# THE MARKETING MYOPIA OF SERBIAN RAKIJA DISTILLERS

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ARTICLE INFO	ABSTRACT
Original Article	The aim of this explanatory research is to contribute to the
Received: 20 June 2023	knowledge of the marketing of spirits through research into Serbian rakija producers, with an emphasis on the marketing
Accepted: 10 August 2023	of their alcoholic beverages. In order to demonstrate that marketing results in higher product prices and revenues, three hypotheses related to the elements of the marketing mix will
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UDC 339.138:[663.551.5:663.2	be investigated. In this quantitative survey, the questionnaire was distributed online to Serbian distillers ( $N = 104$ ):
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Keywords:	<ul> <li>hence, the sample was intentional and predetermined. The key finding is that only 4% of distillers have fully mastered</li> </ul>
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Keywords: marketing myopia, marketing mix, rakija, distillers, quantitative survey JEL: M31, Q13, C12	hence, the sample was intentional and predetermined. The key finding is that only 4% of distillers have fully mastered marketing in the sense that they use all four elements of the marketing mix in their businesses; they also achieved significantly higher prices. It seems that it is not clear to Serbian rakija distillers exactly who they are targeting with their marketing and who will buy their products.

#### Introduction

The aim of this study is to contribute to the marketing knowledge of spirits through research into Serbian rakija producers, with an emphasis on the marketing of these beverages. Despite accounting for more than half of the world's alcohol use, spirits are much less studied than most other alcoholic beverages (Cockx et al., 2021). To the best of our knowledge, the marketing of Serbian rakija producers has not been investigated to date, and with this research the authors are willing to closing that gap. The findings of this research will contribute to scarce academic knowledge in the field of marketing of strong alcoholic beverages. The authors hope that this research will allow for a certain insight into how to improve the marketing position of Serbian rakija producers, which is of significant importance after Serbian plum brandy šljivovica was included on the UNESCO intangible heritage list (UNESCO, 2022).

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Many cultures have an extensive history of producing and using alcoholic drinks (McGovern, 2009), and in this Serbia is no exception. The traditional national Serbian distilled spirit is rakija, especially šljivovica (a.k.a. slivovitz), a brandy-like alcoholic beverage (Nikićević, 2021). As a cultural icon, Serbian rakija is mentioned much more often in folk songs than in business plans. In one of a few academic papers that covers the areas of rakija business, Adžić (2023) notices an almost critical ignorance and misunderstanding of business processes among rakija producers that can make their business with spirits successful.

## Marketing practices of the distilled spirits industry

The relevant Ministry (Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia, 2020) estimates that 50 to 60 million liters of rakija are distilled in Serbia. 600 such distilleries are currently registered (Politika Online, 2019), yet is considered that as much as 80% of the market is actually illegal (Biznis & Finansije, 2021), meaning that manufacturers do not pay alcohol-related taxes and excise charges. Further, despite the hundreds of registered distilleries, only a small number of brands are available on the market. For a Serbian distiller, branding is just a legal issue and usually ends with the registration of the product name. Although a good name is an excellent way to successfully promote a product (Shaw, 2002), this is not the case in Serbia as the name usually contains only the manufacturer's last name. To be successful in the present era, marketers need to adopt the best marketing practices (Lewnes & Keller, 2019). However, investing in marketing to Serbian producers is either expensive or they believe that quality can sell the product, even if it is sold in used plastic mineral water bottles. Today's consumers rely on brand names to locate goods that satisfy their preferences (Buccafusco et al., 2021). Brands provide assurance of provenance and quality, as well as a guarantee of satisfaction (Gordon, 2003). Therefore, good branding is key to the long-term prosperity of any business.

The cause of poor-quality rakijas is the unwillingness of a large number of producers to apply modern production methods during the distillation process (Adžić, 2023). Rakija is not a profitable industry in Serbia, despite the presence of 600 recognized distilleries and tens of thousands of pot stills operated by small-scale producers. Historically, there has never been a "golden" era in the rakija industry (Vacić, 2016). Despite Serbia being third worldwide in terms of the area of harvested plums, Serbian exports of plums and plum products are not significant (Matković, 2015). Therefore, the areas under harvested plums are decreasing in Serbia (Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia, 2019).

