

## *BG2 (Pazardjik, Bulgaria): Winery Analysis*

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### *Objective*

The aim of the study is the analysis of individual's value of wineries for landscape attributes.

### *Methodology*

To achieve the objective of the study we conducted a survey among 6 wineries. The collected data was processed using the following methods: descriptive analysis, graphical analysis and comparative economic analysis.

### *Results*

Each winery has an average asset of 8.3 Mio Euro and 3.2 Mio Euro basic production funds. Joint stock companies (JSC) possess of more resources. This group of wine enterprises reported the highest return on resources. They have a clear separation of ownership and its management, which indicates that this organizational form is most appropriate for resource management in the industry. The investment activity of wine enterprises is weak in terms of the financial crisis. The average investment in a winery is 364.9 Thousand Euro. The majority of the surveyed wineries incurred and accumulated operating losses. This determines their inability to cover the investments made at this stage. The rate of return on investment was in almost all surveyed enterprises negative. Only one stock company realized return on investment, but it is insignificant. In general it can be concluded that the return on investment at this stage is very low, which determines the low attractiveness of the sector for potential investors. Most of the wine enterprises indicated that the main reason for the financial loss is their inability to collect receivables from their customers and suppliers. This determines their inability to be settled with commercial banks accumulated debt in use of investment loans granted by them. The wineries managed to generate revenues that nearly cover the operating expenses. The average operating income was 3.1 Mio Euro. According to these revenues the studied wineries incur expenditures of 3.1 Mio Euro. As a result, they incur an average loss of activity in the sector amounted to 13.6 Thousand Euro. Nevertheless, there is an optimistic view for development of the market. This can be proved with the start of a few new winery businesses in the region, which are still under construction.

According to the structure of the revenues generated in the surveyed wineries, we found that the predominant activities are trade with wine and tourism. Trading sector takes 40% and tourism 28% of the revenues. It can be concluded that these are the main activities of local wineries. Agricultural activities form only 12% of the revenues generated during the year. This is explained by lower sales of agricultural products, mostly grape, which is the raw material for the wine making and for this reason the industry does not generate cash revenue.

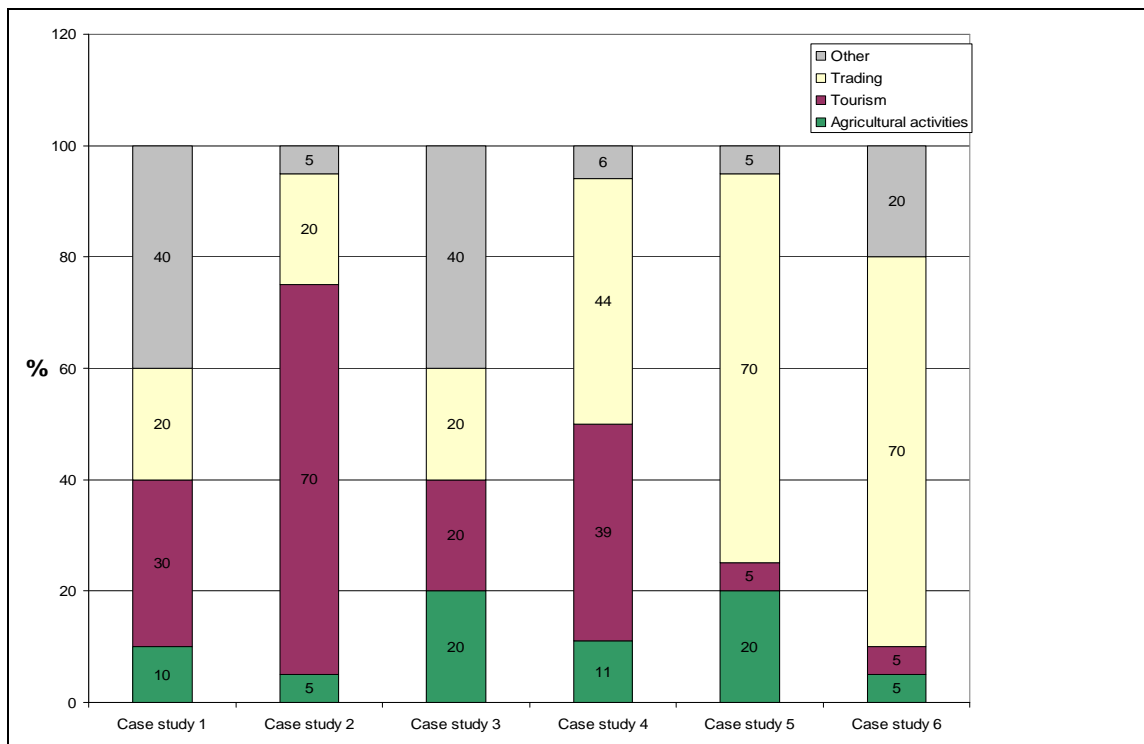


Figure 1. Winery activities. Source: own calculation.

