

MARKET ENTRY OPPORTUNITIES FOR PANNON WINE REGION

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Abstract

In recent years, the Transdanubian Pannon Wine Region, which has become known mainly for its red wines, has launched a spectacular marketing activity to promote its products. In addition to European exports, it has begun to expand overseas. In this study, the possibilities of entering the market in the United States of America, including the county of Florida, are examined in detail. The conceptual structure of the article is as follows. The steps of expansion into the international market are briefly presented, then the possibilities of the Pannonian Wine Region are studied with market situation analysis.

Keywords: market entry, wine, environmental analysis

1. Introduction

In 2020, Hungary's wine-growing area was 62,000 hectares, which is one-third less than 20 years ago. Of this, 70% is planted with white wine grapes, with Blue Frankish occupying the largest area (KSH, 2020). In Hungary, 22 wine regions with different climatic, topographical, soil and historical characteristics can be discovered (Mészáros, 2021). The Pannon Wine Region studied in this article consists of four wine regions, namely the following: (1) Pécs Wine Region, (2) Szekszárd Wine Region, (3) Tolna Wine Region and the (4) Villány Wine Region. The Szekszárd Wine Region is famous for its Blue Frankish grapes, which are consumed both as an independent wine and as a base for Bull's Blood. The production area for Blue Frankish is 600 hectares, followed by Merlot, Cabernet Franc and Sauvignon (Mészáros, 2021). The Pannon Wine Region occupies a significant place in the Hungarian wine production.

Globalization and the reduction of barriers led to the opening of markets, reviving sales by domestic companies in foreign markets. Before selecting the international market (IMS), the following questions arise: (1) why does the company want to enter the cycle of international business, (2) which products are appropriate, (3) determine the specific characteristics of the products in terms of delivery, storage and price, (4) determine the quality and quantity, (5) the scope and cost of product sales, (6) identify the target export market (Root, 1998 in Oey; Noviyanti and Sanny, 2018).

According to Musso and Francioni (Musso and Francioni, 2012), 'companies that follow a systematic approach tend to analyze and investigate several factors before selecting international markets, which can be divided into three main categories: company-specific factors, host country factors, and barriers to entry'. *Figure 1* shows Root's (Root, 1987) foreign market selection process.

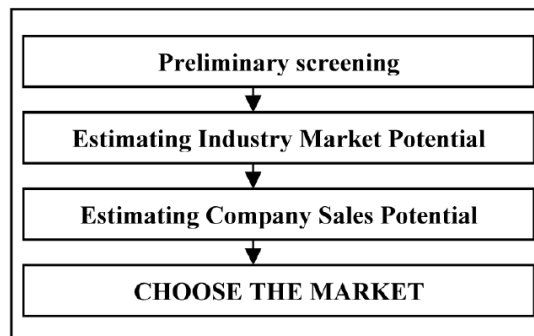


Figure 1. Selecting foreign market (Root, 1987)

2. Market analysis

The pandemic, government-ordered closures of stores and restaurants, social distancing, and the decline in tourism have greatly affected alcohol consumption habits in recent years. As a result, wine sales in Hungary have decreased by 6% in 2020, but forecasts indicate an average annual growth rate of 2%, reaching 241 million litres in 2025 (Euromonitor, 2021a). The pandemic had a significant impact on the consumption of alcoholic beverages in the United States, in the case of wines, for example, mid-priced wines were most in demand among consumers, compared with lower-priced or premium wines (Euromonitor, 2021b). According to Hu, Quigley and Taylor (Hu et al., 2021), who examined alcohol sales in fourteen Member States, overall wine sales rose by almost 9% in March last year, likely driven by fears of contracting Covid-19, social isolation, job losses and uncertain fed by the future.

In addition to the pandemic, Bene (Bene, 2021) emphasizes that with the increased health awareness, consumer demand for organic wines in Hungary has also risen.

