International Wine Conference

"Global Trends and Best Practices in the Wine World:
Implications and Recommendations for Armenia"

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Assessment of Management Systems of Wineries in Armenia

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Outline

- Methodology
- Sector Statistics
- Survey results
- Recommendations

Methodology

- 2 survey instruments
  1. Winery practices, cooperation with farmers, perceptions on future development and current obstacles
  2. Assessment of management practices and efficiency across 5 pillars

- 5-point Likert Scale, Management Competency Value Chain Model

- Conducted during September – October 2017

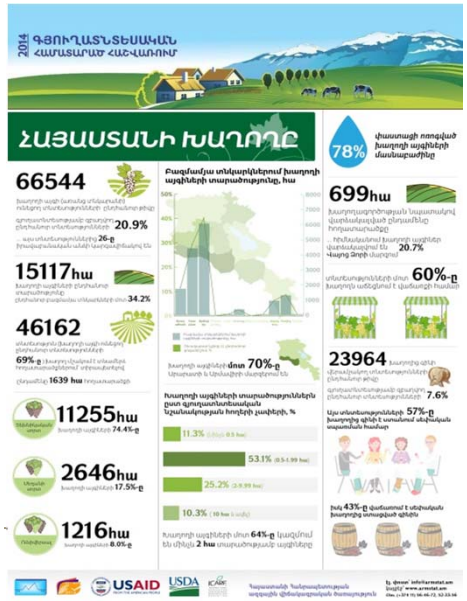
- 20 wineries participated

Ag Census Data on grapes

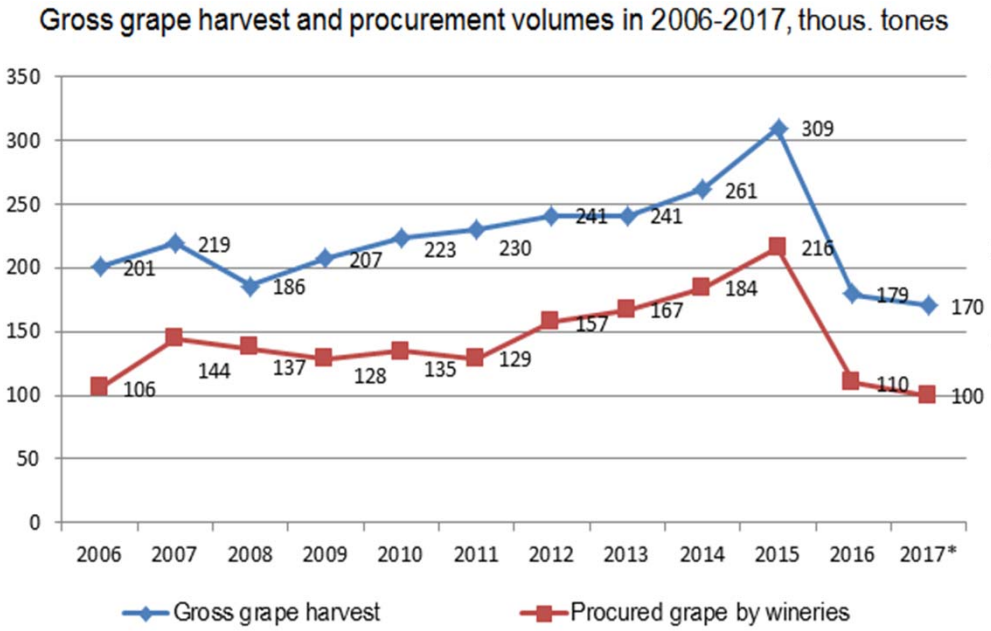
- Grape growers - 66,544 farms
- About 70% grow grapes by-house, on total of 1639 ha

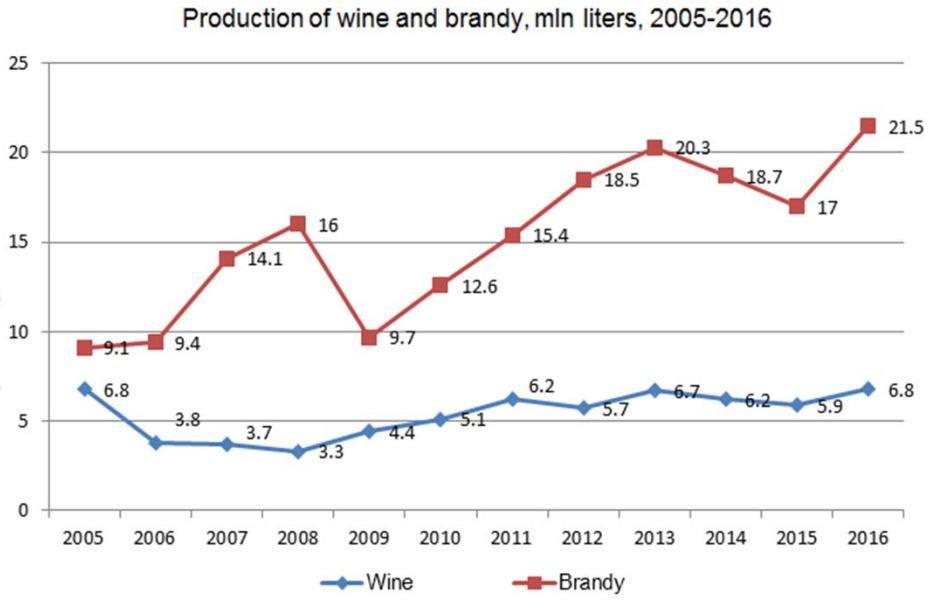
- Total hectares of vineyards – 15117 ha
- Of which 11,255 ha technical varieties, 2,646 ha table varieties, 1,216 ha universal

