

Trend Analyses of Georgian Wine Business

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Abstract: *The following paper is devoted to perspectives of Georgian economic development and authors underlined the strategic importance of the agriculture and wine business and asserted it as essential for sustainable growth of economy, increase of employment, financial growth and increase of GDP. Also, the article shows, the micro or macroeconomic factors, that influenced on the failure of agriculture and wine industry, such as wars, political situation, credit policy and shows the factorial and trend analyses of Georgian wine business for 2008-2016 years. Besides, there is given the suggestions to solve the problem connecting to the agriculture and wine realization in international markets: strong quality control system over the production, promotional and marketing activities, technological, production, operational and infrastructural development especially in regions.*

Keywords: Agriculture, Economy, Wine, Business, Development

JEL Classification: M2; M3, M11, M21, M38, Q13

1. Introduction

Agriculture historically had the leading part in Georgian economy and it played leading role in developing the whole economy of the country. Georgia is distinguished for its natural resources, which creates ideal conditions for one or more year cereal crops. This is the perfect land for goods, high quality of milk products and etc. Despite all of these, agriculture nowadays is not the main source of revenue for the country. Today Georgia is highly depended on the import of agricultural products instead of exporting them.

In chapter 1, we show we suggest statistical conditions of agricultural products in Georgia, such as grape. In order to discuss agricultural share in GDP of Georgia, we show the structure of the whole GDP, grape harvest and wine export trends for the 2008-2016 years. Besides, in chapter 2, we show the results of factorial and trend analyses of Georgian wine business. We consider wine as the strategic and economically-important production for developing

economy, increasing employment, financial and social improvement, attractive for tourists and based on these wine business development is essential for Georgia and needs governmental attention. As we introduced some problems, which needs to be solved and we gave recommendations and also exhibited benefits of wine business developments from different site of stakeholders.

2. Statistical Analyses of Agriculture in Georgia (GRAPE)

According to the statistical data taken from Georgian statistical site (www.geostat.ge), the structure of GDP of Georgia consists of Agriculture, Industry, construction, Trade, communication and other branches. Out of which, nearly 9.3% comes from Agriculture (see Figure1. The Structure of GDP).

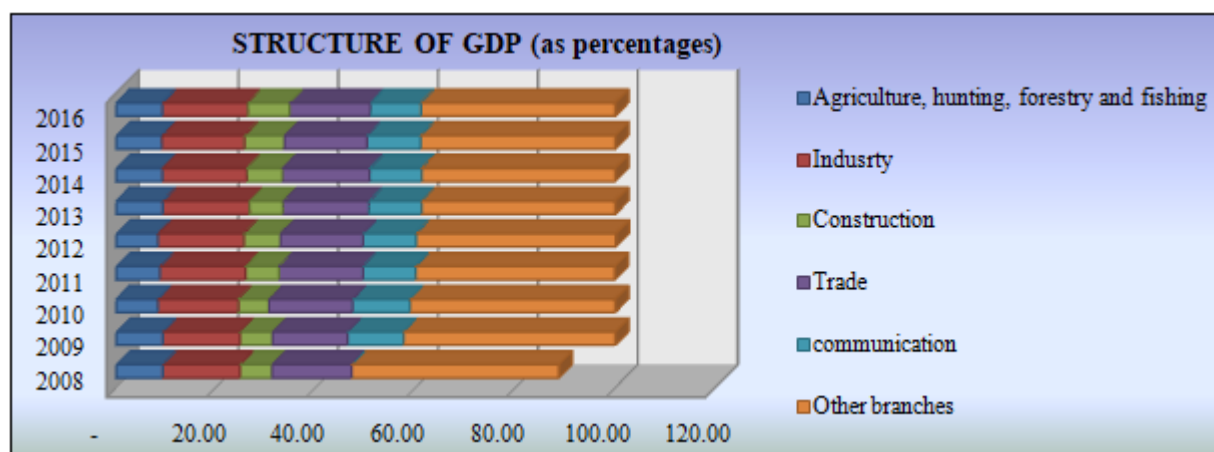


Figure 1: The Structure of GDP for Georgia (2008-2016 years).

