

The Future of Kosovo Wine Industry: How to Improve Performance on the Domestic and International Markets?

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Abstract:- Scientists agree that in order to design a competitive business strategy, it should be adapted to the business environment a company operates in. Wine companies of the Republic of Kosovo, being part of one of the oldest industries in the area, often neglect strategic management. Yet, with an ongoing integration into the EU, with an inflow of foreign investment, with a steady improvement in living standards and with an influx of foreign tourists, the business environment of Kosovo wine companies is now changing at a rapid pace. Thereby it is no longer possible to succeed without designing a competitive strategy adapted to the new environment. The aim of this study is to analyse the layers of business environment of Kosovo wine industry in accordance with existing theoretical knowledge, in order to give strategic advice to wine producers on how to improve their performance on domestic and international markets. Expert evaluation, synthesis, analysis and comparative analysis are the main methods used in the course of the research.

Keywords:- *Strategic Management, Layers Of Business Environment, Republic Of Kosovo, Wine.*

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CHAPTER ONE

INTRODUCTION

Kosovo is a country with a complicated history. It only exists as an independent state since 2008, and still not all the members of the international community have accepted the independence of Kosovo. However, Kosovo people are putting a lot of effort to develop their country economically and politically. This thesis is focused on the development of Kosovo wine industry – one of the oldest industries existent in the area. Hopefully, the information presented in the thesis will help Kosovo wine producers to come up with an efficient strategy to develop their business, which, unfortunately, is often overlooked by the owners of the companies.

What is meant by a strategy? Probably the most contemporary definition is the following: “Strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholders’ expectations” (Johnson, Scholes & Whittington, 2008).

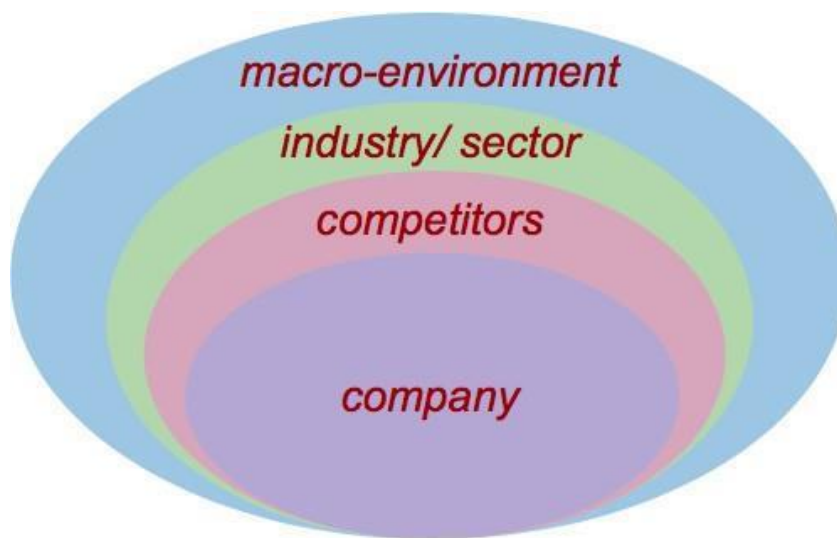
When it comes to strategic management, there exist plenty of definitions and a big number of schools that have developed separate approaches to the subject. Bracker (1980) underlines the importance of external environment: “Strategic Management entails the analysis of internal and external environments of firms to maximize the utilisation of resources in relation to objectives”. Jemison (1981) gives the following definition to the discipline: “Strategic Management is the process by which general managers of complex organizations develop and use a strategy to coalign their organization’s competences and the opportunities and constraints in the environment”. Nag, Hambrick and Chen (2006) tried to combine the existent definitions of Strategic Management given by researches of different schools in a single definition and formulated it the following way: “The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments”, again underlining the influence of environments on the strategies companies adopt. Besides, there exists an environmental school of management, which regards a company as a passive entity barely reacting to the changes in the environment (O’Shannassy, 2001).

The E-V-R Congruence Concept described by Thompson (1993) suggests that a good strategy should take into account the three following factors: environment, stakeholders (their values and expectations),

resources (together with assets and capabilities). If environment changes and an organization does not change the strategy, it causes a “strategic drift”, which can destroy the company.

All in all, it is environment that shapes the direction in which companies should go to achieve better results in the long run. Business environment of an organisation is believed to consist of three layers: the macro-environment, the industry (or sector) and the competitors, as illustrated below.

Figure 1. Layers of the business environment



Source: Johnson, Scholes & Whittington, 2008

As far as wine industry is concerned, Thode and Maskulka (1998), talking about external factors, underline the influence of location on the success of wine companies and the influence of regulations and institutions on wine production.

In order to analyse the three layers of business environment, scientists suggest using existent theoretical models. The most external layer – the macro-environment – should be analysed through the PESTEL framework (Johnson, Scholes & Whittington, 2008; pp.55-56).

Porter’s five forces framework is suitable for industry structure analysis and the analysis of the competition within an industry at the same time, thereby it will be used for the analysis of both industry and competition layers. Yet, to pay a closer attention to the competition, the factors influencing competitive rivalry will be

further separately analysed: the balance of competition, industry growth rate, differentiation and switching costs, fixed costs, capacity augmentation, exit barriers (Porter, 1979).

The aim of this research is to apply the existent theoretical knowledge of the business environment analysis to Kosovo wine industry in order to give strategic advice to Kosovo wine producers on how to improve their performance on domestic and international markets. The need for the research is based on the hypothesis that with the an ongoing integration into the EU, with an inflow of foreign investment, with a steady improvement in living standards and with an influx of foreign tourists, the business environment of Kosovo wine companies is now changing at a rapid pace, thereby it is no longer possible to succeed without designing a competitive strategy adapted to the new environment. This study will confirm or disprove the hypothesis and will provide valuable conclusions for designing a proper strategy.

In the thesis one will find the assessment of the business environment of Kosovo wine companies: historical background and location, macro-economic environment, regulations and institutions active in the country, main competitors and strategies they use will be described, main trends on the market will be analysed. Apart from the use of secondary data sources, the author of the thesis interviewed people working in Kosovo wine industry, studied price segments in Kosovo retail, analysed and interpreted the results. Expert evaluation, synthesis, analysis and comparative analysis are the main methods used in the course of the research.