2.1. Similarities and differences in macroenvironmental analysis

Kotler (Kotler, 1998) considers PESTEL analysis as a tool for strategic business planning. PESTEL analysis is a macro-environmental study that examines the social, technological, natural, economic, and political environment. The acronym is derived from the first letters of the English name. The analysis focuses mainly on country-specific aspects. In this study, the political and legal environments are examined together because there is a causal relationship between them.

The main differences between Hungarian and U.S. wine industry in terms of the political-legal environment are the different laws regarding agribusiness, production methods, labelling, consumer law, and advertising law. The characteristic political-legal factors for the Hungarian wine industry can be described as follows:

- European Union wine market regulation,
- wine law – Act CLXIII of 2020,
- Government Decree No. 435/2021. (VII. 16.) on official procedures and reporting obligations in the grape and wine sector,
- farmer-friendly tax policy,
- employment policy,
- agricultural policy,
- compliance with quality assurance standards,

- zero tolerance in Hungary, means no alcohol while driving,
- TV Advertising is limited to evening hours, depending on the alcohol content of the product.

The characteristic political-legal factors for the U.S. wine industry are the following:

- regulations that vary from state to state,
- increased requirements for products and developments in the food industry,
- consumers are paying close attention to product labelling (ingredients, country of origin, etc.),
- transparent and traceable product certificates, standards and labelling are required,
- for a wine to be a local product, 60% of the wine produced must be made from agricultural products grown in Florida (Honaker, 2021).

The main differences between the Hungarian and U.S. wine industries in terms of economic environment are due to the long Hungarian tradition of winemaking and the wide range of products. The characteristic economic factors for the Hungarian wine industry can be described as follows:

- the competitive situation in the wine market is strong,
- the excise tax rate,
- the economic power of the Hungarian rural population is increasing,
- the employment rate of the population is increasing,
- the business density is lower in the rural areas,
- the domestic wine production is increasing,
- the Hungarian wine export is increasing,
- the share of tender opportunity is increasing.

The characteristic economic factors for the U.S. wine industry are the following:

- the service sector is coming to the fore,
- economic trends,
- exchange rate fluctuations,
- tariffs on imported wines were increased at regular intervals,
- the taxation of wine products,
- increased sales opportunities for premium and quality products.

The main differences between the Hungarian and U.S. wine industries in terms of social environment are due to the different trends in consumer behaviour and lifestyle. The characteristic social factors for the Hungarian wine industry can be described as follows:

- family wineries – traditions of generations,
- seasonality,
- changes in consumer trends,
- consumer preference for quality is increasing,
- the share of wine volume sold in supermarkets and hypermarkets became predominant,
- the price-sensitive Hungarian society (the price is an important influencing factor),
- a wide range of choice, consumers can find the price category that suits them,
- In Hungary, the age limit for consumption and purchase of alcohol is 18 years.

The characteristic social factors for the U.S. wine industry, especially in Florida are the following:

- Florida's current population is 22,177,997 (worldpopulationreview, 2022).
- due to the rapidly growing ethnic population, consumer demand for a wide range of products is increasing,

- the wide selection allows consumers to find the price range that suits them,
- changes in consumer trends,
- consumer preference for quality is increasing,
- demand for premium products is increasing among the affluent older generation,
- family spending on food is on the rise,
- the drinking and buying age in Florida are 19.

The main differences between the Hungarian and U.S. wine industries in terms of technological environment are the later developed viticulture. The characteristic technological factors for the Hungarian wine industry can be described as follows:

- possibility of development of mechanised cultivation in the whole vertical of viticulture,
- thanks to the new technology, more and more reductive wines are produced,
- the use of technological development leads to the production of more products (more economical possibilities of serial production),
- bottling and the related technology are in line with the new trends (screw caps),
- the role of packaging is increasing.

The characteristic technological factors for the U.S. wine industry are the following:

- technological developments,
- automation,
- great emphasis is placed on high quality products, with production playing an important role.

