PRICE STRATEGIES IN ROMANIA'S WINE MARKET

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Abstract
Romanian wine producers/sellers face today – as in any other European (market) economy – challenges specific to such merchandise as alcoholic beverages, of which wines are a part, which, unlike (almost) any other type of product, can destroy consumers and therefore alter the very fabric of consumption process and mechanisms. These consumption limitations take their toll on any wine producer (or seller)'s capacity of profit maximising and can only add to the effects of a powerful foreign competition – which, in Romania, is more than 'able' to monopolise selling of most expensive wines –, and of the very reality Romania is (in relative terms) so poor a country that average level of consumers' revenues simply cannot 'insure' – not for all, that is – profit maximising concept turning into reality. For all these reasons, a price strategy in the Romanian wine market is both indispensable and challenging.

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Introduction

Romanian wine producers and sellers always have to face a less ideal environment: on one hand, as is very well known, Romania is a poor country, where one is, shall we say, *more than* tempted to sell cheap – if not bad quality – wines to poor consumers, and vice versa, since it is highly unlikely that the majority of wine consumers in Romania will magically transform itself, from a poor 'bunch' into a rich one. Wine producers are likewise inclined to (cheaply) produce, for the most part, only cheap wines.
There is, of course, a rich 'bunch' in Romania, but this is where the Romanian wine producer/seller quandary only begins to deepen, because here is where *foreign* competition enters the fray: rich people in Romania tend, and this is as mildly a term as possible, to buy exclusively foreign, very expensive wines (including champagne).
What is then a Romanian wine producer/seller to do? Well, in the wake of all relevant literature, we are of the opinion that a price strategy is definitely a crucial tool in the arsenal of any wine producer and wine seller –, mainly because of two reasons:

1) The market is not as large as competition comprises – basically in *every* European/EU economy – a very large number of firms;
2) Wine is a specific product – namely, an alcoholic beverage –, in the sense (as universally known) that it literally **kills** its consumer if the latter consumes a too large quantity of product – in a given time frame (i.e., a day).

Therefore, the situation is that it is not so much a case of asking the price of a wine bottle and receiving it automatically, in any circumstance, no matter when, where, and from whom, but one which *forces* all wine producers/sellers to know how much to ask, i.e., how much **not** from any (potential) buyer/consumer.

Consumption-Price relationship – a quantitative approach

So, in order to be able to properly calibrate, i.e., from the perspective of a wine producer/trader, in Romania – *a* price strategy, in fact, *any* price strategy, **price** must be the core of a quantitative analysis of the entire market, which must include simultaneously:

1. An economic analysis component – i.e., quantitative – of *price changes impact* on the market (i.e., the consumer)
2. A no-less important **marketing** component, which should include:
   a. an analysis of consumer behaviour, in order to properly identify *consumer ranges* for which various (wine) *product ranges* are produced for;
   b. a marketing analysis, valuable for 'using' as to as close to the hilt as possible consumers 'against' one firm's competition;
   c. a ***price policy*** (as the final end result of all above), to ensure maximising profits in a branch of real economy, i.e., wine production – where competition – inclusively in Romania – is as stiff as possible given it *has* a powerful *international* competition.

From the perspective of the *wines offer* – and we emphasize, already, that one, in this realm, deals with many a type of wine, respectively wines with ***different prices***, belonging to different ***types of customer,*** wines marketed by a firm and/or its competition –, the **demand** for wines is influenced, on the one hand, according to law of demand, first of all, of price; on the other hand, the concept of ***elasticity*** is the link between law of demand and price strategy, being the instrument for calculating the *impact* produced by variations of price on quantity demanded (Acemoglu et al., 2016, pp. 96, 132).

In our case, the elasticity of (wine) demand according to price is the indicator that calculates the (percentage) ratio in which:

I. The quantity demanded decreases when the price increases, respectively.

II. The quantity demanded increases, when the price decreases.

Thus, the *quantitative* measurement of *price* ***variation***, in other words, the formula for calculating the elasticity of demand according to price is (Hall & Lieberman, 2010, pp. 124-125) (where η_D represents the elasticity of price elasticity of demand, P_0, respectively, P_1 initial and final values of the price, and Q_0 and Q_1 initial and final values of the quantity *demanded*):

$$\eta_D = \frac{\dfrac{Q_1 - Q_0}{\dfrac{Q_1 + Q_0}{2}}}{\dfrac{P_1 - P_0}{\dfrac{P_1 + P_0}{2}}} = \frac{Q_1 - Q_0}{\dfrac{Q_1 + Q_0}{2}} \cdot \frac{\dfrac{P_1 + P_0}{2}}{P_1 - P_0}.$$

Like any other product, for wines there are several factors that influence the value of demand elasticity according to price, namely (Hall & Lieberman, 2010, pp. 130-132):

i. Existence of similar products (substitutes);

ii. Type of product need satisfied (i.e. primary needs or luxury consumption);

iii. Consumption ratio (of the respective product) in consumer's budget;

iv. The time horizon in which the consumer can adapt to price change (i.e., increase) – in the short term and in long term.

