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FEATURES OF THE ORGANIZED WINE DISTRIBUTION: THE FOREIGN AND DOMESTIC EXPERIENCE

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Todoriuk O. B., Ilchenko N. B. Features of the Organized Wine Distribution: The Foreign and Domestic Experience

The formation of a wine distribution system in each country has its own specifics and depends on many internal and external factors that require a quick response to maintain continuous deliveries and sales. Therefore, there is a need to compare the peculiarities of the wine market formation in the countries under study, since these countries have different distribution systems. The article expands and provides examples of the functioning and principles of distribution in various world markets – in countries that occupy leading positions in the wine industry, and in countries that do not produce wine or produce mainly for domestic consumption, but are viewed as promising export markets at present or have great potential in the future. Our choice fell on the wine markets of countries such as South Korea, the USA, India and Norway. The purpose of writing the article is to study the approaches to the formation of the wine distribution system and the activities of its subjects in various world markets in a global changing environment. It is proven that wine and alcoholic beverage producers, as well as wine market operators, must adapt to the changes taking place in the global market in order to increase competitiveness and strengthen their brands and image. In addition, they must clearly respond to changes related to wine distribution systems in both off-trade and on-trade segments, comply with local regulations and trademark protection systems, which will also contribute to success and development in new markets. Attention is paid to the study of the main reasons for the decline in wine production and consumption in Ukraine. The analysis of the distribution system and its features in the world countries plays an important role for the further possible development and improvement of such a system in Ukraine. Consideration of various examples of the functioning of wine markets of the countries over the world makes it possible to separate those business examples that could increase the efficiency and profitability of the domestic wine market. It is defined that one of the specific channels of wine distribution in Ukraine before the war was wine and gastronomic tourism, which was actively popularized both in Ukraine and in the EU countries. It is proved that this is the most promising instrument that will contribute to the development of the wine industry in Ukraine and increase the consumption of Ukrainian wine.

Keywords: *wine market, distribution, on-trade, off-trade, wine consumer, wine monopoly.*
Fig.: *6.* ***Tabl.:*** *3.* ***Bibl.:*** *15.*

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Тодорюк О. Б., Ільченко Н. Б. Особливості організації дистрибуції вина: зарубіжний і вітчизняний досвід

Формування системи дистрибуції вина в кожній країні має свою специфіку та залежить від багатьох внутрішніх і зовнішніх факторів, які вимагають швидкого реагування для підтримки безперервних поставок і продажів. Тому виникає необхідність у порівнянні особливостей формування ринку вина у країнах, що досліджуються, оскільки ці країни мають різні системи дистрибуції. У статті розгорнуто та наведено приклади функціонування та принципів дистрибуції на різних світових ринках – у країнах, що займають лідируючі позиції у виноробній галузі, та в країнах, які не виробляють вино або виробляють переважно для внутрішнього споживання, але є перспективними експортними ринками на даний час або мають великий потенціал в майбутньому. Наш вибір припав на ринки вина таких країн, як Південна Корея, США, Індія та Норвегія. Метою написання статті є дослідження підходів до формування системи дистрибуції вина та діяльності її суб'єктів на різних світових ринках у глобальному мінливому середовищі. Доведено, що виробники вина та алкогольних напоїв, а також оператори винного ринку повинні адаптуватися до змін, що відбуваються на світовому ринку, задля підвищення конкурентоспроможності та зміцнення своїх брендів та іміджу. Крім того, вони мають чітко реагувати на зміни, пов'язані із системами дистрибуції вина у сегментах як off-трейд, так і в on-трейд, відповідати місцевим нормам і системам захисту торговельних марок, що також сприятиме успіху та розвитку на нових ринках. Приділено увагу дослідженню основних причин падіння виробництва та споживання вина в Україні. Аналіз системи дистрибуції та її особливості в країнах світу відіграє важливу роль для подальшого можливого розвитку та вдосконалення такої системи в Україні. Розгляд різноманітних прикладів функціонування винних ринків країн світу дає можливість відокремити ті бізнес-приклади, які могли б збільшити ефективність і дохідність вітчизняного винного ринку. Визначено, що одним зі специфічних каналів дистрибуції вина в Україні до війни був винний і гастрономічний туризм, який активно популяризувався як в Україні, так і в країнах ЄС. Доведено, що це є найперспективнішим інструментом, який сприятиме розвитку виноробної галузі в Україні та підвищить споживання українського вина.