As for the natural environment, the characteristics of the two countries are similar because of the eco-friendly consciousness. The characteristic natural factors for the Hungarian wine industry can be described as follows:

- the vineyards have been planted in the most suitable locations,
- the reuse of bottles is becoming more and more common,
- the waste is collected separately in most parts of the region,
- the processing plants strive for the best possible energy balance,
- the use of machines that do not pollute the environment,
- the protection of the environment.

The characteristic natural factors for the U.S. wine industry are the following:

- the food industry is affected by water scarcity,
- pressure on the food industry to reduce water consumption in production,
- the industry is highly dependent on natural resources and energy,
- the role of environmental protection is becoming increasingly important,
- climate change is affecting grape production.

The macro-environmental analysis of the two countries provides a good overview of the opportunities for international market entry.

2.2. Similarities and differences in microenvironmental analysis

Panagiotou (Panagiotou, 2003) offered the refocusing of SWOT analysis (Friesner, 2011; Puyt et al., 2017), and from then on its use became widespread. The SWOT analysis is a micro-environmental study in which we examine the internal and external factors of the company. The internal factors include the strengths and weaknesses, while the external factors include the opportunities and threats. The acronym

is composed of the first letters of the English name. The analysis Hungarian wine industry based on the study of Bormarketing (Bormarketing, 2005) and Mező (Mező, 2012). *Figure 2* contains the comparison of SWOT analysis regarding Hungarian and U.S. wine industry.

The weather in Florida is extremely extreme, which has a fundamental impact on production possibilities. Several research institutes are currently working to make grape growing viable and sustainable in the long term. This, of course, means a good market niche for imported wines, which are regularly subject to high tariffs. Overall, it can be stated that the affluent population has a need for a wide range of products, which increases the sales potential of imported wines.

2.3. Similarities and differences in 4P's

According to Beke (Beke, 2018) 'marketing mix management prototype has been in existence since 1940s, but McCarthy refined it as 4P's'. Borden (Borden, 1964) mentioned the elements of the marketing mix of manufacturers as follows (1) product planning policies, (2) pricing policies, (3) branding policies, (4) channels of distribution, (5) personal selling, (6) advertising policies, (7) promotions policies, (8) packaging policies, (9) display policies, (10) servicing policies, (11) physical handling policies and (12) fact finding and analysis policies. McCarthy summarizes them into 4 categories, so the marketing mix, also known as the 4P's, is a term that describes the set of activities that a company uses to implement its marketing strategies. In the analysis, we examine product policy (product), pricing policy (price), distribution policy (place), and communication policy (promotion). The 4P's analysis offers companies an excellent opportunity to combine the various elements of the marketing mix into a marketing strategy that helps the company to compete and position itself differently in the market.

2.3.1. 4P's of Pannon Wine Region

The first P of product policy basically includes the characteristics of the product (design, packaging, functions), the place of the product in the assortment and the related services (after-sales service, repair, recycling at the end of life). In the marketing strategy, the product is not considered as a material product, but as a source of value offered to the customer. This value can be offered to the grower's customers in a variety of ways: convenient accessibility, point-of-sale capital, word-of-mouth, installation and repair services, the physical product, basic and pre-purchase training offered by sales personnel, financing plans for product purchase, and the brand name that vouches for quality. The characteristic product policy regarding the Pannon Wine Region can be as follows:

- good red clay loess soil,
- ideal climate,
- the most important wine varieties are Kadarka, Blue Frankish, Bull's Blood Combo, Rose, Bordeaux cuvee type wines, sparkling wine,
- use of grape seeds as oil,
- good quality,
- prizes won in international competitions,
- trademark,
- attractive bottle and label (design),
- quality control: place of cultivation, treatment of grapes, processing methods (additives, flavors) and bottling.