The costs of materials take the major share of total expenditures with 59 %. Another important component is personnel costs with 14 %. Capital costs also have a share in total expenditures with 12%. The structure of the expenditures shows that external services are not very popular among wineries. They spend only 7 % of total expenditures for such activities.

Distribution: The distribution mix of wineries is determined by retailers. Wineries do not prefer to sell directly to the tourists or local hotels and restaurants. Retailers form approximately 53 % of winery's sales. This means that they significantly contribute to the chain of economic value added in wine tourism. Direct sales to tourists that visit the winery have an insignificant share of the product distribution, just about 15 % of total sales. Local consumers and related industries form only 11 % to 12 % of total sales.

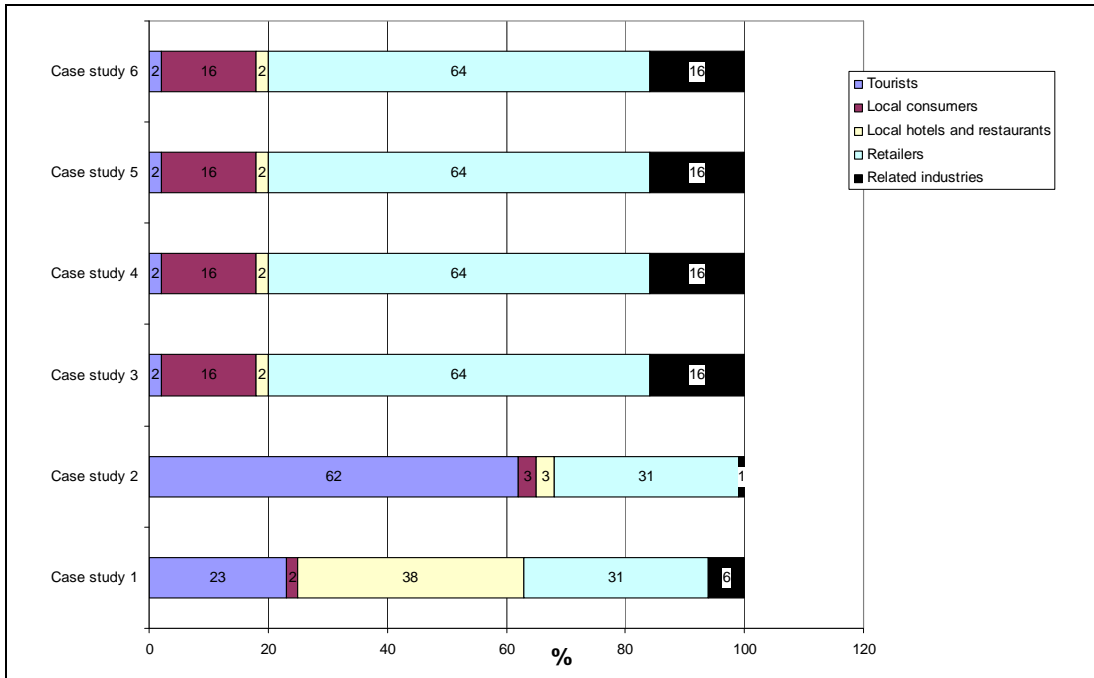


Figure 2. Winery networking. Source: own calculation.

Contribution to the creation of the final product (wine tourism): The management of the wineries claim that there is no or just a weak contribution by the activities in wine tourism to the diversity of landscape. They prefer not to create landscape. They use landscape composition as a natural resource given as a unique feature in the value chain of wine tourism. In addition, they state that there is no contribution to the creation of raw materials in the value chain. In contrast, in the field of direct sales, wineries have a strong contribution. According to them, 50% of the surveyed entities prefer to make direct sales. There is an average or weak contribution in the field of closeness to the market.