Ключові слова: *винний ринок, дистрибуція, on-trade, off-trade, споживач вина, винна монополія.*
Рис.: *6.* ***Табл.:*** *3.* ***Бібл.:*** *15.*

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The article expands and shows examples of functioning together with principles of distribution in different world markets – in the countries that occupy leading positions in the wine industry and those countries that almost do not produce wine, but are the main export markets both at the present moment and perspectively. Our choice fell on the following countries: South Korea Wine Market, the USA Wine Market, Indian Wine Market, Norwegian Wine Market and Netherlands Wine Market.

Over the past four decades, the world wine market has been affected by a rapid process of globalization. In order to understand its development and volumes, it is necessary to consider the main indicators of development and the model of the world market: production, consumption, export and import trends. [1]

The organization of the distribution system in every country is influenced by many internal and external factors that require a quick response to support continuous supply and sales.

The *aim* of the article is to show the diversity in the areas of wine distribution systems and the operating of its subjects in different world markets in a global changing impact of the international economy.

The research was conducted by the following methods: system analysis of global reports and specialized publications and monographs; analysis and synthesis, induction and deduction; classification-analytical method; graphic method; analysis of recent research and publications. The information base consist of the article analyzes reports that contain information about distribution systems, as well as their features.

According to the OIV (International Organisation of Vine and Wine) data analysis carried out every year for the wine market operators, the world wine production, excluding juices and musts, in 2021 is estimated at 260 mhl, marking a decrease of almost 3 mhl (–1%), compared to 2020 [10]. Here we can observe a slight decrease in the indicator of the world wine production in 2021 that can be associated to mainly two contradicting effects: the sharp fall in some of the major EU wine producing countries and the high level of the harvest that have increased in the Southern Hemisphere countries.

As for the world wine consumption in 2021 it is estimated at 236 mhl, marking an increase of 2 mhl (+0.7%) compared to 2020 volume. It should be noted that this increase was due to the suspension of the negative trend started in 2018 with the decline in China's consumption (which has lost on average 2 mhl per year since then). This downward trend was accentuated in 2020 by the COVID-19 pandemic, which brought a depressing effect on many large wine markets as well as lockdown measures, the disruption of the HoReCa channel, and an overall lack of tourism. The increase in consumption in most countries of the world in 2021 is due to the lifting of restrictions to movement of people and goods, reopening of HoReCa channels and the revival of social measures (*Fig. 1, Fig. 2*).

Concerning the international trade, it should be admitted that the lifting of restrictions in the course of the COVID-19 pandemic has set the world wine export market on its path to recovering and adaption after a year of major trade disruptions world over.

With a volume of 111.6 mhl world wine exports in 2021 have increased by 4% compared to 2020, and have boosted even more in terms of value, with 34.3 bn EUR, registering a yearly increase of 16%. In 2021, once again, the international trade of wine is dominated by the three EU countries – Spain, Italy and France that together exported 59.9 mhl, accounting for 54% of the world wine exports. [10] In terms of value, France confirms its position as the first world exporter in 2021, with wine exports worth 11.1 bn EUR.

By the world trade product, the global market is divided according to four product types which are distributed to the countries: Bottled wine (< 2 liters), Sparkling wine, Bag-in-Box® (BiB), Bulk wine (> 10 liters). The *Tbl. 1* displays how these categories have been shared in 2021 and increased or decreased by volume and value in 2021 comparing to 2020. As we can see from Tbl. 1, the bottling wine occupies a leading position in the world market with increasing in value more than in volume due to the general rise in prices. The same is for the sparkling wine bottles. The bulk wine is still under the huge growth and this category according to experts will rise due to the popularity of inexpensive wine at some markets, as well as increasing in production in bulk wine supplier countries [7].