Marketing myopia is the inability to grasp the "big picture" of what customers truly want in favor of narrowly focusing on the sale of goods and services (Levitt, 2004). Levitt's core concept is that you are not selling products but buying customers. It is critical for all businesspeople to recognize that industry is a customer satisfying process, not a goods-producing process. There are different ways of producing rakija in Serbia, including those who state, "I will work the way my grandfather did". If the

"grandfather's way" produced a superior rakija, this could be considered a plus, if the focus is added value to the consumer experience. Unfortunately, in the "grandfather's way" the focus is a cheaper way of producing rakija with no consideration of the consumer experience, which perfectly fits into the Levitt's view of marketing myopia.

The most expensive bottles often contain rakija of the most dubious quality to taste (Adžić, 2021). In many cases, the packaging is more expensive than the basic product, but who buys drinks purely because of the bottle? Consumers are not attracted to either the contents or packing alone; rather, establishing the proper mix of both content and packaging is a key starting point to any meaningful attempt at marketing (Gordon, 2003). Remy Martin Louis XIII cognac is a perfect example of such a product - it is 40 to 100 years old, so its price can be over 2,000 euros for a standard bottle (Suresh, 2011; Pantić et al., 2022). Such drinks also require expensive packaging. Luxury drinks in the spirits industry are marketed by companies not only for profit, but also for prestige (Paschen et al., 2016). Earnings are made on the basic range, where the prices of the associated packaging and finished products are more moderate but the profit is much greater because the basic product is sold in much greater volumes than the exclusive lines.

According to Adžić (2021), the greatest tragedy that befell rakija and today's underdeveloped rakija market was the poor attitude on the part of the first serious private producers of rakija that emerged on the market with the collapse of the socialist system. Their attitude was that rakija is better than Scotch single malt whisky and French cognac. Because the correctness of that attitude was never considered, the associated thinking conditioned the high price of rakija, not only above the price of single malt, which is itself a premium product that can carry a premium price (Sjostrom et al., 2016), but at a price point that was clearly beyond the purchasing power of the vast majority of domestic consumers. Those who said that their product was superior were not too worried because they were convinced that their rakijas would conquer the world strong alcoholic beverage market. However, their businesses failed not only in terms of exports but also in the domestic market, with one of the lessons being that one should not attempt to conquer the world market until one has beaten the domestic ones. Unfortunately, most manufacturers who followed in the footsteps of their failing forefathers accepted the slogan of rakija's superiority and thus learnt nothing from previous failures. Even today, distilleries are closed en masse, and new ones fail regularly, supporting Pitt's (2017) assertion that the price-quality relationship in the alcoholic beverage business is nonlinear. With traditional slow double-distillation, it is indeed possible to obtain a complex drink of high quality; however, for the consumer, complexity did not correlate with a willingness to pay more for the product (Wang & Spence, 2019).

The best-selling brand of spirits in Serbia is not rakija, but a brand of domestic brandy similar to cognac called vinjak, as produced by the former state-owned company Rubin, which has survived the transition period. Rubin's brandy has annual sales of 3 million liters (Cafebarrestoran, 2021). When a Serb does not drink beer or wine, their options are rakija or vinjak. Even the cheapest whiskey on the market is more than twice as expensive as vinjak. Vinjak and rakija can be substituted for each other; if http://ea.bg.ac.rs

you do not have one, you can easily replace it with the other. They are drunk from the same glass, both are used as an aperitif, before meals. Official statistics suggest that the average retail price of vinjak is 937.35 dinars, whilst the average price of rakija in Serbian retail stores is 667.57 dinars (Statistical Office of the Republic of Serbia, 2022). The store shelves are dominated by industrial rakija, which is made from ethanol with artificial flavors, not fruit. Quality fruit rakijas made according to strict oenological techniques must be cost-effective and of a similar pricing to vinjak to be sold in stores. The price should be approximately 1,000 dinars on average, which would represent an equilibrium price. This, according to Adžić (2021), is both the reference price and the psychological limit for Serbian customers (with an exchange rate of around 117 dinars per euro, that would be around 8.5 euros).

