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Executive Summaries

RESEARCH

Typology and Financial Performance of Champagne Makers According to Distribution Channel

Francis Declerck

The Research Question

In 1992, during the economic recession in Western Europe and North America, consumers were unwilling to pay a high price for a bottle of Champagne, but the grapes used to produce that wine had been harvested 3 years earlier and purchased at a very high price. Squeezed between high costs and low retail prices, Champagne makers had to sell Champagne in supermarkets at a lower price than usual. A few years later, after the boom in 1999 sales dropped, but not so strongly. This paper shows how Champagne makers have learned how to improve value creation over the decade through the use of different distribution channels.

Study Description

The paper identifies the types of distribution strategy implemented by Champagne makers, measures the economic and financial performance of Champagne makers from 1992 to 2001 for each type of distribution, and relates performance indicators to strategic decisions with respect to distribution channels.

Findings/Results

Clearly, the economic, operating and financial profits depend on the distribution network and the sales price. Champagne makers selling wine to supermarket and hypermarket chains showed very low profitability. They were unable to keep up the momentum from the sales boom of 1999. Champagne makers with mainly on-trade distribution, meanwhile, enjoyed very positive growth rates in business volumes and profitability, and Champagne makers with global distribution networks grew even faster. They were able to take advantage of the new millennium and also to maintain that advantage over the following years.

Management Implications

On one side, the largest Champagne makers are mass producers with economy of scale and cost leadership advantages. So, they can market successfully worldwide both in supermarkets. On another side, high quality Champagne producers rely on their brand equity and are able to sell at a higher price through a network of wine stores, i.e. specialized retailers. The results explain why most Champagne makers are trying to increase their non-supermarket sales, in order to achieve better prices and profitability. But such a strategy requires the financial means to develop brand awareness and an international distribution channel. Processors take advantage of branding and economy of scale in production. They adjust their production strategy in taking distributors' marketing power into account. The paper shows that Champagne makers need a second quality product, like good sparkling wine, that can be processed at lower cost and sold at large scale through supermarkets.

Renationalization of the Common Agricultural Policy: Mission Impossible?

Jyrki Niemi and Jukka Kola

There is growing awareness within the political system that the Common Agricultural Policy (CAP) of the EU is not the most efficient means of addressing an increasing number of policy objectives, ranging from rural development to environmental considerations. The CAP has hitherto sought to address a wide range of goals with few instruments, leading to the uneven, non-targeted, unconditional and inefficient subsidising of EU farmers. Farmers in the most-favoured areas receive more than double the amount per hectare in CAP arable payments compared to farmers in the less favoured areas of Finland and Portugal. Thus, for equity reasons there is a need for a better balanced distribution of CAP support among products, regions and farmers. Furthermore, the logic of remunerating the multifunctional role of agriculture – a key concept in the EU today – calls for better consideration of factors like the rural territory, the environment, the landscape, rural communities and rural employment.

Several commentators and economists have suggested that a renationalisation of the CAP would be an applicable way to proceed in an attempt to pursue a policy sensitive enough to national and regional or local needs and priorities. Renationalisation mainly deals with two issues: (i) should member states have more power and freedom on decisions of agricultural policy, and (ii) should there be a shift from common financing back to national funds? This paper discusses these issues from a political-economy perspective. The paper argues that from the point of view of efficiency or economic integration there is no obvious reason why EU agricultural policies, other than the common market and trade instruments, should be centralised. In principle, action at the EU level could be limited to setting an appropriate framework, including the definition of the rules needed to preserve the integrity of the single market and to avoid market distortions. Trade policies vis-à-

vis third countries would also have to be handled at the Community level. Apart from this, Member States could design their own agricultural policies.

Adoption of Internet Strategies by Agribusiness Firms

Jason Henderson, Frank Dooley, Jay Akridge and Antonio Carerre

Agribusiness firms face challenges crafting Internet strategies. Developing an appropriate strategy is especially difficult given the seemingly continual flow of new information technology and software applications. Moreover, Internet adopters alter business models and practices to accommodate and participate in the rapid growth of the Internet and e-commerce. Despite these challenges, agribusiness firms are adopting Internet and e-commerce strategies for various reasons.

