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MARKETING STRATEGIES FOR ORGANIC WINE GROWERS
IN THE VENETO REGION

by
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Marketing Strategies for Organic Wine Growers in the Veneto Region

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The Italian organic wine sector has dramatically increased, recently. In the last two years, the organic vineyard area has doubled reaching more than 50.000 hectares, while organic wineries account are more than 9.000 farms. In particular, the Veneto Region accounts for 4% of total area and for 15% of organic wine makers.

This study analyses organic wine sector in the Veneto Region mainly focusing on marketing issues.

Two organic wine enterprises are recognized: 1) small wine growers and 2) large-size wineries. The former are specialized in producing organic grapes while the latter are highly specialized in both cultivating grapes and processing wine employing sophisticated technology, especially in making wine. Almost total production is certified and it includes a great variety of red, white and old growing wines; most of the product is sold in foreign market, especially in Germany, USA, Japan while domestic market is limited.

So far, specialized organic stores and restaurants have been traditional retailing for organic wine. Now, the increasing size of production is sold especially through supermarket chains.

Two main marketing strategies have been detected among small wine growers and wineries. The latter are mainly focused on price and product variety while small wine growers, selling wine to traditional retailing, prefer a wine quality strategy.

Big size wineries selling to foreign or domestic supermarket chains or to final consumers have high market power inside wine supply-chain. These producers usually set the price through a mark-up on production cost.

Uncertainty coming from both high yield variability and market volatility is faced by increasing wine quality and marketing strategies reinforced by their own brand name.

Traditional tools, such as wine exhibitions, and new ones, such as e-commerce, drive organic wine promotion. An information campaign on organic food products should be also encouraged to alleviate informational asymmetries.

Although a great share of the increasing production of organic wine is well appreciated on foreign market, insufficient marketing activities may slow or impede the future growth. The ambiguous definition of organic wine plays also a critical role hindering further overseas market growth, as well.

Actually, Italy is a leading organic wine producer in the world, also its product features is perceived as high quality standard. However, lack of well design marketing plan could be a weakness for Italian wine-makers and exporters, as more and more competitors, such as the US, Canada, Australia with well planned marketing strategy, may affect Italian overseas market.

Keywords : wine growers, organic standards, market, certification, product variety, wine-making process, quality, marketing strategy,

Introduction

The organic agriculture has steadily extended world-wide in the last years not only in Europe, Japan or North America but also in many developing countries. The international market of organic food has rapidly increased as well: its share on total food market is still small (around 1-3%) but its potential growth in the next future is enormous.

Organic agriculture emerged in Europe in 1924 when Rudolph Steiner held a course in biodynamic agriculture; during thirties and forties important researches were carried out by Hans Mueller in Switzerland, Lady Eve Balfour and Albert Howard in Britain, Masanobu Fukuoka in Japan. In Europe, some conventional farms converted their activity to organic farming in sixties.

Since nineties, the development of organic agriculture in European Union (EU) countries has been supported by financial subsidies. In other countries outside EU, the organic agriculture growth has been prompted by a growing demand for organic product in Europe, United States and Japan.

According to SOEL-survey (February 2002), the world organic area is around 17 millions hectares (MH) mostly located in Australia (7.6 MH), Argentina (2.8 MH), Italy (1 MH), USA (0.9 MH) Brazil (0.8 MH), Germany and UK (0.5 MH each), Spain, France and Canada (0.3 MH each). The organic farming involves 9% of total area in Switzerland, 8.6% in Austria, 6.7% in Italy and Finland, 6.2% in Denmark, 3.2% in Germany, but it is around or lower than 1% in many countries (France, Argentina, USA, Brazil).

In 2000, the market for organic food was estimated around 17.1 billion dollars. The main market is Germany (2.2-2.4 billion \$, B\$, equal to 1.2-1.3 % of total food sales), followed by UK and Italy (1 B\$; 1% each), France (0.8-0.85 B\$; 1%), Switzerland (0,45 B\$, 2.5%), Denmark (0,35 B\$; 2.5-3%) while in USA was estimated in 8 B\$ (1.5-2%) and Japan 25 B\$ (ITC, 2001). The medium term growth forecast is estimated in around 10-15% in many EU countries and 20-25% in USA.

According to Organic Monitor (2001) organic retail sales are estimated to reach 26 billion \$ in 2001 (+26% related to previous year) mostly obtained in Europe (46%) and North America (37%).

The growth in Europe has been boosted by many scandalous such as dioxin chicken, Bse-crisis, feet and mouth disease, etc.. Furthermore, this growth has been accomplished by many supermarket chains entering to organic market rising product availability and promoting consumption.

An important factor behind the organic success is the positive consumer awareness on health and environmental issues, including the resistance towards GMO farming and genetically modified food products. Recently, an increasingly aggressive and targeted marketing and promotion by the retail sector introducing organic products have pushed sales, especially in USA (ITC, 2001).

Notwithstanding, several risk factors have to be considered. Firstly, the fast growing market may lead to oversupply in some products; the reduced price premiums for organic products or lower profitability may discourage this farming; the increased competition may be also a critical factor. Secondly, the lack of state regulations for organic agriculture may hamper trade, especially in developing countries.

Actually, official regulations exist in many countries but they differ in content and effectiveness. Within EU, regulations on organic agriculture have been set in the regulation 2092/91 since 1992.

Throughout the world, the International of Organic Agriculture Movements (IFOAM) established in 1992 the IFOAM Accreditation Program (IAP) to provide equivalence among official regulations existing in many countries. The IAP is based on international IFOAM standards, which are developed continually, and this process results in the "IFOAM accredited" logo (IFOAM, 2002)¹. More recently, FAO and WTO have declared their official guidelines on organic food products aiming to consumer protection and information, and promoting trade (FAO, 1999). In particular, guidelines for the production, processing, labeling and marketing of organically produced food are collected in the Codex Alimentarius and they are in line with EU-regulation 2092/91 and IFOAM basic standards.

¹ Up to 17 organizations have been IFOAM accredited throughout the world at the end 2001. Other 12 are in accreditation process.

In this study the organic market has been investigated focusing attention on organic wine. This paper is outlined as the following. In the first paragraph the Italian organic market is discussed. Next, the attention is shifted to organic wine farming in the world, EU and Italy. Then, the case study is showed. In particular, a sample of wine-makers, located in Veneto Region, has been analyzed by investigating farm features, management, supply, technology employed and market. The study on market has been further explored focusing attention on marketing strategies.

1. The Bio-boom in Italy

In 2001, the Italian organic market business was around 1 million € corresponding to 15% of total food consumption. According to recent forecasts, in 2005 the Italian organic market may reach 2 million € corresponding to 3-4% of total food consumption (Pinton & Zanolli, 2001). The growth rate in the last five years has never been down 20% (Table 1).

Lately, organic market development has been supported by continuous crisis of conventional agriculture and animal husbandry and it has been accomplished especially by the large-scale retail (LSR). In 2000, the number of supermarket with organic corner (1439) exceeded the number of specialized organic shops (987) (Biobank, 2001). Actually, the growth in supermarkets follows the overall growth of organic market. This can be now considered as new market segment than a niche one.

Table 1 - Food retail sales in Italy in 2000 by category

	Share (%)		Value Organic million €
	Conventional	Organic	
Bread & cereals	16.3	39.5	415.7
Meat	23.2	2.0	21.0
Fish	6.6	0.0	0.0
Dairy products & eggs	13.6	16.9	177.9
Fruit	6.4	8.0	84.2
Vegetables	10.9	19.0	200.0
Oils & fats	5.2	4.0	42.1
Alcoholic beverages	4.9	0.5	5.3
Non-alcoholic beverages incl. juices	4.8	3.0	31.6
Other	8.2	7.1	74.7
Total	100.0	100.0	1,052.5

Source: Zanolli and Pinton on ISTAT data, 2001

Most of organic retailers is located in northern Italy where industrialization and income are higher than central and southern regions. In the last years, all greatest Italian supermarket chains (Coop, Esselunga, Giesse, Pam, etc.) have launched their own private label. Other than supermarkets and specialized independent organic food shops (smaller than 100 square meters), there are large outlets (between 200 and 500 square meters) and about fifty regional and nation-wide franchise shops (Compagnoni, Pinton and Zanolli, 2002). The most important is the franchisor NaturaSi with 30 franchisee “*superettes*”. The introduction of private labels by supermarket chains has improved grading and services in supplying organic food products.

Premium prices for organic products are also relevant, especially at retailing for processed imported goods. On the average, the price of organic products is 36% higher than conventional ones (Table 2).

Because of the small-scale processing plants and inefficiencies in distribution channels, processed food even from domestic products, has often very large premium prices.

However, supermarket chains are able to reduce premium price minimizing logistic and distribution costs since they sell both organic and conventional products.

