

## OPPORTUNITIES FOR ORGANISING CLUSTERS IN THE BULGARIAN GRAPE-WINE SECTOR

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### *Abstract*

*Bulgaria's membership in the European Union defines the development of clusters as a key element of the National Strategy for increasing the competitiveness. The role of the clusters becomes especially important at this time because SME do not have the capacity to meet EU requirements and to survive without uniting themselves. Moreover the National Strategy for Vine-wine Sector in Bulgaria stipulates the transformation of the sector in a leading one and securing a decent place of Bulgarian wines on international market which may be succeed through cluster introduction in the sector. In the paper is presented an overview of the initiatives for cluster development in the Bulgarian grape-wine sector and are disclosed the structure and role of cluster participants.*

*Key words:* clusters, wine sector

### INTRODUCTION

Bulgaria's membership in the European Union defines the development of clusters as a key element of the National Strategy for increasing the competitiveness. One of the ways for sustainable development of the country and to improve the competitiveness of small and medium enterprises is the creation and maintenance of cluster formations. As their essential advantage is stressed that through their work is mobilized enormous economic potential, the managers from the public and private sector build more productive ways of cooperation which help to address the specific barriers to business and reach higher productivity, which affects the national economy. Their formation as networks of competing and cooperating companies and organizations creates conditions for realization of specialized and unique advantages of certain regional wines, which can be promoted through targeted priority support and assistance from the state. In practice, through the cluster is performed regional (geographic connected) concentration of similar or complementary interrelated companies with active channels for business relationships, communication and dialogue, which share a specialized infrastructure, labor

markets and services and are facing common opportunities for development and threats. Their creation is possible because of the existence of systematic links between companies and they are referred to primary or concomitant production, technology, natural resources, staff qualifications and distribution channels.

The issue of clusters is becoming more urgent by the fact that small companies lack the capacity to meet European requirements and can not survive if they do not unite. Cluster secures their markets and updates technology and machinery. Moreover, teamwork and partnership inevitably lead to increased product quality as negative assessments of a product affect the image of the entire cluster. Specificities of the wine sector also contribute to the implementation of the cluster approach. The full cycle in the supply chain of raw materials, production of grapes, wine, wine distribution and related travel and other related activities, includes a large number of business units of wine and other related sectors that add value at every stage, until a marketing of a high-value. The Bulgarian wine sector challenges remain on how to structure and organize in order to overcome the negative trends in production and trade in the sector. At the present stage of

development the Bulgarian wine sector is in dire need of investment to boost its competitive ability in international markets. Construction of wine clusters is a rational possibility for concentration, integration and increased investment in the sector. The essential advantages are reflected in the concentration of considerable economic resources of the private and public sectors, overcoming barriers to business, improving interconnections between suppliers and customers, increase competitiveness.

The vision for the development of the wine sector in our country (as defined in the National Strategy) [4] is transformed from one side in a leading sector of the national economy, on the other – in securing an authentic place of Bulgaria in international wine markets and mainly in the common European market.

The grounds for such future of the sector are associated with the traditions of the sector and its great potential to fit in a sector model delivering a product which meets the challenges of the 21st century. In practice this means the wine to meet the future requirements for environmental, healthy and safe product.

On the basis of strategic options for development of the sector, the cluster associated with grape-wine sector is envisaged to be built as a group of companies, suppliers of services, companies from related industries, tourism businesses and related institutions (government, business organizations, academia, financial institutions, etc.).

## **MATERIALS AND METHODS**

Findings and conclusions in the paper are based on the results of university research project [2] and information from documents of National Statistical Institute. The overview of the current status of cluster implementation in the vine-wine sector in Bulgaria is made on the basis of information from the annual reports of National Vine-Wine Chamber[1], Regional Vine-Wine Chamber “Thrakia”, National Tourism Agency.

## **RESULTS AND DISCUSSIONS**

The practice of building clusters in Bulgaria is still in early development. The arguments for the creation of clusters, including prioritization of regional economic policy, are associated with a number of their real and potential advantages. The creation of clusters in the national economy now is in the initial phase. The initiative belongs to business (private companies), and the state can assist them indirectly.