Source: www.geostat.ge

What's more, the share of the agriculture in GDP is very low (see, figure 1) and from year to year it is continuous unfavorable trend for the country and the society. Agriculture share in GDP for Georgia in 2008 and 2009 stayed constant, but in 2010 it decreased slightly to 8.4% in

2010. The dynamic increased lightly in 2011 to 8.8% and then it returned to 8.4%. In 2013 the share of Agriculture in GDP increased to 9.4% and in 2016 it was 9.3%. Unfortunately there was not a sharp increase of agriculture share in GDP for Georgia.

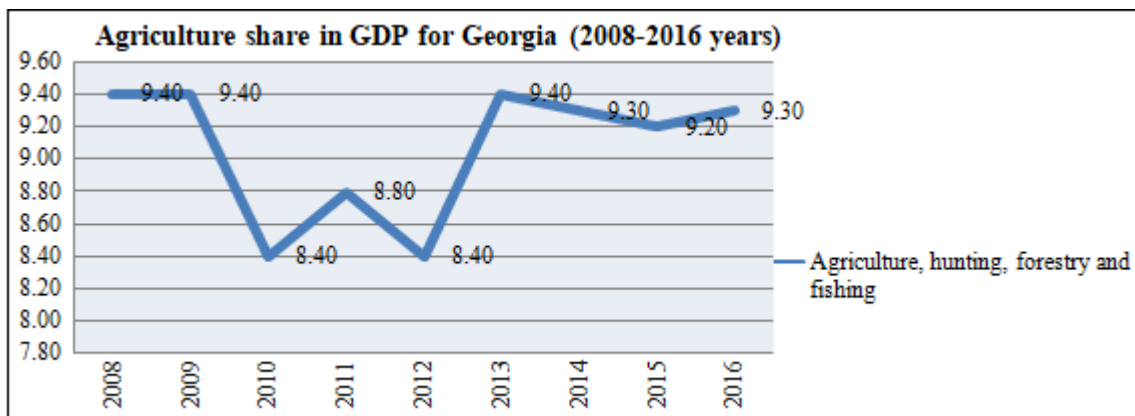


Figure 1: The share of the agriculture in GDP for Georgia (2008-2016 year).

Source: www.geostat.ge

The output of agriculture consists of plant growing, animal husbandry and agriculture services at current prices. Agriculture output is totally 3941.1 mln. GEL in current prices. Plant growing was 38% of the total output of agriculture. As for Animal husbandry and Agriculture services they are 56% and 6% for 2014 year.

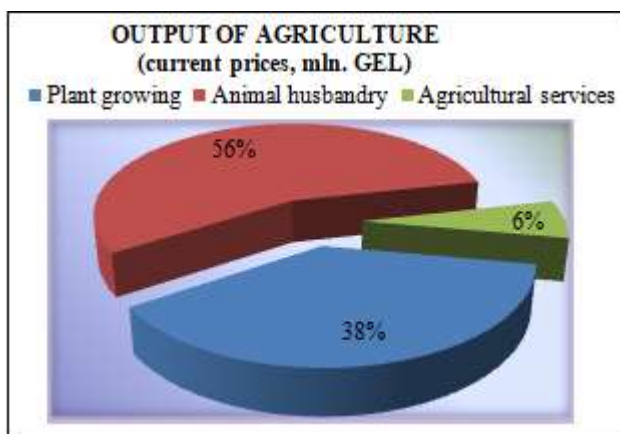


Figure 2: Output of Agriculture

Source: www.geostat.ge

Georgian Economic strength and social wealth is highly correlated to the development of agriculture. There are plenty of cultures that should be developed in Georgia: fruits, citruses such as lemon, mandarins, Tea and other. But especially, wine is the most prosperous culture in Georgia as it is one of the ancient country of wine making.

