

Premiumization Strategy “à l’ukrainien”: Case Study of Sparkling Wine Producer

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Abstract

◦ *Purpose – The purpose of this study is to investigate how “Artwinery”, the biggest Ukrainian producer of sparkling wines, adjusts its strategy to changes in external environment caused by eurointegration and wine market liberalization*

◦ *Design/methodology/approach – Institution-based view and case study method have been applied to investigate which strategic response has been selected in this context*

◦ *Findings – Premiumization strategy is the company’s reactive response to “push’ factors like increased competition with producers from EU on domestic market, cost base enlargement, impossibility to maintain price level - and, by contrast to conventional views, is not driven by “pull” factors like high prices and marginality of high-quality sparkling wines that attract new incumbents*

◦ *Practical implications – Quality of products, access to financial resources and competitive cost of borrowing in the context of Ukraine’s eurointegration could be considered as key success factors when implementing premiumization strategy in wine sector*

Key words: Ukraine; eurointegration; sparkling wine; premiumization strategy

In 2014 Ukraine signed Association Agreement (AA) with EU. The process of eurointegration resulted in new “rules of the game” [North, 1990] - market liberalization, full accessibility and openness to EU wines. According to preliminary official statistics (<http://www.ukrstat.gov.ua/>), with the abolishment of import duties since January 1st of 2021, by the end of 2021 the import of sparkling wines to Ukraine jumped by 44% and achieved USD 54.7 million - 44% more comparing to 2020 and 2.6 times higher than 5 years ago. Local wine production in 2020 was circa ten mln decaliters (of which sparkling only 2.7 mln decaliters) comparing to 19.6 mln decaliters in 2018. Over the last past 5 years, local wine production has decreased by 39%. In fact, Ukrainian wineries are losing their competitiveness, market shares and positioning to competitors from EU.

This paper is a case study dedicated to the strategy of “Artwinery”, the biggest Ukrainian producer of sparkling wines in the country after the loss of Crimea, and the purpose of the study is to investigate how the “Artwinery” adjust its strategy to new challenges (<https://artwinery.com.ua/>) and responds to negative impacts provoked by the eurointegration. Winery’s annual production capacity is around twenty-five million bottles based on the “méthode champenoise. And “Artwinery” is intended to protect its current market share of 24-25% against producers from EU that are aggressively exploring opportunities in Ukraine. In addition, due to Russian embargo to import Ukrainian wines, “Artwinery” must offset occurred losses in sales by looking for alternative export markets. However, European market is not so freely accessible for Ukrainian wine because of protectionist measures – requirements for quality’s certification and other barriers.

The literature focused on the problem of dealing with changes in external environment through the choice of an appropriate strategy is quite extant and provides various conceptual frameworks and perspectives that could be used for this case analysis. First of all, the institutional perspective or “institution-based view of strategy” [Peng, 2003; Peng et al., 2008] is the most relevant to investigate and explain how firms respond, what strategic choices were made and why. The institutional perspective gained popularity and various institutional strands were integrated in nonmarket strategy (NMS) literature [Henisz & Zelner, 2003]. Among the stream of literature focused on “strategic responses” there are few seminal works [Oliver, 1991 ; Dorobantu et al., 2017 ; Khanna et al., 2010 ; Doh et al., 2017 ; Pache & Santos, 2012]. Frameworks and lenses from those works will be used to see how “Artwinery” responds and understand its strategic response. The most interesting is to check if the response fits to already known typologies or not and why. As well, to benchmark it with responses of other companies.

In addition, the mentioned typologies could be useful for theories testing in Ukrainian context and further theorizing especially if responses differ significantly from various benchmarks.

Case studies method is chosen [Yin, 2014]. Research designed as exploratory single in-depth qualitative interpretive case. To answer those research questions, archival documents and various sources of qualitative and quantitative data were collected. Data collected at interviews was analysed according to Gioia methodology [Gioia, 2013].

Obtained data and the preliminary results show that the applied technology (méthode champenoise) seriously affected its business model with those key elements: long production cycle, “make-to-stock” approach with important level of inventories. Therefore, such business is quite “capital intensive.” However, the prohibitive cost of short-term and medium borrowing from local banks in Ukrainian currency – UAH (hryvnia) - within the market range 17-25% over last few years represents a big disadvantage while the access to a cheaper foreign capital is extremely limited. Available equipment is quite old and requires modernization which is done at extremely low pace because of financial constraints.

Previously, high quality grapes and wine materials were supplied from the Crimea. Now, due the disruptions in supply chain, “Artwinery” uses alternative sources of supplies but with unstable quality. As the surface of vineyards in Ukraine is decreasing (currently – about 41.5 thousand ha), competition for best materials pushing purchasing prices up. According to “Ukrvinprom” (<https://ukrvinprom.ua/>), from 2019 to 2022 overall increase of costs was circa 160% and was driven by the prices of energy, transportation, labour costs, raw and other materials (corks, caps, bottles etc.). With such cost base it is not possible to maintain the price level and profitability. Those are “push” factors for shifting to premiumization strategy and moving to a premium sparkling wine segment where higher costs are easier accepted by customers but require higher quality which is problematic with old equipment and issues with the supply of grapes and wine materials. So, in such context “pull” factors - higher prices and marginality of premium quality sparkling wines – are not key reasons for selecting premiumization strategy.

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