South Korea Wine Market. First of all, to understand the distribution system in South Korea it is important to say, that concerning the meaning of wine to Koreans

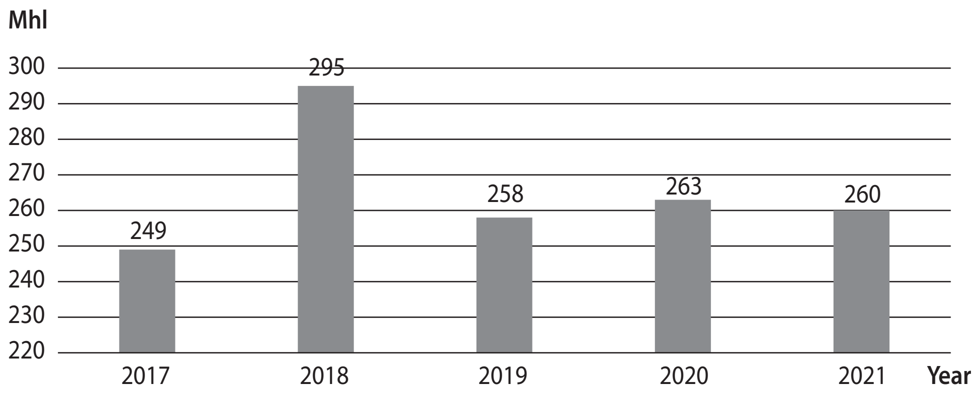

Fig. 1. The world wine production (juices and musts excluded), mhl

Source: developed by the authors on the basis of [10].

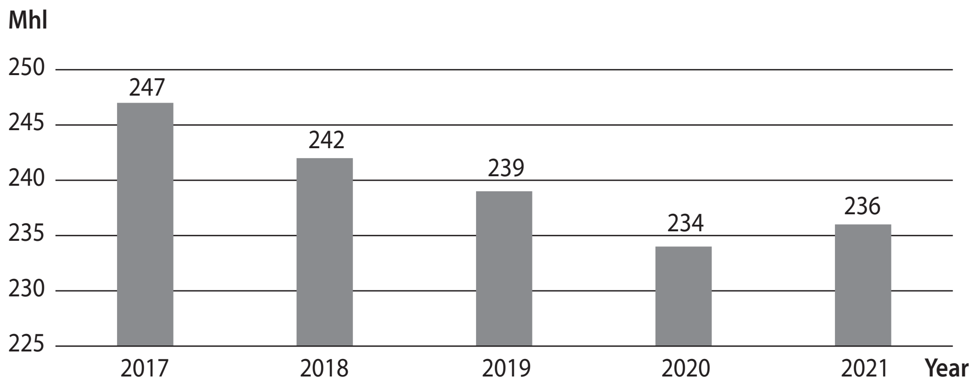

Fig. 2. The world wine consumption, mhl

Source: developed by the authors on the basis of [10].

Table 1

World trade by product type

Product type	Trade vol/val share in 2021	Increasing/decline in vol/val to 2020
Bottled wine (< 2 liters)	53% volume / 69% value	+6% in volume /+13% in value
Sparkling wine	10% volume / 22% value	+22% in volume / +35% in value
Bag-in-Box® (BiB)	4% volume / 2% value	–8% in volume / –1% in value
Bulk wine (> 10 liters)	33% volume / 7% value	+5 in volume / –5 in value

Source: developed by the authors on the basis of [10].

it's a luxury good, beverage, that need a particular study, as a part of well-being culture. The Korean consumers look for the wine in a few categories. For high price wine these are big companies for the business study, collectors who are interested in deep knowledge in wine/vintage of top class wines and of course restaurants and bars. Regarding the low price wine for the hypermarket stores is dominating in distribution channels. As for the consumption patterns, they could be divided it to the three categories by year: twenties, thirties, forties-fifties (*Tbl. 2*).