CHAPTER TWO

ANALYSIS OF THE BUSINESS ENVIRONMENT OF KOSOVO WINE COMPANIES

2.1. History

For many people the wines of Kosovo are still not very well known, but this country, located in the South-East of Europe, holds a great potential for wine.

Agriculture and grapevine cultivation in Kosovo have a particularly long history, numerous footprints have been found, which can prove that this region has been producing wine for over 2000 years (Vanka & Heijman, 2013).

The most ancient pieces of evidence to the existence of wine culture in the region are centuries-old wine jars discovered by archeologists: the first one was found in Reti Village – a tomb of an ancient soldier engraved with a wine jar, another one was discovered in Helvetica Teqe – a 400 litre jar, which a thousand years ago was used for storing wine and olive oil (IKS, 2009). Some of the best Albanian writers mentioned the cultivation of grape and the production of wine in Kosovo, among them the famous Pjeter Bogdani back in 1630-s.

Unfortunately, throughout history this wine producing land had numerous obstacles standing in its way. Let's outline these problems in chronological order. The first serious and long-lasting problem was that Kosovo, just like Albania, used to be a part of the Ottoman Empire. For 500 years under the Islamic state, most people could neither cultivate grape, nor engage in serious wine production, except for some limited areas around churches and monasteries (Kabashi, 2016). The second problem, which affected vine-growing worldwide and didn't spare Kosovo, was *Phylloxera Vastatrix*, a grave vine disease that spread in the area in 1913- 1923. And finally, never-ending Balkan wars, apart from the two world wars, did not allow for a steady development of Kosovo wine industry; the last war in Kosovo ended as late as in 1999 and triggered the independence of the state in 2008.

Though peaceful times were yet to come, it was in the 1920-s that Kosovo started to regain its success in wine, when American rootstocks were introduced as a measure against *Phylloxera* in 1923. More and more active vineyards were planted and taken care of.

This thesis is focused on the producers of the Rahovec Valley wine region (or Rahovec municipality) in Kosovo with a centre in the eponymous town. By 1939 the vineyards of Rahovec covered around 3,000

hectares. Wine companies started to appear, with the first company – Kosova Vera – set up in 1953 in the form of a cooperative for wines and spirits production. Later on the Yugoslavian government decided to further expand wine production facilities in Rahovec: in 1973-1974 another cooperative named “Bernjaka 1” specifically for white wine production was created, in 1978 “Bernjaka 2” cooperative was created specifically for red wine production. All the three introduced above cooperatives were united under the name NBI Rahoveci. Before the establishment of the company, the best experts of Germany and former Yugoslavia conducted a comprehensive study of climatic conditions and soil structure – they selected for the company the best limestone soil areas with favourable climate for vine-growing. The company had 1,200 ha of vineyards, over 1,000 employees and purchased from the neighbouring villagers as much as 20 million kilos of grape each year (Berisha F., 2016).

NBI Rahoveci was a SOE or a state-owned enterprise, one of the seven SOEs in Kosovo, with a production capacity of 50 million litres that were mostly destined for export. After the privatization of 2006, NBI Rahoveci was divided into two companies: a part was bought by the Haxhijaha family and exists today under the name of Bodrumi i Vjetër, another and the major part was bought by the Gecaj family and became Stone Castle Vineyards and Winery (Berisha F., 2016).

Throughout the 20th century the Rahovec Valley was increasing its area under active vineyards, resulting in around 1,063 ha of socially active vineyards and around 1,920 ha privately owned in 1980 (IKS, 2009). The Rahovec region, as a wine producer, started to expand on export markets – in 1985 the region, namely NBI Rahoveci, was already exporting 35 million litres of wine to a German company Rackle, reaching its full export potential in 1989, with 45 million litres of bulk wine shipped by railroad to Germany (Hoxha S., 2016).

However, another period of decline followed. Rahovec started to lose its positions in the 1990-s, when Yugoslavia began to fall apart. With Serbia – the only direct way to Europe – being under embargo, the wines of Rahovec were no longer sold internationally, and by the end of 1990-s the region was unable to generate profits through wine production. Wine export plunged, notably to Germany, which used to be the biggest importer of Kosovo wines. Wine industry started to lack investment, many wine companies were closed. It can be concluded that the last decade of the 20th century was one of the worst times in the history of Kosovo wine industry: compared to 1990, when there were 9,000 ha of active vineyards with around 4,000 ha in Rahovec alone, only around 3,447 ha were left in 2001 Kosovo-wide (Berisha F., 2016).

In the years 2000-2002 the Rahovec Valley region couldn't produce any wine for several reasons. Firstly, most of the wine production equipment was destroyed during the war. Secondly, weather conditions were completely unfavourable, with a spring frost in 2000 and hails during harvest time in 2002. Nevertheless, the wine industry was shortly reorganised. The privatization, which started in 2006, attracted business intelligent private investors, who introduced new technologies and techniques in vine-growing and winemaking. Again, new vineyards were planted, and in 2015 there were around 3,220.63 ha of active vineyards in Kosovo, 4,965 farmers. Currently in Rahovec, one of the biggest wine regions in Kosovo, there are 2,243.94 ha of vineyards and 2,630 farmer.

CHAPTER THREE

ANALYSIS OF THE CURRENT STRATEGIES USED ON THE DOMESTIC MARKET

To begin with, the factors, which the author of this thesis has not touched upon yet, but which influence the decisions taken by the wine producers in Kosovo, should be analysed, starting with the costs of production.

Wine production in Kosovo, like probably in most Balkan countries, is much less costly than in other established wine producing countries of Europe:

3.1 A moderate price per hectare of land.

labour costs can be insignificant, with the minimum monthly wage of around 143.9 EUR – calculated for EUR=1.1 USD (The World Bank, 2016), which is beneficial to Kosovo wine industry – impressive, compared to the net monthly SMIC of around 1145 EUR in France, for example (Décret n°2015-1688 du 17 décembre 2015);

Wineries, which act as merchants, benefit from a low average price per kilo of grapes offered by independent vine-growers – around 15-25 cent depending on the grape variety (Retallack, 2010).