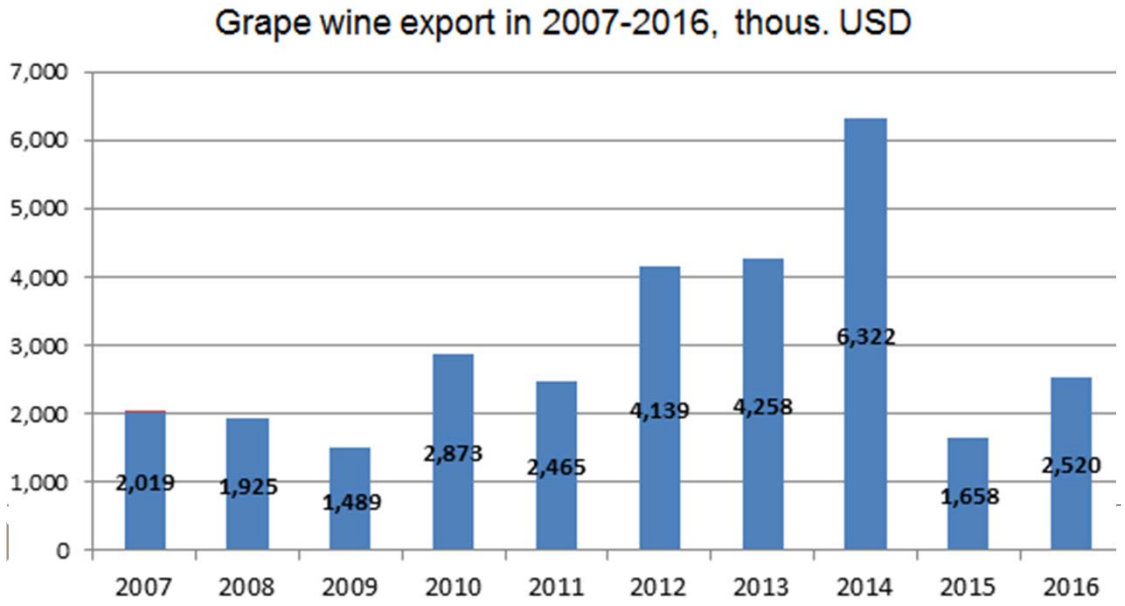
- Irrigated vineyards, actually – 78%
- 70% of vineyards are in Armavir and Ararat
- 64% of the vineyards are below 2 ha



