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WINE INDUSTRY ASSISTANCE

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CHEMONICS INTERNATIONAL**

***RECOMMENDATIONS FOR THE GEORGIAN WINE INDUSTRY
FOR EXPORT EXPANSION***

Dec 2006

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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Executive summary

The Georgian wine industry has a long tradition of producing wine from many of the more than 500 varieties of grapes grown in Georgia. This tradition dates back to a time before recorded history however evidence in archeological records place Georgia as possibly the first region of the world to produce wine.

In recent decades Georgia has been a major supplier of wine to the Soviet Union. With exports to the Soviet Union and Russia accounted for nearly 90% of Georgian wine export sales. In the Soviet Union and Russia wines from Georgia sold at a premium over wines produced in other regions of the Soviet Union. This premium led to counterfeit products produced outside of Georgia or inside of Georgia with little consideration for quality as counterfeiters worked to maximize their profits at the expense of the reputation of Georgia. The lack of Georgian industry and governmental controls on the export of wines labeled as product from Georgia led to deprivation in the reliability of Georgian wines and wines labeled as Georgian origin.

In Georgia wine is produced in traditional style as well as modern “European” techniques. Therefore the use of traditional technology and state of the arts technology exist side by side throughout Georgia. This varied production styles provides for a wide range of flavor profiles produced from the same grape and appellation resulting in a single variety having a greatly varied taste and quality. In the absence of labeling and branding standards it is common to have two products with the same name having significantly different flavor profiles. This inconsistency makes it difficult for the uninformed consumer to understand and rely upon Georgian wines to be consistent and meet their expectations.

The cessation of wine exports to Russia due to political and alleged quality issues has had a devastating impact on the Georgian wine industry. The termination of business relationships between Russia and Georgia has left the Georgian wine industry without their traditional and loyal customer for their wine. The dominating position Russia had as a buyer of Georgian wines has provided the Georgians with very limited experience in marketing their wine to the international market.

The Georgian Wine industry faces the following difficulties:

1. Lack of experience and exposure in the international markets
2. Production of varieties unknown outside of Georgia and the Russian market
3. Prices traditionally set by elements not tied to production costs, market conditions or demand
4. Flavor profiles unknown outside of the traditional markets
5. Unknown cost of production thus discouraging the wineries from lowering their costs to compete in the global market
6. Low vineyard yields resulting in high production costs



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7. High transportation costs to major international markets
8. Local demand for “homemade” wine which limits the domestic market and skews the price of inputs
9. Antiquated production facilities and techniques
10. To the international customer the Georgian wines are unknown, produced with unknown varieties and traditionally priced as a premium wine which requires significant investment in marketing which has not occurred in the past.

The importance of the wine industry on the Georgian economy and desire by the U.S. Government to support the Government of Georgia (GOG) USAID is providing technical assistance to the Georgian wine industry. To date this assistance has been through providing a one day course to industry representatives, government officials and donors. This course was delivered in December of 2006 in Tbilisi and was attended by XXX individuals. A copy of the PowerPoint utilized in this course is attached as Annex 1 and articles appearing in the press after the session are attached in Annex 2.

This report provides recommendations for further activities supported by USAID, other Donors, the GOG and the wine industry. This report is designed to be a blueprint for further involvement to achieve success in establishing Georgian wine exports to the USA it is not an assessment of the Georgian wine industry.

It is the opinion of the author that significant growth in exports of Georgian wine can be achieved within the next 12 – 18 months; however, a concerted effort supported and participation by all stakeholders will increase the likelihood of success. The activities outlined in this document are designed to accomplish two primary objectives (1) strengthen the industry structure through establish wine export infrastructure and standards for exported wine from Georgia and (2) develop markets in the USA for Georgian wine. Objective (2) makes objective (1) worthwhile while objective (1) is essential to the success of objective (2), therefore, these efforts must be done in tandem to achieve the anticipated objectives.



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Internal Georgian activities to strengthen export competitiveness and consistency

Establish a Wine Export Control and Promotion Board

It is well documented that wine industries from countries that have achieved success in the USA market have done so with the significant impact of an Export Control and Promotion Board (ECPB). It is the recommendation of the author that Georgia, and unanimously recommended by attendees during a straw ballot during the training course held in Tbilisi in December, that Georgia establish an ECPB with the following objectives:

1. Establish standards for product to be exported
 - a. Standards for product identity and characteristics
 - b. Standards for labeling – identifying origin, variety and process
2. Certify processes for product produced for export to meet or exceed certain quantifiable characteristics.
3. Keep industry wide statistics and publish this information for interested parties inside and outside of Georgia
4. Collect and manage an export promotion budget to promote Georgian wines in the USA and other markets.
5. Hire and manage appropriate export promotion support services inside of Georgia and in the USA.