As to wines, however, in addition to the above factors, there are other factors of influence, specific, in this case, to alcoholic drinks in general, and even to *wine* as specific alcoholic beverage – as well as determined by existence and dynamics of international trade:

i. The – physiological! – effects of consumption on the consumer;

ii. Impact of external competition.

The effects of intrinsic product characteristics, on the one hand, and their impact on the psyche of its buyers, on the other – both reflected in/"yielding" the (absolute) *value* of price elasticity of demand – influence, in the same time:

I. **Dynamics of demand** – that is, buyers, and so, from this point of view, *in practice* (that is, in real economy) three types of demand elasticity are identified, and therefore three possible effects of its dynamics (Stiglitz & Walsh, 2002, p. 90):

(1) Inelastic demand ($0 < \eta_D < 1$) – i.e., a 1% increase in price causes a less than 1% fall in demand;

(2) Unitary elastic demand ($\eta_D = 1$) – i.e., a 1% increase in price causes a 1% fall in demand;

(3) Elastic demand ($\eta_D > 1$) – i.e., a 1% increase in price causes more than 1% fall in demand.

II. **Dynamics (decisions) of supply** (as effect of demand dynamics) – i.e., economic activity yields recorded by firms (i.e. wines' producers and sellers) – respectively, turnover size – there being, correspondingly, three situations (Stiglitz & Walsh, 2002, p. 90):

(1) Inelastic demand ($0 < \eta_D < 1$) – i.e., a 1% increase in price causes a rise in revenues (i.e. of less than 1%);

(2) Unitary elastic demand ($\eta_D = 1$) – i.e., a 1% increase in price renders revenues unchanged (i.e. revenues are constant);

(3) Elastic demand ($\eta_D > 1$) – i.e., a 1% increase in price causes *a* fall in revenues.

As for the (exact) *value* of price elasticity of (wines) demand, relevant literature puts out – i.e. in general *and* for market economies – a number of results (Österberg, 2013, p. 2), and the overall picture is somewhat muddled; however, for this study, a *single* value would be desirable and, so – by applying *standard* statistical reasoning, respectively, in our case, calculating ***the average*** of published values – the end result is (i.e. after eliminating the discordant values – respectively, $\eta_D = 1$)(Acemoglu et al., 2016, p. 135), a 0.72 as *absolute* value of price elasticity of demand – insofar as wine is concerned.

In other words:

(I) Wine demand (function of price) is inelastic – hence, probable increase of firms' revenues, if prices increase, given that:

i. alcohol addiction makes **short-term elasticity less valuable than long-term elasticity** (Österberg, 2013, p. 1);

ii. existence of alcohol addiction does not invalidate financial 'dependence' of wine consumer, whether alcoholic *or not*, on financial resources – which yields the result wine demand as function of price *can* ***never*** *be perfectly inelastic* (Österberg, 2013, p. 2);

iii. consumers of high income wines (that is, consumers of 'luxury' wines) tend to be exponents of a *very* inelastic demand – respectively, they tend to buy **exponentially** *larger quantities* of the wine, as a result of price increase (French, 2016);

iv. under certain conditions, wine producers/traders can take advantage of fact that demand for wines *produced/marketed by them* is elastic, ***as opposed to* foreign *competitors*** (i.e., facing an inelastic demand) in that, in their case, a fall in price will result in increased sales (Seale et al., 2003).