Fruit and grape production in thousand tons increased in 2013 and 2014 compared to previous years. Compared to other Permanent Crops Grape has the biggest share. Share of Grape harvest was 52,73% of total Permanent crops (see Figure 3). It decreased in 2009 to 45,31% and then increased in 2010 to 49,31%. In 2011 it continued to decrease and in 2013 share of grapes in total permanent Crops increased to 50,59% and decreased slightly in 2014 (45,11%). In 2015 it increased to 59% and in 2016 it decreased again by 46%. As the result shows, compared to other fruit, grapes remain as the domain permanent crop.

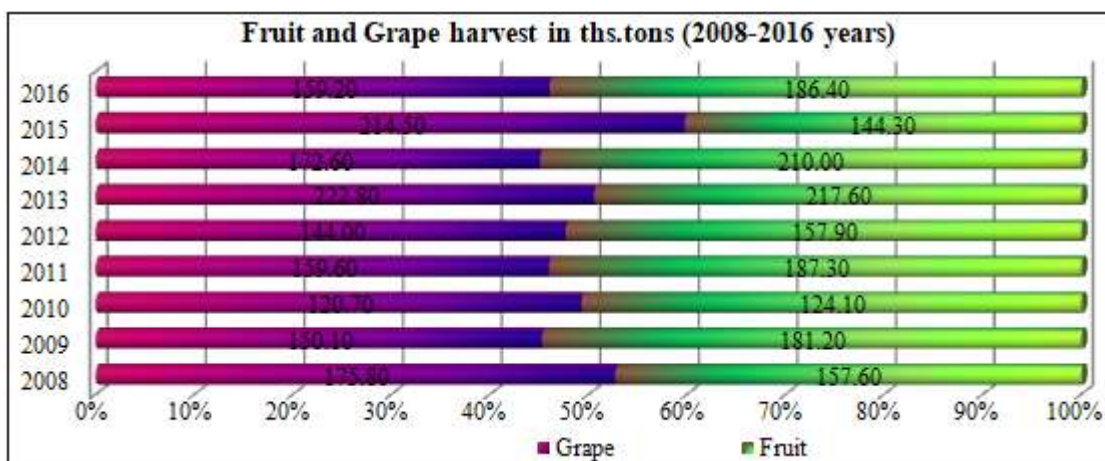


Figure 3: Fruit and Grape harvest (2008-2016 years) for Georgia.

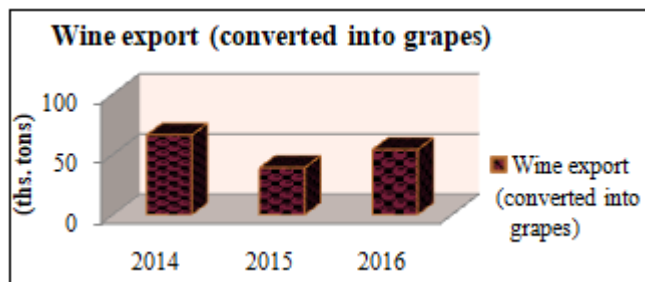


Figure 4: Georgian Wine Export (thousands of Tons) 2014-2016 years.

Let us see, wine export conditions for the last three years. From the balance sheet of grape utilization grape was 138 thousands of tons, out of which only grapes are 9 thousands of tons and wine converted into grapes are 129 thousands of tons. On figure 4, we notice that, wine export changes for the last three years. In 2014, wine export (converted into grapes) was 66 thousands of tons, then it declined sharply in 2015, as it was 39 thousands of tons, and fortunately, it raised up to 54 thousands of tons.

3. Factoral and Trend Analyses of Wine Business in Georgia

In the end of 20th century, during 90th years a new Development era began. Two absolutely opposite economic systems were changing each other, a socialistic system should be transformed evolutionary, but unfortunately there was formed a very hard situation: wars for defining the territory of Georgia, a high level of corruption, financial crises, political conflicts and others. All these made a destroying influence on the whole economy and society, and of course all the industry was under the pressure of this system and agriculture was not exception.