Some of these activities may already be the responsibility of various government agencies. It is my recommendation, and those attending the course, that these activities be consolidated into the ECPB with support and funding from the current agencies responsible for these activities, Donors and the industry. In most cases these activities should be supported by the industry and can effectively be managed by the industry with appropriate governmental guidance and support. The blending of resources and support suggested above is documented as best practices by other countries with similar activities have succeeded.

External activities to strengthen exports

Establish a Wine Promotion office in the USA



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To establish a Georgian wine presence in the USA market it is imperative that the industry have a representative office in the USA. This office would be responsible for promoting Georgian wines and would not exclusively represent any wineries or be paid a commission by individual wineries.

The activities of this representative office would be to function as an Ambassador of the Georgian wine industry and would promote Georgian wines through educational and promotional activities including:

- a. Organize and participate in national, regional and local events, tastings and educational efforts
- b. When appropriate participate in tradeshow or other industry events
- c. Promote Georgian wines to the press and journalists who influence wine buying decisions
- d. Meet with buyers to promote Georgian wines as a reliable wine origin

Specific activities to accomplish these objectives

Overview – funding and management

The elements outlined above are the result of specific activities which require time and resources dedicated to their success. This report does not in detail address where these resources come from however it is the author's opinion that there should be a synergistic combination of resources designed to achieve mutual results.

It is my recommendation that an organizational meeting be held in Tbilisi during the first quarter of 2007. This organizational meeting should include all primary and secondary stakeholders include representatives of the following groups:

1. All major wineries
2. Government of Georgia representatives
3. All major donor programs including USAID, GTZ, UNDP and others
4. Existing importers in the USA and other current markets
5. Potential importers from the target markets
6. Support services to the wine industry – input suppliers, logistic companies, banking and financial services

The objectives of this meeting should be to accomplish the following administrative activities:

1. Elect an Advisory Board
2. Hire a Georgian based director and a USA advisor (funding to be determined)
3. Develop a funding scheme and secure funding from various entities
4. Adopt to an action plan for the ECPB



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Proper planning needs to occur before this meeting to allow for proposals to be circulated to the various parties so that concrete results and support can be achieved at the meeting.

Specific activities

It is the author's opinion that USAID, with support from the Georgian wine industry, Government of Georgia and other Donors support the following:

- ***Establish standards for product to be exported***- Success for any of the following efforts will depend upon establishing, monitoring and maintaining standards for Georgian wines that are exported. To accomplish this it is my recommendation that Georgia works with Universities in the USA and Europe to have graduate students visit Georgia and work with the industry to establish standards for wine to be exported.

It is my understanding that a relationship already exists with the University of California Davis; however, other universities may be of value in this effort including Texas A&M, Oregon State University and Washington State University and appropriate European Universities. Work from these students would be much more cost efficient than hiring industry consultants and the students would be well suited to accomplish the objectives. Additionally, having a panel of 5 – 10 students from various wine oriented universities to study Georgian wine will help promote the knowledge of wine experts and the exchange of information thus benefitting each industry.

This effort should be schedule to coincide with release of standards at or prior to the June Wine Expo in Tbilisi.

- ***Tour of Georgian Wineries to the USA*** – conduct a tour of Georgian wineries to visit 6 – 10 targeted cities. This tour would include meetings with importers, distributors, journalists, retail buyers and others influential to wine purchasing in the USA.

To achieve successful results from this tour significant time is required to prepare for the visit. Furthermore, significant planning is essential to draw visitors and participants to the tour events. Some ideas for attracting the appropriate audience include:

- Give-a-way of trip to Georgia for Wine Expo in June (Sponsored by airlines, hotels, tour board etc. in Georgia)
- Include participation from Georgian dance troop
- Include participation from Georgian celebrities including NBA players
- Include high level Georgian officials or USA officials whose presence can draw an audience



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The objective of this visit:

1. Introduce wineries to importers, distributors and end users
 2. Expand visibility of Georgian wines in targeted USA markets
 3. Get press coverage that will help stimulate demand for Georgian wines
 4. Educate Georgian wineries further on the USA market
- ***Tour of USA wine buyers and journalists to Georgia.*** Getting USA buyers to Georgia to experience the Georgian wine industry and learn more about the opportunities will be a great motivator for these buyers to purchase, market and consumer Georgian wine. This event will be a follow-up to the tour of Georgian wineries in the USA and will include several of the same individuals. It should occur in June to coincide with the Georgian Wine Expo which is held June 1 – 3 in Tbilisi and include several of the individuals who attend the USA based events. This event should be a high level event as in most cases the Georgian wine industry will have one chance to appeal to the buyers and journalists.

