

Economic analysis of the wine industry



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Human beings need different kinds of the materials in order to live day to day life some may have more importance and some may have the less importance. In current business world we can find different kinds of the product of same kind and same use which is called supplement product. Different product has got different nature which is based on the use, quality, based on the producer. But according to the nature of the production product are divided in 3 groups which are as follows:

1. Primary Production: Primary production those products which are produce naturally or the products which are wholly based on the nature are called primary production. Agriculture production is a best example of the primary production. The grapes apple and other which is produce by the farmer is considered as the raw material for wine industry.
2. Secondary production: If the production process is related with the manufacturing than it is considered as the secondary production. For example production of the television, car, electronics items etc is considered as the secondary production. In this production process assembling process are involved in it. There are various process involved in the wine production like crushing, fragmentation, etc. which are done with the help of machine which is considered as the secondary production.
3. Tertiary production: Productions which is related with the services is called the tertiary production. The examples of the tertiary production are education, health facilities, etc.

In recent year the wine has become the part of the human life. Drinking the wine is considered as the important ritual of the modern society. In recent world Spain, America France and Italy is considered as the main producer of wine in the world. Spanish wine has got the good reputation in the current wine producing country. The wines are produced by using the naturally produced fruits like grapes, apple and orange and with other fruit of the choice of individual. Spain has got important market place in the current wine business world. They are one of the ancient countries in the world which produce wine since ancient period they are producing the different qualities of the wine with the different price level. They have got the 70 region and they have got the huge wine yard they are considered as the third largest country in the world in the wine production. There are various places which are famous for the wine production like Valencia, Ribera, Del Duero, Penedes, etc.

Distribution channel

There are 2 kinds of the distribution channel which is found in wine industry are as follows:

1. Direct channel: According to this channel the producer sell the wine to customer without any agent or retailers here there is no involvement of the middleman or agent due to this price will be less or cheap.
2. Long channel: On the basis of this distribution channel the wine is one produce it is given to distributer for example to the wholesaler then it goes to the retailer store, for example to shop, off-licence and other shop only after that it goes to the customer. On basis of this

distribution channel there is involvement of the different channel so the price will be high when it reaches to the final customer.

Wine production is one of the important businesses in the Spain. In order to produce the wine different processes are involved in the wine production. It has got the historical and cultural value in Spanish society. In order to produce the wine various process are involved in it the process of the wine production are as follows:

- Harvest: This is the first step involve in the wine production. Grapes are the main raw material for the wine first it should be crossbred and need to b mixed well the grapes must be harvested at the precisely the right time to produce the best wine and many producer harvest their crop by hands in order to produce the quality wine. Now a days the professional wineries harvest according to the taste and colour of grapes.
- Crushing and pressing: This is the second process that is involved in the wine production process once the grapes or the fruits which are the raw material are harvest they are crushed in the machine but in order to make the wine qualitative the seeds and skin are separated this will help to make the quality wine and helps to add up colour in wine.
- Fragmentation: This is considered as another important process in wine production. Once the grapes are crushed and pressed then the juice is extracted and the juice is moved into the large container in which yeast is added and fragmentation process starts. It will take 10 to 30 days on; on the basis of the quality of wines the days are determined.

- Filtering and aging: Once the grapes are fragmented the wine are filtered when the solid and yeast has been removed from the wine and it is distributed in the bottle and case to be aged. There are various aging processes. It is done on the basis of the age and on the basis of bottle.

Wine production has got the various processes. For the success of the any wine industry raw material capital input and labour plays the vital role.

Raw material

For the wine industry grapes, apple, orange and different other fruits and berries are considered as the main raw material. In Spain there are lots of grapes yard and according to climatic condition grapes are favourable product to grow and from economic point of view the Spanish wine producer they select the grapes as their main raw materials because they are produce in Spain and is cheap. Some of the other raw materials are sugar cane, yeast, pulp, acids and tannins and different minerals.

Capital input

Capital refers to the sum of the money invest in the business in order to produce the goods. For the success of the wine business capital input is considered as the life blood of the business. The fixed assets like machinery, loan from the bank, delivery vans and motors, all the tools and equipment etc are considered as the capital input in the wine business. In order to operate the day to day business capital input is very essential without the capital input the wine production can't move forward. Due to this reason we can say that capital input plays vital role in success of the wine industry.