The hard political, economical and social conditions together with the deficit of material-technical and energetical resources made a negative influence on the productions and manufacturing of agricultural goods, especially Georgian wine, which was considered as the main spin of Development of the agriculture. The traditional markets lost, the scientific-technical potential of production was out of

work, the technical development of production was lagged behind and low competitiveness of the production. This was continuing quite long period. In 2004-2007 years the share of agricultural products increased a little bit, which was a really a hope for the little country, but several years ago, the scandal declaration of the Russian Federation about the Georgian wine, reflected negatively on the image of Georgian wine brands.

In 2006 Russian Federation declared the embargo, which caused a sharp downturn of wine industry and the wine export declined importantly comparing to 2005 year. The results reflected in whole industry and society, wine factories had lot of reserves of wines, but the realization of product and gaining new alternative markets become a great problem, especially people employed in grapes agriculture was absolutely without revenues, they had lot tons of grapes, but because of failing the wine business, the demand on the grapes declined and the price decreased. There began a new era of "dark days of village".

The statistical dates published by The Ministry of Agriculture is the prove of the negative impact of Georgian-Russian strained political relationship: Dynamic of Georgian wine export for 2006-2016 shows that in 2006 wine export was 41 million US dollar. Wine export decreased in 2007 to 29 million US dollar during the year of Georgian-Russian war. Wine export began to raise in 2010 year. After losing Russian wine market, Georgia had to export its production in Europe and other contingents more actively, but this turned very difficult, as the world is full with highest quality off well-known, strong brands of wine, which customer are distinguished by customer loyalty and these can be considered as one of the main factor, which complicates to export Georgian wine in world market. Wine producers should analyses wine markets of world and select the less competitive one. Besides, one of the reasons of failure of the demanded and technically improved product, is the lack of information about the principle differences from the competitors product.

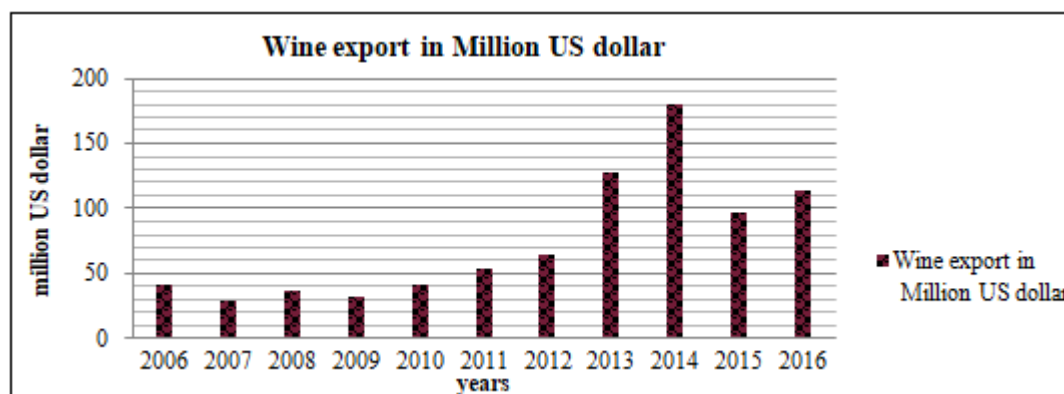


Figure 5: Dynamic of Georgian wine export 2006-2016 years

In order to increase wine export we consider, that Georgian companies should produce marks, that are more demanded as Resnick suggests in its research wine brands should be created and successful strategies should be chosen for new markets and new consumers (Resnick, 2008). For instance

in Europe "Saperavi" and "Tsinandali" is very popular among Georgian wines. As for ex-Soviet Union countries prefer "Kindzmarauli" and "Khvanchkara" and for east European Countries prefer "Mukuzani" and "Kindzmarauli". Grape species like "Pino" and "Aligote" has a great potential

to produce unique champagne widely. Beside the problems, Georgian wine business has a big potential. By effective development and progressive technology it will be possible to renaissance Georgian wine business: improvement of the production, that will satisfy various customer needs and taste, optimization of the amount of the product assortment and good quality of the product with technical-economical features, physical-chemical and organoleptical improvement, right positioning of the product, advertisement and promotion internationally, opening new factories with foreign investors, production stimulating tax policy, rise the qualification of Georgian wine makers and specialists (Szolnoki, 2014).

