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# Chapter 10

## Factors that affect the price of wine



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### Production costs

#### Grape growing

Costs: land/soil prep/vines/trellis/labour (largest cost)

**Labour - mitigate costs with seasonal workforce/mechanisation/shared equipment**

Steep slopes - more expensive/mechanisations not possible

Long time before ROI for grape growing

#### Winemaking

Expenses

- **Equipment - expensive** (even small wineries must pay a lot relative to size)
  - Some possibility to share equipment (ie, bottling facilities)
- **Maturation - space taken up by barrels/bottles/vats**
- **Money tied up in stock** (not profit straight away) - factored into costs

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### Packaging

Cost: bottles/caps/closures/cartons

Unusually shaped/heavy bottles = cost more

Large producers can bottle wine in market where it will be sold

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### Transport, Distribution and Sales

Sell in domestic/international market

Choose distribution partners who offer value for money/reliable sales

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# Taxes

All governments tax alcoholic beverages (varies globally)

Adds to price of wine

Important revenue stream for Government/essential in controlling alcohol consumption

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# Retailers

Restaurant - more expensive wines - cost considers occasion/environment/level of service

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# Market Forces

Production/packaging/distribution/retail costs - taken into consideration

Wine worth what market is willing to pay; high demand/low supply - costs rise (ie, premium estate Bordeaux)

Opposite also true - ie, Mosel producers - costs high, consumer demand low.

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# Types of Wine Producers

- **Cooperatives**
  - Wine businesses owned by their members (usually GG - grape growers)
  - Growers deliver grapes to winery - team for winemaking/marketing employed by coop.
  - Good for grower - guarantee buyer/bad for WM - no control over grape quality
  - Common in Europe/ less common elsewhere in the world (New World)
- **Merchant (negociants)**
  - Merchants buy grapes, juice or wine from either grape growers or coop
  - Have contracts with suppliers - have greater control over source material
  - Can reject low quality grapes. In areas high demand/limited supply - difficult to guarantee supply.
  - Operate both premium and high volume
  - Common outside of Europe
    - Grape growers have larger holdings/producer deals with fewer growers
  - Many large wine brands made this way
- **Estates (domaine)**
  - Only make wines from grapes they grow
  - Small scale/responsible for best wines
  - Blending options fewer
    - Can be challenging in poor condition years
  - Common throughout world

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## Multiple Choice Practice Questions

- 1) Which of the following factors is most likely to increase the production costs of a wine?
- a) Mechanical harvesting
  - b) Use of synthetic fertilizers
  - c) Hand harvesting
  - d) Large-scale production
- 2) What impact does aging wine in new oak barrels have on the overall cost of wine production?
- a) It reduces the cost
  - b) It has no impact
  - c) It increases the cost
  - d) It stabilises the cost
- 3) How does the use of prestigious appellation names on labels affect the price of wine?
- a) It generally reduces the price
  - b) It generally increases the price
  - c) It generally stabilises the price
  - d) It generally has no effect
- 4) Which of the following describes wine businesses owned by their members?
- a) Domaines
  - b) Négociants
  - c) Merchants
  - d) Cooperatives
- 5) Which of the following is a common practice to reduce the production cost of wine?
- a) Using manual labour for all vineyard tasks
  - b) Extensive aging in new oak barrels
  - c) Employing sustainable viticulture practices
  - d) Mechanisation of vineyard operations

### Answers

- 1. c) Hand harvesting**
- 2. c) It increases the cost**
- 3. b) It generally increases the price**
- 4. d) Cooperatives**
- 5. d) Mechanisation of vineyard operations**