Despite the fact that the level of costs seems very favourable for Kosovo wine producers, one should not forget that the products of Kosovo wine companies are also sold cheaper, no matter how good is the quality. Given that the average monthly wage in Kosovo is low, which affects the purchasing power of citizens, low-end market is the most popular with Kosovo wine consumers.

Apart from that, Kosovo wineries suffer from the lack of complementary industries, s.a. bottling, cork production etc. Not found in Kosovo, many complementary products have to be imported individually by wine companies at a considerable cost. The share of the total of imported products and materials in the final price of a bottle can be as much as 55%, VAT together with other taxes and costs account for around 25%, further 20% goes for salaries and wages – sometimes wine producers do not gain any money at all on a bottle of wine they sell (Gecaj H., 2016). That is why the creation of Kosovo wine cluster, as suggested by numerous experts, is essential for Kosovo wine industry (Vanka & Heijman, 2013). Nevertheless, the process of cluster creation has already begun: labelling companies are there to offer their services to wine producers in Kosovo, for example. Yet many elements of a comprehensive wine cluster still need to be developed.

When it comes to the marketing of wine, wine companies in Kosovo have no restrictions on advertising their wines in mass media (television, radio, newspapers and magazines), which is the most popular promotion tool. Another indirect marketing tool on the rise is social media: since 75% of the population are below the age of 35, it works well on the domestic market; not to mention that it's a great way to tell about your wines internationally, as it allows your winery to keep an international profile at almost no cost. Direct marketing is used as well, mostly it takes the form of providing a high quality cellar door experience, encouraging visitors to make a purchase; flyers and catalogues can also be distributed. Apart from all the described above, participation in the Hardh Fest (the annual beer & wine festival in Kosovo) is a way to market your wine: an opportunity for the least-known wineries to meet their clients and an efficient promotion tool for strong brands (Camaj, 2016).

An important characteristics of each market is the distribution of wine sales in the on-trade and off-trade market segments. As far as the market of Kosovo is concerned, off-trade accounts for 60% of wines sold, on-trade – for the remaining 40% (Camaj, 2016).

Now let's turn to the price segments in the off-trade market in Kosovo. As it has already been stated, Kosovo wine consumers are extremely price-sensitive, thus you will see surprisingly low retail prices even for high quality wines under the strongest wine brands in Kosovo. For the purpose of this thesis, a study of wine prices in six biggest retail chains in Kosovo was conducted. The results of the study – retail prices for bottled varietal wine in Kosovo – are presented in the table 4, where S1-S6 are the retail chains. The lowest price found is highlighted in green, highest – in red. Varietal wines were analysed, as varietal wines dominate the market.

From the table we can calculate the average price of a 750 ml bottle of wine in retail – 3.35 euro, with the lowest average retail price for a bottle of the local Vranac – 2.86 euro, followed by that of Pinot Noir – 3.07 euro, and the highest average retail price for a bottle of Cabernet Sauvignon – 3.82 euro, followed by that of Merlot – 3.59 euro and that of Chardonnay – 3.43 euro.

With regard to the quality of wines, it is worth mentioning that a low-priced bottle of Pinot Noir is likely to be of a rather poor quality, while the quality of a bottle of the local Vranac can positively surprise you. As far as Cabernet Sauvignon, Merlot and Chardonnay are concerned, these grape varieties often result in really complex wine in Kosovo. Besides, for all the varietal wines in the survey, the price – quality ratio is surprisingly good, e.g. a bottle of Pinot Noir can be found for as little as 1.99 euro, while the highest price for a bottle of Cabernet Sauvignon in retail is 5.48 euro.

In Kosovo off-trade we can point out basic (>3 euro), popular premium (3-5 euro) and premium (5-7 euro) market segments (Ditter, 2016). The markup of the retail chain on a bottle of wine in Kosovo was calculated in the course of the survey to be around 10-20%, depending on the brand, grape variety and wine quality, the price policies of the chain. As for the on- trade price markups, they can vary from 10% up to 45%.

	Stone Castle					
	S1	S2	S3	S4	S5	S6
Cabernet Sauvignon	3.90 €	3.65 €	3.90 €	4.10 €	3.99 €	4.35 €
Merlot	3.60 €	3.40 €	4.00 €	3.95 €	3.79 €	4.09 €
Pinot Noir	3.60 €	2.99 €	3.10 €	2.90 €	3.19 €	3.35 €
Vranac	2.99 €	2.80 €	3.00 €	2.95 €	3.19 €	3.25 €
Chardonnay	3.60 €	3.45 €	3.90 €	3.95 €	3.79 €	4.09 €
	Bodrumi i Vjeter					
	S1	S2	S3	S4	S5	S6
Cabernet Sauvignon	4.20 €	3.50 €	3.80 €	4.10 €	3.99 €	4.15 €
Merlot	3.80 €	3.60 €	3.50 €	3.83 €	3.99 €	4.35 €
Pinot Noir	3.90 €	2.70 €	2.90 €	3.19 €	3.29 €	3.49 €
Vranac	3.20 €	2.50 €	3.40 €	3.19 €	3.39 €	3.49 €
Chardonnay	3.90 €	3.50 €	3.10 €	3.95 €	3.99 €	3.79 €
	Sefa Wine					
	S1	S2	S3	S4	S5	S6
Cabernet Sauvignon	3.90 €	3.90 €	4.10 €	3.80 €	3.69 €	5.48 €
Merlot	3.20 €	3.10 €	2.90 €	4.10 €	3.69 €	3.95 €
Pinot Noir	2.48 €	3.10 €	3.40 €	2.20 €	3.79 €	3.99 €
Vranac	1.50 €	2.10 €	2.90 €	3.20 €	3.49 €	2.39 €
Chardonnay	3.35 €	2.90 €	3.60 €	2.45 €	3.79 €	4.29 €
	Iliria					
	S1	S2	S3	S4	S5	S6
Cabernet Sauvignon	2.50 €	3.10 €	3.40 €	3.58 €	2.69 €	3.79 €
Merlot	2.50 €	2.90 €	4.00 €	3.48 €	2.70 €	3.79 €
Pinot Noir	2.20 €	2.10 €	3.50 €	1.99 €	2.75 €	3.65 €
Vranac	1.99 €	1.90 €	3.00 €	3.20 €	2.15 €	3.39 €
Chardonnay	2.58 €	2.80 €	3.50 €	2.80 €	2.65 €	2.69 €
S1	Nertili					
S2	ETC					
S3	Tropikana					
S4	Maxi Market					
S5	Interex					
S6	Viva Fresh					