Table 2 - Comparison of prices of organic and conventional food products in different retail shops

Product \ Retail	Organic shops	Direct marketing	Supermarket, organic	Supermarket, not-organic
olive oil	8.4	10.3	5.8	5.2
potatoes	1.7	1.4	1.4	1.0
tomatoes	1.8	2.8	2.3	1.5
onions	2.0	2.0	1.8	0.9
cucumber	2.8	1.8	1.5	2.1
carrots	1.9	1.5	1.8	1.3
apples	2.3	1.8	2.7	1.9
oranges	1.5	1.4	1.6	1.2
white wine	3.8	2.1	4.1	3.4
yogurth	4.3	n.a.	4.5	3.7
eggs	0.3	0.3	0.4	0.2
baby food	7.0	n.a.	8.4	6.8

Price €/kg or€/liter €/per egg.

Source: Zanoli and Pinton, 2001

Another relevant marketing channel is catering. There are about a hundred organic restaurants (mostly vegetarian and macrobiotic ones), most of which are located in the northern and central regions and in the larger towns.

A very interesting marketing channel is represented by organic school cafeterias, where a organic menu is served to more than 380,000 children in nursery and middle schools located in metropolitan areas (Rome, Bologna, Turin, Padua) as well as in smaller towns. Starting in 1999, a Italian law forces municipalities and hospitak to use daily organic, typical and conventional food in their catering services²

Almost 1/3 of Italian production is exported mainly to EU countries, but also in the US and Asian countries as Japan or Taiwan. The main export market is definitively Germany, which share is about 50% of total Italian exports, then UK (16%) and Switzerland (14%), while residual export is sold in Austria, Scandinavian countries, France and not-UE countries (Gallas, 2000). The range of organic products exported is wide: fruit and vegetables, extra virgin oil, wine, cheeses, sauces condiments and delicatessen, pasta, cereals and pulses, dried-fruit, ice-cream and industrial products.

Consumers buying organic products are mostly located in the northern regions of Italy, where the industrial and economic structure is stronger. Recently, a survey³ has shown that 73% of Italians gives a right definition of

² Even if the law is compulsory, there is no punishment in case of failure to observe, so if parents or organic farmers do not make actives, may be organic catering somewhere does not start.

³ This research was carried out in May 2001 by Demoskopea, a leading Italian market research Institute.

organics and knows some key characteristics (no chemicals, more naturalness), 22 % gives not wrong but vague definitions ("healthy, genuine, safer"). Again, 38% of the Italian has bought at least once an organic product; only 1/6 is disappointed, and the others (23% of all adults) are regular consumer. This last percentage increases to 48% if potential consumers having intention to buy organic products are added to real one⁴. If the total organic retail sales are related to the inhabitants⁵, Italian per capita consumption is 19.18 \$. The growth rate of the per-capita spending from 1997 to 2000 is around 40% (SÖL, 2002).

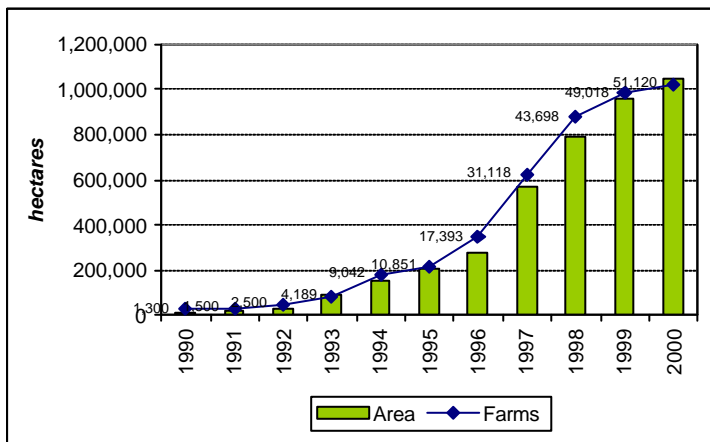
The bio-boom is defined as a tremendous growth of Italian organic agriculture.

At December 2000, the Italian organic sector accounted 49,790 farms with about one million hectares of land, 1,330 farms with processing plants, 2817 processing and trade companies and 67 importers (Figure 1). The organic area represents about 7% of the total agricultural land, while organic farms are 2% of total. At the EU level, the Italian organic agriculture is almost 25% of the EU organic land and more than 2/3 of the EU organic farms.

The regional distribution shows that 70% of organic farms are located in Southern Italy, 12% in Central Italy and 18% in the North, but 48% of trading companies and processor and 90% of importers are found in the northern regions.

At the end of 2000, of the organically managed land, 39% was forage and pasture, 19% grains and cereals, 18% fruit, olives, wine and 6% vegetables and industrial crops.

Figure 1 – Development of organic agriculture in Italy 1999-2000



Source: AIAB, 2001

In the last 3 years, the growth of Italian organic agriculture has been around 10% for farms and 18% for area.

The EU Agri-Environmental programs have had a positive influence on organic agricultural growth. This is not entirely conclusive, however.

⁴ The same survey shows that the average consumer of organic products is between 30 and 45 years old, lives in a city or large town in the north of the country, has an average or higher than average education, and is in the upper middle or upper income bracket.

⁵ The largest per-capita spending on organic food is found in Denmark with about 113.59 US \$, followed by Switzerland (95.32 \$), Austria (48.92 \$) Sweden (44.98 \$).

In Italy both new adopters and existing organic farmers are eligible for grants, but at the national level only 50% of certified farms appears to have taken advantage of the Organic Aid Scheme. Some farmers are less interested in grants than a premium prices paid by the organic market. In other cases, transition costs (time for filling in forms, transport costs to go into the regional government offices, etc.) are considered higher than the value of the grant itself. Nevertheless, the boom in organic farms and agricultural land during the late nineteen-nineties, especially in southern regions, has been broadly driven by the EU financial support (reg. 2078/92). Since 2000, this financial support comes from Agri-Environmental programs provided by Agenda 2000 (reg. 1257/99).

Historically the Italian pioneering experiences in organic agriculture date back to the nineteen-sixties, but only took off in the nineteen-seventies, involving more and more farmers and consumers seeking an improved quality of life and consumption.

Once EU-Regulation 2092/91 was implemented, many small associations of organic farmers, producers and consumers reorganized themselves and joined their forces through mergers and a federative networks. Today, there are nine officially recognized certification agencies operating in Italy.

According to the most important Italian certification agency (AIAB, 2001), a little share of organic farms asks for certification of their production. Consequently, it can be supposed that only a small share of organic farms sells their product as organic ⁶ (Pinton, 2001). The reasons can be found on:

- many farms are still in the conversion period. Farms are waiting to be allowed to sale their produces as organic;
- most of organic land is pasture or cultivated to fodder crops located mostly in southern regions while dairy farms are mainly found in Northern Italy⁷;
- many farmers pay a little attention to product certification because they are already satisfied by EU compensations;
- farmers sale their (often small) organic production following a marketing channel where personal interrelationships matter more than certification labels.

Yet, the critical mass supplied by individual farms is often low and organic products cannot be sold directly to supermarket or shops. Generally, the main outlet market is the wholesaler, whereas direct sales to consumer or other shorter ways remain explored only by few producers. Foreign markets are still unknown by most farmers.

2. Wine from organic agriculture

A legal international definition of "organic wine" does not exist.

⁶ In 2000, AIAB controlled 13,607 farms but only 3,000 asked for certification their product.

⁷ For example, in Sardinia there are 499,000 hectares of organic pastureland while only 8 dairies are recognized.

At the present, organic wine is defined world-wide as "wine made from organically grapes". The fundamental idea behind organic wine is that making wine from grapes grown without chemical fertilizers, weed-killers, insecticides and other synthetic chemicals is better both for ecosystem and wine consumers.

Actually, the US definition for "organic wine" is still pending USDA approval, while within EU the Directive 2092/91 recognizes raw agricultural products as organic (grapes) excluding processed ones (wine). In the meanwhile, self-standards for "organic wine" have been voluntarily adopted by certifiers and wine-makers. These standards often limit the use of sulfur dioxide, must sugar adjustments, the use of yeasts; in some instances, they provide regulation for acid correction, filtration/fining methods or storage in wood or metal barrels.

The use of sulfur dioxide has been on debate so far. The practice to add sulfites to wine as protection against oxidation and bacterial spoilage was considered harmful for consumer's health because it might cause headaches and allergic reactions. Actually, this happens when the use of sulfites is excessive⁸.

Recently, the US National Organic Standards Board (NOSB) has turned this idea. The new National Organic Program (NOP) recommends sulfur dioxide in wine labeled "made with organic grapes" because prohibiting its use would have a negative impact on grape production and wineries as long as sulfites not exceed 100 ppm⁹. The use of sulfur dioxide in organic wine is also admitted by IFOAM¹⁰ (IFOAM, 2000, 2002) and Codex Alimentarius Commission¹¹ (Fao/WHO, 2001).

Notwithstanding, many producers are promoting for a regulation of wine-making process, not only in Europe or in the US but all over the world. Unlike this harmonization, the German, French, American, Japanese or Italian consumer may drink wine made from organic grapes but very different for example in sulfite content, storage in wood or steel or plastic barrels, etc..