Sector Statistics



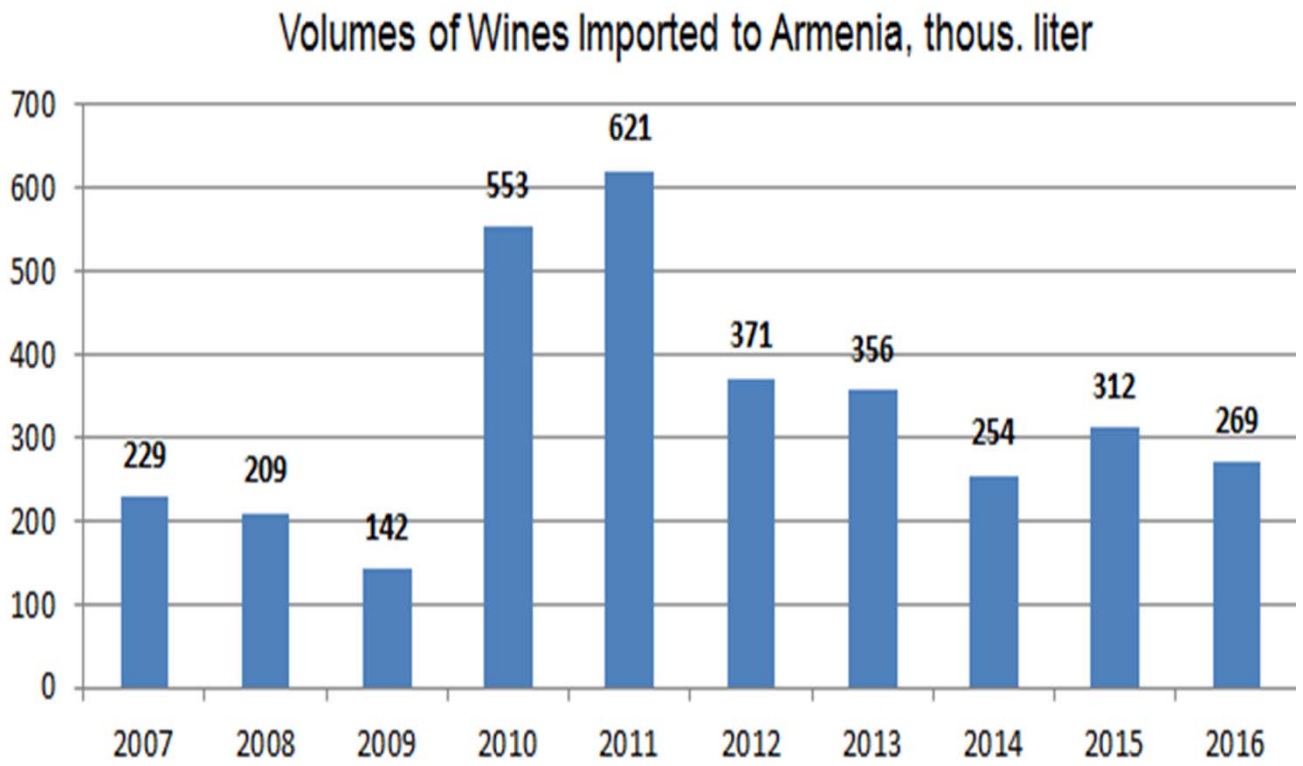




In 2016

1. Russia
2. USA
3. Ukraine
4. Georgia
5. Lithuania

Wine Imports

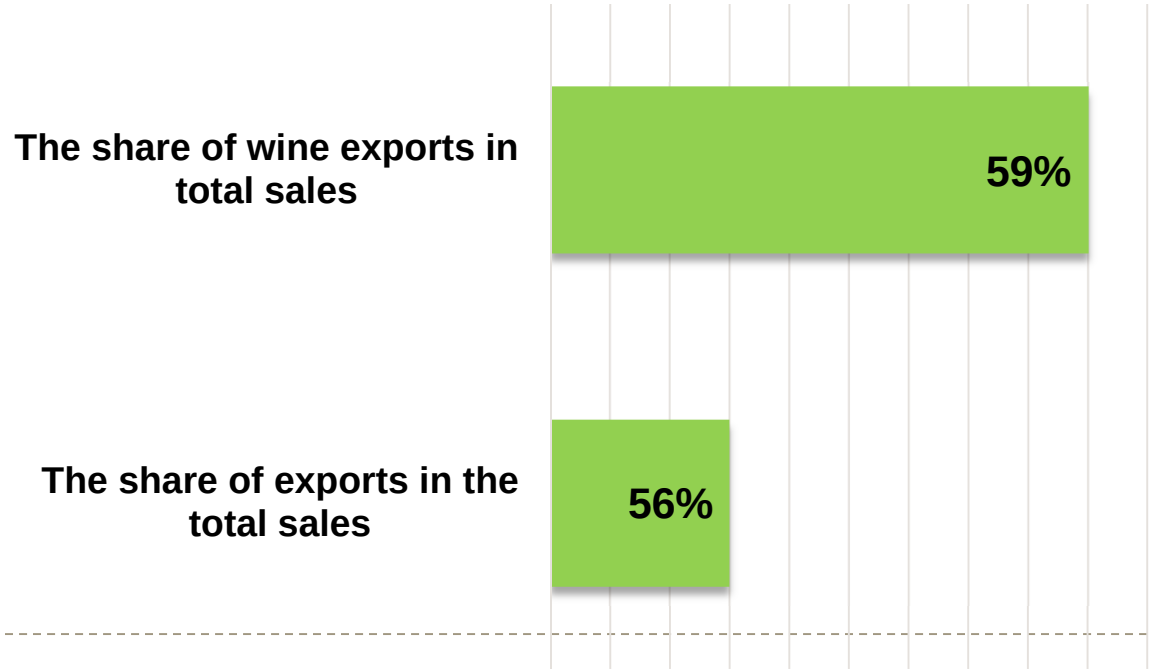


In 2016

1. Italy – 61.3
2. France – 40.5
3. Russia - 39
4. Spain – 36.8
5. Chile – 11.3
6. Georgia – 5.5

Survey Results

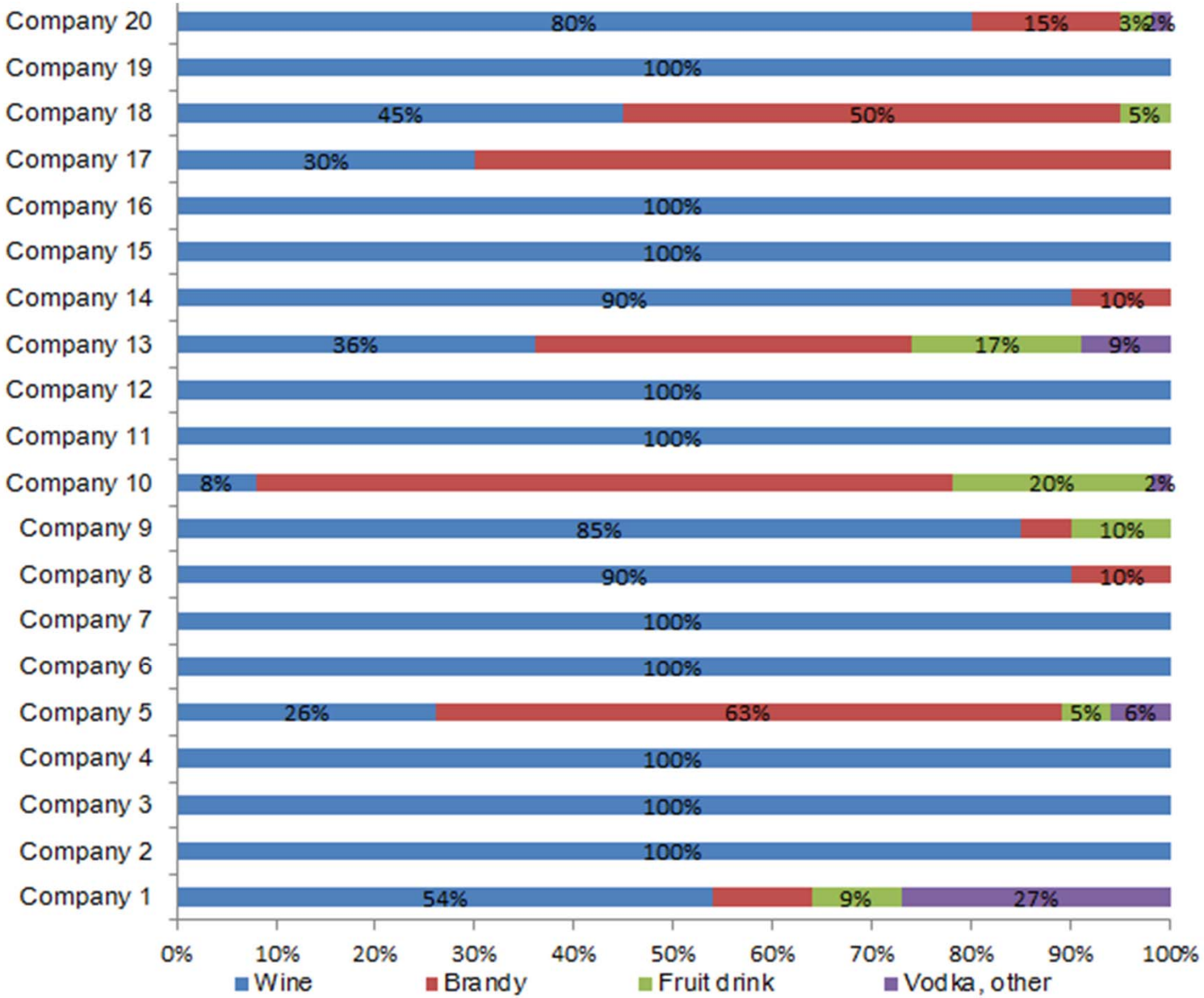
- All wineries do EXPORT - 100%
- In 2014 this indicator was – 78%