Table 1. Kosovo wine retail prices, 2016

Source: field research

When it comes to the strategies the companies adopt to succeed on the market, Porter's generic strategies should be addressed (Porter, 1989).

The two major Kosovo wine companies – Stone Castle Vineyards & Winery and Bodrumi i Vjetër, as well as the developing company Sefa Wine, have adopted differentiation strategy. First of all, the retail prices above show that the wines of these brands are the most expensive wines in Kosovo off-trade, the same is true for the market of HORECA. Apart from that,

Bodrumi i Vjetër was awarded a Superbrands status for brand excellence in September 2015 and thus is entitled to use the Superbrands Award Seal; Stone Castle Vineyards and Winery is currently being reviewed for this status. As far as Stone Castle is concerned, its Cabernet Sauvignon Reserve and Chardonnay Reserve wines are arguably the most branded wines of Kosovo: they are the most demanded wines by foreign embassies and by the Kosovo Government for special occasions and events (these wines are different from the Cabernet Sauvignon and the Chardonnay analysed in the survey of Kosovo retail – Reserve wines are a part of the premium range of the company with ex-cellar prices exceeding 10 euro a bottle and destined exclusively for HORECA). With regard to Sefa Wine, the company sees its mission as turning Kosovo into an internationally acknowledged fine wine producing country; quite a few wine tourists ranked the wines of the company as the best they had tasted while in Kosovo, which one can see on the Facebook page of Sefa Wine.

So, the three companies are clearly using differentiation strategy. Low-cost strategies are out of question: neither higher final prices on the market compared to those of competitors, nor a lack of information on the level of costs would allow us to consider cost leadership strategies. Same for focus strategies, they are not the case, as all the three companies have developed several product ranges to cater to the needs of all the possible clients: they offer bag-in box, not expensive bottled wines for an average consumer, a premium range for wealthier, more sophisticated consumers, as well as a range of local spirits.

When it comes to the wine industry, the differentiation basis can be quality, unique attribute or innovation (Ditter, 2016). The three companies in question exploited all the mentioned bases of differentiation: superior quality, strong brand image, sophisticated production process, innovative labelling, packaging and distribution system.

As far as product innovation is concerned, Stone Castle Vineyards and Winery is the leader: whenever the company introduces new product, it is copied soon by other companies. Stone Castle was the first company

to produce rosé wine: it used Pinot Noir and Gamay grape varieties, which is not a widely popular combination for rosé wine. Nevertheless, the same grape varieties were used for the later introduced rosé wine of Bodrumi i Vjetër. Stone Castle created a premium range called “Reserve” for Cabernet Sauvignon and Chardonnay, the same was later done by Sefa Wine (Kulla Sefa Cabernet Sauvignon and Chardonnay Reserve) and

Bodrumi i Vjetër (Elephant Cabernet Sauvignon and Chardonnay). Same happened, when Stone Castle started a sweeter style of wine Lulekuqja e Kosoves and Zambaku e Kosoves – Bodrumi

i Vjetër later introduced semi-sweet Rozafa wines.

A great example of innovative distribution is Sefa Wine. It is the only company that created an online wine shop on its website – Kosovo consumers can order a bottle to be delivered within 24-72 hours.

Nevertheless, there are companies that adopted cost leadership strategies. Illiria is an example, the company with the lowest average prices in Kosovo retail according to the discussed above survey. Kosovo has all the potential for cost leadership strategies: the input costs are low (capital, land and natural resources, labour), economies of learning and economies of scale were inherited by some wine companies from the Yugoslavian times, when Kosovo was a region producing large volumes of wine for both domestic and international markets. As for the productivity enhancement through innovation and technology, privatisation of the previously state-owned wine cooperatives was followed by huge investments in the technological facilities of the wineries, resulting in quite a few state-of-the-art wine companies. Nevertheless, the strongest wine producers chose to build their competitive advantage through the differentiation strategy. Still, such great base for cost leadership is beneficial for the exportation of Kosovo wines, which arrive on the foreign markets at a considerably lower price than their competitors

– it will be discussed further in this chapter, in the section devoted to the analysis of export strategies.

3.2. Strategic advice

In order to answer the research question of this thesis and to give advice to Kosovo wine producers concerning the strategies and tools they could use to further develop their business on the domestic and international markets, as well as to suggest the ways to improve the overall performance of Kosovo wine industry, SWOT analysis of the Kosovo wine industry was conducted.

Strengths:

- long history of wine production;
- favourable climate;
- assistance of domestic and international institutions in the development of wine industry;
- high level of the private companies' investment activity in the wine industry;
- low costs of wine production in the Balkan region result in highly competitive final prices;
- a large proportion of wines produced out of international grape varieties. Weaknesses:
- lack of interest in the cultivation and promotion of autochthonous grape varieties;
- low level of wine consumption and wine culture;
- lack of educational institutions for the wine industry professionals;
- lack of complementary and supporting industries;
- highly concentrated industry with low incentives for wine companies to progress. Opportunities:
- due to high levels of economic growth Kosovo is ripe for an increase in wine consumption;
- high proportion of young, ambitious and educated population that starts to develop interest in wine;
- emergence of new dynamic quality wine companies increases the competition on the market;
- with centuries-old history and of descent quality, Kosovo wines from indigenous grape varieties can be of interest to the growing number of international wine consumers longing to try something new;
- the growing recognition of Kosovo worldwide, as well as the ongoing process of Kosovo integration into the EU, opens more export opportunities for Kosovo wine producers.
- large proportion of old vineyards with low yields;

- lack of governmental investment in the Kosovo wine cluster development;
- lack of control over the counterfeit market of wine;
- increased interest in Kosovo as a growing market can result in the influx of imported wine, challenging the local producers.