The lack in regulating organic wine-making process has encouraged producers to inform their consumers directly on product features according to their own disciplinary procedures (self-certification). In other cases, wine-makers accredit their own suppliers by checking both production and wine-making process.

Though, the harmonization of different national regulations seems far away. In EU, where the organic wine market "is going fast out of the niche size" (Compagnoni, 2001), the lack in the reg. 20919/92 about wine-making process¹² together with labeling issues create difficulties for market development and promotion of organic wines.

Some points may explain this issue:

- the use of term "organic wine" is forbidden;
- this term "wine made from organically grown grapes" is authorized on quality wines produced in specific regions (VQPRD) and wines with geographic specificity; is not allowed on table wines or products made from them (ex. vinegar);

⁸The excess in sulfites use is often found in white wines or wine made from spoiled grapes (ex. grapevine spoiled by fungi diseases).

⁹Parts per million.

¹⁰ The approved ingredients of non agricultural origin and processing aids used in food processing are listed in Appendix 4 of Basic Standards for Organic production.

¹¹ In spirituous beverages with less than 15% alcohol, the max level of sulfites (as residual) is 150 mg/kg.

¹² In the reg. 2091/92, Annex VI, many usual additives such as bentonite, casein are reported while sulfur dioxide additive not mentioned.

- the EU logo is not allowed;
- in Italy, information on specific production practices cannot be reported together with compulsory data¹³ on degree proof, volume, parcel number, etc..

As long as organic wines are not well-defined it will be very difficult to organize the promotion to consumers.

Technical and agronomical aspects are also important issues. Actually, the organic farming can quite easily be implemented in vineyards. The main consequences for winegrowers concern soil cultivation which usually imply more labor and skilled work. Still, there is a major problem concerning the impact of copper use on soil. In fact, the copper salts are efficient fungicides against downy mildew (*Plasmopara viticola*), grapevine powdery mildew (odium, *Uncinula necator*) or Botrytis (*Botrytis cinerea*) and it is allowed for organic farming. Since copper salts slowly accumulate in the soil, wine-growers try to reduce as much as possible their use but "ecological" or "natural" effective alternatives do not exist, while the EU regulation fixed in 2002 the deadline for unrestricted copper use. Such conditions would make organic wine production quite difficult in the next future.

3. Overlook on organic wine market

Statistics on world organic vineyards are not uniform for both years and sources.

In North America organic vineyards are recognized in California; in the Latin America there are organic areas in Argentina and Chile; organic wine productions are also reported in Australia. Grape organic production in California occurs in nearly all region but the total area managed as organic is approximately 30,000 ha. Actually, most of Californian vine-growers have adopted soft chemistry diseases depending on climatic conditions, insect and disease pressure. The growth of the organic vineyard is mainly observed in all Mediterranean countries but the production reaches a critical mass in Italy, France and Spain (Table 3).

Table 3 - Organic vineyards in UE countries

	Organic vineyards)	Share %	
	Total area (ha)	on total vineyard area	on total organic area
Austria (2000) ^a	564	1.1	0.2
France (1999) ^a	10,213	1.1	3.0
Germany (1999) ^b	1,578	1.3	0.3
Greece (1998) ^a	1,750	1.5	11.0
Italia (2000) ^c	50,000	5.4	5.2
Portugal (2001) ^d	776	0.3	1.9
Spain (2000) ^e	22,885	1.7	6.0

Source: ^aKopfer e Willer, 2001; ^bZMP, 1999; ^cPinton 2001 (estimates); ^dMinistry of Agriculture, 2001 (provisional); ^eMinistry of Agriculture, 2000.

After these countries, Greece has a significant organic vineyard area, while in Austria¹⁴ and Portugal unlikely reach 600-700 ha. In these latter, the organic wine is sold directly from the producers or cooperatives to retailers or final consumers.

¹³ Art. 17 reg. 3201/90.

A fast growing production of organic grapes is observed in France, where the domestic market still suffers an ambiguous regulation on wine-making process and consumer's concerns about the quality of organic wines; consequently, the market growth forecasts are lower than others organic products in period 1996-2002: 160%, against the average of 254%. French consumers buying in supermarkets believe that the organic wine price cannot be higher than the conventional one: therefore French organic wine-makers want to produce high quality wine to get prices similar to this market segment (Gardner, 2000).

Germany represents the main organic market even for organic wine. This country mostly produces high quality wines despite their share on total wine consumption is not greater than 1%. Yet, the production cost of organic wine is 30% greater than conventional one because of lower yields and higher input expenses. The supply shortage requires then imports from others countries, especially Italy and France, which amounted to about 70% of total supply, i.e., the 55% of conventional wine market. Main marketing channels are from winemaker to final consumer (30% of total sales), restaurants (15%), traditional wholesalers (15%) and specialized bio-shops (15%). A low share of organic wine production is also sold in UK and sales through internet are increasing. The German organic wine is going out from its niche size and a marketing strategy promoting the high quality of organic wine is supporting this development (Kopfer and Willer, 2001).

4. The organic wine market in Italy

During nineties many enterprises have entered to "wine made from organically grown grapes" at all supply-chain steps: production (farms), processing (cooperatives) or industry (Castaldi, 2000).

At the beginning of the 2000, the area of organic-grape oriented farms were extended to 29,177 hectares, locates mostly in four regions: Sicily (37.3%), Sardinia (14.6%), Apulia (7.2%) and Tuscany (7.1%). Also in the northern regions, the organic viticulture growth has been remarkable, (even lower that one observed in Southern Italy), especially in Veneto Region. In 2000, the share of organic vineyards in Veneto Region was 4.1% over the national organic total area.

According to recent estimates, the Italian organic vineyard area ranges between 48,000 and 54,000 ha, corresponding to 5.2-5.9% of the total organic agricultural area, while farms accounted approximately 9,000-11,000 units (Pinton, 2001).

Italian farms producing wine from organic agriculture vary from small to medium and big business size. There are farms cultivating less than one hectare and big scale farms managing more than 200 hectares. On the average, organic farms show an area greater than conventional ones, while farmers are definitively younger than national average (Sgarbi, 2001).

Although available data are not updated so far, the positive trend in wine made from organic grape¹⁵ is unambiguously positive and opposite to the general decline in wine per-capita consumption. These evolution

¹⁴ Austrian farms cultivating organic vineyards amounted to only 1% related to the total.

¹⁵ In 1998, the production of wine from organic agriculture was estimated in one million hectoliters (Sgarbi, 2001).

shows that many organic wines been graded among high quality ones, i.e., these wines are mostly produced in specific regions where farmers, organized in Consortium and following measures, certify their products as DOC or DOCG¹⁶.

Although the demand for wine made from organic grapes is still low related to other organic productions, the price is often not satisfactory.

Yet, the organic wine consumption may growth at a lower rate than one observed in overall organic products, because the standard “organic” consumer seems not inclined to drink wine (Castaldi, 2000)¹⁷.

However, the organic wine exports shows a strong growth, enjoying the positive trend in consumption of high quality wines in many foreign countries. This flow trade has enhanced the value of organic wine making many organic pioneer farmers successfully.

In fact, many organic farmers export a large share of wine (55% of the total) in comparison to not-organic ones (Sgarbi, 2001). Countries where the Italian organic wine is well-appreciated are Germany, Switzerland, UK and also that in the US.

In the domestic market, organic shops are less interested to wine than the large-scale retail, because the consumer accustomed to this retail point, generally shows a low propensity in drinking alcoholic beverages.

Currently, the sector of wine made from organic grapes seems to be at a standstill, waiting for a EU regulation of wine-making process giving a clear definition of organic wine while a reasonable share of wine is still sold on conventional market.

Actually, experiences carried out in both cultivation and marketing show that the organic wine success is strictly linked to the production of high quality wines (Didero, 2001)¹⁸.

5. A survey on organic wine market in Veneto Region

In this paragraph, results of a sample survey of wine-growers in Veneto Region are presented.

In 2001, the total vineyard area in Veneto Region amounted to 73,780 ha (ISTAT, Census 2001); farms cultivating grapes were 77,191; the wine production reached about 8.8 million hectoliters¹⁹; the wine market accounted to about 11 million €(11% of total agricultural sales).

