Scandinavian School Internationalisation Process Model will be discussed and a presentation of the later global internationalisation models will follow. These models were on several occasions derived from The Uppsala Model and they now represent its critical views.

2.4.1. The Uppsala Internationalisation Process Model

In this model, the internationalisation of the firm is seen as “a process in which the enterprise gradually increases its international involvement” (Johanson, Vahlne, 1990, p.11). This process evolves through the development of knowledge about foreign markets and through the increasing commitment of resources to foreign markets (Johanson, Vahlne, 1990, p.11).

Johanson and Vahlne made distinction between state (market commitment and market knowledge) and change aspects (current business activities, commitment decisions) of internationalisation. Market knowledge and market commitment are assumed to affect decisions regarding commitment of resources to foreign markets and the way current activities are performed. The process is seen as “causal cycles”, as market knowledge and market commitment are affected by current activities and commitment decisions (Johanson, Vahlne, 1990, p.11-20).

Johanson and Vahlne follow Penrose in distinguishing between two kinds of knowledge: objective and experiential knowledge (Johanson, Vahlne, 1990, p.12). The first can be taught, whilst the second can only be gained through business experience. Experiential knowledge is considered to be more valuable than objective knowledge in such circumstances since it allows for “... direct knowing, immediate understanding, learning without conscious use of reasoning, or making a choice without formal analysis” (Johanson, Vahlne, 1990, p.12). Unfortunately, according to the model, market experience is to a large extent country-specific, and cannot be generalised to other country markets that easily. There is some room for manoeuvre however. Firstly, if market conditions are stable and homogeneous, secondly, if a firm has considerable experience from markets with similar conditions, and thirdly, when firms have large resources, relevant market knowledge can be gained in ways other than through experience (Johanson, Vahlne, 1977, p.28).

The Internationalisation Process Model recognises the coexistence of various companies in the market, where the companies' interests and ideas vary. If people are engaged in a foreign market they are more exposed to the influences and problems of this market and will therefore look for solutions, which will be promoted later on in the process. “The model expects that the

internationalisation process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not” (Johanson, Vahlne, 1990, p.12).

The Scandinavian model can be particularly useful to support the argument for entering the British market for the two following reasons. Firstly, it predicts the firm’s engagement in the specific country and it partially selects the market that the country should enter first. Namely, according to the Internationalisation Process Model, a firm’s engagement in the specific country develops according to an established chain. At the beginning no regular export activities are performed in the market, then export takes place via independent representatives, later through a sales subsidiary, and eventually manufacturing may follow. The market experience in the first stage is practically zero, whilst the second stage sees the firm as having an information channel to the market and receiving at least superficial information about market conditions. Gained knowledge is accumulating and leads to more differentiated and wide market experience (Johanson, Vahlne, 1990, p.13). Whilst there are a number of strategies for market entry and development available to a company that seeks to internationalise, selection of mode of entry is based on experience or chosen as the result of the thorough analysis (Koch, 2002; Albaum, Duerr, Strandskov, 2004).

Figure 3: Classification of International Entry Modes

Home country production		Production in free area		Overseas production		
<i>Indirect export</i>	<i>Direct export to foreign importer or buyer</i>	<i>Home country</i>	<i>Overseas</i>	<i>Manufacturing</i>	<i>Assembly</i>	<i>Strategic Alliances</i>
Cooperative organisations	Home country based department					Licensing
Home country based merchant	Overseas based distributor or agent					Joint venture
Home country Based agent	Overseas travelling sales staff					Management contracting
	Overseas sales subsidiary					Contract manufacturing
	Overseas sales branch					Other
	Storage or warehousing facilities overseas					

Source: Albaum, Duerr, Strandskov: International Marketing and Export Management, 2004, p.252.

The second pattern explained by the model is that firms enter new markets with successively greater psychic distance, which is defined as “the sum of factors preventing the flow of information from and to the market³” (Johanson and Vahlne, 1977, p.24). Firms start internationalisation by going to those markets they can most easily understand. There they see opportunities and there the perceived market uncertainty is low.

³ Examples are differences in language, education, business practices, industrial development, culture, political systems, etc.

This model has grown out of empirical research about Swedish companies competing internationally. Findings of this empirical study have encouraged other theorists to look for similar patterns in their country firm behaviour, and even though the learning process described in internationalisation theory has been attacked in the most recent years (Forgsgren, 2002, p.261) there have been persistent studies supporting the school (Gronghaug, Kvitastein, 1992, p.57-70; Clark, Pugh, 2002, p.283-301). The internationalisation pattern has however gained the greatest support in the eighties and nineties from the universities in Manheim, USA, Australia and Turkey. The strongest support for the model was provided by the Norwegian school, namely by prof. Gronghaug and Kvitastein in 1992.

Whilst it can be claimed that the Scandinavian Process Model has been widely recognised, mostly by European schools, it might be that the nature of European companies in the eighties and nineties of the previous century as such forced this certain type of behaviour. The pattern has been proven on Slovenian companies (Jaklič, 1999), which is also why so much space is dedicated to the model in this thesis.

2.4.2. The Network Model

Firms in industrial markets are engaged in more or less lasting business relationships with other business actors (Fletcher, 2001, p.28-49). “The relationships are connected by networks which develop as a consequence of the interaction between firms, where a specific firm is engaged in a network of business relationships comprising a number of different firms – customers, customers’ customers, competitors, suppliers, agents, consultants, distributors, etc.” (Fletcher, 2001, p.28). The Network Approach to internationalisation is claimed “to be able to capture some of the complex dynamics of internationalisation, including interconnectedness and concurrence of internationalisation processes” (Andersson, 2002, p.369).

The network view suggests that “all actors in a network are more or less active and that the establishment of new relationships and the development of old is a result of interaction between active parties” (Johanson, Vahlne, 1990, p.19). In terms of networks, internationalisation means that the firm gradually develops business relationships in networks in other countries (Johanson, Mattsson, 1988, p.304). This can be achieved (Johanson, Mattsson, 1988, p.304):

- Through the establishment of relationships in country networks that are new to the firm.
- Through the development of relationships in those networks.
- Through connecting networks in different countries.

The relationships of a firm connect the firm to other networks. The actors are bound to each other through a number of different ties and a potential entrant therefore does not possess a full insight into the situation. For example, a channel intermediary can enter a market extension process through a powerful supplier who wants to cover a wider geographical region with the help of only one distributor or through joint projects sponsored by public institutions and as part of a wider initiative.

According to Johanson and Vahlne, the Internationalisation Process Model does not oppose The Network Model. On the contrary, it assumes the same thing – network knowledge is based on the experience from current business activities or current business action. Some companies go directly to more distant markets and more rapidly set up their own subsidiaries (Johanson and Vahlne, 1990, p.20).

2.4.3. Eclectic Paradigm

Whilst The Internationalisation Model explains and predicts the mode and pattern of the internationalisation process up to the multinational firm, Dunning's Eclectic Paradigm explains the extent, form and pattern of international production, which relies on three sets of advantages (Dunning, 2001, p.176):

- The so-called "O" advantage or the ownership advantage, which is "the (net) competitive advantages which firms of one nationality possess over those of another nationality in supplying any particular market or set of markets".
- The "L" advantage or "the extent to which firms choose to locate these value-adding activities outside their national boundaries".
- The "I" advantage or "the extent to which firms perceive it to be in their best interests to internalise the markets".

The Eclectic Paradigm predicts that production will be established where the above-mentioned advantages can be exploited. The internationalisation model is different from this point of view, since it predicts that firms are going to start with their international activities in the neighbouring countries, which may as well mean that this is where the OLI advantages can best be enjoyed.

The Eclectic Paradigm further suggests that the significance of each of these advantages is likely to be "context specific" (Dunning, 2001, p.177), and is likely to vary among firms, across industries, regions or countries. Thus there are likely to be country-specific differences in the ownership advantages of for example Slovenian firms compared to British firms. The extent of internalisation depends on the market development and is industry specific⁴, as some industries offer significantly more room for internalisation than others.

Dunning argues that The Eclectic Paradigm is best regarded as a framework for analysing the determinants of international production rather than as a predictive theory of the MNE (Dunning, 2001, p.177). Johanson and Vahlne recognise the high explanatory value of the eclectic theory when they state the following in their text: "In terms of explanatory variables the difference is dramatic. The Internationalisation Model in its original version explicitly used only one – the firm's knowledge - whilst implicitly there was another – relationship to other bodies on foreign market. The Eclectic Paradigm on the other hand has the objective of giving a full-fledged explanation of the firm's foreign operations" (Johanson and Vahlne, 1990, p.17). However, they claim, "The Internationalisation Theory is dynamic in nature as opposed to the static Eclectic Theory" (Johanson, Vahlne, 1990, p.18). Namely, The Internationalisation Process Theory recognises that transactional costs change over time, whilst The Eclectic Paradigm assumes that the decision makers involved are rational and well-informed from the start and all the way through the internationalisation process.

2.4.4. The Holistic Approach

The Holistic Approach explores different views on internationalisation. The basic assumption is that internationalisation is no longer just an outward-driven activity and that firms also become internationalised by undertaking import-led activities and activities in which "inward" and "outward" activities are "linked" (Fletcher, 2001, p.31).

⁴ The industry specificity can best be interpreted in a way that for example computer production allows for greater internalisation than for example dairy product production, as parts of computer are not as temperature conditioned, neither are they »rushed« into sales by short durability.

Fletcher conducted a survey on internationalisation and international involvement of firms. He discovered that a majority of firms engage in “inward” and “linked” international activities as well as “outward” activities and by that he questioned the traditional view that “internationalisation should be progressive and incremental” and he explored the issue of de-internationalisation and its role in the long-term internationalisation of the firm” (Fletcher, 2001, p.28-49).

Fletcher argues that in response to rapid developments in internationalisation of the market as a whole, more complex forms of international behaviour have evolved. Customers demand quick supplies, ask for lower prices, which forces lower production and promotional costs. If companies want to become and stay competitive, they also need to be internationally cooperative. “These changes in the environment”, argues Fletcher, “call for a new approach that embraces a more holistic view of internationalisation. This new approach needs to recognise the following factors” (Fletcher, 2001, p.29):

1. Firms can become internationalised also by inward-driven activities and not only through outward driven activities.
2. Outward internationalisation can lead to inward internationalisation and vice versa.
3. More complex forms of international behaviour with both inward and outward international activities are required for internationalisation.
4. Internationalisation should be viewed as a global activity. Internationalisation does not mean only the outward expansion international activities but it has to be seen as the contraction of the international activities⁵.

The Holistic Approach is one of the newest approaches to internationalisation and it might be more applicable to globally-born companies or to larger corporations with its dispersed units. It might also happen that the nature of the business or the ownership structure sometimes prohibits or slows inward internationalisation. The Holistic Approach might not explain the Cooperative’s internationalisation path as it is mostly outward driven. So far there has not been much of inward internationalisation activities that could speed up the internationalisation on the whole, however joint ventures, especially in highly competitive markets such as the UK, should be the very desirable way forward and the Cooperative should definitely consider these options apart from purely export oriented activities.

2.5. CRITICISM OF THE MODELS

From the viewpoint of the firm, internationalisation is an evolutionary process (Johanson, Vahlne, 1990, p. 11-12). Through this process, foreign experience gained over time results in accumulated organisational knowledge. However, one of the biggest challenges in internationalisation research has been to find the model of the internationalisation process. There have been many attempts to standardise the path of a company in its change from domestic to international market. The developed models have mostly been based on empirical research and as such extremely reliable. However none of them has been able to sustain the criticism of the cultural differences and firm specific factors⁶. The closest one to achieving the standard was the Uppsala school and its research conducted in the late seventies and early eighties of the 20th century. The so called Scandinavian Internationalisation Process Model has

⁵ Dunning talks about de-internationalisation (Dunning, 2001, p.173-190).

⁶ Due to firm specifics some companies are described as »born globals« (Baird and Lyles, 1993).

become one of the most cited and referred to models in the last 30 years and as such the most credible stage model of all times⁷.

Another worrying fact with regard to internationalisation models is low level of success predictability. One can unfortunately not predict what would happen to a firm on its chosen path to the outside world, since this is determined by several factors. Whilst it can be claimed that Dunning managed to come the closest to comprising all of the factors influencing internationalisation (which includes some of the assumptions of The Contingency Model), it is believed that it is more likely for small companies to choose its neighbouring markets, since the potential risk of these markets is lower. In addition to this Fletcher argues that “national borders are becoming increasingly irrelevant”, and this and other issues require firms “to adopt a more dynamic as opposed to an incremental approach and switch between forms of international involvement as changing market circumstances require” (Fletcher, 2001, p.28).

Fletcher argues this point further, stating that firms are no longer alone. “Firms’ internationalisation processes are interconnected and often take place concurrently (network approach)” (Fletcher, 2001, p.29). One implication of an increased complexity in the internationalisation of the firm is that a firm’s increased involvement in specific foreign countries needs to be replaced by a regional approach. Namely, that of the increased importance of regions and rationalisation of activities (Dunning, 2001, p.173-190). Furthermore, globalisation of activities should be thoroughly examined, where the advantages from internalisation and not purely external activities of a firm play a crucial role (Dunning, 2001, p.173-190)⁸. On the other hand, theorists have argued that in order to understand internationalisation process fully, a more holistic approach to internationalisation needs to be applied (Fletcher, 2001, p.28-49).

Everything implies that one is right to assume that The Internationalisation Theory can best be applied for early stages of the internationalisation process, whilst The Eclectic Paradigm and The Holistic Approach should be used for the already internationalised companies. If this is the case, the problem of the internationalisation maturity of a company arises. A closer look into a company and its processes is required in order to select the most appropriate strategy.

3. THE UK EXTERNAL FACTOR ANALYSIS

3.1 STRATEGIC MARKETING PLANNING

When a company decides to internationalise, a carefully planned internationalisation strategy is required. Strategic marketing planning is based firstly on a market potential assessment and secondly on internationalisation strategy building. Certain theorists have defined the various stages in the strategic marketing planning process. The majority of them focus on the importance of one crucial stage: the environmental audit. This will be conducted for the UK market.

The UK market in general is one of the fastest growing markets in Europe and as such highly attractive for many companies either exporters or investors. The UK wine market in particular

⁷ Author's observation, based on the hits of the search by word »internationalisation«.

⁸ Dunning's Eclectic Paradigm is sometimes defined as revolutionary paradigm (Fletcher, 2001, p.31), Johanson however, believes that The Eclectic Paradigm and The Internationalisation Process Theory are based on the same grounds even though »their perspectives differ considerably« (Johanson, Vahlne, 1990, p. 16-17).

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has “woken up” and is very alert and open to any interesting as well as well established wine brands. Not only are the British consistently paying more on average for each bottle, but they are also consuming more wine. The trend shows the increase of sales of wine off-trade – sometimes called the “take-home” wine, even though the returns on sales are higher on-trade or on the wine sold in the restaurants and pubs.

It is of particular interest to companies who wish to export wine to the UK market to know what they will be faced with in the forthcoming years. Secondly, from the consumer perspective, it is necessary to show what influences the British consumer when facing purchase decision or to identify typical UK consumer buying behaviour. If wine can best be described as a price sensitive product, the strategy will include different steps as wine is less price-elastic.

Planned internationalisation requires a “game plan” management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance (Thompson and Strickland, 1999, p.2). McDonald defines ten steps of the strategic marketing planning process, presented in Figure 4 below. McDonald emphasises marketing audit’s role in the strategic planning process as “a systematic appraisal of all the external and internal factors that have affected a company's commercial performance over a defined period« (McDonald, 1999, p.52), other authors however, may refer to it differently, but it still in essence represents the same thing: external and internal factor analysis. Paliwoda speaks about the essential 10p (Paliwoda, 1999, p. 531), Albaum about market definition (Albaum, Duerr, Strandskov, 2004, p.159), Porter about the five forces analysis (http://www.valuebasedmanagement.net/methods_porter_five_forces.html, 2005) etc. All these definitions in fact mean different forms of environmental scanning (Brownlie, 1999, p.581-601). Environmental scanning serves as the most reliable indicator of the internationalisation success (Brownlie, 1999, p.581-601).

Figure 4:Strategic Marketing Planning Process

Phase 1: Goal setting	Mission
	Corporate activities
Phase 2: Situation review	Marketing audit
	SWOT analysis
	Assumptions
Phase 3: Strategy formulation	Marketing objectives and strategies
	Estimate expected results
	Identify alternative plans and mixes
Phase 4: Resource allocation and monitoring	Budget
	First year detailed implementation programme

Source: McDonald in Baker: The Marketing Book, 1999, p.52.

McDonald argues that any company carrying out an audit will be faced with two kinds of variable: external and internal (McDonald, 1999, p.51). Figure 5 shows areas, which should be investigated under both headings.

Figure 5: Marketing Audit

External audit	Internal audit
Business and economic environment	Own company
Economic, political, fiscal, legal, social, cultural, technological	Sales (total, by geographical location, by industrial type, by customer, by product)
Intra-company	Market shares
The market	Profit margins, costs
Total market, size, growth and trends (value volume)	Marketing
Market	Marketing mix
Characteristics, developments and trends; products, prices, physical distribution, channels, customers, consumers, communication, industry practices	Variables: product management, price, distribution, promotion, operations and resources
Competition	Information
Major competitors	Research
Size	Key strengths and weaknesses
Market share coverage	
Market standing and reputation	
Production capabilities	
Distribution policies	
Marketing methods	
Extent of diversification	
Personnel issues	
International links	
Profitability	

Source: McDonald in Baker: The Marketing Book, 1999, p.53.

Some authors see environmental analysis as one part of an overall analysis (Doyle, 1999, p.305). Namely, in formulating the choice of target market, the firm must focus its research in six major areas, i.e. market analysis, customer analysis, competitive analysis, trade analysis, environmental analysis and economic and stakeholder analysis (Doyle, 1999, p.305). Paliwoda considers environmental scanning to be a tool of risk minimisation. “In the international context background factors become unknown factors which could assume important proportions particularly when combined with historical, cultural and linguistic differences” (Paliwoda, 1999, p.534). Paliwoda argues that a firm on its way to internationalisation needs to assess political risk, economic and financial risk and commercial risk.

Paliwoda also argues that we can no longer speak of four Ps or about the classical marketing mix, but we should instead focus on the 10 Ps as the point of analysis (Paliwoda, 1999, p.527). This represents the core of the internal analysis and consequently identifies the major strengths and weaknesses of a firm. In McDonald’s analysis, the 10 Ps represent only a disintegrated part of the environmental audit. Whereas, Paliwoda argues that the 10 Ps should be the central focus of the research. Environmental scanning is one of the 10 Ps. More on Paliwoda’s analysis can be found at the beginning of the next chapter.

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3.2 MARKET CHOICE

After a firm has decided to internationalise or to internationalise further, it faces several decisions, the biggest of which being that of market selection. Albaum, Duerr and Strandkov define export market selection as »the process of opportunity evaluation leading to the selection of foreign markets in which to compete« (Albaum, Duerr, Strandkov, 2004, p.160).

As Paliwoda (1999, p.532) and Koch (2002, p.351) put it selection of overseas markets and entry modes lies at the very heart of any international strategy. Importance of the relevant

analysis, and of resulting decisions, grows with increasing dependence of companies on international business for survival and growth.

According to Koch, the analysis of external and internal factors is extremely important for market selection and ultimately for the success of the planned internationalisation process. In his study he concludes that “the accessibility of various external and internal environment information influences the pace of the internationalisation process, the quality of market and market entry mode decisions, and the ultimate market and market entry choices made by the company” (Koch, 2001, p.355). External factors are normally represented by country market potential and competitive significance of the market. Within this category business risk evaluation plays the biggest role. Koch quotes Czinkota and Ronkainen when identifying the ownership risk, operating risk and transfer risk. He also argues that an equally important area is one of managerial perception of risks, since whenever no prescribed method in calculating some risks is available, the role of perception grows considerably (Koch, 2002, p.355). Internal factors are company size and resources, management locus of control⁹, experience in using market entry modes, management risk attitudes, market share targets, and profit targets. The success of the external/internal factor ratio depends on sufficiency and reliability of information inputs, characteristics of the overseas country business environment, industry feasibility of the market entry mode, popularity of individual market entry mode in the overseas market, market growth rate, image support requirements and market barriers (Koch, 2002, p.355). Johansson identifies the following five types of barriers: tariff barriers, governmental regulations, distribution access, natural barriers (market success and customer allegiances), advanced versus developing countries (Johanson, Vahlne, 1997, p. 29-30).

This chapter addresses the importance of the market choice and market analysis. The following subchapters will analyse both the economic and fiscal features of the UK market, as well as the influence of social and demographic trends on the UK wine market and how competitors have responded.

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3.3 ECONOMIC ANALYSIS

The UK is a leading trading power and the financial centre of Western Europe. Over the past twenty years, public ownership has been reduced and the UK government has invested greatly in social welfare programmes. Agriculture is intensive, highly mechanized, and efficient by European standards, producing about 60% of food needs and accounting for only 1% of the labour force (<http://www.cia.gov/cia/publications/factbook/geos/uk.html#Econ>, 2005). With the large coal, natural gas, and oil reserves, the UK is well endowed with natural resources.

Over the last 15 years Britain has been recording constant economic growth of 2.6% on average. In 2004, the growth of its GDP was the highest, 3.1% or 5.0% in purchasing power parity terms (<http://www.eia.doe.gov/emeu/cabs/uk.html>, 2005). Britain is currently the fourth largest economy in the world and second largest economy in the EU. The estimates are that the economy will slow down in the forthcoming years as a result of the weakened international environment.

⁹ Management locus of control is particularly important for the degree of company international business involvement and market entry mode preference, since manager perceptions are considerably affected by it (Koch, 2002, p.358).

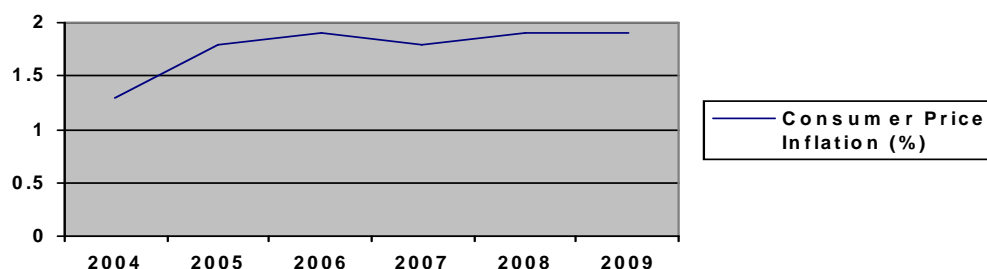
Figure 6: Forecasted Economic Indicators

	2004	2005	2006	2007	2008	2009
GDP/ca (\$)	35,158	37,056	38,651	38,554	38,991	39,196
GDP/ca at PPP (\$)	30,311	31,474	32,660	34,079	35,383	36,698
Median household income (\$)	46,597	49,124	51,381	51,455	52,220	52,742
Household consumption/ca (\$)	22,860	24,170	25,310	25,440	26,010	26,420
Exports of goods and services (% change)	2.5	4.7	4.4	5.3	5.6	5.5
Imports of goods and services (% change)	4.5	4.7	3.8	5.4	6.1	5.5

Source: UK Economic Indicators, <http://www.eia.doe.gov/emeu/cabs/uk.html>, 15.5.2005.

Inflation has been extremely low over the last couple of years (averaging at just 1.3% in the last year). It is however forecast (see Figure 7 below) that the inflation rate will grow in the following years, which is due to there being little spare capacity in the economy (http://www.bloomberg.com/apps/news?pid=10000102&refer=uk&sid=a_jN_9F0lsrw, 2005). Exchange rate analysis shows that Sterling will trade in an intermediate range between the Euro and the US dollar over the forecast period. In 2005 Sterling is forecast to weaken against the Euro, but appreciate against the US dollar (Figure 8).

