

IS THERE A SCOPE FOR ORGANIC WINE TOURISM DEVELOPMENT? A Focus on South African Wine Industry

Radu Mihailescu

radu.mihailescu@stenden.com

Stenden University - Leeuwarden

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ABSTRACT – Wine tourism has been earmarked as an important provider of revenue by the wine producing countries. Due to the high competition in the wine tourism market, many of these countries are trying to explore new ideas and attractions, one of them being organic wine tourism. The research explores the developments of such tourism in South Africa by measuring the Willingness to Pay (WTP) for organic wine as a part of further developing the organic wine production and implicitly the associated tourism market. The research showed that there is a willingness to pay a premium amount for organic wines based on a number of attributes. Attributes such as: Awards, Certification, Recommendations and Income have a positive impact on the WTP, while previous perceptions of organic wines have a lowering effect. More research needs to be undertaken to identify whether the WTP is indeed transformed into actual demand.

KEYWORDS – Wine, organic, tourism, Willingness to pay, demand, South Africa, awards, recommendations, certification, income, perceptions.

1. INTRODUCTION

The wine industry, which initially focused on wine production, has now begun to incorporate and expand through the integration the tourism industry (Williams, 2001). The original rationale for the development of wine routes and wine tourism was that of further stimulating the wine industry by creating a direct contact between the consumer and the producer. The growing popularity of wine tourism has created positive externalities for other related industries such as: accommodation, restauration and festival and events. Due

to its high potential for revenues many wine producing countries are trying to capture a share of the wine tourism market.

As a result, to obtain competitive advantage among destination eco-friendly attributes and claims are starting to play a key role in attracting wine tourists already shown by a few researchers (Getz and Brown, 2006, Orsolini and Boksberger, 2009, Holohan & Remaud, 2014).

The wine estates form an important component of the South African tourism industry. Some of the services provided include wine tasting, tours, food and beverage services and accommodation. Wine tourism has recently been earmarked as an important driver of tourism development and it can represent a major contributor of rural economic development. The potential of the development of organic wine tourism could be the deepening of relations between customers who can experience the different kind of wines and grapes and the small wineries who are interested in increasing their revenues from sales. (Hall, Sharples, Cambourne & Macionis, 2000)

2. WINE TOURISM DEFINITION AND CHARACTERISTICS

There are many definitions of wine tourism and what constitutes a wine tourist. Macionis 1998 and Hall 1996 describe wine tourism as visitation to vineyards, wineries, wine festivals and wine shows where the main motivations of the tourists come from wine tasting and coupled with the attributes associated to the specific wine region. This definition includes two important aspects of the reasons for wine tourism, namely: the actual wine tasting/consumption and the natural beauty associated with areas where wine is grown or a combination of both.

A broader definition is also recognized by Charters and Ali-Knight 2002 who indicate a few factors that contribute to the wine tourism experience. These characteristics include: lifestyle experiences, education, linkages to history and art, integration in the food culture, tasting and cellar door sales and winery tours. Additionally, Mitchell & Hall 2006 further distinguishes between wine tourism more broadly and winery visitation. The latter could be associated with both leisure and business tourism and involves wine tastings, encounter with wine producers, learning about the wine production and the purchasing of wine directly from the producer. In a broader definition, wine tourism goes beyond the actual winery visitation and impacts on other areas such as accommodation, food and beverage and a number of additional acti-

vities not necessarily directly associated with wine.

Research done by Olaru 2012 reveals three components that attempt to further define the concept of wine tourism. The first group includes specialized tourists such as connoisseurs, who enjoy wine tasting but are primarily interested in purchasing. Second group are the tourists that want to taste wine, learn about wine production, and seek a general education with respect to wine appreciation. Third, wine routes provide the tourists with beautiful journeys through picturesque regions where wine is cultivated.

Presently, the wine tourist's main motivation is to enjoy and experience wine and added services which can encompass: food, architecture, distinctive environments, employees and other visitors, as well as the wine region's appeal, the events and festivals in the region and the cultural heritage features (Hunter, 2012). Wine tourism offers a unique combination between the wine production and the general tourism service which can benefit local producers and development of regions. This is further recognized by Carlsen 2004 who shows that in many wine regions there has been a recognition that the benefits accruing from wine tourism go beyond the cellar door to nearly all areas of regional economies. It further shows that the receipts derived from wine tourism are captured by larger areas than first thought and that it can stimulate many business opportunities.

Research done by Mihailescu 2012 on the development of sparkling wine tourism in South Africa shows this potential. It revealed that the promotion and development of the wine tourism and particularly wine routes increase, not only the direct sales of wine but also contributed to increase in revenues accrued by accommodation, gastronomy, and general retail sector of the specific areas. These benefits can also spread into the surrounding urban areas and even to the countries of origin of the wine tourists Scherrer, Alonso & Sheridan 2009 show that the benefits of wine tourism can be further found in the local surrounding urban areas and can reach as far as the country of origin of wine tourists.