Survey Results

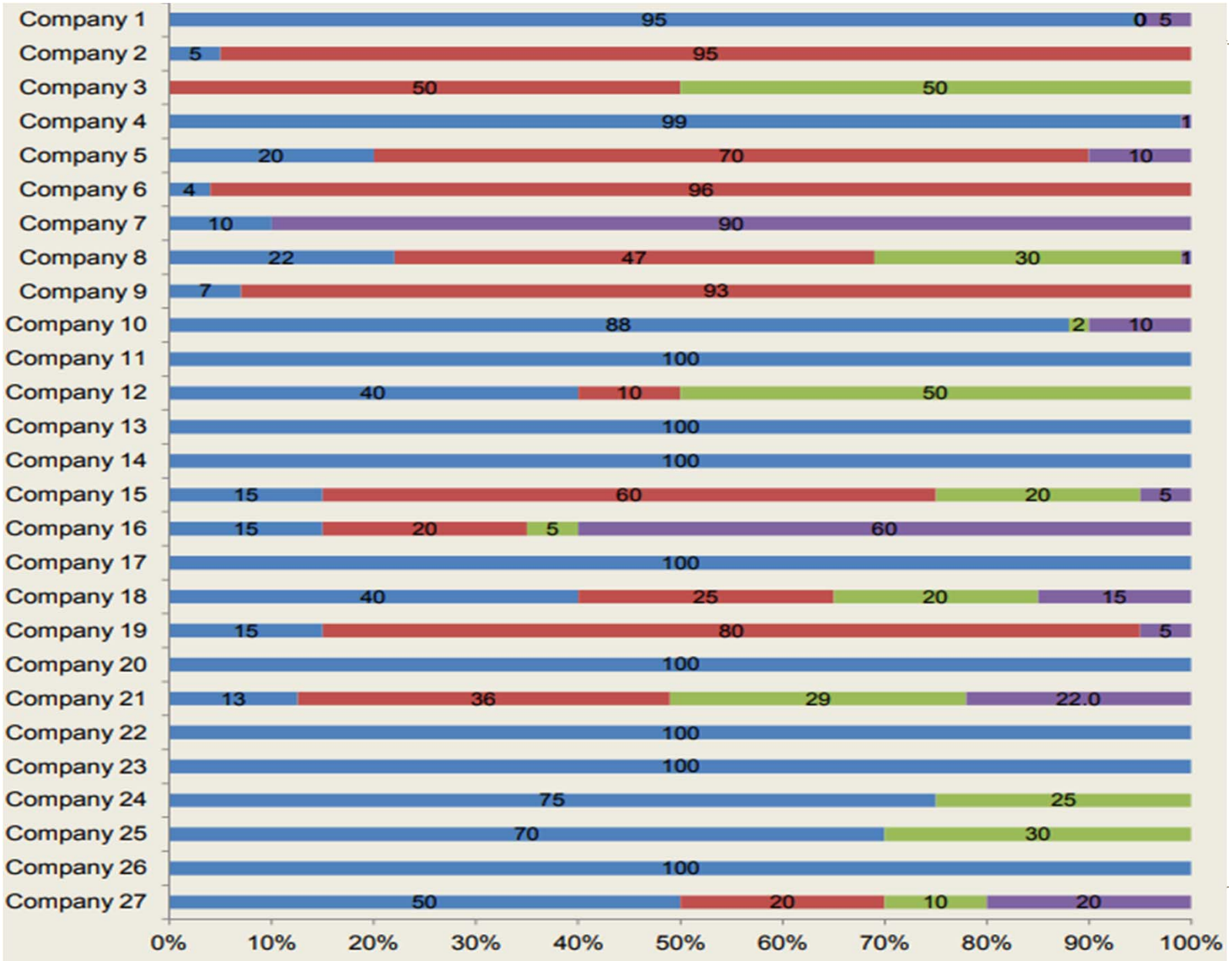
- 35% of wineries work at full capacity (100%)
- On average 70% of the capacity is used. That number in 2013 was 53%
- There are wineries using only 20-25% of their production capacity.
- Wineries are producing also brandy, vodka and fruit alcoholic drink.