Figure 7: Inflation Rates (%)



Source: National Statistics, <http://www.statistics.gov.uk/CCI/nugget.asp?ID=19&Pos=&ColRank=1&Rank=326>, 16.4.2005.

Figure 8: Exchange Rate Forecast

	2004	2005	2006	2007	2008	2009
Exchange Rate US\$: £	1.83	1.95	1.97	1.94	1.92	1.84
Exchange rate £: EUR	0.68	0.70	0.71	0.69	0.68	0.68

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

Consumer spending is expected to slow down in the forthcoming years. The predictions show a decline in the food, beverages and tobacco category. However, a closer look at alcoholic drinks and their forecast sales volume shows an increase in the next four years. The sales of cigarettes will sharply fall.

Figure 9: Consumption Trends

	2004	2005	2006	2007	2008	2009
Food, beverages and tobacco (bn \$)	178.4	186.6	193.4	191.6	193.3	193.4
Food, beverages and tobacco (% of household spending)	13.1	12.9	12.7	12.5	12.2	12.0
Alcoholic drinks, sales volume (m liters)	3,795	3,851	3,901	3,967	4,038	4,083

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

Foreign trade will continue to flourish, however the trade gap will become larger in the following years. The UK's current-account deficit rose to 2.5% in 2005, whilst it will fall back to 2.1% in 2006. In 2004 the UK exported to the USA as its leading foreign market 15.4% of total export, Germany 11.0%, France 10.0% and Netherlands 7.2%. Imports came firstly from Germany (14.3%), USA (9.7%), France (8.6%) and Netherlands (7.0%) (Market Intelligence Food and Drink, 2005).

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3.4 FISCAL ENVIRONMENT

As in all EU countries, there is VAT and the current standard rate for virtually all products and services in the UK is 17.5%. The workings of VAT is similar to those in the rest of the EU, namely, VAT is charged at every level of trade transaction with only the end consumer unable to reclaim it (Vrečer, 2000, p.15).

The tax burden is relatively high compared to Slovenia, but still one of the lowest in Western Europe. The tax rate on the profits of large companies is 30%. There are three bands of personal income tax set at 10%, 22% and 40%, depending on income level.

The UK wine market is distinguished as being “high taxation but low regulation” (Vrečer, 2000, p.15). The principle tax is Excise Duty and is a flat volume tax, levied irrespective of the wine value or provenance.

Figure 10: UK Excise Duty Rates on Still Wines (greater than 5.5% ABV but less than 15% ABV), 1999-2005

	£ per litre UK	Index	£ per 75cl bottle	Index
1999	1.49	100	1.12	100
2000	1.54	103	1.16	104
2001	1.54	103	1.16	104
2002	1.54	103	1.16	104
2003	1.59	107	1.19	106
2004	1.63	109	1.22	109
2005	1.68	112	1.26	112

Source: The Wine and Spirit Association, http://www.go-e2.co.uk/WSA_II/english2/statistics.html, 16.4.2005.

Excise duty rates in Britain are among the highest in Europe. New EU rules however, will mean that duty on products will, in future, be determined by its price in the country of origin, not the place of consumption. The European Commission is also campaigning for the abolition of limits on the amounts of alcohol that travellers are allowed to bring into Britain from Europe without paying extra tax. Furthermore, the European Commission has asked member states to consider narrowing the differences in national alcohol tax rates, although the UK government is unlikely to favour such a move (Market Intelligence Food and Drink, 2005).

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3.5 SOCIAL AND CULTURAL

There are 60,270,708 people living in Britain of whom English 81.5%, Scottish 9.6%, Irish 2.4%, Welsh 1.9%, Ulster 1.8%, West Indian, Indian, Pakistani, and other 2.8% (many of those descended from these ethnic backgrounds but born in the UK regard themselves as British) (<http://www.cia.gov/cia/publications/factbook/geos/uk.html#People>, 2005). The growth in the minority population has resulted in a more diverse society and now the British society is one of the most culturally mixed in the world which affects the style of life and openness to changes in the market place. Being different is an advantage and buying different products almost a status symbol.

The age structure of the UK population has matured in the last three decades (Market Intelligence Food and Drink, 2005) and the population will continue ageing. There will be significant influence on the market in terms of consumption and it is important for the manufacturers to gain a better understanding of how to adapt to those changes.

As has been revealed by the Mintel wine market research (Market Intelligence Food and Drink, 2005) that the 35-64 age group represents the peak age range for wine consumption. Comparatively, the two groups of consumers aged 55-64 and 65+ have increased their tendency to buy wine over the last three years. In 2004, 70.1% of those aged 55-64 and 65.3% of those aged 65 and over were categorised as wine buyers, which suggests that one of the fastest-growing drinking groups in the wine category is the over 50s. Consumers aged 50+ living in the South West enjoy the highest consumption, which may reflect socio-economic and age patterns across the country, in addition to regional drinking styles. According to Mintel, Scotland remains the smallest consumer of table wine (Market Intelligence Food and Drink, 2005).

“The number of consumers aged 45-54 is forecast to rise by 6.9% between 2003 and 2008, while those in the 55-64 age band are expected to increase in number by 8.2% in the wake of declining numbers of younger consumers” (Market Intelligence Food and Drink, 2005). Considering that the consumption of wine is more evident among those consumers aged 35 and over (Jones, 2003, p.57), the ageing society will definitely become an advantage for the wine industry. “These consumers have generally more sophisticated tastes than younger consumers, and are willing to invest in the luxury of drinking wine at home, or with dinner in a restaurant” (Market Intelligence Food and Drink, 2005).

Household income has risen over the past 35 years, although income inequality has widened. Life expectancy has also increased but so have the number of years that people can expect to live in poor health or with a disability. Technology has transformed many people's lives and their dependence on the car is greater than ever (Market Intelligence Food and Drink, 2005).

Figure 11: Trends and Projections in UK Population, by Age Group, 1999-2008

	1999	%	2003	%	2008	%	% change	% change
	000		000		000		1999-2008	2003-2008
0-4	3,600	6.2	3,377	5.7	3,394	5.6	-5.7	0.5
5-9	3,855	6.6	3,635	6.1	3,377	5.6	-12.4	-7.1
10-14	3,832	6.6	3,880	6.5	3,630	6.0	-5.3	-6.4
15-19	3,601	6.6	3,832	6.4	3,922	6.5	8.9	2.3
20-24	3,418	5.8	3,697	6.2	4,000	6.6	17.0	8.2
25-34	8,697	14.9	8,086	13.6	7,629	12.6	-12.3	-5.7
35-44	8,464	14.5	9,061	15.2	9,054	15.0	7.0	-0.07
45-54	7,723	13.2	7,607	12.8	8,134	13.5	5.3	+6.9
55-64	6,026	10.3	6,752	11.3	7,305	12.0	21.2	+8.2
65+	9,266	15.8	9,501	16.0	9,948	16.5	7.4	+4.7
Total	58,481	100	59,427	100	60,392	100	3.3	+1.6

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

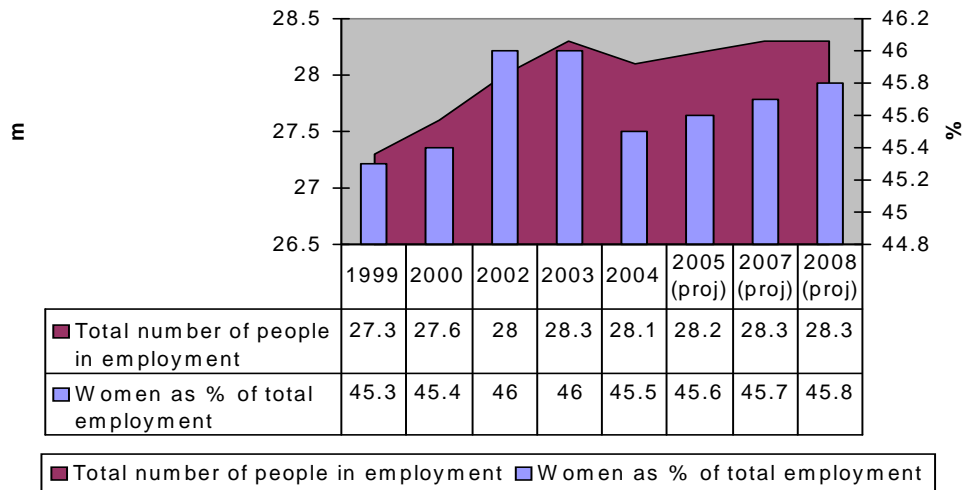
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3.6 TRENDS IN BRITISH CULTURE IN FAVOUR OF WINE CONSUMPTION

3.6.1. Women In The Workplace

A major trend in British culture that favours wine consumption is higher percentage of women in the workplace than ever before. This trend has had a huge impact on a number of UK markets, since widespread working culture has shifted the priorities of women away from the restrictions of domestic duties towards their careers, pay packets and social lives. Women remain single into their 30s, which has given rise to different life styles favouring wine drinking culture. “Working women are driving sales of wine” (Market Intelligence Food and Drink, 2005). According to the National Statistics’ forecast the number of employed women will continue increasing, which together with the same popularity rate of wine among them, means higher returns from the sales of wine.

Figure 12: Workforce in Employment in the UK in millions, by Gender 1999-2008



Source: National Statistics,

<http://www.statistics.gov.uk/StatBase/ssdataset.asp?vlnk=7408&Pos=&ColRank=2&Rank=272>, 16.4. 2005.

3.6.2. Health Campaigns

On the other hand the UK government encourages moderate wine consumption. Weekly consumption of wine of 21 units for men and 14 units for women is believed, and empirically proven, to be beneficial for one's health. Red wine is known to be good for the heart, but some reds give higher healthy returns than others. "The grapes grown at the higher altitudes enjoy more ultraviolet light, being closer to the sun, which produces more antioxidants in the wine and, therefore, more effectiveness at avoiding cancer" (Market Intelligence Food and Drink, 2005). Dry wine is also known to have fewer calories, and is therefore a popular alternative for consumers trying to limit calorie intake.

3.6.3. Travel

The arrival of the budget airlines, such as easyJet, Ryanair, Monarch, BMI Baby etc. has encouraged and enabled increased travel across Europe. The appeal of travelling to some of Europe's major cities has exposed many British consumers to different lifestyles and cultures. 70% of passengers on easyJet's flights to Slovenia are British, which offers plenty of room for promotional activities in order to increase brand awareness (Dnevnik, <http://poslovni.dnevnik.si/clanekb.asp?id=123678>, 2005).

3.6.4. Social Habits

Around half of all adults enjoy entertaining at home, compared to only 14% who do not (Market Intelligence Food and Drink, 2005). Market Intelligence Food and Drink research shows that in-home entertainment is steadily moving upmarket, with consumers prepared to spend more on food and drink. It has become more of a custom to bring wine when paying a visit at somebody's house.

4. THE WINE MARKET

4.1. CONSUMPTION

In relation to Slovenia, the UK market is huge, with 60 million people and a rising wine consumption. Today there are 35-38 million wine consumers, who on average drink 28 bottles per year. In 1960 there were only 2.5 million wine consumers with an annual consumption per capita around one bottle (Vrečer, 2000, p.5). Light wine¹⁰ is a dynamic sector with the 10% increase in sales in the last 15 years.

Figure 13: UK Consumption of Various Alcoholic Drinks, 1999-2004

Base: adults aged 18+	1999	2002	2004	% point change
	%	%	%	1999-2004
Canned lager	41.5	37.2	35.1	-6.4
Draught lager	33.5	39.2	39.9	+6.4
Bottled lager	31.5	31.9	32.9	+1.4
Draught beer, mild & stout	28.1	30.5	29.1	+1.0
Canned beer & stout	26.7	20.9	18.4	-8.3
Bottled beer & stout	12.8	10.0	10.2	-2.6
Bottled table wine	66.3	65.7	65.3	-1.0
Scotch whisky	32.0	27.6	24.8	-7.2
Vodka	19.7	24.8	25.0	+5.3
Cider	26.6	19.0	17.8	-8.8
Gin	19.8	18.2	18.3	-1.5
Pre-mixed spirits	9.4	-	-	-
Alcoholic carbonates	9.5	24.9	24.8	Na
White rum	13.2	12.3	10.5	-2.7
Dark & golden rum	10.6	8.6	7.5	-3.1
All alcoholic drinks	89.8	89.5	88.9	-0.9

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

In 2000, spending on wine accounted for 23.7% of all spending on alcoholic drinks in the UK. Grocery superpowers have reaped most of the profit from the increased wine sales, which is due to the rewards derived from economies of scale. The average price of wine has fallen as a result of “systematic discounting” in the off trade (Market Intelligence Food and Drink, 2005). This trend can be perceived as threatening to the whole wine industry, since the pressure on the supplier to compete in the money-off deals and promotional activities is worrying.

Due to the reasons mentioned above, the cheapest bottle of wine in 1979 (£1.79) compared to the cheapest bottle of wine in 2004 (£2.29) hardly reflects the increase in inflation and duty rates. It is good to learn that around 60% of all wine sold in the UK is sold for less than £4.00 (Market Intelligence Food and Drink, 2005; Jones, 2003), however the increase of sales of wine within the price range of £7.50 and £9.99 has been 63%. This is due to more

¹⁰ Light wine is wine with an alcohol content by volume of between 5.6% and 14.9% (Vrečer, 2000, p.1-10).

“adventurous and exclusive” consumer tastes (Market Intelligence Food and Drink, 2005), who are willing to spend more for good wine, even more than £15.00 a bottle. On the other hand, the sales of wine costing less than £3.00 are dropping steadily (Market Intelligence Food and Drink, 2005).

UK wine consumption is growing fast and the race with beer has been shifting towards wine consumption over the last couple of years.

Figure 14: Data on Consumption of Alcoholic Drinks, 1999-2004

	1999	2001	2003	2004	% point change
	%	%	%	%	
Drink alcohol					
All users	89.8	89.8	89.7	88.9	-0.9
Once a day	11.7	11.4	13.1	13.5	+1.8
2 or 3 times a week	28.1	27.4	29.0	31.2	+3.1
Once a week	17.5	16.2	18.1	14.0	-3.5
2 or 3 times a month	8.5	7.8	8.0	9.3	+0.8
Once a month	9.0	9.2	11.3	10.5	+1.5
Less than once a month	4.6	4.4	3.5	4.0	-0.6
Non-users	10.2	10.2	10.3	11.1	+0.9
Drink alcohol at home					
All users	69.2	65.8	75.9	75.3	+6.1
Once a day	10.8	10.5	12.4	12.5	+1.7
2 or 3 times a week	21.8	21.5	23.2	22.3	+0.5
Once a week	13.1	11.9	13.1	13.2	+0.1
2 or 3 times a month	9.8	9.0	10.5	9.9	+0.1
Once a month	4.3	4.3	4.8	5.2	+0.9
Less than once a month	9.4	8.7	11.9	12.3	+2.9
Non-users	30.8	34.2	24.1	24.7	-6.1
Drink alcohol elsewhere:					
All users	56.0	57.5	67.8	67.4	+1.2
Once a day	1.6	1.6	1.3	1.6	-
2 or 3 times a week	12.6	12.7	12.5	11.8	-0.8
Once a week	12.9	13.4	14.6	14.5	+1.6
2 or 3 times a month	10.3	10.2	13.1	12.9	+2.6
Once a month	6.7	7.5	9.5	9.2	+2.5
Less than once a month	11.9	12.1	16.7	17.5	+5.6
Non-users	44.0	42.5	32.2	32.6	-11.4

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

Wine from over 34 countries can be found in the UK wine market accessible at all ranges of prices and providing all kinds of quality. Even though less and less people drink alcohol in general, the majority of them still consume alcohol two or three times a week (see Figure 14). Consumption of alcohol at home has risen by 6.1% over the last four years, whilst consumption of alcohol elsewhere has risen by 1.2% only over the same period of time. One of the reasons for the increased wine consumption can also be found in the increase of consumer expenditure, which is forecast to grow in the future. Since the prices of wine have remained fairly constant consumers are left with more available income to spare on drink (Market Intelligence Food and Drink, 2005).

Data from Figure 14 shows that about two thirds of respondents consume wine on a regular basis. Even though the percentage has fallen over the last couple of years, Mintel data has shown that the consumers who are already drinking wine, drink more, which means that wine consumption is not falling but rising.

4.2. SALES

The sales volume of wine jumped by 27%, from 837 million litres in 1999 to an estimated 1,059 million litres in 2004. Even though the industry can be described as heavily promotional, value sales were not affected by that. Namely, value sales rose by 31% between 1999 (£5.8 billion) and 2004 (£7.6 billion) (Market Intelligence Food and Drink, 2005), which was due to the high-end price rises, and the social and cultural trends described above. This resulted in the increased spending on wine.

Figure 15: UK Volume and Value Sales of Wine, 1999-2004

	m litres	Index	£m	Index	£m at 1999 prices	Index	€m	Index
1999	837	100	5,799	100	5,799	100	8,815	100
2000	886	106	6,381	110	6,281	108	10,465	119
2001	927	111	6,748	116	6,507	112	10,864	123
2002	955	114	7,044	121	6,639	114	11,200	127
2003	1,008	120	7,231	125	6,677	115	10,485	119
2004	1,059	127	7,590	131	6,869	118	11,309	128

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

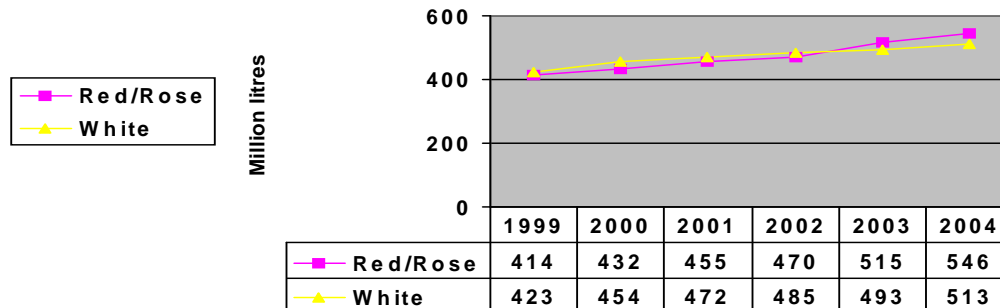
4.2.1. Sales According To The Type Of Wine

According to the type of wine sold, one can claim that red and rosé wines are more popular than white wines. Red wines are made from around 40 different grape varieties across the globe. The most popular reds for the British consumer are however the following: Cabernet Sauvignon, Merlot, Gamay, Syrah and Pinot Noir. The most popular rosé brands are Blossom Hill White Zinfandel, Gallo Sierra Valley White Zinfandel, Tesco California Blush, Mateus Rosé etc. Popular white varieties include Chardonnay, Riesling, Sauvignon Blanc, Muscat, Chenin Blanc, Chablis etc. Judging from the value and the volume of sales, the analysis shows that white wine was outperformed by red and rosé wine, even though the price path of an

average bottle of white wine shows steady growth compared to the decline in average price of a bottle of red and rosé wines (Wilson, 2005).

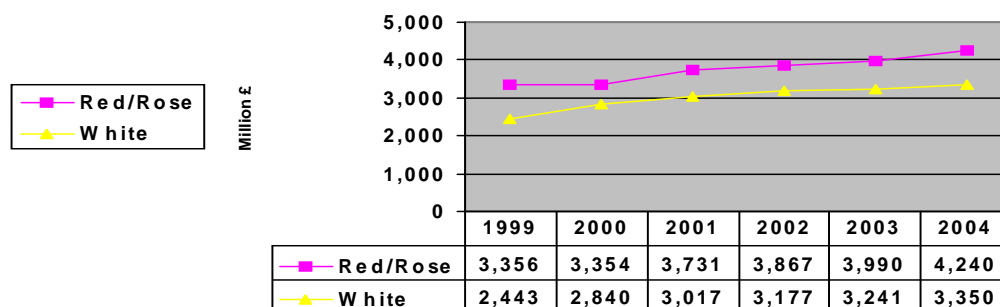
The trend in sales volume and price has been influenced by medical studies which have shown that red wine is healthier than white wine, since it provides 13% protection against cancer compared with rosé and white wine. Marketing has also shifted the sales of rosé wine and Tesco's reported a 54% growth in the sale of rosé wines by volume between 2003 and 2004.

Figure 16: Volume Sales of White and Red /Rosé Wines in Million Litres



Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

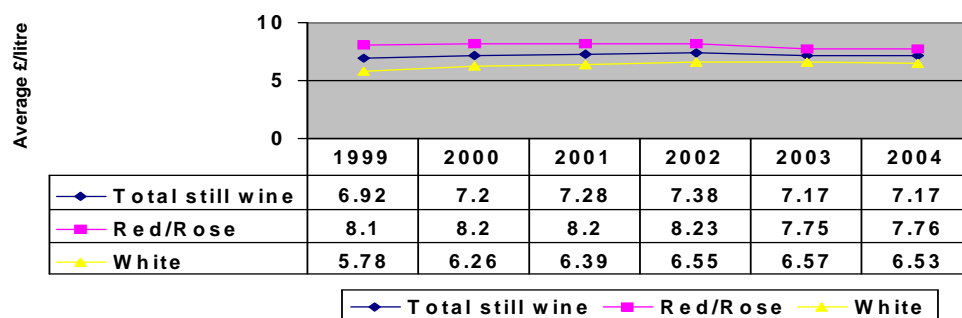
Figure 17: Value Sales of White Wine and Red/Rosé Wine



Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

As demonstrated in Figure 18, the average price per litre of white wine has risen over the last six years, whilst the average price of red wine per litre has fallen. Although the sales of white wine are still lagging behind, the sales volume of red wine rose 32% over the period, compared to a 26% rise in sales value (Market Intelligence Food and Drink, 2005). Lately, the sales of wine have been marked by the trendy changes in names to appeal to the younger population. Among examples of such efforts one can find Goats du Roam, Babe Chardonnay, Lounging Lizard etc. The idea behind this targeted marketing is probably to demystify wine as the product and to make it more accessible in a nicer shape and friendlier packaging.

Figure 18: Average Price of Wine per Litre



Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

As discussed above, wine consumption at home is increasing and home parties and celebrations are becoming more popular. This calls for larger packaging other than 750ml glass bottles and one of the most controversial ideas is that of wine boxes. Many wine experts have argued that wine cannot be sold in plastic bag, wrapped up in carton box, since such wine can lose its quality (<http://www.londonwinefair.com/exhibiting/>, 2005). “In the UK, Stowells of Chelsea claimed that around eight out of every 100 glasses of wine drunk in 2002/03 came from a box, with sales enjoying year-on-year growth of 10%” (Market Intelligence Food and Drink, 2005).

If producers want to influence sales not only through the wine quality and pricing, there are plenty of opportunities in the British market. Packaging is definitely one of them. The way wine is offered is very important for a majority of people who do not only seek certain quality and price ranges but also nice presentational and attractive shape, design and graphics¹¹. Bottles of wine sold in the so-called “duo” or “trio” packs or 200ml bottles for single households can be an attractive alternative to a 750ml single bottle sales and are definitely worth considering when entering the British market.

4.2.2. Sales According To The Country Of Origin

In 2003, British consumers were for the first time drinking more New World wines than traditional Old World wines. Sales of wines from Australia, the US, South Africa, Argentina and Chile (468 million bottles) surpassed those of France, Italy, Spain and Germany (410 million).

