

# Factors that Affect the Price of Wine

There are a number of factors that influence the price of a bottle of wine.

10

It is impossible to discuss all of these in detail in this chapter, not least because there are so many differences between individual markets. However, it is possible to highlight the key common factors that apply throughout the world. These include the costs associated with the production, packing, transport and retailing of wine.

## PRODUCTION COSTS

Production costs can be divided into grape growing and winemaking.

### Grape Growing

Establishing a vineyard is very expensive. The land itself is not cheap, especially if it is located in a region with a reputation for producing premium quality wines. The soil needs to be prepared, vines bought and planted and the trellis (if one is to be used) built. It takes many years to see a return on these initial investments.

In an established vineyard, vines need attention throughout the year. Labour is usually the largest production cost. This can be kept low by relying on a seasonal, casual workforce or mechanisation. If growers are able to share labour or machines then further savings are possible. However, in some isolated vineyards or sites with extremely steep slopes these economies are not available and production costs are much higher.

In addition to practical considerations, the price of grapes can be dramatically affected by market forces (see page 72).

### Winemaking

The most obvious costs involved in winemaking are equipping and maintaining the winery with the necessary equipment. The most high-tech machines can be very expensive but even small, modestly equipped wineries will need to invest a lot of money relative to their size. Some equipment (such as bottling facilities) can be shared, reducing some of these costs.

Another important consideration is the amount of time the wine may need to be kept before release for sale. Some wines are matured for several months or even years, as required by local production regulations. Storage facilities can be expensive to maintain. Furthermore, a great deal of money is tied up in stock that cannot be sold to generate a profit straight away.



Incredibly steep vineyards, such as these in Mosel, are more expensive to cultivate than flat land, adding to a producer's costs.

Any delay in being able to take a profit from the wine needs to be factored into the sales price.

### PACKAGING

Bottles, labels, capsules, closures and cartons all need to be designed and purchased. Unusually shaped or heavy bottles cost more. It is cheaper to export wine in bulk and bottle it in the market where it is to be sold but this is only an option for large producers and it is not always permitted by local wine laws.

### TRANSPORT, DISTRIBUTION AND SALES

For a very small number of producers the cost of getting a wine to market is negligible because they only sell their wine to people who visit their winery. However, the majority of producers seek to sell their wine further afield, often in both domestic and international markets.

Transport, distribution and sales are a very complex part of the wine trade and are highly regulated. In the majority of cases, producers have to rely on other businesses to transport and distribute their wines, therefore it is important that they choose partners who offer both value for money and access to reliable sales.

### TYPES OF WINE PRODUCER

There are three main types of wine producer: co-operatives, merchants and estates. None of these words has legal significance and they rarely appear on labels. Throughout the world it is quite common for a single producer to make different wines that are bottled under estate and merchant labels.

#### Co-operatives

These are wine businesses owned by their members, typically grape growers. The growers deliver their grapes to a winery that is owned by the co-operative and run by a winemaking team that is employed by the co-operative. This is good for the growers because they are guaranteed a buyer for their grapes but it can sometimes be challenging for the winemaker who might not always have complete control over the quality of the grapes supplied by their employers. However, this does not mean that co-operative wines are always inferior, and in some regions, the local co-operative regularly produces some of the best wines from the area.

Co-operatives are very common in Europe. This is because the average vineyard holding for a grower in Europe is so small that it is rarely economical for them to produce and market their own wines. Co-operatives do exist in the rest of the world but they are less common.

#### Merchants

Merchants buy grapes, juice or wine from either growers or co-operatives. Merchants will have contracts with their suppliers and, in theory, have greater control over their source material than some co-operatives. Producers can reject grapes that are not up to standard but in regions where grapes are in high demand or limited supply it can be difficult to guarantee a regular supply of suitable grapes. These

### TAXES

Nearly every government in the world taxes alcoholic beverages. The level of tax charged varies significantly from country to country but it can add substantially to the price of a bottle of wine.

Such taxes are seen as essential in controlling the consumption of alcohol by increasing the retail price and are an important source of revenue for governments.

### RETAILERS

Most wines are sold in shops or restaurants and these businesses need to make a profit from these sales. Wines will generally cost more in restaurants than in shops. This is because restaurants expect to generate more profit from wine, but also because the price takes account of the occasion, the environment and the level of service.

### MARKET FORCES

Ultimately, the price of a bottle of wine is determined by how much the destination market is prepared to pay for it. The costs of production, packaging, distribution and retail must all be taken into account to ensure the product is commercially viable.

businesses can operate on a very small scale and focus on premium wine production, or operate on a large scale and produce a range of wines at different quality levels.

Merchants are common throughout the world but especially outside of Europe. In these regions grape growers have far larger holdings compared with European growers and this type of contractual arrangement is popular with producers who only have to deal with a relatively small number of growers. Many of the large wine brands are made this way.

Merchants are sometimes referred to using the French name for this type of business: *négociant*.

#### Estates

These businesses make wine only from the grapes that they grow. As a result, they typically produce wine on a relatively small scale. This gives the producer the greatest amount of control in the production process and consequently, in most regions, these producers are responsible for the best wines. However, because estates rely purely on their own crops, they can have fewer blending options and this can be a challenge in years where the growing conditions have been poor, for example due to frost or hail.

Estate wines are made throughout the winemaking world and are sometimes referred to using the French name for this type of business: *domaine*.

Where high demand exists for a product that is available in limited supply, the retail price can far outweigh the costs. For example, over the last ten years, demand for premium estate wines from Bordeaux has put pressure on supply, driving up prices substantially. However, market forces may in time lead to a reversal of this trend.

While some wine businesses are profitable, there are others that struggle due to lack of demand. Some steep vineyard sites in Mosel have been abandoned because the costs of production could only be recovered by pricing the wines at a level consumers were not prepared to pay.