The market shares consumption of drinks in South Korea in 2019 by amount will be divided as follows: Beer (46.7%), Soju (31.2%), Distilled Spirits (9.7%), Rise Wine (6.5%), Fruit Wine (5.9%). As we can see from the figures the wine consumption in South Korea is still at a low level, but in 2020 the South Korean wine imports broke the record – $330 million, 27 percent growth from 2019. During the pandemic wine grew in popularity as people choose wine for drinking at home. The increase in young wine consumers and the growing popularity of wine will likely generate additional growth opportunities for the USA wine in Korea in coming years [4]. Among the South Korean Wine Market there are some advantages that could be identified: consumers prefer the beverages with lower alcohol contents due to health concerns, including wine and beer. Moreover, the reported health benefits of drinking red wine are widely publicized as well as wine fits the new consumer lifestyle and consumption trend. As for the wine which is consumed in the market, it is mostly imported [6]. Today the number of importers is

Table 2

Consumer Analysis in South Korea

Age	Consumption Pattern in South Korea
Twenties	Wine, used as a gift to celebrate a memorable date. Lots of online wine communities thus young consumers study a lot
Thirties	Well-being trend & preferences for the low alcohol beverages. Consumption at home a drinkable wine
Forties-Fifties	Wines for the business meetings. Knowledge about high level wines is preferable

Source: developed by the authors on the basis of [3].

over 500, but marketers estimate that only about 50 of them currently maintain an active business. The top ten leading importers reportedly account for over 80% of total imports.

According to the distribution system requirements importers may sell directly to wholesalers, retailers (restaurants and liquor stores), or individual consumers (through the importer's own wine shops only). As for the challenges wine market is still in its early stage of development. Wine remains a premium beverage and is consumed by a limited population. Imported wine is offered at high prices due to high distribution costs and government regulations [4]. On-line sales of wine were not allowed but the COVID-19 pandemic changed this feature: of the past year in the South Korean wine market there has been the government's relaxation of the laws surrounding the purchase of alcohol online. Imported wine is offered at high prices due to high distribution costs and government regulations. In this case leading store-based distribution channels for purchasing wine in South Korea in 2019 were hypermarkets 64.4%, small grocery retailers 12,8%, supermarkets 10.1%, food/drinks/tobacco specialists 9.7%, mixed retailers (department store) 3% [12].

Top 5 wine retailers were E-mart – 55%, Home-Plus (Samsung Tesco) – 25%, Lotte-mart – 22%, Castco – 21%, Shinsegae Department store – 13% [11].

The USA Wine Market. The USA Wine Market is defined as the world's biggest. The market size was valued at USD 63.69 billion in 2021 and is expected to expand at a compound annual growth rate (CAGR) of 6.8% from 2022 to 2030 according to the USA Wine Market Size, Share & Trends Analysis Report by Product, by Distribution Channel and Segment Forecasts, 2022–2030 (*Fig. 3*). What are the distribution channels? Off-trade, on-trade, winery direct to customer (DTC), online wine sale. In the USA wine has become a social beverage – no longer perceived as elitist like golf.

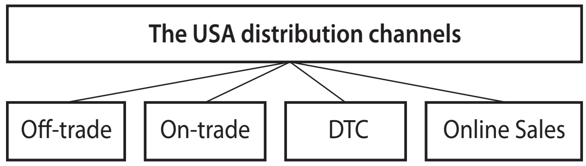

Fig. 3. The USA distribution channels

Off-trade segment appertains to the off-premise consumption: supermarkets, shops, online-stores whereas on-trade refers to on-premise consumption, which are bars, restaurants, hotels and nightclubs. The direct to customer distribution (DTC) became especially effective during the coronavirus period, when off-trade and on-trade channels were limited. It was the wineries that were able to survive during this period by directly selling products online, contacting customers, maintaining their own databases, doing direct delivery, selling to take away.

But let's return to the USA distribution system. It should be noted that after the repeal of prohibition, the three-tier system of alcohol beverages distribution was set up. And traditionally (*Fig. 4*) the so-called three-tiers system consists of importers or producers, distributors and retailers.

