Assessment of Management Systems of Wineries in Armenia

Vardan Urutyán, PhD
Director of ICARE Foundation and EVN Wine Academy
Outline

- Methodology
- Sector Statistics
- Survey results
- Recommendations
Methodology

- 2 survey instruments
  - I. Winery practices, cooperation with farmers, perceptions on future development and current obstacles
  - II. 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
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%

The share of wine exports in total sales: 59%

The share of exports in the total sales: 56%
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%
- Sparkling wine: 7%
- Brandy: 15%
- Vodka: 3%
### Share of production in 2014

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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

Availability of tasting room

- Yes: 60%
- No: 40%
Survey Results

Obstacles hindering quality improvement and production growth

- Lack of Skilled Labor: 15%
- Technical equipment and lab availability: 25%
- Legislation and taxation issues: 50%
- Need for Financial Means: 50%

Preconditions for Production and Export Growth

- Increase the Geography of Export: 27.8%
- Country Brand Awareness Raising: 38.9%
- Regular Participation in Wine Expos: 16.7%
Priorities for next 3 years

- Boost sales volumes: 27.8%
- Build consumer loyalty: 25.0%
- Entry to new markets: 35.0%

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

Pillar 1 - PRODUCTION

1.1. Economics of production processes: 3.74
1.2. Production process: 4.21
1.3. Company labor force: 4.23
1.4. Quality assurance: 3.78

Pillar 2 - INNOVATION AND TECHNOLOGY

2.1. Innovation: 4.01
2.2. Technology and mechanization: 4.02
2.3. Research and development: 3.74
2.4. Communication with suppliers: 4.00

Pillar 3 - SALES AND MARKETING

3.1. Strategic marketing: 3.95
3.2. Operations marketing: 3.86
3.3. Delivery and sales: 3.87

Pillar 4 - FINANCE

4.1. Reporting: 3.86
4.2. Financial situation: 3.43

Pillar 5 - STRATEGIC MANAGEMENT

5.1. Human resources: 3.96
5.2. Company culture: 4.12

Overall Grading: 3.91
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**Overall Grading**: 3.91
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

Vardan Urutyan, PhD
vardan@icare.am