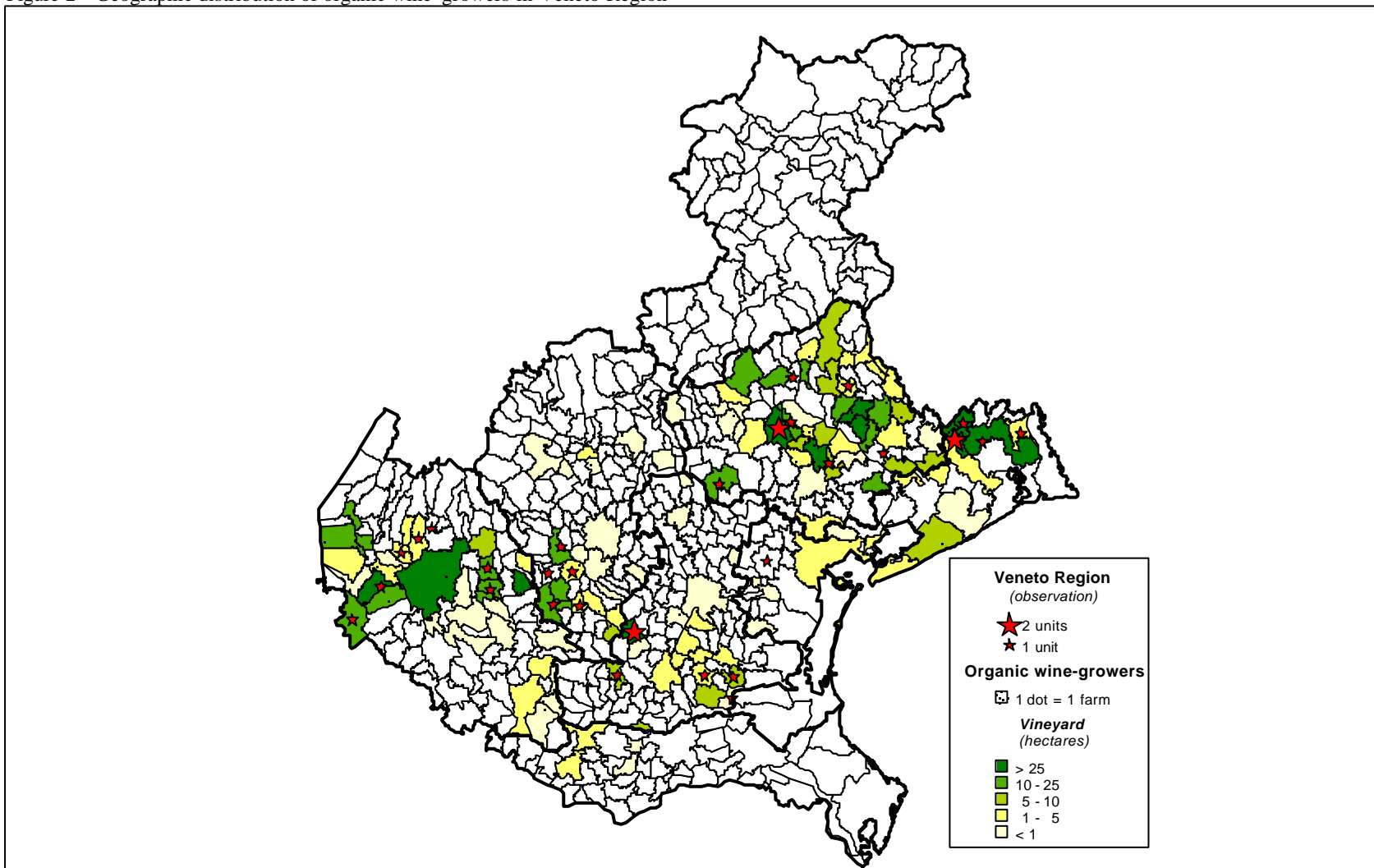
¹⁶ The Italian term D.O.C. (Denominazione di Origine Controllata) and D.O.C.G. (Denominazione di Origine Controllata e Garantita) are two certification processes which guarantee that wines and grapes have been produced following methods and practices set by the Consortium (ex. yields are limited, production area is marked off, etc.).

¹⁷ This is in contrast with recent researches showing, especially for red wines, a link between some features and positive effects on health.

¹⁸ Recently, the international competition of organic wines “Wine Award” held at the Biofach in Norimberga (Germany), was won by Italy. In particular the first place was reached, at equal merit, by two red wines from Veneto Region.

¹⁹ The Veneto Region is the most important wine producer in Italy.

Figure 2 - Geographic distribution of organic wine-growers in Veneto Region



Source: Veneto Region (reg. UE 1257/99)

According to recent data on agro-environmental program (reg. 1257/1999), in the Veneto Region there are 242 organic wine-growers with 2,047 ha total agricultural land and 1,277 ha of vineyard area²⁰. Actually, the share of organic farms with vineyards is around 9.7% and 20% to respectively total organic area and farms²¹. Because of its small size, the sample has been extracted from the universe of organic farms cultivating grapes on the basis of their territorial (and administrative) distribution and economic features (production, vine-making and marketing holdings) instead of stratification. Actually, a sample of 32 farms has been selected after making a screening survey which showed farmer's willingness in participating to this survey.

These farms are located in all Veneto Provinces where vineyard area is spread and wine production is definitively the most important agricultural product: Verona (hilly area), Vicenza (Berici hills), Padua (Euganei hills), Treviso (Montello and Conegliano area) and Venice (nord-est area) (Figure 2).

The survey has been carried out by filling out a questionnaire during summer 2001. The questionnaire is divided into three sections in order to investigate: the farm structure, the management, supply-chain relationships. The analysis has shown aspects on innovations, supply and market issues, strengths and threatens of organic wine-growers according to their production and marketing strategies.

5.1. The farm structure

In this section the farm structure is discussed.

The most of farms produces grape and makes wine; they are highly specialized in both cultivating vineyard and processing wine, and organic agriculture practices are well-consolidated.

The size of the average sample farm is greater than the regional one: the agricultural farm area is around 13 hectares of which nearly half is vineyard.

In Table 4 the farm distribution by type of farming - only grape, grape&wine, only wine, mixed farming²² - is reported showing number, agricultural area and vineyard area. In mixed farming most of land is cultivated to other crops than vineyard, while holdings doing only wine are mainly cooperatives.

Table 4 - Number and area per farm by type of farming

	Type of farm				Total
	only wine	only grapes	wine/grape	mixed	
Number	3	8	16	5	32
Total area (ha)	23.3	7.2	11.6	22.0	13.4
Agricultural area (ha)	6.7	7.3	10.4	18.5	10.6
Vineyard area*	6.7	5.0	9.9	4.1	7.5

(*) Including both organic and conventional area.

Source: Defrancesco, Rossetto, Galletto, 2002

²⁰ These data include also small organic farms where vineyard is less than 1 hectare. However, these data represent only a sample of the universe.

²¹ In 2000, organic farms in Veneto Region were 1,270 with 13,092 hectares (Biobank, 2001).

²² The mixed farming includes vegetable crops and trees

Almost two-third of total land is managed as organic agriculture (less than 2% of total land is in conversion²³) while 94% of vineyard is cultivated with organic agricultural methods. The distribution of holdings per size class of vineyard area shows of two types of organic farms (Table 5):

- 1) small-size farm with an average vineyard of 4.7 ha. This one describes 60% of total farms with 22% of total organic vineyard;
- 2) big-size farms with more than 24 ha per unit, representing 40% of the sample and 78% of total vineyard²⁴.

Table 5 - Organic farm distribution by size class of vineyard

	Type of farm				Total
	only wine	only grapes	wine/grape	mixed	
Number (in %)					
Size class of vineyard					
- < 5 ha	2.1	8.7	6.0	0.0	16.9
- 5-10 ha	-	3.3	11.8	9.6	24.7
- 10-15 ha	-	-	25.9	-	25.9
- > 15 ha	-	-	32.6	-	32.6
Total	2.1	12.1	76.2	9.6	100.0
Organic area (mean)					
Size class of vineyard					
- < 5 ha	3.5	3.6	2.4	0.0	2.8
- 5-10 ha	-	5.4	6.4	7.9	6.7
- 10-15 ha	-	-	10.6	-	10.7
- > 15 ha	-	-	13.3	-	13.3
Total	3.5	3.9	8.3	5.3	6.8

Source: DeFrancesco, Rossetto, Galletto, 2002.

5.2. The management

A critical aspect in converting a farm from conventional to organic farming is the management as human resources availability and skill. Manpower requirements are mainly satisfied by the farmer and his/her family as it is observed in overall Italian agriculture. Specifically, the family manpower satisfies 80% of total requirements, especially in cultivating vineyard and processing wine, but excluding harvesting and sparkling process .

Most of the farms has converted a previous conventional activity and started long time ago. Many farms decided to enter to organic agriculture for exploiting markets with greater potential profits thus increasing the value of professional experiences (Table 6).

Managerial skills in organic farming, considered high especially in processing wine, are satisfied by the farmer and his family. Often pruning, pest management control, wine-making processes and marketing procedures are assisted by out-farm skilled operators.

²³ According to the UE reg. 2091/92 the farm becomes "organic" after two years conversion period.

²⁴ This distinction does not include cooperatives which vineyard area referring to each coop-members was not declared.

Table 6 - Information on organic farming activity (in %)

	Type of holding			
	only grapes	grapes/wine	only wine	marketing
General information:				
- already started activity	90.0	68.8	50.0	100.0
- new activity	10.0	31.3	50.0	
When did the activity start?	1975	1946	1991	1970
Why (reasons):				
- profitability	20.0	12.5		100.0
- professional skills	60.0	43.8		
- profitability and prof. skills	20.0	18.8	50.0	
- others		25.0	50.0	

Source: DeFrancesco, Rossetto, Galletto, 2002.