The timing of this event should also coincide with the release of standards as outlined above. If this event can be coordinated with other events in Europe which can help encourage buyers/journalists to attend. This event may be coordinated with a visit to the Moldovan wine producers which will give the buyer one more reason to attend through leveraging his time and resources. Funding for this event can be a combination of industry, GOG, Donor and participant funds.

We may also be able to get a commitment from Michael Jackson (not the singer) the world's leading consumer writer on beer to participate on this visit if we can include a visit to craft local breweries which he may be interested in including in his Rare Beer club or publications.

- ***Film and produce an episode of the Wine Traveler which airs on travel and food related channels and for use at promotion activities.*** This would be a GDA style activity. The owners of the series have already, in principle, agreed to pay all development and production costs with the travel costs and in country costs covered by donors, the GOG and the Georgian wine industry.

The function of this video is to provide a professionally produced video for promoting the Georgian wine industry. It would be aired on channels under agreement with Wine Travelers. This will help raise the familiarity of Georgian wine in the markets where the show is televised and the Video would be available for retailers, wine clubs, the Georgian Wine Promotion industry and others to promote the Georgian wines.



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- *Establish a wine Ambassador in the USA market and support wine promotion teams.* The success of Georgian wines in the USA will be greatly enhanced through the establishment of a wine promotion office in the USA. All other major wine exporters to the USA have similar offices and have increased their volume as a result of these efforts. Ideally the Georgian Wine Ambassador would hire two full or part time representatives to promote Georgian wine in the USA. These individuals would be strategically located to support target markets, importers and distributors.
- *Works with Texas A&M or other research institutions to do a study of the possible health benefits of Georgian wine.* Particularly the white wine which is produced in the buried clay pots with the skins left on during fermentation. It is possible that this white wine could have the health benefits typically found in red wine. If Georgian wineries can offer a white wine, “produced in the Traditional Georgian style” which has significant positive health benefits they could have a large niche in the USA and other health conscience markets – including Europe and Japan.

The quote for this study from Texas A&M is as follows:

We handle our studies by projects and not by individual tests since we do not give service. It’s difficult to separate by tests.

The budget would be as follows as a whole project:

Wine project:

Lab material, \$3,500

Research assistants, \$6,500

Total: \$10,000

The time frame for the wine project could be before June

The objective of these tests is to determine if there is some scientific support behind the idea and to have this information published in scientific journals and ultimately in the general press to help build a demand for Georgian wines based upon this unique characteristic.

Marketing

I have begun some initial marketing efforts to promote Georgian wines in the USA. I have been able to secure a commitment from Exclusive Beverage Importers (EBI), and they have developed their 2007 budget accordingly, to promote Georgian wines. This company is prepared to utilize their distribution channel in the following cities to market Georgian wines:



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- Seattle (with some possible additional coverage in Portland, OR, as an extension of this business)
- Northern California
- Southern California
- Chicago, and other area sub-markets supplied from Chicago
- Boston/New England
- New York/New Jersey*
- Mid Atlantic (DC, Virginia, Maryland)*
- Atlanta (with select Florida markets as a possible extension in the southeast)
- St. Louis/Kansas City

EBI is also planning to recruit their distributors and customers to participate in the tours and are the avenue to work with the Wine Traveler team for the video and TV episode on Georgia.

EBI will and their distributors will target customers with both value priced wines and high end wines. If we are able to document a health benefit derived from Georgian wines they will work with their extensive network to ensure that the press releases and research data are disseminated to appropriate media.

Gorilla Marketing

In addition to the activities above it is essential that marketing efforts leverage resources to achieve the greatest level of exposure for Georgian wines. This can be done through working with channels of distribution where the end consumers' choice is limited. Areas where this is possible include:

1. Working with a hotel chain to carry Georgian Wine, or Georgian Champaign in the min-bar in the rooms the consumer has no choice but to consumer Georgian product if they want to purchase wine or champagne in the room. Working through hotels in Las Vegas would be ideal as they have more than 38 million visitors per year and have more than 133,000 rooms available with an occupancy rate of nearly 90%. This significant turnover of wine and Champagne consumers would be a great way to draw Georgian wines through the USA distribution system. If a consumer has a Georgian wine while on vacation in Las Vegas and likes it they will return home looking for Georgian wine at their local retailer and thus create demand which the retailer and ultimately the distributor will work to meet.
2. When consuming a wine or champagne on an airplane there is little choice as to what origin or brand one is offered. Additionally, people drinking wine or champagne on an airplane will often be willing to “adventure” to try a “new”



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origin, variety or brand name. This captive audience will also help expand the image and recognition of Georgian wines.