According to the basic rules producers can sell their products only to wholesale distributors who then sell to retailers, and only retailers may sell to consumers. The three-tier system is intended to prohibit tied houses and prevent disorderly marketing conditions. According to National Wine & Spirits, Inc. the 20 largest wholesalers control 70% of the U. S. distribution, at the same time they can pass some of their lower costs to the retailers, thus increasing the total efficiency of the supply chain. As for the fundamental changes, the COVID-19 pandemic has led wine consumers to use e-commerce for ordering, thus driving the off-trade distribution channel segment and the off-trade segment held the largest revenue share of over 80.0% in 2021 [5]. The demand through on-trade channels was severely impacted during the COVID-19 times. However, as the economy is opening, consumption is increasing and is likely to grow at a faster rate than off-trade channels. The on-trade channel is projected to register the fastest CAGR of 10.0% from 2022 to 2030 [13]. As for the wine drinkers by age it is very interesting to admit that the percentage is as follows: Z-Generation (21–22) 3%, Millennials (23–40) 32%, X-Generation (41–52) 19%, Baby Boomers (53–71) 37%, Older (72+) 9% [3].

However, the USA is also a wine producing country with over 700 million gallons of wine produced in 2020, which is nearly 9 percent of the global wine production volume [12]. That is why, the new global challenges affect the wine distribution system and transform it. This transformation consists in pressure from small producers, e-commerce, and the emerging new models are challenging the traditional three-tier system: serious challenges

Fig. 4. The USA distribution system. The three-tier system

and new opportunities have converged to push the U.S. alcohol distribution industry into one of its most significant periods of modernization since the three-tier system was created in 1933. And the numbers speak for themselves: in 2020 total U.S. e-commerce sales increased by 42.4 percent year-over-year from 2019; reaching by 2021 $960.1 billion.

Indian Wine Market. What is interesting in Indian Wine Market that this is also a wine producing country and its market is very big and diverse. The problem is taxes and legislation: 29 states and 7 Union territories in the country and each of them imposes considerable control on the taxation, marketing, storage, and distribution of alcoholic beverages including wines. The Article 47 of the Indian constitution also concerns the prohibition of alcohol: "....the State shall endeavor to bring about prohibition of the consumption except for medicinal purposes of intoxicating drinks and of drugs which are injurious to health". Five Indian states (Bihar, Gujarat, Manipur, Mizoram and Nagaland) ban the sale of alcoholic beverages completely. Licensing procedures vary by state. As already noted, in some states the sale of alcohol is prohibited, in others it is allowed, and in others there is a state monopoly that controls the alcohol sale. As a general rule, importers, distributors, retailers, restaurants and hotels must be licensed to sell alcoholic beverages. Some states require licenses to sell alcohol in hotel rooms.

In such a regulation the wine distribution system is functioning. India's wine market is estimated to be valued at $150 million, where imported wine accounts for 30 percent and the rest is produced for the domestic market. The imported wines face familiar hurdles in the shape of high taxes and tariffs, and a cumbersome regulatory system [8]. To resume, talking about the supply and distribution channels analyzing various sources, one can summarize as follows: any individuals, firms or company can import; bonded warehouse are essential for importers; private/public bonded warehouses are allowed; excise bonded warehouses are mandatory for sale; handled by importer/warehouses/distributor; importers are not allowed the direst retail; retailers must buy from licensed wholesalers; retailers are allowed to work through license only; all licensing is implemented on a fresh basis every year for excise. As far as we can see the wine distribution system is very complex with lots of internal procedures and high import taxes (*Fig. 5*).

The on-trade is an important channel for wine in India, but the COVID-19 pandemic had a significant impact on wine sales during 2020. Closures and lockdowns led to sales volumes plummeting by about –20% in 12 months, according to IWSR data. But it is needed to say, that the social and cultural taboo around alcoholic beverages is slowly dissipating and especially wine is becoming a status symbol among the upwardly mobile classes. Nevertheless, Indian wine market is one of the perspective and is expected to grow at a compound annual growth rate (CAGR) of 20 to 25 percent [14].

Fig. 5. The features of Indian distribution channels

Norwegian Wine Market. This wine market is 100% monopolistic, owned by the Norwegian State and has an exclusive right to sell, import and distribute beverages with an alcohol content greater than 4.75 volume percent through retail outlets in Norway, calls Vinmonopolet. It makes Norway one of the most restrictive alcohol control policies country in Europe with a heavily taxed wine even more expensive than in other Nordic countries.