Training management issues are also investigated focusing attention on technical, legal and marketing aspects.

Training technical management is often driven by self-experimentation (46.7% of holdings); in wine-making process information is acquired through professional advice or specialized press or participating to seminars or exhibitions (Table 7).

For cultivating organic grapes information comes from producer unions or agricultural union party assistance. Certifying bodies play a crucial role on training management in all organic wine supply-chain helping operators not only on legal aspects but also enhancing professional skills.

Information on legal issues are given mainly by certifying bodies and also by producer unions, especially in only-wine ones.

The critical point about information concerns marketing strategies. Only a limited share of producers does feel human capital investing as a priority; they try to meet this demand through direct customer relationships than making a marketing plan based on a specific market analysis.

Table 7 - Information sources for professional training

	Type of information (% responses)		
	technical	marketing	legal
self-experimentation	46.7	-	-
customers	-	47.4	-
other producers	10.0	26.3	3.8
research center	10.0	10.5	7.7
consulting	3.3	31.6	34.6
seminar/exhibitions	40.0	31.6	7.7
specialized press	40.0	21.1	23.1
agricultural union parties	40.0	5.3	34.6
cooperatives	23.3	-	7.7
producer's unions	23.3	26.3	26.9
certifying bodies	23.3	5.3	57.7
others	53.3	15.8	11.5

Source: DeFrancesco, Rossetto, Galletto, 2002.

Thus, organic wine-growers approach to the market has emerged as weakness especially in upper stream supply-chain. Actually, organic wine-growers should change their purposes according to the market growth:

- in the infant and introduction growth stages of organic wine life cycle, the producer increases his professional skills in both technical and legal aspects of production regardless of market size;
- in the growth stage, the producer should make up adequate marketing and communication strategies because of increasing competitiveness among farms or processing companies, especially when market size reaches the maturity stage.

5.3 Economic results

Even this survey was not calibrated on organic farm profitability, some economic aspects have been figured out. In particular, the rate growth of sales is high as in other advanced business. The annual sales has grown of 46% in two years reaching in 2000 a value of 24,000 € in small size farms (< 5 ha), 60-70,000 € in medium size farms (10-15 ha) and 370,000 € in big size farms (> 15 ha).

The direct cost of organic grape production is around 2,700 € per hectare. Costs are mostly made up by harvesting (28.6%), pruning (24.1%) and pest control of vineyard (23.7%) and they can range according to mechanization and manpower costs. The organic production cost of vineyard is not far from the conventional one because the reduction in pest control costs (-45%) is slightly offset by an increase in other costs, especially harvesting ones (+51%).

The direct cost of organic wine processing is around 1.34 € per bottle for table wine, 2.12 per bottle for sparkling wine and 3.87 € for barrique. The organic wine cost varies according to the processing technology employed. The certifying cost must also be included and it is on average equal to 97.6 € per hectare of vineyard.

5.4 The organic wine supply: vineyard and technology

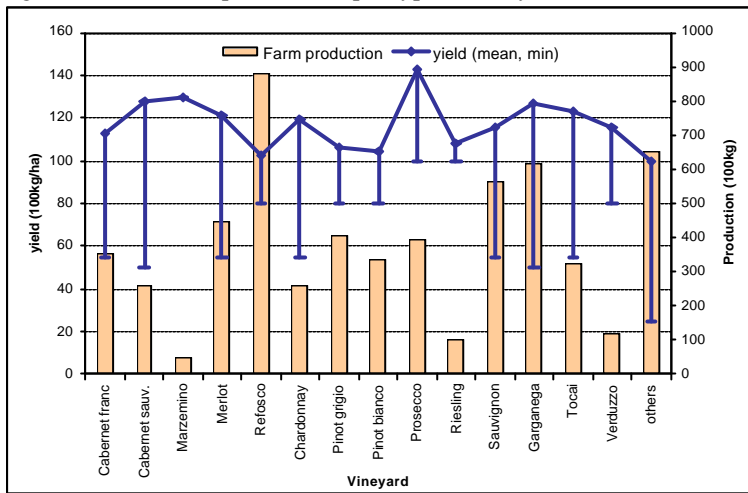
The organic wine supply is influenced not only by agronomic and technical aspects but also by the market performance.

The high yield variability faced by organic wine-growers is rarely counterbalanced by high market prices. Since a reduction in production may lead to low farm incomes, wine-growers adopt two main strategies: 1) small-size farms give up the wine-making process; 2) medium-big farms increase the production of high quality wines.

The survey has then explored the vineyard structure focusing attention on yield instability and wine quality.

There are five vineyard varieties of red grapes - Cabernet Franc, Cabernet Sauvignon, Marzemino, Merlot, Refosco - ten of white grapes - Chardonnay, Pinot grigio, Pinot bianco man, Prosecco, Riesling, Sauvignon, Trebbiano, Garganega, Tocai, Verduzzo - and other autochthonous vineyards (Incrocio Manzoni, Amarone, Refosco, friulano Verduzzo, etc). The average vineyard is about 3 hectares. All vineyards are quite old (18 years), i.e., they were previously cultivated through conventional farming methods. The average yield is around 10 ton/ha but it is quite instable because it can lower of 3.8-4.0 ton/ha because of unfavorable climatic conditions (Figure 3).

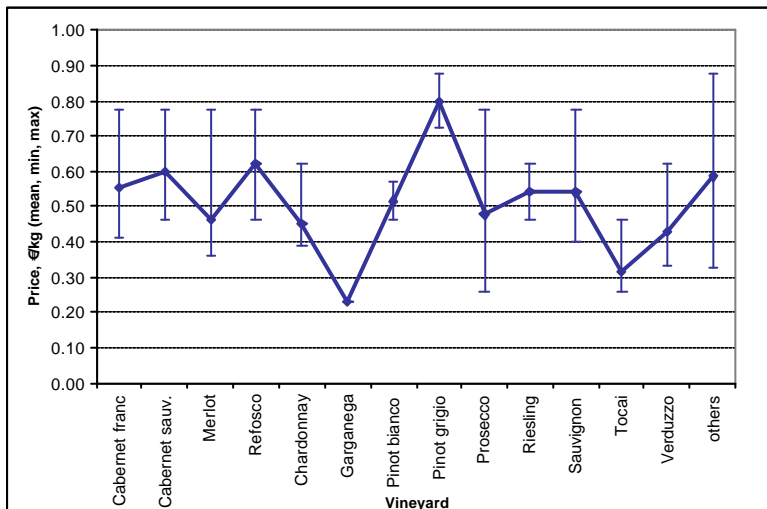
Figure 3 - Yield and productions per type of vineyard



Source: Defrancesco, Rossetto, Galletto, 2002

The grape price changes according to vineyard variety: from 0.3 €/kg in Tocai grapes, to 0.5-0.6 €/kg in Caberbet ones or 0.7-0.8 €/kg in Pinot grigio. The grape price volatility is also high and strongly influenced by the market performance. Usually, the share of grapes directly sold to processors is positively linked to the grape price and negatively to farm-size (Figure 4).

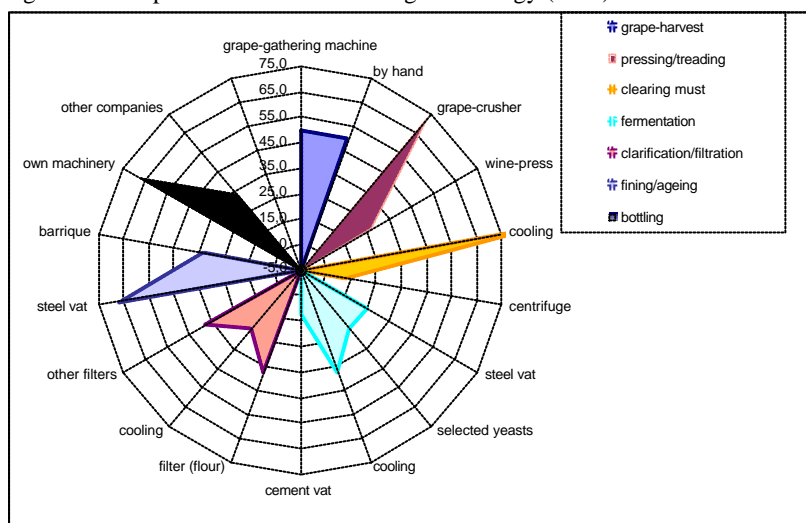
Figure 4 - Price of the grape per vineyard (€/Kg)



Source: Defrancesco, Rossetto, Galletto, 2002

The farm size strongly affects the technology, especially in wine-making process. Actually, the survey has explored technology employed by organic wine-maker focusing not only on machinery but also its professional requirements. Processing wine technology employed by organic wine-makers, reported on Figure 5, does not significantly differ from technology employed by not-organic ones. Actually, big-size organic farms have adopted a sophisticated technology in both cultivating vineyard and processing wine.