Branded New World wines (wines, which are produced outside of Europe, especially in both Americas, South Africa, New Zealand and Australia (Goode, 2004, p.14)) are sold relatively cheaper compared to the Old World wines (wines, which are produced in Europe, especially in Italy, France, Germany and Spain (Goode, 2004, p.14)) (Walker, 2004, p.1). This is due to new technology that has been exploited by the New World producers, which enables them to produce larger quantities at comparably lower prices than the Old World producers. The Old world wines seem to be respected by wine connoisseurs for their traditional vines and production techniques, creating authentic, original wines, whilst the New World wines are known to be those of full and bolder flavours (Market Intelligence Food and Drink, 2005). Over the last couple of years, Old World wines (especially French wines) have been driven out

¹¹ More on consumers' tastes can be found under the »Consumers« section.

by the New World wines, which are more popular with the younger population and are better represented within the mid-to-lower price sectors (Market Intelligence Food and Drink, 2005).

Figure 19: UK Imports of Still Light Wine (<15% ABV), by Country of Origin, 1999-2003

	1999		2001		2003		% change
	M litres	%	M litres	%	M litres	%	1999-2003
France	246.6	30.0	249.9	24.2	249.7	22.6	+1.3
Australia	120.9	14.7	182.1	17.7	205.6	18.6	+70.1
Italy	103.2	12.6	137.6	13.3	103.5	9.4	+0.3
US	50.1	6.1	103.5	10.0	116.0	10.5	+131.5
Germany	82.3	10.0	94.4	9.2	125.0	11.3	+51.9
South Africa	45.3	5.5	68.8	6.7	94.4	8.5	+108.4
Spain	56.6	6.9	68.3	6.6	74.4	6.7	+31.4
Chile	46.1	5.6	58.6	5.7	68.8	6.2	+49.2
Bulgaria	22.0	2.7	14.2	1.4	8.0	0.7	-63.6
Argentina	10.9	1.3	12.6	1.2	17.3	1.6	+58.7
New Zealand	0.9	0.1	10.4	1.0	13.1	1.2	+1,355.6
Hungary	11.5	1.4	8.7	0.8	8.0	0.7	-30.4
Portugal	7.4	0.9	7.9	0.8	7.3	0.7	-1.4
Cyprus	2.5	0.3	2.8	0.3	2.0	0.2	-20.0
Romania	3.1	0.4	2.0	0.2	1.1	0.1	-64.5
Sub-total	809.4	98.5	1,021.8	99.1	1,094.2	99.1	+35.2
Others	12.5	1.5	9.0	0.9	10.3	0.9	-17.6
Total	821.9	100.0	1,030.8	100.0	1,104.5	100.0	+34.4

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

The estimated production of wine within the EU member states is to reach just below 180 million hectolitres in this season, whilst the six new world wine producing countries are expected to add a further seven million hectolitres (Market Intelligence Food and Drink, 2005; http://europa.eu.int/comm/agriculture/publi/pac2000/wine/index_en.htm, 2005). A sales analysis shows some worrying results with respect to the East European wines. Bulgarian, Hungarian and Romanian wines have dropped by a massive 60% on average, which, assuming that consumers are influenced by cheap Eastern European wines, the associations of “eastern” with Slovenia cannot predict good sales¹².

4.3. CONSUMER BUYING BEHAVIOUR

Mintel Wine Consumers’ Research has identified that wine consumption is still price driven. Namely, 32% of respondents buy wine within a certain price range. The second most influential factor in wine purchase is the colour of wine (26%), whilst 25% of respondents choose wine according to country of origin (Market Intelligence Food and Drink, 2005). One further fact may be particularly relevant for the sales of Slovenian wine: 16% of respondents like to experiment with unfamiliar wines; these are probably the buyers who will most likely consider buying Slovenian wine.

As discussed above, red and rosé wines are more popular than white wines, New World wines are better accepted than Old World wines, sweet wines are more desired than dry wines etc.

¹² Most of the interviewers have expressed their concerns over the Slovenian Eastern European wine. They say that consumers expect cheap wine and are therefore unpleasantly surprised when they discover the opposite.

Figure 20: Consumers' Attitudes Towards Wine Purchase¹³

	%
I tend to buy wine within a certain price range	32
I usually buy the same colour wine, e.g. red, white or rosé	26
I tend to buy wine by country of origin	25
I decide what wine to buy when I'm in the shop	25
I usually buy the wine that is on special offer/has a promotion	20
I tend to buy a trusted brand (e.g. Jacob's Creek)	19
I tend to buy more expensive wine for special occasions	16
I like to experiment with unfamiliar wines	16
I buy different colour wines for different occasions	12
I often buy wine that has been recommended by a friend, magazine	12
I would/do look at the in-store buying guides to influence my decision	6
I tend to avoid popular branded wines	4
I never buy wine	31
Don't know	-
None of these	2

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

Wine offers with regard to price ranges have been discussed above and the trend towards higher price wines has also been mentioned. Many consumers associate good quality wine with high prices and it is believed that to pay more than £4.99 for a bottle means paying for quality. However, competition has influenced the availability of good quality wine under the £4.99-margin and British consumers are not necessarily prepared to pay more for high quality wine.

Figure 21: Consumers Prepared to Pay More for Good Quality Wine, 1999-2004

	1999	2002	2004	% point change
	%	%	%	1999-2004
I am prepared to pay more for good quality wine:				
Definitely agree	10.4	9.6	8.2	-2.2
Tend to agree	22.5	24.6	25.7	+3.2
Neither agree nor disagree	19.7	21.7	23.8	+4.1
Tend to disagree	10.9	12.5	14.2	+3.3
Definitely disagree	8.2	7.5	7.8	-0.4

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

¹³ Consumers were asked the following question: "Thinking about wine, which of these statements describes how you buy it?" (Market Intelligence Food and Drink, 2005).

As discussed above, the New World wines are on the rise and are pushing the Old World wines off the shelves. The largest increase in popularity over the last couple of years has been in Australian wine, whilst the popularity of German wines has dropped the most.

Figure 22: Consumption of Bottled Table Wine, by Country of Origin, 1999-2004

	1999	2002	2004	% point change
	%	%	%	1999-2004
Any Australian	16.7	26.0	30.6	+13.9
Any French	28.9	28.5	26.4	-2.5
French red	19.8	19.8	17.9	-1.9
French white	18.8	18.2	17.2	-1.6
Any South African	10.9	13.8	15.9	+5.0
Any Californian	9.4	15.8	15.1	+5.7
German white	18.1	14.5	11.6	-6.5
Any Chilean	-	12.1	14.1	Na
Italian red	10.8	11.6	10.5	-0.3
Other white	12.2	11.2	9.9	-2.3
Italian white	9.5	10.1	9.7	+0.2
Spanish red	9.0	9.9	9.5	+0.5
Other red	10.3	8.3	6.3	-4.0
Any New Zealand	-	7.2	5.4	Na
Spanish white	5.1	5.2	4.9	-0.2
Any Bulgarian	6.4	4.4	3.4	-3.0
Any Argentinean	-	4.3	5.9	Na
Any British	2.8	3.4	2.5	-0.3
Portuguese red	3.0	2.6	2.1	-0.9
Portuguese white	1.6	1.5	1.0	-0.6
Yugoslav white¹⁴	1.9	1.1	0.7	-1.2

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

The British wine market has also been significantly characterised by the brand clash and brand performance. Branded wines now dominate wine sales, firstly, because they have improved the quality and reliability of wines within the lower range, and secondly, because consumers lack the knowledge to choose by grape and region and they therefore choose according to familiarity and not according to quality. All of the major brands are discussed under the “Branding” subtitle (see Section 5.6).

¹⁴ Yugoslav stands for Macedonian and Slovenian wine only. It is believed that within this 0.7% more than half is Laski Riesling from Ljutomer, which used to be exported greatly around the world, but which has become quite unpopular lately.

4.4. DISTRIBUTION

The fact that 99% of all wine has to be imported governs the structure of wine distribution within the UK (Keynote Market Report, 2005). Distribution in the UK is very fragmented, since no one company can claim more than 5% of the total UK wine market (Keynote Market Report, 2005). There are over 30 major distributors of wine and more than 2200 minor distributors (Keynote Market Report, 2005). The picture is further complicated by the number of different types of companies from shippers to agents, to distributors and wholesalers. Fragmented wine production around the world often means that the growers prefer to arrange their own distribution through small, specialised agents (Keynote Market Report, 2005). And not all operate in similar patterns; the majority of bottling is done where the wine is produced, but some aspects of packaging occur in Britain particularly in niche markets such as boxed wine and mini screw top picnic wines (Dennis, 2003, p.36).

There have been some structural changes in the way wine is imported and distributed in the UK market over the last 30 years (Keynote Market Report, 2005):

- The major brewery-based groups acquired spirits and wine subsidiaries in order to develop vertical and lateral integration¹⁵.
- There has been a continued shift towards home drinking with off-trade sales of wine increasing by almost 19% by volume, between 2000 and 2004 (Market Intelligence Food and Drink, 2005).
- The on-trade demand for wine has been growing steadily (24% since 2000) and more and more licensees are realising the potential of wine and slowly providing customers with the varieties that they demand (Market Intelligence Food and Drink, 2005).

Figure 23 shows that 16.5% of wine drunk in the UK comes from the on-trade. The UK has over 130,000 on-trade outlets with licences to serve alcohol, of which 47,750 are traditional pubs and the remainder are in hotels, clubs, leisure outlets or they are full licences which have been taken out by restaurants.

The on-trade is far more fragmented and specialised than the off-trade, despite the presence of some large holding companies for pubs and restaurants. “The largest of these are Enterprise Inns PLC, with over 9,000 pubs, and Punch Taverns PLC (7,400 pubs)” (Keynote Market Report, 2005). The vast majority of their pubs however are leased to independent owners and managers of the pub, so in effect they trade as independent businesses with the support of the umbrella pub. Apart from the pub-restaurants, the restaurants sector also comprises thousands of independents, of which the Continental European type - usually French or Italian - are most likely to be important for selling wine. Among wholesalers serving this market, the largest is Waverley Group, part of Scottish & Newcastle PLC, the UK’s largest brewer. Waverley has some exclusive on-trade agencies for branded wines such as Gallo, Montana and Wolf Blass (Keynote Market Report, 2005).

¹⁵ For example Guinness acquired United Distillers, Allied Breweries evolved into a group of drink, food and pubs companies before concentrating on its core activities of international wines and spirits (as Allied Domecq PLC) (Keynote Market Research, 2005).

Figure 23: UK Distribution of Wine by Trade Sector, 2000-04

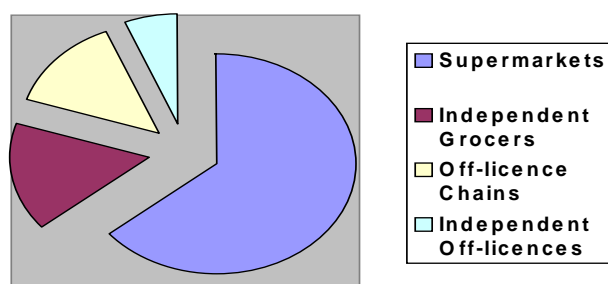
	2000	2000	2002	2002	2004	2004	% change
	M litres	%	M litres	%	M litres	%	2000-04
Pubs	46	5.2	50	5.2	58	5.5	+26.1
Clubs	17	1.9	24	2.5	23	2.2	+35.3
Hotels & restaurants	73	8.2	76	8.0	89	8.3	+21.9
Others	5	0.6	4	0.4	5	0.5	n/c
<i>On-trade</i>	<i>141</i>	<i>15.9</i>	<i>154</i>	<i>16.1</i>	<i>175</i>	<i>16.5</i>	<i>+24.1</i>
Grocers:							
Multiples	465	52.5	518	54.2	597	56.4	+28.4
Co-ops	58	6.5	65	6.8	70	6.6	+20.7
Independents	29	3.3	33	3.5	30	2.8	+3.4
Specialists:							
Multiples	177	20.0	167	17.5	146	13.8	-17.5
Independents	16	1.8	18	1.9	41	3.9	+156.3
<i>Off-trade</i>	<i>745</i>	<i>84.1</i>	<i>801</i>	<i>83.9</i>	<i>884</i>	<i>83.5</i>	<i>+18.7</i>
<i>Total</i>	<i>886</i>	<i>100.0</i>	<i>955</i>	<i>100.0</i>	<i>1,059</i>	<i>100.0</i>	<i>+19.5</i>

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

Even though 83.5% of wine drunk in the UK comes from the off-trade, in terms of price, only 60% of the total expenditure on wine is in the off-trade. This reflects the difference in average price per bottle between the on-trade, at £15.6, and the off-trade, at £4 (Dennis, 2003, p.37). Traditional off-licences are losing out to Multiple Grocers (supermarkets) such as Somerfield PLC and Tesco PLC.

The multiple grocers, in the form of their convenience outlets, are taking an increasing share of the convenience (drinks) market, capturing business from independents and multiple specialist off-licences (see Figure 24).

Figure 24: Off-trade Market Share in 2004 by Value



Source: Dennis: Opportunities in the UK Wine Market, 2003, p.14.

Figure 25: Leading Multiple Retailers of Wine by Number of Outlets

	1997	2001	2004
Multiple Grocers			
Somerfield and Kwik Save	900	1,300	1,250
Tesco	500	690	700
Safeway	445	480	475
J. Sainsbury	380	450	470
Marks & Spencer	300	285	290
ASDA	212	250	250
Wine Specialists			
First Quench Retailing Ltd. i.e. Thresher Group	3,000	2,500	2,000
Unwins	390	450	425
Oddbins	195	239	215
Majestic Wine	70	98	100

Source: Keynote Market Report. Drinks Market – Wine, March 2005.

4.4.1. Grocers

Of the supermarkets Somerfield PLC has the largest number of stores: 1,250. Tesco PLC however, is the market leader for wine. Tesco stocks a wide selection of wine, both in store and through its internet retailer. Apart from branded wines in the low price region, Tesco also stocks some potentially very attractive fine wines (Dennis, 2003, p. 15).

Safeway PLC, Sainsbury PLC and ASDA Group Ltd represent the second biggest distributor of wine in the UK. Sainsbury's purchased the chain of Jackson's convenience stores in Summer 2004, adding an additional 114 outlets to the company's portfolio. Other channels of distribution are also consolidating steadily in both the on- and off-trade, the biggest of which was the takeover of Safeway by Morrisons in 2004 for £3 billion (Dennis, 2003, p.15).

Waitrose, the supermarket arm of the John Lewis Partnership, offers a fine selection of wine. Waitrose can also be proud of their Wine Tasting Courses, which cost £30 and educate consumers on how to best match certain types of wine and certain types of food (Dennis, 2003, p. 15).

4.4.2. Off-licences

In the off-licence sector, Thresher Group is by far the most prolific wine retailer by number of stores, with 2,500 outlets. This includes off-licence brands such as Victoria Wine, Bottoms Up and Threshers and also specialist wine outlets such as Wine Rack. While as a whole Threshers is losing out to supermarkets, wine is still a growth area and stores are changing to reflect this. 1,400 of Thresher Group's stores are now wine-led and they consider Thresher their core brand. (Dennis, 2003, p.16). Thresher is the loudest of the off-licences in its efforts to encourages consumers to enter their stores through repeated advertising actions such as get three for the price of two.

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Unwins and Oddbins are also big players with 1,135 outlets between them. Oddbins is owned by Nicholas, the largest French wine multiple (Keynote Market Report, 2005). Unwins went into administration on 19th December 2005, with 381 shops closing and 1,800 staff losing their jobs (<http://news.bbc.co.uk/1/hi/business/4554716.stm>, 2005). A few days later however, off-licence chain Threshers bought 200 sites from Unwins with the intention to convert the stores to the Threshers brand and reopen them as soon as possible. Unwins was the first chain to introduce a new store format dividing wines based on their "taste profiles" instead of by region or grape (<http://www.unwins.co.uk/UnwinsClosingBids.pdf>, 2005). White wines were divided into "bright", "smooth", and "rounded", and reds into "fruity", "mellow" and "chunky" (Barkham, 2004, p.7). Wine experts said Kent-based Unwins failed because its wine ranges failed to keep up with changing trends (<http://news.bbc.co.uk/1/hi/business/4554716.stm>, 2005).

4.4.3. Majestic Wines

Majestic Wines has experienced fast growth with sales increasing by 21.8% in 2003 to £69.1 million and volume growth of 12% (Market Intelligence Food and Drink, 2005). The company managed to attract new customers with active purchasers on its mailing list up 10.3% to 310,000 plus extensive online business. The average spend in the shop in 2004 was £107, up from £104 in 2003 and the average spend per bottle is 36% up on the national average and 10p up on the previous year at £5.40 (Market Intelligence Food and Drink, 2005).

4.4.4. The Internet

The sales of wine have become increasingly important and most wine distributors offer wine through their websites. Slovenian wine is hardly present on the websites, I have however so far found three websites with Slovenian wine: Judith Irvine Fine Wines, Winerite and Waterloo Wines. Two of the three listed distributors sell wine coming from Slovenian small producers, the third, Winerite, is selling what used to be the most popular type of wine in the UK in the 1970s – Laski Rizling (Lawrence, 2005, p.3).

4.5. COMPETITION

There are at least 35 wine producing countries¹⁶, which export to the UK. There are, year on year, more plantings, and more wine being produced throughout the world. However, the world consumption is falling (Collinson, 2004, p.3).

The UK itself produces low quantities of wine. Climate changes however encourage English wine producers to grow more, even though the English wine trade continues to flourish on a very small scale. There are nearly 400 commercial vineyards in England and Wales, almost all of which are in the southern half of England (Market Intelligence Food and Drink, 2005). The production of English wine accounts for about 1% by volume of the total wine sold in Great Britain. 90% is white wine and 10% red and rosé. The production of wine in the UK is regulated by the EU. The EU's directives specify clearly which varieties can or cannot be grown commercially in the UK (Market Intelligence Food and Drink, 2005).

All the major international grape varieties are known in the UK market. Sales of wines from the "Old world" countries (France, Italy, Germany, Spain) are under threat from the "New

¹⁶ The estimates on how many producing countries there are now present in the UK differ and range from 34 (Collins, 2004.p.3) to 53 (Vrečer, 2000, p.6).

World” (Australia, New Zealand, South Africa, Chile and California) (Vrečer, 2000, p.3; Dennis, 2003, p.37). The »New World« wine makers exploit advantages from marketing and strong branding. They know that in order to increase sales in the UK market they have to produce consistently high-quality varieties targeted to the modern consumer searching for predominantly »fruit driven« wine styles. Frequent advertising and wine tastings are helping to bring consumers into the fold. The instructions for the New World wine producers to move a large volume of wine through the UK's mainstream supermarkets and specialty outlets dictate the price range of 5.20\$ and 7.50\$ a bottle. However, the US wines above the 7.50\$ price have also seen impressive growth (Walker, 2004, p.1-2; <http://www.fas.usda.gov/info/agexporter/1997/August%201997/uswine2.html>, 2005).

Certain styles are less acceptable to the UK palate. Such varieties as Rebula, which may be a local delicacy where grown, and would be more difficult to sell in the UK. Less well-known indigenous varieties may be of interest, but the quality and its consistency has to be good. Selling by varietal names has been very successful in the UK and most New World suppliers follow this.

Maybe one of the most difficult things for Slovenian wine producers is to build the brand. This seems highly necessary since the British wine market consists of brands and UK consumer brand awareness appears to be extremely high especially in the off-trade market. Strong brands provide consumers with the reassurance they demand, i.e. the ability to drink the same wine in the pub as at home (Market Intelligence Food and Drink, 2005). Figure 26 displays the UK's leading wine brands in both the on- and off-trade, by volume and value in 2004.

Figure 26: UK Leading Wine Brands, by Volume and Value, 2004

	On	Off	Total	%	On	Off	Total	%
	£m	£m	£m		m ltrs	m ltrs	m ltrs	
Stowells of Chelsea	270	90	360	5.0	16	30	46	4.3
E&J Gallo	85	139	224	3.1	4	40	44	4.2
Blossom Hill	74	177	251	3.5	4	38	42	4.0
Jacob's Creek	116	161	277	3.8	6	34	40	3.8
Hardys Stamp	79	96	175	2.4	4	22	26	2.5
Kumala	22	88	110	1.5	1	19	20	1.9
Rosémount	60	56	116	1.6	3	14	17	1.6
Banrock Station	32	66	98	1.4	2	13	15	1.4
Piat d'Or	40	48	88	1.2	2	12	14	1.3
Hardys VR	23	51	74	1.0	1	10	11	1.0
Sub-total	801	972	1,773	24.5	43	232	275	26.0
Others	1,360	760	2,120	29.3	61	112	173	16.3
Own-label	980	2,358	3,338	46.2	71	540	611	57.7
Total	3,141	4,090	7,231	100.0	175	884	1,059	100.0

Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.

Whilst it is clear that the majority of sales are made within the off-trade, the majority of brands try and find the balance between the off- and on-trade sales. Stowells is the strongest brand in the UK, accounting for 5% of total market sales by value and 4.3% by volume. E&J Gallo was at the head of off-trade volume sales in 2004; however, Stowells of Chelsea was a clear volume leader within the on-trade, achieving sales of 16 million litres. Blossom Hill leads the off-trade by value, following sales of £177 million in 2004 (Market Intelligence Food and Drink, 2005; Keynote Market Report, 2005).

The UK wine market is highly fragmented, despite the prevalence of brands. "The top 10 brands within the market account for just 25% of the total market, leaving still more room for further consolidation and investment" (Market Intelligence Food and Drink, 2005). Another important characteristics of the non-branded market in the UK is high demand for more exotic tastes. Winegrowers across the world recognise this demand and try to offer new flavours in addition to original, authentic wines.

Apart from the larger brands, the important feature of the UK wine market is supermarket's own brand. Among the biggest ones are Asda Extra Special (within this collection wines from Chile, Australia, South Africa, France, Italy, Spain and Germany can be found), Thresher's Origin (wines from Argentina and Chile), Booker Cash&Carry's Malth House Vinters and Hawk's View (wines from Eastern Europe), Tesco's wines, Sainsbury's wines etc. In total these supermarket brands amounted to 46.2% of total value sales off- and on-trade (Keynote Market Report, 2004).

4.6. MARKET DRIVERS

"With no single company believed to account for as much as 5% of the UK wines market, it is difficult to isolate and rank market leaders, with the dangers of omission outweighing the advantages of providing conventional descriptions of such companies" (Keynote Market Report, 2004). However, the Figure below presents the major wine companies in the UK, which controlled approximately 70% of the market in 2003 (Keynote Market Report, 2004).

Figure 27: Major Wine Companies in the UK in 2003

Company	Wines Represented
Diageo PLC UK	Blossom Hill, Le Piat d'Or, Taittinger Champagne
Allied Domecq PLC	Montana, Campo Viejo, Lindauer, Corbans, Mumm
Canandaigua LTD – Constellation	Hardys, Stowells
Bacardi-Martin LTD Global	Fetzer, Asti Spumante
Pernod Ricard UK LTD	Jacob's Creek, Long Mountain
E&J Gallo Winery Europe LTD	Gallo, Turning Leaf, Garnet Point, River Crest
Southcorp Wines Europe LTD	Lindemans, Rosemount, Penfolds, Tollana, James Herrick
Western Wines LTD	Kumala, Yalumba, Isla Negra and Cono Sur

Source: Keynote Market Report. Drinks Market - Wine, December, 2004.

5. INTERNAL AUDIT

5.1. THE COOPERATIVE'S BRIEF PRESENTATION

The Cooperative Goriška Brda, which was established in 1954, is located in the far west of Slovenia, on the border with Italy (see Appendix 2). The wine is produced by 685 cooperatives, wine producers, which at the same time are also shareholders. On average,

between seven and fourteen million kilos of grapes are produced annually. In 2003 the cooperative sold 5,438,779 litres of wine, of which 3,705,285 were bottled and 1,733,494 sold open (Internal Source 2, 2005).