3.2.1. Strategic advice to improve performance on the domestic market

Taking into account the economic and demographic situation in Kosovo described in the previous chapter, in the current decade basic and popular-premium price segments will still dominate the off-trade wine sales. As for the on-trade market segment, the price differences are significant depending on the venue, thus it would be inappropriate to make any generalizations.

Since it is in the interest of wine companies to keep their market share, in order to increase the revenues the focus should be on the *cost optimization within the company* taking advantage of the specified low-cost bases found in Kosovo.

Another focus should be on *raising your brand awareness*, which will secure the company's positions on the market and pay off in the long run.

Nevertheless, the economic conjuncture and demographics of Kosovo also suggest a would- be growth of wine consumption and further development of wine culture, which Kosovo wine producers should anticipate.

With Kosovo consumers gradually becoming wealthier, wine companies should begin to *expand their premium wine ranges*. For example, wine producers could try longer ageing period for the most complex wines, which would fairly allow for a higher final price of the bottle; they could also introduce a red Bordeaux blend, which, judging by the quality of Cabernet Sauvignon and Merlot varietal wines produced in Kosovo, could result in complex quality wines. Investing in the development of their premium ranges, wine companies could exploit more advanced wine characteristics to market their products and educate their consumers at the same time. For example, introducing Kosovo consumers to the notion of vintage would

allow wine producers to set different prices for different vintages, to set higher prices for good old vintages – i.e. to use the vintage and its characteristics as one of the price justifying factors.

Given the proportion of young population and the fact that the off-trade segment is dominating the wine sales in Kosovo, more wine companies could develop *online direct marketing*. Purchasing the wine on the company's website is already possible – Sefa Wine does it, though in a form of an online e-mail order, as there is no proper online shop software. Today this distribution channel is not developed and lacks economic efficiency: main cities of consumption are all located far from the region of production – for example, to deliver a bottle from Rahovec to Pristina means an hour driving, in combination with low prices of wine bottles it makes the offer of delivery service a pure waste: even if the company decides to include the price of delivery in the final price, it would be impossible to cover the costs completely and not to scare customers with a too high price, not to mention that currently only few Kosovo people would opt to pay extra for delivery instead of going out themselves to purchase a bottle of wine. Nevertheless, this type of distribution has potential on the market and is likely to develop in some years.

Besides, as it is clear from the presented earlier study of wine prices in Kosovo, wine producers do not control the final price on the market, which can be disadvantageous for the brand image. Thus I would advise Kosovo wine companies at least to *try to stabilize final prices across different trade channels in order to reduce the competition between the company's brands*. However, it is not directly the responsibility of producers, as it is the Government of Kosovo that should introduce a law, specifying the level of margins different distribution channels are entitled to impose on different types of alcoholic drinks. What wine companies could do is to begin to address this matter in order to draw the attention of the corresponding officials to the need for changes in the legislation (Gecaj H., 2016).

As the example above shows, apart from what the companies can do themselves to strengthen their position on the market, a lot more could be done by other actors to promote sales of wine and improve the performance of Kosovo wine industry in general.

As far as the business sector is concerned, to assist the development of wine culture wine-specialized venues should be created in the cities of Kosovo. In Albania there already exist wine shops and wine bars – these venues are successful, which increases the chances that these business ideas will be shared by Kosovo businessmen soon. Although wine bars could definitely work well on the market, a wine shop, as considered by many, would face serious problems because of the price sensitivity of Kosovo people. Nevertheless, the existing Sirius wine company (wine shops in Pristina, online wine shop) offers imported wines in different

price segments, and the second most popular wine according to their website is a 65 euro a bottle Saint-Emilion Grand Cru Classé Château de Ferrand.

Both business and Government could contribute to the development of Kosovo wine cluster. Government could help through favourable tax policies for related and supporting industries: these industries are not present in Kosovo, apart from one labelling and packaging company in Dukagjin that offers services of insufficient quality and thus requires investment to update the employed techniques and to offer quality packaging and labelling; through the support of education in oenology, viticulture and wine business: specialized programs should be given in universities and foreign specialists should be invited as visiting professors, because the working today wine experts from the former Yugoslavia will not be able and will not be enough to serve the needs of the Kosovo wine industry forever.

As for the business sector, private investment in the related and supporting industries is indispensable for the development of Kosovo wine cluster – it also opens many business opportunities and, provided that companies are managed efficiently, would bring descent return on investment.

Stepping back from the cluster theory, entrepreneurs could pay more attention to the growing Kosovo wine sector. For example, fund raising companies in the wine industry could be a good business. Take the French company called Wine Funding that brings financial and wine business sectors together: the company's experts choose the most competitive projects from those proposed by a number of wine companies, the company estimates the project and finds investors to make the project come true, in the end investors get back the money, the wine equivalent or become shareholders of the winery. Of course, this model is not suitable for Kosovo, but any model can be adjusted and new models can always be proposed. Government could also provide financial assistance to wine companies for the purposes of modernization.

Apart from all the mentioned above, the Kosovo Government jointly with the business sector could invest in the creation of professional wine fairs for Kosovo wine producers, like the French Salon des Vins de Loire or the Italian Vinitaly. The fair can be organised jointly with other wine producing Balkan countries. First, it will facilitate the establishment of business relationships between Kosovo wine producers and national buyers, as well as international ones.

3.2.2. Kosovo wine export, strategies to improve performance on export markets

Kosovo wine industry in the times of Yugoslavia was to a large extent export-oriented. The biggest SOEs were focused on supplying export markets with volumes of cheap wine of a low-medium quality (Hoxha Sh., 2016).