Share of production, 2017

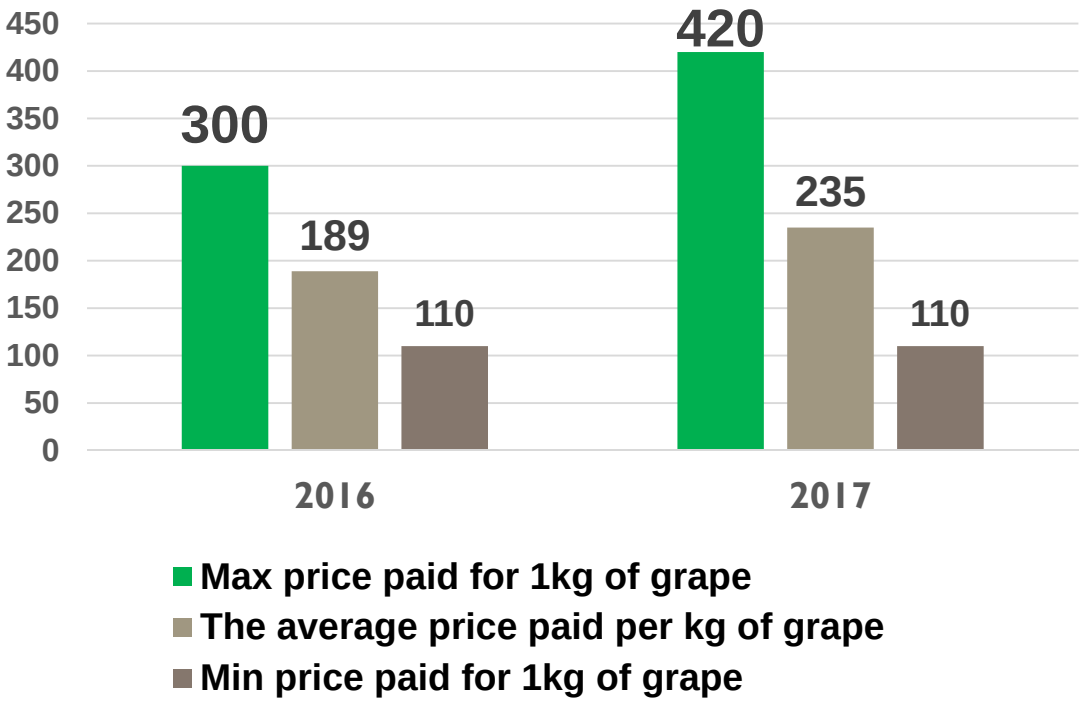


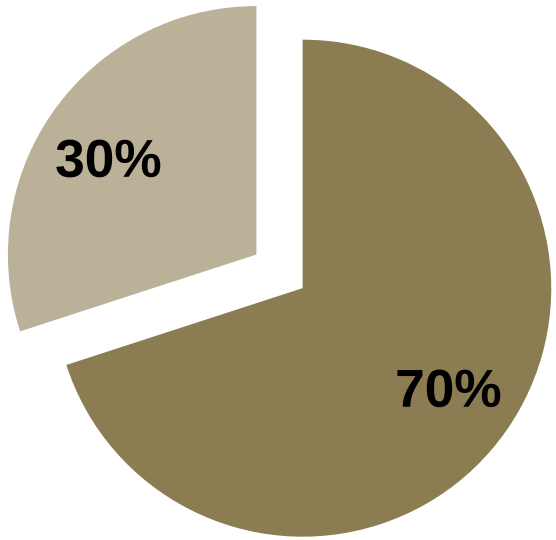
Wine – 74%
Spark. wine 7%
Brandy – 15%
Vodka – 3%

Share of production in 2014



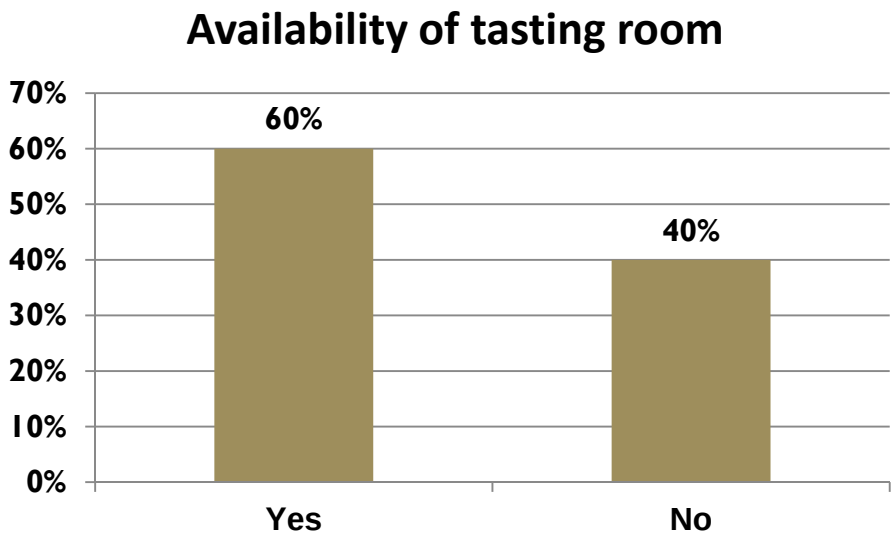
Survey Results – Payments to farmers





70% of wineries paid immediately
Hold-ups: on average it took 36 days to pay the farmers