Vinmonopolet was established to ensure responsible sales and not to generate profit as well as focus on the social responsibility. Despite the baffling features, Norway is a solid export market for wine producers worldwide, with an import value of $431.8 million in 2019 and remains among the key consumers of wine in Europe. The market features are also under the consumer influence. The Norwegian wine consumption continues to be dominated by red wines, even though there is a shift towards white and lighter wines, reflecting a move towards a “European” consumer behavior. This trend is especially noticeable in the Oslo area. The preferences for red wines could be due to climatic factor. A huge trend in Norway is the Bag-in-box as more than half of the wine sold in the country comes in this format.

Vinmonopolet has sold 70 million liters of alcohol through the 315 Vinmonopolet stores. Despite being a monopoly, the variety of products offered is quite high: at Vinmonopolet you can choose between 21.500 products and lunches new one six time a year and wherein 80% of Norwegians saying that they want to keep their Wine Monopoly, viewing it as a beneficial factor for their health [9]. Vinmonopolet's purchasing process is comprehensive and thorough and the goal is – at all times – to have a market oriented assortment. To achieve this, demands and trends in the market and sales development are analyzed nationally and internationally. When it is defined which types of products are interesting, open tenders are made available to relevant suppliers.

There are about 500 registered importers who have entered into the wholesales/import agreements with Vinmonopolet. Tender Offer is publicly available in the launch plan that comes twice a year. The advertising of alcohol beverages is banned in Norway, so the distribution strategy should be completely different as for example comparing to other, more free markets.

Ukrainian Wine Market. The attitude to Ukrainian wine has changed in recent months, winemakers noted that in 2022 sales increased. The war has changed the attitude to Ukrainian wine. The change in status occurred for several reasons:

- the so-called "Prohibition Law" at the beginning of the full-scale war promoted direct sales;
- recently, restaurants and bars finally wanted to have Ukrainian wines on their wine lists;
- Ukrainian wines went for export, and to satisfy the wine needs of Ukraine's sympathizers abroad you need an awful lot of wine;
- solvent Ukrainians began to buy more local product;
- importantly, online sales have grown, and craft Ukrainian wine can be purchased mostly online.

So, for example, the latest restrictions on the alcohol market of Ukraine, namely the introduction of the so-called prohibition, and then a slight relaxation of sales during a limited time in some regions reduced legal alcohol sales by 63% in April, according to analysts' calculations. Due to many internal factors, retailers are planning to change the assortment and increase the volume of cheaper drinks nowadays.

In addition, there was a ban on the import of alcohol into the country for about 4 months – these goods were not included in the list of critical imports, so domestic importers and distributors also had to adapt to these restrictions and use their own cases for the functioning of distribution lanes.

Unfortunately, the wine market is currently in a very difficult state. The main reasons for the decline in wine production and consumption in Ukraine include the following:

- decreased purchasing power of Ukrainian consumers (*Fig. 6*);
- military operations on the territory of Ukraine, occupation and destruction of the main wine-producing regions, Mykolaiv, Kherson and Odesa. The Russian military had robbed the Trubetskoy winery in Kherson region of collectible wines;
- steady growth of imports of wine products;
- disruption of logistics chains;
- ban on alcohol consumption and time restrictions.

The Gostomel glassworks, which met the needs of many local bottled wine producers, was destroyed. Cider production was also completely destroyed. Many well-known wineries in Ukraine, such as Koblevo, Wine Idea, Cassia Wine, Kurin, Radsad, and others, suffered directly or indirectly as a result of military aggression. Much was stolen, and modern equipment from Ukrainian wineries was taken to russia.

However, the crisis in the viticulture and wine industry began long before the war. The program to restore Ukrainian winemaking should be based on the tools used by the EU in its Member States and focus on civilized lobbying for national interests only. Ukraine has renewed its membership in the International Organization of Viticulture and Wine (OVW), which it was a member of from 1997 to 2008 years.