The types of grapes produced by the individual cooperative stakeholders in this area are all from the local region. The Cooperative is particularly proud of Rebula, Chardonnay, Tokaj, Pinot Grigio, Sauvignon, Pinot Blanche and Picolit. Among the red varieties the best quality wine is that of Merlot, Cabernet Sauvignon, Cabernet Franc and Pinot Blue. The Cooperative's highest quality wines have received awards in many international fairs, including International Wine and Spirit Competition, Chardonnay du Monde, Vinitaly etc.

The cooperative Goriška Brda is proud of its brands: Bagueri, Quercus, Villa Brici, Peneča Rebula (champagne) and its archive wine of Verduc, Markiz and Picolit. 70% of its wine is sold on the domestic market, whilst the other 30% is exported. Their main exporting markets are USA, Italy, Bosnia and Herzegovina, Serbia and Montenegro, Croatia and Japan (Internal Source 2, 2005).

The Cooperative is the 100%-owner of the Slovenian exporting company Slovin International, whose affiliates SVL Dooel Import Export Macedonia and Laureate Imports Company became a part of the Cooperative after the successful take over in 2002 (Internal Source 1, 2003, p.1).

Only one of the three above listed companies has recorded profit in 2003. Slovin International finished its business year with a loss of 103,449,000.00 SIT (which is approximately £308,800,00), after having recorded 1,342,625,000.00 SIT revenues (3,782,036.00 GBP). The USA based Laureate company recorded a loss of \$93,285.00 (cca £51,248) whilst the Macedonian based SVL Dooel Import Export completed the business year of 2003 with the 1,432,000.00 SIT (£403,380) (Internal Source 1, 2003, p.10).

Over the last three years, the Cooperative has faced serious challenges, such as EU membership and changing EU regulations, as well as bad weather conditions in 2003 which seriously reduced grape harvest. Despite all, the market share of the Cooperative Goriška Brda in Slovenia is approximately 15% and the Cooperative remains the biggest Slovenian wine exporter (Internal Source 1, 2003, p.1).

5.2. INTERNATIONALISATION PROCESS OF THE GORIŠKA BRDA COOPERATIVE

Over the period of Socialist Federative Republic of Yugoslavia the Cooperative did not have to fight for its market as its whole produce was sold within the Yugoslavian borders. At that time the two main "importers" were the capitals of the two largest republics; Zagreb and Belgrade. In 1990, however, this market ceased to exist and the Cooperative had to look for other countries to export to. There were huge quantities of wine left in the cellar and as the other Slovenian wine producers faced the same problems, the battle for new markets began. The easiest way to sell the wine was to export to the countries where the Cooperative had already been present and where its wines were known to be of a high quality. Their brand image in the markets of Croatia and Bosnia and Herzegovina was and remains very positive. The Cooperative entered the market through the export entry mode and chose its intermediaries carefully to avoid alienating individual consumer groups – this was after all a time of immense hostility between the different national groups of former Yugoslavia. The Cooperative has not since this time changed the entry mode, nor has it moved towards more advanced

internalisation modes that might be more appropriate for this type of market¹⁷. Despite the fact that the Cooperative chose to trade in this way, the trade between the Cooperative and Bosnia and Herzegovina rose by 8.7% in 2003 and fell slightly in 2004. Nevertheless, the export to Bosnia and Herzegovina in 2004 was only 87.9% of that in 2001 (Internal Source 2, 2005).

During the nineties, the cooperation between Slovenia and Croatia was excellent, mostly through restaurants and bars. The Cooperative sold open wine to Croatia, which was then bottled under the Cooperative's brand in Croatia. However, in 2000 the importing company faced heavy liquidity problems and the Cooperative had to look for new buyers, which affected trade greatly. Croatia is one of the most protected markets tariff-wise and administrative-wise, mainly due to its own wine production (Internal Source 2, 2005).

One of the biggest export markets is the United States of America. The Cooperative "inherited" the market from the Yugoslavian years, when the import-export quotas existed, but due to greater pressure on the price, the quality and quantity of import suffered greatly. Goriška Brda, together with other wine producers, launched the very well known brand Avia into the USA market and currently 200,000 cases of this brand are sold in major American supermarkets. Avia is the largest selling Eastern European brand in the USA and the Cooperative is particularly proud of that. The Avia brand and the American subsidiary Laureate Import were bought from a very well known Slovenian import-export company Sloveniavino. Laureate Import has a highly developed distribution network in the USA, which has been used for the distribution of the two other brands; Quercus and Bagueri. Due to the lowered value of dollar the Cooperative decided to launch a new brand within the higher price range specifically for the American market - Traviata. The plan is to export the brand to other markets, including to the UK (Internal Source 2, 2005).

In 1998 the Cooperative started exporting to the EU countries. All of the EU countries were entered through the lowest export entry modes; through the export intermediary. Up until May 2004 many buyers were not particularly interested in purchase, due to high fixed costs, low country image and the low appeal of Slovenian wine. Since May 2004, however, the sales to these countries have increased considerably, which is due to the final elimination of trade barriers, the standardisation of wine analysis, export documentation etc. Sales to the neighbouring country Italy have increased the most and the Cooperative will continue investing in this market (Internal Source 2, 2005).

In 2000 Japan became one of the exporting markets and the exports to this country continue to increase (Internal Source 2, 2005).

¹⁷ For instance, after 2004, when Slovenia joined the EU, having its own subsidiary in the former Yugoslav Republic would have reduced tax burdens and swept away the high international trade barriers.

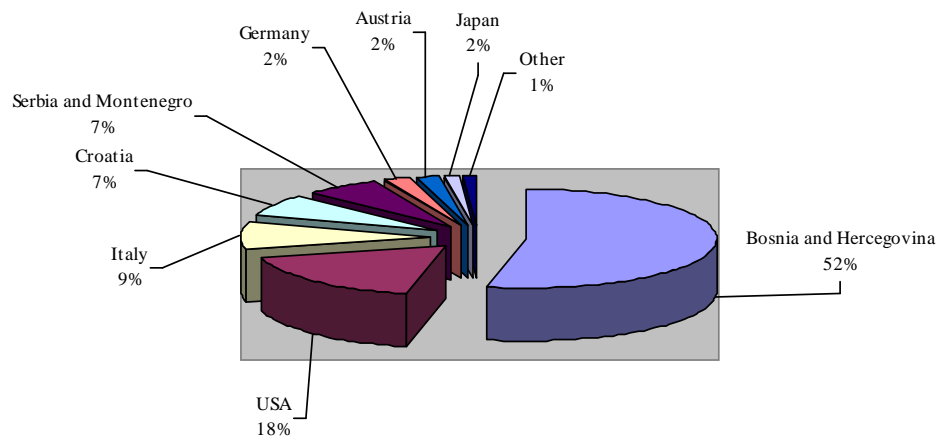
Figure 28: Sales of the Cooperative Wine According to the Country

Country of export	Export in litres 2004	Index 04/03 % chg	Export in litres 2003	Index 03/02 % chg	Export in litres 2002	Index 02/01 % chg	Export in 2001
Austria	6.225,50	-27.6	8.583,00	-15.7	10.194,00	+5.2	9.691,50
Belgium	-	-	-	-	-	-	45,00
Bosnia and Herzegovina	186.026,05	-6.9	199.870,00	+8.8	183.728,50	-13.2	211.653,50
Canada	360,00	-	0,00	-	-	-	144,00
Croatia	23.625,00	-5.1	24.907,50	+55.0	16.068,00	+54.2	10.422,00
Cyprus	45,00	-	-	-	-	-	-
Czech Republic	720,00	-52.9	1.530,00	+9.7	1.395,00	-27.7	1.930,00
Denmark	1.138,50	-46.5	2.128,50	-9.3	2.346,00	+8.3	2.166,00
Finland	0.00	-	180,00	-	-	-	-
France	688,50	+488.5	117,00	-	-	-	153,00
Germany	7.818,00	+680.2	1.002,00	+10.7	905,50	-57.3	2.119,50
Great Britain	405,00	-40.0	675,00	-	-	-	-
Iceland	0.00	-	1.222,50	+61.7	756,00	-35.8	1.177,50
Israel	0.00	-	45,00	-	-	-	-
Italy	31.319,50	+326.2	7.348,50	-3.6	7.626,00	+30.8	5.832,00
Japan	5.355,00	+217.6	1.686,00	-62.5	4.500,00	+54.4	3.096,00
Luxemburg	-	-	-	-	-	-	792,00
Macedonia	-	-	-	-	-	-	2.619,00
Monaco	5.589,00	-	-	-	-	-	-
Netherlands	1.300,50	-62.2	3.355,50	+417.8	648,00	-55.0	1.440,00
Norway	648,00	-60.5	1.642,50	-	-	-	-
Russian Federation	-	-	-	-	16.068,00	-	-
Serbia and Montenegro	23.002,50	+95.5	11.769,00	-39.6	19.491,50	+40.5	13.875,00
Spain	-	-	-	-	81,00	-	3.117,00
Sweden	414,00	+109.09	198,00	-89.4	1875,00	-	-
Switzerland	9,00	-	-	-	-	-	-
Taiwan	1.086,25	+85.68	585,00	-7.6	630,00	-	-
USA	62.493,75	+356.7	13.684,50	-62.6	49.968,00	+22.6	40.752,00
Total	358.269,05	+27.7	280.529,00	-7.2	302.470,00	+2.4	295.475,00

Source: Internal Source 2, June 2005; Internal Source 3, June 2005; Internal Source 4, June 2005.

The biggest export market remains Bosnia and Herzegovina where the Cooperative sold 51.92% of the wine exported. The second biggest markets were the United States of America (17.44%), followed by Italy (8.74%), Croatia (6.59%), Serbia and Montenegro (6.42%), Germany (2.18%), Austria (1.74%) and Japan (1.49%). In total the Cooperative exported approximately 18% to its neighbouring countries (with the largest percentage to Croatia and Italy) and 68% to former Yugoslav Republics of Bosnia and Herzegovina, Serbia and Montenegro and Croatia. Export to the countries that the Cooperative feels the closest to culturally and historically (former Yugoslav republics and Italy), amounted to 77% of its export. The business report shows that there has also been an increase in sales to Italy and Germany, whilst the export to Sweden and Czech Republic fell sharply over the last four years (Internal Source 5, 2005).

Figure 29: Export Shares in 2004 According to the Country of Export



Source: Internal Source 4, June 2005.

Export in 2004 represented 17% of total sales. Compared to 2003, 2004 exports increased by 80,000 litres, which is mostly due to the increased sales of the new Traviata brand (by 40,000 litres), increase in sales to Italy (24,000) and Serbia and Montenegro (9,000 litres). The Cooperative started selling to Kosovo, where it was almost unknown in previous years. The average price of wine sold has dropped by 87 SIT or 25.6 pence. The fall in price has occurred due to both a reduction in governmental export subsidies and due to the decreased sales of high-priced brands, such as Bagueri and Quercus (Internal Source 5, 2005). The sales of these two brands have dropped by 10,800.00 litres mainly due to lower sales in Bosnia and Herzegovina (13,000.00 litres).

Apart from Bagueri and Quercus there has been a decrease in sales of the country wine (by 6000.00 litres) and the quality wine (by 10,800.00 litres) (see Figure 31). On the other hand there has been an increase in sales of the so-called one-litre programme (by 7,000.00 litres), Villa Brici (by a massive 17,000.00 litres), sparkling wine (by 3000.00 litres) and open wine (by 21,000.00 litres). Most of the increase is due to the increased sales of the listed brands to Bosnia and Herzegovina, however, open wine, which recorded the sales of 360 litres in 2002 only, has seen the highest increase in 2004, which is due to the quantities sold to the new Italian buyer in Italy.

It is worth mentioning that the Cooperative repositioned some of its existing brands and markets. For example, Avia was launched in Serbia and Montenegro and Croatia through Allied Domecq. Traviata, which is the Cooperative's new brand and was launched in 2004 in the American market, was sold in Germany also. The Cooperative has big plans for Traviata, which is positioned as medium quality wine and which could be ideal for British supermarkets (Internal Source 2, 2005). One of the delicacies is the so-called herbal wine, produced especially for a buyer from Monaco, who has been exporting it to Italian pharmacies.

Figure 30: Export Shares According to the Brand and Type of Wine

Brand/Type of wine	2004	Index 04/03 % chg.	2003	Index 03/02 % chg.	2002
Country Wine	18.306,00	-46.6	24.306,00	+27.9	19.008,00
1 Litre Programme	115.900,00	+6.4	108.960,00	-1.4	110.556,00
Villa Brici	88.857,00	+23.6	71.859,00	+107.9	34.560,00
Champagne	6.978,00	+79.5	3.888,00	+78.5	2.178,00
Open wine (Barrels)	-	-	3.190,00	+786.1	360,00
Traviata	50.000,00	-	-	-	-
<i>Total Quality Wine</i>	230.041,00	+8.9	211.203,00	+26.7	166.662,00
Open Wine	2.475.477,00	+0.8	2.455.468,00	+6720.74	360,00
<i>Total Quality Wine + Open Wine</i>	2.705.518,00	+1.4	2.667.671,00	+1497.2	167.022,00
Quercus	59.199,50	-10.5	66.128,50	-10.7	74.033,50
Bagueri	28.719,00	-14.3	33.519,00	-13.4	38.709,50
0.5 Litre programme			1.725,00	+758.2	201,00
<i>Total High Quality Wine</i>	87.998,50	-13.2	101.372,50	-10.9	113.830,00
Herbal Wine	5.500,00				
<i>Total</i>	2.799.016,50	+1.1	2.769.043,50	+887.3	280.492,00

Source: Internal Source 2, June 2005.

5.3. BUSINESS RESULTS

Analysis of the income statement for the years 1998-2003 shows improved position in 2000 and 2001 and later decreases in profits (2002-2003). Sales revenues were the highest in 2001 and 2002. They fell in 2003 due to severely damaged crops and consequently reduced quantities. However, the Cooperative's representatives claimed that the quality of wine in 2003 was one of the highest.

Figure 31: Key Business Data (in 000 SIT)

	2003	Index 03/02 %	2002	Index 02/01 %	2001	Index 01/00 %	2000	Index 00/99 %	1999
Sales Revenue	1,483,021	-18.1	1,810,819	-6.45	1,935,645	34.58	1,438,278	9.11	1,318,181
Total Revenue	3,063,948	0.09	3,061,127	-0.37	3,072,383	36.80	2,245,889	1.92	2,203,606
Total Cost	3,118,772	-0.20	3,125,117	2.06	3,061,896	36.99	2,235,097	-0.61	2,248,906
Profit	-54,824	-14.32	-63,990	-710.13	10,488	585.26	1,792	103.96	-45,300

Source: Internal Source 4, June 2005.

The key financial data displayed shows decreased long-term and increased short-term liabilities. The total assets have dropped slightly in 2003 compared to previous years as well as the Cooperative's Equity, which has recorded decreases over the last couple of years. The financial liabilities are rising, which is due to the increase in short-term loans. The Cooperative

analysed the year of 2003 and concluded that it has been a difficult year on the whole in Slovenia, as Slovenia complied with the EU *acquis communautaire* fully, plus the grapes were damaged and competitors discovered Slovenian and other Balkan markets. One of the problems still remaining is also restricted marketing, which sets several boundaries on the Cooperative's promotion.

Figure 32: Financial Data (in 000 SIT)

	2003	2002	2001	2000
Sales Revenue	1,483,021	1,810,819	1,935,645	1,438,278
Profit/Loss	-54,824	-63,990	10,488	1,792
Total Assets	5,782,938	6,245,322	6,185,463	6,123,411
Equity	2,569,266	3,297,639	3,393,952	3,680,548
Short-term Financial Liabilities	938,289	712,600	684,200	440,400
Long-term Financial Liabilities	227,498	241,369	247,519	275,996

Source: Internal Source 7, June 2005.

It is worth mentioning that the Cooperative spent 82,630,750.00SIT (cca. 345,056.14 EUR) on promotional activities, specifically on brand awareness, brand building and sales boost. The money was spent on wine tasting and wine promotions at wine fairs, such as Vinitaly, ProWine, London Wine Fair etc., on promotional material such as glasses, T-shirts, hats, bottle openers etc and on led-promotions in Serbia and Montenegro, Bosnia and Herzegovina and in Croatia (Internal Source 2, 2005).

5.4. INTERNAL ANALYSIS ACCORDING TO PALIWODA

Paliwoda claims that McCarthy's 4P analysis is no longer sufficient (Paliwoda, 1999, p.527; Paliwoda, 1999a, p.8). His 10P analysis represents the core of internal analysis and consequently identifies the major strengths and weaknesses of a firm.

According to Paliwoda the following categories should be analysed and if necessary improved (Paliwoda, 1999, p.527):

- People. People should be the main focus; all stake holders, internal and external to the firm.
- Process, which is unique to the corporate culture.
- Positioning. Differentiation from rivals.
- Power. Market power transferability from home country to host country.
- Product/service. Delivering value added through the channel to the foreign consumer.
- Promotion and publicity. What is available, what is allowable and what is free.
- Pricing. The weakest factor with which to lead.
- Place of sale/distribution. From arrival portside to the final consumer through channels as diverse as the internet.
- Planning and control. Monitoring is one aspect but another is the ability to plan ahead with room to manoeuvre so as not to forestall strategic alternatives.
- Precedents learnt from market scanning. Through environmental scanning it is possible to learn strategies that may be borrowed from other companies in other countries and applied to your own situation.

5.4.1. People

There are 137 employees in the Cooperative, of whom 57 hold technical college or university degrees. The team is very young and ambitious compared to other Slovenian cooperatives, however the organisational structure is that of a functional nature. The last survey showed that employees wished to be more involved in the decision process and that they feel quite dissatisfied with the climate in the company. The senior management tried to involve all levels of workers in the company and link them together. So far, according to the employees, the process is still slow and the road to a project-led company seems very long. The Cooperative invests in its employees, their permanent education, and the creative and healthy environment of its employees, which is one of the key points in the Cooperative (Internal Source 1, 2003, p.9).

5.4.2. Process

The Cooperative is owned by wine producers who have been trained to produce the best quality wine. Over the last couple of years the main emphasis of the production process has turned to quality and the Cooperative with its advisors educates wine producers which areas are the most appropriate for grapes, which wines to grow in certain area, how to grow them in order to produce the set results, how to protect the produce and how to harvest it. All the produce is then collected in the Cooperative, which finalises the product (Internal Source 1, 2003, p.11).

In the 2003 business report, the Cooperative states: “All of the employees strive to produce such a glass of wine, which will fully meet consumers’ expectations and which will be produced in an environmentally friendly way” (Internal Source 1, 2003, p.11). Quality management is of especial importance to the Cooperative and as they claim, it starts in the vineyard. The Agricultural Consultancy, which operates within the Cooperative, follows the innovations and tries to introduce them into the process. The harvest is of special importance for the cooperative and timing they say is an essential part of it. They take care that the grapes are picked at the optimal time, which means that the grape reaches its optimal ripeness. Fast grape processing enables the set quality of wine, whilst the technology represents a major part of it. All of the processes are carefully controlled; documenting and trace ability from the vineyard to the bottle is mechanised. Based on the gathered results the analysis is conducted and results are used for the next harvest (Internal Source 1, 2003, p.11).

All of the repromaterials (including bottles, corks, labels and carton) are supplied according to the inbound control standards. All of the suppliers follow quality standards.

The Cooperative is fully aware of the risks and the importance of the unprotected products and they work hard to minimise the quality and security risk. They follow the principles of the HACCP (Hazard Analysis and Critical Control Point) standard, which enables control and management of all risk factors for the protection of consumers (<http://www.nzfsa.govt.nz/animalproducts/haccp/>, 2005).

5.4.3. Positioning

Even though the opinions with regard to Slovenian wine differ considerably¹⁸, it is still known to be of a very good quality with many excellent small wine producers who have the flexibility to match the most niche markets, such as the UK wine market. Although the Cooperative's wine is of a very high quality, which has received recognition through various awards at several international wine fairs, the quantities it produces might be too high for the importer of high quality wine.

The Cooperative has already started working with one of the biggest UK on-trade buyer (i.e. buyer for bars, pubs and restaurants), Berkmann Wine Cellars, who has chosen two types of the Cooperative's wine to be sold in the UK South-East Region (Internal Source 2, 2005). Several, mostly American, brands have started on-trade and have later included off-trade (i.e. in specialised shops, supermarkets and individual stores) and although the author's personal belief is against launching the Cooperative's brands in supermarkets, this goal is pursued by the Cooperative. The Cooperative has now the unique chance to build its brand in the new, highly competitive and in-taking market. It would be disastrous to throw away this opportunity, especially since Slovakia is trying to enter the UK market at the very lowest end, through Sainsbury's with the export price of 1.20 EUR a bottle for table wine¹⁹. The differences between Slovenia and Slovakia have many times been blurred in the minds of British consumers due to the similarity in names, and due to their equally distant location –the average British consumer's mental map of Europe does not go further east than Germany and France. So there is a very real threat that the bad or at best mediocre reputation of Slovakian table wine will spill over onto Slovenia's quality produce.

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5.4.4. Power

Power refers to a company's position in the business environment with regard to business subject, government, consumers and producers. "When one buyer or seller in a market has the ability to exert significant influence over the quantity of goods and services traded or the price at which they are sold, we can claim that that specific buyer or seller exerts market power" (<http://www.economist.com/research/Economics/alphabetic.cfm?LETTER=M>, 2005).

Over the last couple of years the Cooperative has managed to transfer some of its power from Slovenia to the former Yugoslav markets and to the United States. At present the Cooperative is mainly concerned with building brand image among the UK restaurants and with activities, which would raise awareness of Slovenia as a country. A generic Slovenian brand with the best selection of wine, large quantities to export, and a clear strategy, would eliminate the disadvantages faced by single producers entering the UK market and would gain the aspired market power.

5.4.5. Product

Wine as a product is highly dependent on natural conditions and as such not very predictable with regard to the product's quality and quantity. The main factors influencing the quality and quantity of wine according to Šinkovec are the following (Lapajne, 2003, p.12): production area; type of grapes; production year; time of harvest; type of harvest; production of wine and

¹⁸ See Interviews in The Data Analysis Chapter.

¹⁹ This information was revealed to the author at the Wine Fair by members of Slovakian Delegation speaking off-the-record.

eno-technological processes; fermentation; warehouse procedures and storage. The demand for wine is also very hard to predict, which is also due to the changing trends in consumers' tastes, which cannot be matched instantly by producers. Due to these quoted factors wine as a product has to be evaluated differently than other products.

5.4.6. Promotion

The Cooperative does not lead centralised promotional activity, as its separate subsidiaries develop their own promotion (Internal Source 1, 2003, p.10). So far, the recorded consumption of alcohol in Slovenia has favoured the Cooperative's sales. Although it has dropped in recent years, the consumption of alcohol in Slovenia is still among the highest in Europe. The recorded consumption of pure alcohol in Slovenia in 2003 was 10.1 litres per person (12.3 litres per person aged over 14 years). An average Slovene consumed 43.3 litres of wine a year, whilst Slovenes aged 15 and more drank 52.9 litre of wine in 2003. An average Slovene drank 80.2 litre of beer in 2002 and 1.6 litre of spirits a year (http://ivzgov.over.net/ivz/novica.php?ivz_id=121, 2005).

Export marketing promotion takes various forms:

5.4.6.1. Personal Selling

The Cooperative does not promote their wines through personal selling.