Figure 5 - Adoption of the wine-making technology (in %)



Source: Defrancesco, Rossetto, Galletto, 2002

Finally, the evolution in production of high quality wines (DOC or DOCG)²⁵ has been analyzed.

Actually, wine-growers have gradually increased the production of organic DOC wines as long as it increases consumer perception about quality, it reduces marketing risk, i.e., the organic wine can be allocated easily on the market (Table 8).

Table 8 - Production of high quality wines DOC (%)

	Type of holding				Total
	only grapes	grapes/wine	only wine	marketing	
DOC production					
- stable	50.0	30.8			31.6
- increased	50.0	53.8	100.0	100.0	57.9
- diminished		15.4			10.5
How much? (in%)	+15.0	+58.9	+10.0	+20.0	+45.4
Why DOC wines?					
- higher income	25.0	18.2			17.6
- sale stability	50.0	36.4			35.3
- quality	25.0	45.5	100.0	100.0	41.2

Source: Defrancesco, Rossetto, Galletto, 2002

For almost 40% of organic wine-makers the supply does not meet the market demand. Yet, perspectives for a further supply growth is around 2-3% per year. Many wine-makers in Veneto Region have also reached such a production size to meets supermarket demand (Table 9).

²⁵ In Italy high quality wines are certified as the acronym D.O.C. (in Italian "Denominazione di Origine Controllolata") or D.O.C.G. (in Italian "Denominazione di Origine Controllolata e Garantita).

Table 9 - Analysis of organic wine supply (in %)

	Type of holding				Total
	only grapes	grapes/wine	only wine	marketing	
Does supply meet demand?					
- yes	75.0	52.9	33.3	100.0	57.7
- no	25.0	47.1	66.7		42.3
If not, of how much it should increase?					
- from the 1 to 2%		28.6		100.0	26.3
- from the 2 to 4%	100.0	71.4	100.0		73.7
Relationships with the GDO:					
- no	100.0	76.5	33.3	100.0	81.3
- yes		23.5	66.7		18.8
If yes, how long?					
< 1 year	100.0	82.4	33.3	100.0	84.4
2 - 4 years		17.6	33.3		12.5
> 4 years			33.3		3.1

Source: DeFrancesco, Rossetto, Galletto, 2002

5.5. The market

Organic wine-growers exhibit an explicit market attention by selling their production where they can get a greater value.

Generally, the organic wine is mostly sold to wholesalers and, more recently, to LSR, while the share of production sold directly to consumers is higher in sparkling or matured wines because of their greater value added and difficulties in breaking other channel as the LSR.

The sale distribution for geographic area is strongly affected by the demand fragmentation. Actually, the market of organic wine is still living a starting growth stage: the market demand has a niche size while the consumption comes from few buyers scattered on many areas.

In this scenario, extending the market may be the most convenient strategy in order to catch opportunities of a fast growing market and, at the same time, to consolidate profitable market positions.

Actually, wine-growers seem to be able to catch this opportunity through sale diversification on the regional, national and foreign market, especially for regular wines, while low volumes of sparkling and aged wines limit their supply only to local markets.

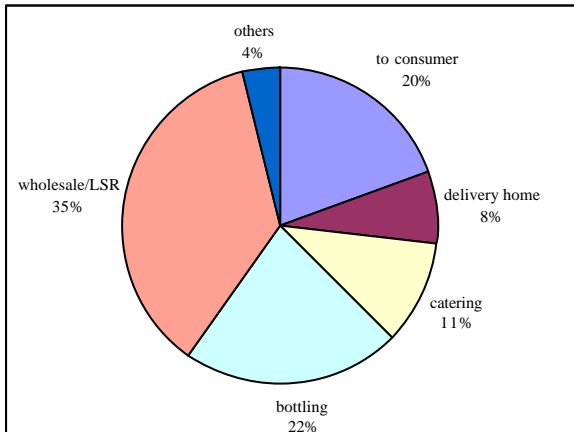
As it always happens in the conventional wine market, even in the organic one the bottling process is increasing, because it improves the value-added while consolidating the image of the organic wine and wine-maker among consumers particularly aware of quality and naturalness.

The market analysis is focused on the relationship between the organic producers and supply-chain steps. In particular, outlet markets - direct selling, wholesale, retail - have been analyzed with reference to wine categories (red, white, novels, barrique, aged, etc.) showing volumes and prices.

Next, the market distribution of sales has been analyzed, evaluating the share of the domestic – local, regional and national – and foreign market. Finally, marketing channels have been investigated to figure out their importance on domestic and international markets, their weakness and their conflicts among wine-growers and other organic supply-chain steps.

The analysis of marketing channels shows that 36 % of total wine is sold to wholesalers, 22% to bottling companies and 20% through direct selling to consumers or delivery home (Figure 6)

Figure 6- Distribution for sale channels (volumes)

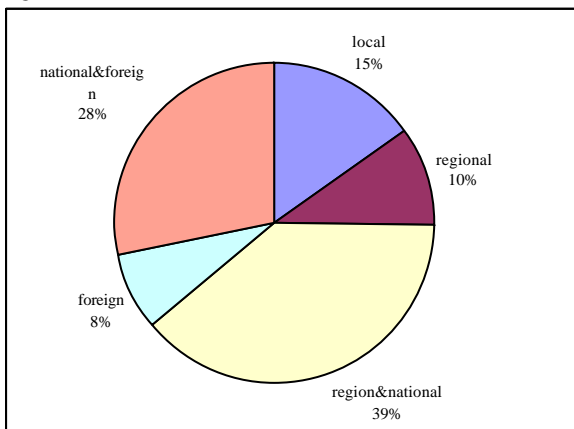


Source: Defrancesco, Rossetto, Galletto, 2002

The sales distribution for market area has been then study with reference to domestic - local, regional, national – and international market.

Results, depicted in Figure 7, show that organic wine sales are extending not only to domestic market but also to overseas: only one-fourth of sales is sold inside regional boundaries while 38% is sold outside the Veneto Region and 36% is often sold into foreign market. This latter does not appear surprising, since the foreign market has recently encouraged the production of high quality wines made from organic agriculture.

Figure 7 - Distribution for market area (volumes)



Source: Defrancesco, Rossetto, Galletto, 2002

The packaging analysis has showed the high share of bottled wine (66%) while the wine from the cask (20%) or sold in demijohn (14%) is low. These latter packing are significant only in regular white wine, red or local wines.

Next, the survey analysis has been focused on sale price according to market channel, area and packaging per type of wine (Table 10).

The distribution for market channel shows a significant price increase in all type of wine, excluding novel and sparkling wines; the price catches up values of approximately 0.82-0.97 €/liter in red and white wines and nearly 2 €/liter in local wines and barrique; the price premium is relevant in catering/restaurant channel for white and local wines, and in wholesale /LSR channel for red wines and barrique.

The distribution for market area has also showed changes in price; the premium price reaches about 1 euro/liter in white wines and 1.13 €/liter in the red ones; the regional market plays a positive role in the premium price of white wines, the national one on red and local wines, while selling on both domestic and foreign markets seems to increase the price of white wines.

Eventually, the distribution of prices for packaging has confirmed the greater value for bottled wines which premium price reaches about 1 euro/liter for white wines and about 1.4 euro/liter for red ones.

Table 10 - Distribution of the price per marketing, channel, area packaging per wine type

	Price (euro/liter) per wine type						Mean
	white	red	novel	sparkling	local	barrique	
Market channel							
to consumer	2.70	2.29	2.45	2.17	7.07	18.59	3.67
delivery home	2.40	2.18	2.56	2.32	4.47		2.49
catering	3.36	2.84	2.50	2.27	8.41	15.49	4.35
bottling	1.08	2.40			4.15		2.40
wholesale/LSR	2.59	4.53			3.85	14.46	4.16
others	1.55	1.81					1.68
Mean	2.54	3.03	2.50	2.26	5.40	16.18	3.58
Market area							
local	1.05	1.15	2.93	2.26			1.74
regional	3.49	2.07					3.13
region. & national	1.90	3.95			7.51		4.65
foreign	1.60	0.74					1.74
national & foreign	2.88	2.74	2.08		4.49	16.18	3.93
mean	2.54	3.04	2.50	2.26	6.51	16.18	3.19
Packaging							
from the cask	1.35	1.83			0.77		1.58
Bottled	3.27	4.14	2.50	2.26	7.57	16.18	4.70
demijohn & from the cask	1.64	1.62			4.57		2.00
mean	2.54	3.04	2.50	2.26	6.51	16.18	3.19

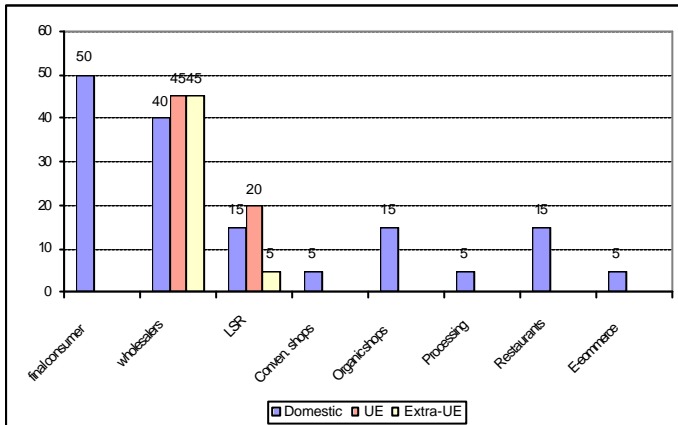
Source: Defrancesco, Rossetto, Galletto, 2002

Next, the market has been explored to figured out how marketing channels are used by organic wine-makers.