Hungarian wine industry	U.S. wine industry
Strengths	
<ul style="list-style-type: none"> • favourable location and climatic conditions, • good soil conditions, • native grape and wine culture, tradition, • many grape varieties, a wide range of wines, • large production areas, • good quality, • cooperating wineries and wine regions, • possibilities of branding, • wine tourism, wine tours, • high level of training of winemakers, • proximity to a highway, • important exporter. 	<ul style="list-style-type: none"> • wine culture is present, • try to develop a viable, winery in Florida that meets the climatic conditions, • native muscadine grapes, • production has been diversified due to the "great freeze" in 2010, • important importer, • a high degree of adaptation to market needs, • good branding, • coordinated supply chain, • they increase the selection with imported wines.
Weaknesses	
<ul style="list-style-type: none"> • lack of market positioning, • fragmented system of wine regions, • weak promotion of professional success, • the Pannonian Wine Region and its wines are not sufficiently known by foreign wine consumers, • the lack of brand structures that sell the wines of the region and create a positive image. 	<ul style="list-style-type: none"> • the climatic conditions (high humidity, uneven rainfall distribution, soil quality), • the attempt to grow European varieties has not been successful, • there are no defined agricultural/viticultural regions in Florida (Honaker, 2021), • Muscadine wines must be drunk within three years.
Opportunities	
<ul style="list-style-type: none"> • a rapidly changing, structured market, • domestic wine consumption is increasing, • the quality level of demand is increasing • the popularity of wine products associated with social events and holidays is increasing • innovative solutions in packaging, branding, labelling, etc.), • the strengthening environmentally consciousness and sustainability. 	<ul style="list-style-type: none"> • the quality level of demand increases, • the younger generation is open to new things, • there is a growing demand in the market for organic, sustainable products, • strengthening collaboration between wineries in the region, • support opportunities at the federal and state levels.
Threats	
<ul style="list-style-type: none"> • the growing role of retail chains, • the price sensitive demand, • the fluctuation of the quality produced, • the extreme weather conditions, • international trade trends and habits offer the possibility for wines from other countries to be more intensively present in Hungary, • with increasing inflation and rising prices, the demand for wine is decreasing. 	<ul style="list-style-type: none"> • the extreme weather conditions, • serious differences in quality between wineries, • the role of taxes and duties on wine in price increases, • the exchange rate fluctuations, • diversion effect of demand due to increasing preference for other alcohol, • shortage of labour and specialists in the industry.

Figure 2. Comparison of SWOT analysis regarding Hungarian and U.S. wine industry

In fact, every product in the sale is associated with a service. The services related to the Pannon Wine Region can be as follows wine tourism (wine tastings), gastronomy (wine cellar, restaurant, event), and program and accommodation packages.

Pricing policy is about describing how the company manages various aspects of “price” in its market. It starts with a description of the pricing strategy that the company follows. The most common pricing can be cost-based, demand-based, or based on competitors’ prices. Different prices are used for the different wines of the Pannon Wine Region. This topic includes pricing policy towards intermediaries, discount policy towards customers, payment policy and possible discounts offered to customers when buying products. The characteristic price policy regarding the Pannon Wine Region can be as follows:

- products of different price categories,
- the price as an indicator of quality,
- strong price competition,
- price-sensitive market,
- for premium wines, buyers are willing to pay a higher price in return for higher quality and a more upscale appearance.
- high-quality tourist services,
- the granting of discounts,
- different price lists [for wines sold at wine tastings, wine festivals, retail (traditional stores or web stores), wholesale partners (HORECA) and for export wines].

Distribution policy refers to the processes and channels that help the winery's products reach customers. Objectives may include the easy availability of products to the end consumer, enabling product customization options at the point of sale (unique label, e.g., 70th birthday), logistics, ensuring product quality, ensuring product selection, informing customers about the products, and customer service. The characteristic place policy regarding the Pannon Wine Region can be as follows:

- determined by the competition in the market, the producer and the product specialties,
- differentiated distribution (winery and restaurant, festivals, brand stores, retail stores, web stores),
- advanced logistics network.

The communication policy includes aspects related to the company’s communication and strategies for launching the company on the market. The result is measured by the level of awareness of the company among target customers.