5.4.6.2. Advertising

The Cooperative has been greatly influenced by the strict advertising laws with regard to alcoholic drinks, which has reduced advertising of alcohol in Slovenia to almost zero (Lapajne, 2003, p.11). There have been occasional TV adverts on Slovenian channels, which have been unimaginative and with limited appeal to a new consumer market. The message they have tried to deliver does not express the unique selling points of the Cooperative's wine. The Cooperative should therefore influence Slovenian consumption with more attractive promotional activities and maybe look at other wine producers abroad. It is accepted that the costs of advertising, especially abroad, are high, but when increased would have produced better results at least in the home market. The USA-based Laureate Company is aware of the importance of advertising and it is worth mentioning that in 2003 the Company spent \$360,000 (£204,700) on promotional activities, which is 13.52% of its revenues (Internal Source 1, 2003, p.10).

5.4.6.3. Sales Promotion

Sales promotion is one of the most practical and widely used promotional activities in the Cooperative. There have been several attempts to promote brand awareness and to build brand loyalty in Slovenia and in the markets of former Yugoslavia. One of the promotional activities included a 0.2 litre bottle free gift when customers purchased three bottles of high quality wine (Lapajne, 2003, p.11). There have also been raffle-style activities with coupons, which were sent back to the Cooperative. Customers were requested to answer a couple of basic questions about the Cooperative and its products and some of them were rewarded.

One of the most important promotional activities within this group is representation at trade fairs and exhibitions. This is a distinctive feature of the Cooperative as they are well represented at the most famous international fairs such as Vinitaly, London Wine Fair, ProWine etc. which echoes the quality of the brand outside the producing country (<http://www.klet-brda.com/eng/wines.php>, 2005). The Cooperative does make some business contacts at those fairs, however their representation at the fairs is not advertised and very

poorly translated into competitive advantage. In addition to this, there is a personal-type promotion in the area of former Yugoslavia as this fits better with the local business practice. The Cooperative hopes to be rewarded for its efforts and to increase the market share in the countries of former Yugoslavia, especially in comparison with their rival Cooperative Vipava. Unfortunately, the Cooperative still does not take advantage of the Internet and it is still impossible to purchase their wine through a secure site. Other categories of sales promotion such as foreign catalogues and samples are still not used to full potential.

5.4.6.4. Publicity

The Cooperative's wines are popular within the western region, its home territory. There are several media-targeted activities such as Media Harvest, attracting journalists from all over Slovenia and the neighbouring countries of Italy and Austria. One of the most high profile events in Goriška Brda is the "Marathon of Cherries", as the area is known for cherries. There are several cyclists attending this event, which is gaining in popularity every year (Internal Source 2, 2005). One of the awareness-raising events is also "Medanski dnevi" – (The Days of Poetry and Wine – Medana), attracting people with love for wine and poetry (<http://www.studentskazalozba.si/airbeletina/last/index.htm>, 2005).

5.4.7. *Pricing*

The Cooperative has fixed export prices according to the type of wine and the brand range of wine. The following export price list, deriving from the "cost + " system is used for all export markets, with the disadvantage of ignoring competition and demand. The prices listed below are however negotiable. The price list does not include Traviata, which is a new brand and is currently sold at 1.60 EUR a bottle (Internal Source 2, May 2005).

Figure 33: Export Prices of Cooperative's High Quality and Selected Wines

Brand	EUR/ Bottle	Brand	EUR/ Bottle
Quercus 0,75 l (High Quality Wine)		Bagueri 0,75 l (Selected Wine)	
Rebula Quercus	2.30	Rebula Bagueri	5.10
Tokaj Quercus	2.40	Chardonnay Bagueri	5.10
Beli Pinot Quercus	2.65	Bagueri Sivi Pinot	5.10
Chardonnay Quercus	2.90	Savignon Bagueri	5.10
Sauvignon Quercus	2.90	Merlot Bagueri	5.60
Quercus Sivi Pinot	3.10	Cabernet Sauvignon Bagueri	5.60
Merlot Quercus	2.90	Cabernet-Merlot Bagueri	5.60
Cabernet Sauvignon	3.00		
Modri Pinot	4.50		

Source: Internal Source 6, June 2005.

Figure 34: Export Prices of Cooperative's Quality and Sparkling Wines

Brand	EUR/ Bottle	Brand	EUR/ Bottle
Villa Brici 0,75 l (Quality Wine)		Sparkling Wine 0,75 l	
Rebula Villa Brici	1.55	Peneča Rebula (dry)	3.65
Chardonnay Villa Brici	1.65	Cecilia	3.65
Sivi Pinot Villa Brici	1.75		
Merlot Villa Brici	2.00		

Source: Internal Source 4, June 2005.

The advent of new world wines and greater competitiveness in the global wine market have put downward pressure on the final market price, which in turn puts pressure on the export price of wine. Especially hard hit are wines from the Old World. Among the ones who suffer the most are the French producers, who face both decreased export demand and home consumption. Since 1960, French wine consumption per capita has dropped from 100 litres to 58 litres. The French however still drink more than other Europeans.

Italians on average drink 55 litres, the Spanish 36 litres, and the Germans 24 (http://migration.ucdavis.edu/rmn/more.php?id=920_0_5_0, 2005). The price per litre of wine from Southern France has dropped from 84p in 2004 to 51p in 2005 (Dahl, 2005, p.29). The study, conducted for the biggest world wine fair Vinexpo, predicts that by 2008 "France will no longer be the biggest wine-consuming nation with the amount of wine drunk would fall by 7.4% and the French individually no longer the biggest drinkers" (http://www.archimedia.hu/content.php?content=401;set_lang=eng, 2005). The study said that of the 10 biggest wine-consuming countries, apart from France, Spain would see a decline of 10.2 percent, Portugal 9.1 percent and Argentina 4.7 percent. But consumption in Germany would rise by 28.6 percent, in Britain by 15.7 percent and South Africa by 21.1 percent (http://www.winesnw.com/news_reviews/newsandreviews_US_outsipsFrance.htm, 2005).

French wine producers claim that in order to stay competitive they would have to receive at least 1 EUR per litre and demand from their government to distil their wine into industrial alcohol which is the standard procedure for the EU wine lakes. In addition to the fact that the French have stopped drinking wine, New World wine is taking over the British market, which has been the number one export location for French wine. Consequently, French wine producers are forced to look to Germany and Eastern Europe where consumers are more loyal and less prone to branding effects (http://www.economist.com/surveys/displayStory.cfm?Story_id=327353, 2005).

5.4.8. Place Of Sale/Distribution

Within the domestic market the Goriška Brda Cooperative distribution network has eight in-house distributors, whilst in the foreign markets the Cooperative mostly deals with intermediaries (Sesum, 2003, p. 11).

More and more paths to the consumer have evolved and the Cooperative has become correspondingly more flexible with regard to the form its product takes. The wine can be sold almost in any form, in any bottle, shape or quantity. Some of its foreign distributors accept open wine, others want only traditionally bottled wine. The Cooperative sometimes differentiates when it comes to brands and distributor, such as for example selling Avia through Allied Domecq to former Yugoslavian countries (Internal Data 1, 2003). The American affiliate Laureate has its own distribution channels and represents a higher export form for the Cooperative.

5.4.9. Planning And Control

The Cooperative has planning committees, and different strategies are applied for different markets. Due to the high secrecy of the information, only the Controlling side of the sub-chapter can be discussed.

The Controlling component in terms of the production process is subject to the instructions of the ISO9001 standard. The Cooperative invited the Slovenian Quality Institute to help them

obtain the standard and to therefore improve the procedures and process control (Internal Source 1, 2005). So far however the standard has not yet been obtained. This is unfortunate and it seems that the Cooperative is simply unaware of the advantages it would bring with respect to quality and marketing.

5.4.10. Precedents Learnt From Marketing Scanning

The wine producers present in the UK market have adopted different strategies as it can be seen from the environmental scanning. The Old World (France, Italy, Spain, Germany) countries have been pushed out by the New World wine producers (originating from Chile, United States of America, Australia, New Zealand etc.) with their aggressive advertising, promotion, branding by grape variety and not region, technologically superb production and lower prices (Jones, 2003, p.1).

Slovenian companies cannot expect that they will be able to do the same, especially not on their own, as the advertising costs in one of the most brand-sensitive markets are extreme. It would therefore make sense for Slovenian companies to come together to consider joint ventures in foreign markets. As it will be discussed in the next chapter, one of the key success factors will be collaboration and not competition, a “win-win” strategy, instead of “win-lose” strategy. Unfortunately, the Slovenian business mentality is not “what can I gain from this deal”, but instead “never let anyone perform better than you, even if this means that you will not perform at all”²⁰. This is particularly worrying as it will not only drive the small exporters out of the existing export markets, but will also prevent the ones who wish to enter the market from reaching the set market target.

What the Cooperative should do in the UK market is to adopt the differentiation strategy and split its products into two World category, exported under two companies. It should satisfy the knowledgeable consumers with exhaustive information on the bottle tags and it should pursue the “ours-is-better-than-theirs” strategy with personalised top range wine and additional offers for the consumers of Slovenian wine. For more details strategy proposals, please see the last chapter.

5.5. COUNTRY IMAGE AS THE FIFTH ELEMENT OF THE MARKETING MIX

One aspect of the research, which deserves greater attention, is consumer behaviour as one of the major parts of market analysis. When analysing wine consumption and wine market entry, some theorists argue that it is a must to include the country of origin criteria in the analysis, since it is considered to be the fifth element in the marketing mix of imported wine (Felzenstein, Hibbert, Vong, 2004, p.72).

According to Jaffe, Nebenzahl and Lampert, the country-of-origin effect (COE) or country image effect (CIE) on consumer evaluation of products and services should gain more space in international marketing theories, since, as the globalisation of marketing efforts continues, the relationship between country-product image and purchasing behaviour becomes more important (Nebenzahl, Jaffe, Lampert, 1997, p.27). The COE is generally understood to stand for “the impact of generalisations and perceptions about a country on a person’s evaluations of the country’s products and brands” (Nebenzahl, Jaffe, Lampert, 1997, p.27). A product’s origin is often used as a signal of quality, since certain items are strongly associated with specific

²⁰ Author’s personal observation.

countries and products from those countries often attempt to benefit from these linkages. Country of origin can function as a stereotype, which may be based or inaccurate, but it does play a constructive role in simplifying complex choice situations (Solomon, Bamossy, Askegaard, 2004, p.257). A number of research studies have shown that the COE can be explained as either halo or a summary construct. The halo constructs assumes that a consumer's perception of the country of origin directly effects attitudes in situations where a consumer knows little about a country's product. In this case made-in effect or origin-country-image are based on whatever knowledge the consumer has about these countries, including their level of economic, political and social development (Nebenzahl, Jaffe, Lampert, 1997, p.30).

Little empirical research has been done with regard to the choice criteria in the wine industry (Felzenstein, Hibbert, Vong, 2004, p.79). In general it is considered that price plays an important factor for wine consumers, however some research has shown that country of origin effect and grape variety are complementary factors in consumers' selection of wine.

5.6. BRANDING

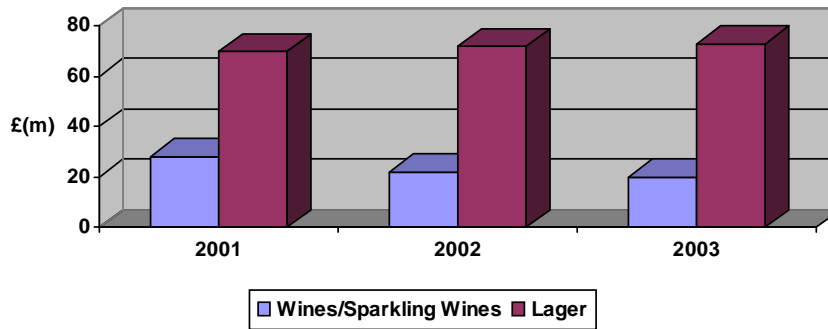
"In economic terms the "brand" is a device to create monopoly or at least some form of imperfect competition" (Dennis, 2003, p.39). The key to branding is that people recognise the brand and hold pre-conceptions about the product before they buy it. It is important that consumers recognise the brand: once they have tried it and liked it they will look for it next time.

When dealing with the product – wine, the distinguishing features of it are the type of wine and the established brand. The consumers are particularly sensitive to the first one, and roughly, the product is firstly classified into red, white and rosé wine. Certain wine brands have gained as much space in consumers' perceptions that they fall within the type category. For example the American Blossom Hill is recognised as a red American bottle of wine²¹. However, the American wine producers have come a long way and established themselves as the rightful competitors to the old producing countries mostly through aggressive advertising, which the Cooperative cannot afford.

It is clear that, so far, the wine trade has always been elitist, catering to connoisseurs who in reality account for only a small proportion of the wine purchased in the UK. "Branding has come late to the wine market, but producers are now realising its importance", writes Samuel Solley in Marketing (http://global.factiva.com/en/eSrch/ss_hl.asp, 2003). Solley is surprised that advertising for wine is much less than beer or whiskey (see Figure 36 below). He claims that since wine does not exist in the culture in Britain the way it does in wine producing nations, British wine consumers are more prone to choose according to brands when facing purchase decisions. Once familiar with the brand, this builds a certain degree of familiarity and reliability and consumers will continue buying the same brand (http://global.factiva.com/en/eSrch/ss_hl.asp, 2004).

²¹ Personal observation.

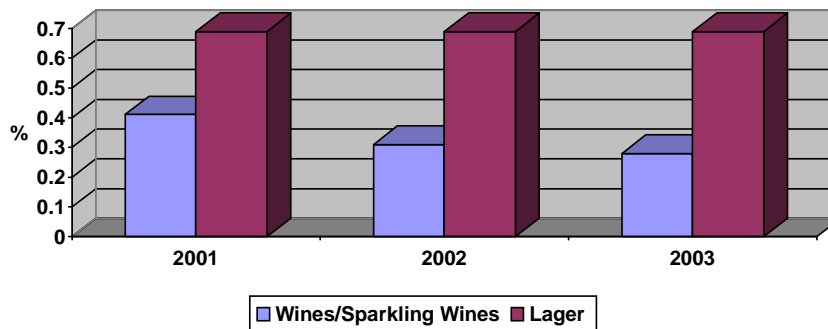
Figure 35: Advertising Expenditure for Wine and Lager in the UK



Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.
Market Intelligence Food and Drink. Lager UK, June 2005.

The advertising expenditure as a percentage of the value sales of wine and lager in the UK shows that, whilst the advertising expenditure remained relatively constant over the three years, the advertising expenditure for wine relative to the value sold has been falling steadily.

Figure 36: Advertising Expenditure as % of the Value Sales



Source: Market Intelligence Food and Drink. Wine- UK – 2005, January 2005.
Market Intelligence Food and Drink. Lager UK, June 2005.

Many wine buyers and wine producers claim that the quality of wine is not necessarily a guarantee for successful sales. “The look of a product is critical, since this is its unique selling point,” writes Solley when quoting Steve Abrahams marketing manager at Boyar Estate, owner of Blueridge (http://global.factiva.com/en/eSrch/ss_hl.asp, 2004). Jones quotes Marion McKenzie, general marketing manager at Evans&Tate, owner of the Beramundi wine brand, when she writes that “a quality image is important, and labels play a big part in this” (Jones, 2003, p.2). McKenzie points out that “labels on the cheaper versions of Barramundi cost more than those on its premium offering” (Jones, 2003, p.2), illustrating the importance of branding in the mass market.

McKenzie agrees that consumers need wine to have “pick-up appeal”, “they need things to be tactile” (Jones, 2003, p.2). Since this is claimed by many in the wine business, it is definitely not an area the Cooperative should neglect. There are approximately 700 brands in the UK market (http://global.factiva.com/en/eSrch/ss_hl.asp, 2004) and they all try to demystify the wine issue for the UK wine consumers. “One has to understand the hooks that draw consumers in, and assist them. Logos and bottle shapes help to give a sense of place and heritage”

(<http://global.factiva.com/en/eSrch/ss hl.asp>, 2004).

Different brands are more “lucky” or memorable than others, which is due to different brand positioning. Jobber (2003, p.63) provides an analytical framework to dissect how a brand is positioned:

- Brand Domain – target market.
- Brand heritage - background and culture of the brand and the company.
- Brand Values – core values of the brand.
- Brand Assets – images, slogans that distinguish the brand (the name and the symbol).
- Brand personality – the character of the brand.
- Brand Reflection – how purchasers believe the brand makes them look.

“The goal of the brand is to be strong on all these fronts, to have a distinct personality, image, slogans etc.” (Dennis, 2003, p.43). Whilst it is important to decide what these factors should be, it is as necessary to choose how they will be communicated. If one wants a consumer to associate certain things with the product, marketers have to find the best way to tell the consumer through symbols what he or she should associate their brand with.

One of the most difficult decisions of a brand is what and how it should be named. “Wine brands tend to Umbrella brand with variety as the sub-brands” (Dennis, 2003, p.44). This is especially the case with the New World wines like E&J with its sub-brands Merlot, Cabernet Sauvignon, ... The Old World wine however is different, as the variety is tied to the region and is effectively the brand with different producers within this brand.

According to Jobber (2003, p .63) the brand name should:

- Evoke positive associations.
- Be easy to pronounce and remember.
- Suggest product benefits.
- Be distinctive.
- Not infringe an existing registered brand name.

Apart from the name, the brand symbol is also important. The symbol and sometimes the slogan seem to represent the face of the brand and they build the personality. Figure 38 presents an example of clear brand image; Jacob’s Creek sponsored the new series of Friends on Channel Four in 2004, targeting 20-30s professional people who want to get fun with their friends. “The £850,000 sponsorship guaranteed a stronger profile for the Jacob's Creek range, and was an association that worked perfectly for the brand's image” according to senior brand manager Stefan Beaudet (<http://www.checkout.ie/AdMarketing.asp?ID=10>, 2005).

When dealing with brands and brand images the clear distinction between the Old World and New World market can be noticed. The Old World has somehow been left behind in this race for the UK market, which is due to lack of technological investment in wine production, lack of advertising and marketing and slow reaction to the fast changing market conditions (Jones, 2003, p.1). As the New World countries have taken over, the Old World has had to react to this and they have done this quite inappropriately. They have dropped the price and the excellent Old World wine is now being sold for 4.00 GBP. They have effectively chosen to undersell quality wine instead of choosing to advertise its quality to justify higher prices.

Figure 37: An Example of Successful Advertising Campaign - Jacob's Creek



Source: <http://www.jacobs creek.com/index.php>, 21.6.2005.

It does however seem that the “New Look” appeals to the average British consumer. As it can be seen from the presented images (Figure 39), the distinction is clear. The New World brands target younger groups, who might not know much about wine but like the taste and recognise the label. The strategy used by these brands in the past was to grab the consumer with the low price which would encourage them to buy with little hesitation, allowing them taste the wine, thus making them loyal to the brand. These brands use modern designs, bright colours and trendy names, which does offer the “pick-up” appeal to the customer in the shop. Now the New World producers are trying to shift to the upper price market and knowing that the UK consumers like their brand, they can afford that. They call their wines “value-for-money” wines and this angers the Old-World Producers a lot (Dahl, 2005, p.27). Most of their success is due to being used to advertising and massive branding in the non-European world and taking the advantage of this trend in the UK market. However, their tactics are sometimes deceptive. For example, although most new world wine comes from a highly mechanised mass production process, they nevertheless use traditional symbolism and imagery to build associations with the brand. “New World producers use images of rolling field and small Chateaux to create a false image of their wine” (Dennis, 2003, p.64). The Old World producers should therefore strengthen their messages and images and reinforce the message that the New World wines are pretenders. One of the interviewees, Judith Irwin, a wine judge, claimed that an old-world type of label may increase the price of a bottle by as much as £2.00.

Figure 38: An Example of a Typical Old World Label



Source: http://www.dealtime.co.uk/xDN-Wine-price_range_30_40-red_wines-1998~V-rows, May 2005.

Figure 39: Examples of Typical New World Labels (Argentinean, Australian, Chilean Wine)



Sources: http://www.unwined-online.co.uk/countries_products.php?id=1&act=country&countryid=12&mid=2&gmid=15&ggmid=31&ggmid=94, 21.6.2005.

But the trend of labelling their wine in the New World way can also be noticed in French wine. Some of the French wine producers have realised that they have to satisfy the existing demand for the modern look bottles and labels in their home market as well as in the foreign market. Felicity Lawrence writes in the Guardian that the French wine producing world is split. On one hand there are “the keepers of the “terroir”, the traditional French view that a wine should be a complex thing that speaks of its origin, and tastes of the soil in which it has grown” (Lawrence, 2005, p. 3). On the other hand, the French wine producers have become aware of the importance of the new, international style of their wine, with a very fruity and easy taste. Such “bland and homogenous wines can be aimed at new markets, at the young and particularly at women”, writes Lawrence in the Guardian.

The Fruite Catalan wines (see the promotional leaflet at Vinexpo in the figure below) are

“well-made, fruity, light and straightforward” (Lawrence, 2005, p.3). The wine is produced in the South-East of France, where wine producers are undergoing one of the greatest crises in the sales history of French wine and facing fierce competition from the New World wine. The same trend can be noticed in Bordeaux where the new range of stylish wines, called e-motif, of typical blends from the region. “To attract customers who seem to prefer the clarity of New World labels, producers are moving away from the complex appellation d’origine controlee system in Bordeaux, which encompasses nearly 60 classings and 3,000 chateau names. More and more quality wines are being labelled with the grape variety rather than simply geographic region” (Lawrence, 2005, p.3). These wines were given names like “blanc excitant”, “rose complice” and “rouge fusion” (Lawrence, 2005, p.3). These wines target young adults, the “Bacardi Breezer” generation and are mostly sold via the internet.

Figure 40: The New Look for the French Fruite Catalan



Source: <http://www.vigneronscatalans.com>, 15.6.2005.

Even though East-European wine is far from popular in the UK, the Bulgarians have learned how to approach the market. Bulgarians entered the market with extremely low prices (of £2.99 or less a bottle) and are now trying to position themselves higher (£4.99 a bottle). They changed their brand image and launched a new, extremely appealing pick-up Blueridge bottle. The bottle is of an unusual shape and a nice modern label, as can be seen from the figure below. A brief explanation of the origin of wine is presented in three languages, French, German and English on the back. As a part of their marketing strategy, Blueridge launched barrel sale, which proved to be very attractive to wine consumers and other brands have started to imitate the move.

Figure 41: Bulgarian Blueridge



Source: Author's photograph of the bottle from Sainsbury's, May 2005.

In the light of this, Slovenia faces the question whether the wine labels should be trendy and sell massively or Old World, targeting wine experts and an exclusive market. In order to suggest the possible tactics, a closer look at the Cooperative's brand is necessary.

As already mentioned, the Cooperative is proud of its very well established brands: Bagueri, Quercus, Villa Brici, Special wine brands of Verduc, Markiz and Picolit, Traviata and Avia. Traviata is the Cooperative's new brand and does not have the label yet, whilst Avia is sold to the US market only. The rest of the brands are presented in this section. Special wine brands, Bagueri and Quercus are the higher quality rank, whilst the other can be described as quality wines only. The following brand presentation is reproduced from the Cooperative's website <http://www.klet-brda.com/eng/wines.php>.

5.6.1. Bagueri

"Bagueri is the Cooperative's prestige label, satisfying the highest quality criteria. The name comes from the last landlord of the Dobrovo castle, count Silverio de Baguer, famous for his excellent wines. The Bagueri series offer red and white wines in elegant bottles, an ideal accompaniment to special occasions. Grapes of excellent quality grow in the viticultural area of Goriška Brda. The interaction of the unique climate and soil, enhanced by human innovations in the winemaking, account for the greatness of these wines. The Bagueri wines develop an even nobler character by maturing in oak barrels" (<http://www.klet-brda.com/eng/wines/php>, 2005). The Bagueri bottles are unique and their style elegant. However the label lacks a short description in English of what the name and the wine stand for.