Data from a survey of agribusiness firm managers are used to examine the use of the Internet by agribusiness firms and the motivation behind Internet adoption. Information concerning who is using the Internet, why they are turning in that direction, and what activities are being performed provide insight not only into the drivers of Internet use but also its potential impacts on existing distribution channels. It is expected that manager/owner perceptions of a supply-chain will influence the choice and intensity of Internet usage.

Managers' perception of the impact of e-commerce strategies on five supply-chain processes is expected to influence the likelihood of Internet adoption. The ability of the Internet to reduce transaction costs through improvements in transaction, information, and negotiation processes is associated with higher probabilities of adoption among agribusiness firms. The ability of Internet strategies to reduce production costs arising from the logistics and promotion functions also encourages Internet adoption.

Given that both production and transaction costs are highly related to Internet adoption, the role(s) of the Internet may not yet be clearly defined. Some firms may be adopting to improve efficiency in logistic or promotion functions. Others may be implementing strategies to improve information, transaction or negotiation functions. Agribusiness firms are still testing the Internet waters and future study is needed to determine what role or roles the Internet will play in the agribusiness firm business model.

Chinese Consumers' Preferences for Livestock Products

Xuehua Peng, Mary A. Marchant, Xiang Dong Qin, and Jun Zhuang

China has become an important emerging livestock importing country in the world, which promises a significant potential market for international livestock exporters including those from the United States. The Chinese livestock market outlet structure has fundamentally changed due to the introduction of supermarkets and convenience store chains in recent years. Livestock products sold in Chinese supermarkets and food stores command a 10%-plus price premium compared to

products sold in traditional Chinese wet markets due to special product attributes. This research evaluates Chinese consumers' preferences for these livestock product attributes.

We conducted a survey on 784 Chinese consumers who shopped at supermarkets and food stores in Shanghai and Nanjing in 2001 and 2002. The livestock product attributes examined in this research included (1) product quality, (2) labeling, (3) price, (4) packaging, (5) brand name, (6) cooking convenience and (7) shopping environment. Stemming from Lancaster's characteristics' methodology, a series of ordered-probit models and factor analyses were conducted.

Empirical results from this research confirmed the heterogeneity of Chinese livestock retail markets in terms of consumers' socioeconomic, demographic and geographic factors (e.g. region, gender, income, age, education, etc.). Since many Chinese women shop for their families, U.S. livestock distributors should focus on Chinese female consumers. Our findings suggest that U.S. livestock exporters should target young Chinese consumers and consider cooking convenience as a key attribute in marketing U.S. livestock products. Chinese consumers with higher incomes place less importance on product price and shopping environment and more importance on product quality and brand name. Highly-educated Chinese consumers also place more importance on the brand name attribute. Thus, developing brand loyalty is also a key marketing strategy for U.S. exporters.

Factor analyses results indicate that it is crucial for U.S. livestock exporters to create an excellent external product image. Marketing strategies to consider include building a brand name for livestock products, designing attractive packaging with suitable size, making products easy to cook and creating a comfortable shopping environment.

INDUSTRY NOTES

Managing Environmental Risks through Private Sector Cooperation: Theory, Experience and a Case Study of the California Code of Sustainable Winegrowing Practices

Kirby Moulton and Alix Peterson Zwane

Agricultural producers and food processing firms are increasingly aware of environmental risks and their impact on production, marketing and profit. Managers are faced with the question of how best to manage such risks. This article examines the effectiveness of voluntary cooperation as a strategy for managing them. It reviews the process and results reported in numerous relevant studies and focuses specifically on the California Code of Winegrowing Practices. Past experience indicates that a primary consideration in developing voluntary programs is to focus on problems that are specific to a particular industry and/or region and to avoid more general regulations that may be imprecise, expensive, and ineffective. The California experience indicates a number of strategies that may be useful in

other industries and areas. These include using an integrated production, processing, distribution approach with initiative flowing from bottom to top to assure better cooperation. It also suggests the value of involving interest groups early in the process and considering a certification program that rewards cooperators.