3. Working with catering services and wedding planners is another way to introduce the wine into a market where the buyers (1) purchase in quantity for others to consumer; (2) are looking for something unique; and (3) where price and quality are more important than brand or image.

These are examples of Gorilla marketing which should be targeted by the industry and their representatives in the USA.

Identifying potential buyers

A general aspect of this assignment was to identify potential buyers capable of purchasing \$5 million USD worth of Georgian wines. Several factors make it difficult to find buyers able to commit to this volume given the following facts:

1. Global supply of wine exceeds global demand by around 20%
2. Georgian wines are unknown
3. Georgian varieties are unknown
4. Georgian prices are out of line with the bulk of the market
5. Wine price trends are downward and buyers are reluctant to risk inventory on an unknown product in a falling market.

The activities above are designed to help eliminate or mitigate many of these factors. I have found that targeting a buyer and working to get in front of them is more effective than participating in a tradeshow or other less focused events.

In the course taught in Georgia discussions were held on the motivating factors for an importer/distributor and retailer to purchase a specific wine or wine from a specific country. In the USA a wine imported and retailed has to go through a three tiered system of importer, distributor and then retailer. Despite the three tiers the driving factor is if the end consumer who purchases the wine for consumption. If the distributor and importer are confident that a wine will see and that they can make a profit on the wine they will purchase it. Therefore when targeting importers who will be the customer of the Georgian winery it is important to target importers who distribute to the target market with the demographics and purchasing habits that have been identified as the target buyers. Given the nature of Georgian wines and where the greatest market potential exists I would recommend that the industry work with distributors who work with the following retailers:

- Whole Foods
- Trader Joes



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- Wild Oats
- Kroger
- Albertsons
- **California**
- J.P. Sethi, Quick N E-Z Food Stores, Pinedale, Calif.
- **Colorado (Off Premise)**
- Grant Phillips, Gordon's Liquor Mart, Greeley, Colo.
- **Colorado (On Premise)**
- Michael Ferris, Peppers Night Club, Pueblo, Colo.
- **Connecticut**
- Donald Gabriel, World of Wine & Spirits, Newton, Conn.
- **Delaware**
- Bob Kreston, Kreston Liquor Mart, Wilmington, Del.
- **Florida**
- Henry tucker, Southside Package, Lakeland, Fla.
- **Georgia**
- Georgia Alcohol Dealers Association,
Douglas Bryant, East Cobb Beverage Center, Marietta, Ga.
- **Indiana**
- Dick Rayl, Souply's Wine & Spirits, Kokomo, Ind.
- **Kansas**
- Marcel Bly, Bly Retail Liquor, Neodesha, Kans.
- **Maryland**
- Greg Burns, Laurel Lakes Liquors, Laurel, Md.
- **Massachusetts**
- Christopher Gasbarro, Seekonk Liquors, Inc. Seekonk, Mass.
- **Minnesota (Off Premise)**
- Jim Thomas, Thomas Liquor & Premier Wine Shop,
St. Paul, Minn.
- **Minnesota (On Premise)**
- Pat Fleury, Mr. Patom's Saloon, St. Paul, Minn.
- **Mississippi**
- Joel Shipp, Triangle Mart Package Store, Jackson, Miss.
- **New Jersey**
- Barbara Makoski, Shore Wine & Liquor, Bradley Beach, N.J .
- **Metro New York**
- Charles Milano, Staten Island Wine & Liquors, Staten Island, N.Y.
- **Rhode Island**
- Dennis Joyal, Joyal Liquors, West Warwick, R.I.
- **Texas**
- Charles A. Sims, Spirits Liquor Stores, San Marcos, Tex.



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- **Wisconsin**
- Jim Metz, Lounge Around, Medford, Wis.
- **Wyoming**
- Mike Moser, The Cloud 9, Cheyenne, Wyo.
-

Attached to this report are several D&B reports on potential wine importers which could be approached for this effort and should be contacted by the wine marketing association. **Summary**

There is significant opportunity for the Georgian wine industry in the USA. They need to get their house in order with attention to quality and standards and develop cooperation between the various entities in the industry. USAID and other donors can play a major role in helping the industry achieve its maximum success. The recommendations above outline the various activities that I believe will help the industry achieve success.



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ANNEX OF COURSE



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Footnote, Bibliographic, and Reference Citations

Footnotes