The following sub-brands have developed under the Bagueri brand: Chardonnay, Rebula, Pinot Gris, Sauvignon, Merlot, Cabernet Sauvignon and Contesse. From these, Rebula might be the best for the UK connoisseur consumer, who is more likely to buy this wine.

Figure 42: The Bagueri Brand



Source: <http://www.klet-brda.com/eng/wines.php>, June 2005.

5.6.2. *Quercus*

Quercus is the Latin word for oak tree, and the name points to the importance of oak in the wine maturing process. “The label applies to high-quality wines growing in selected sites of Goriška Brda. The oak tree can be described as solid, lasting, and eternal, and the same can be said for great wines” (<http://www.klet-brda.com/eng/wines.php>, 2005). This brand should target the segment of the UK wine consumers, who are willing to experiment and willing to pay more than £4.77 for a bottle.

Figure 43: The Quercus Brand



Source: <http://www.klet-brda.com/eng/wines.php>, June 2005.

There are several different sub-brands of Quercus, all named after the type of wine, produced in the Cooperative; Merlot, Cabernet Sauvignon, Cabernet Sauvignon, Pinot Noir, Pinot Blanc, Pinot Gris, Sauvignon, Chardonnay, Rebula and Tokaj.

5.6.3. *Villa Brici*

“Villa Brici represents a brand of quality wine from Goriška Brda. It is excellent table wine, very aromatic and perfect for less demanding tastes” (<http://www.klet-brda.com/eng/wines.php>, 2005).

The variety types of Villa Brici are the following: Rebula, Pinot Gris, Briski ros, Chardonnay and Merlot. The Cooperative should not enter the market with this brand, as the name is difficult to pronounce²² and the quality is average. The brand’s appearance suggests Old World but the quality might not be competitive enough for a consumer choosing from several high quality French brands within the same price range.

Figure 44: The Villa Brici Brand



Source: <http://www.klet-brda.com/eng/wines.php>, 2005.

5.6.4. *Archive Wines*

“Ever since 1957, the Cooperative has been maintaining a wine archive, storing the best wines of the best vintages. The bottles are stored on their sides so that the wine is in contact with the cork to keep it moist and airtight. Nevertheless, due to slight evaporation, the bottles have to be filled and the corks have to be changed once in twenty years. Therefore, do not be surprised to see a bottle of archive wine with a brand new cork” (<http://www.klet-brda.com/eng/wines.php>, 2005).

²² Most English speakers would naturally say “Villa Bricky” instead of the correct “Breetsy”.

Figure 45: The Cooperative's Archive Wines



Source: <http://www.klet-brda.com/eng/wines.php>, 2005.

6. DATA ANALYSIS

As this thesis moves forward it is important to test the actual perceptions that British consumers have of Slovenian wine. Baker writes that one must develop a research design and decide between observation, experimentation or a sample survey (Baker, 2001, p. 377). For the purpose of this case study, observation and survey research have been applied as the underlying techniques. Observation is intended to “maintain an awareness of information, actions and events” (Baker, 2001, p.378). It consists of the systematic gathering, recording and analysis of data. On the other hand, the survey technique is frequently interchanged with the questionnaire technique. Surveys are concerned with fact finding, by asking questions of persons representative of the population of interest, to determine attitudes and opinions, and to help understand and predict behaviour (Baker, 2001, p.384).

Observation and survey technique are usually grouped together to form quantitative research. Whilst it has been observed on several occasions that quantitative and qualitative approaches have been treated as opposing methodologies, it is also believed that when used together they provide the study with an “invaluable insight into reality” (Baker, 2001, p.384). They are believed to be complementary.

In the early stages of the writing of the thesis only in-depth interviews with wine experts or wine buyers were anticipated. However, as the study progressed, the importance of Slovenia’s country image and its effect on entrepreneurship became clearer. It was therefore decided that firstly, interviews would be conducted with people familiar with Slovenian wine who were also living in Britain and experienced in wine sales in the UK market. The two complementary parts are presented in this chapter and together with the Market Intelligence Food and Drink Consumer Behaviour research findings presented in the third Chapter, the issue of consumer behaviour prediction should now be concluded. The Chapter starts with a brief explanation of why case study research has been selected as the research methodology, and moves on to in-depth interviews and questionnaire analysis.

6.1. INTERVIEWS

The aim of the research was to obtain a few in-depth interviews with the wine buyers of both, larger off-trade chains and smaller, individual off-trade businesses, in order to get the insight into the buyers' mind and decision process.

Six interviewees participated in this study and agreed to the in-depth interviews. These participants were selected from a small pool of businessmen, experienced with Slovenian wine and with British consumers and their preferences. The sample was purposive; deliberately chosen from a variety of sectors, such as governmental, wine PR and wine trade sector. Other wine buyers were also contacted, but did not agree to the interview. Instead they stated their preferences and plans with regard to the import of Slovenian wine.

6.1.1. Slovenian Companies In The UK Market

Firstly, it seemed wise to start with one of the promoters of Slovenian business in the UK, economic counsellor Mr. Bojan Škoda at the Slovenian embassy. The interview was conducted on the 4th April 2005 and further contacts of the people who were involved in the launch of Slovenian market were obtained.

Mr. Škoda believes that things are far from optimistic. Larger Slovenian wine producers are not flexible enough with respect to various market opportunities in the UK market", stated Mr. Škoda. "Slovenian companies in general are becoming aware of the UK market potential and are eager to enter mostly due to the closeness of the home market, high economic growth and high potential turnovers in the UK market", stated Mr. Škoda. He is convinced that "Slovenia has the products which are suitable for the UK market, for example high quality wooden products. There are currently about 300 Slovenian companies present in the UK market, however these are all "old" companies that entered the market as Yugoslavian companies", stated Mr. Škoda. According to him "the new companies, who try to enter, are mostly product oriented and face high promotional costs". The worrying fact according to Mr. Škoda is that Slovenian companies do not know how to work together and have not completely grasped the concept of the win-win strategy. Individual companies enter the market because they have previously been invited by certain UK businesses, who spotted them at international fairs. "There are only a few courageous ones who do not fear to enter and who are prepared to invest in the market the way they should do", said Mr. Škoda.

It is clear from the information on the internet, there are a few Slovenian wine companies present in the UK market, among which several of them are small businesses, private, top-quality wine producers and two cooperatives: Vinakoper and Ormož. The latter works through the Winerite company, whose representative Mrs. Beverly Carter (interviewed on 11th April 2005) did not wish to comment on the sales of Slovenian wine but merely stated, that "Winerite is not interested in expanding the sales of Slovenian wine to the UK market".

According to Mr. Škoda, "too many of Slovenian wine producers focus on London only, whilst it would be easier to enter the UK market through Wales, Northern parts of England, Scotland and Northern Ireland". He also expressed his concern about the lack of firm strategies and brand building. "The UK market is all about brands and promotion and we are lagging behind", he said. Unlike other nations, Slovenes cannot count on diasporas, as there are less than 1000 Slovenes living in the UK and as there is a "kind of bitterness among the Slovenes living in the UK with regard to their homeland".

6.1.2. Governmental Incentives

With respect to governmental activities and its assistance to Slovenian wine producers abroad, Mr. Škoda openly admitted that even though the embassy has opened its premises to free wine tasting sessions in Central London, the Slovene government and ministry of Agriculture are not prone to listen to wine producers' concerns. "They do not seem to be aware that raising the country profile is necessary for the well being of Slovenian entrepreneurship", said Mr. Škoda.

The following true story might illustrate why, firstly, Slovenia is still unrecognisable to many British, and, secondly, how narrow-minded some of the Slovenian companies are. Vinopolis, which is one of the biggest wine centres in London, presents its wines according to the country of origin. A small corner in Vinopolis was assigned to Slovenia for presentational purposes, enabling Slovenian wine producers an easy entry. When the embassy contacted the ministry of Agriculture to arrange for the products to be displayed, no interest was shown in promotion and the corner is still empty which is the most disgraceful "promotion" one can wish for.

The issue itself is worrying, especially since it seems that the large cooperatives are not interested in promoting their wine through Vinopolis and remain deaf to any initiatives from the embassy, as if they were unaware of the invaluable free promotion. Goriška Brda for example "missed" their entry into Vinopolis for the first six months of the three-year trial period in Vinopolis, as they showed no interest. Vinopolis offered a stand where Slovenian wine would be for sale. Several Slovenian wine producers would have their chance and the wine, which has been selling the most, will stay in Vinopolis. As there was not interest for free promotion, the embassy has now turned to smaller producers and the sales of Slovenian wine in Vinopolis began in August 2005 with the Kunej wines from south-east Slovenia.

According to one of the interviewees (telephone interview with the Interviewee 3 was conducted on 22nd April 2005) "the problem with Slovenian wine producers is the fact that they have not had to fight for the market in the past. Their existing market has not encouraged them to improve their wine and discouraged them from improving the quality". "They sold what they could to their home market", added the interviewee. Slovenian wine production is still a "cottage industry" and not so much of a large-scale industry, stated the interviewee and added that "this might also be the reason why marketing skills are practically non-existent". According to the interviewee "Slovenia is taking its time" and she was convinced that "the Slovenian government is aware of the problem and does try to improve matters". "Slovenia is getting richer and is learning how to promote its products. Many wine producers are eager to export and promote their wine and the Cooperative Goriška Brda has one of the best, the youngest and motivated staff in Slovenia", she added.

"The Slovenian Government helped the Cooperative establish real contacts with the UK wine buyers and tried to initiate ongoing wine trade between Slovenia and the UK through the governmental wine export initiative", confided the interviewee. "A well-established on-trade wine buyer was invited to participate in this process and has chosen wines from three Slovenian cooperatives to be imported to Britain, which is definitely a positive sign for the Cooperative's export. Further import however depends on the success rate of this year's sales and is as such still unstable".

6.1.3. Selling Quantities To Supermarkets Or Quality To Specialised Licences?

Mr. Škoda advised the author of further contacts, which proved to be essential for further analysis. It has to be noted that one of the propositions involved selling wine to specialised

independent off-licence stores, whose customers were more likely to appreciate good quality wine and more likely to try new and interesting tastes. However, some of the interviewees expressed their concerns with regard to this issue. They believe that the Cooperative would be better-off selling to supermarkets as well as to on-trade and specialised off-trade dealers²³.

Ms. Judith Irwin (interviewed on 8th April 2005 and on 18th May 2005), wine judge, director of Judith Irwin Fine Wines, and importer of one of the Slovenian champion wines produced by Mr. Jozef Kupljen from North East Slovenia, claims that people who try Slovenian wine like it and come back to her. She is convinced that there is a market for Slovenian wine in Britain, but segments should be targeted carefully and only the best wine should be chosen. She would not be interested in importing large quantities through her business, but is willing to promote the Cooperative's Traviata through supermarkets. It has to be noted that Judith Irwin met the Cooperative's representatives at London Wine Fair in May 2005 and tasted some of its wines. As the Cooperative did not bring one of its top varieties – Rebula with them, Irwin agreed to visit the Cooperative and select a range of the wines she would be interested in.

Waterloowines (phone interview conducted on 11th April 2005) believe that selling Slovenian wine through supermarkets is not the best way forward. "Low county image and unfamiliarity with Slovenian wine will deter customers from buying the wine and consequently wine buyers from further orders", claimed their representative. "Supermarket sales also require constant promotion", said Waterloowines and they are convinced that Slovenian wine producers are not prepared for that yet.

6.1.4. Expert Opinion On The Quality Of Slovenian Wine

One of the interviewees, who was interviewed on 7th April 2005 (Interviewee 6), was hired by the Slovenian government to help Slovenian wine producers adapt to the UK wine market requirements. She has visited Slovenia on several occasions and is familiar with Slovenian wine. Her role in the adaptation process is "to help Slovenian wine producers see the world through international instead of national eyes and to provide them with feedback". The interviewee claimed that "Slovenian vineyards are well run, however, wine producers copy Italian style of production". She believes that "the way the grapes in Slovenia should be handled is the French way and not the Italian". According to the interviewee "wine producers are aware of this", it has to be noted however that the whole process cannot be shifted to the French style over night and requires a lot of effort.

Another concern expressed by Waterloowines, which is one of the importers of Slovenian Refosco, was that "Slovenian wine is too 'oaky' and is therefore not best matched to the British taste". That kind of wine requires a certain type of food to go with it, but "people are not buying wine together with their dinner", said the Waterloowines representative. Another interviewee agreed with this when stating that "some of the Slovenian wines are too oaky", but was convinced that Slovenian producers would learn how to handle woods and put this down to a learning curve.

Judith Irwin is convinced that Slovenia is one of the world leaders in the production of high quality wines. "Density of the highest quality wines in Slovenia is probably among the top ones in the world", said Irwin. Judith Irwin was responsible for the launch of Bulgarian wines into the UK market 20 years ago and she discovered Slovenian wine when she was invited to

²³ This issue is contradictory and one thing is certain; supermarkets require quantities and the "New look" bottles, which will be discussed in the next chapter. It is believed that at the moment the Cooperative is not able to provide either and cooperation with other Slovenian wine producers is highly necessary.

Slovenia as a wine judge. Now she is one of the strongest supporters and promoters of Slovenia as a country and Slovenian wine and is eager to import more of the top quality wine.

6.1.5. Cooperation Among Slovenian Wine Producers To Provide Quantities As Well As Quality

When asked if this would be enough for successful entry into British market, the Interviewee 6 said that “Slovenian cooperatives should enter the market together, with a nationally based brand”. The interviewee expressed her concerns with regard to the Cooperative’s aspirations to be the sole initiator and the leader of the national brand establishment, as “this might make some of the participants feel inferior and they might consider retreating”, she stated.

The main problem currently faced by the Cooperative is to sell quantity as well as quality. The interviewee encourages the Cooperative to go to “the middle of the market” and is determined to help the Cooperative sell a bottle of wine under £5.00. She estimates that “it will take them 10-15 years to do so”.

“The Cooperative is constantly working on quality, however it is obvious that selling a bottle for the magic £4.99 will exert pressure on the quality”, expressed her concerns the Interviewee 3. This is also the main concern expressed in this thesis, as it is important that the quality remains intact. Interviewee 6 claimed, that “it is important to look at the range and quality of wine sold at certain prices, for example at £4.99, as consumers may buy high quality French wine for the same price or a very popular Australian bottle of wine for slightly more”. She is confident that “Slovenia produces good wine, but wine producers have to step together in order to provide the UK market with large quantities, appropriate price and excellent quality. What will determine purchase decision on such occasions is the type of wine, familiarity and country of origin”²⁴.

Peter Denton (interviewed on 8th April 2005), who helped establish Judith Irwin Fine Wines, stressed that “the tradition of Slovenian wine making is to produce smaller quantities”. His experience with sales of Slovenian wine shows that “consumers are pleasantly surprised when they try Slovenian wine”. He believes that “the image of Slovenia and its wine is low and people who do buy the wine are the ones who wish to try something different”. Judith Irwin Fine Wines aspire to sell two thousand bottles via the internet but unfortunately their website has still not been registered with Google search engine which would enable greater access to their website.

6.1.6. Sensitivity Of The UK Wine Market To Visual Image Of The Wine Bottles

Interviewee 6 agrees that the British market is sensitive to visual image of the wine bottles. “Label and design are telling the people what to expect”, says one of the experts. She believes that “Quercus is the bottle with the right label, whilst anything else should be improved to appeal to the British consumer”.

Irwin liked the Bagueri label and agrees that “the Cooperative should stick to the Old World label image in the British market”. She is convinced that “the Old World label adds about £2.00 to the bottle value and is therefore extremely important”. “A bottle has to have a pick-up

²⁴ Personal observation is that out of these three, Slovenian wine loses out on two points; familiarity and country of origin, which is particularly worrying.

appeal”, said Irwin who is aware that not all consumers are wine connoisseurs and choose the wine because of the look and not because of the perceived quality.

6.1.7. *Familiarity With The Country Of Origin*

Interviewee 3 expressed her concern with regard to the entry of Slovenian wine to the UK market. “The British market is very consolidated and many buyers finished their Eastern European market sales”, she said. “Eastern European wine is unfortunately not that popular anymore and it might be difficult for Slovenes to step in right at this moment. A very strong marketing campaign initiated by the ministries would be needed”, she added.

As already mentioned above, Waterloowines is not pleased with the sales of Slovenian wine. Their clients include a couple of restaurants who are regular buyers of their Slovenian wine, but generally Refosco is not popular with their buyers and they “certainly will not be increasing the imported volume”. The Waterloowine representative also added that people “do not know the country nor the wine and if they buy it, they try it because they think it is exciting and different. If people do know the country they place it in Eastern Europe and are unpleasantly surprised that a bottle of wine is sold for £8.15”. “This price seems to be too high to match the competition and can only reach a tiny market share”, they say. Unfortunately, Slovenia again falls between two stools; its quality wine that has not got the reputation of France and Italy, but it instead gets tarnished with East European image of poor quality cheap wine which makes it difficult for them to demand a high price that reflects the quality of the product.

6.1.8. *Other Buyers*

Apart from the interviewees whose views are summarised in this Chapter, other buyers from larger wine businesses were contacted. Even though these buyers did not agree to the interview, they were willing to state their interest in imports of Slovenian wine and in some cases where no such interest was obvious, they explained why this was the case²⁵.

Among the first ones to be contacted was Berry Bross & Rudd Ltd, who said that they “have no requirement for Slovenian wine”. They added that the Cooperative would be better off approaching the High street or the supermarkets.

Winerite, which is one of the biggest importers of Slovenian Laski Riesling, expressed no interest in importing more Slovenian wine. They are not enlarging their imports from the East as it does not sell the way they expected, they said.

The Sunday Times Wine Club²⁶ is interested in importing Slovenian wine, as they are expanding their range of wines from Eastern Europe. They said that they had concluded negotiations with the Russian and Czech wine producers and would be keen to import more of Eastern European wine. The Sunday Times Wine Club is exclusive, and exporting through them would guarantee exports under a recognized name. It is definitely an option the Cooperative has to consider before anyone else takes advantage of this opportunity.

Oddbins is not at all interested in importing Slovenian wine, they did however ask for the export prices.

²⁵ The interviewees do not want to be named. Their full contact details can however be obtained from the author.

²⁶ Personal experience with the Sunday Times Wine Club is that it offers one of the best Customer Services.

Threshers Group said that they “already are familiar with the Eastern European Wine, as they export a lot of Rumanian and Bulgarian wine”. Threshers do not “wish to make any changes to the Eastern European range at the moment”, they however do not opt out of future collaboration with the Cooperative and will keep the details in their file.

Wine Society was unsure about importing Eastern European wine but they would consider coming to the wine tasting if such an event existed.

6.2. QUESTIONNAIRE ANALYSIS

The questionnaire (see Appendix 1) was handed out to 73 people. 66 responses were completed and valid and are analysed in this sub-chapter. The questionnaire was designed purely to test the feeling about the country of origin of the new product on the market – Slovenian wine. The results are not statistically representative for a city of 7.2 million inhabitants (<http://www.statistics.gov.uk/census2001/pyramids/pages/h.asp>, 2005), and especially not for a national market size of 60-million. The questionnaires were however distributed in two, different areas of London; West Hampstead, which is known for middle class people with reasonably high incomes and a good standard of living, and on Kilburn High Street, which is ethnically mixed and where income per head is generally that of a lower group.

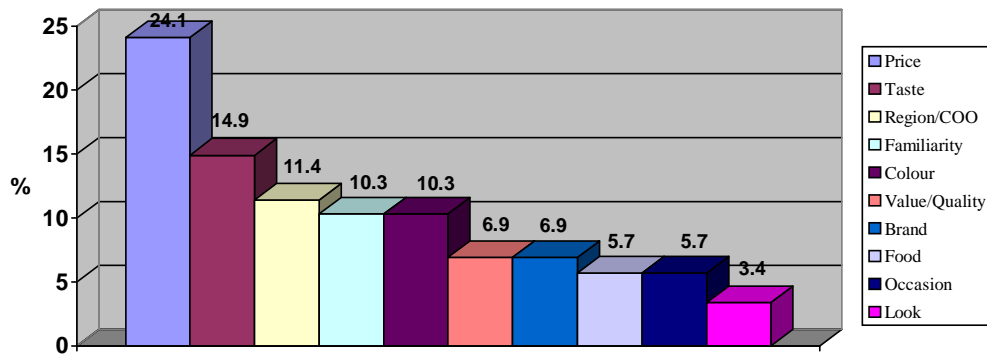
The questions in the questionnaire were closed-choice questions and open-end questions (please see the Appendix 1). The first category was used for the definition of income and age bands and for measuring familiarity with the country. The open-end questions were used where the interviewer wanted to firstly, not influence or suggest the answers about Slovenia as a country, and secondly, to obtain answers as versatile as possible. No multiple-choice questions were included in the questionnaire.

Since the questionnaire was handed out to people either going to work or during their lunch-break, it was important that the questionnaire was as short as possible. The results of the survey will be presented thematically. No methods other than statistical or stochastic methods will be applied for data analysis, as this method is the most suitable for “conditional predictions” (Merrilees, Tiessen, 1999, p.326).

Before they agreed to participation in this survey, respondents were selected by being asked whether they drank wine. In addition to the passers-by stopped at the two street locations in London, an additional 10 questionnaires were obtained through asking a colleague to distribute them to his associates in his work place, the Financial Times. Different sources were approached in order to guarantee equal presentation of age groups and income ranks. Age structure of the respondents and their income bands were not revealed by all of the respondents, since these two questions were optional.

As with the Market Intelligence Food and Drink survey, which analysed a sample of 25,000 respondents, the opening question of this author’s survey focused on factors influencing purchase decision. Respondents were asked: “*What influences your purchasing decision most when buying wine?*” The results are presented below.

Figure 46: Factors Influencing Wine Purchase

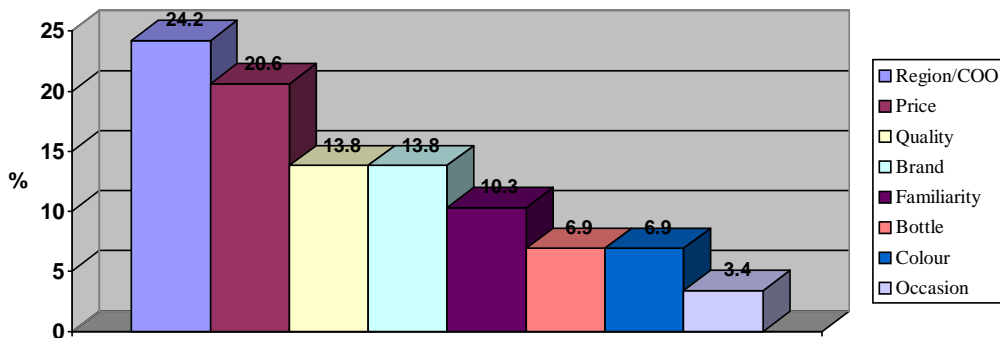


Source: Questionnaire Analysis, London, 2005.

Among the most important factors influencing purchase decision are the price of a bottle of wine (24.10%), taste (sweet, dry) (14.90%) and the country of origin (11.40%). In comparison, the Market Intelligence Food and Drink research showed that 32% of respondents were price sensitive, 26% chose wine according to its colour and 25% according to the country of origin.

If we however look at price sensitivity among the higher earners in this survey, i.e. among those who earn more than £27,000 a year (23 respondents of the total 66), the picture changes and country of origin plays a crucial role in decision-making process.