(II) For consumers in *developed* countries, wine is a ***first-need*** product.
It can be argued whether the total quantity of wine consumed in Romania has risen to the level of *total* market requirements, respectively, if, relatively speaking – wine market in Romania is still is plagued by 'drought' in terms of wine supply (ie, if the offer of wines in Romania was lower than total *potential* demand in Romania); this is a more complex issue, which we will return to in our further studies.
For the moment, however, we can and should use data available on the supply side of market, respectively, wine consumption in Romania, between 2014 and 2018, to observe dynamics of wine market equilibrium, dynamics influenced by (among other factors) price elasticity of demand for prices.
The dynamics of Romanian wine production and consumption, between 2014 and 2018, is, in quantitative terms, characterized by the following values:

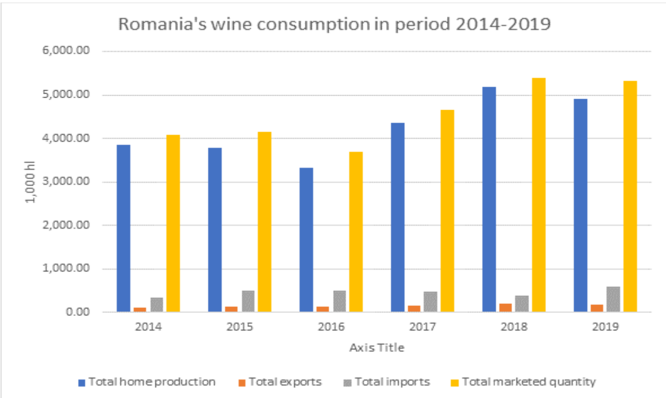
Table 1. Wine production and consumption in Romania between 2014 and 2019

INDEX	u.m.	2014	2015	2016	2017	2018	2019
Total **home** production	1000 hl	3,842.00	3,787.00	3,323.00	4,346.00	5,189.00	4,902.00
Total **exports**	1000 hl	104.30	139.46	128.25	157.27	193.55	172.92
Total **imports**	1000 hl	341.17	508.65	502.03	477.89	386.16	602.38
Total marketed quantity	***1000 hl***	***4,078.87***	***4,156.19***	***3,696.78***	***4,666.62***	***5,381.61***	***5,331.46***

Source: INSSE and EUROSTAT data processed by the author

The dynamics of wine production and consumption can be represented in the form of the following graph:

Graph 1. Wine production and consumption in Romania between 2014 and 2019



Source: INSSE and EUROSTAT data processed by the author

As shown above, the price elasticity of (wines) demand is, or, at least, may be different for imports relative to the local market, respectively, to the wines produced and marketed locally. However, to quantify these influences, it is first necessary to determine the structure of wine market from the point of view of the origin (i.e., the proportion of imports) and therefore of production sold locally – in total wine consumption.
In Romania, between 2014 and 2019, the imports ratio in total quantity consumed registered the following evolution:

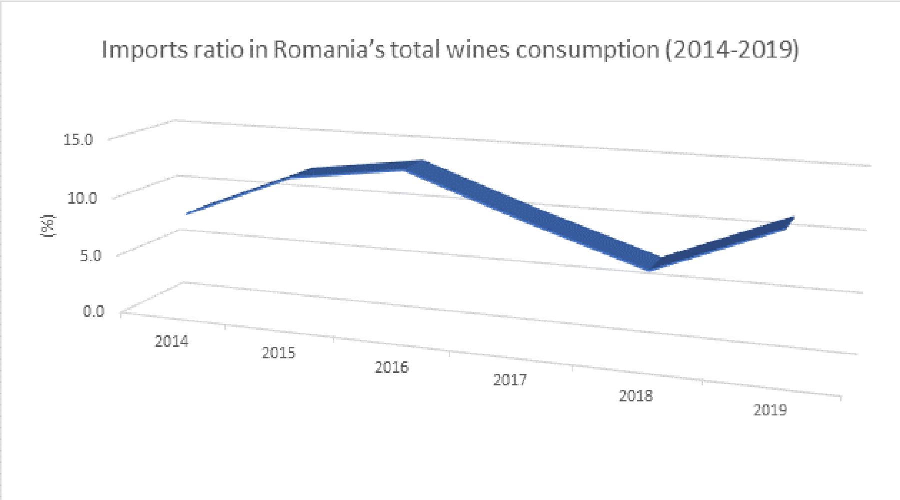
Table 2. Imports ratio in total wines consumption between 2014 and 2019

INDEX	2014	2015	2016	2017	2018	2019
Imports / total consumption (%)	8.4	12.2	13.6	10.2	7.2	11.3

Source: INSSE and EUROSTAT data processed by the author

The dynamics of imports ratio in total wine consumption in Romania between 2014 and 2019 can be represented in the form of the following graph:

Graph 2. Imports ratio in Romania's total wine consumption between 2014 and 2019



Source: INSSE and EUROSTAT data processed by the author

The marketing 'interface'
From the above data it is clear that, in general, in the period 2014-2019, wine imports did not cover more than 13.65% of total demand, respectively, in particular (i.e. in period 2016-2018):

(1) imports ratio decreased progressively, respectively, registered a decreasing trend;
(2) As a *consequence*, a downward price policy of Romanian producers/traders – respectively, a price policy that aims at decreasing prices (in the long term), in order to win the competition struggle with foreign markets, ultimately – could not have had, at most, but only a minor role in the Romanian wine market.