In the 1980-s Kosovo was one of the biggest exporters of bulk wine to Germany. The German “Amselfelder” brand – a sweet red wine produced using mainly Pinot Noir and Gamay grape varieties – is originally Kosovo wine exported to Germany in bulk for as little as around 1 euro per litre, which is then bottled and labelled under the German brand. The wine is sold on the German market in a black Bordeaux bottle with a red rose on the label and costs 3-5 euro. The SOEs eventually became private companies, which go on exporting considerable volumes of bulk wine to Germany. As a matter of fact, in 2008 the German Racke company sold the brand of “Amselfelder” to Les Grands Chais de France, which is currently the importer. Nevertheless, with the need for quality wine rising locally, Kosovo wine producers should try to increase their export of bottled wines.

Today Kosovo is a huge exporter of bulk wine, it supplies with wine in bulk most of the Balkan countries, in particular Serbia, Croatia, Macedonia, Montenegro, Romania and Slovenia, some European countries, in particular Germany, Switzerland and Italy, as well as some other countries, for example, Nigeria. The import of Kosovo bulk wine will cost you around 40-70 cents a litre.

If we compare Kosovo wine imports and Kosovo wine exports presented in the following chart (fig.10), we can conclude that Kosovo is a net exporter of wine. The amount of wine imported is insignificant, with net export of Kosovo in 2015 being 5.2 million litres of wine. Interestingly, the dynamics of import reflects that of export: both import and export increased steadily in the years 2011-2013, reaching their peak in 2013, and both slightly declined in the last year of the period in question.

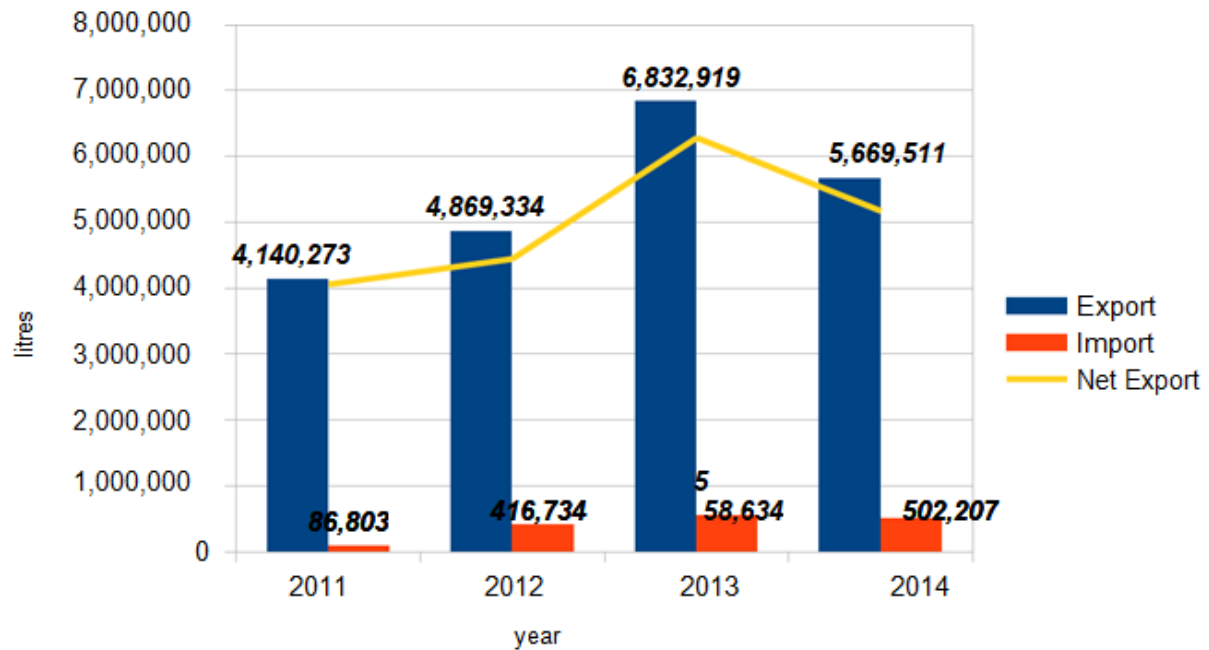


Figure 2 Kosovo wine exports and imports 2011-2014

Source: Kosovo Customs

As table 2 shows, the three biggest importers of Kosovo wine are Croatia (2.8million litres of wine was exported to this country in 2014), followed by Serbia (1.8 million litres) and Albania (0.5 million litres).

Although we can see a decrease in export of wine to quite a few countries in the years 2013-2014, it is a reflection of the changes Kosovo wine industry undergoes – if before the majority of wine was exported in bulk, in 2013-2014 a lot of bottled wine and bag-in-box was exported, as a growing number of Kosovo wine companies chose to focus on quality wine production. Probably the biggest market for bottled Kosovo wine and bag-in-box is Albania. For example, Stone Castle Vineyards and Winery managed to gain a market share of 23% in Albania in just three years with their bottled and bag in box wines (Gecaj N., 2016). Bodrumi i Vjeter is also present in Albania, their wines are very popular in HORECA as table wines. It is interesting to see Japan on the list – it is Bodrumi i Vjetër that started to develop the Asian markets as well.

The most consumed red wines in Albania are varietal Vranac and Pinot Noir, the most consumed white is varietal Riesling. Albanians have an obvious preference for Kosovo reds, as red wines represent 70%, white wines represent only 30% of the market (Gecaj N., 2016).