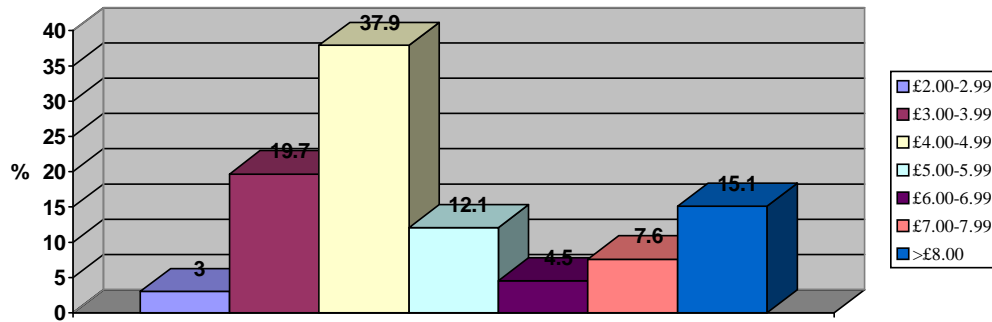
Figure 47: Factors Influencing Wine Purchase Decision Among the Top Earners



Source: Questionnaire Analysis, London, 2005.

The second question the respondents were asked to answer was “How much do you usually spend on wine?” The answers varied, however the majority of respondents spend from 3.00-4.99 GBP a bottle. 40 respondents out of 66 usually buy a bottle, which costs less than 4.99 GBP. The number of respondents prepared to pay more than £8.00 a bottle suddenly rises again, indicating a large minority at the expensive purchase end, and less in the middle range. This question did not have the closed type of answers, which might have been better. Several respondents said that they bought wine from wider categories or that the price category depended on occasion.

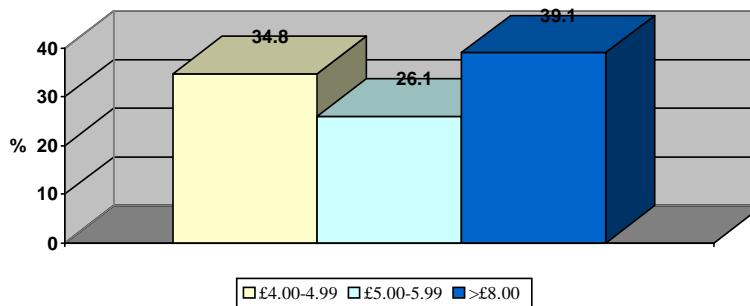
Figure 48: The Price Consumers Usually Pay for a Bottle of Wine



Source: Questionnaire Analysis, London, 2005.

One of the trends in the UK and in ageing Europe is the rising consumption of both the baby-boomer i.e. people born in the years following the Second World War and the rising consumption of the 65+ population. Baby boomers are very important in consumption analysis, as these are the people who were involved in a massive social revolution, who demanded their own culture, fashion, music and who rejected the beliefs of their parents (Evans, 1999, p. 214). These people are the most likely to know what they want and the most likely to shift from beer to wine and to pay good money for good value. The 65+ people are interesting for consumer behaviour analysts because of their growing representation and the ageing continent. These consumers are gaining their place in wine consumption (Market Intelligence Food and Drink, 2005) and together with the single female wine consumers they have often been targeted as The wine consumers of the New as well as Old world wines. They are expected to pay more for a bottle of wine, firstly due to higher level of income, and secondly due to appreciation of quality. The price, they are willing to pay for a bottle of wine is presented in the Figure 49. The Figure below shows that respondents aged 50+ usually spend more on a bottle of wine compared to younger wine consumers. Whilst 34% of the respondents aged 50+ usually spend £4.00-4.99 a bottle, cca. 40% of them spend more than £8.00 on average.

Figure 49: Average Expenditure per a Bottle of Wine (Population 50+)



Source: Questionnaire Analysis, London, 2005.

When respondents were asked whether *they had ever heard of Slovenia and if they would have been able to locate it on the map*, almost 60% of the respondents said they had. However, only 36% of those respondents who have heard of Slovenia, would be able to place it on the map, which means that around 21% of all respondents know where Slovenia is. Retrospectively, this question could have been phrased better to test the participants' knowledge better. This question as it stands is likely to produce a higher number of positive responses because, firstly, people may be ashamed to say they do not know, and secondly, many respondents clearly interpreted the question to mean "If I showed you a map, would you be able to put your finger on Slovenia?" A more accurate question to measure their knowledge would have been: "Which countries does Slovenia border?"

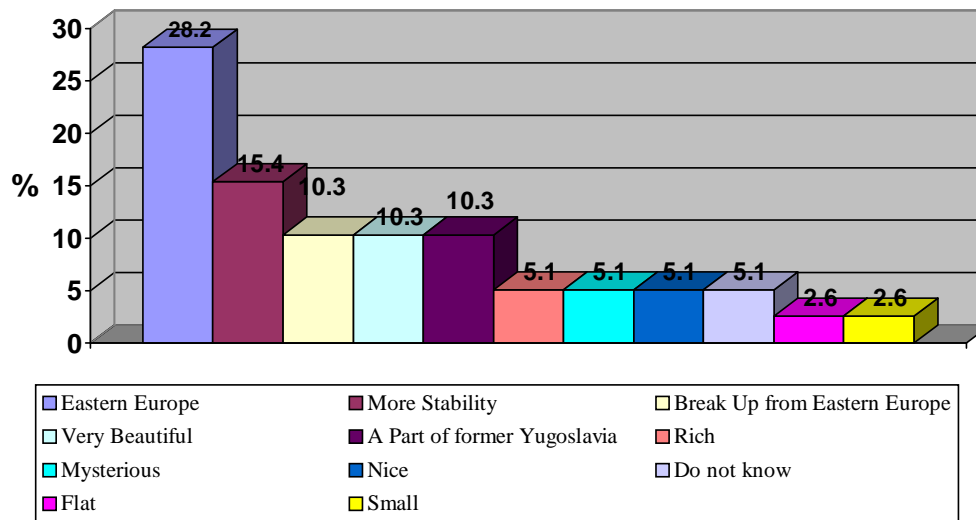
Figure 50: Familiarity with Slovenia

"Have you ever heard of Slovenia?"	
YES	NO
59%	41%
"If you have, would you be able to locate it on the map?"	
YES	NO
36%	64%

Source: Questionnaire Analysis, London, 2005.

The respondents who had heard of Slovenia were asked to write down a couple of unprompted words that expressed their feelings or impressions of the country. The survey has shown that Slovenia is firstly associated with Eastern Europe (28.2%) and secondly with the lack of stability (15.4%). 10.3% of the respondents associate Slovenia with the break up from Yugoslavia, with beauty, and with the break up of Eastern Europe. 5.1% percent of the respondents think of it as a "rich country", as a "nice country" and as a "mysterious country". The same percentage of respondents have no feelings or are unaware of their feelings towards the country. 2.6% of the respondents think of Slovenia as a flat country and the same percentage of them think of it as a small country.

Figure 51: Feelings of the Country



Source: Questionnaire Analysis, London, 2005.

When respondents were asked whether they knew that Slovenia was a wine producing country, the majority of them were unaware of this (74.2%) and only 25.8% of them were. The survey lacks a question to establish where those 25.8% found out about Slovenian wine, so that it would be easier to establish which media was the most successful in delivering the message across to the public.

Figure 52: Awareness of Slovenia as a Wine Producing Country

“Do you know that Slovenia is a wine producing country?”		
<i>YES</i>		<i>NO</i>
25.8%		74.2%
Income band		
<£26,999	>£27,000	
37.5%	62.5%	

Source: Questionnaire Analysis, London, 2005.

Out of the 25.8% of the respondents, who were aware that Slovenia was a wine producing country, 62.5% earned £27,000 and more i.e. were the high earners. It is worth mentioning that in Britain there is particularly high correlation between higher income and higher class status i.e. well educated middleclass people who are more aware of Slovenia as a wine producers. In many other Western societies, higher earnings do not mean more cultural awareness.

Those respondents, who were aware that Slovenia was a wine producing country, were asked whether they have ever tried Slovenian wine. If they had, they were asked where they bought it from. 28.6% of the respondents who were aware that Slovenia was a wine producing country, have tried its wine, whilst 71.4% of them have not.

Figure 53: Experience with Slovenian Wine

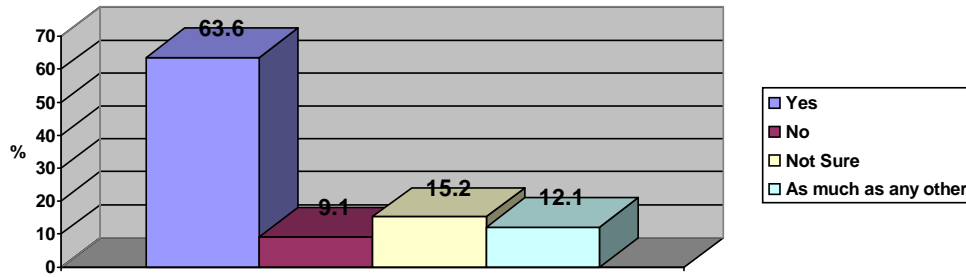
“Do you know that Slovenia is a wine producing country?”		
<i>YES</i>		<i>NO</i>
25.8%		74.2%
“Have you ever tried Slovenian Wine?”		
<i>YES</i>		<i>NO</i>
28.6%		71.4%
“Where did you buy it from?”		
<i>Do not know</i>	<i>In Slovenia</i>	
71%	29%	

Source: Questionnaire Analysis, London, 2005.

Only 29% of the people, who knew that Slovenia was a wine producing country, have tried Slovenian wine. 71% (which is 5.3% of the total sample) of those, who have bought Slovenian wine, do not remember, where they have bought it from, whilst the other 29% (which represent 2.1% of the total sample) have bought it in Slovenia.

Even though awareness about the country and experience of its wine are low, people were asked to answer whether they would be willing to buy Slovenian wine if it were available in the shops. The majority of the respondents would buy it in the shop (63.6%), whilst 12.4% of them would consider buying it as much as any other wine in the shop. 15.2% of the respondents are unsure whether they would buy Slovenian wine, whilst 9.4% of them would not consider buying it if it was available in the shops. As already mentioned, the results gained through the questionnaire are not representative and should only serve as indicators of a “general feeling” towards Slovenia as a country and Slovenian wine as its product.

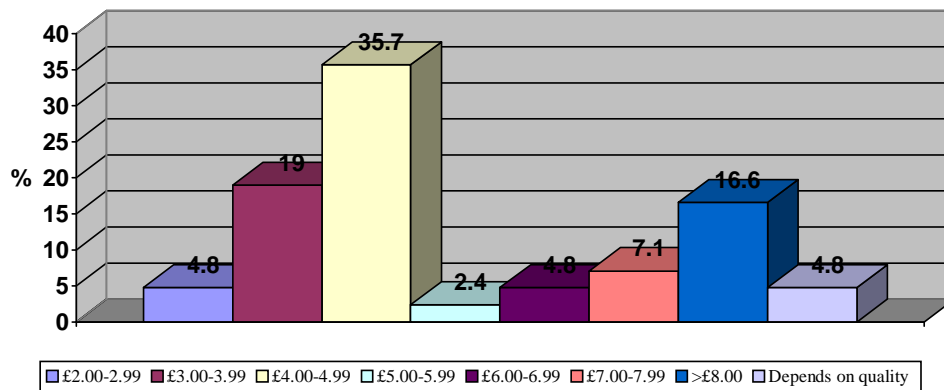
Figure 54: Would You Consider Buying Slovenian Wine If It Was Available in the Shops?



Source: Questionnaire Analysis, London, 2005.

All respondents who reported that they would consider buying Slovenian wine were asked how much they would be prepared to spend on a bottle of Slovenian wine. The majority of them (35.7%) would spend £4.00 – £4.99 a bottle, whilst 19.0% of the respondents would spend £3.00-£3.99 a bottle. 16.6% of the respondents would pay much more (more than £8.00), whilst 4.8% of the respondents would compare the price to quality. Comparing this to what consumers usually spend on a bottle of wine, it becomes clear that more respondents are willing to pay £2.00-2.99 a bottle, which means that they perceive Slovenian wine as lower quality. However, the number of respondents who would be willing to pay more than £8.00 per bottle of Slovenian wine is higher than the number of the respondents who usually pay that much for a bottle of wine of different origin. This is an interesting fact as it once again shows how price sensitive the low-end of the market is. The profit lies in sales through the top-end specialized licences and not through supermarkets.

Figure 55: Willingness to Spend Money on Slovenian Wine

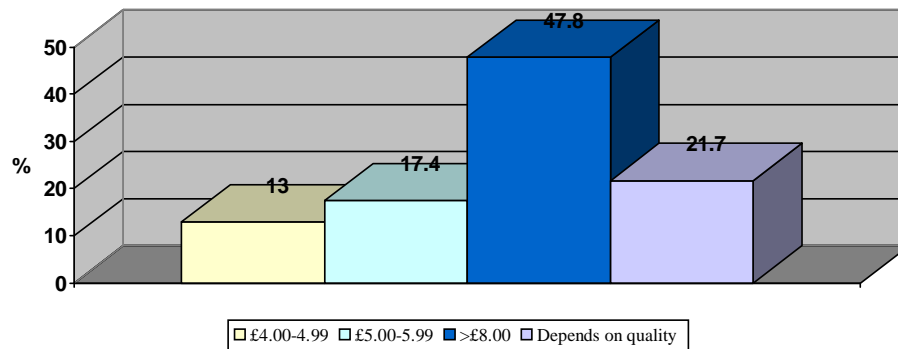


Source: Questionnaire Analysis, London, 2005.

The analysis of the results among the top earners shows that people earning £27,000 a year or more would be willing to spend much more on a bottle of Slovenian wine, however this is also the group which conditions the price to the quality the most. Among the respondents, who

stated, that they would be willing to pay £8.00 a bottle or more, 72.7% stated that they would pay up to £20.00 a bottle.

Figure 56: Willingness to Spend Money on Slovenian Wine (>£27,000)



Source: Questionnaire Analysis, London, 2005.

7. DISCUSSION

7.1. INTERNATIONALISATION PROCESS AND THE LESSONS LEARNT

As discussed in the theoretical Chapter, the success of a company entering the new market depends on its experience and knowledge in relation to this market. Information can be gathered through other companies' experience and through secondary resources, however, according to the Scandinavian school, the most important factor is experience and presence in the market or in culturally similar markets (for example the presence of Goriška Brda in Bosnia or in Croatia).

If the Cooperative wishes to maintain its position as the largest Slovenian wine exporter, expansion is needed. Falling home wine consumption and increasing competition in the former Yugoslavian markets are the two main drives of export and outward internationalisation. The Cooperative is the closest to the former Yugoslavian markets, where it is recognised as an excellent quality wine producer, and is trying to position itself as such in other European markets. Even though the Cooperative's exports to these markets, especially to the Italian market, are rising, thorough marketing strategy, such as joint advertising and promotional campaigns in the new markets, will be required to raise awareness of its wines in these markets.

Soon it will prove necessary for the Cooperative to deal through affiliates in the more established markets. Affiliates in Bosnia, Croatia and Yugoslavia would "release" the ties with the main unit in Slovenia, take the burden off the Cooperative's shoulders, tariff- and tax-wise. Allowing local Bosnian, Croatian and Yugoslavian ownership of the final product would bring the wine closer to the hearts of final consumers, whilst simultaneously improving the consumer's identification with Slovenian wine so that they regard it as a joint product –half Slovenian and half local. This strategy has been successfully carried out by Kleenex in the UK,

and by Volkswagen in the Balkans. Furthermore, knowing the character of the Balkan soul, this method would guarantee their loyalty to the brand for years to come.

If the Cooperative is to be successful, entering the market through the UK-based importer, Berkmann, will not be enough and the Cooperative should find ways through other distributors, for example through the Sunday Times Wine Club. Current internationalisation strategy, though safe, is at the same time passive. It should be in the Cooperative's interest to take more control and responsibility over the internationalisation process and to fully appreciate the risks and rewards of UK market entry. The market is demanding and consumers are much more aware of their choices than in other European markets. The product should be tailored to match the demand and this still has a long way to go. One reason for this passive entry route could be that the Cooperative might be wary about involvement in a market where the operational costs are high. Certainly it takes time and money to establish the presence of a new brand in a new market. But creating a sales subsidiary and cooperating closely with PR (for example through Deborah Collinson's agency) and with high-profile marketing agencies in the UK (for example Saatchi&Saatchi) is more likely to build a brand than dealing exclusively through a third party exporter. The Cooperative needs to plan long term to prepare for a demanding market with purchasing power much higher than that of former Yugoslavian markets.

The point of this argument is that the Cooperative is far behind in the internationalisation process and that it is not using the potential it has. With excellent opportunities in the USA, in the Balkans and in the UK, nothing much has changed over the past twenty years. It is not enough to believe that the experience from the Balkan markets can be borrowed for the UK market, as the knowledge gained in two completely different markets is non-transferable (according to the Scandinavian Stage Model).

The UK market is however similar to the American market, where the Cooperative is already present. In this respect internationalisation process in the UK market has already started, and the Cooperative should examine its mistakes and successes in the USA as a first step to entering the UK. The Cooperative's export to the American market hinges on one brand – Avia, which due to its poor quality image is not a brand that should be targeted at the UK market. The other two brands Bagueri and Quercus are not selling the way the Cooperative expected, which is certainly one of the indicators of penetration faults. The Cooperative should explore whether low sales are due to the brand name, appearance, or whether this is merely due to brand unfamiliarity. If American consumers are struggling with the name (Quercus, Bagueri) and its pronunciation, the British are very likely to do so. The product needs to be adapted to the market.

One of the questions of adaptation of the product range to internationalisation stage tackles the match between the product and the stage of development of the market. The fact that the price of a bottle of Cooperative wine is falling reflects the global trend in increased competition and downward pressure on prices. The most demanding markets must see the greatest range of the top quality wine with the highest acceptable price. Exports to countries like the UK, USA, Norway, Japan etc. should be the driving force for the top quality sales. Nevertheless, selling Bagueri and Quercus in the former Yugoslavian markets must continue to be stable and this loyal market must be maintained.

Another important question is timing. With poor business results at this time, the danger is that impatience will increase the vulnerability of the Cooperative at the very start of the internationalisation process. Entering the market to increase sales and revenues from goods

sold might damage the market position for good. The UK market is particularly media based and from this point of view, according to the Scandinavian internalisation school, the Cooperative has no experience whatsoever. The cost of a quarter-page sized add in the Financial Times is approximately £8,000; hiring a PR agency, consultants, intermediaries in the centre of Europe's financial and business world can rise up to half a million pounds.

When entering the large-scale off-trade in the UK market, the quantities produced by a single Slovenian wine producer are too low and they will not meet minimum quotas expected by many wine producers. On the other hand some importers of high quality wine will insist on purchasing wine that comes from an exclusive stock of at most 3000 to 5000 litres per year. Many UK wine analysts with some knowledge of Slovenia have expressed their concerns with regard to the flexibility of entrance and supply of Slovenian wine, as this "might scare"²⁷ some of the buyers. It appears that the difference and demand for the exclusively connoisseur type of market and the off-trade medium range market is blurred in the case of Slovenian wine supply. There are high quantities of high quality wine, and low quantities of the wine for off-trade. The Cooperative has to therefore artificially widen the gap, which will enable easier entry and avoid confusion with regard to demand.

7.2. TARGETING THE TWO SEGMENTS OF THE UK WINE CONSUMERS

7.2.1. Two Markets

The UK market no doubt offers great sales potential for good wine with respect to forecasted sales and wine consumption. On the one hand, there is a segment which is highly demanding with respect to quality and taste, and is not at all price-sensitive (i.e. the connoisseurs). The average consumer represents the second segment, which is particularly sensitive to price, label, and country of origin. The same consumer wishes to find information on wine wherever it is the most convenient (supermarkets and off-licences) and refuses to look for it elsewhere. This market, split into two segments, puts pressure on producers to satisfy both tastes.

The Cooperative's brands are undoubtedly the Old-World brands with the simple, old-looking label and conservative symbols. The names are all taken from the region's history, suggesting old world traditions. Since the territory was once ruled by neighbouring Italy and its predecessors, it is natural that this should be reflected in the brand and style. However, the problem is that most consumers – British and even Slovene – are unaware of the historical background (Bagueri for example is named after a countess who lived in the region's Dobrovo castle and known as the Queen of Wine), and are therefore unable to see the connection between the wine and the name. The Cooperative does not print any descriptions or explanations of its culture on the labels, so the message of exclusivity is completely lost.

The UK wine consumers are known to be more knowledge-hungry consumers than European and are likely to search for information on the bottle. If the bottle and the label will attract a consumer's attention, then what might deter the consumer is the country of origin – Slovenia. The country is unknown and people often confuse it with Slovakia. Moreover, its reputation as a wine producing country is unknown. There has to be something on the bottle to counter these negative aspects of origin and unfamiliarity. Consumers need to be convinced that the wine is special. Raising the profile of Slovenia as a quality wine-producing nation may require

²⁷ Wine Supplier for the WaterlooWines.

assistance from the Slovenian Government's national tourist agency. Cooperation with the Slovenian Tourist Organisation through its "Slovenia Invigorates" campaign might bear more fruit than campaigning alone. Collaboration with the local HIT Casinos would be a good vehicle for presenting wine as a complementary luxury experience for the British tourists visiting the Nova Gorica casinos.

Traviata, the brand recently launched for the US and UK markets, does not recognise nor target either of the two segments. It is too low in quality for the connoisseurs and too uninspiring in name and appearance for the price-sensitive market. For a company like Cooperative, which wants to sell both "quality" (high end products) as well as "quantity" (table wine), it is extremely important for the producer to cover all of the ranks in its portfolio from the top connoisseur market, where it is better to offer the Old World brands, to the low ranking market where it may be better to launch fruity flavours under the trendy, well designed and colourful brand, like for example the Bulgarian Blueridge.

7.2.2. The Price Sensitive Market

Since the Cooperative's management is eager to export on a large scale, this should be done carefully. The Cooperative has two brands already developed for this off-trade extremely price-sensitive segment: Traviata and Villa Brici²⁸. Even if the Cooperative enters the market through Traviata and Villa Brici, these two types will be sold as the Old World Eastern European wine with no "pick-up" appeal, and which cannot guarantee sales. The two brands should not be represented in the UK market at all as they would not sell and they would be competing in a highly competitive market. Their brand names are not well chosen for the British market and the quality does not match up to perceptions of the Old World high quality wine. Even if these bottles sell well, this will only satisfy the Cooperative's need to export large quantities, and will not build the brand awareness the Cooperative would wish to have. Firstly, the two brands should be renamed with an appealing name (i.e. pronounceable for English speakers, like for example Jacob's Creek), and secondly, they should be given the New World look (see figures 39 and 40). Most importantly, this brand should be launched through Slovin and not through Goriška Brda as this will damage the Cooperative's name in the long run.

If the Cooperative insisted on trying to market this low-end segment (i.e. Villa Brici and Traviata), then it should be done in the shops through promotions and special deals as it is extremely price sensitive. To reduce the costs, corks can be replaced with the screw top, labels reduced to a minimum, tags added and visual appearance superb. The name on the bottle should evoke positive associations with British culture and way of life. The French producers have established the "Old Bush Vines" for example associate with Australian Jungle²⁹. Jacob's Creek (see Figure 37) sponsors Friends and tries to deliver the message of relaxation and enjoyment ("Unwind").

The Cooperative should also consider selling their wine in carton boxes or in 2dcl bottles, as the Market Intelligence Food and Drink survey showed that these two types of packaging are becoming more and more popular among the wine consumers. If the Cooperative decides to stick to bottles, it should find an innovative shape to show that its wines are different (like for example Blueridge on Figure 41).

²⁸ It is worth considering selling under some other brand if the buyer is interested in this. Not only would this not affect the brand image, but it would keep the lowest-price pressure away from the Cooperative and reduce the costs.

²⁹ How paradoxical that famous French wine is having to pretend to be Australian to sell!