In the sector of Grape and Wine in recent years the emphasis is on building regional wine clusters based primarily on the development of local tourism in the involved areas. In 2006 Program PHARE, the Tourism Agency in cooperation with National Grape and Wine Chamber and other agencies launched a project to create a grape-wine cluster “The Bulgarian Roads of Wine” with 9 routes representing a functioning model for rural regions development through tourist activities related to agribusiness. Focus on wine tourism secures actively structuring of the organization and development of tourist resources within the related micro-regions, while strong administrative and marketing guidelines act as a driver for business in the wine sector. Offering packages for special range of tourists provide opportunities for economic growth of individual enterprises in the wine sector, local communities and wine regions as a whole.

In 2010 the Ministry of Economy, Energy and Tourism approved a package of documents for a procedure for the selection of projects under OP "Competitiveness of the Bulgarian Economy 2007-2013" under Priority Axis 2 "Increasing efficiency of enterprises and promoting supportive business environment" for the measure "Supporting the development of clusters in Bulgaria." [3]

Active actions of Plovdiv Regional Grape and Wine Chamber lead to the registration of three clusters - "The Road of Dionysus", "The Way of Orpheus" and "Ancient Thracian wine road" aimed at supporting economic and social development of the 31 municipalities of the South Central Region.

The first cluster - Road of Dionysus Cluster

strives to deliver a functioning model for rural and region development through tourism and touristic related business activities as a supportive element to the national objectives to create, "The Bulgarian Roads of Wine". Additional subprogram for the establishment of 1333 small wineries will support the creation of small wineries, hotels and restaurants, wellness and health spas, sports attractions and local festivals within the South-Central Region of Bulgaria. These organised touristic routes, together with the supportive subprogram "1333 Small Bulgarian Wineries" have been created to assist the economic and social development of both urban and rural areas in Bulgaria. Responding directly to local problems of unemployment, lack of sustainable business opportunities and to assist grape cultivators overcome the rising economic crisis related to the sale of wine grapes in the Bulgarian markets, The Road of Dionysus together with local governments, universities, local and foreign investors, governmental agencies and European Associations will actively promote these programs to introduce developed business models and will provide the project cycle management needed for all stages of cluster growth.

In regards to the Bulgarian Roads of Wine, the primary outputs provided by The Road of Dionysus Cluster are full project cycle management and empowering activities directed to the continual growth and expansion within all areas of activity. Initiating program outputs are as follows:

- Micro-region analysis for touristic resource development;
- Branding and marketing campaigns; individualised and global;
- Business empowerment through supportive subprograms and product promotions;
- Human resource development through training and education programs;
- Applied standards related to product quality, customer service, employee packaging and health and safety;
- Wine route unification through global administration.

The Route "Dionysus" cluster starts from the junction of highway "Trakia" (International

road E 80) in village Kalugerovo, passes through the area of Municipalities: Pazardzhik, Krichim, Perushtitsa, Rodopi, Kuklen, Asenovgrad, Kardzhali - Perperikon and Haskovski Mineralni Bani and again flows into the highway "Trakia". The length of the route is 220 km.

The objectives of the second cluster "Way of Orpheus" are related to:

- Creation of jobs and revival of the economy in the region;
- Development of food industry;
- Growing essential oil crops and production of essential oils, herbs, mushrooms, etc.;
- Hotel and SPA, tourism - eco, wine, religious, cultural and historical;
- Creating infrastructure and system of international tourist destination, which will be registered in the European Union and in the world tourist agencies,
- Increase of the overall welfare of the population;
- Disclosure and exhibition of cultural heritage, with which the region is richly endowed as well as using the potential of population engaged in studying the history of the area.

It includes municipalities Rodopi, Asenovgrad, Banite, Rudozem, Smolyan, Chepelare, Lucky and Kuklen. The route of the "Way of Orpheus" starts from Plovdiv passes through Kuklen municipality. Later passes Bachkovo villate towards the village Yugovo in municipality Lucky. There are three branches for summer and winter routes. There are 9 wineries on this territory.

