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THE UKRAINIAN WINE DISTRIBUTION SYSTEM: FUNDAMENTAL PRINCIPLES AND FORMATION CHARACTERISTICS

СИСТЕМА ДИСТРИБУЦІЇ ВИНА В УКРАЇНІ: ОСНОВНІ ПРИНЦИПИ ТА ОСОБЛИВОСТІ ФОРМУВАННЯ

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The article is dedicated to exploring the network that governs the journey of wine from vineyard to consumer. This study delves into the core principles underlying the wine distribution system, highlighting its complexities and the key factors that shape its formation. The distribution system serves as a vital link between producers and consumers, encompassing various stages such as production, logistics, marketing, and sales. The article begins by examining the international wine market and changes in its main indicators, determines which factors affect the distribution system and defines the peculiarities and problems of the functioning system of wine distribution in Ukraine during the russia invasion. This research article explores the key components of the wine distribution system, highlighting the unique challenges and opportunities at each stage. Moreover, this study examines how distribution channels are established and highlights the key characteristics of the wine distribution system in various countries around the world, including Ukraine. Highlights the importance of studying the factors that influence the wine distribution system, emphasizing its multifaceted impact on market efficiency, consumer satisfaction, regulatory compliance, and sustainability. The goal is to investigate various approaches to the formation of the wine distribution system and the activities of its subjects in various world markets and in Ukraine in a global, changing environment. The research was conducted using the following methods: systematic analysis of global reports and specialized publications and monographs; analysis and synthesis, induction and deduction; classification and analytical; graphic; analysis of recent research and publications. The information base consists of articles, reports that contain information about wine distribution systems, as well as their features of functioning.

Keywords: wine, distribution, wine industry, logistics, wine marketing.

Стаття присвячена вивченню факторів, які вплинули на діяльність світового винного ринку та системи дистрибуції в Україні та світі. В статті проаналізовано міжнародний ринок вина та зміни деяких основних показників, а саме виробництва та споживання. Також розглянуто систему функціонування дистрибуції вина в Україні в період військового часу та висвітленні основні принципів ефективного її функціонування. Війна в Україні створила значні виклики для багатьох секторів, включаючи винний бізнес, порушила логістику, спричинивши ряд проблем в системі дистрибуції вина, від транспортних труднощів до руйнування складів та нестабільності ринку, тож в статті окремо окреслені виклики, з якими наразі стикаються суб'єкти системи дистрибуції. Визначено, особливості функціонування системи дистрибуції вина у країнах світу та Україні. Система дистрибуції формує важливий зв'язок між виробниками та споживачами, охоплюючи різні етапи, такі як виробництво, логістика, маркетинг та продажі, тому увагу приділено ключовим компонентам системи дистрибуції вина з виділенням окремих викликів та можливостей на кожному етапі. Більше того, це дослідження вивчає, як встановлюються дистрибуційні канали, та виділяються ключові характеристики системи дистрибуції вина в різних країнах світу, включаючи Україну. Підкреслює важливість вивчення факторів, які впливають на систему дистрибуції вина, наголошуючи на її багатогранному впливі на ефективність ринку, задоволення споживачів, дотримання нормативних вимог та сталість. У статті проведено порівняльний аналіз української системи дистрибуції вина з системами інших країн світу в контексті триваючих економічних та геополітичних викликів, запропоновано як саме винна промисловість може подолати ці проблеми та покращити свою систему дистрибуції, використовуючи основні принципи її функціонування. Мета статті полягає у вивченні різних підходів до формування системи дистрибуції вина та діяльності її суб'єктів на різних світових ринках та в Україні в умовах глобальних змін.

Ключові слова: вино, дистрибуція, виноробна промисловість, логістика, маркетинг вина.

Statement of the problem. The wine distribution system plays an essential role in the wine industry, serving as the critical conduit that connects producers with consumers. This system is not merely a logistical pathway but a complex network that encompasses various stages, including production, logistics, marketing, and sales. Each stage is integral to ensuring that wine reaches the market efficiently and meets consumer expectations in terms of quality and availability. The war in Ukraine has posed substantial challenges to many sectors, including the wine industry. The ongoing war has disrupted logistics, causing a range of issues from transportation difficulties to warehouses destruction and market instability. This article explores the specific challenges the Ukrainian wine business faces during this tumultuous time.