With regard to pricing of Villa Brici and Traviata under new names and as New World wine, the price per bottle should not exceed £4.99. Considering the general problem faced by the Old World wine producers, Goriška Brda earns a lot per bottle and should be prepared to lower the price or alternatively upgrade the image of their wine (tags, bottle shape etc) to add value to the bottle in the eyes of the consumer to justify the higher price. The Cooperative should tighten the suppliers of repromaterials and look for different ways to influence the costs. In the search for greater cost effectiveness, the Cooperative must keep in mind that this should not be at the expense of the quality of the wine. The Cooperative may decide to educate and motivate its member producers to produce more efficiently without sacrificing quality. Simply forcing the producers to sell to the Cooperative at a lower price per kilo of grapes would only encourage them to pass on this reduction in costs to their own overheads (i.e. fertilisers, skilled labour, investing in quality grapes etc), and the end result would be a lower quality harvest, leading to a poor or mediocre quality wine.

7.2.3. The Quality And Experience Sensitive Consumers

Whilst the Cooperative should make a dual market entry, the marketing of the high quality Old World brands, i.e. Quercus and Bagueri, should take priority over the lower range brands discussed above. The Cooperative needs to build the brand, which will be associated with high quality. It is therefore essential that wine experts are approached with the Cooperative's highest quality wine. In the UK market the wine with its individuality in taste and flavour will mostly appeal to people in the upper middle class, particularly those, who appreciate excellent wines and are interested in information about wine, culture and history. It targets people who like to experiment in their tastes (about 16% of consumers, according to Mintel survey from January 2005) and earn enough so that they can afford to. In order to reach this segment the best, the Cooperative will have to find a smaller specialised buyer with its knowledgeable clientele so that the brand image is set at the highest standards at the start.

The segment which should be targeted with the Old World wine appearance, Bagueri and Quercus, will look for information on the internet, in specialised wine magazines, at wine fairs (the most important English wine fair is undoubtedly the London Wine Fair, held annually), wine clubs and through wine tastings; everywhere where they can educate themselves. It is important that the wine in this segment is clearly the old world wine, with sophisticated taste and matching price, ranging from £8.00- £20.00 a bottle off-trade, depending on the type, vintage and perceived quality, as the UK top earning UK wine consumers would be willing to pay that much for a bottle of Slovenian wine. According to the questionnaire results, top earners condition purchase of Slovenian wine on its quality, which means that they should have the chance to try it first. The Bagueri and Quercus brands, as well as Piculit and Markiz are the perfect brands for this segment. It is worth mentioning again that each bottle should be equipped with a tag and an English label with as much information about the wine and its producers as possible. As two types of wine have been developed specifically for British consumers, the Cooperative should invest more in label and image perfection and it is certainly worth hiring an English based agency to work on the label as well as the bottle. It has to be stated that this is the segment which will contribute to Cooperative's brand building the most and should be separated from the mainstream mediocre off-licence wine. An example of how a professionally built and advertised Goriška Brda brand could look like is presented in the figure below.

Figure 57: An Example of a Professionally Presented Wine Brand



Source: http://www.missfreelar.com/img_portfolio/adv_6_g.jpg, 10.1.2006.

One of the most important things within this segment is to make sales available through a well-known specialised buyer. Consumers who have tried the Cooperative's wine through restaurants, might not want to find out that the same bottle is now available for more than 50% less off-trade, which is the problem American wine producers experienced lately. They got around it by selling it as two different brands to avoid confusion. Those consumers will either stick to exclusiveness and buy wine from the restaurant only, or will look for products from the same producer elsewhere. It is important that they are familiar with the sales outlets and therefore it is equally important that the Cooperative establishes such outlets in the UK market.

7.3. COOPERATION WITH OTHER SLOVENIAN WINE PRODUCERS

The likelihood of success of any Slovenian wine in penetrating the UK market is much higher when the tag "Product of Slovenia" becomes a unique selling point. If wine is to be sold across the UK, it will not exclusively be the wine of Goriška Brda, but "Slovenian wine" or at least "Western Slovenian wine" produced by the Vipava Cooperative, VinaKoper and Gorsika Brda, that one can find in the shops the same way Chilean, Australian and American wine is available. UK wine consumers are less likely to remember the producer than the brand and the country of origin. Working together with other Slovenian wine producers has several advantages:

- Lower costs for individual supplier
- Strength in numbers through brand building - It begins to create a common "made in Slovenia" product which UK consumers start to recognise
- Larger quantities matching the demand
- Wide palette of types of wine more likely to satisfy consumers' taste
- Shared advertising and promotional costs

- Split work
- Advantages of already established contacts

One can argue that the Cooperative's road to the UK market is paved with difficulties and it has been expressed by a few interviewees that once and for all Slovenian wine producers will have to step together if they wish to reap the rewards from the win-win strategy. The Cooperative cannot afford to enter the market on its own in these difficult business years. Should its efforts to cooperate with other larger cooperatives be limited, it should rely on smaller wine producers and form a network of wine exporters, even if it means that the Cooperative takes the lead.

Joint entry is particularly important, firstly, due to greater pressure and power on the governmental and other business centres who might offer some assistance, and, secondly, due to lower marketing and advertising costs, which is extremely important in the UK market.

In order to increase this awareness, this network of wine producers – when it is formed – should put pressure on the Slovenian government and its ministries (especially on the Ministry of Agriculture) to sponsor promotional activities at the London Wine Fair 2006. This year's under-representation showed the sheer lack of Slovenian interest in export to the UK, since some of the Slovenian wine producers could simply not afford to guarantee their own stands. It is worrying that the Czech Republic and Slovakia, who are less renowned as quality-wine producing countries, had their own stands and were promoting their wine, whilst Slovenia was visibly absent. Another issue that cannot be discussed in this thesis is governmental incentives. If Slovenian wine producers as a group could manage to attract government's attention in this particular case for the UK market, they are more likely to do so for other markets. Once the process of joint ventures and networks of Slovenian wine producers entering foreign markets has started, it will become self-sustaining.

7.4. AWARENESS RAISING ACTIVITIES

7.4.1. *Awareness Raising Through Press*

Apart from the awareness raising through individual press representatives, wine tastings can be organised in London, either at the Embassy or in restaurants or pubs, which has become a standard practice among French and New World wine producers³⁰.

Press in the UK is extremely powerful and can be split into trade (Decanter, Wine International Magazine) and consumer press (Enthusiast Magazine, New Consumer). Media activities and press promotional activities are probably the best value for money and Slovenian wine producers should definitely take advantage of it. Press can be approached directly, especially since some wine journalists write on certain wine regions exclusively. Two of the wine journalists who were contacted said they would be very willing to write about Slovenian wine producers³¹ and such contacts should not be wasted. Journalists should visit Slovenia and wine

³⁰ Wine Society organises several wine tastings around Britain. For further details please see http://www.thewinesociety.com/tws/Tastings.asp?Page=02_2_1_diary&Ext=asp&Dir=02Services, 5.7.2005.

³¹ One of them already has in the Wine International magazine, however, even though he wrote about wine producers from the Goriska Brda region, the Cooperative was not mentioned. Once again, lack of interest in promotional activities has manifested itself greatly, and it appears that small wine producers were more aware of the importance of media attention.

producers should keep them updated after the visit to guarantee their constant presence in the press.

At this point no TV promotions are advisable, as these are usually expensive, especially on British TV networks.

7.4.2. Awareness Raising Through Tourism

Approximately 120,000 British tourists visit Slovenia every year (Interviewee 7), and the number is rising. According to Slovenian Tourist Organisation British tourists are still unaware of Slovenia as a European country, but regard it as Eastern Europe. It is not unusual for tourists to ask STO whether travel to Slovenia is safe. However, once they return, British tourists are very loyal and they do tend to visit Slovenia on a regular basis. This offers great base for wine promotion.

Slovenian wine should be sold as one of the attractions of Slovenia as a country and as such, Slovenian wine producers should work closely together with Slovenian Tourist Organisation on their joint promotional activities (for example on “Slovenia Invigorates”). One of the criticisms of the Slovenian Tourist Association is that money spent on promotion of tourism in Slovenia is appallingly low. Slovenia is not very well represented in the UK press, even though the popularity is rising, as they claim in the STO. Therefore it is worth promoting the wine in tourist articles about Slovenia.

It is not an exaggeration to say that easyJet changed the history of British tourism in Slovenia. EasyJet is the first and the only low cost carrier in Slovenia and has substantially outperformed the Slovenian national carrier, Adria. The majority of British tourists fly easyJet to Slovenia and stay there for the weekend.

As previously mentioned, 70% of the passengers on the Ljubljana - London Stansted route are British (<http://poslovni.dnevnik.si/clanekb.asp?id=123678>, 2005) and following the results from the questionnaire, respondents who have tried Slovenian wine visited Slovenia. It is therefore important that they are targeted carefully. EasyJet distributes their in-flight magazine, which is released monthly, and passengers travelling to Slovenia have approximately two hours of flight-time to read the information in it. Advertising in the Inflight magazine would raise awareness of both Slovenian wine and the Cooperative brand. This is an important base for consumer awareness and it definitely should not be neglected.

The Cooperative should set itself an ambitious objective: to make sure that majority of British tourists or travellers who visit Slovenia come and try their wine.

7.4.3. Targeting British Tourists Who Visit Slovenia

The Cooperative has more opportunity to entice British tourists to try Slovenian wine when on Slovenian territory, and hopefully this will be love at first sight.

The travel industry is expanding and British people are known to be travellers. There are several tourist agencies offering packages in Slovenia and they might be interested in including wine tasting in traditional cellars in Goriška Brda as one of their features. The Cooperative should find these agencies and contact them with attractive brochures and deals. The Cooperative could be much more imaginative: Free bottles of wine per package in Slovenia and a reduction voucher for wine tasting would be good promotion. Exclusive holiday tours,

offering premium service could include one-day stay in the stately Dobrovo castle and a wine tour with presentation of traditional wine production.

Wine Education is another idea. More on more wine consumers wish to deepen their knowledge of wine. But wine courses are still thought to be exclusive and expensive. Wine courses as one of the tourist offers should be a driving force of Slovenian tourism. They should be presented as one of the highly skilled trainings with a certified diploma after a week in a pleasant environment. Goriška Brda could start offering such service and when doing so, the experts from the neighbouring Italy and their wine MBA courses should be consulted. This is a niche, that would establish the Cooperative as the sole education oriented cooperative in Slovenia. It would combine business with pleasure, two goals everyone aspires.

Golf is becoming more and more popular among the British people. Whilst Britain is heaven for golf, British people still like to play somewhere exciting, and take their golf clubs to Malaga, France and Malta. Bled is the location of both an attractive golf course and at the same time a picturesque tourist town. Goriška Brda should target golf players in Bled, who are usually members of the exclusive clubs and who appreciate excellent quality wine. If the Cooperative were to establish a restaurant in Bled, this would definitely catch almost every British tourist who visits Slovenia – since Bled is on every tourist itinerary.

Casinos are another tourist attraction which have emerged due to the immense interest of Italian gamblers. A high percentage of Italian gamblers in the Nova Gorica (on the Italian border) casinos offer jobs to thousands from the municipality and it is not unjust to say that the casinos do not have to fight for more visitors. Whilst everybody wishes that this would be the case in the future, it is quite clear that Casinos will soon have to turn to new customers, from the countries who can afford it³². The casinos are used to relying on foreign customers for the majority of their income and therefore have a well-developed promotion campaign to reach tourists. Working together with the Cooperative would be beneficial for both of the companies.

7.4.4. Internet

Internet sales are gaining in importance³³ and a wine producer without the online sales will definitely lose on sales if it does not provide such service. The current Cooperative's website is more informative, however fully operational website in Slovene, English, Italian, Serbian, Croatian, Bosnian and German should be set-up. Full prices should be displayed, basket shopping and fast delivery enabled. To do so, the importance of the main partner in the UK market is essential. Each label should direct consumers to online sales and bulk buying should be encouraged.

7.4.5. Selling Wine In Cooperation With Former Yugoslavian Companies

Although the Slovenian diasporas are non-existent in the UK, Slovenia's shared history and closeness, culturally and linguistically, with the former Yugoslavian countries is an opportunity not to be ignored. In London there are considerable communities from the former Yugoslavia. Several specialist shops and food chains in London and probably elsewhere in

³² One British visitor whom I met in Nova Gorica last summer, complained about the lack of advertising on the internet. He said that he ran a search of good casinos and had no idea where he was going. It was simply exciting to go to Slovenia and the decisive point in their search for casinos around Europe was the Nova Gorica hotel in the shape of ship. Together with some of friends they flew Ryanair to Trieste and then drove to Nova Gorica.

³³ The value of UK businesses' Internet sales rose to £39.5 billion in 2003, more than double the 2002 figure of £19 billion (<http://www.statistics.gov.uk/pdfdir/intsales1104.pdf>, 2004).

Britain could sell Slovenian wine. These shops offer a range of Yugoslav and other eastern European products to both migrant workers who need the taste of home, and to native Londoners who have global taste in food. Selling through these shops would not only enable former Yugoslavs to get the wine they know and trust here, but would also build brand awareness among those consumers, who visit the shop due to its exclusiveness and attractiveness.

There are several shops in London, which, surprisingly, sell Slovenian products³⁴. Fructal, which is the biggest former Yugoslavian fruit juice producer sells its fruit juices through these Albanian, Bosnian and Indian owned shops, which is quite a surprise. Another success story is Paloma, selling tissues and napkins, whose products can now be found for less than 50p everywhere in London and elsewhere through Tesco supermarkets. When Paloma was contacted with regard to their market entry they said that the success in the UK market results from over 10-year hard work and they are more than right to be proud of it.

8. CONCLUSION

This thesis has looked at the entry possibilities to the UK wine market for a Slovenian Cooperative, Goriška Brda. Primarily, the thesis has aimed to assess the match between the Cooperative's internationalisation phase and the development of the exporting market, specifically in the light of the Scandinavian stage model. The thesis has assessed the UK market potential for the Cooperative and defined what is believed to be the best market entry mode and entry strategy. The author has researched different sources: secondary data from theoretical models and from the Mintel Wine and Drinks research, conducted in January 2005; primary data from interviews with wine experts who have experience of Slovenia as a country and its wine, company data provided by the Cooperative, and, lastly, the results of the thematic analysis of the 66 questionnaires conducted in London.

The following has to be taken into consideration when analysing the proposed conclusions. Firstly, the information gathered through questionnaires, although a good indicator, cannot be representative for the UK. Secondly, the proposed segmentation should be developed further i.e. analysed segments should further be split into sub-segments. Different marketing strategies should be adopted for each sub-segment individually.

Given this data, the thesis recommends that a successful entrance strategy for the Cooperative into the UK wine market will address the following 4 areas:

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Internationalisation

The Cooperative started down the internationalisation path a few decades ago and is now one of the biggest Slovenian wine exporters. Despite the excellent opportunities such as export quotas to the USA in the second half of the twentieth century and despite excellent brand familiarity in the territory of former Yugoslavia, the Cooperative is still facing red figures. The wine consumption in Slovenia is falling and competition in the home market as well as in foreign markets is greater than ever. The Cooperative has not yet adopted a coherent long-term strategy to address these challenges. Its only response has been to try to look for new markets to improve its export revenues.

³⁴ It has to be mentioned that when shop assistants were asked where they got the products from they many times stated: "From Czechoslovakia".

One of the most attractive export markets is the UK. The UK is attractive for many reasons: there exists the rising “class” of wine drinkers; the market is big and well developed; and the price for a bottle of wine is – despite high excise duties – high. Economic forecasts and social trends show the rise of wine consumption in the following years, unlike in France and Italy, where wine consumption is falling. The UK market is split between the wine connoisseurs on one hand and, on the other, people who simply enjoy drinking wine without knowing much about it. The differences between these two segments are clear. Wine connoisseurs prefer the Old World wines and care for the vintages. Wine connoisseurs are after interesting and exciting wine, regardless of the price. In contrast, the average British wine lover cares for sweetness and fruitiness obtainable from the New World wine production. They prefer clear, interesting and nice looking labels with English names, and they are extremely price sensitive and would rarely pay more than £4.99 a bottle.

Analysis of the UK wine market shows that there is potential for Slovenian wine, however not for the Cooperative’s brands as they stand now. There have been warnings from the importers of Slovenian wine that it does not sell because the taste does not match an average British taste. It is too expensive for what consumers expect and it comes from a country that nobody knows. However with the right, wide strategy, the segments would be targeted with the right brand and there is room for profit in this process. This thesis proposes the dual-stream segment strategy, where both the wine connoisseurs and the average price-sensitive consumer segments are targeted.

One of the propositions outlined at the beginning of this thesis was that the Cooperative was on its way to higher internationalisation forms according to the Scandinavian stage theory. Having discussed the internationalisation theories in the second chapter and having seen the implications of the internationalisation process in general according to the four internationalisation models, one can no longer claim that the Cooperative is successfully expanding its internationalisation network. The entry and export modes to foreign markets are old and remain unchanged; indirect export. The moves to the markets are not high risk daring strategies, and the results that the internationalisation brings cannot lift the Cooperative out of its loss-making red figures. According to the Scandinavian stage model theory, companies start their internationalisation process in their neighbouring and culturally close countries through the less developed export forms. Later on, once the company has learned and experienced international business, when it has become familiar with the practices, the internationalisation spreads out to new, more distant markets in the shape of concentric circles; from the markets which are the closest to the company’s home market to more distant markets. The Cooperative started stretching out to distant concentric circles under Yugoslavia and it has managed to retain these markets. However, no significant progress has been made over the last 40 years. With the excellent opportunity of being the largest Eastern European exporter to the United States of America, the Cooperative has not moved to more advanced internationalisation modes and can only remain proud of being the largest Slovenian wine exporter, which is no great compliment, considering that the competition hardly ever exports. It can be argued that the early internationalisation phase being experienced by the Cooperative, should long before have been overcome. The Cooperative has to start thinking about joint ventures with other wine producers and has to become aggressive in its internationalisation process. Internationalisation has to become planned, and a product range selected for specific markets. It is time that the Cooperative lets go of the former Yugoslavian markets and gives them a greater degree of independence, i.e. transforms them into subsidiaries. The EU markets should be approached in cooperation with other Slovenian wine producers, with a common Slovenian brand as well as with a specific Cooperative’s range of brands.

Interpreting the Cooperative's internationalisation path through Dunning's Eclectic Paradigm, it is clear that whilst locational and ownership advantages enabled the Cooperative to become the largest Slovenian wine exporter, the Cooperative has by no means taken full advantage of internalisation process. This explains why no further progress with regard to more advanced internationalisation modes can be seen. Neither the Contingency nor Network approach can sufficiently explain the Cooperative's stagnating internationalisation process. From the Cooperative's more than 40 years of international activities, networks should have been developed to higher standards and the chance factors should have stimulated greater international success beyond the export to neighbouring countries.

Targeting Dual Segments

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The UK market entry will become more of a serious challenge for the cooperative once the Cooperative decides that internationalisation is the only way forward. It will become evident that export and partial presence in the UK market are not enough for the long-term success. The Cooperative has to firstly consider targeting different segments in the market and change their product range accordingly. Even though this thesis favours internationalisation through the highest quality wine, the Cooperative's management is desperate to sell in quantity rather than quality. If it does so, it has to be careful not to damage the brand and the company's image; it has to therefore sell through one of its affiliates, Slovin. It also has to consider whether the quantities it will supply are insufficient and that cooperation with other wine producers will prove to be a necessity.

Furthermore, the existing brand range is inappropriate for such a strategy. This thesis has proved that the Cooperative currently has only two brands which could sell well in the UK market based on existing demand (Quercus and Bagueri), and these two brands are high quality wine, suitable for a more discerning consumer. They would not be suitable for low price and bulk sales of a supermarket. Furthermore, whilst these two brands have great potential for success, they cannot be put on the UK market as they are. They would need careful marketing, with short descriptions in English on the tags, well designed labels and a nicer appearance, preferably designed together with an English based agency.

With regard to the price-sensitive segment, this thesis has proved that the Cooperative has done little if no market research before it designed the new lower-end brand, Traviata. The Villa Brici and Traviata brands are the two brands within the middle-quality range. They have been designed to deliver on quantity. However, all the evidence points to the fact that they will not appeal to the British consumer, who will find them too expensive for their perceived quality, being merely categorised along with other Eastern European bottles. The problem is that firstly, Eastern European wine does not sell, secondly that according to the results from questionnaires in this thesis, although not representative, Slovenia is perceived as an Eastern European country, thirdly, that as an Eastern European country it is unknown as a wine producing country, and lastly, and most importantly, the bottle seems to be that of the Old World which is not attractive or desirable among the UK wine consumers.

The market entry should therefore be based on a dual-stream market entry strategy. Firstly, the Cooperative should enter through specialised independent stores and through on-trade with their two improved top-quality brands Bagueri and Quercus. Promotional wine tastings and wine tours in Goriška Brda in cooperation with the regional development agency should be organised to give the UK wine connoisseur class the chance to try the wine and to convince themselves that it is worth its money. On the other hand, the large price-sensitive "Bacardi

Breezer generation” should be targeted with nice looking bottles through promotional offers in the supermarkets. Corks should be replaced with screw tops, wine sweetened, re-branded with an English name, and the bottle equipped with a tag. The price should be low and the shape of the bottle and the appearance of the label perfect.

Cooperation With Other Wine Producers

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There is a market for Slovenian wine. Nevertheless, selling to the average high-street consumer means selling through supermarkets, selling quantities and packaging these quantities in the New World look. For this, the network of Slovenian wine producers will have to supply the sweetest wine for the supermarket wine consumers. This might be the most difficult part, since negotiations and cooperation are not the greatest strengths of Slovenian companies. If however they do step together, they may be surprised at how successful they are, and joint ventures in other markets can soon be expected. Slovenia’s wine cooperatives should exert pressure on the Slovenian government to promote Slovenia as a country and its wine as its leading export product.

Promotional Activities

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Last but not least, the Thesis outlines some of the promotional possibilities through different channels. Firstly, a fully operational multilingual website should be set-up, enabling consumers online purchase through a UK-based distribution centre. Secondly, promotion through tourism i.e. tourists who come and visit Slovenia is a vital way to raise Slovenia’s profile, which is a first step to get people to buy “made in Slovenia”. The research in this thesis has shown that one third of consumers who have tried Slovenian wine, have tried it in Slovenia. Press and media should be contacted with regard to country profile and awareness raising. Wine tastings and promotional activities should be conducted both in London as well as in Slovenia.

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11. APPENDIX 1

Questionnaire

I am a MSc student at Nottingham University and for my thesis I am exploring the possibilities of Slovenian wine in the UK wine market. I would like to thank you for taking the time to answer to my questions on this occasion. If you wish to leave your address, please do so, as three respondents will be awarded.

What influences your purchasing decision most when buying wine?	
How much do you normally spend on a bottle of wine?	
Have you ever heard of Slovenia?	Yes / No
Would you be able to locate it on the map?	Yes / No
If you've heard of Slovenia, please write a couple of words that express your feelings of the country:	
Do you know that Slovenia is a wine producing country?	Yes / No
If yes, have you ever tried some of its wine? Where did you buy it from?	Yes/No
Would you consider buying Slovenian wine if it was available in the shops?	Yes/No
How much would you be prepared to pay for a bottle of Slovenian wine?	
What is your age group (<i>optional</i>)	18-35 36-50 51-60 65+
What is your income band (<i>optional</i>)	Less than £12,999 £13,000-19,999 £20,000-26,999 £27,000-34,999 £35,000-42,999 £43,000+

12. APPENDIX 2

MAP OF SLOVENIA



Source: Lonely Planet, <http://www.lonelyplanet.com/worldguide/destinations/europe/slovenia>, 11.4.2005