Sales in a time of war is also a challenge, as is market diversification. Domestic winemakers have begun to work more actively on exports and sell wines in China, Singapore, Estonia, and are negotiating with other countries. In fact, sales in other countries and exports are the issues that all operating wineries are currently addressing.

One of the specific channels of wine distribution in Ukraine before the war was wine and gastronomic tourism, which was actively popularized in Ukraine and in the EU countries. It is a direct tool for the sale and promotion of domestic wine producers, craft production, and farm products. Currently, this is one of the most promising tools, which we will consider separately in future publications.

CONCLUSIONS

Analysis of the distribution system and its features of the world market and countries plays an important role for the further possible development and improvement of such a system in Ukraine. Examining various examples of the functioning of the wine markets in different countries makes it possible to separate those business examples that could increase the efficiency and profitability of the domestic wine market, also to increase its activity, as well as the quality and level of service provision of such a rather specific and somewhat limited for consumer product as wine.

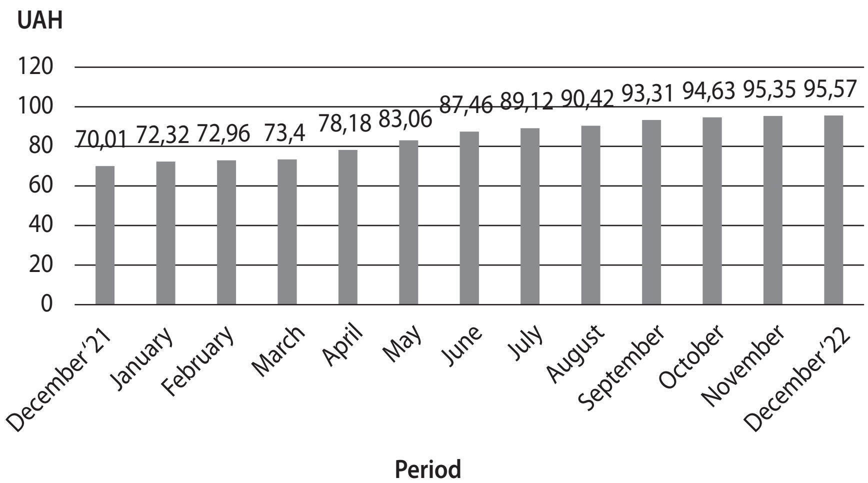

Fig. 6. Average consumer prices for domestic table wine in Ukraine in 2021–2022, UAH

Source: developed by the authors on the basis of State Statistics Service of Ukraine [15].

Such an analysis helps market operators to introduce certain functional features into the domestic system, to actively respond to system challenges and force majeure circumstances, to function effectively in today's unstable business system.

In this case the factor analysis of the functioning of the distribution system must be taken into account for the effective functioning of the sales lane (*Tbl. 3*). The formation of the wine distribution system in each country has its own specifics and depends on many internal and external factors that require a quick response to support continuous supplies and sales.

According to the carried out research, it can be concluded that the wine market in the studied countries is affected by external and internal factors that have general and specific features. Thus, the development of the wine market and the wine industry in different countries, like all other sectors of the economy, is significantly affected by climate changes, changes in supply chains due to the force majeure, fluctuations in exchange rates, etc. The specific factors include, first of all, the needs of the consumer, the standard of living and the culture of wine consumption. The formation of the wine market is significantly influenced by the functioning of the regulatory system of the alcohol industry.

Among the strong competitors of Western European wine producers, such countries as Italy, France, and Spain can be singled out. In the post-Soviet environment – Moldova, Romania, Georgia. The wine market is flexible and redistribution is constantly taking place on it, new competitors of "old world" wines appear, striving to conquer the international consumer. ■

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Table 3

Factors that influence the wine market and distribution system

	External	Internal
Factors that influence the wine market and distribution system	Climate changes	Features of the consumer market
	Wine consumption	Historical alcohol consumption
	Wine production	Public policy
	Geographical location	Taxation requirements
	Public policy	Inventory system
	Legislative system	Inventory forecasting and buying high level system
	Pandemics and force majeure	Pricing flexibility
	Wine orientation	Wine education

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