The two channels are commonly referred to as the on- and off-premises trades in the alcoholic beverages industry. The on-premises trade relates to consumption in pubs, hotels, and restaurants, whereas off-premises trade refers to retail shops such as supermarkets and other stores (Gordon, 2003). Small quantities of product are the biggest problem for rakija producers in terms of entering the market for retail stores and cafes. The biggest problem for small producers is if they perform alone. Distribution is a step that many cannot skip - it is impossible for small ones, and the processes of association due to joint appearance on the market does not take place (Adžić, 2021). The leveraging of individual, shared resources, and customer focus are the dimensions of a successful entrepreneurial distiller (Chaudhury et al., 2014). In a consolidated market for alcoholic beverages dominated by large players, with the development of a niche strategy (Barnes, 2002), Serbian spirits producers might be able to present a strong identity at both the wholesale and retail levels. Serbian rakija producers should focus their niche marketing efforts on young men aged 21-30, as this is the demographic that spends the most on alcoholic beverages (Andry, 2021), but they should also consider other market trends, such as rising middle-class alcohol consumption and increased purchasing by females (Esser & Jernigan, 2015; Pingali, 2011).

The market for alcoholic beverages is a mature (Wilcox et al., 2012) and consolidated market (Barnes, 2002) and in such markets advertising should be intensely competitive. Nevertheless, there are restrictions on the types of media that may be used to advertise alcoholic beverages and care must be taken to adhere to both the associated legal framework and any voluntary rules of behavior (Gordon, 2003). However, since 1971 in the United States, total expenditures on alcoholic beverage advertising have surged by over 400% (Wilcox et al., 2015). One study (Woodside, 1999) reveals that a 0.15% increase in absolute alcohol consumption was associated with a 1% share increase in hard liquor advertising, whilst a 0.25% decrease in absolute alcohol consumption was associated with a 1% share increase in beer advertising. Although "surrogate advertising" (advertising that intensively multiplies the image of one product to promote another product of the same brand) is possible in a market where alcohol advertising is prohibited (Sharma & Chander, 2007), it is possible to communicate with the market even without TV spots, newspaper ads, or billboards. The options are

various, with the internet, YouTube, and e-commerce, to name but a few (Thach, 2009). Social networks are the most commonly used communication channels in marketing nowadays (Atkinson et al., 2021; Ilić et al., 2022; Lockshin & Corsi, 2012; Nicholls, 2012). Finally, word-of-mouth (WOM), sponsorships, and events. WOM remains the most effective form of promotion, and the recommendation of an acquaintance or influencer is a top marketing weapon (Kaikati & Kaikati, 2004).

#### Materials and methods

This quantitative research aims to present the state and prospects of marketing in the Serbian spirit industry. The research was conducted during the period from October 18, 2021, to October 31, 2021, via Facebook, in two groups of 50,000 members that brought together hobbyists and professionals involved in the distillation of rakija in Serbia, as well as those who are interested in this matter. The sample was intentional and consisted exclusively of rakija distillers. Google Forms was used to create the questionnaire. To the best of the authors' knowledge, this is the first research conducted on the topic of distillery marketing in Serbia. The answers, which were analyzed using IBM's SPSS for Windows v. 25, provided 104 subjects (N = 104). Taking into account the sample size and population size, and according to the formulas to calculate sample size (Israel, 2013; Krejcie & Morgan, 1970), the level of precision or sampling error is 9.6% if a standard 95% confidence or risk level is chosen (within two standard deviations of the mean). The results obtained are considered reliable because the sample is representative at a 95% confidence level with a sampling error of less than 10%.

In the literature review, it was demonstrated that businesses in the alcoholic industry that use marketing have proved to be superior to those that do not in general. Therefore, we wanted to test this claim on the specific case of the rakija market in Serbia. We will test three hypotheses in the research section to demonstrate that marketing results in higher product pricing and better revenues, where these hypotheses address the elements of the marketing mix:

- H1. The more science is applied in the production of rakija, the higher the prices will be.
- H2. If promotional activities form part of the marketing mix for rakija, the prices will be higher.
- H3. If rakija were sold in shops and bars, it would have higher prices.