3. ORGANIC WINE AND TOURISM DEVELOPMENT

A special branch of wine tourism is one that concentrated on organic wine. As organic wine production increases, the number of wine tourists interested in ecological farming is growing generating additional income for the wine producers that follow such practices (Pomarici & Vecchio, 2013). Many

countries are experiencing strong competition as more wine tourism destinations are developing. As a result, in order to obtain competitive advantage among destination eco-friendly attributes and claims are starting to play a key role in attracting wine tourists as shown by a number of researchers (Getz and Brown, 2006, Orsolini and Boksberger, 2009, Holohan & Remaud, 2014).

There are many definitions of the what constitutes organic wine and the methods that need to be followed by producers to qualify as such. One major problem associated with the production of organic/ sustainable wines is the need for credibility from the part of the consumers. This is a result of the inability of the consumers to assess the sustainability friendliness of production. One way of reducing this information asymmetry from the part of the consumers is the usage of clear labels and other sources of information that should provide credible information related to the sustainable credentials of the wine (Leire and Thidell, 2005).

Another major problem associated with sustainable / organic wines is their higher production costs that can reach prices of between 25 and 30% above the costs of more conventionally produced wines (Sellers-Rubio & Nicolau-Gonzalbez, 2016). These production costs can be mitigated by the willingness of the consumer to pay a premium for the organic wines. Such premium can be justified by the potential benefits that sustainable production can bring to the consumer such as: wines that contains less health damaging ingredients and an increase sustainability of production. A positive willingness to pay for organic wine could act as a signal to producers in their quest to attract more tourists.

Research performed in this field reveals different outcomes regarding willingness to pay (WTP) for organic wines. A study by Bazoche et al. 2008 found in their study of French wine consumers, that wines produced in environmentally sustainable way were valued similarly to the any other type of wines. There is also evidence found by Loureiro 2003 of American consumers that were not willing to pay more for the environmentally friendly wine due to the perceived difference in quality. A different outcome is derived from research results on willingness to pay for sustainable Italian wines which indicate that consumers value sustainability attributes of wine positively (Pomarici & Vecchio, 2013). It further indicated that WTPs for the all included sustainable wines were significantly higher.

As research shows the WTP for wine and the extra purchase amount differs from country to country and needs to be carefully interpreted in order to properly inform the producers of the potential revenue increases.

4. PURPOSE OF THE STUDY

The research into willingness to pay for South African sustainable wines has two objectives:

1. The first objective was an enquiry into whether there is a willingness by tourists to purchase South African organic wine. A positive willingness to pay would act as a signal to the wine producers for resource allocation towards an increase in organic wine production.
2. The second objective was to explore whether the increase of organic wine production can also contribute to wine tourism development. Specifically, the research focused on measuring the potential Willingness to Pay (WTP) for organic wine revealed by wine tourists by using a contingency valuation method.

5. METHODOLOGY

The methodology used by the research is Contingency Valuation (CVM). In order to reveal the willingness to pay for a product or service CVM creates a hypothetical market situation for a given good or service. The method results in a quantification of the value consumers confer to products by associating that value with the sum of money they are willing to pay. (Kawagoe & Fukunaga, 2001; Sellers-Rubio & Nicolau-Gonzalbez, 2016).

The model run was a Binomial Multiple Logistic Regression that was needed in order to identify the different parameters that influenced the Willingness to Pay for South African Organic wines. The method is based on the following formula: $WTP_{ij} = \alpha + \beta_1 (P_j) + \beta_2 Y_j + \beta_3 \pi_j + F (Z_j)$ Where: WTP_{ij} i consumer's willingness to pay for j type of wine. Coefficients to be estimated, where P is the organic price premium; Y Income level; π quality attributes perceptions; Z Socio-demographic characteristics.

A qualitative pilot study was undertaken to identify the attributes perception that consumers attach when tasting organic wines. Over a period of 3 months, 215 tourists have been interviewed at a few selected locations such as hotels and vineyards in Western Cape. The demographics of the respondents were explored based on age, country of origin and level of income. The targeted population consisted of respondents of 18 years and older who are wine consumers. The familiarity with the product is a necessity in the contingency valuation methodology as indicated by Josiassen, Lukas & Whitwel

2008. The vineyards selected were Avondale, Lazanou Organic vineyards, and Reyneke Wines. These vineyards produce both organic as well as non-organic wines.

The model was run separately for both white and red wines. Two organic white wines were chosen: Earthbound Sauvignon Blanc and Longridge Chardonnay; and two red wines: Earthbound Cabernet Sauvignon and Org de Rac Cabernet Sauvignon. The willingness to pay for organic wine was compared with their similar 'traditionally produced' counterparts.

6. RESULTS

Table 1 below shows the descriptive profiles of the respondents. In terms of age the largest group were respondents between 30 to 40 years of age. A large percentage (60%) of the tourists came from South Africa, followed by UK and the Netherlands. One observation regarding the South African provenience is that not all tourists were local residents but some were South African expats leaving overseas.