Firstly, the distribution of buyers among domestic, EU, and extra-EU market has shown the high employment of marketing channels such as the direct selling, wholesaler and also the LSR, while the catering/restaurant and conventional retail channels are definitively less important (Figure 8).

Sales to the traditional retail are rather turned to organic shops than conventional ones.

Figure 8 - Organic wine-making holdings and marketing channels (number)

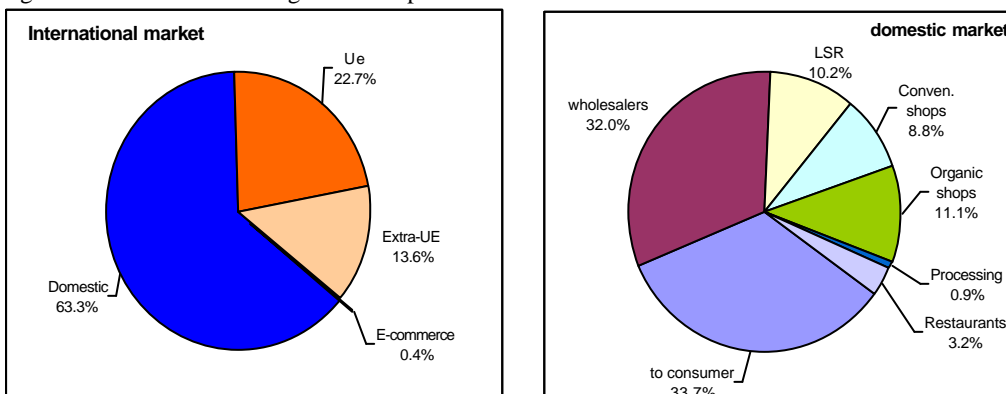


Source: Defrancesco, Rossetto, Galletto, 2002

Almost two-thirds of organic wine is sold into domestic market, 20% into EU-market and the remaining part is exported to extra-UE countries (Figure 9). So far, the e-commerce is not important as outlet market since it involves only 0.4% of the total sales, but it is an important marketing tool improving the image of the wine-maker and communicating it to new potential customers.

In the domestic market, almost one-third of organic wine is directly sold to final consumers, one-third is bought by traditional wholesalers and one-third is sold through other channels: LSR (10%), traditional retail (about 20%) restaurants (about 3%) and processors (less than 1%). Sales to traditional retail are equally divided between conventional and organic shops.

Figure 9 - Distribution of organic wine production on international and domestic market



Source: Defrancesco, Rossetto, Galletto, 2002

5.6. Marketing strategies

Marketing strategies are strictly linked to reasons driving wine makers to organic farming (Table 11):

1. to fill up a new market segment quickly;
2. to diversify the production.

The growth in organic agriculture supported by an increasing demand and 10 years of EU grants has gradually expanded EU organic market over its starting niche size. This reason is particularly felt in companies operating close to final consumers.

Table 11 - Reasons for diversification and entering to organic market (in %)

	Type of holding			marketing	Total
	only grapes	grapes/wine	only wine		
product range		5.9	33.3		6.3
product innovation	20.0	5.9	33.3		12.5
market demand	50.0	23.5	66.7	100.0	34.4
operating margin	20.0		33.3		9.4
environment and health	80.0	88.2			78.1
others	10.0	5.9			6.3

The percentages do not add to 100 because there are multiple responses.

Source: Defrancesco, Rossetto, Galletto, 2002

The diversification of production has been carried out through product innovations, increasing product range and/or specializing in organic product which elasticity respect to income is higher than conventional ones. Actually, the greater product elasticity is considered by most of organic wine-makers more important than expectations of getting better margins.

So far, the conventional wine market has reached maturity while the competition has increased even in high quality wines: the risk of shutting-down is quite high in conventional wine market.

Obviously, the potential risk of organic wine market is lower but its profitability is not considered higher than the conventional wine market.

Once entered to organic agriculture, wine-makers have defined their own marketing strategies according to constraints coming from socio-economical environment, market and competitiveness.

Decisions on marketing strategies are strongly influenced by the distribution of channels: wholesalers, LSR, catering/restaurants, direct selling to consumer (Table 12).

The wholesale channel is not economically appreciated because of low profitability, long-term payments and, consequently, low cash flow. Wholesale is also considered inadequate because its logistic does not meet supply features for organic products: high volumes required by wholesalers need a supply concentration which is now infeasible (small size of organic market).

The large-scale retail is seen as a better outlet market because it can increase the consumer fidelity and it can rapidly expand organic sales. The organic market growth is necessarily accomplished by the LSR which can make investments in promoting organic products and it can reach many consumers. The problem is still the critical mass

supplied by individual wine-makers: they should put together their production in order to increase their market power and profitability.

The catering/restaurant channel is considered a good outlet market except for long-term trade credits.

The retail in organic shops is also considered a good marketing channel but it sells small volumes and does not meet market fast-growing requirements.

The direct selling to consumers is increasing but the poor logistic cannot be cope with limited financial resource of individual wine-makers.

Table 12 - Critical points about marketing channels

	Wholesalers	Large-scale retail	Direct selling	Catering/ restaurants	Organic shops
low margins	50.0	25.0	16.7		16.7
logistics	33.0		50.0	8.3	16.7
small supply (volumes)	72.7	18.2	27.3	9.1	
low demand (volumes)	80.0		40.0	44.4	
long-term credits	88.9		11.1		

The percentages do not add to 100 because there are multiple responses.

Source: Defrancesco, Rossetto, Galletto, 2002

The marketing strategies employed by organic wine companies are reported in Table 13.

Main marketing strategies are price, product range and promotion in order to consolidate and strengthen the market share, while only a half of holdings use advertising.

Wine-maker holdings, selling most of their production directly to final consumers and restaurants, do not apply specific marketing strategies, excluding product range and price policy.

All holdings are generally opened to foreign markets, because of favorable perspectives in expanding exports.

Table 13 - Marketing strategies (in %)

	Type of holding			
	only grapes	grapes/wine	only wine	marketing
Marketing strategies*:				
- price		71.4	100.0	100.0
- range		64.3	100.0	100.0
- marketing channel		42.9	100.0	100.0
- advertising		14.3	50.0	50.0
Why it has chosen these strategies?*				
- to consolidate the home market		18.2	50.0	100.0
- to consolidate the foreign market		54.5	50.0	50.0
- to expand the foreign market		72.7	100.0	50.0
Stability of the price				
- no	66.7			
- yes	33.3	100.0	100.0	100.0

() The percentages do not add to 100 because there are multiple responses*

Source: Defrancesco, Rossetto, Galletto, 2002

The organic wine holding can be seen as a “nearly” price-taker, since the price is strongly influenced by the buyer and volume exchanged and, more generally, by competitor prices (Table 14). Consequently, the price is only a “defensive strategy” covering full production costs. This price weakness leads to a volatility especially on grape

price paid by upper stream holdings. Only consumer-oriented holdings seem able to apply a mark-up on full production cost.

Table 14 - Factors influencing organic wine price (in %)

	important	less important
Final consumption:		
- production cost	86.7	13.3
- storage cost	54.5	45.5
- price of competitors	54.5	45.5
- volume	60.0	40.0
- type of customer	75.0	25.0
- others	100.0	
Wholesale:		
- production cost	84.6	15.4
- storage cost	72.7	27.3
- price of competitors	80.0	20.0
- volume	83.3	16.7
- type of customer	90.9	9.1
- others	100.0	

Source: Defrancesco, Rossetto, Galletto, 2002

The marketing strategies for widening the product range, i.e. by introducing product innovations, are mostly aimed to reduce the market and production uncertainty (Table 15).

In both direct selling and LSR channel, wine-makers wide the product range avoiding their customers contact competitors. In medium and/or small size holdings a wide range is considered a strategy reducing marketing and production risk. In big size holdings, a greater production mix increases price and improved market power by reducing the average cost of production

Table 15 - Survey on factors influencing product diversification (in %)

	Price	Production cost	Production uncertainty	Marketing uncertainty
very important			44.4	66.7
important	81.8	87.5	55.6	25.0
less important	18.2	12.5		8.3
Total	100.0	100.0	100.0	100.0

Source: Defrancesco, Rossetto, Galletto, 2002

The communication strategy analysis (Table 16) shows a greater interest in the business brand instead of the collective one. The own brand is considered more effective in increasing consumer fidelity and it is appreciated as a further quality certification.