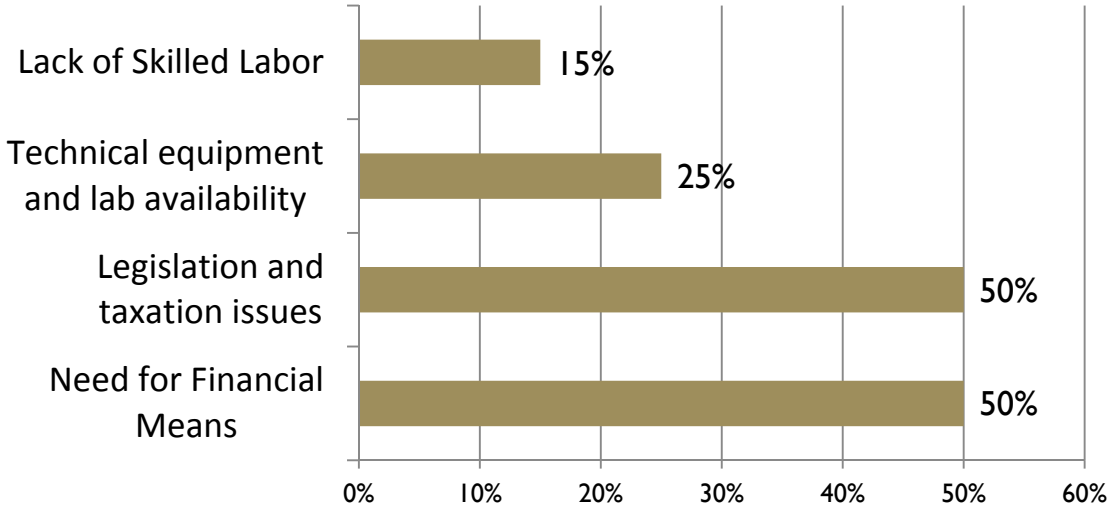
Survey Results - Wine Tourism



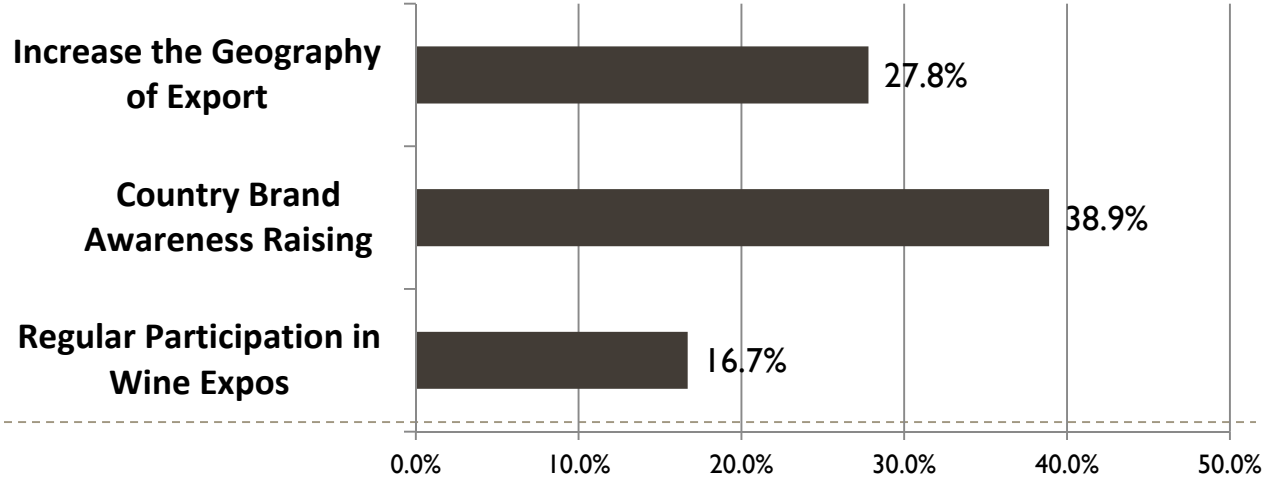
- Average number of visitors annually – 5900
- Highest # of visitors recorded by one company – 42500
- On average 6.7% of wine sales is made during the tours
- One company reported 51% of wine sales during the tours

Survey Results

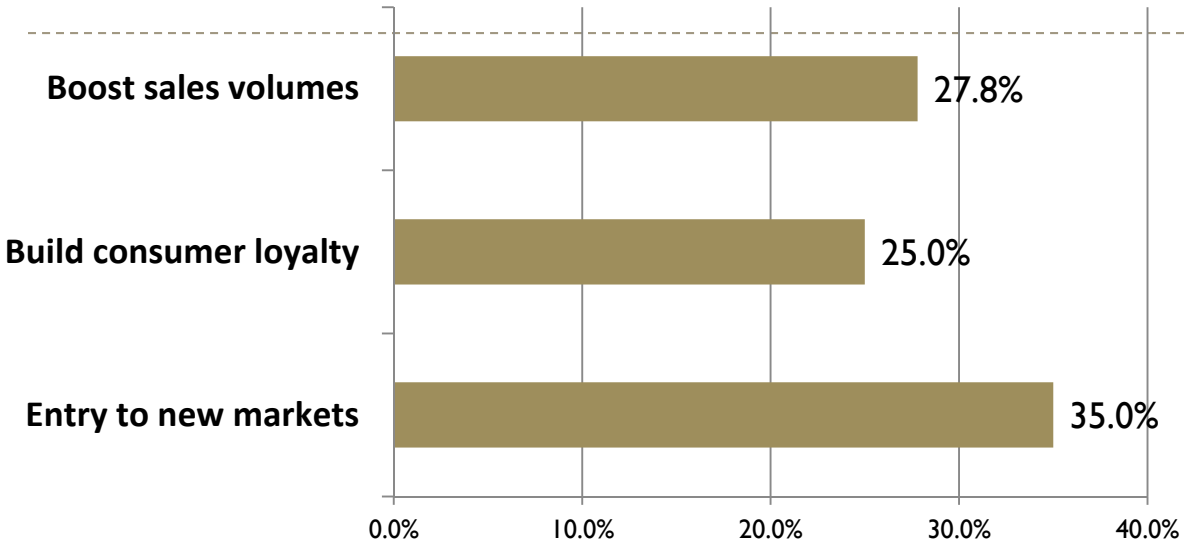
Obstacles hindering quality improvement and production growth