COUNTRY	2011	2012	2013	2014
Croatia	821,832	1,620,091	947,780	2,813,577
Serbia	1,113,742	48,000	1,663,381	1,811,637
Germany	1,016,220	1,069,039	2,268	77,790
Macedonia	38,529	226,200	50,068	0
Albania	23,106	101,400	192,698	541,187
Slovenia	1,035,140	666,665	747,662	157,474
Netherlands	0	0	447	450
Montenegro	207	0	5,043	0
Switzerland	57	10,449	964,357	9,531
France	0	0	12,960	51,800
Denmark	7,020	0	0	0
Belgium	900	0	0	0
Nigeria	0	0	17,616	0
Turkey	34,560	158,028	0	0
USA	48,960	0	0	0
Bosnia and Herzegovina	0	3,262	0	31,499
Italy	0	0	1,127,249	12,825
Romania	0	890,200	75,741	0
Czech Republic	0	76,000	826,128	160,841
Poland	0	0	621	0
Canada	0	0	5,360	0
Hungary	0	0	193,538	0
Japan	0	0	0	900
TOTAL	4,140,273	4,869,334	6,832,918	5,669,511

Table 2. Kosovo wine exports by countries of destination 2011-2014

Source: Kosovo Customs

The market of Albania is very important and very promising for Kosovo wine producers. 80% of the population knows Kosovo as a historically major wine producing region in Balkans. Though in Albania you will find the same nation (the vast majority of the Kosovo population are Albanians), the average level of incomes in Albania is higher than that in Kosovo, not to mention that thousands of wealthy tourists come to Albanian seaside each summer.

It would be interesting to know that altogether there are 42 companies licensed to import wine. By far the biggest countries that export wine to Kosovo, according to table 6, are Montenegro (almost 225 thousand litres of wine was imported from this country in 2014), followed by Macedonia (115 thousand litres) and Italy (95 thousand litres).

Probably the biggest obstacle in the way of Kosovo wine companies' expansion to export markets is the fact that not all the countries have recognized Kosovo following its independence in 2008. For example, the Russian Federation is a huge export market for bulk and bottled wine of other neighbouring countries (Serbia, Macedonia, Montenegro, Croatia,

Bulgaria), but, because of the political collision between the two countries – Russia does not recognise Kosovo as an independent state – Kosovo products can not be exported to Russia. At the same time, the import of Kosovo bulk wine into Serbia and its further re-export to Russia mixed with local wine is a common practice.

COUNTRY	2011	2012	2013	2014
Montenegro	62,003	167,603	292,319	225,622
Germany	19	5,382	0	416
Macedonia	7,096	128,098	109,523	115,417
Italy	13,373	60,702	121,356	95,210
Serbia	3,144	44,530	546	8,662
Slovenia	182	187	7,141	36
Spain	0	1,451	927	12,228
Switzerland	2	6	4	0
Portugal	0	0	38	117
UK	0	171	900	0
Austria	0	0	14	1
Bulgaria	237	3,360	3,515	3,510
France	747	3,893	17,090	18,745
Albania	0	0	3,006	9,402
Argentina	0	62	198	77
Australia	0	255	0	6,997
Chile	0	24	180	0
Croatia	0	0	756	1,503
Czech Republic	0	1,002	1,123	1,255
Ukraine	0	8	0	0
Poland	0	0	0	1,206
China	0	0	0	1,728
New Zealand	0	0	0	45
Denmark	0	0	0	28
TOTAL	86,803	416,734	558,634	502,207

Table 3. Kosovo wine imports by countries of origin 2011-2014

Source: Kosovo Customs

One of the main goals of the foreign policy of Kosovo is to accelerate the European integration of the country, which still does not need all the requirements to be accepted, but is changing to comply with those. Further integration into the European Union would mean a facilitated access to a huge EU market for Kosovo wine producers. Meanwhile, the Republic of Kosovo has already been granted a duty-free quote for a yearly export of two million litres of wine. However, the Government of Kosovo should try to negotiate a quota of at least two and a half million litres, in order to promote Kosovo wine export.

With regard to Kosovo wine export to the EU, infrastructure needs to be improved. A cargo airport is not far from the main regions of wine production. Conversely, the railroad transportation, which used to be the

main means of shipping wine to other European countries in the times of Yugoslavia, has been inoperative for years. Investment is required to restore the railroad connection.

Another serious obstacle to exporting wines worldwide faced by Kosovo wine companies is phytosanitary control: as of 2015, only two people in Rahovec, Suhareka, Malisheva and Prizren regions are licensed by the Ministry of agriculture, Forestry and Rural development to issue the necessary for exporting phytosanitary conformity certificates. These two people are responsible for the control of all the food, alcoholic and non-alcoholic beverages destined for export: they should provide a wine company with a necessary paper to allow a particular product cross international borders; after wine producers have to wait for days to have an appointment with one of them. Apart from that, these people lack governmental financial support to properly perform their activities: there can be no internet connection in their office, or their equipment can be partly out of order, etc. In order to increase the efficiency of Kosovo wine export, the problem needs to be dealt with.

An important factor for export success is the creation and efficient marketing of Kosovo Wine and Wine Tourism brands. The process has begun on the national level with the creation of Kosovo wine association Enologjia. Besides, international support and investment contributes to the promotion of Kosovo Wine and Wine Tourism brand: for example, as it was mentioned earlier, the European Union Office in Kosovo initiated the “Wine Route and Wine Culture Development in South Kosovo” project in 2011-2013, which was worth 269,371 euro.

The Kosovo Government could help wine producers in other ways. As it exists in some EU countries on both national and EU levels, the Government could offer financial support for the development of export activities of wine companies: for example, provide insurance for export market development, like it is done by the French COFACE (Compagnie Française d’Assurance pour le Commerce Extérieur).

A considerable facilitation of Kosovo wine export to a number of countries was gained, when Kosovo became a member of the Central European Free Trade Agreement (CEFTA) in 2006. This membership gave Kosovo wine producers access to the market of around 28 million people. Besides, CEFTA promotes the European integration, as many former members of the agreement are now EU member states: Poland, Hungary, Czech Republic, Slovakia, Romania, Bulgaria. Before Kosovo became a CEFTA member, it had signed bilateral free- trade agreements with a number of states, such as Albania (2003), Macedonia (2005), Croatia (2006) and Bosnia (2006).

To conclude, a lot can be done on both national and international levels to directly or indirectly facilitate export activities for Kosovo wine producers.

When it comes to international strategies, the one adopted by Kosovo wine companies is usually the home-replication strategy. This strategy is used when “the need for flexibility and the need for global integration is very low” (Lymberski Ch. 2008, pp. 29-30). Basically, the company makes no particular effort to customize its product range to different export markets, but exports portions of the same products it sells on the domestic market, when the domestic market becomes insufficient. According to this strategy, foreign markets are secondary to the domestic one (Ditter J.G. 2016).