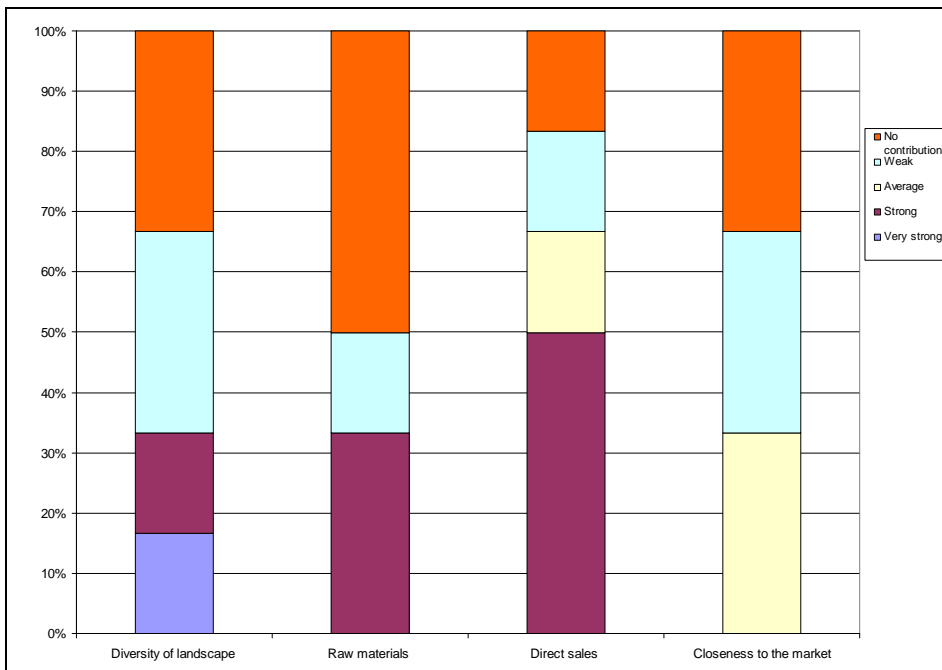


Figure 3. Landscape contribution to the final product (wine tourism). Source: own calculation.

Landscape composition in the region provides functions, which contribute to the value chain of wine tourism. Half of the wineries state that there is no contribution of landscape composition to the creation of local brands of food and a good image. The other half claim that there is strong or very strong dependence on landscape. Local factors, which can add value to the product, are local varieties of grape that provide unique local wine. Tourists prefer to consume local wines with combination of local foods. Another landscape function, which could contribute to the value chain of wine tourism, is health and wellbeing. Only two wineries state that landscape provides such a function in the region they are located. Half of the wineries use landscape composition to add value to their product relying on appropriate conditions for recreation of their customers. Elements of landscape that are important for recreation are scenery, diversity of landscape and quietness, which gives the visitors of the winery a sense of tranquillity and relaxation. Another important element of landscape composition in the context of wine tourism is a well preserved natural environment. According to 65 % of the studied wineries this landscape function has a weak or moderate contribution on the value of their product. One of the most important landscape features which can add value to the product is the presence of historical remains and monuments that preserve local traditions and habits. These factors make wineries more attractive for local or foreign tourists. 50 % of the wineries claim that rich heritage in the region of their location contributes to the value of the product. Another important issue in wine tourism is to offer attractive tourist's services. Landscape can play a major role in the process of creating quality products. Landscape can offer attractive services free of charge to tourists and can add significant value to the product. 50 % of the studied wineries claim that the local landscape does not contribute to attractive services for tourists. Another half of the studied wineries state there is a strong or very strong contribution of landscape composition. Here we have to say that exploitation of some components of the landscape has physical and administrative limits. Building a wine cellar and wine tourist complex is a choice defined by the location, appropriate climatic and soil conditions, and of course appropriate route infrastructure. Some of the studied wineries, which are close to the road infrastructure, have a reduced competitiveness due to a poorer appearance of the landscape scenery and reduced relaxation of tourists. Almost 85 % of the wineries state that preserving traditions in vine growing and wine production is a key factor to attract more tourists.