Figure 5 exhibits that during 2010-2014 wine export had increasing trend (increased from 41 to 180 million dollar). Again in 2015 wine export decreased to 96 million US dollar and in 2016 it was 114 million US dollar as well. Compared to 2007 Georgian wine export raised enormously by 75%. The head of National Agency of Wine, George Samanishvili reported, that last 6 month data of 2017 year shows that wine export increased by 59% compared to the previous year's appropriate period. Revenue from wine realization also increased by 51% and the Geography of wine export countries are also increased. Wine export is increased in Euro Union countries, in China, in USA and other countries, which is the reason marketing activities and efforts of the National Agency of Wine and private sector as well".

Country	Exported Wine Bottles (unit)	Export increase (in percents)
China	3 842 412	104%
Russia	19 313 343	89%
Ukraine	2 983 000	30%
Polish	1 212 704	13%
Latvia	685 508	19%
Belarus	660 674	43%
Germany	200 440	20%
USA	176 274	43%
Israel	105 710	150%
France	95 530	457%
Azerbaijan	87 402	241%

Source: www.itv.ge

4. Conclusion

It is obvious, that export must be increased by providing high quality of wine. But, not only quality can stimulate European or other customer to buy Georgian wine, there should be used 4P: price, product, place and promotion (Kotler/2009). One of the problems is the product itself, Georgian grapes and wine species are very tasty and unique, but wine producers need some quality control over them. It is obligated to create the governmental and also nongovernmental monitor systems in order to monitor the production regularly and set some quality standards. Today, companies make the production internal control itself. For example, "Kinzmarauli" and "Manavi" produces very high quality of wine, they have effective management control and by taking steps scientific-technical progress they managed to produce "the harmony of traditions and progress, vine and wine." This monitor system helps wine producers to protect the image of their brands in the country

and abroad (for detailed information visit: www.vinoge.com).

So, another reason of unsuccessful exports of Georgian wine was that Georgia can't produce cheap and competitive wine. In our opinion, first step is to decrease tax payments for Georgian wine companies, and after Georgia manages to export well known brands in international markets and finally raise the image of Georgian wine the sales will grow importantly, than it will be possible to set more low tax rates and fill the countries budget in the long perspective.

We suppose that there is no country in the world, where government do not play the leading role in development of wine industry and actively collaborate with the private sector. We recommend to take marketing activities like social media in the wine business.

We consider wine as the strategic and economically important production for developing economy, increasing employment, financial and social improvement, we think that governmental support is inevitable:

- Develop small and medium business;
- Accessibility of information about international markets;
- Improve the image of the local brands internationally;
- Increase the domestic usage of production;
- Eradication of oppositional attitude between wine producers and grapes, as it has strategic importance to collaborate to produce the final product, which will be competitive advantage in domestic and international markets;
- Increasing competitiveness of producers and farmers;
- Development of credit policy, leasing and insurance markets in the agriculture sector;
- Development of production/technical skills for the personal workings in farms and agro business;
- Development of the regional and agricultural infrastructure;
- Strengthening Quality control.

We suppose that wine business development is beneficial for different point of view:

Tourists coming in Georgia are astonished by local wine. 'Wine Tourists' are used as a Source of Information when visiting Georgia (Bruwer & Thach, 2013). It is quite obvious, that wine business needs a big support from Government in order to prosper the industry, which will be beneficial in several ways:

New jobs will be created. In case of the full rehabilitation of the industry employment should increase in regions. Nowadays many regions and villages are empty, because, people employed in agriculture migrated in cities and abroad.

The great amount of people will get principle amount of revenue by employing in manufacture and also, private landowners and workers will improve economic and social conditions by cultivation of vine realization of it.

Supporting wine business will promote vine growers, as in the wine production grapes are the most important ring in operational channel.

Regional budgets will get additional revenues, with all ensuing consequences the domestic migration will decrease. After the economic crises, little cities and villages were getting empty and people tend to go to capital.

By taking into consideration the benefits discussed above, we consider that developing wine business and vine agriculture should be priority for Georgian government.

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