The organic certification is also perceived as an effective communication strategies to final consumer, even if the LSR has recently introduced their organic private labels certified by its own and control system (ISMEA, 2001).

Many holdings use traditional advertising (catalogue, etc.) and Web pages to introduce their business to final customers. Over 56% of holdings participates to exhibitions, especially those specialized in wine and/or the organic products. This strategy is considered effective in promoting sales on foreign markets because it improves the wine-maker image, especially in holdings close to final consumer.

Table 16 - Communication and promotion strategies (in %)

	Type of holding			
	only grapes	grapes/wine	only wine	marketing
Communication strategies:				
- collective brand		33.3		50.0
- brand company	50.0	100.0	100.0	50.0
- certification	50.0	66.7	100.0	100.0
- Internet	40.0	26.7	80.0	50.0
- advertising	50.0	66.7	90.0	100.0
Promotion strategies:				
- price reduction	100.0	50.0	50.0	50.0
- gifts	100.0	90.0	50.0	100.0
- promotions	100.0	30.0	100.0	50.0
- others	100.0	20.0		50.0

The percentages do not add to 100 because there are multiple responses

Source: Defrancesco, Rossetto, Galletto, 2002

Strategies for improving distribution concern firstly the reduction of supply fragmentation and, secondly, the diversification of marketing channels (Table 17).

Eventually, such strategies are aimed to improve both the market power and profitability of wine-makers while volume and product range meet customer requirements. The diversification of the marketing channels is rather aimed to reduce marketing risks because of increasing competitiveness of holdings entering to this market.

Strategies for strengthening market share are focused on product quality and business brand whereas almost one-fourth of holdings concentrate its management on cost reduction and product innovation strategies (Table 18).

Table 17 - Strategies improving distribution (in %)

	Type of holding				Total
	only grapes	grapes/wine	only wine	marketing	
reduce supply fragmentation					
advertising		26.7	50.0		26.3
institutional promotions		6.7			5.3
commercial promotions		46.7	50.0	100.0	52.6
others		6.7	50.0		10.5

The percentages do not add to 100 because there are multiple responses

Source: Defrancesco, Rossetto, Galletto, 2002

Table 18 - Strategies consolidating market sales (in %)

	Type of holding				Total
	only grapes	grapes/wine	only wine	marketing	
improving quality	100.0	88.2	100.0	50.0	87.0
price reduction				50.0	4.3
business brand		52.9		50.0	43.5
certified brand		11.8			8.7
further certifications			50.0	50.0	8.7
reducing production cost		23.5	50.0	50.0	26.1
product innovations	50.0	11.8		50.0	17.4
others			50.0		4.3

The percentages do not add to 100 because there are multiple responses

Source: Defrancesco, Rossetto, Galletto, 2002

5.6. Concluding remarks

After ten-years application of EU regulation 2091/92, the Italian market of organic products is growing at a fast rate as a result of institutional and farmer actions. Recently, the market has been boosted by fast increasing organic consumptions.

The overall wine sector, after the methyl alcohol crisis during eighties, has been re-arranged towards high quality productions.

So far, the Italian organic wine production has been considered as a market niche. Actually, the organic wine in Veneto Region is still limited respect to the total wine market, but it is growing and looking for a right consumer's appreciation. Still, the growth path cannot be easy forecasted.

On the supply side, the production is rather fragmented and it does not meet the demand not only as volume supplied but also as logistics, distribution and marketing requirements. In particular, organic wine-makers should take advantage of this market segment which is gradually losing its niche size because of emerging consumptions. This survey has showed some aspects about organic wine-growers and about organic wine supply in the Veneto Region.

On the farm side we can summarize the following points:

- the size of organic wine farms are greater than the average regional one; the technology employed and innovation adopted are sophisticated because of high managerial skills and reorganization of vineyards and wine-making process;
- on the economic side, cultivating costs and wine-making costs are respectively greater and equal to conventional farming. There also an increasing cost instability among organic farms because of different technologies;
- information on technical and legal issues are partially satisfied by regional Institutions. There is still a lack in making commercial and marketing strategies.

On the supply side and marketing channels it is observed that:

- the supply is strongly affected by climatic conditions and market performance. Often price volatility and/or yield variability reduce organic wine profitability: small wine-growers give up wine-making process selling directly grapes (in the short run), while big ones increase high quality vineyard (DOC wines);
- the wine-makers are able to catch premium price differentiating their sales among customers, area and packaging .
- the LRS seems to be an appropriate outlet market for organic productions because it can increase the consumer fidelity, it can make investments in promotion and it can further expand organic consumption;
- catering/restaurants and organic shops are the traditional outlet markets but they their volume exchanged do not meet market fast-growing requirements;

- the direct selling to the consumers is limited by poor logistics, which cannot be improved by single enterprises because of high investments and small demand;
- the traditional wholesale channel is not affected by logistic weakness. However, the supply fragmentation increases wholesale market power reducing the organic wine price and, consequently, making it less profitable.

All wine-maker holdings are opened to foreign markets and the analyses on marketing strategies have shown two different behaviors:

- holdings doing wine-making process and trade activities employ marketing strategies such as price policy, widening the product range, promotion on distribution in order to consolidate and/or to strengthen their own market share, while advertising is still limited because of low financial resources;
- having most of production sold directly to final consumer, holdings doing farming or wine-making activities do not employ specific marketing strategies, excluding price policy and widening range.

At the supply-chain level, the survey have showed a weak market power of upper stream activities related to down stream ones both in terms of price volatility and high marketing uncertainty:

- holdings using wholesale channel suffered a competitive disadvantage because the price is strongly affected by small volumes and prices fixed by competitors. These wine-maker are "price-takers";
- holdings consumer-oriented use a marketing strategy based on price (price-maker), by applying a mark-up on the production cost and differentiating it according to customer type and individual demand;
- the reduction in marketing uncertainty is pursued through two strategies: 1) by a diversification of marketing channels avoiding new producers entering to this market; 2) by widening the product range avoiding own customers contact competitors.

As far as the communication strategy, it is observed that:

- the business brand is better than of the collective one, because it can increase the consumer fidelity, it can be also appreciated by consumers as an intrinsic quality certification;
- the diversification in organic wine production has been accomplished by a quality differentiation shifting from table to high quality wines (DOC);
- the organic certification is perceived as an effective communication strategy to final consumer. There is still a lack in consumer information on production processes and organic product features. This difficulty may be outweighed by promotional and information campaigns, financed by EU, national or regional Institutions;
- the traditional promotional strategies (specialized exhibitions on wine or organic products) are widely spread among wine-makers, especially at the farm level, even if innovating and not expensive strategies such as Web pages or e-commerce can be also successfully employed

Usually, marketing strategies are focused on sales and customers are trying to strength quality standards and the business brand. The farm management is oriented to cost control and wine-making innovations (process and product).

The analysis of market development path gives further suggestions.

In the eighties, pioneering organic farmers had been slowly followed by other wine-growers. During nineties, the introduction stage has been succeeding by the growth stage while organic farmer specialized in organic grape production. At the same time, distributive channels have changed according to the production and consumption growth, i.e., as the production increased the outlet market changed from direct selling to organic stores and extended from agricultural to urban areas. Eventually, the fast increasing production has also reached many supermarket chains extending to regional and international market. This path has been driven mainly by EU rules and financial supports and, recently by the fast increasing demand.

Wine-makers entering to LSR have to cope with the increasing competitiveness. The wine-maker behavior may be explained by several competitive models:

- 1) the organic wine production is considered as a *strategic business activity*. For example, leader wine companies adopt this marketing strategy for differentiating product rather than increasing their profitability;
- 2) old organic wine-growers (pioneers and starting ones) face competitors by improving their production efficiency (technology), product quality and entering to LSR as well (*competitive strategy*);
- 3) wine-growers specialize on organic wine production fitting their market segment and focusing especially on technology (*strategic business unit*).

However, the development of this market should be accomplished by institutional supports (rules and grants) aiming to improve the market transparency and competitiveness conditions. For example, the consumer awareness on differences between organic and conventional product should be encouraged (the attention paid by consumers to organic products is proportional to the information available, especially when the product is evaluated just looking it). The institutional actions should also ensure transparent market rules avoiding confusion between production logos (organic, ecological, natural, etc.) and collective brands (PDO, PGI.²⁶, etc).

In this market stage the role of the wine-maker is important "*per se*". Because of high innovation standard, the growth path of organic wine-makers depends strictly on their strategic ability and do not fall into canonical competitive models.

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²⁶ Protected Designation of Origin (PDO), Protected Geographical Indication (PGI) are UE registered product names (reg. ECC 2081/92).

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