Preconditions for Production and Export Growth



Priorities for next 3 years



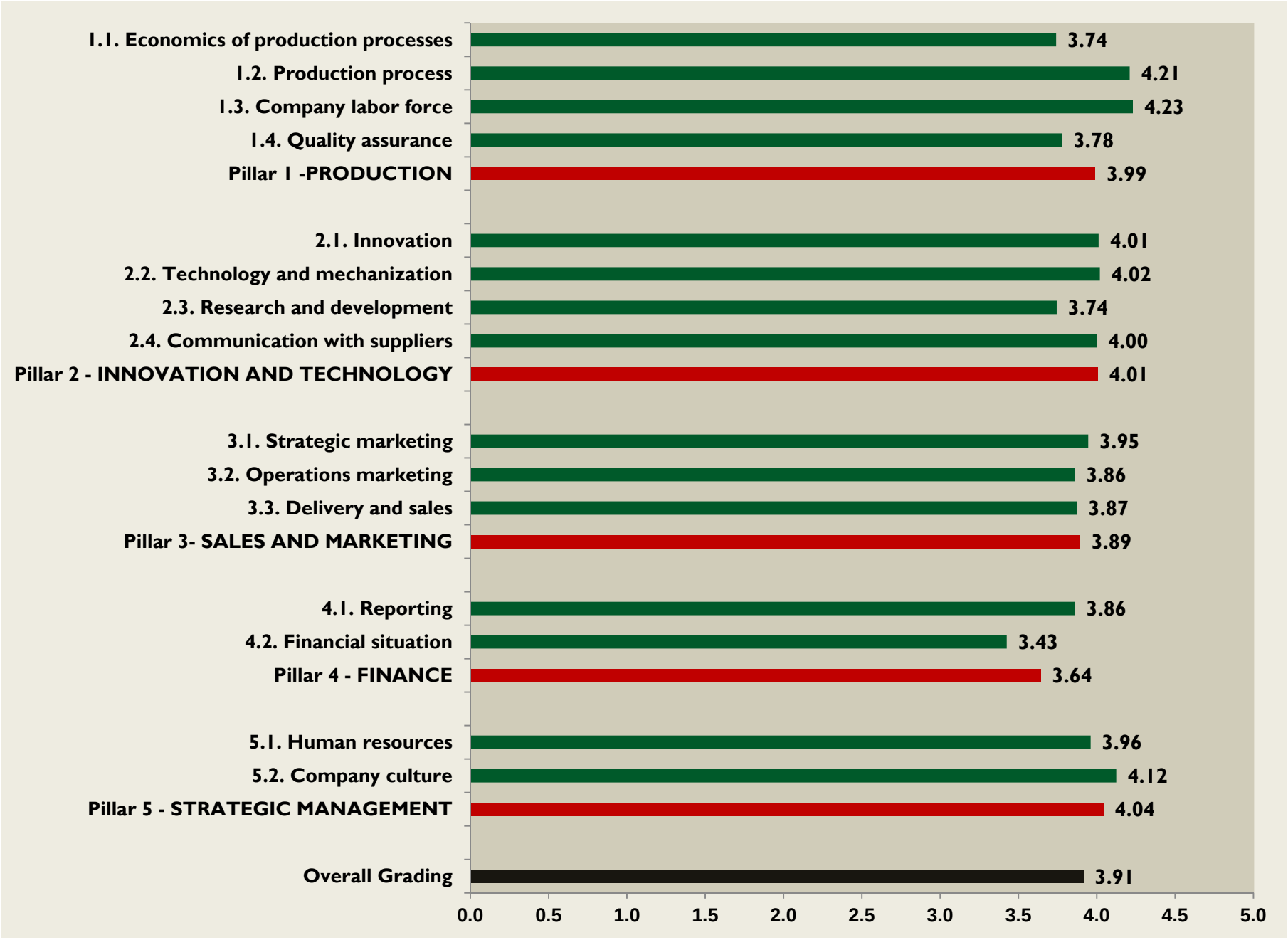
Most Effective Support for Wineries

- Access to affordable financial means
- Improving sector related legislation
- Cheap leasing opportunities to buy drip irrigation and anti-hail systems
- Training of winemakers abroad
- Do not disturb☺

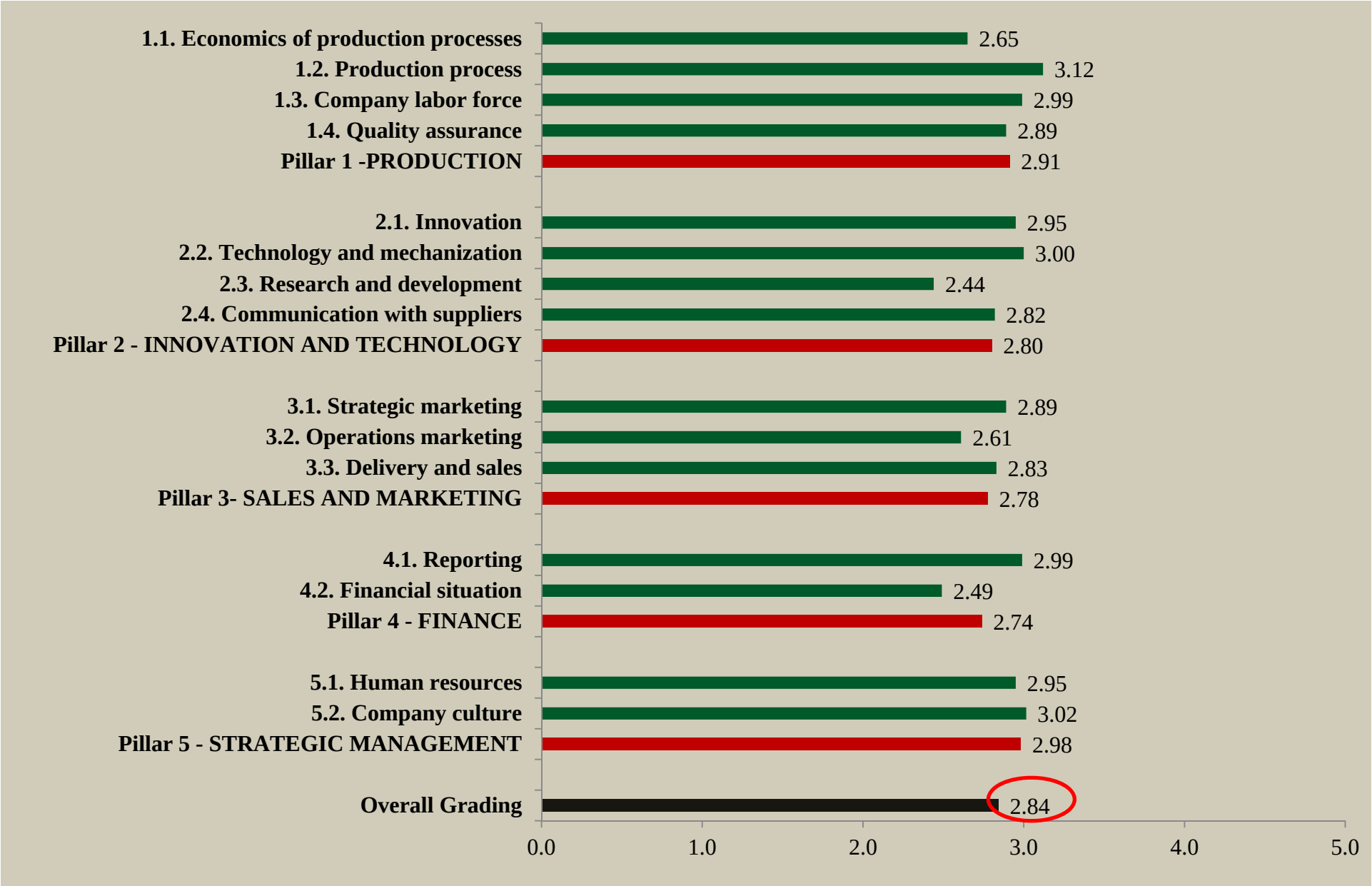
Obstacles Hindering Wine Sector Development