Analysis of Recent Research and Publications. The Ukrainian wine distribution system as well as the international, with its blend of traditional practices and modern regulatory changes, has garnered scientific interest due to its unique adaptation to economic and geopolitical challenges. Researchers are particularly drawn to how the system balances local production with increasing imports, reflecting broader trends in global market integration and consumer preferences [1–4].

Formulation of the article's objectives (problem statement). This research article is aimed to analyse the main principles underlying the wine distribution system in foreign countries and in Ukraine. Determine the factors that affect the wine distribution system. Examining how different markets organize and manage the flow of wine from producers to consumers, including distribution channels, market segmentation, and regulatory compliance. To compare the Ukrainian wine distribution system with those of other countries, the research seeks to highlight unique characteristics and common challenges. This research is particularly important in the context of Ukraine's ongoing economic and geopolitical challenges, as it provides insights into how the wine industry can navigate these issues and enhance its distribution system using the main principles of functioning. The findings aim to support the development of a more resilient and efficient wine distribution network in Ukraine.

Presentation of the main research material. In recent years, the global wine market has faced several significant challenges which affected the activity of all business entities of this market as a part of the wine distribution system. These challenges have necessitated adaptability

and innovation from all entities of the distribution system: wine producers, distributors, importers, retailers, HoReCa etc. to navigate the evolving market landscape. Consider the main factors that influenced the activity of the world wine market and its wine distribution system starting with the pandemic and ending with today's realities (Figure 1).

COVID-19 led to widespread disruptions, closing restaurants, bars, and wineries, which impacted on-trade sales [5]. However, online wine sales surged as consumers shifted to e-commerce. In 2023, the wine e-commerce market in Europe was estimated to generate around 2.2 billion U.S. dollars in revenue. Projections indicate that this figure could reach approximately 2.6 billion U.S. dollars by 2029 [6].

Moreover, the pandemic worsened existing supply chain issues, causing delays in production, packaging, and distribution. Increased shipping costs and raw material shortages affected wine availability and price formation. International trade has been affected by tariffs and geopolitical tensions, such as U.S. tariffs on European wines and Brexit-related issues, impacting the cost and flow of wine. And the increased competition from emerging wine regions has created market saturation, leading to price pressures and a need for differentiation among traditional producers. There has been a rising demand for sustainable and organic products. Consumers are increasingly interested in natural wines and environmentally friendly practices, prompting producers to adapt. In the situation of the economic uncertainty, economic instability and inflation have led to reduced spending on luxury items, including high-end wines, increasing interest in more affordable options. Some regulation changes had been added evolving regulations on labelling, health warnings, and alcohol content have impacted wine marketing and sales, requiring producers to navigate diverse regulatory environments. Even before that, climate change has brought an extreme weather events like heatwaves and wildfires have disrupted vineyards, reducing grape yields and altering quality, posing a growing threat to the industry. All these influence the global indicators of the world total wine production [Figure 2] and consumption [Figure 3].

Extreme climatic conditions and widespread fungal diseases have severely affected many vineyards worldwide, resulting in a historically low global wine production of 237 million hectoliters. This represented a 10% decrease from 2022 and was the lowest output since 1961.



Figure 1. The main factors that influenced the activity of the world wine market and its wine distribution system