## Results

The survey was completed by 104 distillers, of which as many as 103 were men. Rakija is made by individuals of diverse ages, levels of education, and occupation (Figure 1). Of all the respondents, only eight had registered a distillery and can be considered to professionally distill rakija. Respondents annually produce 106,940 liters of rakija and sell 43,450 liters. The average price of rakija is 950.78 dinars. The variables of rakija

production and rakija sales are continuous. The continuous variable average selling price of rakija is a dependent variable, and we will test the answers to multiple choice questions on the use of oenological agents, adding sugar to fruit distillate, diluting fruit distillate with water, and conducting anaerobic fermentation, as well as dichotomous questions about the implementation of promotional activities and distribution to onand off- premises locations.



Figure 1. Descriptive Statistics

To determine which statistical techniques to use, the first step was to assess the normality of the dependent variable, the average selling price of rakija. We found a significant deviation in the distribution of the observed set from the normal curve (Figure 2). The result of the Kolmogorov-Smirnov normality, Sig. = 0.0. is also lower than the minimum required 0.05 to confirm the normal distribution. As the assumption of normality has not been confirmed, and due to our intention to use parametric tests, which are much more powerful than non-parametric ones, we attempted to intervene with the observed set (Pallant, 2016, p. 64). We first modified the variable by removing atypical points, four points in our case. The Sig. value was still 0. The next theoretical possibility is to transform variable with mathematical functions (Pallant, 2016, p. 92). Based on the appearance of the curve on the histogram (Figure 2), we conclude that it bears the most similarity to a quadratic function. After deriving the square root of all elements of the set of dependent variables and estimating the normality of the new curve, the Sig. value was found to have remained unchanged. The set of a dependent variable cannot be arranged to have a normal distribution. In most medium and large sample applications, parametric techniques give acceptable p values (Green & Salkind, 2013, p. 171). As the volume of our sample is far greater than 30, which is the size of the average sample, we decided to apply parametric techniques. However, in the manner of any cautious analyst, we also opted for nonparametric analyses because they do not require a normal distribution in the dependent continuous variable.



Figure 2. Histogram and distribution curve of the variable "average selling price of rakija"

The influence of the method of preparation of the fruit distillate during rakija distillation on selling price was examined by one-factor analysis of variance. Methods of preparation can be grouped into four categories: (1) whether oenological agents are used (yes, some according to my choice, no), (2) whether sugar is added to the fruit ferment (yes, sometimes, no), (3) whether the fruit ferment is diluted with water (yes, sometimes, no) and (4) whether anaerobic fermentation is applied (yes, with occasional stirring, no). ANOVA tests with a significance level of 0.05 revealed no statistically significant differences for the oenological agents, F(2, 42) = 2.368, p = 0.106, for sugar use, F(2, 42) = 0.847, p = 0.436, for water addition, F(2, 42) = 2.496, p = 0.095, or for anaerobic fermentation, F(2, 42) = 0.138, p = 0.871.

The Kruskal-Wallis H test is a nonparametric alternative to one-factor analysis of variance. This test did not show a statistically significant difference in the level of sales prices for the sugar group, H(2, n = 45) = 1.820, p = 0.403, the water group, H(2, n = 45) = 2.674, p = 0.263, or for the fermentation group, H(2, n = 45) = 1.191, p = 0.551; however, with a significance level of 0.05, a statistically significant difference was found for the oenological group, H(2, n = 45) = 7.563, p = 0.023. The median price of those who use all oenological agents (n = 12) is 900 dinars, while the median of those who do not use them (n = 11) is 600 dinars. Those who use oenological agents by choice (n = 22) have a median of 712.50 dinars.

To increase the sensitivity of the tests, we narrowed these groups down to two factors. For oenological agents, we have divided distillers into those that do not use oenological agents at all (NO) and those that use some (YES); for sugar, those that do not use sugar at all (NO) and others (YES); as well as for water and for anaerobic fermentation, we have those who use these completely (YES) and others (NO). T-tests conducted with independent samples did not reveal statistically significant differences for sugar

(t(43) = -1.317, p = 0.195), for water (t(43) = 0.376, p = 0.709), and for fermentation (t(43) = 0.113, p = 0.911). However, oenology recorded a statistically significant result. With a significance level of 0.01, t(41,173) = 2.899, p = 0.006, there is a significant difference between the group of those who use oenological agents (M = 1048, 68, SD = 745, 430) and the group of those who do not use them at all (M = 648, 18, SD = 173, 598). According to Cohen's guidelines, we estimate the magnitude of this difference to be large  $(\eta 2 = 0.16)$ . In this sample, advocates of oenology achieved an average selling price of over 1,049 dinars, while opponents of oenology achieved an average price of only 648 dinars.