Each of the municipalities has developed touristic routes. For example, routes for sports, rural, eco and cultural tourism in the municipality Banite include: thermal spa complex and specialized spa-complex Banite; area "Devil's Bridge" with hut; holiday house in Glogino; pond and dam in Davidkovo. Smolyan Municipality offers: hiking trails - hiking and cave tourism, Smolyan Lakes, village Shiroka Laka, villages Gela and Stoikite; rock climbing, mountain biking; cave "Uhlovitsa"; Observatory "Rozhen" and museums. Plovdiv Municipality is included in the visit: Old Town, the Ancient Stadium, the Ancient Theatre; Museums: Archaeological,

Ethnographic, Historical, Natural; churches: Orthodox, Catholic, Armenian, synagogues; different cultural events and more.

The third cluster "Ancient Thracian wine road" includes ten municipalities: Lesichevo, Panagyurishte, Strelcha, Hisar, Brezovo, Rakovsky, Karlovo, Kaloyanovo, Chirpan and Bratia Daskalovi. The route starts from the junction of highway "Trakia" / international road E80 to / with Kalugerovo passes through Panagyurishte, Strelcha village, Krasново village and Krasnovski mineralni bani, Starosel village, Panicheri village, the towns of Hissar and Bania/ Karlovo municipality/ goes to village Zelenikovo / Brezovo municipality/ and again flows into the highway "Trakia" before the Chirpan. The length of the route is 166 km.

The territory covered by the cluster is in the central part of Bulgaria. It includes nine wineries with a maximum capacity of 25 million bottles and potentially could be added 5 more (two in construction). In the area of the route there are seven settlements with well renowned spas, with built large tourist base - more than 50 hotels, spa sanatorium and rest homes, as well as natural and cultural heritage resources for further construction of not less than 15-20 new hotels.

The project aims are:

- Reconciliation and placing business fundamentals of exceptional cultural heritage with people livelihoods and creating new modern and interesting job opportunities;
- Creating of infrastructure and structure of tourist destinations, which will be registered in the European Union and in the world's travel agencies;
- Creation of jobs and revival of the economy in the region; Restructuring of agriculture and food industry;
- Development of Vine and Wine, fruit and canning industry;
- Growing essential oil crops and producing of rose and other essential oils, etc.;
- Hospitality industry development- year round holidays in places with mild climate, balneology and tourism;
- Increasing the welfare of the population.

In this cluster each municipality offers different possibilities of combining wine

tourism with other types of tourism. For example, the municipality of Hissar offers as options to visit: Starosel Thracian tomb; Panicheri -Krastevich - huts on the mountain; StaroZhelezare - spa tourism; Hissar – Krasново, Piasachnik dam; hunting and fishing tourism; routes for wine tourism: Hissar, Starosel.

Directly related and largely supporting the fulfillment of cluster formations in the area, is the project of the Regional Grape and Wine Chamber - "Establishment of small wineries." It aims to build wineries from owners of vineyards, a group of neighbors on the location of their vine plantations; from an association of owners of vineyards or by long-term tenants of properties with size between 20 and 100 acres. Are elaborated five different complex solutions for small wineries. The role of the regional viticulture and wine chamber is to support the selection of consulting company for training and project management in applying the Structural Funds. Successful implementation of the project depends on the development and participation of the Regional Grape and Wine Chamber in the activity of the "Center for regional partnership" in terms of recovery of 50% of the investments made under the Operational Program "Rural Development" - axis "Leader" and measures: "Help creation and development of non-agricultural business "," Preservation and enhancement of cultural and natural heritage of rural areas "," Encouragement of tourism activities "," Implementation of local development strategies "and others.

In early 2013, seven wine producers established a cluster "Danube wine" as a nonprofit organization. The cluster works in cooperation with similar Bulgarian and foreign organizations, local authorities and administration, representatives of the wine business and others. The objectives of the cluster are to achieve a sustainable and competitive market of wine from wineries in Northern Bulgaria, and to optimize connections and relationships between partners in the cluster through a single database.