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Labour requirement

For the any business qualitative manpower is required. In the wine industry also qualified and experience labour is required. The quality wine producer can operate day to day business as well as can increase the efficiency in the production of the wine this will help in the production of the quality wine. The wine market has become very competitive in order to compete in the competitive market efficient and qualified labour force is required who has potential, which has capacity to increase the efficiency in the work and required those labour force who can understand market situation.

For the any business organization cost control and costing process helps to move forward. This is one of the essential factors that help to run the business successfully. In order to produce goods firm use raw materials, factors of the productions which are called input. The expenditure which is occurred in it is called cost. There are two types of the cost variable cost and fixed cost. The cost which doesn't change with the change quantity output is called fixed cost where as the cost which change with changing output is called variable cost. Fixed cost is normally related with the fixed factor of production where as variable cost is related with variable factor of the production. The example of the fixed cost in the wine industry are wages of the staff, rent, insurance, interest on the fixed capital etc where as the example of the variable cost in the wine industry are wages of the casual labour, expenses of the electricity etc. in the Spanish wine company normally the depreciation charge for the machine, salary for the permanent staff, insurance for the company are fixed cost they don't change although they make production high or low. They don't effect of the annual budgeting

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because once they are determined they will be the same for that entire year. The variable cost changes with the change in the per unit production. The electricity charge is one of the good examples of the wine industry, when the production is high then lots of electricity is used. May be during the fragmentation process, may be during the crushing machine is used the more wine we produce more electricity is used so it changes with the changing output.

Economy of the scale refers to the decrease in unit cost of a product or service resulting from large-scale operations, as in mass production. This concept of the economy helps any business organization to run long run and helps in the current competitive global market. If the wine producer can produce the large amount of the wine than they can buy the large amount of the raw materials from the producer if they take in bulk amount then they can get in the cheaper price, once the good and high technology equipment is used the production will be high and production cost will be less due to which large scale of the production is successful this will help the producer to produce qualitative products in cheaper price. The economy of the scale can be achieved by hiring the new technology machine, qualified manpower, by increasing the size of company and machine. This will help in reducing the production cost and helps to increase the output. The economy of the scale is thus achievable in the production by the long run production. In order to achieve the economy of the scale the wine producer should emphasize in increasing the fixed cost and decrease the variable cost. So the wine industry should always emphasize to find the qualified labour force which are well known and has experience about wineries, should always try

to install the new technology machine which are multipurpose and help to produce the product in the large quantity.

Wine has become an important part of the modern society; it has got the cultural, historical and religious importance. Spain is considered as one of the best wine producer country in the world which produces the different varieties of the wine at the different price level. It has been exporting its product in the different countries. Nepal is one of the wine companies where Spain is exporting the wine every year in huge quantity. Wine consumption has increased in the last 10 years. Nepal is one of the tourist destinations for the European and American visitors. Large numbers of the hotel, restaurant, pub, resort are there in Nepal, they import lots of wine from the Spain. Spanish red wine and black level are very popular in Nepal and every year large amount of black level and red wine are exported to Nepal in huge quantity. Although there are lots of barriers, Spain wine producer are supplying its product in Nepal. The only one way to export the wine to Nepal is the air transport due to the geographical territory. They don't have access to sea there are lots of mountain to reach Nepal so air transport is only one alternative to reach there. To export the goods and product from air is expensive. The export cost is very high because of the high custom duty, tax, vat and the transport cost is very high. Only few wine companies select the Nepal as the market because it is hard to enter in the market. The legal procedure is very hard for the alcoholic product. The rules and regulation is very strict for the wine industry. The custom duty fare is very high and the import and export rules regulation is very strict and hard to follow so only few wine producers they choose Nepal as their target market. Nepal is one of

the landlocked countries with big mountain and hills where the climate change is frequent and the air transport get cancelled frequently so summer will be only best time so export the goods. So during the summer large quantity of Spanish wine is exported to Nepal. There are only few authorized retailers of wine of Nepal so it is hard to find the market place and hard to export the product due to this also the supply process is very slow. However the demand of the people is high but due to the climatic condition, due to high transport cost, due to the strict rules and regulation regarding the export and import the supply process is very hard.

As a whole we can say that Spanish wine industry has got the large market in the world and considered as the third largest country in producing the wine. The wine industry has got the traditional and historical importance still there are many wine industry which are operate in the same way they used to 20 30 years ago. If they can be modernized and if they adopt modern technology and equipment they can gain the economy of the scale and helps to direct the company in the path of success so the wine producer should always should emphasis in the division of labour, should always emphasis in modern technology this will help them to produce the qualitative wine and helps to compete in the market easily.