The Mann-Whitney U test is a nonparametric alternative to the t-test of independent samples. Similar to the parametric t-test, no statistically significant differences were found in the three groups, i.e., sugar, U = 191, Z = -1.295, p = 0.195, water, U = 250.5, Z = -0.034, p = 0.973, and open fermentation, U = 196.5, Z = -0.506, p = 0.613. In the fourth group, the results of the nonparametric test of the group of those who use oenological agents (Md = 800, n = 34) and the group of those who do not use them (Md = 600, n = 11) correspond to the results of the parametric test. The statistical difference between these groups was confirmed, U = 103, Z = -2.233, p = 0.026. According to Cohen, the magnitude of the influence is in a zone of medium influence, r = 0.33.

According to the results obtained, the H1 hypothesis about the influence of the method of fruit ferment preparation on the realized selling price can be partially accepted. Both parametric and nonparametric techniques have positively tested the claim that the use of oenological agents, which are the most important part of the application of science in the production process, increases the selling price on the market.

We used the parametric t-test to evaluate the hypothesis that investing in promotion results in higher sales prices. This test found no statistically significant difference, t(43) = 1.449, p = 0.141, between those who promote rakija (M = 1329.17, SD = 644.674) and those who believe that promotion is unnecessary (M = 892.56, SD=666.928). However, the Mann-Whitney U test found a significant difference in the level of sales prices between those who promote their products (Md = 1150, n = 6) and those who do not (Md = 700, n = 39), U = 52, z = -2.185, p = 0.029. According to the Cohen criteria, the magnitude of the difference is r = 0.32, which is regarded the average difference. As the number of distillers that make promotional activities is very small and there are only six of them, such a small sample tolerates non-parametric techniques better. Based on this fact and the results obtained, the H2 hypothesis that higher sales prices can be achieved by conducting promotional activities can be accepted.

The H3 hypothesis was confirmed by both parametric and nonparametric techniques. Namely, the group of those who won shelves in stores (n = 5) and who achieve an average selling price of 1,575 dinars (SD = 557.898) differs significantly from the group of those who do not sell their products through retail (n = 40) and which have a significantly lower selling price of 872.75 dinars (SD = 651.125). This difference was also confirmed by parametric t-test, t(43) = 2.302, p = 0.026 and nonparametric Mann-

Whitney U test, U = 28, z = -2.618, p = 0.009. The magnitude of the difference,  $\eta 2 = 0.11$ , is moderate according to Cohen's guidelines. Also, the same tests, parametric, t(43) = 2.838, p = 0.007 and nonparametric, U = 92.5, z = -2.512, p = 0.012, showed a significant statistical difference between those who placed their product in bars and restaurants (n = 11) and those who did not (n = 34). The first group achieved a significantly higher average price than the second group, i.e., 1,415 dinars (SD = 991.229) and 800.29 dinars (SD = 460.444), respectively. The impact of the difference so determined, according to Cohen's guidelines, is large,  $\eta 2 = 0.16$ . These results positively tested and allowed the acceptance of the hypothesis that rakija found in different places of distribution compared to non-found will have a higher price.

#### Discussions

The most important results are those relating to the application of science in the production of rakija, which implies the use of oenological agents. The employment of yeast, enzymes, and other aids intended specifically for the ultimate distillation of alcoholic drinks results in a considerably higher-quality final product and aroma-rich rakija. Anaerobic fermentation means that the barrels are closed and not opened until the fermentation is complete in order to retain the aroma in the ferment. The addition of water increases the acidity of the ferment and lowers the quality of the rakija due to the fact that many distillers do not use - or do not know how to use - modern distillation pot stills. Adding sugar deceives consumers because one liter of rakija is produced from one kilo of sugar. Sugar is cheaper than fruit, but it has no aroma, so sugar can only be detected in the laboratory. The law on alcoholic drinks prohibits the addition of sugar. About 23% of distillers oppose the use of oenological agents, 64% do not perform any anaerobic fermentation of the ferment, 43% constantly or occasionally use sugar, and 45% constantly or sometimes put water in the ferment. Only 27 out of 104 distillers produce rakija according to modern and scientifically accepted processes (Figure 3). The group that uses oenological agents (M = 1049, SD = 745) and the group that does not (M = 648, SD = 176) differ significantly, with a reliability of greater than 99%. The magnitude of the impact is large. Rakijas produced by proponents of new trends and science in production will undoubtedly sell at a higher price than those produced by others. Oenologists achieved an average selling price of 1,000 dinars, while opponents of oenology with an attitude of "I will work the way my grandfather did" achieved an average price of only 600 dinars. Consumers are well aware of the difference in taste and prefer oenologically produced rakija, as evidenced by the fact that they are prepared to pay significantly more for it.