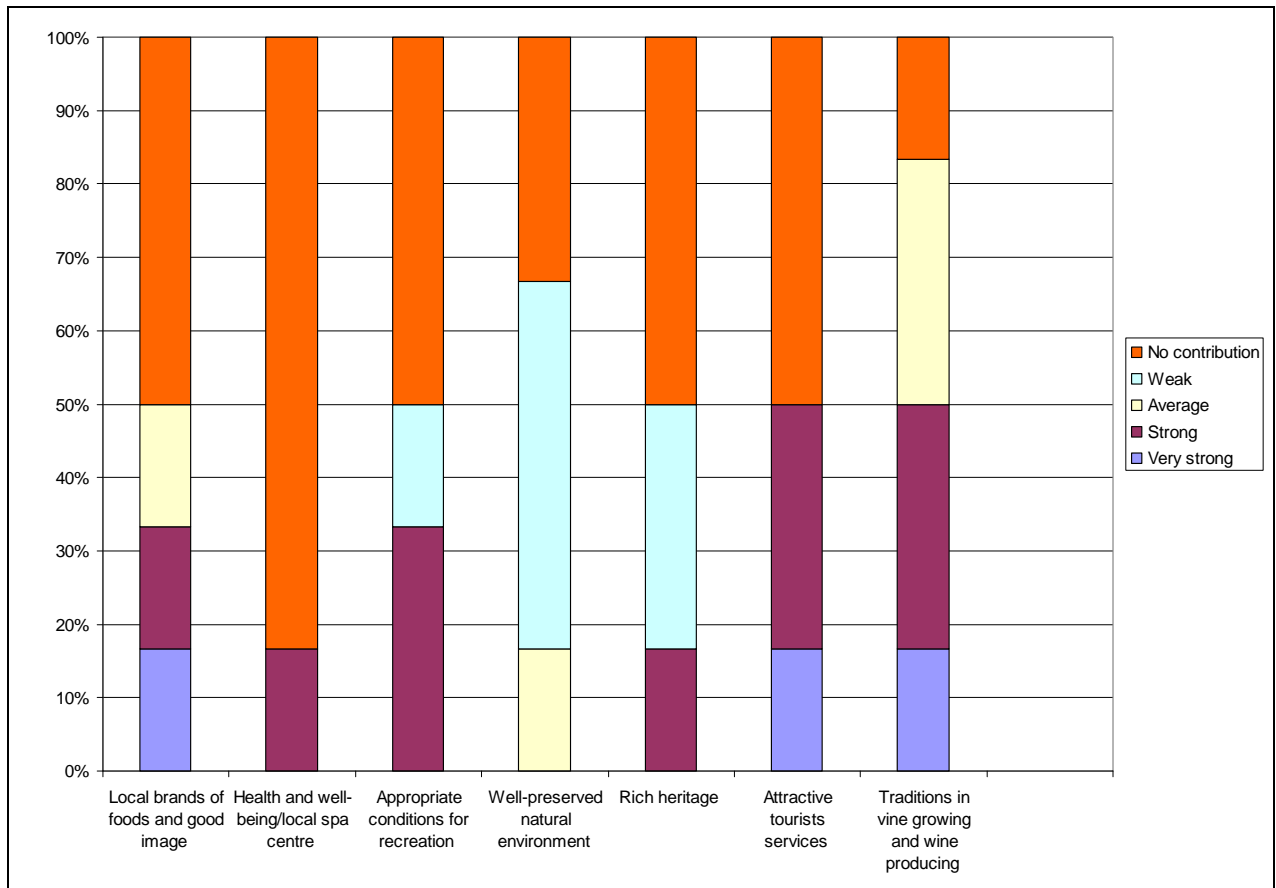


Figure 4. Landscape features add value to the product. Source: own calculation.

### Lesson learned & Policy Recommendations

There is an optimistic view for the development of the market. New wineries emerged to provide more products that are appropriate for local and foreign tourists. New entities rely on strategies to offer unique local brands of wine and foods. These elements of landscape are prerogative for them. According to some managers of the local wineries competition is good because it will be reflected in the diversification of products, which in turn will increase visitors in the region. The business model in wine tourism relies on own entrepreneurship and poor networking. These factors define the value chain as short with small number of participants. Advantages in this business model can be found in better control operation because almost every activity of an entity is run with its own resources and is independent. Disadvantages are a high level of risk, because wineries are not interested to share it with other players in the value chain, and they make enormous investments to follow their own organizational strategy of business. Wineries are not interested to create and diversify landscape in the area of their localization. This finding is supported by the fact that agricultural activities have no importance in the operation of wineries and also there are insignificant investments in this sector. Key factors for assembling attractive products are short ways to the winery destination, an open view to the diverse landscape from the perspective of the winery and offering local wines and foods. Visitors can be more attracted by their involvement in local traditions and visiting local historical remains.

## *References*

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