Source: developed by the author

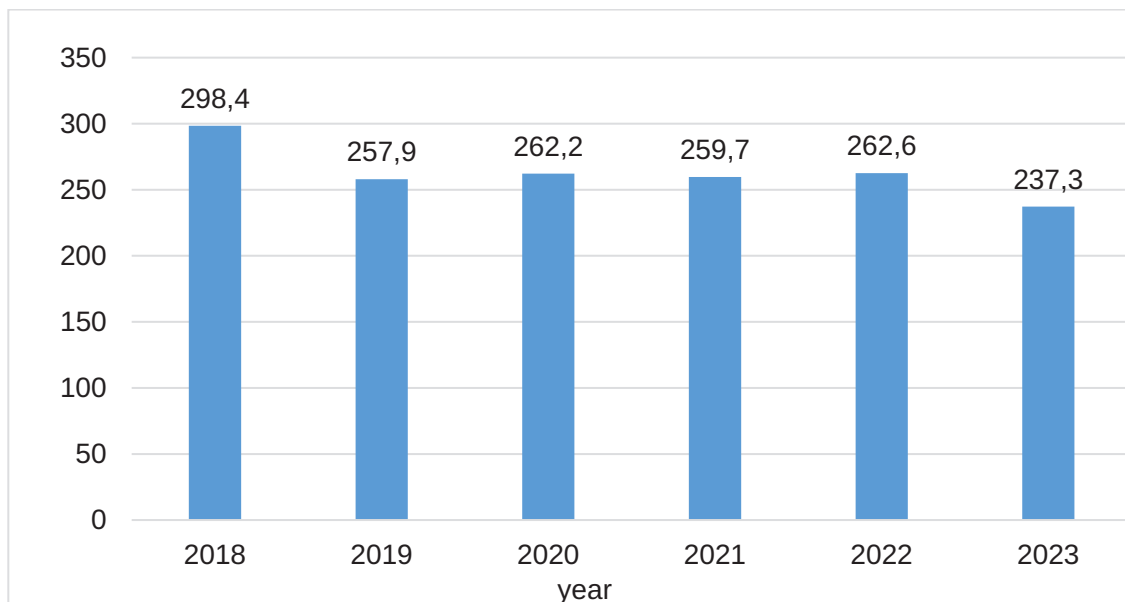


Figure 2. The World Total Wine Production (juices and musts excluded), ml

Source: developed by the author on the basis of [7]

Global wine consumption in 2023 is estimated at 221 million hectoliters, reflecting a 2.6% decrease compared to the already low figures of 2022. The rise in production and distribution costs, spurred by inflationary pressures, led to higher wine prices, further straining consumers' purchasing power. Despite these challenges, a few major markets showed resilience.

These issues have also impacted the wine distribution system in Ukraine, where special internal factors of the country were also added. Russia's invasion of Ukraine and the war has not only disrupted and hindered Ukraine's winemaking capabilities but has also significantly impacted the wine supply chain throughout Eastern Europe. Some production facilities have halted operations to support refugees, while others have faced inflation and a range of issues, including transportation challenges and bottle supply shortages. The hostilities have led to the destruction of inventory and the blockade of Ukraine's main port of Odesa, exacerbating these difficulties. In 2022, the Ukrainian wine business was forced to make decisions as quickly as possible. Due to the war, wine retailers had to rebuild their logistical routes, establish supply chains, and, unfortunately, close physical stores due to significant issues with logistical infrastructure. For example, in March 2022, the retail chain "Silpo" had to close 22 stores in Kyiv. According to expert data, in the average and low price segments, buyers reduced the frequency of purchasing wine

products in Ukraine from three times to once every 30 days. This was caused by a number of factors:

- temporary restrictions on the sale of alcohol in the country's retail outlets;
- increased production costs due to the rising prices of raw materials, energy resources, and consumables;
- disruptions in logistical supply and distribution chains;
- unregulated payment terms at the state level for retail enterprises with suppliers of food products, including wine products in Ukraine [8].

During the period of martial law in 2022, the turnover of all types of alcoholic beverages, including wine products in Ukraine, sharply decreased. For instance, in January-June 2022, Ukrainians purchased 58% less wine compared to the same period in 2021. The most significant decrease in the wine market in Ukraine during this period was observed in the turnover of sparkling wines, which declined by 67% [9].

Let's consider how exactly the wine distribution system functions in Ukraine and some other countries, who are its subjects what are the common and distinctive features. Schema (Figure 5) illustrates the interconnected flow of wine distribution in Ukraine, highlighting the complexity and multiple stages involved in bringing wine from producers to consumers. The wine distribution system in Ukraine has several unique features and characteristics that differentiate it from other markets:

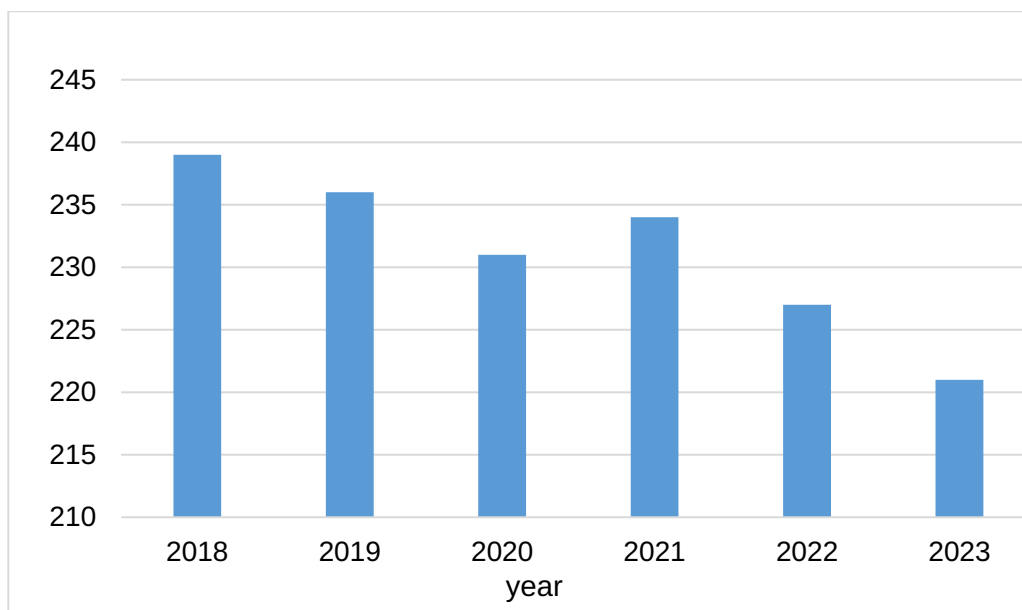


Figure 3. The Total World Wine Consumption, mhl

Source: developed by the author on the basis of [7]

- a substantial portion of the wine consumed in Ukraine is imported from countries such as Italy, France, Spain, and Georgia;
- importers must navigate complex customs procedures and tariffs;
- as of January 1, 2021, a zero customs duty on the import of wine from the EU came into effect. This change is part of Ukraine's commitments to eliminate import duties on various goods within seven years following the conclusion of the economic section of the Association Agreement with the European Union;

- there are specific labeling requirements that must be met, including information on origin, grape variety, and alcohol content;
- traditionally supermarkets and grocery stores remain primary points of sale, especially in urban areas;
- huge retailers can have their own exclusive import thus to have a special price on the market for some wines are not presented in the market;
- efficient logistics networks are crucial for maintaining wine quality. This includes temperature-controlled transport to prevent spoilage;