The advertising mix or integrated marketing communication strategy is a mixture of different advertising tools available to winemakers. With their help, they can convincingly communicate to consumers that the product exists, how much the product is priced, what special features the product has, where it can be purchased, and finally, how consumers can effectively use the products or services. The characteristic promotion policy regarding the Pannon Wine Region can be as follows:

- advertising at the point of sale,
- multilingual brochures and videos,
- logo,
- sales promotion tools (presence at exhibitions and fairs, product bundling, discounts),
- personalised sales (wine is a product of trust, the producer gives his “face” to the product),
- PR (wine competition),
- direct advertising.

As a summary of the 4P's, it can be stated that the characteristics of the Pannon Wine Region, its broad product range, its target group that prefers different price categories, a differentiated distribution and a conscious brand and communication policy provide an excellent basis for the expansion of international market access.

2.3.2. 4P's Florida Wine Region

To gain a foothold in the international market, it is worth studying the 4P's of the Florida Wine Region to highlight the differences and market niches. The unfavourable climatic conditions have a significant impact on the type, quality and quantity of grapes that can be produced. Essentially, the Muscadine grape is indigenous. The characteristic product policy regarding the Florida Wine Region can be as follows:

- unfavourable climate,
- few grape varieties,
- native Muscadine grape,
- important role of imported wines,
- product selection tailored to the needs of consumers is typical,
- good branding,
- beautiful design.

The revival of wine tourism and gastronomy can be mentioned as related services.

The wide range of products and wines of different categories leads to price differentiation. There are factors that significantly affect prices. For example, in the case of imported wines, the regularly high customs duties, and in the case of Muscat wines, the warranty period (3 years). The characteristic price policy regarding the Florida Wine Region can be as follows:

- products of different price categories,
- strong competition is felt in the market,
- the fact that Muscadine wines must be consumed within three years of bottling acts as a price depressing factor in the market,
- the increasing demand for quality and premium wines has a price driving effect,
- for a short period of time, a high tariff rate was introduced for imported wines,
- serious fluctuations in exchange rates.

The distribution policy is characterized by diversity and a progressive supply chain. One difference from Hungarian practices is the greater emphasis on wine tastings and wine clubs, whose target audience is the younger generation. Since they consume less wine, other preferences in the choice of alcohol prevail, so wine culture must be consciously developed among them. The characteristic place policy regarding the Florida Wine Region can be as follows:

- extended supply chain,
- secured product supply,
- differentiated distribution (HORECA: wine clubs, traditional stores, internet stores).

Regarding the communication policy, the conscious branding, the establishment of an own branding of the wine-growing regions and the associated instruments of the marketing-communication-mix are also to be mentioned. The characteristic promotion policy in case of the Florida Wine Region can be:

- advertising at the point of sale,
- a good branding,

- the creation of wine-growing regions has begun,
- an appropriate marketing-communication mix (advertising, direct marketing, personal selling, PR, sales promotion).

Overall, it is important to point out the uniform application of the 4P's, that is, if we change one factor, the other three must also be changed. Due to its particular and unfavourable climate, the Florida wine region can offer a wide range of goods from other member states and with imported wines. The branding of the wine region began intentionally.

3. Summary of Market Entry Opportunities

In summary, the import of Hungarian wines into the United States represents a serious opportunity. It is a target market with significant, solvent demand, where the wine culture is only 300 years old, but the demand for the products exist. Based on the study, it can be stated that the younger generations (especially Generation Y and Z) need to develop a taste for wines, for which a promotional campaign is an excellent tool. The climatic conditions in Florida are quite extreme, which basically favours the native Muscadine grape. Consumers prefer a wide range and products of different categories, which they can use from other American states and imported wines.

It is much more difficult for a wine region with tradition to adapt to rapidly changing wine consumption habits than for a dynamic wine producer like Florida. The strictness of wine law is also an obstacle (in the U.S., water may be added to wine; EU wine law prohibits it).

The expansion of the Pannon Wine Region to the international market is facilitated by:

- the cooperation between wineries,
- the participation in professional exhibitions,
- the participation in national/international wine competitions,
- the organization of informative seminars on current trends,
- tastings to get to know the wines,
- cooperation with a sommelier,
- conscious branding and product positioning.

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