Based on the above mentioned it can be concluded that the key players in the structure

of the 4 established clusters are four main types of participants: vineyards; producers of wine, travel agencies and traders. This creates a variety of economic relations and interests of the different stakeholders in the wine business. They are united on the basis of trade in raw materials (grapes) and the final product and its implementation (wine and products for wine). Wine growers can sell their wine directly to consumers of grapes, or use intermediaries - wine merchants, travel agencies. Most wine growers have developed vertical strategies related to the construction of own vineyards. The role of traders and tour agents does not end only to mediate between winegrowers and winemakers, but they can also order production of its own wines, improve marketing strategy for the realization of wine. These relationships should complement the value of the wine product.

Peripheral organizations located outside the central value chain in the sector are actors that interact with winegrowers and winemakers in the supply of resources, the supply of scientific knowledge and technology, logistics companies. Their interactions with key stakeholders define the boundaries of the cluster and contribute to the efficient functioning of the entire system. They carry out a wide range of activities in order to supply the viticulture sector from viticulture vines, fertilizers, pesticides, retaining structures, devices and other activities and supplies for wine such as equipment, materials, public relations and others. For the relations in the cluster is important the nearness to winegrowers and winemakers. Part of suppliers for the sector in the country are foreign companies and corporations (especially in the delivery of equipment and machinery, fertilizers and pesticides) that have relocated place throughout the system. The role of suppliers is not only in the provision of materials, as well as providing consultation and system knowledge

The participation of national organizations in the wine cluster is aimed at the realization of a rational policy for the sector. Ministry of Agriculture and Food (MAF) provides rules to stabilize production, contribute to the protection of public interest, secures control

and financial support. MAF implements the policy of the common organization of the market in the EU. The Executive Agency on Vine and Wine (EAVW) observes the realization of state policy in the sector and gives planting rights, uprooting and replanting. The National Grape and Wine Chamber protects the interests of the participating organizations in the sector, controls the origin, quality and authenticity of the products. The Chamber implements the decisions of the International Organization of Vine and Wine (OIV), aimed at the creation of standards and development of the international wine business. The participation of the national organizations have a stabilizing effect on the cluster, but the transformation of policy sector in recent years is a threat to weaker participants.

The supply of scientific and technological resources is carried out by the National Centre for Agrarian Sciences, the National Service for Agricultural Extension, private consulting organizations. Leading role in scientific information support for the wine sector has the Institute of Grape and Wine in the city of Pleven, the Complex Experimental Stations of Viticulture and Enology in Varna and Pomorie and others. They are able to develop technological and organizational solutions to improve the vineyards, wine quality, economics and management through seminars, networking events, providing publications. The training of specialists for work in the sector is concentrated in the Agricultural University of Plovdiv, in the secondary schools of agriculture, different research centers. Government has a major role in promoting technology transfer and provision of educational services for the sector. Important role for the introduction of the achievements and innovations in the sector have the annual exhibitions Vinaria and Vinexpo.

Specific place occupy the logistics organizations relevant to all participants in the cluster and performing the movements of material flows in the sector.

## CONCLUSIONS

Based on the review of the implementation of clusters in the grape-wine sector can be drawn the following conclusions:

- Clusters are formed mainly by a desire to use their advantages in terms of reduced transaction costs and increased efficiency, the creation of specialized institutions, higher reputation and more. They are characterized by a diversity of elements and participants;
- The participants in them are bound by the chain of value creation;
- Restriction conditions to their development is the lack of leadership, the low level of cooperation and insufficient trust between companies;
- The clusters in the grape-wine sector benefit an organizational support from local authorities, which assist them to overcome bureaucratic difficulties;
- Among the initiators for their establishment are representatives of public authorities and non-governmental and professional branch organizations, which retain their partnership;
- Weakness are insufficient European funds that help to finance the initial phase of cluster creation. Financial resources for implementation of joint projects are limited, there is a lack of interest for joint actions.

Prerequisite for the development of the cluster is the intensity of relations between participants in the cluster and their ability to deal collectively with emerging threats and limitations of the environment. Significant effect of participation in cluster companies can be sought in the improvement of their financial condition as a result of sound economic relations in the sector, in the creation of mechanisms for coordination (cooperation) that improve the access to international financial institutions and programs.

This gives greater freedom to farmers and business entities to think innovatively, to adopt investment decisions and to realize more investments. All this underlines the need for development of cluster approach for integration, for achievement of a modern and competitive wine sector.

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