From this perspective, marketing *must* provide all the tools it can to allow for a sensible price policy to be put forth, in this complex world of wine production and selling, given *here* there are – and could be – not many certainties one could count upon, and even less positive ones. What any wine producer/seller knows or should know, at least, for sure, is that if it is to have any **fighting change** in this very competing market, **prices cannot possibly be *fixed***; on the contrary, they must be, for such a firm, the very epitome of flexibility – whether at stake are 'cheap' wines or 'premium' ones.

To be more specific, competition 'battles' in *any* market, and, perhaps, especially in wine market, must be fought by taking into account several *potentially fruitful* marketing strategies:

I. price strategy can focus on standing out among its competitors or on blending in the 'local landscape' (Kotler & Armstrong, 2012, p. 701);

II. alternatively, one could basically decide to ***ignore*** competition altogether, by emitting its very *un*specific – i.e. 'unique', as in 'an unique offer' – message to consumers (Kotler & Armstrong, 2012, p. 705);

III. wine is not produced every day of every year, but at the end of the (specific) harvest sqq. ***season***; even (very) old wines - sold or not!, as premium wines – *were* produced in an utterly definable time of a (certain) year – so, it could be employed a price strategy, for certain types of wine, characterised by its pregnant capacity of **seasonal price cuts** (Kotler & Armstrong, 2012, p. 719).

COVID-19 pandemic effects on the wine market – 2020 onwards: probable losses and possible global (recovery) perspectives

Although the economic crisis generated by (still) undergoing the COVID-19 pandemic is, arguably, in its early stages, it is plainly clear now wine market – i.e., its component which sells *fine* wines – is first affected - and severely so – by tourism sector taking a severe hit in this process; in other words, restaurants and similar businesses are most affected by the COVID-19 pandemic, especially those with extensive cellars of fine wines, and this will take its toll on (market) economies *per* (fine) wine market worldwide.

Thus, wine markets on the whole are visibly hurt by present pandemic, even if we admit – at least as plausible working hypothesis – consumption (thus, production and manufacture too) and trade (through both small(er) stores and hypermarkets and such) of, let us say, *common* wines are but marginally hit by this biologically induced economic crisis. For the time being, anyway, it is a *fact that the* fine wine market is in a sticky situation – if not for anything else – because (Cardebat et al., 2020, p. 2):

1. Restaurants and other similar businesses are, in many developed economies, at least, for the time being, closed, with dim perspectives of opening in short term and *on average possessing extensive* fine wines *cellars*.
2. Such *unsold* fine wine stocks are liable, if this economic crisis continues unabated, to be sold ***at a loss***, either by their owners themselves or by their creditors, if they ever they default on their (bank and/or commercial) credits.

In this perspective, can only fall – with the caveat that they will do so significantly when large quantities of fine wines are required and sold (i.e., consumed) and only marginally in wine markets whose 'fine' component is itself marginal (such as the Romanian wine market).

Conclusions

The *management* in Romania's wine market should be taken *at least* as seriously – in the manner of 'I hope I made myself obscure' style of strategic planning – as one should in any powerful economy, except for an even more cautious approach, due to some of the more specific characteristics of Romanian economy, in general, and of the Romanian wine market, especially.

The point is that Romania is a relatively poor country (in economic and financial terms), i.e., by Western standards –, where a lot of cheap – and very cheap/bad – wines are produced, sold and consumed. There are, of course, wealthy, even extremely wealthy people in Romania, be them Romanians proper or foreigners, but one note equates such a state of affairs (in more sense than one) with Romania being/having *on average* a wealthy polity/economy. Thus, there is a niche for premium and super-premium wines in Romania wine market, but more or less a infinitesimally small one. On the other hand, not only are wines consumed in Romania, but beer and, even more important, home-made alcoholic beverages (including wine, but also one of the 'brands' of Romania, namely *ţuica*). It is this point, we consider, that marketing and selling planners must focus on: They cannot enrich Romanian citizens, respectively wine consumers, but – not in the least, if they are to survive extra-Romanian competition in long term – they could and should produce and sell 'richer' i.e. better – Romanian wines.

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