Figure 3. Rakija producers in relation to the application of modern processes in distillation

Promotion and place are the two indispensable elements of the marketing mix. Communication with the market has a favorable commercial impact because the price of rakija realized by distillers who communicate with the market is statistically significantly higher than that realized without promotion. Moreover, it is to be expected that the use of different distribution channels will increase product sales, as the product is better and more diversely exposed to the consumer. In this research, we confirmed the hypotheses that such a product, i.e., Serbian rakija that is properly distributed and promoted, will achieve a higher price. However, only rakija from 11 distillers are sold in bars, and from five distillers in stores. There is also only a small number of those who perform promotional activities, which is six. Figure 4 graphically indicates the importance of marketing in the rakija business. It can be seen that less than one in ten distillers carried out promotional activities; nonetheless, four out of five distillers who have successfully used distribution channels to win shelves in shops or bars are conducting promotions. This is also the same group of distillers that have the strongest position in the market. The only problem that remains is why the other 96% of distillers do not see the same thing, which is a clear example of their marketing myopia.



Figure 4. Organization of promotional and distribution activities by rakija producers in Serbia

In our sample, the average realized price of rakija on the market is 950.78 dinars. The average price in the sample is higher than the average price given in the official statistics because the so-called "domestic" rakijas, i.e., rakijas distilled by small distillers in the traditional way, carry the perception of being of higher quality. Unfortunately, these rakijas are often not characterized by high quality, which explains why the curve of the variable for the average price has shifted to the left, that is, where the selling prices are lower.

The market for the sale of rakija is quite limited. Rakija is used together with meze or as an aperitif. Meze, as concept of small dishes, is commonplace in the East but not in the West. Cognac, which is exported in a high percentage of 97% (Song et al., 2018), is a digestif. Single malt whisky and cognac are mostly consumed after meals, and thus rakija is not a competitor in terms of consumption in relation to usual consumer habits. Although all four elements of the marketing mix contribute to market competitiveness, small distillers in Serbia do not utilize them. It certainly does not result in quality products at the lowest possible prices that are favorable to the consumer. It seems that Serbian rakija distillers are unclear as to who they are targeting with their marketing, which target group the product is intended for, and who will buy it.

#### Conclusions

By verifying the hypotheses established in this research, we positively validated that businesses that use marketing are superior to those who do not, especially in terms of achieving greater levels of pricing for goods sold. With the marketing approach on the Serbian rakija market, potential distillers will enter the market with a quality brand that will attain higher pricing and reach customers through different distribution channels, successfully communicating through a promotional mix.

In the title, we raised the issue of Serbian rakija distillers' marketing myopia. Only four out of 104 respondents use all aspects of the marketing mix, and it is these respondents that are now achieving above-average pricing and likely business results. 100 distillers out of 104 appeared to have failed to understand marketing. We can certainly assume the connection between critical ignorance of marketing and almost the invisible business results of fruit products ideal for a higher degree of processing by distillation in a country that is at the top of the world in terms of the number of fruit plantations, such as plums.

The main shortcoming of this research is that it did not provide an answer to the question of *why* distilleries do not adopt marketing in business, namely whether it is ignorance, lack of money, or something else. We expect that future research will look in this direction. However, with this research, we have reached a certain level of representativeness and obtained results that have statistical significance, which is its main advantage. We hope that our conclusions will lead Serbian distilleries to understand that marketing can be of significant help to them in their efforts to succeed in the market. In addition, this study opens the door for further research in this area, of which examining the attitudes and opinions of rakija consumers is perhaps the most significant.

# **Conflict of interests**

The authors declare no conflict of interest.

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