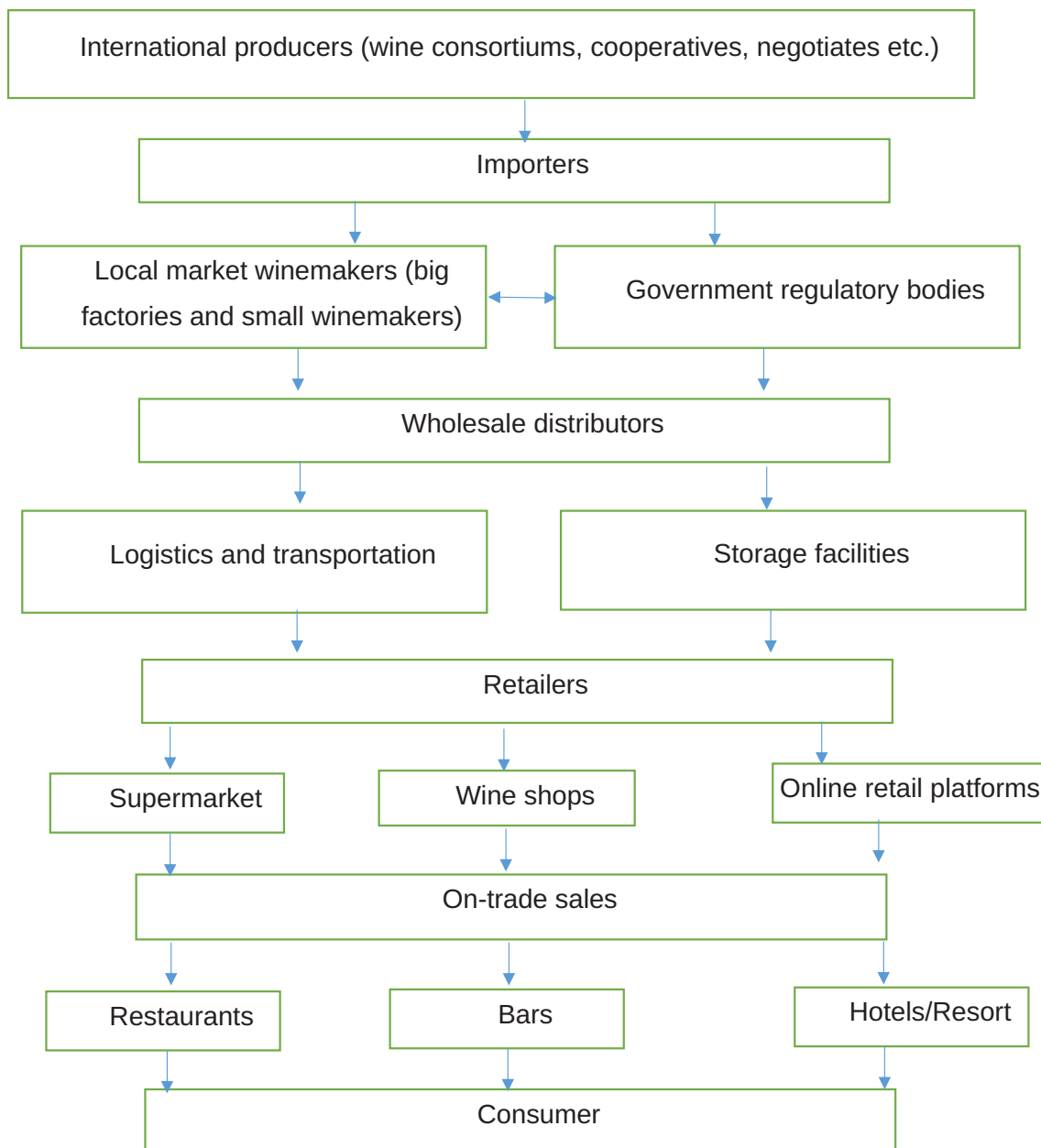


Figure 4. The wine distribution system functions in Ukraine

Source: developed by the author

- adequate storage facilities, including warehouses with climate control, are essential to preserve wine quality before it reaches consumers;
- a number of local wineries and big local wine producer who represent Ukrainian wine market locally and internationally;
- wine tourism in regions like Odesa and Transcarpathia promotes local wines and enhances consumer engagement.

The interesting example of the distribution system functioning is the Scandinavian wine market. While the Norwegian wine market operates under a strict state monopoly with a strong focus on social responsibility and health, the Ukrainian market is more open and diverse, influenced by economic factors and regulatory changes. Norway's restrictive policies and monopolistic system contrast with Ukraine's dynamic and multifaceted distribution channels. The Norwegian State owns Vinmonopolet, the sole entity authorized to sell, import, and distribute beverages with an alcohol content greater than 4.75%. Norway has one of Europe's most restrictive alcohol control policies, resulting in heavily taxed and expensive wines. Red wines dominate consumption, though there is a shift towards white and lighter wines. Bag-in-box wines are highly popular, comprising over half of wine sales. There are about 500 registered importers. Open tenders are issued twice a year to ensure a market-oriented assortment. Alcohol advertising is banned, requiring unique distribution strategies. Despite being a monopoly, Vinmonopolet offers a wide variety of products, with 21,500 options available and new ones introduced six times a year. Additionally, 80% of Norwegians support maintaining the Wine Monopoly, viewing it as beneficial for their health [10].

The U.S. wine market, recognized as the largest in the world, was valued at USD 63.69 billion in 2021 and is projected to grow at a compound annual growth rate (CAGR) of 6.8% from 2022 to 2030, according to the U.S. Wine Market Size, Share & Trends Analysis Report. The primary distribution channels include off-trade, on-trade, winery direct-to-customer (DTC),

and online wine sales [11]. It should be noted that after the repeal of prohibition, the three-tier system of alcohol beverages distribution was set up. And traditionally (Figure 5) the so called three tiers system consists of importers or producers, distributors and retailers.

According to the basic rules producers can sell their products only to wholesale distributors who then sell to retailers, and only retailers may sell to consumers. The three-tier system is intended to prohibit tied houses and prevent disorderly marketing conditions and to prevent vertical integration and ensure tax collection. Each state has its own regulations regarding alcohol sales, leading to a complex and varied regulatory environment. Winery DTC sales are regulated differently across states, with some states allowing direct shipping and others restricting it. So The U.S. wine market is characterized by its size, diversity, and complex regulatory environment, with multiple distribution channels and strong consumer spending. In contrast, the Ukrainian market is smaller, more centralized, and influenced by economic and geopolitical factors, with a primary focus on traditional retail and only developing online sales.

To compare with the nearest neighbours, the Polish wine market is characterized by its rapid growth, increasing imports, and adherence to EU regulations, with a strong presence of retail chains and a growing online sales segment. In contrast, the Ukrainian wine market is influenced by its long winemaking tradition, recent regulatory changes favouring EU imports, and economic and geopolitical challenges. While both markets are emerging, Poland benefits from more stable economic conditions and EU membership, driving diverse consumer preferences and market expansion.