Nevertheless, companies with huge volumes of production have to pay more attention to export markets, as the market of Kosovo is a priori not big enough to sell all the wine produced. Multi-domestic strategy, according to which the products are customized to particular export markets (Lymberski Ch. 2008, p. 30), is used by Stone Castle Vineyards and Winery. For example, the company has subsidiaries in other countries, marketing campaigns are customized, separate websites are created for huge foreign markets in the local language, etc.

As of today, the majority of more or less big wine companies in Kosovo export cheap bulk wine, while selling quality wine chiefly on the domestic market. Bulk wine export works as a safety bag, since Kosovo wine companies have historically established long-term relationships with bulk wine importing countries. Kosovo bottled wine is mostly sold locally or exported to the neighbouring countries or CEFTA members.

Taking into account the steady integration of Kosovo into the EU, as well as governmental promotion and international investment in Kosovo Wine and Wine Tourism brand, the interest in Kosovo wine will grow internationally. However, *Kosovo wine producers need to anticipate the needs of the would-be international consumers.*

To begin with, the translation of websites into English could be done more thoroughly: often not all the information presented is available in English; in the social media, where tourists can leave feedbacks, the information about the company should be translated into international languages to keep in touch with a larger international audience. Companies could promote their wines by living tasting notes in the internationally acknowledged wine rating applications, e.g. Vivino. Companies need to *be closer to the would-be international consumer.*

Furthermore, *investment in the education of the staff* can be the right thing to do: for example, by encouraging your employees to take the courses offered by The Wine & Spirit Education Trust (or the e-learning courses offered by the European wine Academy, or the OIV wine marketing courses, etc.), by encouraging the employees' participation in international wine events and conferences the company secures a better international representation, probably a possibility to interest foreign wine professionals in your company and region, as well as gets an inflow of new ideas in production, marketing, and other aspects of wine business.

Moreover and most importantly, companies should *invest more in the development of their international sales*. The common practice is to have a single person in charge of both local and international markets. It would be more efficient to hire a multilingual export manager, who will assess and select export markets and develop market entry strategies. International markets should be analysed not to miss an opportunity to carve out a share of a particularly attractive market, in order to be prepared for the possible market-related risks, in order to build the right value propositions for different markets.

And finally, in order to export in some countries, especially where import is controlled by the governmentally-controlled monopolies, there are certain requirements the wine company should meet. More and more often this requirements deal with the image of the company from the prospective of *corporate social responsibility*, especially with regard to the environment and sustainability. A company could facilitate the process of exporting to such countries by obtaining internationally recognised certifications. So far it is not common among Kosovo wine producers, nevertheless, in 2016 Stone Castle Vineyards and Winery became the first ISO certified wine producer in Kosovo in 2016.

CHAPTER FOUR

CONCLUSION

This thesis provided a complex analysis of the business environment Kosovo wine producers operate in. The results showed that the environment of wine companies is undergoing major changes. The Government of Kosovo, the European Union, as well as many international organisations are investing in Kosovo Wine and Wine Tourism brand.

The three layers of the business environment were analysed: macro-environment, industry, competition (Johnson, Scholes & Whittington, 2008). The macro-environment was characterised by positive economic and legal advancements, while political instability and lack of complementary and supporting industries are hindering the progress. It is difficult to give a clear interpretation to the social factor: on the one hand, there is little wine culture in Kosovo and other alcoholic beverages are still more popular with Kosovo people, on the other hand, the interest in wine is growing steadily (especially among women), wine culture is promoted on the national level. With regard to the environment, so far environmental concerns play no particular role and are largely neglected, nevertheless, there already exist wine producers, who invest in sustainability and thereby set a new trend.

The second layer is characterised by a relatively strong bargaining power of buyers, depending on the market segment. Overall medium level of the bargaining power of suppliers is explained by a combination of a low bargaining power of independent vine-growers (who supply wine companies with grapes), and a high bargaining power of the suppliers in other supporting industries; once again, the development of wine cluster in Kosovo, as it is proposed by many researchers (Vanka & Heijman 2013; Deva 2007), is crucial. Very high threat of substitute products makes wine industry less attractive and more complicated in the eyes of the local businessmen. It is unlikely that strong new entrants will appear in the near future. Competition – the last layer – is still not intense, however, there are signs that it is going to grow.

The business environment of wine companies in the Republic of Kosovo is changing. Competition in the industry is intensifying, foreign investors and wine consumers develop interest in Kosovo wine industry, Kosovo is gradually moving forward in the European integration. The wine companies of Kosovo should react to the current changes in the environment and anticipate future trends. Thereby, Kosovo wine producers can no longer underestimate the importance of a competitive business strategy.

The study highlighted the major changes on the domestic and international markets, that potentially influence strategic decisions of wine companies. For example, on the domestic market, retail is currently dominated by basic and, to a lesser extent, popular-premium price segments with highly price-sensitive consumers, in HORECA consumers are less price-sensitive, but still are basic wine drinkers. With a potential development of wine culture, signs of which have already been noted, the demand for quality wine is going to grow. Thus companies need to realign their portfolios and reallocate their resources in accordance with the demand. With regard to the international market, companies should invest more in the development of the international strategy, for example, to anticipate the demands of potential importers and to pay more attention to the issues of sustainability, as importers are raising standards with regard to the products they import and the way these products are produced. And, on both local and international market, the way companies take their decisions should be changed in favour of a well-planned, calculated strategy.

To conclude, Kosovo Wine brand has all the potential to be acknowledged worldwide. For over 2,000 years of wine production, wine companies of Kosovo have established long-term relationships with importers, in particular, bulk wine importers from various European countries. However, Kosovo wine producers have much more to offer and to be famous for, as the country is home to many complex, quality wines. The interest in wine culture is slowly growing among local population, the competition is intensifying in the industry, the business environment, in which Kosovo wine companies operate, is changing. If Kosovo wine producers learn to react to these changes with the right strategic moves, the wine industry of the Republic of Kosovo is bound to progress.

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