- High taxes (excise tax and VAT)
- High cost of production, limited transportation routes
- Ineffective cooperation with farmers
- Lack of subsidies from Government
- Lack of some grape varieties
- Lack of effective internal cooperation
- Weak quality control mechanisms
- Not enough export promotion (EEU countries in particular)
- High license fees

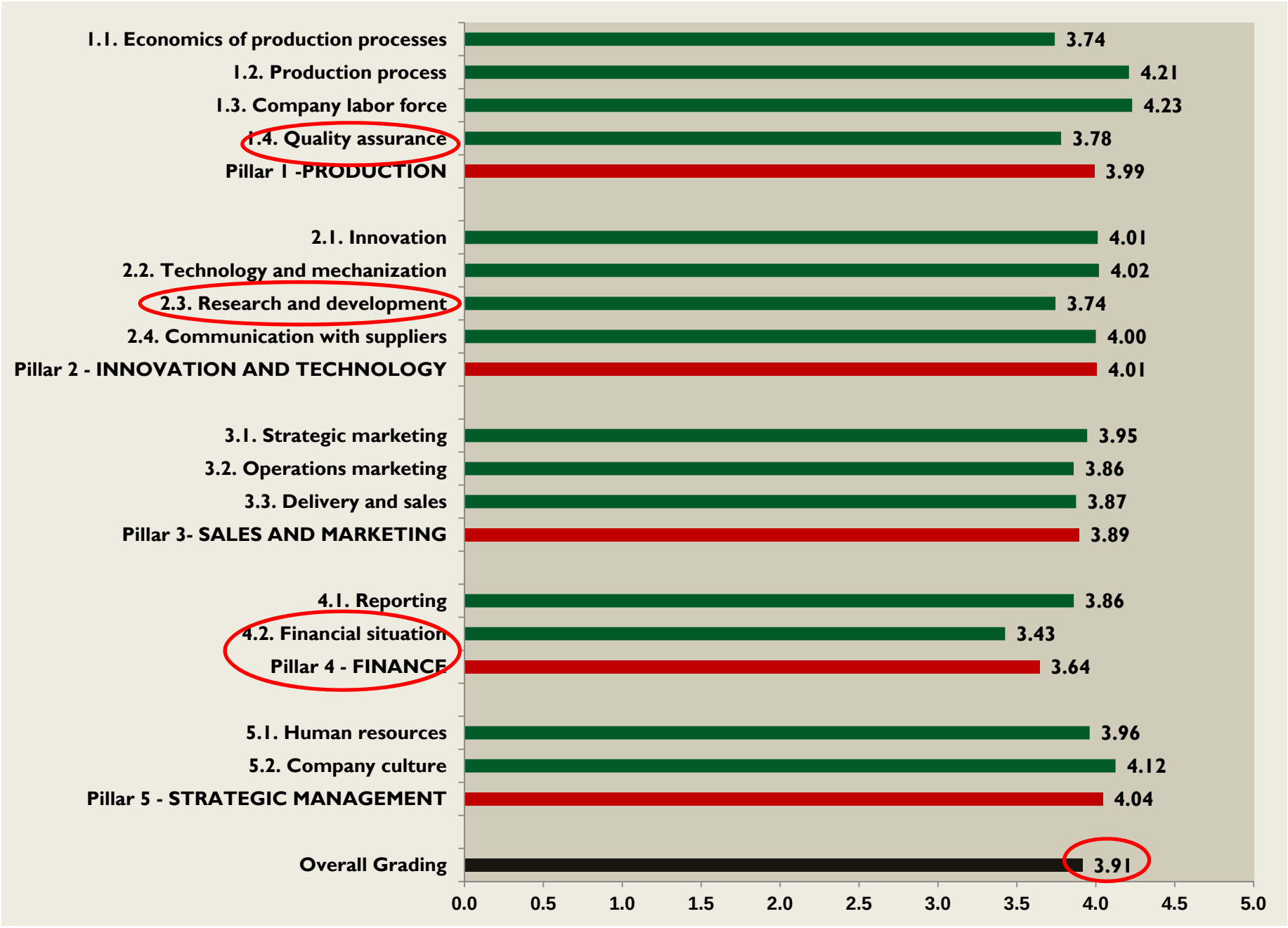
Management Systems and Skills Assessment



Management Systems and Skills Assessment, 2014



Management Systems and Skills Assessment



Recommendations per Pillar

- **Production pillar:**

  - Conduct detailed breakeven analysis
  - Apply cost reduction and waste reduction measures
  - Improve quality control and food safety systems
  - Acquiring new technology and automated systems to decrease production costs and improve the quality of wine
  - Establish more vineyards for managing the growth

Recommendations per Pillar

Innovation and Technology pillar:

- Recruit highly skilled staff that can work in R&D
- Collaborate closely with universities and research institutions
- Establish a platform where information on latest innovations are available
- Training for staff on innovation and development topics
- Precision viticulture practices

Sales and Marketing pillar:

- Improving management practices that will contribute to well developed marketing strategy
- Adopt competitive pricing strategy
- Active promotion of company´s products via digital marketing tools

Recommendations per Pillar

- **Finance pillar:**

  - Availability of cheaper financing for wineries
  - Develop specific equity (or mezzanine) financing schemes for wineries
  - More effective use of leasing
  - Affordable working capital financing, e.g. subsidized credit
  - Cheap loans or subsidies for solar panels to reduce electricity expenses

- **Strategic Management pillar:**

  - Apply effective HR MGMT practices in wineries
  - Develop effective employee compensation and promotion schemes
  - Enhance collaboration with other actors of the value chain

Thanks for Your Attention

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