The Ukrainian wine distribution market is evolving rapidly, shaped by a mix of traditional practices and modern developments. Recent regulatory changes, such as the elimination of customs duties on EU wine imports, have fostered greater market integration and variety. Despite economic and geopolitical challenges, there is a growing consumer interest in sustainable and organic wines. The market continues to rely

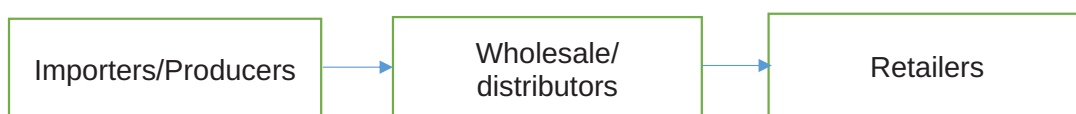


Figure 5. USA Distribution System – The three-tier system

Source: developed by the author on the basis of [12]



Figure 6. The wine distribution system formation principals for Ukrainian market

Source: developed by the author

ПІДПРИЄМНИЦТВО, ТОРГІВЛЯ ТА БІРЖОВА ДІЯЛЬНІСТЬ

heavily on traditional retail and on-trade sales, while online wine sales are gradually gaining traction. Overall, the Ukrainian wine market demonstrates resilience and adaptability amidst a complex landscape.

Conclusions. So the formation of the wine distribution system in Ukraine has been significantly influenced by the challenges faced in recent years, particularly due to the ongoing war. For adapting and sustaining the wine business under these circumstances it is important to adhere to the specified principles. By adhering to these principles, the wine distribution system in Ukraine can navigate the challenges posed by the war and other disruptions, ensuring the sustainability and growth of the wine industry. These principles underscore the importance of adaptability, technological integration, cost management, regulatory compliance, consumer engagement, supply chain resilience, collaboration, and innovation in forming a robust and resilient wine distribution system.

The ability to make rapid decisions has become essential for the Ukrainian realities. Wine retailers and distributors have had to quickly rebuild logistical routes and establish new supply chains to maintain operations. Exploring and implementing alternative transportation routes to circumvent disrupted logistics nowadays started to be vital for ensuring the continuous flow of wine products.

Enhancing online sales channels and digital marketing strategies has become crucial especially when this market is growing rapidly not only in EU but on other continents. This shift helps mitigate the impact of closed physical stores and reaches a broader consumer base. Leveraging technology to optimize supply chain management, inventory tracking, and customer engagement is instrumental in maintaining efficiency and resilience.

An instrumental in maintaining efficiency and resilience is averaging technology to optimize supply chain management, inventory tracking,

and customer engagement as well as managing increased production costs due to rising prices of raw materials, energy resources, and consumables.

Ensuring compliance with temporary restrictions on the sale of alcohol and other regulatory changes: this includes adapting to unregulated payment terms and managing financial transactions effectively. Advocating for and utilizing government support programs designed to aid businesses affected by the war. This may include financial assistance, tax relief, and other incentives. Developing targeted marketing campaigns to engage consumers and promote wine products. This includes leveraging social media, influencer marketing, and other digital platforms.

Educating consumers about the unique qualities and benefits of Ukrainian wines to foster loyalty and support for local products. Diversifying supply sources to reduce dependence on a single supplier and mitigate risks associated with supply chain disruptions. Implementing robust inventory management practices to ensure adequate stock levels and minimize shortages. Collaborating with other industry players, including producers, distributors, and retailers, to share resources, knowledge, and best practices. Establishing and strengthening international partnerships to

access global markets and diversify revenue streams.

Adopting sustainable practices in production and distribution to reduce environmental impact and enhance long-term viability. Encouraging innovation in product development, packaging, and distribution methods to stay competitive and meet evolving consumer demands.

Despite the challenges, the wine business in Ukraine is showing resilience. Importers are exploring alternative transportation routes, diversifying their supply sources, and implementing creative solutions to maintain the flow of wine into the country.

Being a critical component of the global wine industry, encompassing the processes and mechanisms through which wine is transported from producers to consumers the wine distribution system is not merely about moving products; it is a complex and multifaceted network that integrates various elements such as production, logistics, marketing, and regulatory compliance. Understanding the fundamental principles of the wine distribution system is essential for both industry professionals and consumers, as it impacts everything from the availability and pricing of wines to the cultural and economic significance of wine in different countries as well as in Ukraine.

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