Predictors which did not offer sufficient statistical significance were omitted from the valuation functions. The results for the organic red and white wines respectively, are documented below in *Tables 2 and 3*.

Table 2 shows that in the case of red organic wines, the WTP formula revealed that the respondents were positively influenced by taste followed by income and recommendations from friends, wine sommeliers or accommodation employees. Certification and awards also contribute to an increase in the willingness to pay although by a much smaller amount by comparison. The quality perception has a negative influence on the willingness to pay as shown in the table. This perception can have quite a high negative influence on the premium willingness to pay of the respondents.

In the case of the white organic wine the results show a similar pattern (see *Table 3*). The higher level of income seems to have a stronger influence on the amount of willingness to pay for the organic white wine. Also, interesting to note is that the perception of quality has a lower negative influence on the premium price to be paid. This could be explained by lower expectations that consumer might have in respect to white wine compared to red.

Table 1 – Descriptive socio-economic profiles of the respondents

Profile of the respondents (n = 215)		
Age		
20-30	39	18%
30-40	89	41%
40-50	55	26%
50 +	32	15%
Country of Origin		
South Africa	129	60%
UK	30	14%
Germany	22	9%
Netherlands	13	6%
Rest of the World	21	11%
Annual Household Income (euros)		
less than 10 000	11	5%
10 000 – 19 999	38	18%
20 000 – 29 999	54	25%
30 000 – 39 999	98	46%
More than 40 000	14	6%

*Table 2 – The fit of the WTP function for red organic wine
Dependent Variable WTP*

Variable	Coefficient	Standard Error	Z-Stat	p-value
Constant	-4.209	3.251	-1.77	0.01
Awards	0.235	0.191	2.058	0.04
Taste	2.513	2.284	1.1	0.017
Quality Perception	-1,710	1.271	-1,130	0.05
Certification	0.622	0.083	1.4	0.042
Recommendations	1.532	1.217	1.88	0.04
Income	1.121	1.983	1	0.05

Table 3 – The fit of the WTP function for white organic
Dependent variable WTP

Variable	Coefficient	Standard Error	Z-Stat	p-value
Constant	-3.921	2.311	-1.54	0.026
Awards	0.419	1.188	1.058	0.037
Taste	2.653	2.014	1.119	0.045
Quality Perception	-1,230	1.071	-1,429	0.039
Certification	0.301	0.015	1.735	0.049
Recommendations	1.345	1.071	1.96	0.034
Income	1.445	1.243	1.367	0.04

The data shown in the two tables can be summarized in two predictive WTP equations.

The WTP formula for red wine is as follows:

$$\text{WTP (red)} = - 4.209 + 0.235\text{Award} + 2.513\text{Taste} - 1.710\text{Perception} + 0.622\text{Cert.} + 1.532\text{Rec} + 1.121\text{Income} \quad (1)$$

In the case of the white wine the formula estimated was:

$$\text{WTP (white)} = - 3.921 + 0.419\text{Award} + 2.653\text{Taste} - 1.230\text{Perception} + 0.301\text{Cert.} + 1.345\text{Rec} + 1.445\text{Income} \quad (2)$$

The more interesting results were obtained when the median values of the coefficients from the sample data were inserted in the two formulas. It showed that the willingness to pay for white organic wine (Eur 2.57) is higher than for red wine (Eur 1.5).

A number of factors can explain the differences in the willingness for the price paid:

1. The possible lower expectations regarding the quality of white wines which had a lower contribution to a negative impact on the willingness to pay
2. The higher influence that the award conferred to the wines had on the value perception of the white wines.

7. CONCLUSION

The WTP results show that the respondents might be willing to pay a premium for South African organic wines. Most of the factors that were identified had a positive impact on the premium price that the consumers are willing to pay. A drawback in the willingness to pay is the perceived quality inferiority when compared with similar wines produced by more conventional means. This is due to the perception that organic wine tends to be inferior in quality and taste to the more conventional wine. Apart from income, taste and recommendations have the highest positive impacts on the WTP, which makes a case for an increase in marketing efforts by the wine producers. The positive impact on the WTP of the type and number of awards obtained by the wines is a quality signal to the consumer and has a mitigating effect on the negative perceptions regarding organic wine.

8. RESEARCH IMPLICATIONS AND LIMITATIONS

The results of the research represent a signal for the wine producers in their quest for attracting more visitors and in selling more wine products.

The actual quality of wines still remains a factor that the organic wine producers need to consider in order to ensure a positive appreciation of the sustainable produced wines. Quality awards and clear certification indicating the employment of eco-friendly methods of producing wine will give assurances to the consumer and positively influence the willingness to pay. Due to shortfalls current legislation, the quality of organic wines produced in South Africa differs greatly. A more clear and transparent set of rules will greatly contribute to improvement of the wines produced.

One important drawback of the WTP in revealing preferences and demand is that it only shows indication of purchase. Follow up research needs to be undertaken to reveal whether indicated premium WTP is indeed translated into actual demand.

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